

$t) = a(t)e$

$$\chi_n = \frac{1}{N} \sum_{k=0}^{N-1} \hat{\chi}_k e^{2\pi i \frac{kn}{N}}$$

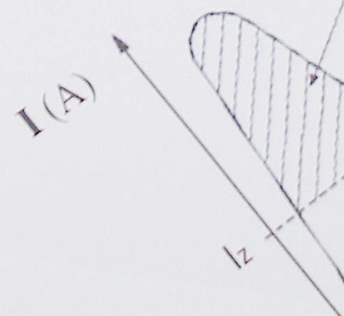
INTERIM REPORT 1/2011

inn und somit
rer Koppelkam
en.

Übergangsenergie bei einer Funkenprüfung
in einer Explosionsfähige Atmosphäre

$$E_u = \int_{t_1}^{t_2} V(t) \times (I(t) - I_z) dt$$

I_z : max zulässiger Strom bei der
Funkenprüfung
iel für Spannungsquelle



KEY DATE

	Q1 2011	Q1 2010
	€ M	€ M
Results of operations		
Revenues	43.9	47.4
Gross yield	23.5	25.1
Operating profit*	-0.7	-0.2
Operating result *	-2.9	-2.4
Operating result/EBIT	-2.9	-2.9
Earnings per share in EUR	-0.48	-0.36
Receipt of order	46.2	61.4
Order volume	104.2	112.1
Net assets and financial position		
Operating Cash Flow	-10.4	-6.1
Working Capital	46.4	55.4
Shareholder's Equity	60.6	86.2
Equity ratio in %	41.7	53.6
Balance sheet total	145.2	160.8
Employees (annual average)	1,357	1,401

*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)
- Telematik
- Avionics

ENTERPRISE COMMUNICATION

- Networks
- Voice
- Data security

SECURITY COMMUNICATION

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

GROUP MANAGEMENT REPORT

Dear ladies and gentlemen, dear Shareholders,

The recovery of economic activity after the global economic crisis proved surprisingly expeditious, but in reference to infrastructure remains rather shaky. The consolidation of public budgets is taking precedence over investments. Continuously aggravating public debt in many industrialised nations, especially in Greece, Ireland, and Portugal, but also the fact that there is no telling as yet what the consequences of the earthquake disaster in Japan and the unrest in the Arab world will be, potentially hold considerable risk and result in a lack of planning certainty.

This also defined the investment and spending propensity of some of Funkwerk's customer target groups, most specifically in the transport sector, throughout the reporting period. As a result, the acceleration in demand which had been noticeable at the end of the previous financial year failed to continue in the first quarter. On the whole, sales and incoming business were marginally less than projected. In contrast, our cost cutting measures completed in 2010 showed further effect in the first quarter, so that earnings before interest and taxes proved better than predicted.

The sales trend in the first quarter of 2011 also shows the effect of adjustments to our product portfolio in the previous year. In consequence of this, a number of low-margin products, which had still contributed to sales in 2010, were discontinued in all business segments, but especially in Traffic & Control Communication.

In comparison, revenues as at the end of March totalled EUR 43.9m and so were down by 7 per cent on the previous year (EUR 47.4m). The first quarter in Funkwerk's yearly cycle is typically the weakest in terms of sales, whereas the fourth quarter tends to write the strongest figure. This is due to the budgeting of customers such as transport operators and public institutions. The poor season was compounded by the continuing investment restraint among international railway operators and the product adjustments mentioned earlier.

Because of efficiency increases, Funkwerk was able to fully compensate the decline in sales compared to the previous year in the operating result. At EUR -2.9m, it remained at prior-year level, although it must be noted here that Funkwerk is currently facing a higher level of advances for projects which will not result in sales and earnings until later. One such example is Automotive Communication, where initial engineering and investment costs accrued in preparation of major framework contracts.

In the first quarter of 2011, Funkwerk was able in Automotive Communication to conclude multi-year framework contracts with leading automobile and lorry manufacturers worth almost EUR 100m in total. From 2013, these will lead to significant growth rates in this segment. Nonetheless, these contracts do not yet show in our current rate of new orders, as the call-off points and the quantities to be delivered cannot as yet be specified in concrete terms.

On the whole, Funkwerk reported new order bookings of EUR 46.2m in the first three months to reach the lower end of our projected target range. Incoming business particularly in Traffic & Control Communication was affected by delays at the customer side. This, however, results in a book-to-bill ratio of 1.05, an indication of increasing revenues in the coming quarters.

Compared to the previous year (EUR 61.4m), the level of new orders was significantly down. That being said, this only paints a distorted picture because of one-off catch-up effects in 2010. Adjustments made to our product range since then are a further contributing factor to producing a lower figure. The

volume of orders is more informative here for our further development. At EUR 104.2m on the cutoff date at the end of March it ranged two per cent higher than our target figure. Again, this shows that orders in Traffic & Control Communication were stretched with the result that they could no longer be added to sales in the first quarter.

Restructuring measures in 2010 concentrated on improving the quality of our products and increasing our efficiency by streamlining our organisation and the processes within our operating units. In 2011 we will focus on standardising and consolidating central functions. Our aim here is, in a next step, to increase our productivity and further reduce our structure costs. In addition, we are working on readjusting our overall strategy with the goal to standardise Funkwerk's products in better ways and to market increasingly uniform sector solutions. For this purpose, we will push ahead with the further development of generic product and development platforms, the benefits of which can be seen as early as at the product origination stage. This should make it possible not only to occupy individual niches, but also to address the open market more effectively

For the latter half of the year in particular, Funkwerk therefore expects a rising trend in both sales and earnings, along with a positive turnaround of the currently less than satisfactory business trend. Considerable efforts are still necessary, however, in order to further improve our competitive position and regain our earning power.

Business trend by segment

TRAFFIC & CONTROL COMMUNICATION: CONCENTRATION BEFORE GROWTH

The economic development of the largest business segment of Funkwerk, Traffic & Control Communication (TCC), tends to follow the general economic trend with a certain time lag. This is due to the fact that its customers are primarily international state-owned companies or global operators whose operations greatly depend on the trend in rail freight and passenger transport and on government budgets and investment subsidies. Against the background of initiated budget consolidations, however, the investment propensity particularly of railway operators continued to be rather restrained. As a result, the measures announced to improve the transport infrastructure, which should also increase the demand for communication and information technology such as produced and sold by Funkwerk, are very slow to get started.

This left its mark both on the sales trend and on incoming business at TCC in the first quarter of 2011. In comparing current figures with the previous year, it is also necessary to factor in the adjustment of our product portfolio. At EUR 19.8m (2010: EUR 22.5m), revenues failed to reach the target, as call orders in the railway sector for GSM-R terminals were postponed because of stretched-out budgets and technical problems at customers. At EUR 22.0m, incoming business on the whole remained within the target range but significantly below the benchmark quarter in the previous year (EUR 32.3m). Satisfactory increases in incoming business for our product groups information and management systems, specifically in business with industrial customers, could just about compensate the poor demand in the mobile radio sector. Industrial business rose by a two-digit figure to exceed our projections quite notably.

The cost cuts achieved in 2010 and the positive effects from the adjustment of our product portfolio also resulted in a segment result which at EUR – 0.4 m (2010: EUR – 0.1m) surpassed our projections. It must be borne in mind here that the first quarter in this segment is typically the weakest because of advance performances for projects required in many cases, which will not lead to sales until some time later.

In the medium term, we expect to see growth in TCC; brought on by the new generation of Dual Mode handheld radio devices for railway companies, but also by our electronic interlocking system, Alister.

SECURITY COMMUNICATION: CONSOLIDATION PROGRESSING

Our Security Communication (SC) segment started into fiscal 2011 somewhat better than expected. Due to the advanced stage of consolidation and reorientation, the first quarter saw initial successes in the sale of new personal emergency call systems as well as DECT and TETRA handheld devices with special applications, but also in the open marketing of other key components. A framework contract with an energy company which is equipping its power plants with personal security systems based on DECT technology from Funkwerk now produces a steady flow of payments adding to sales in this segment.

As a result, segment revenues marginally rose both on our projections and on the previous year. Again, however, production of a number of devices with product life cycles that were well advanced, including analogue emergency call systems, was discontinued. At EUR 11.2 m in sales (2010: EUR 10.8 m), SC therefore generated an operating result of EUR – 1.3 m (2010: EUR – 2.7 m). Here, too, the first quarter required advance performances for sales in the following periods. At EUR 10.8 m, incoming business as at the end of March trailed behind the previous year (2010: EUR 13.9 m), primarily because export orders for video monitoring systems failed to materialise due to social tension in the Middle Eastern regions.

In terms of personal security and video monitoring, Funkwerk will in future increasingly specialise in energy, industry, local and long-distance transport, supply and correctional and forensics facilities, and expand business at international level through cooperation with infrastructure suppliers. With this step we hope to expand our target market. We are also quite encouraged by the keen interest shown globally in Argoscan, the system for hard shoulder release on motorways which Funkwerk developed. Additional potential is expected from new applications, such as the equipment of road and rail tunnels, car parks and motorway stations.

As a system supplier of optical security solutions, Funkwerk boasts technological key expertise in top-of-the-range video cameras, highly precise and robust pan/tilt heads, video transmission systems, video management systems, video analysis and processing, and feature recognition through image processing. This will help us to further successes in our efforts to strengthen business with sector solutions.

Good progress has also been made in the production and sale of radio devices used for security functions. We register increased demand for DECT-based radio devices for professional applications. The marketing of TETRA-based radio devices is beginning to show initial successes. Further impulses are expected from the imminent certification for use in explosion-prone areas and from new device models based on our product development plan.

On the whole, the market for our Security Communication segment will greatly widen after implementation of our product strategy, which will result in significant growth. The technological hurdles have largely been overcome, and we are now focusing our marketing efforts increasingly on new partnerships and on the further development of standardised sector solutions.

AUTOMOTIVE COMMUNICATION: POTENTIAL THROUGH SIGNIFICANT FRAMEWORK CONTRACTS IN OEM BUSINESS

The increasing use of smartphones requires flexible adapter and connectivity solutions as well as cost-effective signal amplifiers in vehicles. Funkwerk has successfully focused on this rapidly growing demand specifically in OEM business with leading automobile manufacturers in its Automotive Communication (AC) segment.

Our generic development platform introduced in 2010 has allowed us to close a technological gap and establish system expertise in integrative solutions. Our new, qualitatively distinct products such as coupling chambers, WLAN routers and USB hubs have enabled Funkwerk to convince major partners in the automobile industry, with the result that we were able to conclude new framework contracts in the first quarter of 2011. On the whole, these new contracts make up an order volume of almost EUR 100m. They are not, however, booked as yet under new or unfilled orders, as the call-offs are not yet determined. These contracts will be reflected in sales from 2013.

One such contract, for example, involves Funkwerk supplying an automobile manufacturer with a product used for the integration of mobile terminals in vehicles, and we received a contract from another major car manufacturer for the universal inductive connection of mobile phones in the vehicle to optimise wireless reception. Funkwerk will also in the future supply the telematics unit for a leading lorry manufacturer. These contracts confirm the attractiveness of Funkwerk's automotive connectivity solutions, but also our expertise in the integration of mobile phones and of other mobile consumer electronics products in the vehicle.

At EUR 6.4m (2010: EUR 7.7m), new orders booked in the first quarter of 2011 therefore remained at a comparatively low level. Again, it must be borne in mind here that Funkwerk now focuses exclusively on high-quality products and is phasing out aged products with poor volumes specifically for the after-care market. At EUR 6.7m, revenues in Automotive Communication in the first quarter therefore, on the whole, remained roughly at prior-year level (EUR 7.1m). Due to the advance of investment and development costs for the new framework contracts, the segment's operating result totalled EUR -0.7m (2010: EUR -0.5m). We anticipate sales to increase gradually in the further course of the year. The main effects from the new framework contracts and from focusing sales on OEM business are due to show in the medium term, from 2013, and are set to produce a substantial growth spurt.

ENTERPRISE COMMUNICATION: STRATEGY CHANGE COMPLETED

Modern data networks enable a wealth of new solutions for communication within and across companies. On the other hand, the complexity of the systems is increasing, requiring appropriate tools for configuration, administration and protection of the networks. As a specialist in integrated communication solutions, Funkwerk satisfies this increasing demand in our Enterprise Communication segment. Based on a well-rounded and cutting-edge product portfolio, which comprises all the necessary devices and components (routers and gateways) including data security for private data networks in addition to classic TC systems, Funkwerk realises professional solutions for small to mid-sized companies.

Funkwerk has taken account of the current transition from classic telephone system to integrated IP solutions through such new products as the communication platform »hybird« launched at the end of 2010. Our Unified Threat Management (UTM) systems have also positioned Funkwerk in the growing security market. In connection with our strategy change from individual component supplier to integrated solution provider for special applications and sectors, Funkwerk has now completely pulled out of consumer-oriented broadband business. The final step in this direction was taken in the first quarter of 2011 by selling our investment in the unit set up jointly with VTech for the development and marketing of integrated network access solutions (Integrated Access Devices).

While this means that Funkwerk also gave up sales potential in EC, we are now in a position to further concentrate our development expertise and further improve the profitability of this segment.

In the first quarter of 2011, segment revenues at EC totalled EUR 6.2m (2010: EUR 7.0m), segment earnings reduced to EUR - 0.4m (2010: EUR 0.2m). Incoming business came to EUR 7.0m, after EUR 7.5m in the previous year. In the further course of the year, we expect this segment to see an increase in revenues and a positive earnings contribution for the year.

Explanatory notes to the earnings position

The earnings position of the Funkwerk group in the first quarter of 2011 was defined by an as yet comparatively restrained investment and spending propensity among a number of customer target groups specifically in the transport sector, the product portfolio adjustments already largely completed across all business segments in 2010, and the cost cutting programme implemented since the end of 2009, which was now taking full effect. Whereas sales as a result remained somewhat below our projections, earnings from operations proved better than expected.

Group revenues of EUR 43.9m as at the end of March were down by 7 per cent on the previous year (EUR 47.4m). This is due to the still restrained investment propensity of international railway operators, but also to the mentioned product adjustments in our individual segments. Because of efficiency increases, Funkwerk was able to compensate the decline in sales compared to the previous year in the operating result.

As a result, the cost of materials reduced disproportionately to EUR 22.3m (2010: EUR 24.8m), which increased the gross yield margin as at the end of March 2011 from 50.3 per cent in the previous year to 51.3 per cent. This is fully in line with our new strategy of improving the real net output ratio for key products.

Personnel costs also again decreased marginally to EUR 20.4m (2010: EUR 20.8m). The other operating expenses could be cut from EUR 8.0m in the previous year to EUR 6.9m, so that the structure costs reduced by EUR 1.5m in total.

On the whole, the operating result of EUR –2.9m remained at prior-year level despite the decrease in sales. It must be noted here, though, that Funkwerk was required in the first quarter of 2011 to make advances for projects which will only result in sales and earnings later in the year or, as especially in Automotive Communication and Traffic & Control Communication, in the medium term.

The financial result remained largely unchanged, and so consolidated earnings before taxes also stayed virtually the same at EUR –3.1m (2010: EUR –3.2m). In contrast, the tax burden rose on the previous year, which widened the quarterly loss after taxes to EUR –3.9m (2010: EUR –2.9m). This corresponds to total earnings per share of EUR –0.48 (2010: EUR –0.36).

Explanatory notes to the financial and net worth position

The development of the financial and net worth position of Funkwerk in the reporting period was defined by a sluggish sales trend, but also by project and development advances and investment costs required for our further growth. In addition, debts to suppliers were reduced by some EUR 3.4m on the end of 2010. This was reflected particularly in the free cash flow, which at EUR –13.4m was down by just under EUR 4m on the previous year (EUR –9.8m). On the balance sheet, this primarily registered in the liquid funds, which reduced to EUR 2.3m (end of 2010: EUR 12.1m). The net debt at end of the quarter totalled EUR 1.7m.

To ensure lasting financial stability, we concluded a multiyear syndicated loan agreement of EUR 75.5m with three German commercial banks headed by Commerzbank AG in March 2011.

The syndicated loan is made up of a revolving money market loan in the amount of EUR 17.5m and a guaranteed credit line of EUR 58m. Funkwerk AG and its subsidiaries have provided collateral in the form of blanket assignments of trade receivables of individual subsidiaries, assignment of inventories of all companies in the Funkwerk group, and land charges on company property in Dabendorf and Kölleda. The loan has a term of three years with a renewal option of a further two years.

As further collateral for the syndicated loan agreement, Funkwerk received an 80 per cent indemnity bond for EUR 9.0m of cash credit and a 60 per cent indemnity bond for EUR 10.6m of guaranteed credit for a term of five years from the Federal Government/Laender programme »Germany funds« in May 2011. As a result, Funkwerk has sufficient facility to achieve its mid-term targets.

Total assets reduced in the reporting period primarily due to the quarterly loss, down from EUR 149.7m to EUR 145.2m. Equity and equity ratio decreased accordingly. The latter sank from 43.1 per cent to 41.7 per cent, but compared to the sector average remained at a high level.

On the assets side, long-term assets marginally rose from EUR 49.9m to EUR 50.7m due to the increasing capitalisation of development costs of EUR 2.2m (2010: EUR 2.1m) required for the new products.

In order to avoid procurement bottlenecks as far as possible, specifically with respect to the disaster in Japan, and to allow us to work off the upcoming projects and framework contracts on schedule, we raised our inventories in the reporting period from EUR 43.6m to EUR 48.5m. In contrast, trade accounts receivable were reduced by a good EUR 5.8m to EUR 21.8m compared to the end of 2010 (EUR 27.6m). Receivables from projects in progress for contracts in the project stage totalled EUR 12.7m as at the end of the first quarter, which corresponds to a gain on the end of 2010 of EUR 4.7m.

On the liabilities side, equity reduced from EUR 64.5m to EUR 60.6m. This was opposite an increase in financial liabilities to banks from EUR 0.4m to EUR 4.0m. The accounts payable and other liabilities decreased notably in line with the reduction of trade accounts receivable, down from EUR 29.4m to EUR 26.0m and from EUR 13.8m to EUR 11.7m, respectively. Advances received on account of ongoing projects and orders could be increased further by EUR 1.9m, from EUR 8.7m at the start of the year to EUR 10.6m.

Working Capital

Compared to the prior-year quarter, further progress in optimising our working capital was evident as at the end of March 2011. As a result of improved inventory management at group level in the previous year, the figure here reduced by more than EUR 8m to EUR 46.4m (2010: EUR 55.4m).

In the first quarter of 2011, the working capital was built up by around EUR 5.1m on the end of 2010, including EUR 4.9m in inventories. This happened because of project advances for subsequent growth, the aggravating delivery risks in the electronic componentry and display sector after the disaster in Japan, and the launch of new products. Along with the necessary development advances, this was the main reason for the high capital requirement in the first quarter of 2011.

Research and development

Research and development are given top priority in each of our segments as crucial factors ensuring a competitive position and sustainable growth for Funkwerk. Rather than restricting ourselves to basic research, however, we concentrate on the development of products and systems that meet the needs of our customers. Some of the development work was realised together with customers in the context of projects; the expenses relating to this flow directly into sales.

Capitalised product development costs concentrated on the further development of our product portfolio, the standardisation of our range of solutions, and the integration of cutting-edge technologies. The focal points here were the TETRA product range, the development of a new HD camera, the certification of our interlocking system, Alister SIL4, the product developments for the framework contracts in Automotive Communication, and the development of a new, compact IP-based telecommunications system. Capitalised development costs in the reporting period amounted to around EUR 2.2m (2010: EUR 2.1m). This figure is opposite depreciation of around EUR 0.8m (2010: EUR 0.6m).

Non-capitalised spending on research and development in the same period aggregated some EUR 5m in the group, primarily for basics, concepts and product maintenance.

Investments

Capital spending and intangible investments at Funkwerk were again kept at a low level in the reporting period. The total here, without capitalised development costs, amounted to EUR 0.7m (2010: EUR 0.4m). Investments focused on tools, test equipment and production increases required in connection with the new product launches

Employees

In 2010, Funkwerk largely completed the necessary personnel and capacity adjustments in all its business segments. Compared to the previous year, the number of employees (excl. trainees) at the cutoff date had once again reduced by 25 to 1,298 (2010: 1,323). This is due primarily to streamlining our operating units, which will continue in 2011. At around EUR 20k, the value added per employee in the quarter ranged around prior-year level.

Opportunities and risk report

The main opportunities and risks affecting the asset, financial or earnings position of Funkwerk, along with the risk management system are described in detail in the 2010 annual report of our company. No new aspects have arisen since then.

It is to be expected, however, that the earthquake disaster in Japan and the unrest in the Arab countries will bring with them uncertainties and adverse knock-on effects for the global economy on the whole. To what extent this will affect business at Funkwerk in the further course of the year, cannot currently be assessed with the necessary degree of certainty.

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

No events of special significance other than described in this quarterly report have to date occurred since the conclusion of the financial year

Forecast and prospects

All four business segments of Funkwerk operate in challenging and some also fiercely competitive growth markets. In Traffic & Control Communication and Security Communication especially we can see considerable potential for the future. The use of information and communication technology at transport companies, in the industry and the security sector will continue to gain in importance in the long term. This opens up promising prospects for our company, as Funkwerk is regarded a prime manufacturer in this area in Europe.

In Automotive Communication, securing new framework contracts and other specific business initiations present us with considerable opportunities to grow in the next few years, which should notably increase sales in this segment. The use of electronic interlocking systems also opens up a new market for cost-effective systems in the railway sector. In the medium term, Funkwerk expects to see a significant sales contribution here from its proprietary development Alister and the prospective approval of SIL4 in the latter half of 2011. Funkwerk also follows the strategy in Security Communication of continuing its component business. We hope this will broaden the addressable OEM product market quite substantially. In this context, we also expect to conclude strategic cooperation agreements here before the end of the year.

The risk factors for the global economy increased in the first quarter of 2011. It is hard to tell at this point what lasting effects the earthquake disaster in Japan and the unrest in the Arab countries will have on the global procurement of goods and services. From our point of view, however, we can see a slight slowdown of the general growth dynamics. It also remains to be seen how budget spending on infrastructure investments develops in the further course of the year in view of the continuing restrictive fiscal policies in the European buyer countries which are significant for us.

Irrespective of all this, we can see opportunities for organic growth at Funkwerk because of the new products and solutions prepared in 2010 and launched in 2011. The economy for investments in infrastructure is, however, lagging behind the general trend. Nonetheless, we should be able at group level to move into profit again over the year. Over and above that, we are pursuing strategic options to focus on promising business activities as part of our efforts to structure our group along clear lines. Based on this, suitable strategic acquisitions which will add to our technological portfolio and expand or develop international markets could increase our potential for growth in focal areas in the medium term.



Dr.-Ing. Hans Grundner
(Chairman)



Johann M. Schmid-Davis



Carsten Ahrens

Corporate bodies in the reporting period

SUPERVISORY BOARD

- Alfons Hörmann (Chairman since 18 March 2011), businessman, Sulzberg
- Prof. Dr. Gerhard P. Fettweis (Vice Chairman since 18 March 2011), University Lecturer, Dresden
- Maximilian Ardel (Chairman until 18 March 2011), entrepreneur, Starnberg

EXECUTIVE BOARD

- Dr.-Ing. Hans Grundner (Chairman), Business Development Traffic and Control Communication and Security Communication, Public Relations, Coordination of Executive Board Duties
- Johann M. Schmid-Davis, Masters in Bus. Econ., Finances, Law, Controlling, Personnel and Investor Relations
- Carsten Ahrens, MEng., Business Development Enterprise Communication and Automotive-Communication, Technology and Products

FUNKWERK SHARE

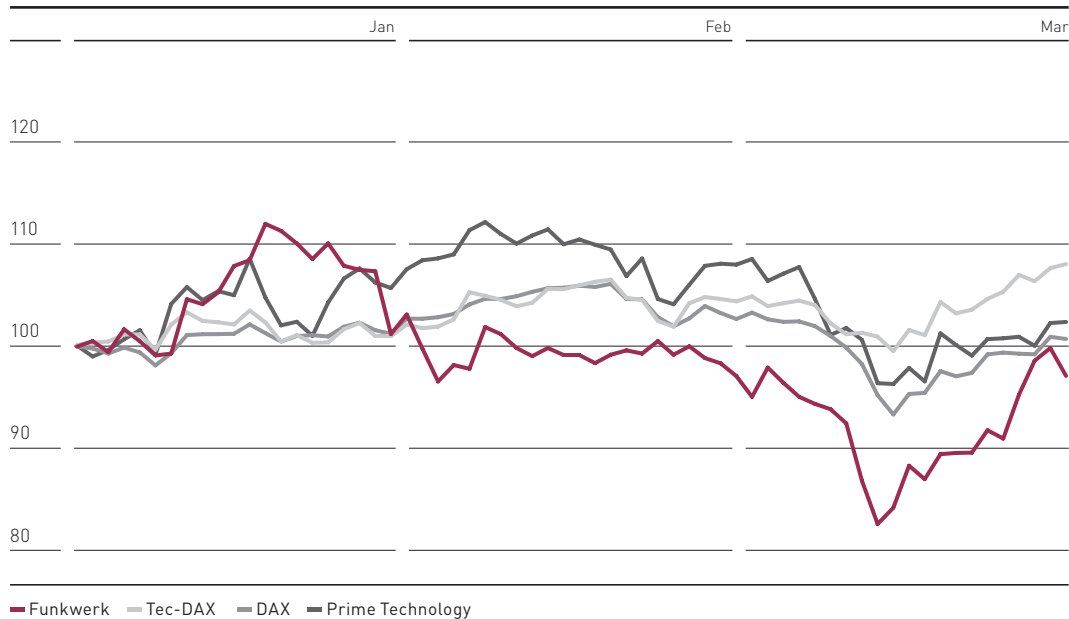
IN LINE WITH THE DAX

In the first quarter of 2011, Funkwerk's share (ISIN DE0005753149) largely followed the trend of the German stock index, DAX. After continuing strong on an upward trend that had become apparent as early as in the last quarter of 2010, Funkwerk's share marked its peak of EUR 8.20 for the period in mid-January. Following the announcement and writedown of the majority of business in Algeria, the downward spiral of the share accelerated with the result that Funkwerk tested the EUR 6 mark by mid-March. The subsequent price rally saw the share recover to EUR 7.19 and near its starting level early in the year. Germany's stock index DAX also had trouble remaining steady until the end of March, whereas the technology index TecDAX gained around 9 per cent in the first three months of 2011.

Analyst opinions are currently divided on Funkwerk's share – two buy recommendations are opposite a neutral rating. As a result, the upside targets range widely from EUR 6.30 to EUR 9.

In consequence thereof, the Investor Relations efforts of Funkwerk AG will concentrate on making the successes of reorientation measures and the resulting price potential transparent in individual investor talks and analyst presentations in the hope of bringing about a more positive rating for the share.

PERFORMANCE FUNKWERK-SHARE (INDICATED TO 100)



BASIC SHARE INFORMATION

- Segment: Prime Standard, Frankfurt Stock Exchange
- Class: No-par bearer share at a nominal value of EUR 1
- WKN/ISIN DE: 575 314/DE 0005753149 (code: FEW)
- Reuters: FEWG.DE
- Bloomberg: FEW GR
- Designated Sponsors: Close Brothers Seydler Bank AG
- Capital stock: 8.102.241 Euro
- Market capitalisation: EUR 57,1m (end of March 2011)

CONSOLIDATED FINANCIAL STATEMENT

Consolidated Statement of Financial position acc. to IFRS AT 31, MARCH 2011

ASSETS	31/03/2011	31/12/2010
	EUR K	EUR K
A. Long-Term Assets		
1. Intangible assets	36,820	35,658
thereof goodwill	9,161	9,161
thereof development costs	24,925	23,184
2. Tangible assets	13,825	14,224
3. Other assets	43	43
	50,688	49,925
B. Short-Term Asset		
1. Inventories	48,469	43,560
2. Trade accounts receivable	21,753	27,629
3. Receivables from projects in progress	12,732	8,017
4. Due from affiliated companies	73	206
5. Tax refund claims	1,132	1,304
6. Other assets	4,119	3,026
7. Financial assets	3,984	3,969
8. Liquid assets	2,277	12,056
	94,539	99,767
	145,227	149,692

LIABILITIES	31/03/2011	31/12/2010
	EUR K	EUR K
A. Equity Capital		
1. Subscribed capital	8,101	8,101
2. Capital reserve	63,451	63,422
3. Retained earnings	38,211	38,211
4. Own shares	-1,062	-1,062
5. Net loss	-47,830	-43,976
6. Foreign currency items	-262	-237
	60,609	64,459
B. Long-Term Liabilities		
1. Pension obligations	12,421	12,525
2. Deferred investment subsidies	947	874
3. Deferred taxes	1,373	1,071
4. Financial liabilities	9	12
	14,750	14,482
C. Short-Term Liabilities		
1. Financial liabilities	3,999	422
2. Trade accounts payable	25,984	29,368
3. Advance payments received on orders	10,593	8,735
4. Due to affiliated companies	20	56
5. Tax liabilities	3,903	3,867
6. Accrued liabilities	13,495	14,323
7. Deferred investment subsidies	126	138
8. Other liabilities	11,748	13,842
	69,868	70,751
	145,227	149,692

Statement of Comprehensive Income acc. to IFRS 01/01/2011 TO 31/03/2011

	Q1 2011 01/01/2011 TO 31/03/2011 EUR K	Q1 2010 01/01/2010 TO 31/03/2010 EUR K
1. Sales revenues	43,888	47,440
2. Increase in finished goods inventories and work in progress	1,933	2,491
3. Other own work capitalised	2,209	2,136
4. Other operating income	810	1,307
5. Total operating performance	48,840	53,374
6. Cost of materials	22,287	24,819
7. Personnel expenses	20,406	20,763
8. Planned depreciation	2,146	2,251
9. Other operating expenses	6,870	7,987
10. Operating result before impairment charges and restructuring costs	-2,869	-2,446
11. Restructuring costs	0	441
12. Operating result (EBIT)	-2,869	-2,887
13. Earnings from financial assets reported using the equity method	0	-200
14. Financial income	4	88
15. Financial expenses	274	158
16. Financial results	-270	-270
17. Earnings before taxes	-3,139	-3,157
18. Taxes on income	-715	218
19. Earnings after taxes / result for the period	-3,854	-2,939
Amounts directly included in equity		
20. Currency differences	-25	-30
21. Other period results	-25	-30
22. Total	-3,879	-2,969
The result for the quarter comprises		
Funkwerk AG shareholders	-3,854	-2,930
Minority interests	0	-9
The amounts directly included in equity comprise		
Funkwerk AG shareholders	-21	-30
Minority interests	0	0
Earnings per share acc. to IAS 33		
Earnings per share (undiluted) in EUR	-0.48	-0.36
Earnings per share (diluted) in EUR	-0.48	-0.36

Consolidated Statement of Cash Flows acc. to IFRS 01/01/2011 TO 31/03/2011

	Q1 2011 01/01/2011 TO 31/03/2011 EUR K	Q1 2010 01/01/2010 TO 31/03/2010 EUR K
1. Annual result	-3,854	-2,939
2. Income tax revenues/expenditure	715	-218
3. Depreciation of development costs	820	632
4. Depreciation of tangible assets and intangible assets	1,326	1,619
5. Earnings from financial assets reported using the equity method	0	200
6. Other non-cash expenditure and income	9	33
7. Reversal of investment subsidies	-34	-50
8. Changes in reserves	-1,043	-260
9. Profit/loss from disposal of fixed assets	-2	-88
10. Changes in inventories, receivables and other assets	-4,360	-6,382
11. Changes in advance payments received on orders	1,858	473
12. Changes in other debts	-5,780	402
13. Interest income	-4	-88
14. Interest expenditure	178	158
15. Interest paid	-70	-48
16. Interest received	6	0
17. Paid income tax	-208	474
18. Cash flow from operating activities	-10,443	-6,082
19. Receipts from the disposal of fixed assets	2	8
20. Payments for investments and development costs	-2,209	-2,136
21. Payments for investments in intangible assets without goodwill and development costs	-172	-62
22. Payments for investments in fixed assets	-531	-377
23. Payments for the acquisition of consolidated companies less acquired cash and cash equivalents	0	25
24. Payments for deconsolidation	0	-1,131
25. Cash flow from investing activities	-2,910	-3,673
26. Free cash flow	-13,353	-9,755
27. Receipts from take-up of (financial) credit	3,574	0
28. Payments for the redemption of loans and (financial) credit	0	-2,254
29. Cash flow from financing activities	3,574	-2,254
30. Net change in cash and cash equivalents	-9,779	-12,009
31. Cash and cash equivalents at beginning of period	12,056	22,141
32. Cash and cash equivalents at end of period	2,277	10,132

Consolidated Statement of Changes in Equity acc. to IFRS

	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVE	OWN SHARES	NET LOSS	FOREIGN CURRENCY ITEMS	EQUITY OF FUNKWERK AG SHARE- HOLDERS	MINORITY INTERESTS	TOTAL
	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K	EUR K
December 31, 2009	8,101	63,270	38,211	-1,062	-19,096	-323	89,101	14	89,115
Group profit for the period	0	0	0	0	-2,931	0	-2,931	-8	-2,939
Foreign currency items	0	0	0	0	0	-30	-30	0	-30
Total	0	0	0	0	-2,931	-30	-2,961	-8	-2,969
Share options (IFRS 2)	0	34	0	0	0	0	34	0	34
Transactions with owners	0	34	0	0	0	0	34	0	34
March 31, 2010	8,101	63,304	38,211	-1,062	-22,027	-353	86,174	6	86,180
December 31, 2010	8,101	63,422	38,211	-1,062	-43,976	-237	64,459	0	64,459
Group profit for the period	0	0	0	0	-3,854	0	-3,854	0	-3,854
Foreign currency items	0	0	0	0	0	-25	-25	0	-25
Total	0	0	0	0	-3,854	-25	-3,879	0	-3,879
Share options (IFRS 2)	0	29	0	0	0	0	29	0	29
Transactions with owners	0	29	0	0	0	0	29	0	29
March 31, 2011	8,101	63,451	38,211	-1,062	-47,830	-262	60,609	0	60,609

Segment reporting 01/01/2011 TO 31/03/2011

	YEAR	TCC EUR K	AC EUR K	EC EUR K	SC EUR K	GROUP EUR K
Total sales revenues	2011	19,807	6,678	6,269	13,318	46,072
	2010	22,530	7,216	7,058	12,669	49,473
Sales revenues with other business segments*	2011	0	16	26	2,142	2,184
	2010	15	86	40	1,892	2,033
External sales revenues	2011	19,807	6,662	6,243	11,176	43,888
	2010	22,515	7,130	7,018	10,777	47,440
Other operating income	2011	311	261	104	134	810
	2010	837	231	80	159	1,307
Segment revenues	2011	20,118	6,923	6,347	11,310	44,698
	2010	23,352	7,361	7,098	10,936	48,747
Inventory changes of finished goods and work in progress	2011	775	274	0	884	1,933
	2010	2,632	211	0	-352	2,491
Own work capitalised (development)	2011	561	460	462	726	2,209
	2010	199	875	556	506	2,136
Cost of materials	2011	8,839	4,165	2,921	6,362	22,287
	2010	12,114	4,672	3,341	4,692	24,819
Personnel expenses	2011	9,777	2,836	2,571	5,222	20,406
	2010	9,757	2,732	2,493	5,781	20,763
Planned depreciation of fixed assets	2011	471	320	178	357	1,326
	2010	671	369	211	368	1,619
Planned depreciation of development work	2011	148	123	264	285	820
	2010	58	179	26	369	632
Other operating expenses	2011	2,668	957	1,281	1,964	6,870
	2010	3,436	1,012	1,409	2,130	7,987
Operating result before restructuring costs	2011	-449	-744	-406	-1,270	-2,869
	2010	147	-517	174	-2,250	-2,446
Restructuring costs	2011	0	0	0	0	0
	2010	4	0	0	437	441
Operating result	2011	-449	-744	-406	-1,270	-2,869
	2010	143	-517	174	-2,687	-2,887

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND METHODS

The accounts were compiled in Euro in compliance with the International Accounting Standards Board (IASB) passed and published by the International Financial Reporting Standards (IFRS). The accounts are based on the accounting principles and methods applied to the consolidated financial statement for the 2010 financial year.

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

OVERVIEW OF COMPANIES OF THE CONSOLIDATED FUNKWERK GROUP

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

DIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Hörmann-Funkwerk Kölleda GmbH (HFWK)	Kölleda, Thüringen	100
ALPHA Meß-Steuer-Regeltechnik GmbH (Alpha)	Neustadt/Weinstraße, Rheinland-Pfalz	100
Funkwerk Dabendorf GmbH (FWD)	Zossen, Brandenburg	100
Funkwerk Enterprise Communications GmbH (FEC)	Nürnberg, Bayern	100
Funkwerk Information Technologies GmbH (FIT)	Kiel, Schleswig-Holstein	100
Funkwerk Security Communications GmbH (FSC)	Salzgitter, Niedersachsen	100
INDIRECT SUBSIDIARIES	REGISTERED OFFICE	VOTING RIGHTS IN %
Funkwerk eurotelematik GmbH	Ulm, Baden-Württemberg	100
Funkwerk Avionics GmbH	Waal, Bayern	100
Funkwerk Enterprise Communications Iberia S.L.	Madrid, Spanien	100
Funkwerk Enterprise Communications France S.A.S.	Gradignan Cedex, Frankreich	100
Funkwerk Enterprise Communications Italy S.R.L.	Mailand, Italien	100
Funkwerk Aphona Communications GmbH	Wien, Österreich	100
Funkwerk IP-Appliances GmbH	Nürnberg, Bayern	100
FunkTech GmbH	Nürnberg, Bayern	100
Funkwerk Information Technologies Karlsfeld GmbH	Karlsfeld, Bayern	100
Funkwerk Information Technologies York Limited	York, Großbritannien	100
Funkwerk Information Technologies Malmö AB	Malmö, Schweden	100
Funkwerk IT Polska Sp. z o.o.	Warschau, Polen	100
Microsyst Systemelectronic GmbH	Weiden, Bayern	100
Funkwerk Systems Austria GmbH	Wien, Österreich	100
Funkwerk Akademie GmbH	Beichlingen, Thüringen	100
Funkwerk plettac electronic GmbH	Fürth, Bayern	100
Funkwerk Electronic Services GmbH	Salzgitter, Niedersachsen	100
Funkwerk Engineering GmbH	Kiel, Schleswig-Holstein	100

SEASONAL AND ECONOMIC INFLUENCES

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

KEY EVENTS

No events of special significance other than already described in the management report have occurred after the cutoff date on 31 March 2011.

STATEMENT OF THE EXECUTIVE BOARD

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

The Executive Board of Funkwerk AG
Kölleda, May 2011

CORPORATE CALENDAR FOR 2011

April 8, 2011	Publication of the 2010 annual report
May 13, 2011	Disclosure of quarterly report
May 19, 2011	Shareholder´s meeting
August 12, 2011	Disclosure of half-yearly report
September 2011	Analyst-conference
November 11, 2011	Disclosure of nine-monthly report

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