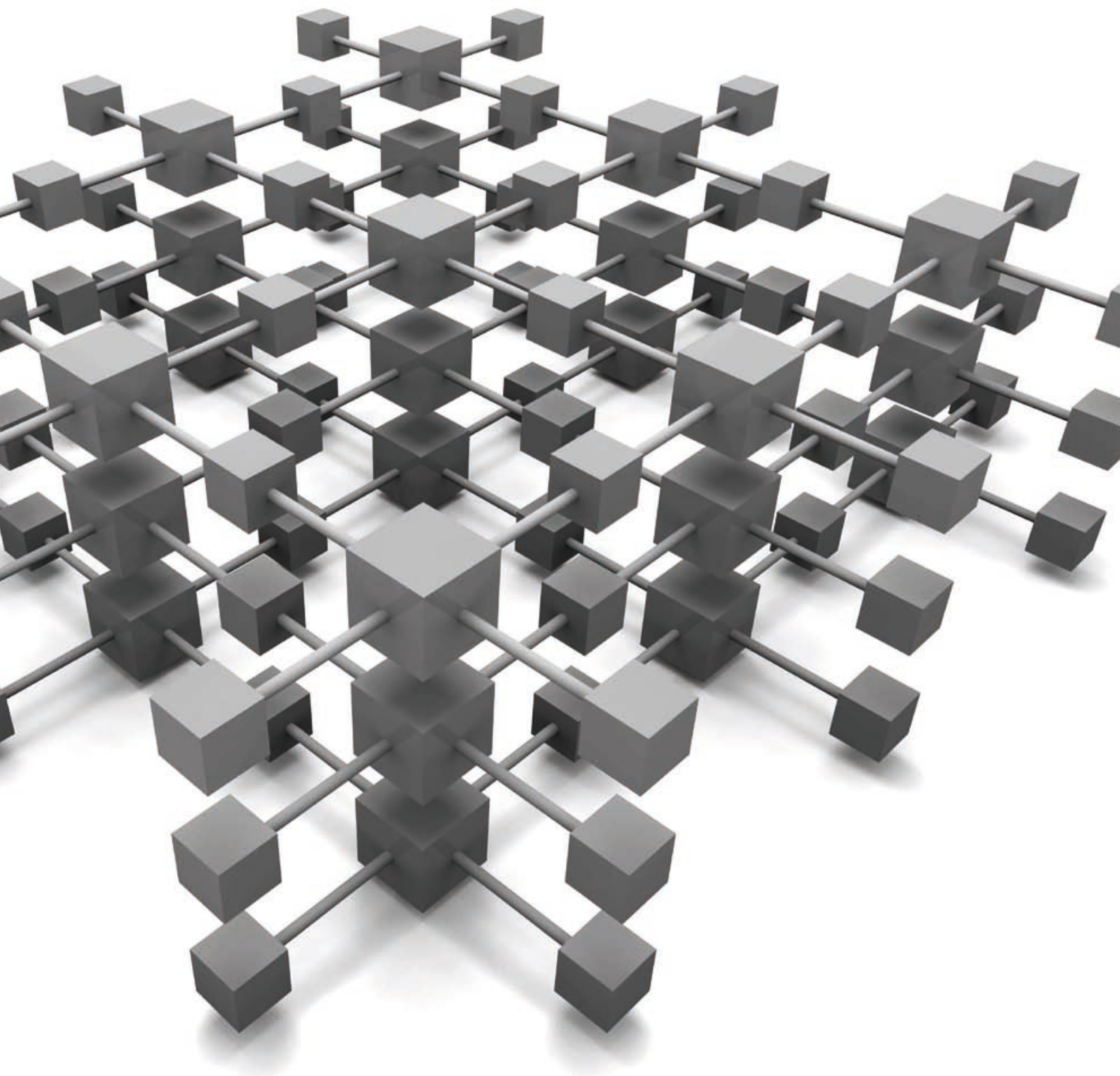


INTELLIGENT COMMUNICATION

ANNUAL REPORT 2009



KEY DATA

	31.12. 2009	31.12. 2008
	€ M	€ M
Results of operations		
Revenues	218.4	290.2
Gross yield	106.2	141.2
Operating profit*	-13.6	+14.0
Operating result /EBIT	-42.2	+13.2
Earnings per share	-5.06	+1.02
Order volume	98.0	115.6
Net assets and financial position		
Cash Flow	7.2	26.5
Working Capital	53.1	78.5
Shareholder's Equity	89.1	129.6
Equity ratio in %	53.1	58.8
Balance sheet total	167.8	220.1
Employees (annual average)	1,639	1,742

*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

VALUES AND OBJECTIVES OF FUNKWERK

FUNKWERK AIMS TO CONTRIBUTE TO THE GOOD OF SOCIETY BY PROVIDING BENEFITS OF LASTING VALUE. FOR THIS PURPOSE, FUNKWERK DEVELOPS AND PRODUCES CUSTOMISED COMMUNICATION AND INFORMATION SYSTEMS THAT RATIONALISE PROCESSES AND MAKE THEM MORE SECURE. FUNKWERK UPHOLDS AND STANDS UP TO FAIR COMPETITION WHILE RISING TO INTERNATIONAL CHALLENGES.

OUR ACTIONS ARE BASED ON THE FOLLOWING PRINCIPLES:

- MUTUAL RESPECT AS THE BASIS OF OUR COOPERATION
- TRANSPARENCY WITHIN AND WITHOUT CREATES TRUST
- QUICK DECISIONS TO SEIZE OPPORTUNITIES AS AND WHEN THEY ARISE
- FOCUS ON LONG-TERM SUCCESS TO ENSURE EFFECTIVE USE OF INVESTMENTS
- DELEGATION OF ENTREPRENEURIAL RESPONSIBILITY TO MOTIVATE STAFF

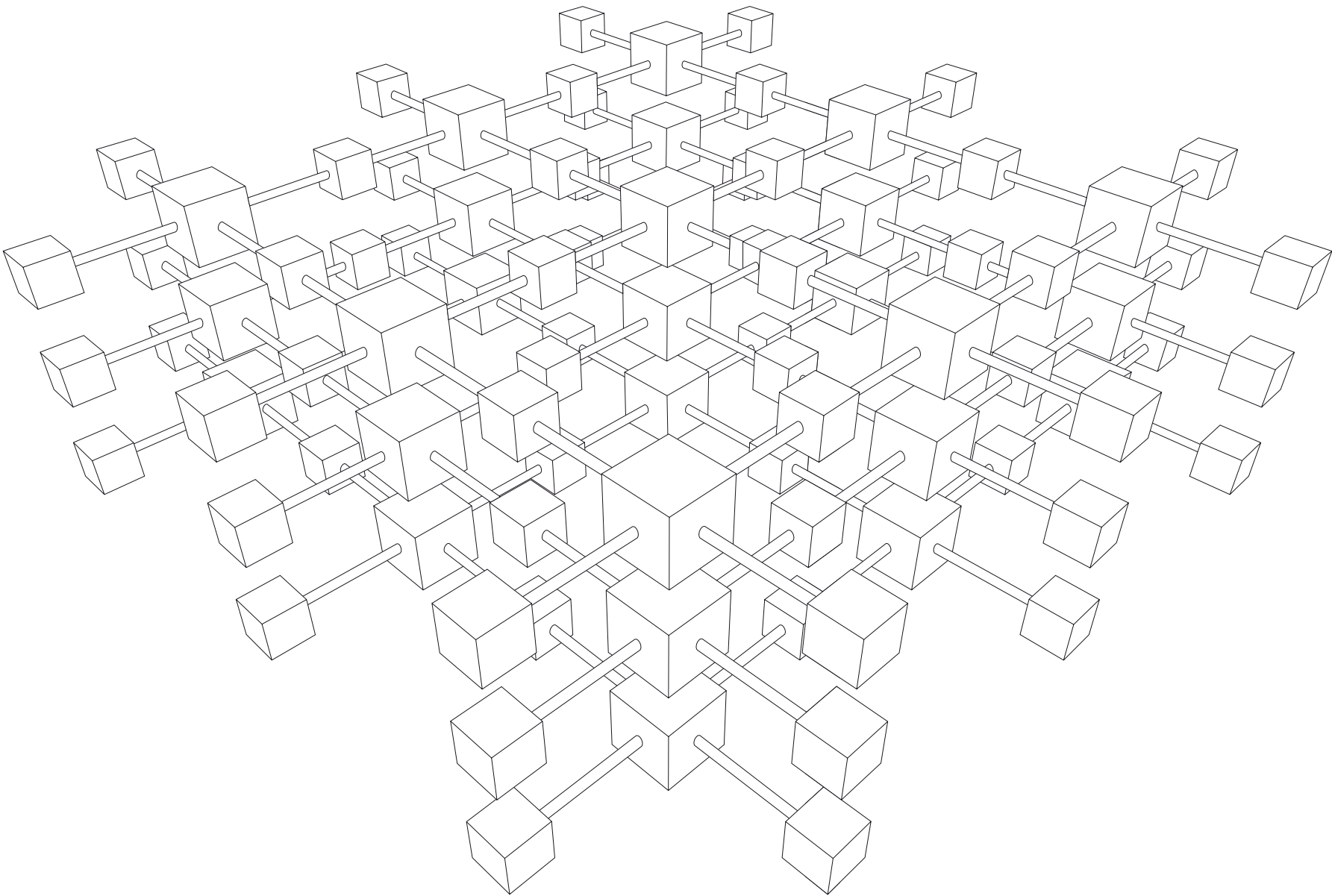
OUR HIGHER GOALS:

- EARNINGS POWER BEFORE GROWTH IN SALES
- ADVANCEMENT OF THE FUNKWERK BRAND AS A QUALITY LEADER
- OPTIMISATION OF COSTS, PROCESSES AND COMPETENCES,
A CONTINUOUS RESPONSIBILITY OF THE CORPORATE MANAGEMENT

»WE MAKE CHANGE HAPPEN THROUGH COURAGE AND PRUDENCE «

DR. HANS GRUNDNER, CHAIRMAN OF THE BOARD

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TRAFFIC & CONTROL COMMUNICATION

12:54 H
Conductor Erwin L. radios engine driver Ferdinand Z. to ask why the train is slowing down

13:15 H
Using his laptop with WLAN Internet connection, passenger K. Müller searches for possible connections after arriving in Hildesheim

13:13 H
Engine driver Ferdinand Z. uses his cab radio to notify passengers via the train's PA system that the train is due to arrive on schedule in Hildesheim

12:34 H
Incoming call from dispatcher Werner G. on engine driver Ferdinand Z.'s cab radio: Watch out! »Track work at km 347 between Hannover and Hildesheim!«



»The management system and train radio technology from Funkwerk AG allows me to contact the engine driver at any time and in specific circumstances. This means greater security and convenience for both passengers and railway staff. It also enables me to communicate expected arrivals and departures or delays well in advance.«
SUSANNE KISTLER, DISPATCHER



TRAFFIC & CONTROL COMMUNICATION

The efficient use of resources, environmental protection and the prevention of carbon dioxide emissions are crucial for the future of our company. This requires intelligent communication and information systems to manage, rationalise and secure operating processes. Funkwerk satisfies this increasing demand in its Traffic & Control Communication segment. Our innovative solutions for transport companies, manufacturers of transport infrastructures and industrial enterprises have made Funkwerk a market leader in many sectors of the global market.

Traffic & Control Communication COMMUNICATION SYSTEMS

Digital communication systems from Funkwerk control the communication processes of major public and private carriers, as well as in industry and at energy suppliers, all around the world. As a developer and supplier of stationary and mobile solutions, Funkwerk is a key partner, particularly in rail projects.

Traffic & Control Communication INFORMATION SYSTEMS

The quality, speed and transparency of information are crucial in many areas of our lives. Reliable real-time information systems increase the convenience, efficiency and security of rail transport as well as in industry. Funkwerk offers fully integrated solutions using cutting-edge technologies from one source.

Traffic & Control Communication MANAGEMENT SYSTEMS

Funkwerk is one of the leading suppliers of management systems for railway operations in Europe. Important new developments include such products as the electronic interlocking systems in our Alister range, which ensure cost-effective operation of regional lines and shunting facilities. Control systems from Funkwerk are also used to manage and monitor natural gas supply facilities, biodiesel reactors, and combined heat and power plants.

LETTER TO THE SHAREHOLDERS



DR. HANS GRUNDNER
Chairman of the Board

JOHANN M. SCHMID-DAVIS
Chief Financial Officer

Dear ladies and gentlemen, dear shareholders,

Funkwerk AG experienced rapid growth in the years 2000 to 2007 due to organic development, acquisitions, new market segments and internationalisation. This was accompanied by the rapid introduction of structures and production processes, but which necessitated consolidation and streamlining of individual operations when competition increased from 2008.

No sooner did these measures begin to show success, than the global economy was hit by the most serious crisis since World War II. Naturally, this affected Funkwerk making further adjustments necessary in the preceding financial year. Anticipated orders failed to materialise, investment plans and projects were put on hold by customers or even abandoned altogether. Meanwhile, the crisis in the automobile supplier industry including after-sales market continued to make itself felt, as did the investment restraint of transport companies.

ENDURANCE TEST FOR FUNKWERK

2009 thus proved an unusually serious endurance test for Funkwerk AG. On the whole, our company reported a decline in revenues by 25 % to €218m (2008: €290m). The level of new business reduced by 26 % to €211m (2008: €285m). This poor trend resulted in negative earnings from operations of €-14m (2008: €+14m). The lion's share of this was due to losses in an export project handled by our Security Communication (SC) segment.

We made early efforts to counteract this decline in orders and revenues through a »Fit for Future« restructuring programm. Funkwerk believes restructuring should not simply mean cutting costs, but should involve a complete reorientation of the company, an increase in productivity, an improvement in our competitive position, and enhancements to our business model. As a consequence, excess capacities have been reduced in the past year and peripheral activities discontinued. This has enabled us to eliminate sources of loss and effectively reduce our cost base. These restructuring costs had a one-off detrimental effect on our result for the 2009 financial year of around €10 m. However, this must be seen against permanent cost reductions and a positive effect on net income estimated to exceed €10 m in 2010 and beyond.

Against the backdrop of reduced operations and the streamlining of peripheral activities, we also conducted a impairment test for all our business activities. This resulted in an extraordinary amortisation of such intangible assets as goodwill and capitalised development costs of around €20 m. While this measure had a further negative effect on our earnings, it was not related to our liquidity and will provide Funkwerk with additional scope for future improvements in profitability.

The group loss of € - 41 m (2008: € + 8.0 m) as a result of all these factors is the first since the IPO of Funkwerk AG in 2000. It should be a one-off. Due to our stringent cash management and the reduction of net working capital, the net cash on hand of €20 m (2008: €25 m) reported at year-end proved positive despite the catastrophic result. Due to the reduction of working capital, we were able to achieve a positive cash flow and keep the equity ratio above 50%.

EMERGING STRONGER FROM THE CRISIS

By implementing the »Fit for Future« restructuring programm, Funkwerk has already managed to improve its competitive position in all its business units. The first phase of the programme primarily involved the closure of all non-profitable sites, the reduction of overheads and an adjustment of personnel structures. The second phase will be launched in 2010 and will focus on optimising our processes, productivity and competitive edge. This will involve more follow-up costs, specifically in Security Communication for the establishment of new controlling and risk management structures. These measures will increasingly help turn around our business and earnings situation to see profitability again in the current year.

Funkwerk has thus set the course for all its segments to emerge from the crisis stronger and more competitive than ever before. Despite increasing competitive pressure, our Traffic & Control Communication (TCC) business unit should be able to post significantly positive results again in 2010. Additional growth factors are expected to come from the launch of our Alister electronic interlocking system, our new DMR mobile radio system, our increased cooperation with vehicle and infrastructure manufacturers in the railway sector and our worldwide efforts to modernise railway systems.

Our Automotive Communication (AC) business unit was hit quite badly by the slump experienced in automobile markets worldwide in 2009. As the rest of the vehicle industry, we expect the situation to stabilise only marginally in 2010. This must be seen opposite sustainable cost savings in 2010 of around €1.5 m. In itself, this should just about be enough to achieve a balanced result for AC. With the introduction of Internet in the car and relevant assistance systems, Funkwerk should be back to growth again.

The result for Security Communication in the current financial year is also expected to be slightly positive. Revenues are estimated to increase at a moderate level for standard business. In the medium term, we anticipate significant growth in this segment in line with the growing demand for intelligent solutions to protect people, buildings and objects. Authorities and organisations involved in security-related activities, operators of industrial sites and the raw material industry in particular will increasingly need to invest in security systems. Funkwerk is one of the leading specialists in pertinent communication technology in the global market.

Our Enterprise Communication (EC) business unit was able to complete its restructuring measures in 2009, to generate a moderate growth in sales. We can already see further positive effects of this reorientation. However, the underlying conditions for this market segment continue to be difficult in the light of increased pricing competition. Our aim, therefore, is to ensure steady business in 2010 to edge our way back into profit and focus more strongly on cooperations.

SET FOR GROWTH AND EARNINGS TURNAROUND IN 2010

On the whole, Funkwerk should benefit in all areas from the recovering economy. The infrastructure programmes initiated by the German government and other states are likely to materialise in the current financial year and to stimulate growth. We already observe a more stable, slightly positive, trend in demand in all our business units. Based also on a better competitive situation, incoming business at Funkwerk should improve by around 10%.

In consideration of the remaining detrimental effects of the slump in sales, business in 2010 is expected to grow in the upper one-digit percentage range. The fitness programme for the whole Funkwerk group and effective cost reductions have set the stage for a successful turnaround in the current year. At the same time, it provides the foundation for focusing again on a market-oriented forward strategy in 2011 and 2012.

In the stock market, Funkwerk's shares appear to have anticipated this turnaround in earnings. Its price has stopped falling, an upward trend is unmistakable. This is a leap of faith which we plan to repay with good news in 2010.

Everyone at Funkwerk is doing their best to get the company back to where it once was – a leader among German technology companies. We ask you to support us kindly in these efforts and to continue to place your trust in us.

Kölleda, March 2010

For the Executive Board



Dr. Hans Grundner
Chairman of the Board

REPORT OF THE SUPERVISORY BOARD



CHRISTIAN A. HUFNAGL

Chairman of the Supervisory Board

Dear ladies and gentlemen, dear shareholders,

2009 proved to be a tremendous endurance test for Funkwerk AG. The massive effects of the global financial and economic crisis hit Funkwerk head-on in the preceding financial year. The drastic decline in gross domestic product by 5 % and the slump in economic performance by 3.9 % in Europe affected business at Funkwerk AG quite considerably.

The main aggravating factors leading to a reduction in both sales and new orders of over 25 % compared with 2008 were the crisis in automobile markets, continued investment restraint among transport companies, and a slump in exports. Funkwerk AG introduced appropriate measures to counter these effects. However, our restructuring measures and related reductions in excess capacity did not show their full effect in 2009, due also to the additional burden of restructuring costs. The resultant cost reduction will not fully come to fruition until 2010. This should then set the stage for a turnaround in business and earnings.

Despite the loss, the equity ratio could be stabilised at over 50 % to be well above the sector average. At around € 20 m, net cash as at 31 December 2009 also proved satisfactory. Funkwerk continues to be financed without interest-bearing borrowed funds.

In the year under review, the Supervisory Board performed the duties incumbent on it by law and the articles of incorporation. It acted in an advisory capacity to the Executive Board of Funkwerk AG while monitoring its conduct of affairs. The Supervisory Board was directly involved in all decisions of fundamental significance to the company.

All measures required by law or the articles of incorporation to be approved by the Supervisory Board were discussed in detail and presented for a resolution. The Chairman of the Supervisory Board, along with the remaining board members in individual matters, kept in close contact with the Executive Board all throughout the financial year. Transactions requiring reporting were disclosed on an ad hoc basis. Between meetings, the Chairman of the Supervisory Board promptly notified members of the board both in writing and verbally of discussions with the Executive Board.

FOCAL POINTS OF THE SUPERVISORY BOARD MEETINGS

In its four regular meetings in 2009, the Supervisory Board monitored the development of the group, as the Executive Board detailed the situation in the company and its business trends. Based on these reports, the Supervisory Board primarily discussed the economic situation including economic and liquidity planning, incoming orders, order volume, any concealed risks and key business transactions, projects of particular note, and the mid- and long-term strategy of the company including organisational matters and personnel planning.

Funkwerk once again did not set up any committees in the preceding financial year, as recommended in the German Corporate Governance Code. This was because the Supervisory Board of Funkwerk AG does not comprise more than three members, so the setting up of committees is not deemed practicable.

In detail, the four Supervisory Board meetings were used to discuss the following issues with the Executive Board:

The meeting convened on 1 April 2009 focused on the annual accounts and consolidated financial statements of Funkwerk AG as at 31 December 2008, including the management report and the report on relationships with associated companies as presented by the Executive Board. The Supervisory Board received a detailed report from the auditor explaining the results of the audit. Following exhaustive consideration, the annual accounts and the consolidated financial statements along with the management report and the report on relationships with associated companies were approved by the Supervisory Board. Further focal points of the meeting included approval of the agenda proposed by the Executive Board for the annual shareholders' meeting set for 28 May 2009.

In the meeting on 28 July 2009, the main item discussed was the ongoing negotiations for a social compensation plan at Funkwerk's subsidiary Bouyer S.A.S. Other discussions during the meeting included the economic trends and personnel development of the company, liquidity planning, market trends and order situations. The new composition of the Executive Board of Funkwerk AG was also discussed.

In the Supervisory Board meeting on 21 October 2009, the Executive Board reported on the economic development in the first three quarters. As recovery failed to set in during the third quarter and a major project worth around € 30 m, which had already been in preparation, was subsequently cancelled, the sales and earnings forecast presented by the Executive Board needed considerable adjustments. Based on this development, the Executive Board introduced a comprehensive set of restructuring measures to achieve savings of over € 10 m from 2010. In this context, the Executive Board presented its first draft of the 2010 business plan. The new managing director of Funkwerk Dabendorf GmbH had also been invited to attend this meeting to report in detail on the reorientation, product planning, market, competitive situation and the current trend of business in the Automotive Communication segment. The Executive Board also submitted the share option plan for approval: the Executive Board proposed to issue during 2009 a total of 103,800 share options for executive bodies and employees of the Funkwerk group, including 12,000 for the Executive Board.

In the final meeting in fiscal 2009, held on 21 December 2009, the Executive Board reported on the progress of ongoing restructuring measures. The Executive Board further briefed the Supervisory Board on the economic trend, as at the end of October, along with current projections for 2009. Focal points also included the comprehensive group budget for 2010 including strategic approaches of all four business segments, the status of social compensation plan negotiations at Bouyer S.A.S., and an introduction of the individual terms and monetary components of the current contracts of employment for members of the Executive Board.

ANNUAL ACCOUNTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Executive Board prepared the annual accounts of Funkwerk AG as at 31 December 2009, including the management report and the report on relationships with associated companies, as well as the consolidated financial statements as at 31 December 2009 including the group management report.

The annual accounts and the management report of Funkwerk AG and the consolidated financial statements and group management report as at 31 December 2009 were audited and provided with an unqualified audit certificate by KPMG AG, Wirtschaftsprüfungsgesellschaft. The Berlin-based auditing firm had been appointed by the shareholders' meeting as auditors of Funkwerk AG and as group auditors. The annual accounts and management report, the consolidated financial statements and group management report and the audit reports issued by the auditor were made available to all members of the Supervisory Board.

The annual accounts and management report, the consolidated financial statements and group management report and audit reports issued by the auditor were discussed in detail with the Executive Board and the auditor at the meeting of the Supervisory Board held on 29 March 2010. The auditors reported on key results of their audit. Questions posed by members of the Supervisory Board were subsequently answered. On the basis of its own examination, the Supervisory Board concluded that the audit procedure applied by the auditors was appropriate and adequate.

We conclusively checked the annual accounts, the management report, the consolidated financial statements and the group management report on 29 March 2010. No objections were raised. The Supervisory Board agrees with the audit result. The annual accounts prepared by the Executive Board of Funkwerk AG are thus approved and the consolidated financial statements adopted.

KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, also audited the report on relationships with associated companies (dependent company report) prepared by the Executive Board in compliance with Section 312 of the German Stock Corporation Act. The auditor issued the following audit certificate regarding the result:

»Following our dutiful audit and assessment, we hereby confirm that the actual information contained in the report is correct, and payments of the company for the legal transactions specified in the report were not inappropriately high.«

The Supervisory Board also examined the dependent company report. It raised no objections to the final declaration of the Executive Board in the report and the result of the audit conducted by the auditors.

CORPORATE GOVERNANCE CODE

The Supervisory Board was actively involved in implementing and monitoring compliance with the German Corporate Governance Code, taking into account the amendments to the Code on 18 June 2009. On 29 March 2010, the Executive Board and the Supervisory Board jointly revised their declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). The revised version is available to shareholders as a permanent feature on the website of Funkwerk AG.

Pursuant to item 3.10 of the German Corporate Governance Code, the report of the Executive Board on Corporate Governance at Funkwerk AG also applies to the Supervisory Board.

Funkwerk AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with only a few exceptions. The existing D&O insurance does not provide for an excess payable by members of executive bodies (item 3.8 of the Code), as this is a group insurance for Executive Board, Supervisory Board and executives both in Germany and abroad. Furthermore, the contracts of employment for members of the Executive Board were concluded before August 2009. Once again, no committees were set up in the preceding financial year: as the Supervisory Board of Funkwerk AG does not comprise more than three members, the setting up of Supervisory Board committees (item 5.3.1 of the Code), specifically of an audit committee

(item 5.3.2 of the Code) and a nomination committee (item 5.3.3 of the Code), is neither necessary nor practical to satisfy the interests of the company and its shareholders. These duties are performed by the Group Supervisory Board.

Changes to this declaration of compliance which may be necessary in the course of the financial year will be made in agreement with the Executive Board and be available to all shareholders on the website of Funkwerk AG.

The Supervisory Board is convinced that the measures implemented and the fitness programme initiated have provided the foundation for lasting stabilisation at Funkwerk, enabling it to return to profit with economic recovery in global markets. The Supervisory Board thanks shareholders for their trust in the company. The Supervisory Board also thanks the Executive Board and all employees for their work and cooperation during the preceding financial year.

Kölleda, March 2010

For the Supervisory Board



Christian A. Hufnagl
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Corporate Governance means responsible company management, focused on long-term value added. We are committed to the principles of good Corporate Governance, which we consider a central part of our company policy.

Funkwerk AG follows the majority of recommendations of the German Corporate Governance Code (Code) issued in 2002 and amended in June 2008. The current declaration of compliance is based on the June 2008 guidelines, which are implemented with four exceptions. In addition to the recommendations, Funkwerk also complies with the majority of the suggestions in the Code. The Code was widely amended in June 2009 and the Executive Board and Supervisory Board have studied this carefully to ensure compliance with the new guidelines. These were used as the basis for the revised declaration of compliance adopted on 29 March 2010. The revised version and the declarations of previous years are available on our website and are updated as and when required.

Over and above the Corporate Governance Code, the Executive Board and management of Funkwerk AG act on the basis of a code of conduct drawn up internally to comply with strict insider regulations. The appropriate Insider Trading Policy and Publication Guidelines are published on the website of Funkwerk AG.

TRANSPARENCY

Each body and committee at Funkwerk AG is committed to the principle of equal treatment of all shareholders. As a result, the Executive Board always notifies all interested market participants promptly and in detail of key events and business developments. All ad hoc and press releases are distributed using modern communication media and are also made available to shareholders and the public on the website of Funkwerk AG. The website also provides access to key dates, all financial reports, and presentations. A financial calendar containing dates of the main recurrent publications (quarterly and business reports) and the shareholders' meeting is published sufficiently in advance.

As part of our Investor Relations efforts, Funkwerk maintains close contact with its shareholders. We meet analysts and institutional investors at regular capital market conferences to engage in intensive dialogue. All our presentations on such occasions are available on our website.

SHAREHOLDERS AND SHAREHOLDERS' MEETING

Shareholders are provided with relevant information on the shareholders' meeting in good time. In addition to the agenda and an explanation of the conditions for participation in the shareholders' meeting, the website of Funkwerk AG also publishes all documents and information and, following the shareholders' meeting, a list of those present and the results of votes. Shareholders are also able to use electronic communication to ask questions of the Investor Relations department.

Shareholders are given the opportunity at the shareholders' meeting to address the meeting on any items on the agenda and to pose related questions or file motions. Shareholders may exercise their voting rights at the shareholders' meeting either in person, by a duly authorised representative, or by a proxy of Funkwerk AG, subject to instructions. The proxy was available throughout the shareholders' meeting in 2009. The shareholders' meeting was chaired by the Chairman of the Supervisory Board. The shareholders' meeting was not broadcast on the Internet. As in previous years, the addresses by the Chairman of the Executive Board and the CFO were recorded and made available to the public on the website of Funkwerk AG.

The German Act Implementing the Shareholders' Rights Directive (ARUG) stipulates that modern forms of communication be introduced into the German Stock Corporation Law. Electronic postal votes and online participation in shareholders' meetings are now possible, the websites of companies being extended to become a central means of information. To implement the ARUG, the Executive Board and the Supervisory Board plan to propose to the shareholders' meeting in 2010 that the statutory prerequisites are established.

RESPONSIBLE COOPERATION AND INTERRELATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

Good and effective company management requires a strict separation of Executive Board and Supervisory Board. The German Stock Corporation Act prescribes this dual management system of independent management and leadership of the company by the Executive Board on the one hand, and independent supervision and consulting by the Supervisory Board on the other. For this purpose, the Executive Board and Supervisory Board are at all times in close dialogue. The Supervisory Board is regularly, promptly and comprehensively informed of the development of the company, the business planning and the development of risks and risk management. Furthermore, the Supervisory Board is involved in all decisions which may have a considerable effect on the financial or earnings position of the company. The reporting duties of the Executive Board are specified in the Rules of Internal Procedure for the Executive Board, which also include a catalogue of transactions requiring approval. In the event of a culpable breach of their duty of care, the Executive Board and the Supervisory Board are liable to the company. Consequently, Funkwerk AG has concluded a D&O insurance for both boards which, contrary to item 3.8 of the German Corporate Governance Code, does not include an excess.

EXECUTIVE BOARD

As the central management body of the group, the Executive Board is committed to bring about an effective increase in the company value and to safeguard the interests of the group. The Executive Board manages the company on its own authority for the whole management, decides on key issues of business policy, determines the strategic orientation of the company and ensures its implementation. It is also responsible for ensuring appropriate risk management and risk control in the group. The Executive Board is also required to prepare the quarterly and interim statements of account, the annual accounts and the consolidated financial statements.

In the 2009 financial year, the Executive Board of Funkwerk AG comprised four members. Details of the composition and responsibilities are provided in the notes to the financial statements on page 105. August 2009 saw a change in members of the board. Mr. Norbert Gunkler and Mr. Lutz Pfister duly retired from the Executive Board of Funkwerk AG upon termination of their contracts of employment. As at 1 September 2009, Mr. Johann Schmid-Davis was appointed by the Supervisory Board as a new member of the Executive Board.

The Rules of Internal Procedure specify the work of the Executive Board, the allocation of areas of responsibility, matters which concern the entire Executive Board, the majority required for resolutions, and the rights and obligations of the chairman of the Executive Board. The Executive Board works in a collegial system and regularly obtains information on all key measures and processes in the company.

The members of the Executive Board are required to avoid conflicts of interest and, where necessary, inform the Supervisory Board. Secondary occupations, specifically seats on supervisory boards, require the consent of the Supervisory Board.

SUPERVISORY BOARD

In the 2009 financial year, the Supervisory Board of Funkwerk AG comprised three members. Details of the composition and responsibilities are provided in the notes to the financial statements on page 106. The Supervisory Board advises and supervises the Executive Board in its management of the company. Consequently, it is involved in all corporate decisions which may have an effect on the financial, earnings or net worth position of the company. It appoints and removes members of the Executive Board, determines the remuneration system for members of the Executive Board, and determines their total emoluments.

To ensure independent consulting and supervision, members of the Supervisory Board do not maintain business or personal relations with Funkwerk AG or members of the Executive Board, nor are they former members of the Executive Board of Funkwerk AG or members of any executive body of competitors of Funkwerk AG. This ensures independent consulting and supervision of the Executive Board.

The Rules of Internal Procedure for the Supervisory Board settle the assignment of tasks and responsibilities of the members. They also include detailed provisions on confidentiality, the reporting duties of the Executive Board, and the adoption of resolutions passed by the Supervisory Board. The term of office of current members of the Supervisory Board is limited to two years and ends on conclusion of the shareholders' meeting, which will decide on the discharge of the Supervisory Board for the 2009 financial year.

REMUNERATION REPORT

As a key aspect of good corporate governance, Funkwerk provides details explaining the remuneration systems in comprehensible and transparent form. According to the German Adequacy of Managerial Salaries Act enforced in August 2009 and the guidelines of the German Corporate Governance Code, the Supervisory Board is required, when determining the total emoluments of each member of the Executive Board, to ensure that these are appropriate for the duties and performances of each member and the situation of the company, and also that they do not exceed the usual remuneration without a specific reason. The Supervisory Board determines the remuneration structure and the key elements of contracts concluded with the members of the Executive Board, and regularly reviews these contracts for appropriateness.

The remuneration report is a component part of the group management report (see page 46) and describes the remuneration systems of the Executive Board and Supervisory Board. The individualised disclosure of the remuneration of the Executive Board and the Supervisory Board is included in the notes to the financial statements on page 106 et seqq. These details are considered a part of the remuneration report and thus a part of the Corporate Governance report.

ACCOUNTING AND AUDITING BY KPMG

Since 2000, Funkwerk AG has prepared its consolidated financial statements and the quarterly reports in conformity with the International Financial Reporting Standard (IFRS), in accordance with the current regulations of the International Accounting Standards Board (IASB), thus complying with the legal provisions.

The individual accounts, which are decisive for taxation and dividend payments, are prepared in compliance with national regulations (German Commercial Code – HGB). The consolidated financial statements are prepared by the Executive Board, audited by the appointed auditor, and subsequently presented to the Supervisory Board for approval. The resolution on the appropriation of profits is passed at the shareholders' meeting. The Supervisory Board appointed KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, as auditors for the 2009 financial year. The company was instructed to audit the individual accounts and the consolidated financial statements. Its appointment was based on a vote passed at the shareholders' meeting in 2009. In compliance with the German Corporate Governance Code, the Supervisory Board obtained a declaration of independence from KPMG AG prior to submitting its proposal of candidates. Neither the auditing company nor its subsidiaries maintain any business, financial, personal or other relations with the company audited or any members of its bodies.

DECLARATION OF COMPLIANCE**Deviations from the recommendations of the German Corporate Governance Code**

1. The German Corporate Governance Code recommends the agreement of an appropriate excess in D&O insurances (item 3.8 of the Code).
The D&O insurance contract concluded for the bodies of Funkwerk AG in 2000 does not provide for an excess.
2. The German Corporate Governance Code recommends that the Supervisory Board set up professionally qualified committees depending on the specific circumstances of the company and the number of its members (item 5.3.1 of the Code).
The Supervisory Board of Funkwerk AG comprises three members and has not set up any committees.
3. The German Corporate Governance Code recommends that the Supervisory Board set up a nomination committee made up exclusively of shareholder representatives to recommend suitable candidates to the Supervisory Board for its proposal to the shareholders' meeting (item 5.3.3 of the Code).
The Supervisory Board of Funkwerk AG has not set up a nomination committee.

Current declaration of compliance of 29 March 2010

Declaration by the Executive Board and the Supervisory Board of Funkwerk AG on the recommendations of the »Government Commission on the German Corporate Governance Code« based on Section 161 AktG

In compliance with Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of Funkwerk AG, Kölleda, hereby declare compliance with the recommendations of the »Government Commission on the German Corporate Governance Code«:

Funkwerk AG complies with the recommendations of the »Government Commission on the German Corporate Governance Code« as amended on 18 June 2009 with the following exceptions:

1. The German Corporate Governance Code recommends for D&O insurances to the Supervisory Board the agreement of a minimum excess of 10 % of damages up to a minimum of 1.5 times the fixed annual remuneration (item 3.8 of the Code). The D&O insurance contract concluded for the Supervisory Board of Funkwerk AG in 2000 does not provide for an excess. Funkwerk AG does not hold the view that the due diligence and sense of responsibility which the members of the Supervisory Board exercise in the performance of their duties could be increased through agreement of an excess.
2. The German Corporate Governance Code recommends that the Supervisory Board set up professionally qualified committees depending on the specific circumstances of the company and the number of its members (item 5.3.1 of the Code). As the Supervisory Board does not comprise more than three members, the setting up of committees is considered impractical. The duties assigned to these committees are performed jointly by the whole Supervisory Board.
3. The German Corporate Governance Code recommends that the Supervisory Board set up an audit committee, which specifically deals with issues relating to accounting, risk management and compliance, the independence of the auditor, the awarding of the audit assignment, the determination of focal points of the audit and the agreement of fees (item 5.3.2 of the Code). As the Supervisory Board does not comprise more than three members, the setting up of committees is considered impractical. The duties assigned to the audit committee are performed jointly by the whole Supervisory Board.

4. The German Corporate Governance Code recommends that the Supervisory Board set up a nomination committee made up exclusively of shareholder representatives to recommend suitable candidates to the Supervisory Board for its proposal to the shareholders' meeting (item 5.3.3 of the Code). As the Supervisory Board does not comprise more than three members, the setting up of committees is considered impractical. The duties assigned to the nomination committee are performed jointly by the whole Supervisory Board.

Since its declaration of compliance on March 2009, Funkwerk AG has complied with the recommendations of the »Government Commission on the German Corporate Governance Code« as amended on 6 June 2008 with the two exceptions detailed in items 2 and 4 and the following exception:

The German Corporate Governance Code recommends the agreement of an appropriate excess in D&O insurances (item 3.8 of the Code). The D&O insurance contract concluded for the bodies of Funkwerk AG in 2000 does not provide for an excess. Funkwerk AG does not hold the view that the due diligence and sense of responsibility which the members of the Supervisory Board exercise in the performance of their duties could be increased through agreement of an excess.

FUNKWERK-SHARE AND INVESTOR RELATIONS

FUNKWERK SHARES: EMERGING FROM THE CRISIS WITH POTENTIAL

In 2009, stock markets around the globe were taken on a rollercoaster ride. The effects of the financial and economic crisis and the resulting fears initially led to a mood of pure sellout in the first quarter. Only the concerted actions of governments and central banks managed to calm the situation somewhat and formed the basis for a turnaround. When the worst fears did not materialise and liquidity increasingly returned to the stock markets, prices rose again and quickly gathered momentum.

While fears of rampant public debt and worldwide economic problems subsequently produced a string of setbacks, share prices began to spurt up again in many countries and industries towards the end of the year. As a result, the German share index, DAX, along with the index for Germany's leading technology companies, TecDAX, gained some 24 % and over 60 % respectively, over the whole year. The TecDAX trend was primarily affected by the top weighted stock.

As a technology group focused on telecommunication and information systems, and also an automobile supplier, Funkwerk in particular was quite seriously affected by bad news from these sectors. Funkwerk's share (ISIN DE0005753149) fell quite badly, especially in the first quarter. After a good start with a rise in price to over €6, it subsequently plummeted to an all-time low of less than €4.

PERFORMANCE 2009



ANALYSTS RATE FUNKWERK AS TURNAROUND CANDIDATE

Following an analyst and press conference to present the financial results, during which Funkwerk communicated the restructuring measures it had initiated, the share price recovered and rose steadily to over €7 by July. The positive rating of Funkwerk as an undervalued turnaround stock continued in a generally rather confident environment, such that shares climbed to a new annual high of €8.20 in early October. However, with the revision of sales and earnings expectations and the resulting adjustment of analyst ratings, investors increasingly opted to sell the stock from mid-October sending the price of Funkwerk's shares back down to test the €5 marker. At year-end, Funkwerk was back to where it had started, the price further stabilising thereafter.

Analyst ratings of Funkwerk's share currently range from €5.50 to €9. The most recent publications indicate that Funkwerk may manage a turnaround in 2010 with great potential to rise into double digits.

As at the analyst and press conference for the financial statements, the focus of Funkwerk's Investor Relations in 2009 was on the effects of the global financial and economic crisis on Funkwerk and the set of measures initiated to restore the group's earning power. The Executive Board took pains to explain these aspects in telephone conferences and presentations and at numerous analyst and investor meetings. Funkwerk also presented itself again at the German Equity Forum in Frankfurt.

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

NEW AUTHORISED CAPITAL APPROVED

Along with authorisation to buy company shares, the shareholders' meeting of Funkwerk AG held on 28 May 2009 decided to create new »authorised capital« in the amount of €4,050,000. This is to replace an arrangement dating back to 2004 which terminated at the shareholders' meeting in 2009. The authorised capital is to enable the company basically to adjust its capital base in line with business requirements.

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 AG, Close Brothers Seydler Bank AG
- Market capitalisation: €42.9 m (end of December 2009)

SHAREHOLDER STRUCTURE

In the reporting period, Funkwerk was not notified of any significant changes in the shareholder structure. As at 31 December 2009, the shares in Funkwerk AG were distributed as follows:

- HÖRMANN Funkwerk Holding GmbH: 52.83 % (4,280,000 shares)
- Free float: 47.17 % (3,821,241 shares)

No other shareholders or shareholder groups are known to hold a significant, reportable share in Funkwerk AG.

SECURITY COMMUNICATION

17:43 H DÜSSELDORF
Constant monitoring of the arrival and parking area. Irregularities are instantly registered and investigated.

18:12 H
Special surveillance at the check-in

0:00–24:00 H
Continuous security surveillance inside the airport

19:12 H
Monitoring of activities as Boeing 737 prepares for takeoff to Athens



»Thanks to the security systems from Funkwerk AG, people can be sure that dangers are recognised early to allow prompt reaction. It objectively increases the security for passengers and staff and is subjectively perceived as an improvement in safety measures.«
JOSEF POPP, SECURITY OFFICER

SECURITY COMMUNICATION

The demand for intelligent solutions for the protection of people, buildings, public places and mobile objects is growing. Funkwerk is one of the world’s leading specialists in professional security technology. Target groups include industrial and energy companies, authorities and organisations with security functions, the local public transport sector, railways and airports, transport infrastructures and correctional and forensic facilities. Our service spectrum comprises individual products for personal security and video monitoring as well as major turn-key projects involving property protection.

Security Communication VIDEO SYSTEMS

Video systems from Funkwerk satisfy the increasing needs for safety and security of individuals and companies which have led to significant growth worldwide in the video systems and video products. Funkwerk systems ensure safety and security in football stadiums, pedestrian zones, airports, main stations, autobahns and power plants. The company’s core competences are focused on cameras, transmission and management systems. Funkwerk develops and produces high-quality hardware and software to raise itself clearly above competing manufacturers of cheap solutions located in the Far East.

Security Communication PROPERTY PROTECTION

Funkwerk has worked hard to gain an excellent reputation in the market for personal security and video monitoring. As a result, the company is now increasingly sought as a partner in major projects involving comprehensive property protection.

Authorities and organisations with security functions, operators of industrial sites and the raw material industry in particular will increasingly need to invest in security systems – a rapidly growing market. Recent projects have included all-in solutions for the protection of oil and gas production facilities in Algeria and power plants in Sweden.

Security Communication PERSONAL SECURITY AND RADIO EQUIPMENT FOR SECURITY TASKS

Funkwerk boasts over 40 years of experience in personal and building security. In Germany, Funkwerk leads the market in radio-based personal security. Our security management system Webnet-2 integrates personal security systems and all known security facilities such as fire alarm, video monitoring and access control systems. Funkwerk also develops solutions based on the trendsetting technologies TETRA and DECT, along with appropriate radio equipment for security tasks.

GROUP MANAGEMENT REPORT

1. Business model and strategy

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 a wide range customer target groups, from private enterprises to public institutions, as well as offering new benefits and services to end customers.

Funkwerk makes significant contributions to meeting the new challenges to business and society through its innovative products and services: these require a first class command of cutting-edge radio and communication technologies and data processing, plus a thorough understanding of the needs of each customer group.

FOUR STRATEGIC BUSINESS UNITS

Funkwerk today is an active technology provider with four strategic business units based on different areas of application and appropriate target groups:

- Traffic & Control Communication (communication and information systems for transport companies and manufacturers of transport infrastructures)
- Automotive Communication (communication solutions for vehicles, fleet management and aircraft)
- Enterprise Communication (TC systems, devices and components for private data networks and data security)
- Security Communication (video monitoring, personal security and property protection systems)

In all four business units, Funkwerk works to establish itself in a competitive position in its global markets. Technology changes are applied to break into newly emerging markets. Our aim is to play a leading role in selected market segments and product groups, in order to be the first choice as business partners for customers investing in projects.

Each of our four business units has its own strategic orientation and a distinct product and service range. Along with a common corporate culture, the business units are increasingly linked by uniform technology platforms which are developed in individual competence centres and made available to the other units of the company. Examples of value-creating synergies in the group also include central cash management and controlling, technology transfer within the group through maximum competence teams, close cooperation in procurement and purchasing, and cross-segment cooperation on major projects.

Funkwerk is currently undergoing extensive restructuring with the aim of adjusting our resources and processes to lower sales, whilst also improving our business model. This programme involves cost cutting and also

- revenue-oriented optimisation and modification of our processes, operations and structures
- market-oriented optimisation of our business units and their outward orientation
- consolidation of resources to strengthen and concentrate our key competences

Whereas our programme in 2009 focused primarily on cost cuts, the priority for 2010 will be the optimisation of our processes with the aim of consolidating our market positions and regaining our earnings power. Each business unit is subdivided into product groups and product lines which, in future, will act increasingly as competence centres.

TRAFFIC & CONTROL COMMUNICATION (TCC)

Our Traffic & Control Communication (TCC) business unit develops, provides and integrates communication and information solutions for its target groups – transport companies, manufacturers of transport infrastructures and the industry – enabling them to automate and rationalise their operating processes and meet the increasing

need for safety and security. In this business unit, Funkwerk primarily focuses on rail traffic which, research predicts, will grow significantly globally due to its efficiency. The information and communication solutions sector is estimated to grow by around 5 % p.a. in the long term.

With its various product lines involving communication, management and information systems, Funkwerk is in a position today to offer a well-rounded portfolio of products and solutions that makes us worthy of consideration even for major infrastructure projects. Our broad range is fully in line with the trend towards technological convergence of different systems and services in a digital data network and towards automation of transport operations. The market lead of Funkwerk in such product sectors as GSM-R terminals and real-time information systems in Europe is an excellent basis for further international expansion beyond Europe.

Product groups and market leaderships

In our communication systems product sector, represented by Hörmann-Funkwerk Kölleda GmbH with its subsidiaries in Vienna and Budapest, Funkwerk concentrates on the development and production of mobile and stationary communication infrastructure for transport companies. Funkwerk is the European market leader in this field with over 50 % of the share in radio terminals (GSM-R) used by trains in local and long-distance transport. This GSM-R mobile radio system is also the prerequisite for introduction of the ETCS standard for automated train operation in Europe. The potential for growth is particularly high in Eastern Europe, where a renewal and modernisation of train radio systems for local and long-distance rail traffic is on the agenda. More likely than not, countries such as India, China, Australia and Russia along with North African and Arab states will follow over the next few years with the introduction of digital train radio systems as a standard.

Funkwerk is also one of the leading companies in the area of management systems for railway operations in Central Europe. Funkwerk Information Technologies, based in Kiel, develops trendsetting solutions for cost-effective operations management with its customers, along with attractive services for transport operators such as timetable generation and training systems. A new market for cost-efficient systems is increasingly opening up in the electronic interlocking systems sector through the use of established industrial components. These allow cost-effective automation, particularly of branch lines. In Europe, Funkwerk has already gained a significant market share in interlocking systems for shunting operations. From 2010, we are aiming for a market share of around 20 % in Germany, as we are set to produce our own proprietary product, Alister ESTW-R for passenger transport.

Control systems and management systems from Funkwerk are also used by energy suppliers and the process industry for management and monitoring of natural gas supply facilities, biodiesel reactors, tank farms, and combined heat and power (CHP) plants.

Funkwerk also takes the lead with stationary and mobile information systems for rail transport. A crucial requirement of both passengers and transport companies is the quality and speed of information. Reliable real-time information solutions increase the convenience, efficiency and security of rail transport. Funkwerk offers fully integrated solutions using cutting-edge technologies from one source, including control systems, displays and public address systems, not only in stations and halts but also in vehicles. Funkwerk is a leader in this field in Europe. This also leads to potential synergies for applications in the industry, an area in which Funkwerk operates successfully through its subsidiary, Microsyst Systemelectronic GmbH.

AUTOMOTIVE COMMUNICATION (AC)

In Automotive Communication, Funkwerk meets the needs for communication equipment in vehicles. Priority here is given to high quality, superiority, ease-of-use, convenient functions and infotainment. However, the market for vehicle communication and infotainment systems is set to change significantly. Today, end customers require individual terminals such as mobile phones, hands-free units, car radios and navigation systems. In future, the demand is expected to shift to integrated, convergent systems which meet the requirements of the »online generation« and allow for assistance applications. Market segments that will play a role in the future are primarily the

OEM market, the after-sales market and, increasingly, the market for vehicle accessories. How these business units will develop is hard to tell, as they are still at an early stage technologically and it remains to be seen whether retrofitting is an option.

Funkwerk Dabendorf develops, produces and sells signal amplifiers, hands-free systems and integrated communication units for both the automobile industry (OEM market) and the after-sales market. These components ensure reliable and secure mobile radio communication in the vehicle. This is crucial for such networked applications as telephony, navigation and Internet in the vehicle, which will be the basis of essential future technology. It also provides a platform for future assistance systems such as car-to-car communication and electronic emergency call (eCall). This is a growth area in which Funkwerk takes an excellent starting position as market leader in mobile radio amplifiers.

We have developed and extended our technology competence and our user knowledge since 2006 to include mobile radio applications and to establish a more stable basis for our business. Through Funkwerk eurotelematik GmbH, Funkwerk today offers both innovative fleet management in real time for forwarding agents and operators of bigger fleets, telematics systems for specific sectors, and engineering. Funkwerk Avionics GmbH, on the other hand, satisfies the increasing demand of manufacturers or owners of small aircraft for radio equipment, transponders and display units, while also supporting contracting authorities and system companies in their development projects in the aviation sector. Funkwerk holds a market share of over 50 % in radio equipment and transponders for ultralight aircraft.

Product groups and market position

As a first and second tier supplier, Funkwerk is dependent on the developments and decisions of automobile manufacturers. The economic crisis in 2009 led to a massive slump in our business. In addition to mobile signal amplifiers, Funkwerk provides automobile manufacturers with communication equipment for integrated installation in vehicles: these provide a wide range of interfaces to the vehicle and the outside. By combining our competences in mobile communications and vehicle systems, Funkwerk has opportunities to extend its OEM business again in the future. Our signal amplifiers COMPENSER and COMBINER have earned Funkwerk the lead over the past few years. These devices ensure a good, steady transmission of data and voice within and to the vehicle. They support current mobile communication standards, which is crucial for vehicle communications in the future. Funkwerk plans to extend its product range especially for Internet and multimedia applications in the vehicle and to focus on the accessory segment. Meanwhile we will also look for suitable cooperation partners.

Customers in the after-sales market equally demand cost-effective installation units which provide infotainment and mobile communication in the vehicle. The future here also belongs to integrated solutions which enable telephony, navigation and infotainment with a uniform operating concept. With the EGO line, Funkwerk has taken a first step in this direction and mastered the migration from a high-quality hands-free unit to mobile Internet access. The market volume, however, is slightly declining in a highly competitive environment, as built-in components are increasingly common. New potential results from spin-off applications of this technological competence in non-automotive market segments such as the provision of broadband Internet access to remote rural areas (»digital dividend«).

In times of economic difficulties, fleet operators, forwarding agents and transport companies depend increasingly for their survival on efficient fleet management based on mobile radio systems. For this purpose, Funkwerk has developed a telematics system which not only ensures connection to an ERP system including operating data logging, but can also grow with the requirements of the customer through a gradual increase in functionality. Along with customer-specific telematics solutions, Funkwerk also provides »easyfleet« as a standardised telematics service. This is available centrally via our Internet portal www.easyfleet.de. Furthermore, Funkwerk has developed a special range of on-board computers for all telematics applications – a combination of hands-free unit, navigation and operating terminal. In Europe, experts expect the market for these types of telematics solutions to grow in the double-digit range.

Through Funkwerk Avionics GmbH, Funkwerk was able to extend its service spectrum in AC to include aeronautics. Its product range includes radio equipment, transponders and displays for small and light aircraft. In Europe, Funkwerk also takes on special projects for government authorities and system companies in the general aerospace industry. We cater to the growing trend towards standardisation of display and navigation devices among European small aircraft manufacturers by developing an integrated cockpit (»glass cockpit«), which will be available in 2010.

ENTERPRISE COMMUNICATION (EC)

Research laboratories around the world have found that the technological development of information and communication technology is far from over. This means that transmission speeds will continue to increase, heralding stage two of the technological development of data networks. Thanks to high-speed technology, we will have sufficient bandwidth to design intelligent networks with customised features. These intelligent networks will be a key milestone on the way to a unitary voice, data and multimedia network, known as the next-generation network (NGN).

Future data networks will thus enable a wealth of new solutions for communication within and across companies. As a specialist in integrated communication solutions, Funkwerk satisfies this demand in its EC business unit. Funkwerk realises professional, sector-specific solutions for small to mid-sized companies. Using a well-rounded product portfolio comprising all the necessary devices and components including data security for private data networks in addition to classic TC systems., As a specialist in data networks and connecting widespread sites and branches, Funkwerk is ready to meet these technological challenges.

Product groups and market leaderships

The aforementioned transition from classic telephone system to integrated all-IP solutions is well under way. Funkwerk has embraced this through reorientation of both the strategy and product policy of this business unit and changing from a manufacturer of standard components to a solution-oriented system supplier. Our aim is to increase our efforts with system houses and integrators.

In the TC equipment sector, Funkwerk can build on a well-rounded portfolio, which we have developed over the past few years to ensure network capability to the point that it can now be easily integrated into modern small to mid-sized network solutions. within addition to other functionalities, it allows the integration of mobile employees, a significant advantage particularly for freelancers, self-employed individuals and smaller businesses. In future, however, TC products will be much in demand, and marketed, primarily in connection with complete business solutions.

Under the bintec product brand, Funkwerk markets data network components and access solutions such as routers and gateways in different performance classes. One of the main focal points here is the setup of virtual networks to connect different branches or sites as cost-effectively as possible. By extending the functionalities to provide configurable media gateways, it is now increasingly possible in cooperation with manufacturers of application software to create system solutions with new performance features for select markets.

Security is progressively gaining in relevance with regard to data networks and access solutions. With our Unified Threat Management (UTM) systems, Funkwerk is successfully positioning itself as a leader in this growing security market. UTM's combine all relevant security systems such as anti-spam and anti-virus, firewall, intrusion detection, intrusion prevention, VPN, content filtering, and much more, on a single platform. The benefit for companies is obvious: rather than using a range of different systems from various suppliers, all they need is a single device from the UTM series.

SECURITY COMMUNICATION (SC)

Our Security Communication segment provides special communication systems which address industrial and energy companies, authorities and organisations with security functions (BOS), the local public transport sector, railways and airports, transport infrastructure as well as correctional and forensic facilities as its target groups.

Its range comprises products and solutions for personal and building security, video monitoring and property protection. SC offers both individual products relating to these core areas and turnkey security solutions. The solutions are designed to protect individuals and physical assets, help identify potential accident situations and prevent or solve criminal and terrorist attacks. Experts predict steady growth in this market.

The comprehensive protection of people and property by electronic means is furthered by the technological development towards convergent, IP-based networks and the new radio standards for security tasks. As a result, software applications such as image processing, sensor fusion and network management are increasing in importance. This whole situation has led to intense competition and poses a considerable challenge to Funkwerk. We are meeting this challenge with a general rollout of specialised Funkwerk products and investing considerably in development.

Product groups and market leaderships

Funkwerk boasts over 40 years of experience in personal and building security, gained in projects involving both industrial companies and the service sector. Our range includes personal security systems, professional mobile radio applications and a building management platform for all work environments with increased security requirements based on the latest technical standards. In Germany, Funkwerk leads the market in radio-based personal security.

Our Webnet-2 security management system combines personal security with all known security systems. It can integrate such applications as fire alarm, video equipment or access control systems. As a supervisory control system, Webnet-2 monitors and manages all connected systems and installations using a standardised operating interface. Funkwerk also develops solutions based on the trendsetting technologies TETRA and DECT. The service and product spectrum here comprises high-quality, durable systems for public authorities, the industry, hospitals and energy suppliers.

The increasing need for safety and security of individuals and companies has led to significant growth world-wide in the video systems and video components market. Funkwerk satisfies this demand by providing video monitoring products through Funkwerk plettac electronics GmbH (FWP). Funkwerk provides complete system solutions for demanding customers requiring high quality and flexibility. Funkwerk systems already provide safety and security in airports, football stadiums, pedestrian zones, central stations, and power plants. A further key area is safety and security in correctional facilities. Our core competences are focused on cameras, transmission and management systems for professional video surveillance. Here, Funkwerk develops and produces high-quality hardware and software to dissociate itself quite clearly in intense competition from manufacturers of cheap cameras in the Far East. In Germany, Funkwerk is one of the three leading suppliers with a market share of around 10 % in the professional sector.

Funkwerk has worked hard to gain an excellent reputation in the market. As a result, we are now increasingly sought as a partner in major projects involving comprehensive property protection. Initial references here include all-in solutions for the protection of oil and gas production facilities and power plants.

2. Business trend in 2009 and situation: Emerging stronger from the crisis

GENERAL ECONOMIC SETTING

The year 2009 was marked entirely by the effects of the global financial and economic crisis. Despite the economic aid packages initiated by governments and the liquidity made available by central banks, access to loans proved the biggest problem for many companies. As a result, a significant proportion of demand potential in the general economy was left unexploited. While the programmes launched by the governments brought temporary relief in some areas, they will still have to prove lasting effectiveness over the next few months and years.

After several quarters of downturn, the global economy managed for the time being to stop the recession towards the end of 2009. The World Bank calculated an overall decline of 2.2 % in 2009 but anticipates a cyclical upturn of 2.7 % for 2010. A further rise of 3.2 % is predicted for 2011. Europe specifically saw a decline by 3.9 % in 2009 and is estimated to grow by a mere 1.0 % in 2010. It has become evident that countries with significant export markets, such as Germany, suffer more badly in the crisis. But increasing export trade will then provide greater future growth. As a result, this effect could compensate in part for persistently poor domestic demand. Some economic indicators thus point to a recovery.

Further major risks are seen in sectors with significant excess capacities, including automobile, mechanical engineering and, partly, telecommunications. Another anticipated risk is the discontinuation of stimulation programmes, which are likely to decrease demand from private households.

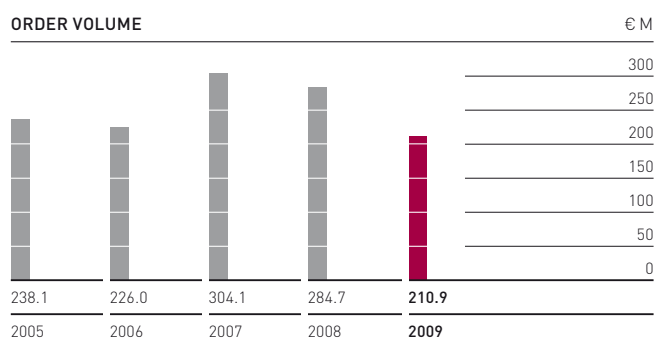
In Germany, the real gross domestic product in 2009 shrank by 5.0 % on the previous year. In the third quarter of 2009, this bottomed out to see a slight rise by 0.7 %, which continued in the fourth quarter. Private consumption, which had boosted the general economy in early 2009, subsequently weakened in the further course of the year. This is not likely to improve in the current year, as further job cuts are expected over the next few months as excess capacities are reduced. The unemployment figure in 2009 only rose to 7.8 % (2008: 7.4 %). We must bear in mind that the significant trend towards short-time work can shore up the job market only temporarily.

The temporary trends for manufacturing industries show a more positive picture with an increase in production output and order volumes. On the whole, production levels at the end of 2009 were about 9 % higher than the lowest figure in the year. Nonetheless, despite this increase, average production levels throughout 2009 lag behind the prior-year average by about 20 %. The capital goods sectors, which include Funkwerk, suffered in particular, with production declining by around 27 %. According to the ifo Institute for Economic Research, production activity at present does not exceed 72 %. The rate of capacity utilisation for Funkwerk was around 70 % in fiscal 2009.

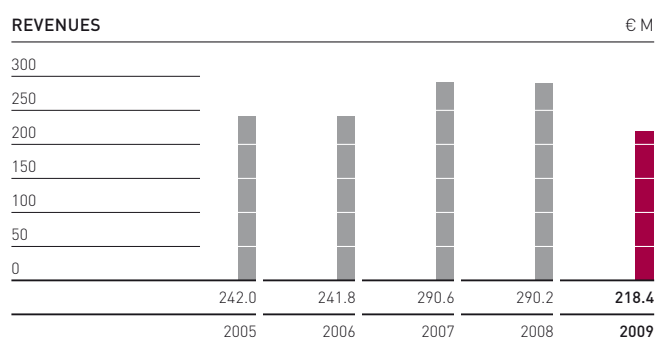
SUMMARY OF BUSINESS TREND AND GENERAL STATEMENT ON THE ECONOMIC SITUATION

In 2000 to 2007, Funkwerk AG experienced rapid growth due to organic development, acquisitions, the addition of new market segments and the internationalisation of our business. This was accompanied by the setting up of overcomplex structures and production processes that necessitated the consolidation and streamlining of individual operations when competition increased from 2008.

No sooner did these measures begin to show effect, when the global economy was hit by the most serious crisis since World War II. Naturally, it also left its mark on Funkwerk, making further adjustments necessary in the preceding financial year. The year 2009 thus proved an unusually serious endurance test for Funkwerk AG. The lack of incoming business early on pointed to a difficult trend, which we counteracted by implementing appropriate measures. As a result, excess capacities were reduced and peripheralac-



tivities discontinued. This helped us eliminate sources of loss and effectively reduce our cost base. The appropriate cost reduction and earnings effect estimated at over €10 m will not, however, fully come to fruition until 2010, as the adjustment measures necessary in 2009 require more time and led to additional restructuring costs and write-offs.



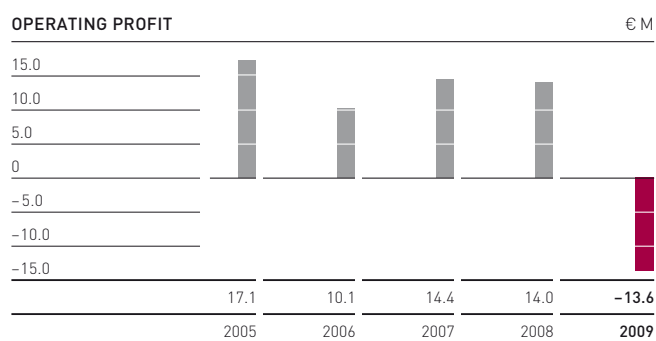
Following an already disappointing trend in the first half of the year, sales in all our business units remained moderate and continued at a low level until the end of the year. Many investment plans and projects by our customers were put on hold or abandoned altogether. As an aggravating factor, the crisis in the automobile supplier industry including after-sales market continued to make itself felt, as did the investment restraint of transport companies and the industry.

As a result, Funkwerk on the whole reported a decline in sales by 25 % in 2009, down from €290.2 in 2008 to €218.4 m. This poor trend resulted in negative earnings from operations of €–13.6 m (2008: €14.0 m). Due to exceptional circumstances, €–10.2 m of this amount was attributable to the video systems

product group. The operating loss was due various factors including a lack of sales of around €–6 m, follow-up project costs and depreciation of inventories of around €2 m, and exchange losses of around €–3 m. This was counteracted to a degree by cost adjustment measures of around €1 m.

The decline in orders and sales necessitated adjustment and restructuring measures which additionally affected the result in fiscal 2009 adding a one-off charge of around €9 m. Of this amount, around €4 m were due to personnel pay-offs and follow-up costs, and around €5 m to depreciations and other expenses in connection with plant closures.

Against the backdrop of reduced operations and the streamlining of peripheral activities, we also conducted stringent impairment tests across all our business activities. This resulted in extraordinary amortisation of intangible assets including goodwill and capitalised development costs of around €20 m. While this measure had a further negative effect on our earnings, it did not affect our liquidity.



Taking all these factors into account, Funkwerk as a group reported a negative EBIT (operating result after impairment charges and restructuring cost and before result from affiliated companies) of €–42.2 m for 2009 (2008: €+13.2 m). Due to capitalisation of deferred taxes on loss carryforwards, our after-tax result totalled €–40.7 m (2008: €8.0 m). The group loss added up to €40.8 m (2008: group profit of €8.2 m), which corresponds to earnings per share of €–5.06 (2008: €1.02).

By implementing our »Fit for Future« restructuring programme, Funkwerk has managed already to improve the competitive position of all its business units. This involved the closure of non-profitable sites, the reduction of overheads and an adjustment of personnel structures leading to effective cost savings for

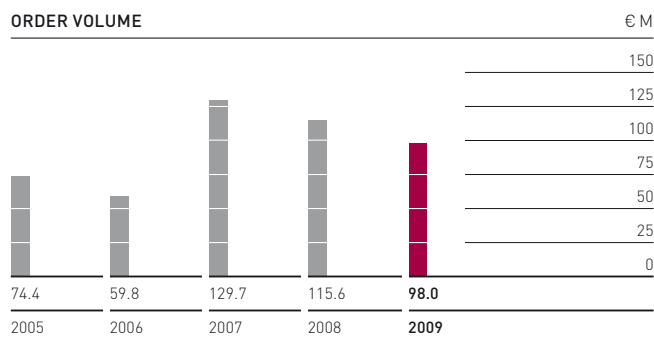
2010 and beyond. Some follow-up costs of the restructuring measures, specifically in Security Communication, will continue to burden the result in 2010. Below the line, however, these measures will increasingly help turn around our business and earnings situation. Funkwerk should also benefit in all areas from a recovering economy.

ORDER SITUATION

The order situation of Funkwerk in the reporting period was affected by various negative factors. Despite promising business initiations, incoming business suffered not only from the general decline in demand for capital goods in Germany, but also from the lack of export trade. Companies, government institutions and transport companies in other countries, battled against considerable financial difficulties. Against the backdrop of uncertain funding, many international customers adopted a »wait-and-see« attitude. This led to projects being delayed, postponed or even cancelled. The business units hit hardest by this were Security Communication and Automotive Communication.

As a result, incoming orders in the Funkwerk group dropped by around 22 % to €222.4 m in 2009 (2008: €284.7 m). This kept the book-to-bill ratio at 1.02 (2008: 0.98), which is rather low for Funkwerk. The volume of orders as at the end of 2009 totalled €98.0 m (2008: €115.6 m), of which €76 m are to be turned over as planned in 2010. The usual seasonal wave of incoming orders in the latter half of the year failed to materialise.

We currently observe a more steady, why even slightly positive, demand in all our business units. Based also on our improved competitive position after restructuring, incoming business at Funkwerk is estimated to improve by around 10 % in 2010.



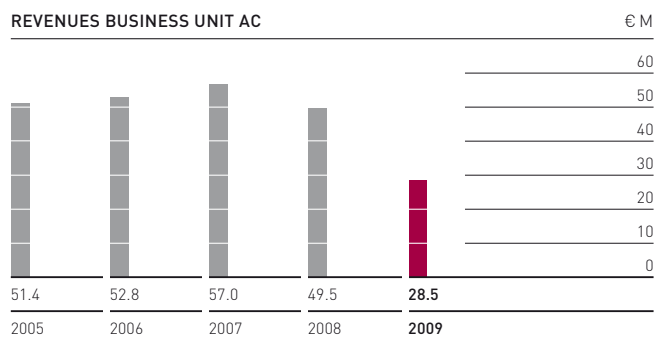
BUSINESS TREND BY BUSINESS UNITS

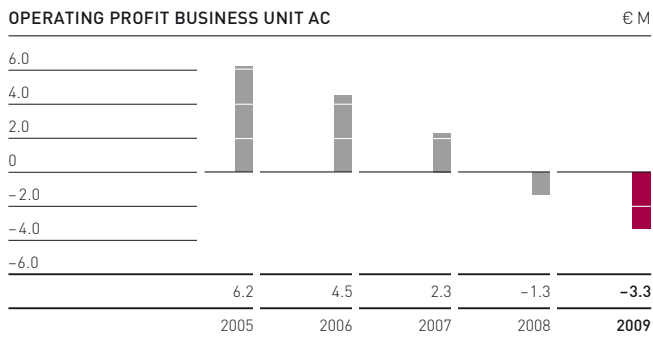
Automotive Communication: Concentrated from the crisis

Our Automotive Communication business unit (AC, communication equipment for vehicles) was forced to undergo fundamental adjustments necessitated by the slump in automobile markets worldwide. As an OEM supplier of communication equipment for the vehicle industry, AC is directly affected by the planning and operations of vehicle manufacturers. These at times halted production altogether, introduced short-time work and based their projections on weak demand expected to last until late 2010. This specifically affected the commercial vehicle sector and models in the upper price range, segments in which Funkwerk products are more widely used than in any other sector. The situation in the after-sales market and in the avionics product sector also continued to be difficult and indicated the start of similar economic slumps.

While the downturn on the whole slowed in the latter half of the year, segment revenues of €28.5 m were down by 42.4 % on the prior-year period (€49.5 m). Taking into account extraordinary inventory adjustments of around €1 m, this led to a negative operating result of € – 3.3 m. Funkwerk made efforts to counteract this not only by adjusting its capacities, but also by launching our »Fit for Future« programme, which is designed to optimise the key processes in product development, innovation management and sales and increase our competitiveness and productivity.

Our adjustment programme, which we have already largely implemented, involved a reduction of capacities, job cuts and personnel measures including short-time work; it led to restructuring costs of €0.8 m in this business unit. The discontinuation of peripheral activities and streamlining of our product portfolio further added restructuring costs of €0.2 m. Impairment tests resulted in the amortisation of intangible assets totalling €7.1 m. The segment result after restructuring costs and one-off impairment (EBIT) thus came to € – 11.5 m (2008: € – 1.7 m).

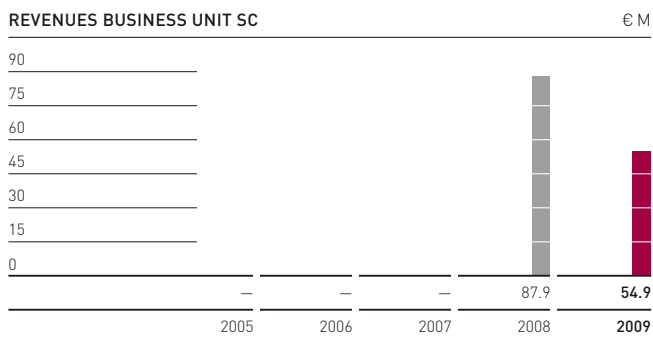




This must be seen against a more or less balanced result for AC. With global automobile markets set to recover slowly in 2010 based on current studies, we expect sales to stabilise in the current financial year, albeit at a low level. Additional potential should come from our new WLAN routers and USB hubs for leading German premium manufacturers and our Home Compenser designed to provide more rural areas with broadband. In the avionics product group, our new »glass cockpit« may provide a boost in sales.

The after-sales market, however, continues to be a risk factor. The competitive pressure here is great and market shares are too low to achieve sufficient economies of scale. None-theless, there

are positive synergetic interactions between the OEM and after-sales markets. Funkwerk depends on effective innovations in this area and plans to review its strategy here.



Security Communication: Setback in major project drags down results

After an initially good start into the financial year, our Security Communication (SC) business unit also faced setbacks in the latter half. In the personal and building security sector, business in the industrial environment suffered in particular, whereas video systems and property protection saw a drastic decline in export due to a number of our key business partners abroad struggling significantly in the global economic crisis. As a result, some projects considered »definite« were postponed and are not likely add to incoming business until 2010.

Even more so, however, SC was affected by the failure of a major property protection project in Algeria to materialise; this

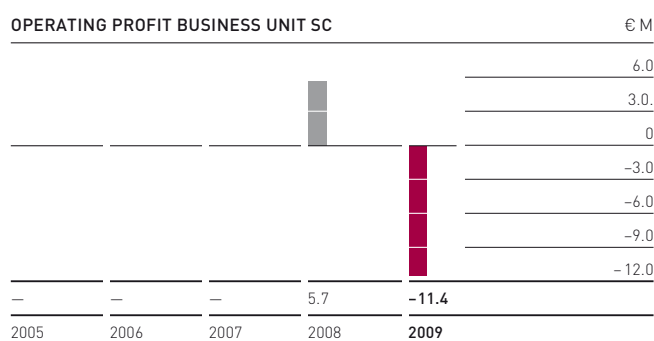
had been included in our projections. It was aggravated by considerable follow-up costs from projects. These factors, along with preparatory efforts for the above project which is now excluded from our projections and exchange losses (the Algerian Dinar not being convertible) resulted in a charge against segment earnings totalling over €10 m. Funkwerk plans to take this extraordinary »operating accident« as an opportunity to implement a modern controlling system which will effectively monitor even large-scale projects and identify undesirable developments and aberrations early on.

With sales totalling €54.9 m (2008: €87.9 m), the operating loss in this business unit came to €-11.4 m (2008: €+5.8). SC also underwent restructuring measures and capacity adjustments, resulting in restructuring costs of €1.4 m in 2009. From 2010, however, this should produce cost savings of some €3 m. Due to sales and restructuring related one-off impairments of intangible assets in the amount of €4.5 m, the segment EBIT after restructuring and one-off impairment totalled €17.2 m (2008: €5.7 m).

As we currently expect major property protection projects in North Africa to be halted for the time being, a further adjustment of capacities in early 2010 is inevitable. This will result in additional restructuring costs. To what extent these costs can be compensated for by higher margins in other product groups included in Security Communication is hard to tell, as there is little way of knowing how the economy will develop.

In the medium term, however, Funkwerk anticipates significant growth in this business unit in line with the growing demand for intelligent solutions for the protection of people, buildings and objects. Authorities and organisations with emergency services such as the police and the fire brigade, operators of industrial sites and the raw material industry in particular will increasingly need to invest in security systems. Funkwerk has many years of experience in pertinent communication technology and is a leading specialist in personal security and video monitoring systems in the global market.

In 2010, new growth potential is expected to come from radio systems and terminals based on DECT or TETRA standard for personal security and also for the general security market, and from our building security system »Webnet 2«. The market for video systems and video products both in Germany and abroad is also likely to grow again in 2010. The projects in Algeria, which have been delayed due to domestic disputes and new funding legislation restricting import, could be up for allocation again from mid-2010. Irrespective of this, however, revenues in SC are estimated to increase at a moderate level to generate a positive result in the current financial year.

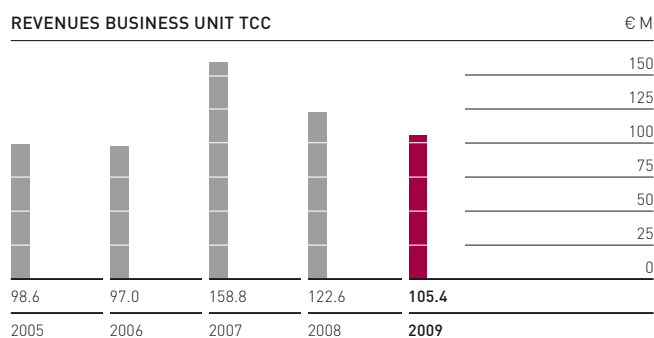


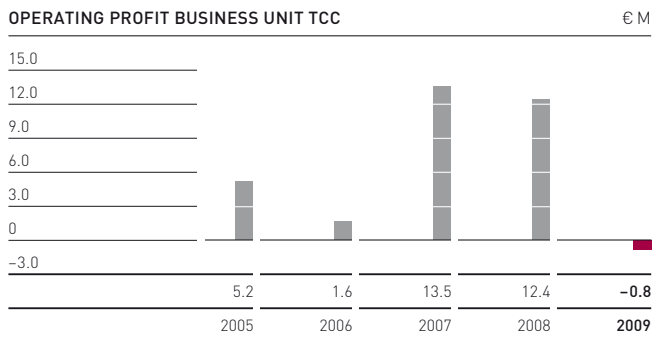
Traffic & Control Communication: Sources of loss eliminated, competitive position improved

In 2009, the crisis afflicting the global economy also increasingly affected the rail industry. The main target groups of Traffic & Control Communication (TCC), Funkwerk's strongest business unit in terms of sales, include transport companies and manufacturers of transport infrastructures. While Funkwerk was able here to maintain its lead as a supplier of communication systems (mobile radio terminals) and information systems, the market struggled on account of poor demand and a decline in investments. Further factors aggravating the drop in sales were financing options for companies and projects specifically in export, which at times were rather poor.

As a result, contracts already promised or announced to us failed to materialise, ongoing projects were subject to delays, payment periods were extended and approvals procrastinated. In management systems, sales remained moderate because our electronic interlocking system »Alister 2« could not be launched due to delays in the approval process. By contrast, business with management systems for industrial applications was comparatively stable and helped provide a positive result for this business unit.

On the whole, revenues in TCC reduced by 14.1 % to €105.4 in 2009, after €122.6 m in 2008. This results in earnings from operations of €-0.8 m (2008: €12.4 m). To ensure a further improvement in earnings, Funkwerk implemented cost and personnel adjustments in this business unit and closed sites that reported a deficit (our subsidiary Bouyer in Montauban/France and Wuppertal). These restructuring costs had an adverse effect on the segment result of €5.9 m. From 2010, however, this should effectively produce annual cost savings of around €8 m. The impairment test in TCC did not lead to value adjustments for existing goodwill.





The adjustments and cost cuts in 2009 have improved the competitive position of TCC. Despite increasing competition in new tenders, we should see a positive result again in 2010. Additional growth factors are expected to come from the launch of our electronic interlocking system, Alister, our new DMR (Digital Mobile Radio) based mobile radio equipment, our increasing cooperation with vehicle and infrastructure manufacturers in the railway sector and worldwide efforts to modernise railway systems. In addition, Funkwerk was able in 2009 to break into new markets in Eastern Europe, North Africa and the Middle East where we intend to intensify our efforts in 2010; this also includes India as a growth market.

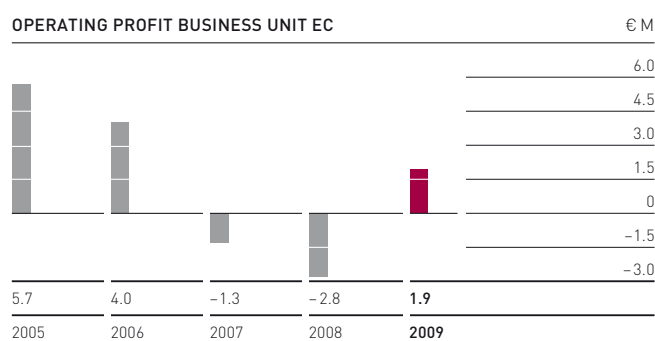
Enterprise Communication: A successful solution provider

The strategy change in Enterprise Communication (EC) away from an individual component provider to a solution-oriented system supplier brought initial successes in 2009. After completion of the restructuring measures towards the end of 2008, the overall performance of this business unit once again improved to produce a positive operating result. EC provides TC systems, network and data security solutions, now primarily geared to meeting the requirements of small to mid-sized companies. Particular focus is put on the provision of integrated all-IP solutions for branch operators with several locations including mobile staff.

In cooperation with partners, EC also devises special sector solutions. A first milestone in 2009 was a »medical router«: this is an access solution for associations of panel doctors as part of the introduction of a health card with Deutsche Telekom. Funkwerk solutions are based on standards ensuring maximum data security and as a result are much in demand. One such data security solution involving 500 authorities in Germany could be installed with another of our cooperative partners.

On the whole, the overall performance of EC in the preceding financial year improved by 7 %, up from € 33.3 m in 2008 to € 35.5 m. Earnings from operations before the restructuring and one-off impairments totalled € 1.9 m (2008: € - 2.8 m). The completion of the restructuring measures necessitated further expenditure of € 0.5 m (2008: € 0.4 m). At € 8.2 m, the extraordinary amortisations and value adjustments of intangible assets after an impairment test proved rather high in this business unit. This figure includes amortisations of goodwill totalling € 4.9 m and € 3.3 m for development activities. Taking these special expenses into account, the EBIT thus came to € - 6.8 m (2008: € - 3.3 m).

Despite difficult underlying conditions in the ITC market and intensified price competition, we expect business in EC to develop more steadily again in 2010. The reorientation of EC will now continue in export and should lead to new business. We are also set to launch new solutions with a trendsetting PABX architecture, along with an innovative router generation in this business unit. Further growth potential is likely to come from our focus on carrier business.



3. Earnings position: Reduced earnings in 2009 – cost savings from 2010

The effects of the global economic crisis on our customers' operations, the slump in the automobile industry, and the unexpected one-off fall in exports caused heavy losses for Funkwerk, pushing us well into the red in 2009. Revenues were down quite drastically on our projections, necessitating adjustment and restructuring measures in all our business units. At the same time, the sharp drop in sales along with a streamlined product portfolio and the discontinuation of unprofitable business activities resulted in additional impairment of intangible assets. This impairment did not affect our liquidity situation.

The adverse one-off effect on earnings in 2009, however, significantly improved our future cost and expenditure base. Cost savings of over €10 m for 2010 and beyond should improve earnings and steady sales.

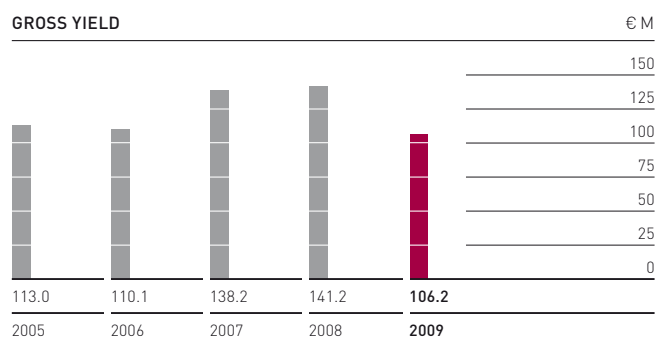
Based on sales revenues of €218.4 m (2008: €290.2 m), the gross yield (without internally produced and capitalised assets and other operating income) in the Funkwerk group reduced from €141.2 m in 2008 to €106.2 m as a consequence of sales, despite economies in procurement. As a result, the gross yield margin came to 48.6 % (2008: 48.7 %).

Personnel expenses decreased as a result of personnel cuts in connection with capacity adjustments and the closure of unprofitable sites, down from €97.5 m in 2008 to €92.2 m. As a result, the personnel expense rate rose to 37.8 %, after 31.1 % in the previous year. The personnel adjustments in all business units will lead to further noticeable reductions in expenses in the current financial year.

For the first time in the history of Funkwerk AG, the operating result before impairment of intangible assets and restructuring costs was negative at €-13.6 m in 2009 (2008: €14.0 m). This is because sales in all business units except Enterprise Communication lagged behind our projections (see business unit reports) and to significant deficits resulting from a major project in Algeria.

The rapidly implemented, capacity adjustments, the elimination of sources of operating loss (e.g. Bouyer) and sites (e.g. Wuppertal), and radical restructuring in all business units, all led to appropriate one-off expenses. Total restructuring costs in the preceding financial year were €8.9 m.

In impairment tests stipulated under IFRS regulations, the decrease in sales, adjustments in our product portfolio and the termination of unprofitable business activities led to further one-off impairment charges for intangible assets totalling €19.8 m.



However, scheduled depreciations reduced by around 27 % to €11.4 m (2008: €15.6 m). Continuous write-offs of development costs were down from €8.0 m to €4.6 m, while the depreciation of other assets reduced from €7.6 m to €6.9 m.

On balance, the operating result (EBIT) after impairment charges for intangible assets and restructuring costs at group level totalled € – 42.2 m (2008: €13.2 m). Taking into account the income from financial assets of € – 0.7 m reported using the equity method, earnings before taxes (EBT) amounted to € – 44.5 m (2008: € + 11.3 m Euro). Consolidated loss came to € – 40.8 m (2008: Consolidated profit € + 8.0 m), corresponding to a loss per share of € – 5.06 (2008: earnings of €1.02).

4. Financial and net worth position: Good net cash position and high equity ratio

The financial and net worth position of the Funkwerk group in 2009 was defined by a disappointing trend of business throughout the year. However, the effects of the adjustment measures initiated and the stringent cash started to show. Cash flow from operations was noticeably positive, particularly in the fourth quarter, while net cash on hand totalled around €20 m at year-end. Net earnings also remained steady with an above-average equity ratio compared to other companies, despite the group loss incurred.

Due to the poor trend of business, the measures initiated to optimise our working capital and the depreciation and amortisation resulting from the restructuring, the balance sheet total in the preceding financial year reduced by some 24 % to €167.8 m (2008: €220.1 m). While the negative annual result reduced our equity capital by €40.4 m to €89.1 m (2008: €129.6 m), the equity ratio continued at the high level of 53 % (2008: 58.8 %).

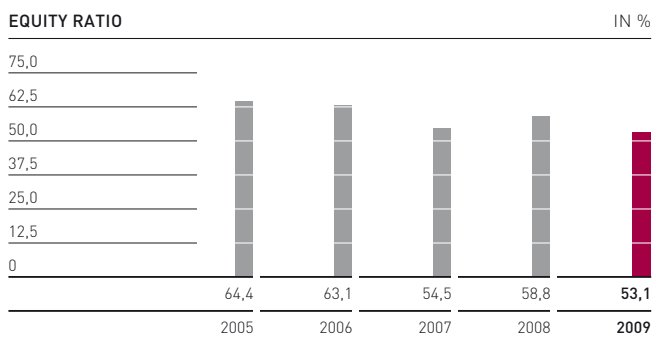
The financial base of Funkwerk AG is made up of net cash of around €20 m, bank debt at almost zero, and credit facilities of around €8.5 m provided by various banks until further notice and left unutilised as at the cutoff date, along with an almost exhausted factoring facility of over €5 m at a German commercial bank.

Due to the seasonal nature of business at Funkwerk AG, the credit facilities available may have to be utilised, particularly in the second and third quarters of 2010. As in previous years, we plan to make up for these peaks in the fourth quarter and on the whole increase our net cash on the previous year. To finance

future investments aimed to improve our competitive position, we are currently negotiating with commercial banks about granting long-term loans.

Key changes in our balance sheet in the 2009 financial year:

- Intangible assets reduced by 30.8 % to €32.9 m (2008: €47.5 m) as a result of restructuring-related adjustments and extraordinary amortisations and impairments
- Inventories were down by around 8 % to €42.6 m (2008: €46.2 m) as a result of the sales trend and optimised inventory management
- Trade accounts receivable including outstanding accounts from ongoing projects decreased by 41.6 % to €40.5 m (2008: 69.3 m) due to the drop in business and expedited debt collection. At €7.5 m as at the cutoff date, the factoring programme used to optimise our liquidity remained at prior-year level.
- Despite significant losses, liquid funds (including financial assets) totalled €23.1 m to remain almost at prior-year level (€26.0 m) on grounds of a stringent cost and spending discipline and improved working capital management.

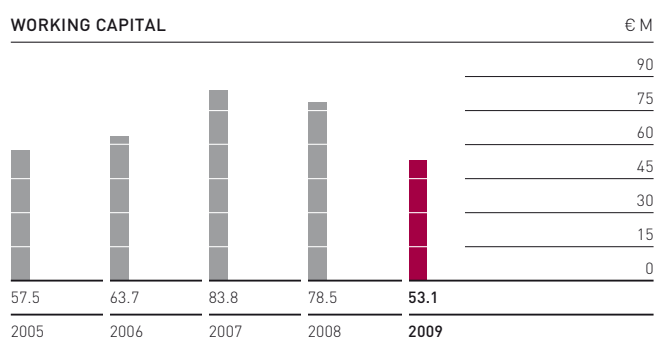


- Pension commitments primarily related to pension schemes for employees of Funkwerk Security Communications GmbH, Funkwerk Electronic Services GmbH and Funkwerk Information Technologies Karlsfeld GmbH concluded prior to their acquisition by Funkwerk. These pension schemes have been closed for some years now. The increase in the reporting year is due exclusively to interest payable.
- The financial liabilities primarily comprised liabilities under the existing factoring programme of a German commercial bank. These liabilities result from payments on factored trade accounts receivable of €2.3 m to be made to the bank under the factoring agreement.
- Due to the drop in business, the trade accounts payable reduced to €23.3 m (2008: €33.7 m)
- Payments received on account of orders were noticeably optimised to total €7.3 m (2008: €3.8 m).

Working capital significantly reduced

The volume of capital tied up in the Funkwerk group for operations (working capital), made up of inventories, trade accounts receivable and projects in progress less trade accounts payable and advance payments on orders, could be reduced by over €25 m in 2009, down from €78.5 m in 2008 to €53.1 m. As a result, the working capital to sales ratio improved significantly to 24.3 % (2008: 27.8 %). In the medium term, however, the target here continues to be a ratio of around 20 %.

This drastic reduction is due primarily to the decrease in trade accounts receivable and ongoing projects from €69.9 m to €41.2 m and to the increase in payments received of around €3.5 m, or 91 %. In addition, inventories could be reduced by €3.6 m to €42.6 m (2008: €46.2 m). On the liabilities side, the trade accounts payable decreased by around €10.5 m.

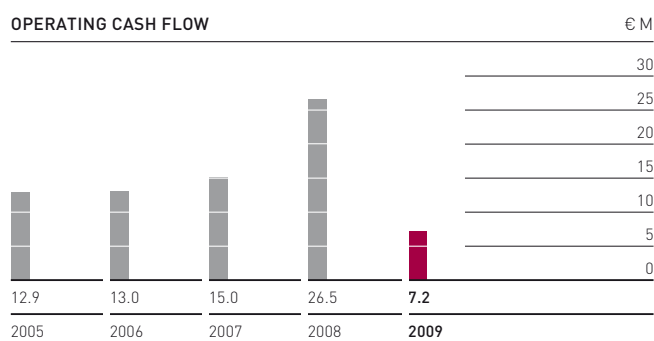


Operating cash flow positive despite loss

Due to the drastic reduction of working capital, Funkwerk was able to balance or overcompensate for the outflow of funds resulting from the annual net loss through operations. The last quarter in particular saw the measures initiated and the stringent cost and spending discipline take effect. On balance, Funkwerk accrued a total of around €18 m from operations in this period. As a result, the operating cash flow at year-end amounted to €7.2 m (2008: €26.5 m).

Payments for investments in the reporting period reduced to €14.8 m on the previous year (2008: €19.9 m). Investments in tangible and intangible assets were cut by over €3.6 m to €4.1 m on the previous year. The same applies to capitalised development costs. In the 2009 financial year, investments totalled €10.7 m (2008: €12.1 m).

This results in a free cash flow for 2009 of €-5.1 m (2008: €11.9 m). Liquid funds at year-end amounted to €22.1 m (2008: €25.4 m), keeping the liquidity virtually at prior-year level. Cash at banks in Algeria totalling €3.3 m are subject to exchange control and cannot be transferred to Germany at short notice. We also have assets in the amount of €1.1 m at our subsidiary, Bouyer S.A.S, Montauban, France.



5. Resource management and value added

INVESTMENTS AND ACQUISITIONS

In 2009, Funkwerk focused on the consolidation and concentration of key competences and on business activities with a considerable market share. As a consequence, the company opted not to use participations and acquisitions as a strategic instrument to consolidate its market position and open up new segments. To help us break into new market segments without acquisitions and direct participations and to extend our technology platform, Funkwerk increasingly seeks specific cooperations in all its business units.

As a result, TCC consolidated its partnership with Nokia Siemens Networks through conclusion of a basic contract. A development cooperation with Neonseven is designed to advance radio modules. Cooperation targets for industrial management systems include Honeywell and HIMA. Security Communication already produces paging products for Bosch and plans to extend its partnership here. Our focus in 2010 and beyond will continue to be on increasing our strategic partnerships.

Rather than aiming for further acquisitions, all our business units discontinued peripheral and other activities which in the long run add to their profitability. For this reason, Funkwerk will also end its involvement in the French public address system specialist, Bouyer S.A.S., Montauban. Since negotiations with the works council and trade unions on necessary reorganisation measures and a social compensation plan for the ailing company failed after almost two years, and funds made available over the past two years specifically for the reorganisation of the company are used up due to persistent losses, the management of Bouyer filed for insolvency in early January 2010 on grounds of imminent inability to pay its debts. Our investment in Bouyer was largely written down in 2009. The company will not be officially deconsolidated, however, until the current financial year.

EMPLOYEES: IMPROVEMENT IN QUALIFICATION – CUT IN NUMBERS

The global economic crisis hit markets on a scale far greater than predicted by the experts. Its effects on business at Funkwerk made adjustments in capacities and in personnel inevitable. Whereas early in the year short-time work was the preferred method to beat the crisis, it soon became clear that it could not be brought under control without personnel cuts.

As a result, the number of employees in all business units reduced quite noticeably in 2009. On average, Funkwerk as a group employed 1,639 people in the reporting period. This is 6 %, or 103 jobs, less than in the previous year. Due primarily to current deadlines and subsequent implementations, these job cuts are likely to continue until the middle of 2010. In total, the completed or initiated capacity adjustment process will cut some 300 jobs (approx. 20 %), 200 of which are due to the closure of sites and operations.

One of the primary strategic goals of Funkwerk in 2010 is further improvement of our competitive position and our profitability. Personnel expenses are a crucial factor here. As a result, the number of personnel employed in all business units will be adjusted basically to the level required in slack periods. Peak order times and seasonal fluctuations in production will be compensated, where possible, by adding temporary staff and similar measures.

Nevertheless, Funkwerk will continue to employ highly qualified personnel and provides incentives for employees to improve their qualifications, the qualifications of employees being a crucial success factor for a high-technology company such as Funkwerk. Consequently, Funkwerk employees are exceptionally well qualified: 45 % of all our staff have a university degree, around half being specialists in various fields.

Special attention is also given to staff training and further education within our own company. Funkwerk has always shown exceptional commitment in this area and provides training even beyond the company's own requirements. In 2009, 79 trainees (2008: 81) at our various locations were prepared for work in commercial and industrial fields and in information technology.

Funkwerk also runs a programme aimed to provide further vocational training and qualification in managerial functions. Our individual business units cooperate with universities in various projects and participate in their research projects. For example, Funkwerk provides committed and motivated employees with the opportunity to study business administration or engineering. This alternative to university or technical college extends over three years and ends with a state-approved academic degree (German »Diplom«). Funkwerk also acts as a mentor to university graduates writing their dissertations. In the research sector, Funkwerk Kölleda cooperates very closely with the Technical College in Ilmenau and supports appropriate work.

Against the backdrop of a looming »engineer gap« in the job market, Funkwerk has been very committed over the past few years to ensuring the long-term loyalty of its most capable assets by providing them with attractive job prospects. In addition to delegating entrepreneurial responsibility, this also includes direct involvement in the success of the group through a share option plan along with performance-related remuneration.

Procurement and production

The crisis in the global economy and the resulting poor demand for raw materials, energy and primary products enabled Funkwerk in the preceding financial year to agree more favourable procurement terms. As a result, material purchases were further optimised. Lower price levels in the procurement market were also used to purchase materials required on an ongoing basis in larger volumes to ensure savings to carry on into 2010.

As a manufacturing company, Funkwerk constantly takes steps to optimise its procurement and production processes. The raw materials and supplies required by Funkwerk for its own production are procured from different sources worldwide to avoid dependence and procurement bottlenecks. Our individual business units work closely together to ensure cost-effective purchases. Joint framework agreements with our suppliers are constantly renegotiated to bring about more favourable prices.

The group as a whole also makes use of coordinated opportunities to optimise the utilisation of productive capacities at its individual facilities. At the same time, competences are concentrated at individual sites to ensure further cuts in fixed costs. In 2009, the production and repair service of Security Communication and Enterprise Communication were combined at Funkwerk Electronic Services GmbH (FES) in Salzgitter. FES will also become the group's production service provider specialising particularly in handheld transceivers.

In the information systems product group, the closure of the Wuppertal site shifted the mobile information systems sector to the Karlsfeld location. A further consolidation planned for 2010 involves the outsourcing of hardware developments.

To further optimise our production costs, specifically for products in the low-end sector, Funkwerk seeks cooperations with partners in the Far East. Where the development and production of IT components used as mass products in Funkwerk systems is unprofitable, these components are increasingly procured through partners; at the same time, in-house production is phased out.

The main production site for Traffic & Control Communication continues to be Kölleda. The value added at this facility ranges from order picking and packaging in the warehouse to module production (printed circuit board production), equipment and system assembly and the commissioning of systems. A special service centre has been set up for the maintenance of mobile and stationary communication systems. The competences for management and information systems are concentrated at Funkwerk Information Technologies in Kiel and Karlsfeld. Larger quantities are also produced in Kölleda. Our subsidiary ALPHA Mess-Steuer-Regeltechnik GmbH in Neustadt an der Weinstrasse produces management systems for the industry. Microsyst Systemelectronic GmbH at its site in Weiden in der Oberpfalz produces information systems (displays and visualisation systems) for industrial use.

Production in our Automotive Communication business unit is concentrated at its main site in Dabendorf. It is one of the most modern production facilities in its sector. The Dabendorf facility also handles the production of our telematics and avionics equipment. Funkwerk Avionics GmbH based in Waal/Bavaria develops and assembles

transponders and radio equipment along with project-specific system solutions for general aviation. Funkwerk eurotelematik GmbH at its site in Ulm develops and operates software-intensive, complex and technologically sophisticated systems used to monitor and manage vehicle fleets.

The activities of Funkwerk Enterprise Communications are concentrated at its main site in Nuremberg and at its branch in Peine. The production of its equipment is now handled primarily by FES in Salzgitter. Only large series are still produced by third parties, primarily in the Far East.

Our Security Communication business unit is split by product groups between the sites in Fürth and Salzgitter. At its facility in Fürth, Funkwerk plettac electronic GmbH develops and produces video monitoring systems in the high-end sector, including cameras, image analysis systems, pan and tilt heads, video management systems, and other hardware. The production of electronics is still outsourced to local cooperation partners. In Salzgitter, Funkwerk Security Communication develops, produces and markets professional DECT and radio paging products along with solutions for personal security and comprehensive building management with integrated security systems.

Sustainability, quality management and social responsibility

As a supplier of technology for the high-end market, all business processes at Funkwerk are subject to stringent quality controls. The development, production and installation of systems are constantly monitored to enable immediate detection of deviations from the norm. This helps us identify defects promptly to ensure quick remedial action. Funkwerk systems and solutions are usually certified to meet the most stringent quality standards. Our quality systems are clearly defined and documented in pertinent handbooks relating to each site and are rigorously applied. Overall responsibility rests with the management. Some of our research & development efforts are also aimed at improving the ecobalance of our products and processes. This is part and parcel of the quality management at Funkwerk.

Sustainable economic success is based on the conservation of our natural resources and on the protection of our environment for future generations. Products and systems from Funkwerk play a significant role in increasing the economic and ecological efficiency of transport companies in terms of transport and logistics, and in the industry. Our communication and information systems help reduce the energy consumption, emissions and the use of raw materials both in the economy and in society.

Sustainability management, however, is just as much a priority within our company and goes beyond mere compliance with the legal requirements and the stipulations and regulations of environmental authorities. For us, it also includes active waste reduction and waste separation at our various sites and involves even the construction and production in the companies. Where possible, Funkwerk always opts for recyclable, environmentally friendly and reusable materials. Old and disused equipment and supplies can be returned to us and is disposed of in an ecologically friendly manner. In addition, our internal IT technology is increasingly virtualised (Green IT) to save electricity costs.

Funkwerk extends its social responsibility beyond the welfare of its staff. The company supports various social initiatives and clubs, including the promotion of youth and children's work in sports clubs, the protection of historical monuments, donations to charitable organisations, active support in the promotion of education and junior staff, competitions such as »Jugend forscht« (a major German youth science competition), and regional help for those in need.

Investment volume reduced by over 40 %

The competitive edge which Funkwerk enjoys in many areas is based on sustainable in-vestments in new technologies and products. Funkwerk always invests early to ensure that the requirements for both development and production are met to help realise market potential as promptly as possible. To avoid unnecessary risks, Funkwerk structures every major investment as a separate project with its own feasibility study and monitoring by our Controlling division.

In light of the poor trend of business in 2009, Funkwerk limited itself to absolute necessary investments in fixed assets while investments in developments were concentrated on such key aspects as TETRA and ALISTER.

As a result of our conservative policy, the total volume of capital expenditure and investments in intangible assets reduced by approx. 47 % to €4.1 m in 2009 (2008: €7.7 m).

6. Research and development report

Constant innovations and technologically sophisticated solutions are key elements in ensuring a competitive position for Funkwerk. Consequently, research and development are given top priority in each of our business units. Rather than restricting ourselves to basic research, we concentrate on the development of products and systems that meet the needs of our customers. Funkwerk also develops products for new potential markets in the light of technological developments.

To provide the necessary competence, over 25 % of all Funkwerk employees (average in 2009: 428) work in research and development.

All our development projects are defined, structured, and planned right from the brainstorming stage and implemented with detailed feedback from the market. Completion of mile-stones and quality standards is ensured by our risk management department during reviews. This structured product development process has been put in place to enable Funkwerk to react flexibly to technological change and new market situations. To improve our productivity in development and accelerate the marketability of our products, Funkwerk has specified uniform development platforms across all business units and intensified the information exchange. This is ensured at such events as regular meetings of the heads of development. We are currently also in the process of setting up competence centres for product development.

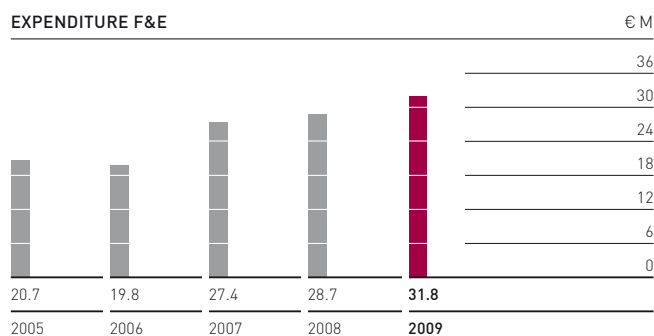
Spending on research and development at Funkwerk usually ranges between around 8 and 15 % of sales. This also applies to the figure for 2009, which totalled €31.8 m (2008: €28.7 m). In the reporting year, €10.6 m of total spending (2008: €12.2 m) was capitalised. It must be taken into account here that some of the new developments are realised in projects with customers and thus are included in sales.

In 2009, the focus of our R&D efforts in all business units was on the technological enhancement of our product portfolio to round off our range of solutions and at the same time integrate the latest technologies.

In Traffic & Control Communication, this involved new mobile radio and wireless shunting equipment based on the GSM-R and DMR standards, integrated communication system solutions for railway companies, the electronic interlocking system Alister, and the integration of web services in railway applications. In the area of information systems, we enhanced our product platform CAIMAN and added new applications, improved the quality of our technological lead in E-Ink displays (»electronic ink«) and integrated video technology in mobile passenger information systems.

Automotive Communication introduced structural innovation management in 2009 in order to realise new developments on schedule and within the budget. In terms of technology, it focused on the further development of hands-free units into Internet access solutions with infotainment applications, e-call, driver assistance systems and the development of the Home Compenser for broadband access solutions. In the telematics product group, AC set up new sector-specific solutions for fleet

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management while the Easyfleet system was changed to an OEM product. Funkwerk Avionics upgraded its transponder and radio equipment and introduced its glass cockpit innovation for practical testing in small aircraft.

As part of the reorientation of our Enterprise Communication business unit as a supplier of integrated communication solutions for specific sectors and small to mid-sized companies, EC focused on the completion of the IP-based communication platform Hybird, which is hoped to open up new market potential in 2010. In addition, the business unit worked on a new router generation and a WLAN system for campus networking.

Security Communication concentrated on new IP and HD camera models and on management systems for video monitoring. Its personal and building security sector focused primarily on a new handset generation based on TETRA and DECT standard and their integration in IP networks. The business unit also accomplished the connection of our building management system webnet to other security subsystems using a secure IP-based radio link. This should give SC a significantly higher share in the market.

7. Risk report and risk management and report according to § 315 Abs. 2 Nr. 5 HGB

In the period under review, the general as well as economic risks in the markets for information and communication technology in which Funkwerk operates continued to increase. Since many customers and business partners of Funkwerk struggled with project funding particularly in export to the effect that some sales contributions included in our projections failed to materialise, our risk management was severely put to the test. On the whole, however, we were able to prevent acute and serious risks affecting the financial, net worth and earnings position of Funkwerk AG, which could also have jeopardised the continuation of the company.

As a result of this endurance test – which our object protection project sector failed – Funkwerk took appropriate actions in 2009, primarily involving project management, controlling and risk monitoring. Starting in 2010, we will implement a new, modern and uniform ERP and reporting system throughout the group which includes up-to-date profit and loss reports on any segment even outside the reporting dates. A stepped accounts structure will ensure a better and more flexible allocation of costs and provide maximum transparency.

Through increased active controlling and a further improvement of our project management policy including costing, we should be in a better position to control business-related risks.

In markets with rapid technological changes, in which Funkwerk mainly operates, our business development depends on the extent to which Funkwerk is able to maintain or consolidate its market position and technology leadership while reacting flexibly to market changes. Hardware and software as well as system solutions from Funkwerk are subject to rapid changes and constant upgrading. To reduce the development-related risk, it is crucial that new products are launched at just the right time. The requirements and changes in the market therefore need to be constantly monitored.

When investing in new products and technologies, Funkwerk seeks prompt feedback from the market and develops its products in close coordination with the customer. Nonetheless there is the risk, the cost-intensive development of new products is not necessarily as successful as hoped. On the other hand, business success for Funkwerk also depends on obtaining sector-specific approvals and certifications which are crucial for launching new products and technologies.

Future investments also involve a financing risk. To finance investments aimed at improving our competitive position, we are currently negotiating with commercial banks about granting long-term loans. In times of economic crises, competitors increasingly attempt to gain market share by using price discounting to squeeze Funkwerk out of the market. While Funkwerk usually has a technological lead, there are occasions when we face the risk of declining prices and margins and the loss of projects.

Risks relating to price changes on the procurement side are reduced through framework agreements and cooperation with a number of different suppliers. Products in the communication technology sector, and particularly new product developments, involve the risk of failure to procure a sufficient quantity of key technological components at the required time. Delays or related increases in the cost of acquisition and in inventory controlling can impair the economic success of our company. For purchases of production material in US Dollars, Funkwerk has taken currency hedging measures. We have also set up procurement guide-lines.

In international business, Funkwerk is exposed both to the economic developments at global level and to the specific political and economic circumstances in each country. This has been obvious in 2009. Major projects abroad always pose a potential risk for the business development of Funkwerk. However, this must be seen opposite opportunities resulting from various economic aid programmes initiated to invest billions specifically to modernise the infrastructure sector.

Generally, a large proportion of Funkwerk's business depends significantly on funding provided to customers through political decisions. Delays, postponements or cancellations of investment projects and subsidies due to the poor financial state of a country can thus also have an adverse effect on the business development of Funkwerk.

In Traffic & Control Communication and Security Communication, Funkwerk is significantly involved in project business. Due to unpredictable circumstances implementation, this may involve risks that could impact the financial and earnings position of Funkwerk. In project business, Funkwerk assesses all risks involved prior to submitting an offer. The implementation of the project is continuously monitored to allow the company, where necessary, to react early in case of budget variances. For each central project, Funkwerk implements a project plan with constant progress monitoring. This controlling system enables us to identify any deviation from the specified time and cost and from reaching specific milestones and, in case of deviations from the target, to initiate appropriate countermeasures in good time. Calculations, the order situation, and the project progress are constantly monitored for the purpose of a target-performance analysis.

To date, Funkwerk has had no major claims against it on grounds of product defects or based on warranty which have a considerable impact on the financial and earnings position of the group. Future claims, however, cannot completely be ruled out, particularly because Funkwerk is also dependent on its suppliers and subcontractors, in terms of quality, schedule effectiveness and price.

Contracts concluded in foreign currency involve exchange rate risks that can affect sales, purchase prices, valuation of receivables, currency reserves, liabilities, and therefore the result. Where possible, Funkwerk meets these exchange risks through exchange rate hedging.

Since Funkwerk needs to ensure adequate supplies of spare parts for TCC and SC at times for a period of over 10 years, its inventory levels based on these structural factors are relatively high. Over and above the regular depreciation, Funkwerk as a result also faces the risk of further impairment of its inventories.

Risk management and control instruments

Funkwerk uses its own risk management system which was set up match the size of the company. Along with early risk detection, it also helps identify and exploit opportunities. The system is mandatory for all companies in the group and includes all its activities. A systematic and permanent review of projects and the current business situation ensures a high level of transparency and facilitates the prompt implementation of measures. The risk management system (RMS) is intrinsically tied to the internal control system (ICS). Based on guidelines, checklists and regular reports, both form the framework for identification, analysis, assessment, control, documentation and communication of risks and opportunities and for monitoring these activities.

It has become evident, however, that even appropriate and functioning systems are not an absolute guarantee that risks are identified and controlled. This is why our risk management system and the internal control system are constantly improved.

Objectives

Acting in combination, the RMS and the ICS must be able to identify and assess any risks to the company. The primary aim of risk management is not to prevent any and all potential risks. Rather, it is designed to provide scope of action so the company can take chances in full awareness of these risks and knowing their implications. Handling these risks in this controlled manner should help us use existing opportunities and increase the value of our company.

Organisational structure**Risk management**

The risk management system (RMS) of Funkwerk AG is stipulated centrally and comprises guidelines and working documents including checklists. These are not only designed to standardise processes and ensure a systematic and continuous review of operational and non-operational risks, but also to define opportunities. Along with risk management guide-lines, other guidelines are directed at accounting, project management and costing to ensure a comprehensible and uniform approach.

The RMS is implemented autonomously by the management of each company in the group and, where required, is extended to include specific issues relating to the company. The reporting forms the framework linking the RMS and ICS. While it is stipulated centrally, it is also complemented by company-specific reports for the purpose of managing operations. In terms of reporting, the ICS is thus largely specified centrally, but – complemented by company-specific regulations – is also defined and implemented directly by the companies. The synergy of the two systems effectively working together is ensured through a continuous review, analysis and discussion of the current business figures and projects. Both the Executive Board and Investment Controlling are intensively involved at a higher level in discussions and analyses.

Each company evaluates its projects using a risk checklist which allows a systematic identification and assessment of risks. The focus here is both on quantitative and qualitative criteria. Where defined risk thresholds are exceeded, Investment Controlling is notified. The latter then prepares the data for the Executive Board and ensures prompt assessment, discussion, where necessary a definition of measures and, finally, agreement with the Executive Board.

The progress of these projects and the general trend of business including risks in any area, whether or not related to operations, are discussed in detail at least once a month and appropriate measures are deliberated and initiated. In addition to these monthly meetings, an overall risk inventory is carried out at least once a year as part of the planning. The risk checklist used as the basis for this inventory is specified centrally, but complemented by company-specific issues and reviewed annually. Investment Controlling analyses the data at group level and considers a repackaging of risks. Based on this analysis, the Executive Board assesses the current risk situation and agrees appropriate measures with the Supervisory Board.

Internal control system in the financial reporting process

As part of the process of preparation of the (consolidated) financial statements, the risks identified relate both to the financial statements as such and to the illustration of individual types of transactions and individual account balances and statement details. Specific risks for Funkwerk AG may result from such events as the conclusion of unusual or complex transactions, specifically towards the end of a financial year due to time sensitivity. Furthermore, transactions which are not routinely processed involve a latent risk. Accounting risks related to derivative financial instruments are explained in the notes to the consolidated financial statements.

Accounting transactions are recorded in the individual accounts of the subsidiaries and group companies of Funkwerk AG using various accounting systems. All subsidiaries have been issued group accounting guidelines with explanatory notes (e.g. on inventory valuation) to ensure uniform group accounting. For the preparation of the consolidated financial statements of Funkwerk AG, the subsidiaries and group companies provide their individual

accounts along with further information in standardised reporting packages already consolidated by the subsidiary at subgroup levels. These subgroup reports are further processed by the group accounting department of Funkwerk AG based on a proprietary consolidation system which has been in use for many years to prepare the consolidated financial statements. The consolidation processes for preparation of the consolidated financial statements of Funkwerk AG, such as the consolidation of capital, assets and liabilities, or revenue and expenditure including equity valuation, are carried out through manual adjustments.

Measures to ensure effectiveness of the RMS/ICS

The measures of the internal control system are designed to strictly ensure compliance and reliability. They provide certainty that all transactions are recorded in full and promptly in compliance with the legal and statutory requirements. They also ensure that inventories are carried out properly and that assets and liabilities are recognised, valued and reported accurately in the consolidated financial statement. To ensure correct preparation of the tax balance sheets, each company uses the services of a national tax consulting firm.

The implementation of these measures is discussed and documented in monthly meetings in which their success is reviewed.

Regular discussions and follow-up in monthly meetings, complemented by individual reviews, provide assurance that the measures taken are, and remain, effective. At the same time, this platform is used to make changes to existing systems and thus is a starting point for a continuous improvement process.

Furthermore, the information provided is analysed on the basis of key figures. This allows us to identify weak points. Investment Controlling is also responsible for verifying efficiency through spot checks and, where necessary, making appropriate changes.

The implementation of the risk management system is verified by our auditors as part of their annual audit. The Supervisory Board receives regular reports on opportunities and risks.

8. Corporate Governance Report

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE - 2009

Declaration of Compliance in conformity with Section 161 AktG

All actions of the executive and supervisory bodies of Funkwerk AG are based on the principles of responsible corporate governance. In compliance with item 3.10 of the German Corporate Governance Code and Section 289a para. 1 of the German Commercial Code (HGB), this declaration of the Executive Board – which also applies to the Supervisory Board – is a report on corporate governance at Funkwerk AG.

In March 2009, the Executive Board and the Supervisory Board of Funkwerk AG made the following declaration of compliance with the recommendations of the German Corporate Governance Code in conformity with Section 161 of the German Stock Corporation Act (AktG). This declaration is available to the public as a permanent feature on the company website (www.funkwerk.com).

Funkwerk AG will in future comply with the recommendations of the »Government Commission on the German Corporate Governance Code« as amended on 6 June 2008 with the following exceptions:

1. The German Corporate Governance Code recommends the agreement of an appropriate excess in D&O insurances (item 3.8 of the Code). The D&O insurance contract concluded for the bodies of Funkwerk AG in 2000 does not provide for an excess.

2. The German Corporate Governance Code recommends that the Supervisory Board set up professionally qualified committees depending on the specific circumstances of the company and the number of its members (item 5.3.1 of the Code). The Supervisory Board of Funkwerk AG comprises three members and has not set up any committees.
3. The German Corporate Governance Code recommends that the Supervisory Board set up a nomination committee made up exclusively of shareholder representatives to recommend suitable candidates to the Supervisory Board for its proposal to the shareholders' meeting (item 5.3.3 of the Code). The Supervisory Board of Funkwerk AG has not set up a nomination committee.

The Executive Board and the Supervisory Board welcome the recommendations of the German Corporate Governance Code, feel committed to the principles of good corporate governance, and consider these a central part of the company policy. These codes of practice are important to the Supervisory Board and the Executive Board for the responsible management and supervision of the company.

DETAILS OF CORPORATE GOVERNANCE PRACTICES

Funkwerk AG does not apply corporate governance practices beyond the legal requirements.

Shareholders and shareholders' meeting

The shareholders exercise their rights, including their right to vote, at the shareholders' meeting. The meeting decides on all matters assigned to it by law such as the election of members of the Supervisory Board, the discharge of the Executive Board, the appropriation of profits and amendments to the articles of incorporation. At the shareholders' meeting, the shareholders are also given opportunity to address the meeting on any items on the agenda, to pose relevant questions and to bring forward pertinent motions. Shareholders may exercise their voting rights at the shareholders' meeting either in person, through a duly authorised representative or by a proxy of Funkwerk AG subject to instructions. Each share grants one vote.

The annual shareholders' meeting of Funkwerk AG is held within the first eight months of the financial year. The meeting is chaired by the chairman of the Supervisory Board.

The shareholders' meeting was convened by post rather than electronically, inviting all national and international financial service providers, shareholders and associations of shareholders. It was also advertised in the Electronic Federal Gazette. The necessary documents for the shareholders' meeting were made available to shareholders on the website of Funkwerk AG (item 2.3.2 of the Code).

The shareholders' meeting was not broadcast on the Internet. The agenda, further information and the results of votes taken at the shareholders' meeting in 2009 are available on the company website at www.funkwerk.com.

Supervisory Board

In compliance with the Articles of Incorporation, the Supervisory Board of Funkwerk AG comprises three members. It is responsible for acting in an advisory capacity to the Executive Board and for monitoring its affairs. The Supervisory Board appoints and removes members of the Executive Board, decides on the remuneration system for Executive Board members, and determines their total emoluments. It is involved in all major decisions of fundamental importance to Funkwerk AG. Under the Articles of Incorporation, the term of office of members of the Supervisory Board is five years. Based on the recommendations of the German Corporate Governance Code and in derogation of the Articles of Incorporation, each member of the Supervisory Board was elected by the shareholders' meeting on 14 May 2008 for a period of two years. The current term of office ends on conclusion of the ordinary shareholders' meeting in 2010. Members of the Supervisory Board are elected in due consideration of the knowledge, skills and professional experience required for performing their duties and to provide diversity in

its composition. The Supervisory Board does not include former members of the Executive Board of Funkwerk AG. It is made up of a sufficient number of independent members who do not maintain business or personal relations with the company or its Executive Board. Due to its size, the Supervisory Board does not set up committees.

Executive Board

The Executive Board of Funkwerk AG comprises two members. As the central management body of the group, they jointly manage the affairs of the company on their own authority in the interest of the company with the objective of bringing about an effective increase in the company's value added. The Executive Board is also responsible for determining the corporate strategy and, in agreement with the Supervisory Board, for ensuring its implementation. The Executive Board further ensures adequate risk management and controlling in the group. The principles of collaboration of the Executive Board of Funkwerk AG are summarised in the Rules of Internal Procedure. These also specify the areas of responsibility of each member, matters which concern the entire Executive Board, the issue of passing resolutions, and the rights and obligations of the chairman. The members of the Executive Board work in a collegial system and regularly inform each other of all key measures and processes in the company.

Working principles of the Executive Board and Supervisory Board

The Executive Board and the Supervisory Board work in close cooperation for the good of the company. The Executive Board determines the strategic orientation of the company, which it agrees with the Supervisory Board. It also ensures its implementation and regularly discusses its progress with the Supervisory Board. The Executive is jointly responsible for providing the Supervisory Board with sufficient information. It notifies the Supervisory Board regularly, promptly and comprehensively of all matters relevant to the company in terms of planning, business development, risk situation and risk management, and addresses deviations of the trend of business from the projections and targets specified, stating the reasons. The chairman of the Executive Board promptly notifies the chairman of the Supervisory Board of key events which are important for the assessment of the situation and development of the company and its management. In the same manner, the chairman of the Supervisory Board is promptly advised by the Executive Board of key matters related to risks.

The Executive Board usually reports to the Supervisory Board in writing. Documents required to pass decisions, specifically the annual financial statements and the audit report, are made available to the members of the Supervisory Board in good time before its meeting.

The Supervisory Board convenes in four scheduled meetings per calendar year. In addition to these duly convened meetings, members of the Supervisory Board or the Executive Board may request special meetings which are convened by the chairman of the Supervisory Board or, in his absence, by his deputy. The meetings may be convened verbally, by telephone, in writing, by fax or by e-mail. The meetings of the Supervisory Board are convened by its chairman or, in his absence, by his deputy, by giving two weeks' notice. The agenda is announced in the invitation to the meeting. The documents required to assess the situation of the company must be made available to the Supervisory Board prior to its meeting and include proposed resolutions.

Unless otherwise provided for by law, the resolutions of the Supervisory Board are passed by a simply majority of the votes cast. The Supervisory Board has a quorum when all its members have been invited to the meeting or requested to vote. Absent members of the Supervisory Board may participate in the vote by presenting their written votes through another member of the Supervisory Board.

Transparency

Consistent, comprehensive and prompt information is a key principle at Funkwerk. The results and situation of the company are reported in the financial statements, at press and telephone conferences, and in the quarterly reports. Furthermore, information is published in press and ad-hoc releases. All disclosures and notifications are made available on the company website.

Funkwerk AG has also voluntarily set up Publication Guidelines for itself which mandate the external communication for all its employees. In accordance with Section 15 of the German Securities Trading Act (WpHG), Funkwerk AG has also drawn up an insider list. The relevant individuals were notified of their legal duties and sanctions.

Accounting and auditing

The consolidated financial statements are prepared in compliance with the principles of the IFRS as applicable in the European Union. Following their preparation by the Executive Board, the consolidated financial statements are audited by the auditor and approved by the Supervisory Board. They are disclosed within 90 days from the end of the financial year. Within the scope of the audit, the auditor promptly advises the chairman of the Supervisory Board of all key issues and events which may arise during the audit.

9. Remuneration report

Remuneration system for the Executive Board

The remuneration of members of the Executive Board comprises a non-performance-related component and a performance-related component. The amount and structure of the remuneration are determined by the Supervisory Board of Funkwerk AG. In addition, each Board member receives fringe benefits and a pension commitment. In fiscal 2009, the remuneration of the Executive Board was reviewed by the Supervisory Board.

The remuneration for members of the Executive Board is settled by the Supervisory Board. It is determined by the size of the company, its economic and financial situation, and the amount and remuneration structure of comparable companies. The remuneration system for the Executive Board of Funkwerk AG includes as follows:

The fixed-term employment contracts concluded with the members of the Executive Board provide for a target income for each year of service. This comprises a fixed basic salary and a variable component based on the performance of the company. The basis of assessment of the company's performance and thus the variable component under the current employment contracts are earnings before interest and taxes (EBIT) and the cash flow before investments and acquisitions (operating cash flow). The EBIT counts for 2/3, the cash flow for 1/3. Each year by 30 June, the Supervisory Board and the Executive Board agree on performance targets for these two assessment bases. The full target income is payable where these targets are reached. If EBIT and cash flow are above or below these targets, the target income is adjusted in a linear manner.

In the 2009 financial year, the non-performance-related remuneration totalled €417.7 m (2008: €458.8 m), the total remuneration amounted to €506.7 m (2008: €1,062.2 m). The total remuneration includes the taxable component of the private use of a company car. Pension plan payments came to €64,000 (2008: €64,000).

In addition, the members of the Executive Board were granted 12,000 share options at a current market value of €26,280 (2008: 18,000 share options at a current market value of €17,460).

Full details of individual remunerations of the Executive Board are included in the notes to the financial statements in section I.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is governed by Section 12 of the Articles of Incorporation of Funkwerk AG. It is divided into a fixed and a variable component as well as a meeting attendance fee.

The members of the Supervisory Board receive a fixed component of €5,000 per financial year for their duties on the Supervisory Board and a performance-oriented remuneration of €1,000.00 Euro for every full 5 cents of dividend paid per share in the financial year. The members of the Supervisory Board further receive an attendance fee of €1,300.00 per session.

The chairman receives twice, his deputy 1.5 times, the annual pay and attendance fee. Members of the Supervisory Board who have not served on the Board for a full financial year receive a prorated fixed and performance-related remuneration. All components of the remuneration for the preceding financial year are payable on conclusion of the annual shareholders' meeting at which the annual accounts for the preceding financial year are presented or approved and, where applicable, a resolution on the appropriation of profits is passed. Section 113 para. 2 AktG remains unaffected by this.

The members of the Supervisory Board are further reimbursed for their expenses and for any VAT applicable to their remuneration and expenses. In the 2009 financial year, the total remuneration amounted to €45.9 m (2008: €55.0 m)

Full details of individual remunerations of the Supervisory Board are included in the notes to the financial statements in section I.

Shareholdings of the Executive Board and the Supervisory Board

Pursuant to the Corporate Governance Code, all security transactions by individual Executive Board and Supervisory Board members and any persons closely related to these must be reported immediately. This disclosure requirement includes any acquisition or sale exceeding €5,000 per calendar year. Funkwerk AG publishes any such transactions promptly. No transactions were concluded by members of the Executive Board and the Supervisory Board in fiscal 2009.

10. Particulars of capital stock and own shares

There were no changes to the subscribed capital (capital stock) in the reporting period. Hence, the subscribed capital of Funkwerk AG as at 31 December 2009 was divided into 8,101,241 (2008: 8,101,241) non-par-value shares with an accounting value of €1 each. The main shareholder was Hörmann Funkwerk Holding GmbH with 4,280,00 shares, which corresponds to 52.83 % of the capital. As at 31 December 2009, Funkwerk AG held 41,579 own shares.

Each share grants one vote in the shareholders' meeting and the right to participate in agreed dividend payouts. There are no restrictions relating to the voting rights.

Based on a decision passed at the annual shareholders' meeting on 28 May 2009, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the capital stock of the company by up to €4,050,000 by 27 May 2014, through a single or repeated issue of new, ordinary bearer shares in the form of non-par shares against contributions in cash or in kind (approved capital for 2009). This replaces the resolution passed by the shareholders' meeting on 18 May 2004, which authorised the Executive Board, with the approval of the Supervisory Board, to increase the capital stock by up to €3,971,700 through the issue of new non-par bearer shares.

Furthermore, the Executive Board was authorised by the shareholders' meeting of 28 May 2009, with the approval of the Supervisory Board, to acquire its own stock up to a share of 10% of the current capital stock by the end of 27 November 2010. Together with other own stock held by the company or attributable to it under Sections 71a et seq. AktG, the shares acquired must not at any point exceed 10% of the capital stock. The time limit only applies to the acquisition, not to ownership of the shares. The shares must be acquired at the stock exchange.

As at the end of the 2009 financial year, the conditional capital amounted to €469,860. Under Section 5 para. 7-9 of the Articles of Incorporation, the increase in conditional capital is used to issue option rights on shares. Option holders may be members of the Executive Board of the company, members of the management of affiliated companies, executives of the company and the affiliated companies, and other employees of the company and affiliated companies. The conditional increase in capital stock is effected only where option rights have been issued and are exercised by the authorised parties.

Sections 84,85 and 133,179 of the German Stock Corporation Act have been implemented in the Articles of Incorporation.

11. Closing statement on the dependent company report:

The Executive Board of Funkwerk AG hereby declares that all legal transactions concluded with affiliated companies involved adequate compensation, and that neither party was prejudiced in any way. Reference is made to Section 312 para. 3 sentence 1 of the German Stock Corporation Act.

12. Events after the cutoff date:

In 2009, Funkwerk focused on the consolidation and concentration of key competences. In this connection, Funkwerk will also end its involvement in public address system specialist Bouyer S.A.S., Montauban, France.

Since negotiations with the works council and trade unions on necessary reorganisation measures and a social compensation plan for the ailing company failed after almost two years and funds made available over the past two years specifically for the reorganisation of the company are used up due to persistent losses, the management of Bouyer filed for insolvency in early January 2010 due to imminent inability to pay its debts. Our investment in Bouyer was largely written down in 2009. The company will not be officially deconsolidated, however, until the current financial year.

In the reporting year, Funkwerk Security Communications GmbH, Salzgitter, concluded a consortium agreement as part of a customer project in Kuwait. It involved the delivery and commissioning of 1,300 explosion-proof Tetra-based mobile radio devices. Delivery was made in 2009. Acceptance is currently negotiated.

13. Opportunities, forecast and prospects

Funkwerk operates in growth markets which quickly open up new potential due to technological change. This can be satisfied promptly by launching innovative products and system solutions. Key criteria for prompt reaction to these opportunities are subsidies made available by the government along with other funding options. In the preceding financial year, governments worldwide set up economic stimulus packages to curb the worst economic crisis since World War II. In many cases, these packages involved investments in the billions for infrastructure measures, specifically in the transport sector. Companies were also presented with new refinancing options. As a result, Funkwerk expects fresh impetus for growth in all its business units in the current financial year.

The use of information and communication technology by transport companies, in industry and in the security sector is increasing in importance. This opens up excellent prospects for us, as Funkwerk is a key manufacturer here in the European market. Further market opportunities for TCC may open up specifically in Eastern Europe where the renewal and modernisation of train radio systems for local public and long-distance rail transport is planned. This also applies to such countries as India, China, Australia and Russia, and to North African and Arab states which plan to introduce digital train radio systems as a standard over the next few years. Further market opportunities will come from Great Britain where the 2012 Olympic Games will be held and, as a result, the entire transport infrastructure is currently being modernised.

In electronic interlocking systems (ESTW-R), a further new market for cost-efficient systems is increasingly opening up to allow branch lines, in particular, to be automated as cost-effectively as possible. Funkwerk anticipates a market share of around 20% in Germany with our own system, Alister ESTW-R.

In Automotive Communication, the rapid market penetration of infotainment offers could boost the sale of Funkwerk products. In addition to mobile signal amplifiers, Funkwerk also provides communication equipment which is networked with both the vehicle and the out-side using appropriate interfaces. By combining our competences in mobile communications and vehicle systems, Funkwerk has a good chance of further extending its OEM business again in the future. The future here belongs to integrated solutions which enable telephony, navigation and infotainment with a uniform operating concept. New potential results from spin-off applications of this technological competence in non-automotive market segments such as the offer of a broadband Internet access solution for previously ignored rural areas (»digital dividend«).

In times of economic difficulties, fleet operators, forwarding agents and transport companies especially depend for their survival on efficient fleet management based on mobile radio systems. Funkwerk provides appropriate telematics systems and services. In Europe, experts expect the market for these types of telematics solutions to grow in the double-digit range.

Enterprise Communication is experiencing a trend towards integrated all-IP solutions. Funkwerk has taken this into account through reorientation of the strategy and product policy of this business unit towards a solution-oriented system supplier. Complete business- and system solutions with new performance features for selected industries promise less competitive pressure as companies increasingly modernise their communication infrastructures. Security is an aspect which is progressively gaining in relevance with regard to data networks and access solutions. With our Unified Threat Management (UTM) systems, Funkwerk is successfully positioning itself as a leader in this growing security market and, as a result, should benefit from this trend in the long term.

The increasing needs to provide safety and security for individuals and companies in view of the rise in threats also ensures that the overall market for personal, building and object protection systems will grow over the next few years. Funkwerk satisfies this demand in its Security Communication business unit by providing video monitoring components, as well as complete system security technology solutions for demanding customers. In Germany, Funkwerk has already established itself as a leading supplier of personal security and professional video monitoring systems and is increasingly building on its good reputation at global level. This provides us with good growth prospects.

To summarise, all four of our business units have sufficient potential based on the levels achieved in 2009 to grow above average again in 2010. By 2012, our sales volume should approximate €300m.

PROSPECTS

Following the worst slump in the global economy since World War II, the recession seems to have stalled for the time being. Economic growth worldwide is predicted to be moderate in 2010, ranging between 2 and 3%. This is likely to be boosted primarily by Asia. For Europe and Germany, experts expect less growth, although countries with significant export markets, such as Germany, tend to come out of the crisis better. The infrastructure programmes launched by the German government and the governments of other countries, which may have a stimulating effect particularly on the Traffic & Control Communication business unit of Funkwerk, will be likely to materialise in the current year and so spur growth.

With adjustment and restructuring measures in all our business units completed in 2009, Funkwerk is on course to come out of the crisis stronger and in a good competitive position.

Where in 2009 our restructuring programme focused primarily on cost cuts, the priority for 2010 will be the optimisation of our processes, with the aims to consolidate our market positions and regain our earnings power. Each business unit is subdivided into product groups and product lines which will in future act increasingly as competence centres.

The aforementioned measures have particularly helped our TCC business unit gain a further competitive edge. TCC should be able in 2010 to achieve a positive result again despite increasingly fierce competitive pressures in new tenders. Additional growth factors are expected to come from the launch of our electronic interlocking system, Alister, new DMR (Digital Mobile Radio) based mobile radio equipment, our increasing cooperation with vehicle and infrastructure manufacturers in the railway sector and efforts made worldwide to modernise the railway system.

Automotive Communication was hit quite badly by the worldwide slump in the automobile industry in 2009. In common with the rest of the vehicle industry, we expect sales to stabilise only moderately in 2010. However, this must be seen against sustainable cost savings in 2010 of around €1.5m. In itself, this should be enough to achieve a more or less balanced result again in AC.

Our Security Communication business unit has also undergone restructuring measures and capacity adjustments. From 2010, this should produce cost savings of some €3m. In the medium term, however, Funkwerk anticipates significant growth in this business unit in line with the growing demand for intelligent solutions for the protection of people, buildings and objects. Authorities and organisations with security services such as the police and fire brigade, operators of industrial sites and the raw material industry will in particular need to invest increasingly in security systems. Funkwerk is a leading specialist in relevant communication technology for the global market. As a result, revenues in SC are estimated to increase at a moderate level to generate a positive result in the current financial year.

Enterprise Communication was able to complete its restructuring process in 2009 to achieve a moderate increase in its overall performance. Further positive effects of the reorientation are visible, though the underlying conditions in this market segment with intensified price competition remain difficult. Our aim here, therefore, is to ensure steady business in 2010 and push the result back into the black.

On the whole, Funkwerk should benefit in all areas from the recovering economy. Our project business, in particular, will be impacted though by the liquidity of our customers. Post-ponements are likely again in 2010 if financing and the restrictive handling of liquidity are a priority. However, we took precautions here in the preceding financial year by implementing an appropriate system to ensure a more prompt measure management. This should help us compensate for any negative sales effects on the result.

We currently expect sales in 2010 to increase on 2009 in the upper single-digit percentage range. The fitness programme initiated for the whole Funkwerk group and the resulting cost savings from 2010 set the stage for a successful turnaround in the current year. At the same time, it will help us focus again on a growth-oriented forward strategy in 2011 and 2012. Our aim is to generate sales revenues of around €300m by 2012.

Kölleda, March 2010
The Executive Board



Dr. Hans Grundner



Johann M. Schmid-Davis

Responsibility statement by the legal representatives

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the 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.

Kölleda, March 2010
The Executive Board



Dr. Hans Grundner



Johann M. Schmid-Davis

ENTERPRISE COMMUNICATION

16:01 H HAMBURG
The company's UTM security solution continuously prevents numerous attacks on the corporate network. Staff remain unaware of this and attend to business as usual.

16:02 H
Hans B., head of Finance, publishes the latest figures on the intranet.

16:05 H
Susanne W., head of Communications, discusses the changed marketing plan in a telephone conference with management.

16:05 H
Gerrit P., managing director of the company, talks to his latest client in a café and sends him the company profile updated by Susanne W.



»Today, flexibility and accessibility are basic requirements of our modern lifestyle. The network and TC systems from Funkwerk AG provide ideal conditions for it in our company.« SUSANNE WIEDEN, HEAD OF COMMUNICATION



ENTERPRISE COMMUNICATION

Efficient broadband data networks enable a wealth of new applications for communication within and across companies. As a specialist in integrated communication solutions, Funkwerk satisfies this demand in its Enterprise Communication segment. Funkwerk realises professional, sector-specific solutions for small to mid-sized companies based on a comprehensive product portfolio comprising necessary devices and components, including data security for private data networks in addition to classic TC systems.

Enterprise Communication TC SYSTEMS

The transition from the traditional telephone system to integrated all-IP solutions is well under way. TC systems from Funkwerk have a modular architecture that has enabled the company to step ahead into the next communication age. Functions once reserved for major systems can now also be used in small to mid-sized companies or even individual offices.

Enterprise Communication DATA SECURITY

Security is progressively more important to companies' data networks and access systems. With its Unified Threat Management (UTM) systems, Funkwerk is successfully positioning itself as a leader in this growing security market. UTM's combine all relevant security systems such as anti-spam and anti-virus, firewall, intrusion detection, intrusion prevention, VPN, content filtering, and much more,

on a single platform. The benefit for companies is obvious: instead of a range of different systems from various suppliers, a single device from the UTM series ensures all-round network security.

Enterprise Communication NETWORKS

Fast Internet access and secure data exchange between branches, home offices and headquarters are key elements for companies operating in the global market. Whether the customer seeking professional solutions is a global player, a major branch store operator or a small business, Funkwerk provides optimal, customised solutions. The focus is on setting up virtual networks to connect branches or sites as cost-effectively as possible. By extending gateway functionalities to provide efficient media gateways, Funkwerk is now increasingly able to devise system solutions for specialist markets. Its range is complemented by perfected mobility concepts based on the latest wireless LAN technologies.

CONSOLIDATED FINANCIAL STATEMENT

Consolidated Statement of Financial position acc. to IFRS as at 31 December 2009

ASSETS		31.12.2009	31.12.2008
	NOTES	EUR K	EUR K
A. Long-Term Assets			
1. Intangible assets	E. (1)	32,887	47,499
2. Tangible assets	E. (1)	16,804	19,146
3. Financial assets reported using the equity method	E. (1)	1,530	0
4. Other assets	E. (1)	67	126
5. Deferred taxes	E. (2)	2,303	372
		53,591	67,143
B. Short-Term Asset			
1. Inventories	E. (3)	42,568	46,193
2. Trade accounts receivable	E. (4)	25,282	50,702
3. Receivables from projects in progress	E. (5)	15,206	18,611
4. Due from affiliated companies	E. (6)	682	617
5. Tax refund claims	E. (7)	3,955	4,477
6. Other assets	E. (8)	3,397	4,252
7. Financial assets	E. (9)	950	642
8. Financial assets	E. (9)	22,141	25,365
9. Long-term assets available for sale	E. (10)	76	2,100
		114,257	152,959
		167,848	220,102

LIABILITIES		31.12.2009	31.12.2008
	NOTES	EUR K	EUR K
A. Equity Capital	E. (11)		
1. Subscribed capital		8,101	8,101
2. Capital reserve		63,270	63,017
3. Retained earnings (revenue reserve)		38,211	38,211
4. Own shares		-1,062	-1,062
5. Net profit/net loss for the year		-19,096	21,657
6. Foreign currency items		-323	-379
Equity of Funkwerk AG shareholders		89,101	129,545
7. Minority interests		14	11
		89,115	129,556
B. Long-Term Liabilities			
1. Pension obligations	E. (12)	13,021	12,640
2. Deferred investment subsidies	E. (13)	748	1,358
3. Deferred taxes	E. (14)	0	3,008
4. Financial liabilities	E. (15)	23	33
		13,792	17,039
C. Short-Term Liabilities			
1. Financial liabilities	E. (15)	2,264	341
2. Trade accounts payable	E. (16)	23,263	33,730
3. Advance payments received on orders	E. (17)	7,349	3,844
4. Due to affiliated companies	E. (18)	58	73
5. Tax liabilities	E. (19)	2,852	3,474
6. Accrued liabilities	E. (20)	11,289	10,767
7. Deferred investment subsidies	E. (13)	403	184
8. Other liabilities	E. (21)	17,463	21,094
		64,941	73,507
		167,848	220,102

Statement of Comprehensive Income acc. to IFRS for the Financial Year from 1 January to 31 December 2009

		2009	2008
	NOTES	EUR K	EUR K
1. Sales revenues	F. (22)	218,440	290,202
2. Increase (2008: decrease) in finished goods inventories and work in progress		2,218	-5,980
3. Other own work capitalised		10,650	12,244
4. Other operating income	F. (25)	12,488	17,556
5. Total operating performance		243,796	314,022
6. Cost of materials	F. (23)	114,447	143,019
7. Personnel expenses*	F. (24)	92,214	97,529
8. Planned depreciation		11,447	15,581
9. Other operating expenses	F. (26)	39,283	43,860
10. Operating result before impairment charges and restructuring costs		-13,595	14,033
11. Impairment charges for intangible assets	F. (27)	19,789	0
12. Restructuring costs*	F. (28)	8,864	809
13. Operating result (EBIT)		-42,248	13,224
14. Earnings from financial assets reported using the equity method		-650	0
15. Interest and similar income		328	2,537
16. Interest and similar expenses		1,884	4,470
17. Financial results	F. (29)	-2,206	-1,933
18. Earnings before taxes		-44,454	11,291
19. Taxes on income	F. (30)	4,226	-2,836
20. Other taxes		-522	-474
21. Earnings after taxes/result for the year		-40,750	7,981
Amounts directly included in equity			
22. Currency differences		56	-294
23. Other period results		56	-294
24. Total		-40,694	7,687
The result for the year comprises			
Funkwerk AG shareholders	E. (11)	-40,753	8,199
Minority interests	E. (11)	3	-218
The amounts directly included in equity comprise			
Funkwerk AG shareholders		56	-294
Minority interests		0	0
Earnings per share acc. to IAS 33			
Earnings per share (undiluted) in EUR	E. (11)	-5.06	1.02
Earnings per share (diluted) in EUR	E. (11)	-5.06	1.00

* prior-year figure adjusted – refer to Section B. of the Notes

Consolidated Statement of Cash Flows acc. to IFRS for the Financial Year from 1 January to 31 December 2009

		2009	2008
	NOTES	EUR K	EUR K
1. Annual result		-40,750	7,981
2. Income tax revenues/expenditure	F. (30)	-4,226	2,836
3. Depreciation of development costs	E. (1)	15,261	7,972
4. Amortisation of goodwill	E. (1)	9,104	0
5. Depreciation of tangible assets and intangible assets	E. (1)	6,871	7,610
6. Writedown of investments	F. (29)	195	821
7. Earnings from financial assets reported using the equity method	F. (29)	650	0
8. Other non-cash expenditure and income	G. (31)	1,822	-7,951
9. Reversal of investment subsidies	F. (25)	-733	-477
10. Changes in reserves		954	3,185
11. Profit/loss from disposal of fixed assets		42	1,275
12. Changes in inventories, receivables and other assets*		29,750	7,701
13. Changes in advance payments received on orders		3,505	-2,517
14. Changes in other debts		-14,124	-4,548
15. Interest and similar income	F. (29)	-328	-2,538
16. Interest and similar expenses	F. (29)	1,689	3,649
17. Interest paid		-971	-981
18. Interest received		150	287
19. Paid/received income tax		-1,650	2,183
20. Cash flow from operating activities*	G. (31)	7,211	26,488
21. Reicepts from the disposal of fixed assets		14	3
22. Payments for investments and development costs		-10,665	-12,143
23. Payments for investments in intangible assets without goodwill and development costs		-1,222	-2,495
24. Payments for investments in fixed assets		-2,900	-5,253
25. Receipts from investment subsidies		441	0
26. Payments for the acquisition of consolidated companies less acquired cash and cash equivalents	G. (33)	-200	6,108
27. Acquisition of participating interests		-49	-821
28. Receipts from the sale of consolidated companies and participating interests	G. (34)	2,233	0
29. Cash flow from investing activities	G. (32)	-12,348	-14,601
30. Free cash flow*	G. (35)	-5,137	11,887
31. Receipts from take-up of (financial) credit		1,913	9
32. Payments for the redemption of loans and (financial) credit		0	-1,843
33. Payments due to compensation claims to minority shareholders*		0	-399
34. Dividend distributions		0	-2,015
35. Cash flow from financing activities*	G. (36)	1,913	-4,248
36. Net change in cash and cash equivalents*		-3,224	7,639
37. Cash and cash equivalents at beginning of period*		25,365	17,726
38. Cash and cash equivalents at end of period*	G. (37)	22,141	25,365

* prior-year figure adjusted – refer to Section B. of the Notes

Consolidated Statement of Changes in Equity acc. to IFRS

	NOTES	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES
		EUR K	EUR K	EUR K	EUR K
January 1, 2008		8,101	62,560	38,211	-1,062
Group profit for the year	E. (11)	0	0	0	0
Foreign currency items		0	0	0	0
Total		0	0	0	0
Share options (IFRS 2)	E. (11)	0	457	0	0
Dividend distribution		0	0	0	0
Change in minority interests	E. (11)	0	0	0	0
Transactions with owners		0	457	0	0
December 31, 2008		8,101	63,017	38,211	-1,062
January 1, 2009		8,101	63,017	38,211	-1,062
Group profit for the year	E. (11)	0	0	0	0
Foreign currency items		0	0	0	0
Total		0	0	0	0
Share options (IFRS 2)	E. (11)	0	253	0	0
Dividend distribution		0	0	0	0
Change in minority interests		0	0	0	0
Transactions with owners		0	253	0	0
December 31, 2009		8,101	63,270	38,211	-1,062

	NET PROFIT/ LOSS FOR YEAR	FOREIGN CURR. ITEMS	EQUITY OF FUNKWERK AG SHAREHOLDERS	MINORITY INTERESTS	TOTAL
	EUR K	EUR K	EUR K	EUR K	EUR K
	15,473	-85	123,198	628	123,826
	8,199	0	8,199	-218	7,981
	0	-294	-294	0	-294
	8,199	-294	7,905	-218	7,687
	0	0	457	0	457
	-2,015	0	-2,015	0	-2,015
	0	0	0	-399	-399
	-2,015	0	-1,558	-399	-1,957
	21,657	-379	129,545	11	129,556
	21,657	-379	129,545	11	129,556
	-40,753	0	-40,753	3	-40,750
	0	56	56	0	56
	-40,753	56	-40,697	3	-40,694
	0	0	253	0	253
	0	0	0	0	0
	0	0	0	0	0
	0	0	253	0	253
	-19,096	-323	89,101	14	89,115

AUTOMOTIVE COMMUNICATION

21:32H, LUDWIGSHAFEN
Hendrik V., driver of lorry 743,
receives a list of pickups for
the following day.

21:29 H
Andreas K., driver of vehicle 2345, is
automatically advised by his navigation
system of a route change due to construction
work. The new arrival time is automatically
forwarded to the control centre.

21:47 H
Bernd B., service technician
and driver of vehicle 12, notifies
the completion of his last repair job
for today at the press of a button.

21:27 H
Klaus A., driver of vehicle 1234,
communicates the purpose of his trip
along with his starting point and
destination to his electronic logbook.



»The telematics solution from Funkwerk AG allows us
to determine the location of our vehicles for precise and
efficient planning. This enables us to send assignments
to the vehicles much faster and more accurately and
to react promptly to route changes due to customer
requests or traffic disruptions.«
NORBERT ROCK, HEAD OF OPERATIONS



AUTOMOTIVE COMMUNICATION

Automotive Communication has progressed from a focus on telephone application to satisfying the demands of today's »online generation« for navigation, Internet access and infotainment in the vehicle. This necessitates a steady, secure and uninterrupted wireless connection. Consequently, Funkwerk developed a globally unique amplifier technology. The future, however, belongs to integrated communication systems used as a platform for such assistance systems as electronic emergency calls (eCall) and car-to-car communication. Here, too, Funkwerk is one step ahead, as it already manufactures these.

Automotive Communication MOBILE COMMUNICATION SOLUTIONS FOR THE AUTOMOBILE INDUSTRY AND AFTER- SALES MARKET

Funkwerk provides premium brands and commercial vehicle manufacturers with communication systems for integrated installation in the vehicle. The company's signal amplifiers, COMPENSER® and COMBINER®, have earned Funkwerk the lead over the past few years. These devices ensure a good, steady transmission of data and voice in and to the vehicle and support current mobile communication standards. As this is crucial for vehicle communication of the future, Funkwerk offers integrated solutions both for the OEM and the after-sales market.

Automotive Communication TELEMATICS

Especially in times of economic difficulties, efficient fleet management is vital to the survival of fleet operators, forwarding agents, winter services and disposal companies. For this purpose, Funkwerk has developed a telematics system which can grow

with customers' requirements. Funkwerk also provides »easyfleet« as a standardised telematics service, available centrally via our Internet portal www.easyfleet.de. A proprietary range of on-board computers combines hands-free units, navigation systems and operating terminals for special sector applications.

Automotive Communication AVIONICS

As in many other sectors, the requirements of efficiency and security in general aviation are ever increasing. These can only be met by using cutting-edge communication technology. Whether business passengers or private pilots, from gliders to airplanes, the demand is growing for radio equipment, emergency transmitters, navigation technology, transponders and displays, as developed and sold by Funkwerk. In Europe, Funkwerk also takes on special projects for government authorities and system companies in the general aerospace industry.

NOTES TO THE 2009 CONSOLIDATED FINANCIAL STATEMENTS

A. Description of group relations

PARENT COMPANY

The parent company is Funkwerk AG, Im Funkwerk 5, 99625 Köllda, (hereinafter also referred to as »Funkwerk« or the »corporation«) entered in the Jena Commercial Register, Division B, under number 111457.

Funkwerk AG is quoted on the German Stock Market in Frankfurt/Main and is listed in the Prime Standard (WKN: 575 314). It is also quoted on other German stock markets.

The Traffic & Control Communication segment of Funkwerk provides innovative solutions involving communication technology geared to automate and rationalise operations in transport, logistics and industry, and to meet ever more stringent security standards. The key focus of this segment is on mobile radio solutions, management systems and information systems for transport services, forwarders and logistics companies, and industry.

In Automotive Communication, Funkwerk concentrates on new possibilities of secure, interference-free mobile communication and ensuring their accessibility to vehicle users anywhere. Primary emphasis is given to high-quality, simple operation with user-friendly functions and infotainment.

The aim of Enterprise Communication is to supply customised communication solutions tailored to meet the business communication requirements of its customers efficiently, economically, and reliably. The product portfolio comprises network components, telecommunication systems and products for data security, which are more intensively focused on integrated infrastructure solutions for small and medium-sized data networks.

Using special and security-orientated communication systems in the fields of personal and building security, video monitoring and property protection, the Security Communication (SC) segment addresses the target groups of industrial and energy companies, authorities and organisations with security services (BOS), public transport, railways, airports, transport infrastructure, correctional facilities and forensic institutes.

B. Accounting rules

Funkwerk's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) passed and published by the International Accounting Standards Board (IASB), as were endorsed by the European Union at the time of releasing the consolidated financial statements and were mandatory on said date. These contain the IAS and IFRS that were mandatory on the reporting date of 31 December 2009 and their corresponding interpretations (SIC/IFRIC).

Partial application was also made of the possibility of making early use of new standards, revisions of standards and interpretations, which, by 31 December 2009, had already been passed and adopted by the European Union before the release of the consolidated financial statements.

In January 2008, the IASB published a revised version of IFRS 3 (Business Combinations (IFRS 3 R)) and an amended version of IAS 27 (Consolidated and Separate Financial Statements (IAS 27 R)). While IFRS 3 R further develops how the purchase method is applied to mergers, IAS 27 R contains amended regulations on how minority shareholdings are to be shown on the balance sheet and on the reporting procedure in case of a loss of controlling influence on a subsidiary. Furthermore, IFRS 3 R also stipulates that transaction costs that arise for the acquiring company in conjunction with the merger are not to be carried as part of the acquisition costs of the transaction but as expenditure. IFRS 3 R and IAS 27 R both come into force for mergers in financial years that commence(d) on or after 1 July 2009. Early use is permitted if both standards are applied simultaneously. In the 2009 financial year, the Funkwerk group made early use of IAS 27 R. This early use led to an additional revenue of €1.1 m. We refer here to subitem C.1.

The following amendments published by the IASB and standards and interpretations passed by the European Union are currently not yet used. Their use would not likely have led to any essential changes in the accounting and valuation principles:

IAS 39	Financial Instruments: Recognition and Measurement Eligible Hedged Items
IFRIC 12	Service Concession Arrangements
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
Amendments to IFRIC 9 and IAS 39	Embedded Derivates
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
Amendments to IAS 32	Classification of Right Issues

The following amendments of standards and interpretations published by the IASB still have to be adopted into European law by the European Union and are currently not yet used. Their use would not likely have led to any essential changes in the accounting and valuation principles:

Diverse	Improvement to IFRS (April 2009)
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
IFRS 9	Financial Instruments
Revised IAS 24	Related Party Disclosures

Under Section 291 para. 2 of the HGB (German Commercial Code), the companies Hörmann-Funkwerk Kölleda GmbH, Funkwerk Dabendorf GmbH, Funkwerk Enterprise Communications GmbH, Funkwerk Security Communications GmbH and Funkwerk Information Technologies GmbH are exempt from the preparation of consolidated financial statements. In compliance with Section 315a of the HGB, the consolidated financial statements of Funkwerk were drawn up in line with the IFRS; the prerequisites for this are satisfied.

The companies of the Funkwerk group are included in the consolidated financial statements of Hörmann Holding GmbH & Co. KG, Kirchseeon. The consolidated financial statements of the group company Hörmann Holding GmbH & Co. KG, Kirchseeon, are deposited with the electronic register of the Munich District Court under Division A no. 88 202.

For the application of special IFRS regulations, please refer to the explanations on individual balance sheet items further below in these Notes.

The balance sheet format follows the provisions of IAS 1.54 to 1.76. Short-term and long-term assets and short-term and long-term liabilities are shown on the balance sheet as separate classifications.

The statement of income and accumulated earnings was prepared with due regard to the provisions of IAS 1.82 to 1.96 and structured using the aggregate cost method. In the 2009 financial year, the breakdown of the statement of income and accumulated earnings was expanded to give better comparability. In the transition to the operating result (EBIT), an intermediate result is shown as the operating result before impairment charges and restructuring costs as well as separated expenditure items, impairment charges relating to intangible assets and restructuring costs. The breakdown of the previous year has been adjusted accordingly.

In the cash flow statement, the securities from the financial resources fund have been transferred to the financial assets. The previous year's breakdown has been adjusted accordingly.

The financial statements were prepared on the basis of historic purchase and production costs, with the exception of certain financial instruments which were reported at the fair market value of €0.

Unless otherwise stated, all figures of the consolidated financial statements are stated in thousands of euro (€k).

The financial year is the calendar year.

On 17 March 2010, the Executive Board of Funkwerk AG approved the 2009 consolidated financial statements for forwarding to the Supervisory Board. It is incumbent on the Supervisory Board to audit the consolidated financial statements and to state whether it endorses it.

With the exception of the events listed under item C.1, no important events have occurred after the closing date.

C. The Consolidated group

1. CONSOLIDATED COMPANIES

The consolidated financial statements of Funkwerk AG include all companies that are controlled directly or indirectly by the parent company. Control is deemed to be acquired if the company is able to determine the financial and business policy of a subsidiary in order to gain benefit from the subsidiary's activity. The results of the subsidiaries bought or sold during the course of the year are reported correspondingly in the statement of income and accumulated earnings as from the actual date of acquisition or until the actual date of sale. As and where necessary, the subsidiaries' annual financial statements have been adjusted in order to match the accounting and valuation principles to suit those used within the consolidated group.

In addition to Funkwerk AG, the following companies are fully consolidated in the consolidated financial statements (Germany, unless otherwise stated):

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)	Nuremberg, Bavaria	100
Funkwerk Information Technologies GmbH (FIT)	Kiel, Schleswig-Holstein	100
Bouyer S.A.S.	Montauban, Frankreich	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, Frankreich	100
Funkwerk Enterprise Communications Italia SRL	Mailand, Italy	100
Funkwerk Aphona Communications GmbH	Vienna, Austria	100
Funkwerk IP-Appliances GmbH	Nuremberg, 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, Schweden	100
Funkwerk IT Polska Sp. Z.o.o.	Warsaw, Poland	100
Microsyst Systemelectronic GmbH	Weiden, Bavaria	100
Funkwerk plettac electronic GmbH	Fürth, Bavaria	100
Funkwerk Systems Austria GmbH	Vienna, Austria	100
Funkwerk Ungarn Kft.	Budapest, Hungary	85
Funkwerk Akademie GmbH	Beichlingen, Thuringia	100
Funkwerk Electronic Services GmbH (FES)	Salzgitter, Lower-Saxony	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

In the previous year, the following subsidiaries were acquired and initially consolidated as follows, whereby the revaluation as per IFRS 3 did not result in any differences compared to the balance sheet figures:

	BOUYER S.A.S.	FUNKWERK ENGINEERING GMBH	TOTAL
	€ K	€ K	€ K
Fixed assets	504	102	606
Inventories	2,996	92	3,088
Other assets	1,417	786	2,203
Liquids assets	6,057	153	6,210
Accrued liabilities (reserves)	1,376	171	1,547
Liabilities	1,063	1,737	2,800

In January 2008, Funkwerk AG had taken over all the shares of Bouyer S.A.S., Montauban (France). The purchase price was €1. The incidental acquisition costs are in the order of €127 k. With its public address systems and products, the acquired company boasts comprehensive experience in the international market environment. The product portfolio not only includes loudspeaker systems but also various components for acoustic information systems. Bouyer S.A.S. was consolidated into the Funkwerk group with effect from 22 January 2008 (date of gaining control) and allocated to the Traffic & Control Communication (TCC) segment. There was a badwill of around €8.4 m, which was carried on the balance sheet under other operating income. During approximately eleven months of belonging to the Funkwerk group, the acquired company recorded an annual deficit in 2008 of €2.4 m with sales revenues of €7.2 m. In 2009, Bouyer S.A.S. recorded an annual deficit of €2.3 m with sales revenues of approx. €7.3 m.

On 12 January 2010, after several failed negotiations about the social compensation plan for Bouyer S.A.S., the company filed for insolvency. The effect of this on the 2009 consolidated financial statements was to devalue the

assets by a total of €3,854k. This is distributed amongst the following items: fixed assets (€540k), inventories (€2,669k) and trade accounts receivable (€645k) and shown on the statement of income and accumulated earnings under restructuring costs.

In December 2008, FSC had increased its previous shareholding in Funkwerk IAD GmbH, Nuremberg, by 75 % up to its current 100 %; the company was renamed Funkwerk Engineering GmbH and its registered office relocated to Kiel. The purchase price was €28,000. A goodwill amounting to €803,000 was derived from the allocation of the purchase price. No further intangible assets were identified. Funkwerk Engineering GmbH was consolidated within Funkwerk AG with effect from 31 December 2008. In the 2008 calendar year, the company recorded sales revenues of €1,469k giving an annual deficit of €537k.

VTech Funkwerk IAD GmbH, Kiel (abbrev.: Vtech), which was cash founded on 3 November 2008 (100 %) and in which FEC initially had a 100 % shareholding, was not consolidated in the 2008 consolidated financial statements because it had not commenced business activities. In the year under review, FEC initially made a contribution in kind of product rights amounting to €2,100k. Furthermore, an agreement dated 26 May 2009 transferred licensing rights at the fair value of €2,287k (€0k book value) to VTech. Immediately following this, 51 % of Vtech shares were sold at a purchase price of €2,250k. The overall effect of this transaction was an improvement of the earnings position amounting to the same figure. The book value of the shareholding in VTech has been reported in the consolidated financial statements at equity since May 2009. In the year under review, this led to a result adjustment of €650k.

In a contract of May 2007, FWD acquired all of the shares in Filser Electronic GmbH, Waal. The company was subsequently renamed Funkwerk Avionics GmbH. The acquired company – an established manufacturer of transponders, radio equipment and aircraft electronics – was allocated to the Automotive Communication (AC) segment. The acquisition enabled Funkwerk to consolidate its market position as a provider of communication technologies in the aviation sector. The purchase contract initially set the purchase price at a fixed amount of €870,000 and contained an additional variable purchase price component dependent on the performance in 2007 and 2008 (purchase price adjustment rule). This amounted to €450,000 on 31 December 2009 (of which €250k was a payment in 2007 and €200k in 2009) and now represents the final value. It was not necessary to backdate the adjustment of the purchase price allocation.

2. BALANCE SHEET CLOSING DATE

The financial year of Funkwerk AG and its subsidiaries ends each and every year on 31 December.

3. CONSOLIDATION METHODS

The consolidated financial statements include the annual accounts of the company, its majority-owned subsidiaries and its associated companies. All receivables and payables and all transactions between the consolidated companies are eliminated in the consolidated financial statements. Both the receivables and payables, and the expenses and income between the consolidated companies are offset against each other. The group inventories and the fixed assets are adjusted by intermediate results. Consolidation processes affecting net income are subject to the adjustment of deferred taxes, with deferred tax assets and liabilities being balanced if a legal entitlement exists for offsetting the recorded amounts against each other and it is intended either to achieve the balance on a net basis or, simultaneous with the realisation of the asset concerned, to redeem the relevant liability. Minority interests in the net assets (except for goodwill) of the consolidated subsidiaries are reported separately from the equity capital of the group. They consist of the amount of such interests on the date of the original company merger and the minority interest in the changes of equity capital as of the merger date. The share of minority shareholders is reported at their share of contribution to the net current market value of the assets, liabilities and contingent liabilities upon their inclusion.

When acquiring the companies that are to be included in the consolidated group, the assets and liabilities are assessed at their respective market value at the time of acquisition. If the acquisition costs are higher than the group share in the thus determined equity of the company, this results in goodwill, which is to be carried as an asset, for the respective planning unit. The disclosed hidden reserves and liabilities are continued within the scope of subsequent consolidations according to the corresponding assets and liabilities. The goodwill accounting is subject to IFRS 3. If, however, the acquisition costs are lower than the group share in the thus calculated equity capital of the company, no deficit amount is carried as a liability. Instead, in accordance with IFRS 3, this difference was immediately recorded, affecting the operating result. In the 2009 reporting year, the initial consolidation of the subsidiary BR Beteiligungsgesellschaft mbH, Leipzig, was not conducted because said subsidiary did not generate any business activity in the 2009 financial year.

Increases in majority shareholdings are taken into consideration using the equity transaction method.

4. CURRENCY CONVERSION AND TRANSACTIONS

Currency conversion

Funkwerk Information Technologies York Limited, Great Britain, Funkwerk Information Technologies Malmö AB, Sweden, Funkwerk IT Polska Sp. Z.o.o., Poland, and Funkwerk Ungarn, Hungary, are not domiciled in the EURO region.

The functional currency of all other subsidiaries included in the consolidated financial statements is the euro, since these subsidiaries are exclusively registered in the euro region. Annual accounts prepared in foreign currencies were converted as follows: the equity capital was valued at the historical exchange rates on the date of acquisition, the balance sheet at the mean rates as at the closing date, and the items of the statement of income and accumulated earnings at the annual mean rate. The currency differences from this conversion were recorded in the equity capital without affecting the operating result. In the remaining result of the 2009 financial year, € 56 k were due to currency differences (previous year: € – 294 k).

In the preparation of the financial statements of the individual group companies, any transactions made in currencies other than the working currency of the group company were converted using the exchange rates valid on the day of the transaction.

	HISTORICAL RATE	CUT-OFF DATE RATE	AVERAGE RATE
Schweden (in €/SEK)	0.10972	0.09744	0.09415
Great Britain (in €/GBP)	1.51768	1.11957	1.12208
Poland (in €/PLN)	0.25821	0.24201	0.23055
Hungary (in €/HUF)	0.00408	0.00367	0.00356

Currency transactions

The company has entered into hedging transactions in order to secure transactions in foreign currencies. These hedging transactions are limited to the period in which the risk exists and minimise the effects of exchange rate fluctuations on the earnings position of the companies. In the 2009 financial year, hedging transactions were effected with regard to the US dollar.

5. AFFILIATED COMPANIES

Affiliated companies are defined as companies that are directly or indirectly controlled by the corporation or by Hörmann Holding GmbH & Co. KG.

The corporation is the parent company of all direct and indirect subsidiaries, which consequently are also considered affiliated companies within the meaning of Section 271 para. 2 of the HGB (German Commercial Code), and in accordance with IAS 24. All direct and indirect subsidiaries, associated companies and key management personnel are considered as affiliates.

Within the meaning of Section 271, para. 2 in conjunction with Section 290 of the HGB (German Commercial Code), the corporation itself is an affiliated company of Hörmann Holding GmbH & Co. KG, Kirchseeon, and is listed in the consolidated financial statements of that company.

Consequently, the following subsidiaries of Hörmann Holding GmbH & Co. KG, Kirchseeon, are also affiliated companies of Funkwerk AG:

AFFILIATED COMPANIES	REGISTERED OFFICE
Hörmann GmbH	Kirchseeon
Hörmann Kommunikationsnetze GmbH	Kirchseeon
Hörmann GmbH Stade	Stade
Hörmann GmbH & Co. Beteiligungs KG	Kirchseeon
Hörmann Industrie Beteiligungs GmbH	Kirchseeon
Hörmann International Trading GmbH	Kirchseeon

In addition, Hörmann Holding GmbH & Co. KG consolidates other companies with which Funkwerk does not have any business relations.

D. Accounting and valuation principles

Presentation of financial statements

In the financial year, Funkwerk AG for the first time applied the revised edition of IAS 1 »Presentation of Financial Statements«, which is valid since 1 January 2009. As a result, changes in equity resulting from transactions with owners and other changes are presented separately. The previous year's figures have been adjusted in accordance with the revised standard. This amendment of the standard only affects the presentation of the financial statements and has no effect on the earnings per share.

Segment reporting

Since 1 January 2009, the operative segments of Funkwerk AG are determined and presented based on the information presented to the internal management. This change comes as a result of replacing IAS 14 »Segment Reporting« with IFRS 8. The disclosure of the reportable operative business units is made on the basis of the particular information referred to by the responsible company entity for evaluating the performance of company business units and for the resource allocation. For Funkwerk, the application of the new standard did not result in any changes in the presentation compared to the previous year.

1. INTANGIBLE ASSETS AND GOODWILL

Intangible assets acquired for a consideration, primarily software, patents and intangible assets with a determinable useful life, are carried as assets at purchase cost and their loss in value calculated on a straight-line basis by planned depreciation throughout their economic life, typically three to four years.

Development costs are carried as assets if the development of a new product (or process) can be clearly defined, is technically feasible, and is intended either for own use or for sale. Carrying as assets further requires reasonable certainty that these development costs can be covered by future incoming funds. Development costs carried as assets are depreciated systematically over the expected selling period of the products or useful life of the processes. Research costs are shown as current expenditure in accordance with IAS 38. The purchase cost here includes any costs directly attributable to the development process and appropriate shares of the development-related overhead. Where the requirements for carrying as assets are not met, the expenditures are allocated to the year of their accrual affecting net income.

The intangible assets are audited in accordance with IAS 36 if the higher value of the net sales price and the value in use of the asset in question falls below the book value (impairment test); unplanned depreciation is made as and when necessary. For individual development projects, the achievable amount is calculated in the form of the fair market value.

In 2009, the auditing of the development costs carried as assets indicated a value impairment requirement of €10,685 m.

According to IFRS 3, positive goodwill represents the excess between the purchase cost of a company and the acquired, revalued assets and liabilities including contingent liabilities, which remains after a purchase price allocation and consequently, the identification of all assets and liabilities acquired. Within the scope of this purchase price allocation, the identified assets and liabilities are taken into account not at their previous book values but at their current market values. Goodwill is recognised as an asset and assessed annually at a specific time (typically as at the closing date) in impairment reviews to measure their initial value less accumulated impairment losses.

For the purposes of the impairment test, both the goodwill and the development costs are allocated to the appropriate cash generating units (CGU). The CGUs correspond to the independent legal entities of the company. The value impairment costs are calculated on the basis of the amounts achievable by each CGU, whereby the latter is calculated on the basis of the value in use. It is refrained from calculating the fair value less cost to sell because there are no indications that this value is higher than the value in use.

The calculations are based on the cash flow projections approved by the Executive Board and submitted to the Supervisory Board for the following three financial years. The planning is drawn up based on figures gained from experience taking current market developments into consideration. The cash flows of the CGUs are primarily driven by the planned sales revenues of the periods, whereby sales increases up until the 2012 financial year amounting to consolidated sales of up to approximately €300 m were also taken into account. On the expenditure side, the cost savings achieved by the restructuring have already been included in the planning.

For any periods exceeding these three years, the cash flows will be adjusted. A sustained growth of 1 %, which is typical for the industry, is taken as the basis for this.

The cash flows were discounted at the risk-adjusted pre-tax interest rate in line with the market. The discount rate before tax was calculated in accordance with IAS 36.55. The discount factors at the reporting date were calculated on segment level and applied to the cash flow predictions of the respective CGUs:

BUSINESS UNIT	INTEREST RATE
	IN %
Traffic & Control Communication	11.7
Automotive Communication	12.1
Security Communication	13.0
Enterprise Communication	12.9

The review of the goodwill reported on the 2009 balance sheet indicated an impairment requirement of €9,104k. For information regarding their distribution, we refer to the details given in E.1.

An additional devaluation of goodwill of approx. €300k, all else remaining the same, would be necessary if the cash flows in the three-year planning period turn out to be 5 % lower.

2. TANGIBLE ASSETS

Tangible assets are valued at purchase cost less accrued depreciations. The tangible assets are depreciated on a straight-line basis over their expected utilisation period. Investment subsidies are always shown as »Deferred investment subsidies«. Production costs are valued on the basis of directly allocable direct costs and pro-rata material and production overhead less depreciations. Maintenance and repair costs are expensed, while replacement and expansion investments extending the expected utilisation period or increasing the capacity are capitalised. The tangible assets were not revalued based on the option under IAS 16.

The depreciations are based on the following utilisation periods:

DESCRIPTION	USEFUL LIFE
Buildings	15 to 50 years
Plant and machinery	3 to 12 years
Other fixtures and fittings, tools and equipment	1 to 10 years

In accordance with IAS 36, unplanned depreciations of tangible assets are effected if the higher value of net sales price and the utilisation value of the asset in question falls below the book value. If the reasons for an unplanned depreciation effected in previous years do not apply, we carry out the appropriate appreciations.

3. FINANCIAL ASSETS CARRIED ON THE BALANCE SHEET USING THE EQUITY METHOD AND OTHER LONG-TERM ASSETS

When reporting as per the equity method, the shares are initially reported at their acquisition costs, but this is subsequently adjusted by any changes in the owner's share in the net assets of the associated company. The owner's profit or loss includes their share in the profit or loss of the associated company. The corresponding income / expenditure is reported in a separate item of the statement of income and accumulated earnings.

The other long-term assets include the amounts stated for shareholdings in affiliated companies which, taking into account the principle of materiality, are not shown in the balance sheet in compliance with the provisions of IAS 27, participations, and other investments. These are valued at their net book value less the required depreciation.

4. INVENTORIES

Inventories are valued at the lower amount of purchase and production cost and net sales value. In addition to the direct costs, the purchase/production costs also include appropriate shares of the necessary material and production overhead and production-related depreciations directly attributable to the production process. Administration costs are taken into account where attributable to the production. If the values are lower as at the closing date due to sagging prices on the sales market, these are reflected. The valuation of similar items of inventories is always based on the average cost method. Payments on account for inventories are valued at purchase cost. Depreciations of the inventories are reported under material expenses.

5. RECEIVABLES FROM PRODUCTION ORDERS

Sales and profits from long-term production orders are reported following the percentage of completion method in accordance with IAS 11. The degree of completion of the individual orders is determined according to the ratio of total costs estimated as at the cut-off date to costs incurred as at the closing date (cost-to-cost method). Losses from long-term orders are immediately recorded in full in the financial year in which the losses are obvious, irrespective of their degree of completion. Depending on the amount of advance payments requested, long-term orders valued in line with the percentage of completion method are shown under receivables from production orders or carried as advances from customers. These are valued at production cost plus a pro-rata profit corresponding to the degree of completion. Where a reliable estimate is not possible, the zero-profit method is used. The production costs include any costs directly attributable to the order and, where appropriate, shares of the overhead.

6. TRADE ACCOUNTS RECEIVABLE AND OTHER ASSETS

Due to their short-term nature, trade accounts receivable do not bear interest and are reported at their nominal value less value adjustments due to anticipated bad debt losses. Bad debt losses and value adjustments of receivables are reported under other operational expenses. The other assets are valued at net book value. Recognisable risks of non-payment are taken into account by making appropriate value adjustments.

7. TAX REFUND CLAIMS / TAX LIABILITIES

The tax refund claims contain receivables from current taxes on income.

The tax liabilities contain obligations from current taxes on income and from the findings of audits conducted, insofar as these exceed the amounts paid as prepayments before the cut-off date.

8. FINANCIAL ASSETS

Listed under this item are securities classified as current assets (held for trading) and shown at their market value on the cut-off date pursuant to IAS 39.

9. LIQUID FUNDS

Items under cash and cash equivalents include cheques, cash on hand and on deposit in banking accounts.

10. LONG-TERM ASSETS HELD FOR SALE

Long-term assets that according to IFRS 5 are classified as being available for sale are carried and valued at the lower amount of their original book value and at the current market value less costs of sale. Such a classification is always made whenever the sale is highly probable and the asset is available for immediate sale in its current state.

11. CAPITAL RESERVES

IFRS 2 requires the effects of share-based payments, including the expense for the share options granted to the corporate management and employees, to be shown in the statement of income and accumulated earnings. Where share-based payments are settled by way of equity instruments, they are shown at their current market value.

12. DEFERRED INVESTMENT SUBSIDIES

Some subsidiaries receive subsidies from public funds used both for research and development projects and for the acquisition of tangible fixed assets.

According to IAS 20.24, any investment subsidies from public funds received by the corporation must be itemised as a separate liability item. The transfer was made on the basis of the statutory entitlement requirements and the appropriated subsidies for investments effected by the corporation. The release affected the earnings corresponding to the utilisation period of the subsidised fixed assets.

Other public subsidies, which were collected in order to balance out expenses or losses already arisen or for purposes of immediate financial support, were reported affecting the net income in the period in which the need arose.

13. DEFERRED TAXES

The deferred taxes are reported and evaluated as per IAS 12 »Income Taxes«.

Deferred tax assets and liabilities are formed for future tax consequences from the difference of the book values in the IFRS balance sheet and the trade balance sheet and from tax loss carry-forwards.

The accruals and deferrals are effected at the rate of the anticipated tax burden or relief of following financial years on the basis of the tax rate effective at the time of applicability. To determine future rates of taxation, reference is made to the tax legislation and regulations that are valid or announced by the cut-off date. Tax consequences of dividend distributions are only taken into account at the time of the resolution on the disposal of corporate profits. Accruals are only reported when the realisation of future tax advantages seems improbable.

14. PENSIONS ACCRUED

In accordance with IAS 19, these accruals are calculated using the projected unit credit method (PUCM). Here, future liabilities are valued using actuarial procedures with a conservative estimate of the relevant impacting factors.

15. ACCRUED LIABILITIES

According to IAS 37, accrued liabilities are set aside where there is a current obligation towards third parties due to a past event that is expected to lead to an outflow of resources and can be estimated reliably.

Accrued liabilities that will not lead to an outflow of resources in the following year are valued at their settlement amount discounted as at the cut-off date, with the market interest rates forming the basis for the discounting. The settlement amount also covers any increases in costs to be taken into account on the cut-off date. Accrued liabilities in foreign currency are converted using their current rate.

16. LIABILITIES

Trade accounts payable, due to affiliated companies, and other liabilities are valued at their amount repayable.

Long-term liabilities not bearing interest are included in the balance sheet at their cash value. Differences between the cash value and the amount repayable are taken into account according to the effective interest rate method.

17. REALISATION OF SALES REVENUES

Sales revenues are shown for existing contractual relations, where delivery has been made, the opportunities and risks have transferred to the buyer, the price has been agreed or can be determined, and the collection of the debt is probable. Sales for products requiring installation at the customer are recognised after delivery and installation at the customer. The sales recognition in regard to production orders is explained under item 5. The revenues are realised after deducting price reductions such as cash discounts, customer bonuses, and rebates.

A reserve for warranties is set up as at the cut-off date for realised sales. The reserve is based on estimates and experience figures. Where specific risks are recognisable, appropriate reserves are formed. For all other sales, a bad-debt provision is established to allow for the general risk of utilisation.

18. DERIVATIVE FINANCIAL INSTRUMENTS

Within the scope of active control of currency management, Funkwerk primarily uses derivative financial instruments mainly in the form of future exchange transactions.

The derivative financial instruments which we use are recorded on conclusion of the contracts. At that time and subsequently, they are valued at their fair market value (reported as on the day of trading). In case of a positive or negative market value, they are either carried as an asset or a liability. The market value of these non-listed derivatives is calculated using recognised actuarial models. Options acquired by us are initially accrued in the amount of their option premium as other assets, sold options in the amount of the option premium as other liabilities, and subsequently carried either as an asset or a liability at their fair value.

Derivative financial instruments are concluded by Funkwerk exclusively with financial institutes with impeccable financial standing. The market value depends on the respective type of financial instrument.

The derivative financial instruments available as at the cut-off date do not qualify for hedge accounting. Changes in the fair value of these derivatives are directly recorded in the financial results in the statement of income and accumulated earnings. Derivative financial instruments are exclusively used by Funkwerk for hedging purposes. Appropriate guidelines prohibit their use for speculative purposes.

The market values of the derivative financial instruments available as at the cut-off date were as follows:

	31/12/2009		31/12/2008	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	€ K	€ K	€ K	€ K
Future exchange transactions	31	107	50	59
Currency options	23	0	0	0

The derivatives are carried as assets under »other assets« and as liabilities under »other liabilities«.

19. DISCLOSURES PURSUANT TO IFRS 7 – FINANCIAL INSTRUMENTS

A financial instrument is a contractual agreement that leads to the creation of a financial asset in one company while simultaneously leading to a financial liability or an equity instrument with another party. A compound financial instrument is one which contains both an equity and a borrowed capital component.

Financial assets in the sense of IAS 39 are classified into four classes at the time of their initial recognition:

- Financial assets held for trading
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

Financial liabilities in the sense of w 39 are classified as »financial liabilities at fair value through profit or loss« or as »financial liabilities measured at amortised cost using the effective interest method.«

Financial assets and liabilities are recognised as on the day of trading.

The initial measurement is made at fair value. When calculating the initial recognition, directly allocable transaction costs are also included (except for assets and liabilities at fair value through profit or loss). Financial assets and liabilities are only balanced out when a right to set-off exists for the amounts concerned and it is intended to balance on a net basis.

Where the Funkwerk group has extended »Credits and loans« and issued »Financial liabilities« in the sense of IAS 39, these are valued at their amortised cost/net book value always using the effective interest method. This principally concerns the balance sheet's trade accounts receivable and payable as well as liabilities on current account due to banks and loan liabilities.

Existing securities are allocated to the category of »Available-for-sale financial assets« and on each balance-sheet cut-off date they are valued at fair value. Unless a sustained decrease in value is to be assumed, changes in value are reported in the equity capital under the »Reserve for time evaluation« item without effect on the operating result, whereby deferred taxes are taken into account. For instruments traded on an organised market, the fair value is calculated with reference to the respective market price.

If realised by disposal or if a lasting drop in the market value below the purchase costs is foreseeable, then the market changes will affect the operating result. Market increases are always reported without effect on the operating result, even if there was a prior devaluation affecting net income.

At every balance sheet closing date, Funkwerk checks the book values of the financial assets measured at fair value through profit or loss to see if there are any substantial indications for a value impairment. If, for the financial assets categorised as »available for sale«, it is found that a lasting impairment does exist, then impairments previously reported in the equity capital without effect on the operating result are removed from the equity capital and transferred to the statement of income and accumulated earnings with effect on the operating result. If the value recovers at a later point in time due to events that arose after the original value impairment, then the impairment must be returned to the respective level.

Value impairments of financial assets of the »available for sale« category that were valued with the purchase costs must not be reversed.

Financial assets are taken off the books when the company loses power of control over them. A financial liability is taken off the books when the obligation on which it was based is fulfilled or cancelled.

The market values of liquid funds, of short-term receivables, of accounts payable and other liabilities correspond to the book values. This is due to the short-term nature of these financial instruments.

Market value of financial assets and liabilities

The financial assets and liabilities can be divided into valuation categories with the following book values and fair values:

	VALUE CATEGORIES	BOOK VALUE 31/12/2009	BOOK VALUE 31/12/2008	NET BOOK VALUE	FAIR VALUE 31/12/2009	FAIR VALUE 31/12/2008
AS PER IAS 39						
	€ K	€ K	€ K	€ K	€ K	€ K
Assets						
Other long-term assets	AfS	67	126	67	67	126
Accounts receivable (trade)	LaR	25,282	50,702	25,282	25,282	50,702
Due from affiliated companies	LaR	682	617	682	682	617
Receivables from work in progress	LaR	15,206	18,611	15,206	15,206	18,611
Financial assets	FAHfT	950	642	950	950	642
Liquid funds	LaR	22,141	25,365	22,141	22,141	25,365
Derivatives	FAHfT	54	50	54	54	50
Liabilities						
Long-term financial liabilities	FLAC	23	33	23	23	33
Short-term financial liabilities	FLAC	2,264	341	2,264	2,264	341
Accounts payable (trade)	FLAC	23,263	33,730	23,263	23,263	33,730
Due to affiliated companies	FLAC	58	73	58	58	73
Derivatives	FAHfT	107	59	107	107	59
OF WHICH, AGGREGATED ACCORDING TO VALUATION CATEGORIES AS PER IAS 39						
Available for Sale (AfS)		67	126	67	67	126
Loans and Receivables (LaR)		63,311	95,295	63,311	63,311	95,295
Financial Assets Held for Trading (FAHfT)		1,004	692	1,004	1,004	692
Financial Liabilities Measured at Amortised Cost (FLAC)		25,608	34,177	25,608	25,608	34,177
Financial Liabilities Held for Trading (FLHfT)		107	59	107	107	59

Fair value hierarchy

The table shows the financial instruments reported at fair value according to their valuation method. The various methods are defined as follows:

- Stage 1: The prices listed on active markets for identical assets or liabilities (taken over unchanged).
- Stage 2: Input factors that do not concern the listed prices considered in stage 1 but which can be observed for the asset or liability either directly (i.e. as price) or indirectly (i.e. derived from prices).
- Stage 3: Factors for the valuation of the asset or liability that are not based on observable market data (non-observable input factors).

31/12/2009	STAGE 1	STAGE 2	STAGE 3	TOTAL
	€ K	€ K	€ K	€ K
Financial assets at fair value through profit or loss (FAHfT)	950	0	0	950
Derivative financial assets (FAHfT)	0	54	0	54
Sub total	950	54	0	1,004
Derivative financial liabilities (FAHfT)	0	107	0	107
Total	950	53	0	897
31/12/2008				
Financial assets at fair value through profit or loss (FAHfT)	642	0	0	642
Derivative financial assets (FAHfT)	0	50	0	50
Sub total	642	50	0	692
Derivative financial liabilities (FAHfT)	0	59	0	59
Total	642	9	0	633

Net earnings from financial instruments

The net earnings from financial instruments were as follows:

	2009	2008
	€ K	€ K
Financial assets and liabilities at fair value through profit or loss (FAHfT/FLHfT)	-22	167
Available-for-sale financial assets (AFS)	-195	-821
Receivables (LaR)	-279	-394

The net earnings as per IFRS 7 comprise interest, dividends, value adjustments, reinstatements of original values, and earnings from the valuation of financial instruments at fair value.

Maturity analysis for financial liabilities

The following table shows all contractually agreed (non-discounted) interest and redemption payments of the original financial liabilities and the derivative financial instruments at 31 December 2009:

	2010	2011-2014	2015 AND BEYOND
	€ K	€ K	€ K
Non-derivative financial liabilities			
Long-term interest-bearing financial debt	0	23	0
Short-term financial debt	2,264	0	0
Accounts payable (trade)	23,211	52	0
Derivative financial liabilities	107	0	0

Breakdown of the previous years' figures:

	2009	2010-2013	2014 AND BEYOND
	€ K	€ K	€ K
Non-derivative financial liabilities			
Long-term interest-bearing financial debt	0	33	0
Short-term financial debt	341	0	0
Accounts payable (trade)	33,625	105	0
Derivative financial liabilities	59	0	0

Management of financial market risks

Due to the nature of its operations, the group is subject to various financial risks: the market risk (consisting of foreign exchange risk and interest rate risk), the credit risk and the liquidity risk. The comprehensive risk management of the group is prepared for the unpredictability of the development of financial markets and is geared to minimising the potentially negative effects on the financial situation of the corporate group.

The risk management is handled by the group's financial department as specified by the Executive Board. Funkwerk identifies, values and hedges financial risks in close cooperation with the operating units of the group. The Executive Board specifies guidelines for risk management, along with principles for specific areas, such as the handling of foreign exchange risks, interest rate risks and credit risks, for the use of derivative and non-derivative financial instruments, and for the use of liquidity surpluses.

Both the Executive Board and the Supervisory Board are regularly updated on the financial risk factors of the group.

We refer here in particular to the explanations on risk reporting in the Management Report.

Financial risk factors

The companies of the Funkwerk group mainly source their material supplies from the euro zone. Outgoing invoices are also mainly issued in euros.

Foreign exchange risks particularly relate to the US dollar, which is required mainly for purchases of material. The rate hedging using currency options and currency futures dealing for the subsidiaries is handled centrally by Funkwerk AG. The volume of US dollars hedged on the balance sheet closing date using currency futures was US\$8,000m; of which, US\$0k were only hedged for a maximum of three months. The volume of US dollars hedged on the balance sheet closing date using currency options was US\$6,150m; of which US\$4,650m was only hedged for a maximum of three months. Since there are only slight financial effects, no sensitivity analysis was conducted.

In view of the low level of debt due to banks, the interest rate risk is only of minor significance for the group.

Delinquency risk or credit risk is understood as the risk of a loss for the group if one contractual party does not honour its contractual obligations. The corporate guidelines stipulate that business relations must only be entered into with creditworthy contractual parties and, if appropriate, taking receipt of collateral to mitigate the risk of loss due to the non-fulfilment of obligations. The maximum delinquency risk is the amount of the book value of the financial assets (without consideration of insurance policies taken out).

There are receivables from goods and services and receivables from work in progress from a large number of customers from different business segments and geographical regions. Credit checks are constantly being conducted on the financial status of the receivables. Bad-debts insurance is taken out where appropriate.

A liquidity risk exists in terms of a possible impairment of creditworthiness, which could lead to a withdrawal of existing current account credit lines. Funkwerk sees the short-term probability of this risk arising as low. A further risk is the loss of banks as creditors. The latter is limited by having free current account credit lines at different banks.

Liquidity risks are covered in the group-wide financial planning, which is prepared at three-year intervals. The planning always identifies positive net cash items. Continuous monthly liquidity forecasts are prepared for the short-term sector, while optimising measures are discussed and decided in Board meetings (e.g. Factoring; cf. E.4.).

Capital management

The group capital is managed and controlled with the aim of maximising the revenues of the company participations through optimisation of the equity and borrowed capital ratio. This ensures that all group companies can operate on the premise of continuation. The capital structure of the group comprises debts, cash and cash equivalents, and the equity capital due to the equity capital providers of the parent company. This is composed of issued shares, the capital reserve, the revenue reserve and the net profit for the year.

The financial security is measured primarily using the equity ratio. Components of this ratio are the balance sheet total of the consolidated financial statements and the equity capital shown in the consolidated balance sheet, which also provides the capital in the Funkwerk group within the meaning of IAS 1. The equity ratio is used with investors, analysts, banks and rating agencies as a key ratio.

The capital structure of Funkwerk can be controlled by way of adjusting dividends, decreasing the capital or emissions of new shares and the issue of financial instruments, which are qualified as equity capital under IFRS. The aim is to achieve a capital structure in line with the business risk.

Funkwerk is subject to the minimum capital requirements for stock corporations. Compliance with these requirements is constantly monitored. All requirements were met in 2009.

	2009	2008	VARIANCE
			IN %
Equity capital (in €k)	89,115	129,556	-31.2
Balance sheet total (in €k)	167,848	220,102	-23.7
Equity ratio according to book values (in %)	53.1	58.8	

The reduced equity ratio is essentially attributable to the negative annual result in the year under review, which is heavily influenced by the one-off restructuring costs of €8,864k and impairment charges on intangible assets amounting to €19,789k.

20. SIGNIFICANT SCOPE FOR DISCRETION IN ACCOUNTING AND MAIN SOURCES OF ESTIMATION UNCERTAINTY

When applying the group accounting rules with regard to those book values of assets and liabilities that cannot simply be obtained from other sources, the management must consider the facts and circumstances and also make estimations and assumptions. The estimations and the assumptions on which they are based are determined from empirical values from past experience and from other factors deemed as being relevant. The actual values may deviate from the estimates. The assumptions on which the estimations are based are subject to regular scrutiny.

The management views that the most important assumptions pertaining to the future and the main sources of uncertainty in the estimates are as follows: the goodwill impairment test with regard to the planning and the discount rate (cf. D.1.); the share-based remuneration with regard to the valuation parameters entered into the estimation of the current market value (cf. E.11.); the capitalisation of deferred taxes to tax losses carried forward with regard to the future tax planning strategies (cf. E.30.); the pension payments with regard to the parameters entered into the actuarial calculations (cf. E.12.); value adjustments on receivables (cf. E.4.); the probable utilisation of reserves with regard to appraising the facts relevant to the reserves (cf. E.20.) and the development work carried as assets with regard to the estimations on economical and technical feasibility and/or on the level of cash flow expected in future (cf. D.1.).

The estimates regarding the deferred taxes on losses carried forward are largely dependent on the trend of earnings. As a result, the estimates could deviate from figures that actually arise in later periods. Changes to the pertinent assumptions or estimations will be taken into consideration with effect on the result as and when they become known. The estimates are based on the conditions prevailing at the time of drawing up the consolidated financial statements and on the future development of the sector environment as it relates to the expected future performance of the Funkwerk group.

E. Consolidated balance sheet

Assets

(1) FIXED ASSETS

In regard to the composition and movement of the individual fixed assets, please refer to the fixed-asset movement schedule (cf. Notes, last page).

Goodwill, intangible assets

The following breakdown shows the development of goodwill attributable to the individual cash generating units/business segments:

	OPENING BALANCE	ADDITIONS	VALUE IMPAIRMENTS	CLOSING BALANCE 31/12/2009
	€ K	€ K	€ K	€ K
Positive difference				
Microsyst Systemelectronic GmbH	2,592	0	0	2,592
Funkwerk Information Technologies Karlsfeld GmbH	2,583	0	0	2,583
Funkwerk Information Technologies GmbH	1,700	0	0	1,700
Funkwerk Information Technologies York Limited	900	0	0	900
ALPHA Meß-Steuer-Regeltechnik GmbH	1,886	0	0	1,886
Traffic & Control Communication segment	9,661	0	0	9,661
Funkwerk eurotelematik GmbH	1,539	0	1,139	400
Funkwerk Avionics GmbH	1,214	200	1,314	100
Automotive Communication segment	2,753	200	2,453	500
Funkwerk Enterprise Communications GmbH	4,025	0	4,025	0
Funkwerk IP-Appliances GmbH	619	0	619	0
Funkwerk Aphona Communications GmbH	285	0	285	0
Enterprise Communication segment	4,929	0	4,929	0
Funkwerk Security Communications GmbH	917	0	917	0
Funkwerk Engineering GmbH	805	0	805	0
Security Communication segment	1,722	0	1,722	0
Total	19,065	200	9,104	10,161

In the 2008 financial year, the additions to goodwill totalled € 805 k; no value impairments were necessary.

Other than goodwill, the company did not have any intangible assets with indeterminable useful lives.

In accordance with IAS 38, spending on design and development is reported in the balance sheet under fixed assets where the requirements for capitalisation are met, and is amortised over the expected utilisation period (up to four years). Where individual development projects carried as assets are not expected to be of benefit in the future, based on assessments of the current market trends, these are recorded as asset disposal and the net book value is included in the other operating expenditure.

Expenditure on research and development in the financial year amounted to € 31,820 k (2008: € 28,727 k).

In the 2009 financial year, unplanned value impairments and/or depreciations were made on goodwill amounting to € 9,104 k and on development costs amounting to € 10,685 k. The economic downturn had a massive effect on Funkwerk in 2009, bringing the need for adjustment and restructuring measures, including streamlining the product portfolio and discontinuing unprofitable business activities. In the course of the impairment test, this all led to this expenditure which has no effect on liquidity. The value impairments on development work concern the following business segments:

	31/12/2009
	€ K
Automotive Communication	
Funkwerk Dabendorf GmbH	4,418
Funkwerk Avionics GmbH	273
	4,691
Enterprise Communication	
Funkwerk Enterprise Communications GmbH	3,227
	3,227
Security Communication	
Funkwerk plettac electronic GmbH	1,737
Funkwerk Security Communications GmbH	1,030
	2,767
Summe	10,685

Financial assets reported using the equity method

On the cut-off date of 31 December 2009, there were the following shares in joint ventures:

	31/12/2009	31/12/2008
	€ K	€ K
VTech Funkwerk IAD GmbH, Kiel	1,530	0

Funkwerk has a 49 % interest in VTech (2008: 100 %). The preliminary, unaudited annual financial statements of 31 December 2009 show fixed assets of € 3,803 k, current assets of € 115 k, equity capital of € 3,084 k, reserves of € 27 k and liabilities of € 807 k. The annual deficit in the 2009 financial year amounted to € 1,326 k. With purchase costs of € 2,180 k and a proportional annual deficit of € 650 k, the adjusted valuation is put at € 1,530 k.

For further details, we refer to the information given under C.1.

Other long-term assets

The following participating interests are included in the other long-term assets:

	31/12/2009	31/12/2008
	€ K	€ K
BR Beteiligungsgesellschaft mbH, Leipzig [100 %, 2008: 0 %]	32	0
FunkTech Funkwerk VTech GmbH, Nuremberg [100 %, 2008: 50 %]	24	14
WHSDnet GmbH, Potsdam [25 %, 2008: 0 %]	6	0
VTech Funkwerk IAD GmbH, Kiel [49 %, 2008: 100 %]	0	28
Patil Vossloh Rail IT Systems Private Ltd., India [51 %, 2008: 51 %]	4	4
Funkwerk ES Iberia S.L. (formerly: Elmeg Spain S.L.), Spain [54 %, 2008: 54 %]	1	80
Total	67	126

(2) DEFERRED TAXES

The deferred tax assets resulted from the following expected future tax relief:

	31/12/2009	31/12/2008
	€ K	€ K
Temporary differences between the valuations of the tax balance sheet and of the consolidated financial statements	8,024	8,877
Future tax savings due to losses carried forward	6,623	4,347
Balancing with deferred tax liabilities	-12,344	-12,852
Total	2,303	372

For details on the deferred taxes, see also E.14 and E.30.

(3) INVENTORIES

The inventories for 31 December 2009 comprised the following:

	GROSS	VALUE ADJUSTMENTS	NET
	€ K	€ K	€ K
Raw materials and supplies	38,207	17,773	20,434
Work in progress	12,697	2,860	9,837
Finished goods and merchandise	14,779	3,052	11,727
Advance payments	570	0	570
Total inventories	66,253	23,685	42,568

The figures for 31 December 2008 were as follows:

	GROSS	VALUE ADJUSTMENTS	NET
	€ K	€ K	€ K
Raw materials and supplies	38,528	14,042	24,486
Work in progress	10,855	2,980	7,875
Finished goods and merchandise	14,778	1,538	13,240
Advance payments	623	31	592
Total inventories	64,784	18,591	46,193

The inventory value adjustment developed as follows:

	2009	2008
	€ K	€ K
At 1 January	18,591	21,593
Transfer/utilisation	5,094	-3,002
At 31 December	23,685	18,591

The value adjustments on inventories include €2,669k due to necessary devaluations regarding the assets of the subsidiary Bouyer S.A.S. In this context, we refer to the information given in C.1.

(4) TRADE ACCOUNTS RECEIVABLE

The trade accounts receivable consist of the following:

	2009	2008
	€ K	€ K
Trade accounts receivable	26,859	52,000
Discounts	-1,577	-1,298
Trade accounts receivable net, at 31 December	25,282	50,702

The value adjustments include €645k due to necessary devaluations regarding Bouyer S.A.S. In this context, we refer to the information given in C.1.

All our subsidiaries grant supplier loans within the scope of their ordinary operations, in individual cases with a term of up to 180 days. The creditworthiness of their customers is verified on a regular basis and discounts entered to cover established risks. The residual maturity of the trade accounts receivable is less than one year. At the end of 2009, the group was involved in real factoring to the amount of approx. €7.5m (2008: €7.5m) with a German commercial bank.

In the period under review, the discount on accounts receivable developed as follows:

	2009	2008
	€ K	€ K
At 01 January	1,298	904
Transfer	1,132	884
Reversal/utilisation	853	490
At 31 December	1,577	1,298

The value adjustments are heavily based on estimations and assessments of individual receivables which are in turn based on the creditworthiness of the customer in question, on the current economic trend and on the analysis of historic losses of receivables.

In compliance with IFRS 7.37 (a), the maturity structure of the accounts receivable not subject to value adjustments is as follows:

	31/12/2009	31/12/2008
	€ K	€ K
Book value	25,282	50,702
of which not overdue	15,564	33,194
Overdue in the following time frames		
less than 30 day	6,412	7,474
between 31 and 60 days	1,900	4,391
between 61 and 90 days	948	4,023
between 91 and 180 days	337	617
between 181 and 360 days	74	364
more than 360 days	47	639

In regard to the neither value-adjusted nor overdue amount of accounts receivable, there was no indication as at the cut-off date to suggest that the debtors would not meet their financial obligations.

(5) RECEIVABLES FROM PROJECTS IN PROGRESS

Future accounts receivable from production orders develop as follows:

	31/12/2009	31/12/2008
	€ K	€ K
Balance		
Work in progress	21,352	24,945
Advance payments received	- 6,146	- 6,334
Total	15,206	18,611

	31/12/2009	31/12/2008
	€ K	€ K
Statement of comprehensive income		
Sales	- 8,047	- 747
Costs	4,489	324
Profit share	- 3,558	- 423

The contracts on which the receivables are based were fully completed in the 2009 financial year.

(6) DUE FROM AFFILIATED COMPANIES

The accounts receivable from affiliated companies totalled €682k (2008: €617k), and were due to sales and services. The accounts receivable were attributable to unconsolidated, affiliated companies at €291k (2008: €610k) and to other participating interests at €391k (2008: €7k).

(7) TAX REFUND CLAIMS

This item predominantly comprises receivables from tax offices due to excessive advance payments on corporate income tax and commercial income tax during the financial year on account of lower, taxable income in the year of assessment as against the previous year.

(8) OTHER ASSETS

	31/12/2009	31/12/2008
	€ K	€ K
Advances to personnel	88	146
Claims from subsidies, grants and investment subsidies	696	279
Interest receivables	6	76
Prepayments and accrued income	1,292	1,683
Miscellaneous	1,315	2,068
Total	3,397	4,252

(9) FINANCIAL ASSETS AND LIQUID FUNDS

The securities held are allocable exclusively to current assets. They have been invested in money market-related funds.

This item developed as follows:

	2009			2008		
	PURCHASE COST	CURRENT MARKET VALUE	EFFECT ON RESULT	ANSCHAFFUNGS- KOSTEN	PURCHASE COST	EFFECT ON RESULT
	€ K	€ K	€ K	€ K	€ K	€ K
Securities	919	950	31	642	642	0

The trend of the liquid funds is shown in the consolidated cash flow statement.

The credit interest in the euro zone ranges between 0% and 1.72% (2008: 0% to 5.60%).

The fund requirements of the subsidiaries is controlled and monitored centrally via a cash pool. The cash is invested in accordance with the defined investment standards. The investment in shares (excluding own shares) or financial derivatives is explicitly excluded.

(10) LONG-TERM ASSETS HELD FOR SALE

A company property, including land, in Gradignan, France, is indicated at the book value under »long-term assets held for sale« as at 31 December 2009 because a sale within the next 12 months is highly likely. The plot of land was previously allocated to the Enterprise Communication business unit.

Capitalised product rights which were transferred as a contribution in kind in the 2009 financial year by Funkwerk Enterprise Communications GmbH (segment: EC) to VTech Funkwerk IAD GmbH, Kiel, were shown under this item for 31 December 2008. No profit was made from this; cf. item C.1.

Liabilities**(11) EQUITY CAPITAL**

The equity capital trend of Funkwerk AG is shown in the Statement of Changes in Shareholders' Equity.

Subscribed capital

The capital stock of Funkwerk AG is shown at its nominal value. The capital stock amounts to €8,101,241.00 and is divided into 8,101,241 shares in the form of bearer shares with a nominal value of €1 each and is fully paid in. The number of shares in circulation remains unchanged at the previous year's figure of 8,059,662.

On the cut-off date, Hörmann Funkwerk Holding GmbH, Kirchseeon, held 52.83 % (2008: 52.83 %) of the shares in Funkwerk AG, which corresponds to 4,280,000 shares. Hörmann Funkwerk Holding GmbH is fully owned (100 %) by Hörmann Holding GmbH & Co. KG, Kirchseeon.

Approved capital

Based on a decision passed at the annual shareholders' meeting on 28 May 2009, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the capital stock of the company by up to €4,050,000 by 27 May 2014, through a single or repeated issue of new, ordinary bearer shares in the form of non-par shares against contributions in cash or in kind (approved capital for 2009. Furthermore, the Executive Board was also authorised, with the approval of the Supervisory Board, to exclude the legal subscription right of the shareholders

- in order to prevent the subscription right of the shareholders leading to peak amounts,
- if, where capital increases against contributions in kind in the form of companies, parts of companies, participating interests in companies or debt claims against the company are concerned, the shares issued when excluding the subscription right do not exceed 4,050,000 shares in total,
- if, where capital increases against cash contributions are concerned, the amount for which the shares are issued is not significantly lower than the stock exchange price of the shares at the time the Executive Board fixes the said amount and the shares issued when excluding the subscription right do not exceed 810,000 shares in total.

Conditional capital

The shareholders' meetings of 29 September 2000, 18 May 2005 and 14 May 2008 decided on a conditional increase in the capital stock of the company by issuing bearer shares (the »shares«) for servicing the option rights granted to the parties entitled under the share option plan.

Conditional capital I	28. September 2000	500,000 shares
Conditional capital II	18. May 2005	367,965 shares
Conditional capital III	14. May 2008	232,525 shares

On 31 December 2009, the conditional capital was €469,860.

This conditional increase of capital stock will be effected only where option rights have been issued and are exercised by the authorised parties. The new shares will share in the profit from the beginning of the financial year in which they come into existence through exercise of the option right. The statutory subscription right of the shareholders is excluded in this respect. The nominal value of the conditional capital decided in compliance with Section 192 para. 2 no. 3 of the German Stock Corporation Law for the establishment of share option plans must not exceed 10 %.

2000 Share Option Plan

The extraordinary shareholders' meeting of Funkwerk AG on 29 September 2000 authorised the corporation, inter alia, to issue option rights to a maximum of 500,000 shares once or in several stages to members of the corporate Executive Board, members of the executive management of affiliated companies (Section 15 of the German Stock Corporation Act), executive staff at the second management level of the corporation and affiliated companies, and to other employees of the corporation and of affiliated companies (2000 Share Option Plan – SOP 2000).

The conditional capital I, totalling €97,125.00, was cancelled based on a resolution of the shareholders' meeting of 14 May 2008.

In the 2009 financial year, the remaining 106,720 options of the 2004 tranche lapsed from the 2000 Share Option Plan, meaning that the 2000 Option Plan has come to an end.

2005 Share Option Plan

The ordinary shareholders' meeting of 18 May 2005 authorised the corporation, inter alia, to issue option rights to a maximum of 367,965 shares once or in several stages to members of the corporate Executive Board, members of the executive management of affiliated companies (Section 15 of the German Stock Corporation Act), executive staff at the second management level of the corporation and affiliated companies, and to other employees of the corporation and of affiliated companies (2005 Share Option Plan – SOP 2005). Instead of lapsed or as yet unexercised option rights, it is possible for new option rights to be given.

The following conditions apply to both issue and exercise:

- Allottees must be members of the Executive Board or staff of the group.
- At the time of issuing, the allottees must be in permanent employment at a company of the Funkwerk group.

The option rights may be issued to the authorised parties once or several times during a period of ten trading days, beginning twelve trading days after a shareholders' meeting or after the publication of an annual or quarterly report («issuance period»). The decision as to whether and to what extent option rights are granted to an employee is made at the discretion of the corporate management. There is no legal claim to a future granting of option rights.

The option right has a life of four years, beginning with the end of the applicable issuance period. The option right lapses without compensation on the last day of the life of the option right at the latest.

The option right may be exercised for the first time after a period of two years from the end of the respective issuance period («waiting period»). After the waiting period, the option right can only be exercised during a period of 10 trading days following the day of the ordinary shareholders' meeting or the publication of a quarterly report of the company («exercise periods»).

A trading day is defined as any day during which the German Stock Market is open for trading.

The option right may only be exercised by the authorised parties within the exercise period if at any time since the granting of option rights the average closing price of the corporate share in XETRA trading has exceeded the exercise price once by at least 16 % (»goal of performance«). Once the upside target for the option rights has been reached, they can be exercised irrespective of the further price performance of the share during the term of the option right within the exercise periods.

223,640 subscription rights have been issued as per 31 December 2009.

2008 Share Option Plan

The ordinary shareholders' meeting of 14 May 2005 authorised the corporation, inter alia, to issue option rights to a maximum of 500,000 shares once or in several stages to members of the corporate Executive Board, members of the executive management of affiliated companies (Section 15 of the German Stock Corporation Act), executive staff at the second management level of the corporation and affiliated companies, and to other employees of the corporation and of affiliated companies (2008 Share Option Plan – SOP 2008). Instead of lapsed or as yet unexercised option rights, it is possible for new option rights to be given. The terms and conditions for the options for the SOP 2008 do not deviate in any instance from the SOP 2005. For this reason, the details are not repeated here.

204,895 subscription rights have been issued as per 31 December 2009.

The following table shows the options (of all Share Option Plans) issued:

	ISSUE DATE	QUANTITY	ISSUE PRICE
Tranche 2006	06.12.2006	129,250	15.01 €
Tranche 2007	28.11.2007	129,700	14.60 €
Tranche 2008	08.12.2008	118,010	5.41 €
Tranche 2009	07.12.2009	103,425	5.90 €

The following breakdown shows the stock development of the shares authorised for subscription and the issue prices in the period under review:

	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE 2009 €	NUMBER OF OPTIONS 2009 QTY.	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE 2008 €	NUMBER OF OPTIONS 2008 QTY.
Outstanding at the start of the reporting period	19.43	562,250	22.74	581,434
Options granted in the reporting period	5.90	103,425	5.41	181,010
Options forfeited in the reporting period	17.17	31,087	19.86	45,843
Options lapsed in the reporting period	31.06	206,053	21.99	91,351
Options outstanding at the end of the reporting period	10.23	428,535	19.43	562,250
Options exercisable at the end of the reporting period	15.01	101,750	31.06	214,490

No options could be exercised in the period under review. The weighted average of the remaining contractual period as at 31 December 2009 was 2.5 years.

The current market value of the options granted in the 2003 to 2009 financial years, which were used to calculate the expenses and the comparative data of the previous year, was determined on the basis of the binomial option price model. The following table shows the valuation premises applied:

	2009	2008	2007	2006	2005	2003/04
Risk-free interest rate (in %)	2.23	2.7	4.25	3.5	2	2
Term in years	4	4	4	4	4	5
Expected volatility	55	50	45	50	30	30
Expected dividend yield	2.19	4.0	2.0	2.4	1.16	1.16
Curr. mkt. value of options (in €)	2.19	0.97	4.59	4.68	6.83	7.63
Share price at issue (in €)	5.80	4.05	15.21	15.29	31.20	30.70

The calculation of the expected volatility was estimated by Funkwerk AG based on the historical share price figures of a four year period. The fluctuation was set at 5%.

Capital reserves

The capital reserves include the revenue generated from the issue of shares (premium) that exceeds the par value per share of €1. It rose by €253k in 2009 due to the recorded personnel expenditure for share options. Since no share options could be exercised in the context of the share option plan in the period under review, there was no additional change to the capital reserve above and beyond this. Since the introduction of the share option plans, the capital reserves have increased by €2,287k in total due to exercised options, and by €3,237k when applying IFRS 2. The capital reserves serve to finance the further growth of Funkwerk.

Earnings per share

The earnings per share are calculated as follows:

	31/12/2009	31/12/2008
Consolidated surplus in €k	-40,753	8,199
Earnings per share (undiluted) in €	-5.06	1.02
Earnings per share (diluted) in €	-5.06	1.00

The weighted average number of ordinary shares, which was used for calculating the undiluted and diluted earnings per share, can be derived as follows:

	2009	2008
	x 1000	x 1000
Issued shares, 1 January/31 December	8,101	8,101
Own shares, 1 January/31 December	-41	-41
Weighted, average number of ordinary shares used for calculating the undiluted earnings per share	8,060	8,060
Employee options/2006 tranche (2008: tranches in 2003 and 2006)	0	112
Weighted, average number of ordinary shares used for calculating the diluted earnings per share	8,060	8,172

The potential ordinary shares with dilution effect should not be considered for the financial year because they would increase the loss per share for the period.

Retained earnings (revenue reserve)

The revenue reserve includes the retained prior-year results. It serves to raise the equity capital over and above the subscribed capital, increase the protection of the creditors, and improve the company liquidity.

Own shares

The resolution passed at the shareholders' meeting on 14 May 2008, authorising Funkwerk AG to acquire its own stock up to a share of 10 % of the current capital stock by the end of 13 November 2009, was revoked. By resolution passed at the shareholders' meeting on 28 May 2009, the company was authorised to acquire its own stock up to a share of 10 % of the current capital stock by the end of 27 November 2010. The countervalue of these shares must not exceed the average closing price of the share at the Frankfurt Stock Market in XETRA trade on the previous five stock trading days by more than 10 % or fall below this price by more than 10 %. The time limit only applies to the acquisition, not to ownership of the shares.

The company is authorised to sell its own shares by methods other than through the stock market or through offers to all shareholders, so as to be able to offer shares of the company to third parties within the scope of mergers with companies or the acquisition of, or investments in, companies. The subscription right of the shareholders is excluded where own shares acquired by the company are used in order to offer shares of the company to third parties within the scope of mergers with companies or the acquisition of, or investments in, companies. This authorisation can be exercised fully or in part amounts, once or on several occasions, in pursuit of one or several of the specified purposes. Finally, the Executive Board is authorised to redeem either entirely or in part the own shares of the company bought on the basis of its authorisation, without the requirement of a further resolution passed by the shareholders' meeting for the redemption.

Funkwerk AG, Kölleda, did not acquire any own shares in the year under review. On the cut-off date, the stock remains unchanged at 41,579 shares and has a value of €1,062 k. The own shares are split between securities accounts at three banks.

The own shares are shown as a separate item of the equity capital.

Minority interests

The minority interests carried on the balance sheet developed as follows:

	2009	2008
	€ K	€ K
1 January	11	628
Minority interests in the consolidated result	3	-218
Disposal of minority interests due to acquisition	0	-399
31 December	14	11

(12) PENSION OBLIGATIONS

The pension accruals reported on the balance sheet are the result of commitments made to the employees of Funkwerk Enterprise Communications GmbH (FEC), Nuremberg, Funkwerk Security Communications GmbH (FSC), Salzgitter, Funkwerk Electronic Services GmbH, (FES), Salzgitter, Funkwerk Enterprise Communications Italia SRL, Milan / Italy, and Funkwerk Information Technologies Karlsfeld GmbH (FITK). This concerns assurances from performance-orientated pension schemes based on company agreements and other agreements. The pension accruals are calculated based on independent actuarial opinions. The scope and level of the pension are essentially governed by the number of years in service.

All pension schemes have been closed.

The valuation assumptions and methods at the beginning and the end of the year under review can be summarised as follows:

	BEGINNING OF YEAR UNDER REVIEW FEC/FSC/FES	END OF YEAR UNDER REVIEW FEC/FSC/FES	BEGINNING/END OF YEAR UNDER REVIEW. FITK
Accounting standards applied	IAS 19		
Valuation standards applied	Projected Unit Credit Method		
Assumptions on mortality	2005 G K. Heubeck reference tables		
Assumed rate of interest p.a.	6.00%	5.25%	4.75%/5.50%
Expected annual increase of the income threshold	3.00%	3.00%	2.50%/2.50%
Expected annual increase in income	3.00%	3.00%	2.50%/2.50%
Expected annual increase in pensions	2.00%	2.00%	2.00%/2.00%
Average fluctuation	<=1%	<=1%	/
Average remaining employment period	7.13/8.97/10.37	6.20/8.40/10.29	13.42/12.86

The actuarial profits and losses are recorded using the method in accordance with IAS 19.92–93 (»corridor method«).

The expenditure for adjustment of the pension obligation was recorded in personnel expenses; the interest paid for the obligations was shown in the other financial results.

1. Development of the defined benefit obligation (IAS 19.120 A (c))

	FEC	FSC	FES	FITK	TOTAL
	€ K	€ K	€ K	€ K	€ K
At 31 December 2008	24	5,419	1,782	4,113	11,338
Service cost	1	88	61	127	277
Interest cost	2	314	107	194	617
Actuarial profits/losses	3	537	125	-636	29
Benefits paid	0	-430	0	-69	-499
Transfer payments	0	0	0	0	0
Planned settlements	0	0	0	0	0
At 31 December 2009	30	5,928	2,075	3,729	11,762
At 31 December 2007	0	7,390	0	3,802	11,192
Service cost	1	94	67	136	298
Interest cost	1	292	104	180	577
Actuarial profits/losses	0	-106	-664	47	-723
Benefits paid	0	-327	0	-52	-379
Transfer payments	22	-2,297	2,275	0	0
Planned settlements	0	373	0	0	373
At 31 December 2008	24	5,419	1,782	4,113	11,338

2. Analysis of the Defined Benefit Obligation (IAS 19.120 A (d))

DBO of plans not financed via a fund: €11,762 k

3. Planned assets

The consolidated group does not have any reimbursement rights or planned assets.

4. Reconciliation to the balance sheet item (IAS 19.120 A (f))

	FEC	FSC	FES	FITK	TOTAL
	€ K	€ K	€ K	€ K	€ K
Defined Benefit Obligation as at 31 December 2009	30	5,928	2,075	3,729	11,762
Surplus or deficit in the plan as at 31 December 2009	30	5,928	2,075	3,729	11,762
Actuarial (profits) losses not yet recognised	-3	-584	492	482	387
Defined Benefit (Asset) Liability as at 31 December 2009	27	5,344	2,567	4,211	12,149
Defined Benefit Obligation as at 31 December 2008	24	5,419	1,782	4,113	11,338
Surplus or deficit in the plan as at 31 December 2008	24	5,419	1,782	4,113	11,338
Actuarial (profits) losses not yet recognised	0	-47	664	-154	463
Defined Benefit (Asset) Liability as at 31 December 2008	24	5,372	2,446	3,959	11,801

5. Expense components (IAS 19.120 A (g))

2009	FEC	FSC	FES	FITK	TOTAL
	€ K	€ K	€ K	€ K	€ K
A. in personnel expenses					
Current service cost	1	88	61	127	277
Actuarial profits/losses	0	0	-47	0	-47
Total personnel expenses	1	88	14	127	230
B. in financial results (option right)					
Interest cost	2	314	107	194	617
Total financial results	2	314	107	194	617
Grand Total	3	402	121	321	847
2008					
A. in personnel expenses					
Current service cost	1	94	67	136	298
Actuarial profits/losses	0	54	0	0	54
Planned settlements	0	373	0	0	373
Total personnel expenses	1	521	67	136	725
B. in financial results (option right)					
Interest cost	1	292	104	180	577
Total financial results	1	292	104	180	577
Grand Total	2	813	171	316	1,302

6. Amounts for the current reporting period and the previous four reporting periods (IAS 19.120 A (p))

	31/12/2009	31/12/2008	31/12/2007	31/12/2006	31/12/2005
	€ K	€ K	€ K	€ K	€ K
Defined Benefit Obligation	11,762	11,338	11,192	8,415	7,888
Surplus or deficit in the plan	11,762	11,338	11,192	8,415	7,888
Experience adjustments to the DBO	-35	-336	-152	-18	61

The figures for years prior to 2007 do not relate to FITK because this was only acquired in 2007.

The other details required in accordance with IAS 19.120 A amount to €0k.

The pension accrual in the annual accounts of Funkwerk Enterprise Communications Italia SRL amounting to €38,000 (2008: €31,000) is an obligation of the employer under Italian law, the calculation of which is based on the age of the employees.

The accruals for similar obligations essentially include the provision of €820k for union agreed performances upon terminating a contract of employment (PIDR), which is carried as a liability on the balance sheet of Bouyer S.A.S.

The accruals trend is shown in the following table:

	01/01/2009	UTILISATION	REVERSAL	ALLOCATION	31/12/2009
	€ K	€ K	€ K	€ K	€ K
Pension obligations	11,832	499	0	854	12,187
Accruals for similar obligations	808	26	1	53	834
Total	12,640	525	1	907	13,021

The pension accrued has a term to maturity of more than 5 years. Funkwerk does not use any external funds to finance its pension obligations.

(13) DEFERRED INVESTMENT SUBSIDIES

The prepaid expenses item developed as follows in the period under review:

	2009	2008
	€ K	€ K
At 1 January	1,542	1,670
Transfer	342	349
Reversal	-733	-477
At 31 December	1,151	1,542

The breakdown into investment subsidies and allowances is shown in the following table:

	INVESTMENT SUBSIDY € K	INVESTMENT ALLOWANCE € K
At 1 January 2008	953	717
Transfer	241	108
Reversal	-316	-161
At 31 December 2008	878	664
Transfer	102	240
Reversal	-196	-537
At 31 December 2009	784	367

The prepaid expenses item has the following maturities:

Up to 1 years	€ 403 k (2008: € 184 k)
1 to 5 years	€ 292 k (2008: € 901 k)
Over 5 years	€ 456 k (2008: € 457 k)

The granting of subsidies is fundamentally linked to the observance of certain constraints and/or conditions, some of which may cover several years and extend into the future. On any non-fulfilment, the Funkwerk group could be threatened with an obligation to repay the received subsidies in whole or in part, which would have a lasting effect on the economic position of the company. Regular checks of the granted subsidies have shown no cause for complaint to date.

(14) DEFERRED TAXES

The deferred taxes result from deviations between the tax balance sheet and the trade balance sheet II according to IFRS. These were calculated with the respective rates for taxes on income. For domestic (German) companies, the corporate income tax rate in the 2009 financial year was 15 % (2008: 15 %) plus the solidarity tax of 5.5 % (2008: 5.5 %). Taking the trade tax rate into consideration, this gives an effective taxation rate of 26 % (2008: 26 %). Consolidation measures affecting net income and, consequently, deferred taxes were taken into account.

(15) FINANCIAL LIABILITIES

The increased financial liabilities are essentially attributable to payments received from customers for sold accounts receivable, which had to be paid to the bank in the context of factoring. There was no comparable effect as at the cut-off date of 31 December 2008.

(16) TRADE ACCOUNTS PAYABLE

Remaining maturities

The remaining maturities are essentially short term. We refer here to item D.16.

(17) ADVANCE PAYMENTS RECEIVED ON ORDERS

This item includes advances from customers where no chargeable service has as yet been rendered.

(18) DUE TO AFFILIATED COMPANIES

As in the previous year, there were no liabilities due to the majority shareholder, Hörmann Holding GmbH & Co. KG, as at the cut-off date of 31 December 2009. The figure of €58,000 is attributable to unconsolidated own companies and/or affiliated companies.

(19) TAX LIABILITIES

Taxes and fiscal charges incurred as at the closing date, whose amount has not yet been determined, are covered by the »tax liabilities« item. Typically, Funkwerk is subject to two types of tax on income, i.e. trade tax and corporate income tax. The corporate income tax was subject to a uniform tax rate of 15 % plus 5.5 % solidarity surcharge, the trade tax on average amounting to 10 %.

(20) ACCRUED LIABILITIES

The trend of accrued liabilities in the year under review is shown in the following table:

	01/01/2009	UTILISATION	REVERSAL	ALLOCATION	31/12/2009
	€ K	€ K	€ K	€ K	€ K
Warranties	6,761	2,435	1,652	2,347	5,021
Usage fee	1,825	0	0	1,032	2,857
Personnel accruals	929	929	0	1,150	1,150
Impending losses	476	66	0	351	761
Other accrued liabilities	776	264	216	1,204	1,500
Total	10,767	3,694	1,868	6,084	11,289

The accrued liabilities are short term.

The accrued liabilities for usage fee were carried as liabilities on the balance sheet under fees and licence fees for the use of know-how. The remaining accrued liabilities essentially contain provisions for restructuring, penalties and litigation expenses.

(21) OTHER LIABILITIES

The other short-term liabilities are composed of the following:

	31/12/2009	31/12/2008
	€ K	€ K
Other taxes	2,594	4,016
Social security liabilities	625	641
Outstanding holiday entitlements	1,108	1,512
Outstanding holiday entitlements	666	593
Partial retirement	1,856	1,830
Profit-sharing bonus	1,685	2,292
Other personnel liabilities	2,559	2,338
Miscellaneous	6,369	7,872
Total	17,462	21,094

F. Statement of income and accumulated earnings

(22) SALES REVENUES

In the 2009 financial year, Funkwerk generated sales totalling €218,440 k. Sales revenues are recorded as net sales after deduction of discounts, rebates, and allowances. The sales revenues are divided by corporate segments and regions.

Breakdown into geographic markets

2009	TRAFFIC & CONTROL		AUTOMOTIVE		ENTERPRISE		SECURITY		TOTAL	
	COMMUNICATION		COMMUNICATION		COMMUNICATION		COMMUNICATION		€ K	IN %
	€ K	IN %	€ K	IN %	€ K	IN %	€ K	IN %		
Domestic	50,756	48.2	22,374	78.6	20,725	69.8	32,552	59.3	126,407	57.9
EU	42,861	40.7	5,393	18.9	8,385	28.2	7,763	14.1	64,402	29.5
Other foreign countries	11,748	11.1	720	2.5	592	2.0	14,571	26.6	27,631	12.6
Total	105,365	100.0	28,487	100.0	29,702	100.0	54,886	100.0	218,440	100.0

2008	TRAFFIC & CONTROL		AUTOMOTIVE		ENTERPRISE		SECURITY		TOTAL	
	COMMUNICATION		COMMUNICATION		COMMUNICATION		COMMUNICATION		€ K	IN %
	€ K	IN %	€ K	IN %	€ K	IN %	€ K	IN %		
Domestic	60,089	49.0	36,549	73.9	23,998	79.3	42,137	48.0	162,773	56.1
EU	45,391	37.0	9,801	19.8	5,710	18.9	9,158	10.4	70,060	24.1
Other foreign countries	17,112	14.0	3,131	6.3	556	1.8	36,570	41.6	57,369	19.8
Total	122,592	100.0	49,481	100.0	30,264	100.0	87,865	100.0	290,202	100.0

Within the scope of segment reporting, the sales revenues of the group are shown according to group division, both before and after consolidation.

No sales of more than 10 % of the total sales revenues of the Funkwerk group were achieved with any individual country or with any individual customer.

(23) COST OF MATERIALS

In the financial year, the cost of materials consists of expenditure for raw materials and supplies at €88,506 k (2008: €114,522 k) and expenditure for services received at €25,941 k (2008: €28,497 k).

(24) PERSONNEL EXPENSES

The personnel expenses concern expenditure for wages and salaries at €77,132 k (2008: €81,559 k) and social security contributions, expenditure for retirement pension and benefits at €15,082 k (2008: €15,970 k).

(25) OTHER OPERATING INCOME

	2009	2008
	€ K	€ K
Badwill from acquisitions	0	8,408
Income from sale of shares/licences VTech	2,285	0
Income from reversal of accrued liabilities	1,868	715
Income from reversal of liabilities	3,009	3,149
Income from reversal of prepaid expenses item for investment subsidies and allowances	733	477
Expense subsidies	1,251	1,306
Remuneration in kind	664	698
Miscellaneous	2,678	2,803
Total	12,488	17,556

In regard to the reversal of special items for investment subsidies and allowances, please refer to the explanations under item 13. The expense subsidies relate to supported projects, for example within the scope of research activities, training activities for junior staff («education and research»), and personnel expense allowances.

The income from the reversal of accrued liabilities was recognised where the future outflow of resources is no longer probable.

(26) OTHER OPERATING EXPENSES

	2009	2008
	€ K	€ K
Space and building expenses	6,519	6,372
Administrative expenses	9,083	9,049
Selling expenses	11,139	11,407
Allocation to reserve for warranties	2,347	2,436
Operating expenses	3,272	3,382
Current-asset valuation adjustments	765	1,739
Vehicle expenses	3,123	3,486
Reserves for anticipated losses	843	454
Miscellaneous	2,192	5,535
Total	39,283	43,860

(27) IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

For information on impairment charges for intangible assets, we refer to the information given in section E.1 of the Notes to the Consolidated Financial Statements.

(28) RESTRUCTURING COSTS

The restructuring costs in the 2009 financial year essentially concern value impairments in the inventories (€376k), settlements and expenditure for transitional companies (€4,036k) and other expenditure (€4,452k). The other expenditure includes in particular expenditure from the devaluation of assets of the subsidiary Bouyer S.A.S. (€3,854k). In this context, we refer to the information given in section C.1 of the Notes to the Consolidated Financial Statements.

(29) FINANCIAL RESULTS

	2009	2008
	€ K	€ K
Earnings from financial assets reported using the equity method	-650	0
Interest and similar revenue	297	2,537
Write-up of investment classified as current assets	31	0
	328	2,537
Write-down of participating interests	-195	-821
Interest and similar expenses	-1,689	-3,649
	-1,884	-4,470
Financial results	-2,206	-1,933

(30) TAXES ON INCOME

Composition of the tax expenditure:

	2009	2008
	€ K	€ K
Current tax expenditure	713	2,301
Deferred tax revenues (2008: tax expenditure)	-4,939	535
Taxes on income	-4,226	2,836

The taxes on income include a tax expense of €405k that is unrelated to the accounting period.

The following deferred tax accruals and liabilities shown in the balance sheet were attributable to differences in methodology and valuation in regard to the individual balance sheet items and to tax losses carried forward:

	31/12/2009		31/12/2008	
	DEFERRED TAX ACCRUALS	DEFERRED TAX LIABILITIES	DEFERRED TAX ACCRUALS	DEFERRED TAX LIABILITIES
	€ K	€ K	€ K	€ K
Intangible assets	98	5,128	33	6,358
Tangible assets	8	348	9	361
Financial assets	1,034	722	1,129	714
Inventories	4,329	131	5,856	190
Accounts receivable and other assets	251	4,379	126	6,360
Advances from customers	0	1,576	0	1,849
Pension accruals	781	0	699	0
Provisions	781	0	677	18
Liabilities	669	60	313	10
Deferred investment subsidies	73	0	35	0
Tax losses carried forward	6,623	0	4,347	0
Balancing out	-12,344	-12,344	-12,852	-12,852
Balance sheet figure	2,303	0	372	3,008

Transition from the anticipated to the reported income tax expenditure

	2009	2008
	€ K	€ K
Result before taxes on income	-44,975	10,817
Rate of taxation of Funkwerk group	26.00%	26.00%
Anticipated income tax expenditure	-11,694	2,812
Transition		
Tax rate variances		
a) Effects of tax rate changes/differences	-578	117
b) Effects from tax rate differences of foreign fiscal regions	-452	-199
Tax effects from variances in the basis of assessment		
a) Tax-free income from investments and gain on disposal or other transfer	-6	0
b) Disposal losses not recognised for tax purposes	59	259
c) Non-deductible expenditure	128	169
d) Other tax-free income	-38	-47
e) Corporate income tax increases or decreases	182	195
Valuation of deferred tax assets		
a) Non-recognition of deferred tax assets	6,430	1,541
b) Utilisation of tax losses carried forward that have not yet accrued deferred tax assets	-205	-297
c) Deferral of tax losses carried forward that have not yet accrued deferred tax assets	-747	0
d) Lapse of tax losses carried forward that have not yet accrued deferred tax assets	0	45
Effects not identified with the specified period		
a) Current and deferred taxes, previous years	405	403
Tax effects on consolidation level		
a) Negative goodwill (i.e. badwill)	0	-2,186
b) Depreciation of goodwill	2,367	0
Other	-77	25
Reported income tax revenues (2008: tax expenditure)	-4,226	2,836
Group tax load ratio	9.40%	26.22%

The significant drop in the group tax load ratio comes mainly as a result of the previous year's devaluation of the deferral on tax losses carried forward. The domestic group companies did not report any deferred tax claims on the tax losses carried forward that totalled €21,818k.

G. Cash flow statement

(31) CASH FLOWS FROM OPERATING ACTIVITIES

The cash flow from operating activities is an indicator of the extent to which the company managed to generate cash surplus through its operative business.

The item »Other non-cash expenditure and income« not only contains the income from the sale of 51 % of the shares and/or licences in VTech Funkwerk IAD GmbH (€2,285 k), but also expenditure in conjunction with reporting the share options in accordance with IFRS 2 at €253 k (2008: €457 k). In addition, this item also includes non-cash value impairments in conjunction with the insolvency of the subsidiary Bouyer S.A.S. (€3,854 k).

The previous year's figure also contains income from the goodwill resulting from the initial consolidation of Bouyer S.A.S. (€8,408 k).

(32) CASH FLOWS FROM INVESTING ACTIVITIES

This cash flow shows the extent to which expenses for resources were incurred that are to generate future income and cash flows.

(33) PAYMENTS FOR THE ACQUISITION OF CONSOLIDATED COMPANIES

The outgoing payments for the acquisition of consolidated companies concern a subsequent payment of the purchase price for an acquisition made in the 2007 financial year.

In the previous year, the outgoing payments for the acquisition of consolidated companies contained the purchase price payment / incidental acquisition costs amounting to €102 k, reduced by the funds totalling €6,210 k that were taken over in the context of the acquisition.

In this context, we refer to the information given in section C.1 of the Notes to the Consolidated Financial Statements.

(34) PAYMENTS FROM THE SALE OF PARTICIPATING INTERESTS

The incoming payments from the sale of participating interests are due to the sale of shares at a purchase price of €2,250 k less the selling costs amounting to €17 k and relate to VTech Funkwerk IAD GmbH.

(35) FREE CASH FLOW

The free cash flow serves as an indicator for company-internal control.

(36) CASH FLOWS FROM FINANCING ACTIVITIES

In the 2008 financial year, a dividend of €0,25 was paid out for the 2007 financial year for each ordinary share bearing dividends.

(37) FINANCIAL RESOURCES FUND AT THE END OF THE PERIOD

On the reporting date, the financial resources fund was the same as the liquid funds.

In the context of the factoring programme with a German commercial bank, separated credit balances of €2,5 m were invested as per 31 December 2009 as single-month fixed-term deposit investments with limited disposal. In addition, bank credit balances in Algeria of €3,3 m are subject to foreign exchange checks and inspection by the state and are not transferable to Germany in the short term.

Furthermore, there is also a credit balance of €1,1 m at the subsidiary Bouyer S.A.S., Montauban, France, which the company can no longer access due to the subsidiary's insolvency.

H. Segment reporting

Funkwerk structures its business in clearly separated business segments:

Traffic & Control Communication (abbr.: TCC), Automotive Communication (abbr.: AC), Enterprise Communication (abbr.: EC), Security Communication (abbr.: SC). Consequently, the segment reporting complies with IFRS 8.

	YEAR	TCC	AC	EC	SC	NON- ALLOCATED	GROUP
		€ K	€ K	€ K	€ K	ITEMS	€ K
Intangible and tangible assets	2009	26,815	9,455	4,501	8,920	0	49,691
	2008	27,064	14,972	12,171	12,438	0	66,645
Investment in intangible and tangible assets	2009	4,944	3,728	2,922	3,526	0	15,120
	2008	6,755	5,631	2,928	4,577	0	19,891
Inventories	2009	23,697	5,075	2,940	10,856	0	42,568
	2008	25,150	6,816	3,697	10,530	0	46,193
Trade accounts receivable	2009	20,027	1,535	2,300	16,626	0	40,488
	2008	27,038	5,095	3,966	33,213	0	69,312
Other current assets	2009	0	0	0	0	31,201	31,201
	2008	0	0	0	0	37,454	37,454
Segment assets	2009	70,539	16,065	9,742	36,402	31,201	163,948
	2008	79,252	26,883	19,834	56,181	37,454	219,604
Financial assets reported at equity	2009	0	0	1,530	0	0	1,530
	2008	0	0	0	0	0	0
Other long-term assets	2009	4	7	24	32	2,303	2,370
	2008	4	0	122	0	372	498
Total assets	2009	70,543	16,072	11,296	36,434	33,504	167,848
	2008	79,256	26,883	19,954	56,181	37,826	220,102
Pension obligations	2009	5,031	0	64	7,926	0	13,021
	2008	4,750	0	55	7,835	0	12,640
Advance payments received	2009	6,795	103	0	451	0	7,349
	2008	3,060	5	0	779	0	3,844
Trade accounts payable	2009	13,232	2,534	1,587	5,910	0	23,263
	2008	11,809	2,618	2,521	16,782	0	33,730
Accrued liabilities	2009	6,788	2,154	497	1,850	0	11,289
	2008	6,505	2,543	489	1,231	0	10,768
Other debts	2009	0	0	0	0	23,811	23,811
	2008	0	0	0	0	29,564	29,564
Segment liabilities = Total liabilities	2009	31,846	4,791	2,148	16,137	23,811	78,733
	2008	26,124	5,166	3,065	26,627	29,564	90,546
Generated EBIT	2009	-6,704	-11,481	-6,843	-17,220	0	-42,248
	2008	12,434	-1,654	-3,258	5,702	0	13,224
EBIT margin (from segment assets)	2009	-9.5 %	-71.5 %	-70.2 %	-47.3 %	0	-25.4 %
	2008	15.7 %	-6.2 %	-16.4 %	10.2 %	0	6.0 %

The long-term assets related to the foreign companies of the group are running at €1,783 k (2008: €2,186 k) and are shared across the two segments TCC at €1,716 k (2008: €2,064 k) and EC at €67 k (2008: €122 k).

Calculation of EBIT and reconciliation to the shareholders' results

	YEAR	TCC	AC	EC	SC	GROUP
		€ K	€ K	€ K	€ K	€ K
Total sales revenues	2009	105,515	28,614	30,333	63,493	227,955
	2008	123,780	49,484	30,278	91,423	294,965
Sales revenues with other business segm.*	2009	150	127	631	8,607	9,515
	2008	1,188	3	14	3,558	4,763
External sales revenues	2009	105,365	28,487	29,702	54,886	218,440
	2008	122,592	49,481	30,264	87,865	290,202
Other operating income	2009	4,742	1,651	3,613	2,482	12,488
	2008	13,877	1,591	688	1,400	17,556
Segment revenues	2009	110,107	30,138	33,315	57,368	230,928
	2008	136,469	51,072	30,952	89,265	307,758
Inventory changes of finished goods	2009	2,376	-397	0	239	2,218
and work in progress	2008	-5,562	-407	0	-11	-5,980
Own work capitalised (development)	2009	2,932	2,829	2,226	2,663	10,650
	2008	3,756	3,650	2,316	2,522	12,244
Cost of materials	2009	49,855	18,267	15,063	31,262	114,447
	2008	50,809	29,914	14,612	47,684	143,019
Personnel expenses	2009	45,653	11,344	10,016	25,201	92,214
	2008	47,170	14,543	11,399	24,417	97,529
Planned depreciation of fixed assets	2009	2,891	1,574	857	1,548	6,870
	2008	3,218	1,899	970	1,522	7,609
Planned depreciation of development work	2009	1,603	526	1,500	948	4,577
	2008	2,696	3,140	1,216	920	7,972
Other operating expenses	2009	16,174	4,201	6,240	12,668	39,283
	2008	18,336	6,141	7,904	11,479	43,860
Operating result before impairment charges and restructuring costs	2009	-761	-3,342	1,865	-11,357	-13,595
	2008	12,434	-1,322	-2,833	5,754	14,033
Impairment charges intangible assets	2009	0	7,144	8,156	4,489	19,789
	2008	0	0	0	0	0
Restructuring costs	2009	5,943	995	552	1,374	8,864
	2008	0	332	425	52	809
Operating result	2009	-6,704	-11,481	-6,843	-17,220	-42,248
	2008	12,434	-1,654	-3,258	5,702	13,224

	YEAR	TCC	AC	EC	SC	GROUP
		€ K	€ K	€ K	€ K	€ K
Results from financial assets reported	2009					-650
at equity	2008					0
Financial results	2009					-1,556
	2008					-1,933
Results from ordinary activities	2009					-44,454
	2008					11,291
Taxes on income/other taxes	2009					3,704
	2008					-3,310
Results of minority interests	2009					-3
	2008					218
Shareholders' results	2009					-40,753
	2008					8,199

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

The exchange of payments between the business units is made at normal market terms and conditions, as with external third parties.

The presentation of the financial result corresponds to the management approach of IFRS 8. The majority of the interest paid and received is incurred at Funkwerk AG.

For a distribution of sales revenues according to geographically organised markets, please see section E.

I. Other disclosures

1. GUARANTEES

As at the cut-off date, the Funkwerk group had guarantees for the benefit of customers and suppliers and bank guarantees totalling €46,394k (2008: €45,040k). These essentially comprised guarantees for contractual fulfilments (€15,733k) and advance payments (€24,243k).

2. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

With the following exception, there were no contingent liabilities as at the cut-off date of 31 December 2009:

The negotiations, which had been ongoing since mid-2008, with the works council and trade unions at Bouyer S.A.S. on the implementation of a necessary social compensation plan for the reorganisation of the company finally failed at the end of 2009. Despite several social compensation plans proposed by the management, the parties could not reach any agreement. Due to the negotiations breaking down several times, the liquidity provided by Funkwerk for restructuring and financing a social compensation plan was largely used up in financing the ongoing losses by the end of 2009. As a result, on 12 January 2010 the management of Bouyer S.A.S. filed for insolvency due to imminent inability to pay its debts. Funkwerk has processed all the effects that this last-resort step will have on the balance sheet for 31 December 2009. The official final consolidation will take place in 2010. The possibility of any contingent liabilities resulting from the insolvency proceedings cannot be ruled out by Funkwerk; nor can the nature and level of these be determined at the current point in time.

In addition, on 6/7 January 2010, 110 employees of Bouyer S.A.S. filed a lawsuit against Bouyer S.A.S. and Funkwerk for damage compensation due to violation of precautionary and protective measures relating to the employer's liability insurance and also due to unfair implementation of employment contracts. The amount

involved, i.e. the total value of the case, is €42k per employee. The first hearing of the parties has been scheduled for 10 May 2010 by the responsible first-instance labour court of Montauban (France).

Other financial obligations exist for:

	TERM		
	UP TO 1 YEAR	UP TO 5 YEARS	OVER 5 YEARS
	€ K	€ K	€ K
Long-term rental agreements	3,209	4,666	216
Long-term leasing agreements	1,366	1,403	0
Long-term leases	140	463	175
Other financial obligations	1,211	620	0

The rental and leasing expenses of the financial year are €6,229 m.

3. AVERAGE NUMBER OF EMPLOYEES BY CATEGORY DURING THE FINANCIAL YEAR

	2009	2008
Executive Board	3	3
Management	24	24
Administration	116	127
Development	428	353
Sales/project management	390	419
Production	596	732
Other	3	3
Trainees	79	81
	1,639	1,742

4. RELATIONSHIPS WITH RELATED PARTIES

Related parties in the sense of IAS 24 are the Executive Board and the Supervisory Board, cf. I.8.

Relationships with related parties in the sense of IAS 24 exist with affiliated companies not included in the consolidated financial statements and with the majority shareholder, Hörmann Holding GmbH & Co. KG (HHKG).

The business relationship of Funkwerk AG to HHKG was limited to passing on insurance expenses amounting to €1 k (2008: €1 k) and legal and consulting fees of €0 k (2008: €10 k). The business relationships of the subsidiaries of Funkwerk AG to HHKG also relate to insurance expenses together with legal and consultancy fees and reach a total of €30 k (2008: €74 k).

The legal transactions between the Funkwerk group and Hörmann GmbH & Co. Beteiligungs KG (HBG) concern the latter passing on insurance expenditure amounting to €3 k (2008: €3 k) and legal and consultancy fees of €0 k (2008: €26 k). Furthermore, legal business conducted with Hörmann-Funkwerk Holding GmbH came to €3 k (2008: €0 k). There were no receivables or liabilities as at 31 December 2009 nor in the previous year.

The exchange of performances between the affiliated companies was conducted under normal market conditions as if between unrelated third parties.

The subsidiaries of Funkwerk AG recorded sales revenues amounting to €553 k (2008: €523 k) with companies that are affiliates of HHKG (without HBG), and also rendered other goods and services to them amounting to €1 k (2008: €4 k). The deliveries were invoiced at market prices or at cost plus an appropriate profit mark-up. The terms of payment granted are those that are usual for the market. At the reporting date, the trade accounts receivable from this amounted to €18 k (2008: €1 k).

Furthermore, in the 2009 financial year, the subsidiaries of Funkwerk AG also obtained goods and services from affiliated companies of HHKG (without HBG) amounting to €220k (2008: €444k). The figures invoiced almost exclusively concern material costs and third-party services. The deliveries were based on market prices. Quotes from competitors were usually also obtained when awarding the contracts or placing the orders, which means that competitive prices can be assumed for the pricing. There were no liabilities as at 31 December 2009 nor in the previous year.

A rental agreement amounting to €78k per year was signed between Microsyst Systemelectronic GmbH and Grundner Industrie und Beteiligungen GmbH, Kirchseeon.

In addition, a lease agreement was signed between Funkwerk Akademie GmbH and Schloss Beichlingen GbR, in which Mr. Hans Hörmann holds a majority interest, amounting to €36k p.a. There were no liabilities as at the reporting date.

Funkwerk Enterprise Communications GmbH operates an inter-company clearing account with the joint venture VTech Funkwerk IAD GmbH for processing ongoing advancements and for passing on fees. At the reporting date, trade accounts receivable relating to this amounted to €372k.

A business relationship providing goods and services exists with the participating interest Funkwerk ES Iberia S.L. As a result, this subsidiary provided goods and services totalling €272k (2008: €163k). It received services amounting to €81k (2008: €90k). At the reporting date, the resultant trade accounts receivable for the Funkwerk group were €286k (2008: €368k) and the trade accounts payable were €58k (2008: €0k).

5. MAJOR RISKS AND UNCERTAINTIES

In principle, legal risks are taken into account by setting up reserves to the amount of the expected burden. Besides the risks sufficiently covered by reserves, no other risks or uncertainties are recognisable to date.

6. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN CONFORMITY WITH SECTION 161 AKTG

In conformity with Section 161 of the German Stock Corporation Act, the Executive Board and the Supervisory Board have made the required declaration concerning the current and future compliance with the recommendations of the »Government Commission on the German Corporate Governance Code« published by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette, and have made this declaration available to the shareholders on the website at www.funkwerk.com.

7. EXEMPTIONS UNDER SECTION 264 PARA. 3 OF THE GERMAN COMMERCIAL CODE (HGB)

The subsidiaries Hörmann-Funkwerk Kölleda GmbH and Funkwerk Dabendorf GmbH exercise the exemption from disclosure of their annual accounts under Section 264 para. 3 of the German Commercial Code.

8. DETAILS ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

Officiating members of the Executive Board

- Dr. Ing. Hans Grundner, Anzing, Chairman
Strategy and Business Development
- Johann M. Schmid-Davis, Masters in Bus. Econ., Munich
Finances, Organisation and Investor Relations (from 1 September 2009)
- Norbert Gunkler, Masters in Bus. Admin., Herzogenaurach
Finances, Organisation and Investor Relations (until 31 August 2009)
- Lutz Pfister, MEng (Tech.Coll.), Zossen
Automotive Communication segment (until 15 August 2009)

In the financial year 2009 until April 2009, Dr. Hans Grundner and Mr. Lutz Pfister were represented in the Supervisory Board of Euro Telematik AG, Ulm.

Remuneration

The remuneration of the Executive Board members features both a non-performance-related and a performance-related component; its level and structure is determined by the Supervisory Board of Funkwerk AG.

The component which is not related to performance is made up of a fixed salary plus fringe benefits and pension commitments and is not dependent on certain targets being reached; it is paid monthly. In addition to the monthly fixed salary, all board members also receive fringe benefits, which include the private use of the company car and insurance premiums. All Executive Board members are entitled to these remuneration components and each must tax them as appropriate.

For a detailed breakdown of the remuneration components of the Executive Board members, please see the Management Report for the financial year.

Executive Board pay

The payments due in the short term in the financial year are as follows:

	NON-PERFORMANCE RELATED PAY		PERFORMANCE RELATED PAY		PENSION COMMITMENTS		TOTAL REMUNERATION	
	2009	2008	2009	2008	2009	2008	2009	2008
	€	€	€	€	€	€	€	€
Dr. H. Grundner	220,015	200,015	0	353,209	24,000	24,000	244,015	577,224
J. Schmid-Davis	41,671	0	25,000	0	0	0	66,671	0
N. Gunkler	81,465	125,341	0	131,604	20,000	20,000	101,465	276,945
L. Pfister	74,536	122,225	0	52,091	20,000	20,000	94,536	194,316
H. E. Domröse	0	11,288	0	2,523	0	0	0	13,751

Executive Board members hold share options from the 2005 and 2008 share option plans. In the year under review, the Executive Board members Dr. Hans Grundner and Johann M. Schmid-Davis were each granted 6,000 options with a current market value of €13,140. In the previous year, the Executive Board members Dr. Hans Grundner, Norbert Gunkler and Lutz Pfister were each granted 6,000 share options with a current market value of €5,820.

The Executive Board members were not able to exercise any share options in the 2009 financial year.

In the financial year, Executive Board member Mr. Domröse, who left the company in the 2008 financial year, was paid €45k that were still outstanding from the 2007 agreement on the profit-sharing bonus.

Supervisory Board

- Mr. Christian A. Hufnagl, retired, Hamburg, Chairman
- Mr. Maximilian Ardelt, entrepreneur, Starnberg, Vice Chairman
- Mr. Niels Lund Chrestensen, entrepreneur, Erfurt

In the period under review, Mr. Christian A. Hufnagl was a member of the following Supervisory Boards:

- I-D Media AG (Chairman of the Supervisory Board) until September 2009

In the period under review, Mr. Maximilian Ardel was a member of the following Supervisory Boards:

- TechData Corporation, Clearwater / Florida (member of the Board of Directors)
- Tiburon Partners AG, Munich (Deputy Chairman of the Supervisory Board)
- Getmobile AG, Munich (Chairman of the Supervisory Board)
- Getmobile Europe plc., London (member of the Board of Directors)
- Stulz Holding GmbH, Hamburg (member of the Supervisory Board)
- Mannstaedt GmbH, Troisdorf (member of the Supervisory Board)
- Technische Universität Graz, Graz, Austria (Vice Chairman of the University Council)
- Neumüller CeWe Color Stiftung (member of the Board of Trustees)

In the period under review, Mr. Niels Lund Chrestensen was a member of the following Supervisory Boards:

- Deutsche Bahn AG, Berlin
- Dresdner Bank AG, Frankfurt am Main (Advisory Board East)
- Thüringer Aufbaubank, Erfurt
- Member of the Advisory Board of public companies / institutions, communities, and savings banks of the Hesse-Thuringia regional bank

Remuneration

The remuneration of the Supervisory Board is governed in Section 12 of the Articles of Incorporation of Funkwerk AG and is divided into a fixed and a variable component plus an attendance fee. Concerning the level of payments, a distinction is made between the Chairman and the remaining members.

Pay of Supervisory Board members

	FIXED REMUNERATION		ATTENDANCE FEE		VARIABLE REMUNERATION		TOTAL REMUNERATION	
	2009	2008	2009	2008	2009	2008	2009	2008
	€	€	€	€	€	€	€	€
Christian A. Hufnagl	10,000	10,000	10,400	15,600	0	0	20,400	25,600
Maximilian Ardel	7,500	7,500	7,800	11,700	0	0	15,300	19,200
Niels L. Chrestensen	5,000	5,000	5,200	5,200	0	0	10,200	10,200

9. AUDITOR'S FEES

In the current financial year, the following fees were recorded for the auditor as defined by Section 319 para. 1 of the German Commercial Code, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and companies affiliated to it:

	2009
	€ K
Audit of financial statements	324
Other certification and appraisal services	4
Tax consulting	8
Other services	3
	339

Statement of Changes in Consolidated Assets for the 2009 Financial Year (gross presentation)

A. FIXED ASSETS	PURCHASE AND PRODUCTION COST				
	AT 01/01/2009	ADDITIONS	DISPOSALS	BOOK TRANSFERS	AT 31/12/2009
	€ K	€ K	€ K	€ K	€ K
I. Intangible assets					
1. Industrial property rights and similar rights and values, as well as licences thereto	17,107	1,355	479	-158	17,825
2. Goodwill	19,065	200	0	0	19,265
3. Development costs	41,722	10,665	713	157	51,831
	77,894	12,220	1,192	-1	88,921
II. Tangible assets					
1. Land and leasehold rights and buildings, including buildings on third-party land	11,538	132	80	0	11,590
2. Plant and machinery	29,005	1,110	1,285	21	28,851
3. Other fixtures and fittings, tools and equipment	20,488	1,592	781	11	21,310
4. Plant under construction	110	66	26	-31	119
	61,141	2,900	2,172	1	61,870
	139,035	15,120	3,364	0	150,791

*The additions to depreciations are included in the items planned depreciations (€11,447k) and restructuring costs (€540k, of which €192k for development costs) of the statement of income and accumulated earnings.

	DEPRECIATION AND VALUE IMPAIRMENT							BOOK VALUE	
	AT 01/01/2009	ADDITIONS		DISPOSALS	BOOK	FOREIGN	AT 31/12/2009	AT 31/12/2009	AT 31/12/2008
		DEPRECIATIONS*	VALUE		TRANSFERS	CURR. ITEMS			
	€K	€K	€K	€K	€K	€K	€K	€K	€K
	10,761	2,170	0	336	0	-9	12,586	5,239	6,346
	0	0	9,104	0	0	0	9,104	10,161	19,065
	19,633	4,768	10,685	670	0	-72	34,344	17,487	22,089
	30,394	6,938	19,789	1,006	0	-81	56,034	32,887	47,500
	3,960	449	0	3	0	0	4,406	7,184	7,578
	23,122	2,153	0	1,264	0	7	24,018	4,833	5,883
	14,883	2,447	0	706	0	-13	16,611	4,699	5,605
	31	0	0	0	0	0	31	88	79
	41,996	5,049	0	1,973	0	-6	45,066	16,804	19,145
	72,390	11,987	19,789	2,979	0	-87	101,100	49,691	66,645

Statement of Changes in Consolidated Assets for the 2008 Financial Year (gross presentation)

A. FIXED ASSETS	PURCHASE AND PRODUCTION COST					
	AT 01/01/2008	PAID-IN INITIAL CONSOLIDATION	ADDITIONS	DISPOSALS	BOOK TRANSFERS	AT 31/12/2008
	€ K	€ K	€ K	€ K	€ K	€ K
I. Intangible assets						
1. Industrial property rights and similar rights and values, as well as licences thereto	19,062	45	2,495	4,506	11	17,107
2. Goodwill	18,260	805	0	0	0	19,065
3. Development costs	34,344	0	12,143	4,765	0	41,722
	71,666	850	14,638	9,271	11	77,894
II. Tangible assets						
1. Land and leasehold rights and buildings, including buildings on third-party land	10,971	165	441	39	0	11,538
2. Plant and machinery	27,597	90	2,781	2,038	575	29,005
3. Other fixtures and fittings, tools and equipment	18,545	306	1,959	443	121	20,488
4. Plant under construction	745	0	72	0	-707	110
	57,858	561	5,253	2,520	-11	61,141
	129,524	1,411	19,891	11,791	0	139,035

DEPRECIATION AND VALUE IMPAIRMENT							BOOK VALUE	
AT 01/01/2008	ADDITIONS		DISPOSALS	BOOK	FOREIGN	AT 31/12/2008	AT 31/12/2008	AT 31/12/2007
	DEPRECIATIONS	VALUE		TRANSFERS	CURR. ITEMS			
€K	€K	€K	€K	€K	€K	€K	€K	€K
10,823	2,147	0	2,237	0	28	10,761	6,346	8,239
0	0	0	0	0	0	0	19,065	18,260
15,201	7,972	0	3,816	0	276	19,633	22,089	19,143
26,024	10,119	0	6,053	0	304	30,394	47,500	45,642
3,449	533	0	22	0	0	3,960	7,578	7,522
22,487	2,548	0	1,888	-29	4	23,122	5,883	5,110
12,917	2,382	0	451	29	6	14,883	5,605	5,628
31	0	0	0	0	0	31	79	714
38,884	5,463	0	2,361	0	10	41,996	19,145	18,974
64,908	15,582	0	8,414	0	314	72,390	66,645	64,616

Kölleda, March 17, 2010

The Executive Board



Dr. Hans Grundner



Johann M. Schmid-Davis

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Funkwerk AG, Kölleda, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch »German Commercial Code«) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Leipzig, March 17, 2010

KPMG AG

Wirtschaftsprüfungsgesellschaft



Huber
Wirtschaftsprüfer



Dr. Flascha
Wirtschaftsprüfer

FINANCIAL CALENDAR 2010

March 31, 2010	Balance sheet press conference
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May 12, 2010	Disclosure of quarterly report
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May 27, 2010	Shareholders' Meeting
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August 12, 2010	Disclosure of half-yearly report
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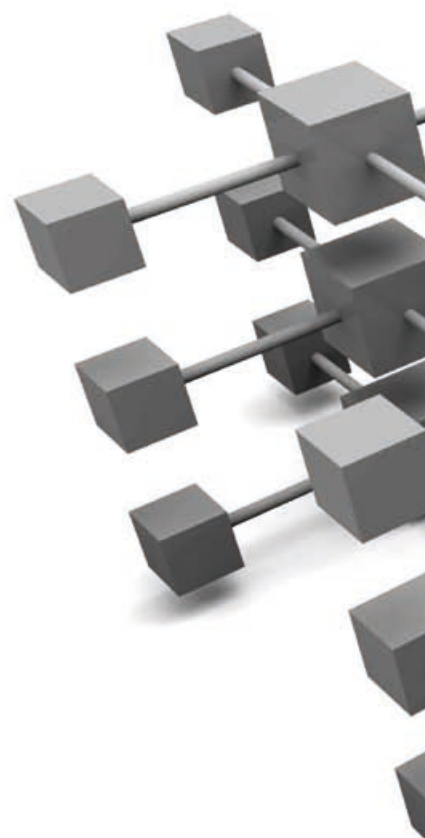
November 10, 2010	Disclosure of nine-monthly report
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