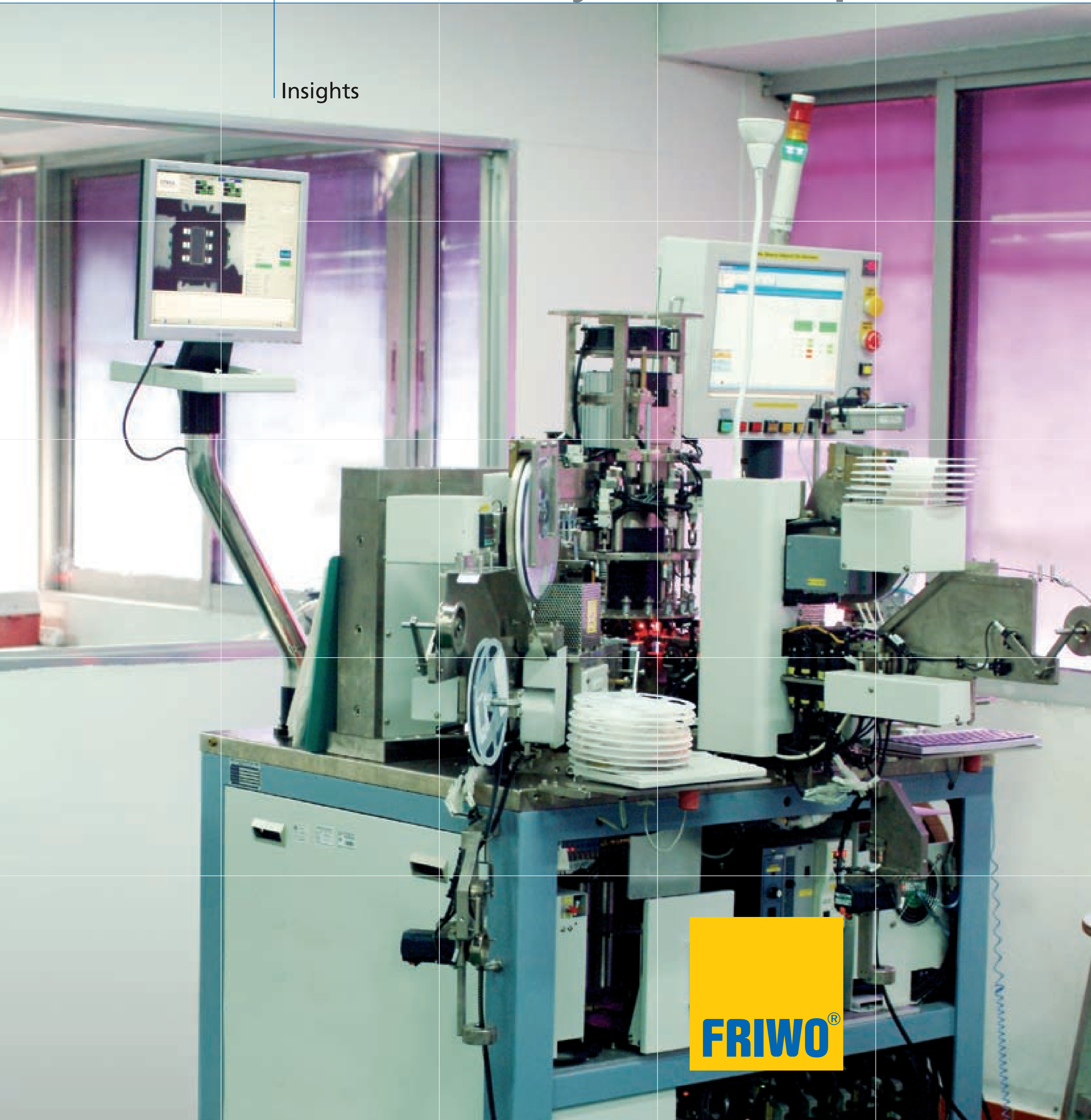
CEAG AG

Half-Yearly Financial Report 2007

Insights



FRIWO®

At a Glance

Highlights in the First Half of 2007

- Divergent performance within the CEAG Group in the first six months
- FPS business unit continues on its encouraging growth path
- FMP business unit lags behind prior year due to various factors
- EBIT at EUR 4.7 million for the six months
- Expectations for fiscal year 2007 as a whole revised in line with changed market environment

Key Figures for the CEAG Group

(The group curreny is EUR)

In millions of EUR		1–6/2007	1–6/2006	Change in %
Unit sales	In millions of units			
CEAG		148.5	131.0	+13.4
FMP		133.6	118.2	+13.0
FPS		15.0	12.8	+17.3
Revenues (with third parties)				
CEAG		164.1	154.5	+6.2
FMP		120.5	117.8	+2.3
FPS		43.5	36.7	+18.7
EBIT				
CEAG		4.7	7.7	-39.6
EBIT margin	%	2.8	5.0	-
FMP EBIT		2.9	7.8	-63.2
FPS EBIT		2.9	1.6	+80.7
Holding company EBIT		-1.1	-1.7	+32.6
Consolidated net profit		3.6	6.4	-43.6
Earnings per share	EUR	0.47	0.83	-43.6
Capital expenditure		1.6	6.0	-73.6
Employees (as of June 30)		18,154	21,512	-15.6
Germany		273	261	+4.6
Abroad		17,881	21,251	-15.9

CONTENTS

Dates and Adresses

Financial Calendar

Fiscal Year January 1–December 31

Annual shareholders' meeting April 17, 2008

Adresses

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The half-yearly financial report is also available in German.

Interim Group Management Report for the First Half of 2007

Overall Economic Conditions

The upward trend of the global economy continued in the second quarter of 2007, despite the slowdown in the United States. The global economy remains robust thanks to ongoing growth, especially in Asia's emerging markets.

Confidence in the economy has grown in Europe. In its quarterly report presented at the beginning of July 2007, the EU Commission still forecasts 2.6% growth in gross domestic product (GDP) for the euro area in 2007. Growing consumption by private households and an improved situation on the labor market make for favorable conditions.

Some economic research institutes have revised upwards their forecasts for Germany's economy. The Institute for the World Economy at the University of Kiel leads the way, adjusting its previous forecast of 2.8% to 3.2% GDP growth for 2007. Driving this development is domestic demand, especially for capital goods.

Conditions in the Industry

The global market for mobile telephones is of key importance to the CEAG Group. This industry continued to expand. According to calculations recently published by the Gartner Dataquest market research institute for the first quarter of 2007, a total of 257.4 million telephones were sold, an increase of 14% against the same prior-year period (224.8 million units).

Growth was driven first and foremost by the Asia-Pacific region, including Japan. Saturated markets such as western Europe and North America saw moderate growth. Performance varied widely among the individual manufacturers. While Nokia, the number one on the world market, won significant market shares, second-ranking Motorola lost substantial ground.

Based on Gartner Dataquest's forecasts, CEAG expects an increase in global mobile telephone production of around 11% to a good 1.1 billion units for 2007 as a whole (2006: 991 million units).

The various markets that the FRIWO Power Solutions business unit supplies, such as the IT and communications industry, household appliances and power tools as well as industrial applications and medical technology, all have the potential to perform well.

Overall Assessment of the First Half of 2007

The performance of the CEAG Group varied in the first six months of 2007. While the FRIWO Power Solutions (FPS) business unit continued to record pleasing growth, the FRIWO Mobile Power (FMP) business unit lagged behind the prior year due to numerous effects.

Unit Sales

The CEAG Group sold a total of 148.5 million power supplies and chargers in the first six months, up 13.4% year on year (131.0 million units). At 69.5 million, unit sales in the second quarter were on a par with the prior year (69.1 million units) and below the figure for the first quarter of 2007 (79.0 million units).

The FMP business unit, which caters to the high-volume mobile telephone market, generated unit sales of 133.6 million in the first six months, up 13% on the comparable period in 2006 (118.2 million units). The volume sold in the second quarter reached the prior-year level (62.1 million).

The slowdown in growth over the first half of the year was expected and – as explained in the interim statement for the first quarter – is mainly attributable to the phasing out of the production of linear devices in favor of more technically advanced switch mode products. While CEAG was the sole supplier to its biggest buyer of linear devices, customers generally have more than one supplier of switch mode products. In addition, flagging demand from FMP's second biggest customer and delays in the launch of new products by customers reduced requirements. Another factor was the absence of business conducted in the prior year with the mobile telephone manufacturer BenQ Germany, now insolvent. On a positive note, the number of switch mode products sold by the FMP business unit in the first six months increased by some 70% year on year.

The FPS business unit remains on a steady growth course, underpinned by a well balanced customer and product portfolio. Unit sales in the first six months came to 15.0 million, up 17.3% on the prior-year period (first half of 2006: 12.8 million). In the second quarter, 7.2 million devices were sold (second quarter of 2006: 7.0 million units).

Revenues

Consolidated revenues in the first six months of 2007 came to EUR 164.1 million, up 6.2% on the same period last year (EUR 154.5 million). Growth in revenues was lower than growth in unit sales primarily as a result of the US dollar, the currency in which CEAG mostly invoices, losing ground against the euro. Net of currency effects, revenue growth in the first six months would have been around 13%. In the second quarter, consolidated revenues climbed to EUR 77.2 million (second quarter of 2006: EUR 80.6 million, down 4.2%).

At EUR 120.5 million, the revenues of the FMP business unit in the first six months were up 2.3% on the same prior-year period (EUR 117.8 million).
Net of currency effects, revenues came to EUR 128.5 million (up 9.1%).

FPS's revenues expanded rapidly, hitting EUR 43.5 million in the first six months. This represents an increase of 18.7% on the prior-year figure (EUR 36.7 million). Growth was particularly high for power supplies and chargers for household appliances and IT applications.
Net of currency effects, revenues would have come to EUR 45.9 million (up 25.2%).

Earnings

The CEAG Group's results of operations were influenced by numerous factors in the first two quarters of fiscal year 2007:

- The drop in value of the US dollar against the euro reduced the earnings of the CEAG Group to the tune of EUR 0.7 million.
- The phasing out of linear devices and some quite substantial shifts in market shares among the mobile telephone manufacturers changed the product mix.
- The increased competition and margin pressure that commenced in the second half of 2006 continued at FMP.
- The prices for key raw materials remained high.
- Wage levels in China in the first half of 2007 were well above those of the same period in the prior year.
- Higher depreciation due to the investments made in the prior year had a negative impact.
- Power shortages at the Chinese plants again caused additional costs.

Implementation of a set of measures started or continued in the FMP business unit:

- Significant increase in productivity through further improvement in processes
- Streamlining and adaptation of production structures in line with the new, altered processes
- Material-saving solutions through intelligent developments in product design
- Continuous optimization of purchasing strategy, leading to savings on materials despite higher prices for raw materials

All these measures, which are being continuously and consistently implemented, failed to fully cushion the impact of the above factors. As a result, gross profit in the first half of the year dropped from EUR 18.1 million to EUR 14.6 million.

Consolidated EBIT came to EUR 4.7 million compared with EUR 7.7 million in the first half of the prior year. The second quarter accounted for EUR 2.2 million of this amount (second quarter of 2006: EUR 4.2 million). This translates into an EBIT margin of 2.8%, which is on a par with the first quarter of 2007.

The CEAG Group reports a consolidated net profit of EUR 3.6 million for the first two quarters of 2007 compared with EUR 6.4 million in the first half of 2006. Earnings per share come to EUR 0.47 (prior-year period: EUR 0.83).

The FMP business unit generated EBIT of EUR 2.9 million in the first six months (first half of 2006: EUR 7.8 million). The performance of FPS, in contrast, was much better and more profitable than in the prior year. EBIT for the six months amounted to EUR 2.9 million after EUR 1.6 million in the same prior-year period.

This clearly demonstrates the success of product and customer portfolio optimization. Enhanced, efficient business processes also boosted earnings. The holding company's EBIT improved to -EUR 1.1 million (first half of 2006: -EURO 1.7 million).

Financial Position and Net Assets as of June 30, 2007

The financial situation and cash flows of the CEAG Group improved notably. Cash flow from operating activities for the first half of 2007 amounted to EUR 7.7 million compared with -EUR 5.6 million in the same prior-year period.

Net cash flow climbed to EUR 6.3 million after -EUR 11.6 million in the first half of 2006. This is partly due to an improvement in the working capital items. The introduction of non-recourse factoring in Germany (whereby the factoring company assumes the default risk of the receivable sold) had a positive off-balance sheet effect of EUR 2.9 million. Investments were cut back significantly compared with the prior year, which had a positive impact on liquidity.

Total assets amounted to EUR 120.9 million on June 30, 2007 (December 31, 2006: EUR 131.4 million). EUR 13.4 million of the reduction in total assets is mostly attributable to the reduction in inventories. On the liabilities side, trade payables decreased, contrasting with a note loan raised.

The equity ratio improved from 28.5% as of December 31, 2006 to 33.2% at the end of the first half of 2007 (up 4.7 percentage points).

Capital Expenditure

Given current business developments and the extensive investment in new technology in the prior fiscal year, capital expenditure in the first six months of 2007 was very moderate at EUR 1.6 million (prior-year period: EUR 6.0 million).

Employees

Numbering 18,154 employees, the headcount of the CEAG Group as of June 30, 2007 was 3,358 lower (down 15.6%) than the figure at the same date in the prior year (21,512). This is partly due to slightly lower capacity utilization as well as significant improvements in the productivity of the Chinese plants. Overall, the number of workers employed abroad dropped 15.9% from 21,251 to 17,881 year on year. In contrast, the number of employees in Germany, i.e. at the headquarters in Ostbevern, increased from 261 to 273 (up 4.6%).

Opportunities and Risks

The management report for fiscal year 2006 contains a detailed discussion of business risks and the risk management system. The opportunities and risks for CEAG AG have not changed significantly in fiscal year 2007 to date compared with those reported as of December 31, 2006.

The following aspects in fiscal year 2007 to date must be mentioned:

The residual risk of EUR 0.4 million from the insolvency of our customer BenQ Germany stated in the annual report for 2006 no longer exists.

The trend in raw material prices and the current strength of the euro will continue to influence CEAG's earnings in the second half of 2007.

In the first half of 2007, competition and margin pressure continued to mount on the supplier market for mobile telephones, both from old and new competitors. This had a negative impact on the revenues and earnings of FMP. Likewise, the varying performance of individual customers on the mobile telephone market had adverse effects for FMP. The way in which these growth patterns develop within the mobile telephone market and the performance of our customers will be key to success in the remainder of the fiscal year.

Significant Events After the Balance Sheet Date

There were no significant events between the end of the reporting period and the preparation of this interim management report.

Forecast/Outlook for 2007

Overall economic conditions and the outlook for the mobile telephone industry in 2007 are positive.

However, as the conversion from linear to switch mode devices continues, CEAG's share of the global market for mobile telephone chargers is set to decrease as we do not expect that increased demand for switch mode devices will be able to fully compensate for the loss of linear business. Also, it seems that the flagging demand from FMP's second biggest customer will continue for longer than originally expected. In general, how the market continues to be carved up among mobile telephone manufacturers will have a significant impact on the CEAG Group. No relief is expected on the cost side in the short term, especially not with regard to raw material prices.

At present, the Management Board therefore expects consolidated revenues and consolidated earnings for 2007 to remain below the figures of the successful prior year. For the year as a whole, the positive performance of FPS will only partly be able to offset the performance of FMP. Overall, the Management Board does not expect to catch up on the year-on-year shortfall in first-half earnings during the remainder of the year. These forecasts have been made on the assumption that no unforeseeable events with a significant effect on the CEAG Group occur.

Ostbevern, Germany, July 2007
The Management Board

Management Compliance Statement

"We confirm to the best of our knowledge that, in accordance with the principles of proper interim group reporting applied, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, the interim group management report presents business performance including business results and the situation of the Group so as to give a true and fair view, and that the significant opportunities and risks relating to the Group's development in the remainder of the fiscal year have been described."

Rolf Endress
Chairman of the Management Board

Frank Gumbinger
Member of the Management Board

Income Statement of the CEAG Group

From January 1 to June 30

In thousands of EUR	1–6/2007	1–6/2006
Revenues	**164,067**	**154,503**
Cost of sales	-149,475	-136,414
Gross profit	**14,592**	**18,089**
Research costs	-187	-265
Selling expenses	-3,841	-3,999
General and administrative expenses	-6,232	-6,477
Other operating expenses	-1,717	-1,796
Other operating income	2,031	2,156
Income from investments	17	17
Earnings before interest and taxes (EBIT)	**4,663**	**7,725**
Interest income	120	43
Interest expense	-635	-591
Earnings before income taxes (EBT)	**4,148**	**7,177**
Income taxes	-531	-764
Consolidated net profit	**3,617**	**6,413**
Earnings per share (basic and diluted) (in EUR)	0.47	0.83

Cash Flow Statement of the CEAG Group

From January 1 to June 30

In thousands of EUR	1–6/2007	1–6/2006
Consolidated net profit	3,617	6,413
Amortization and depreciation on non-current assets	4,360	3,861
Change in provisions	149	60
Gain/loss on the disposal of non-current assets	11	-9
Change in deferred taxes	-79	468
Change in inventories	13,407	-9,682
Change in trade receivables and other assets that cannot be allocated to investing or financing activities	2,345	-1,732
Change in trade payables and other liabilities that cannot be allocated to investing or financing activities	-15,965	-4,517
Other non-cash effects	-134	-465
Cash flow from operating activities	**7,711**	**-5,603**
Cash received from disposals of property, plant and equipment/intangible assets	158	9
Cash paid for investments in intangible assets	-74	-189
Cash paid for investments in property, plant and equipment	-1,512	-5,822
Cash flow from investing activities	**-1,428**	**-6,002**
Cash paid to repay financial liabilities to affiliated companies	0	-188
Cash received from/cash paid to repay non-current liabilities to banks (net)	8,812	-121
Cash received from/cash paid to repay current liabilities to banks (net)	-5,222	7,766
Cash flow from financing activities	**3,590**	**7,457**
Effect of exchange rates on cash and cash equivalents	-7	-122
Net change in cash and cash equivalents	**9,866**	**-4,270**
Cash and cash equivalents at beginning of fiscal year	2,522	7,496
Cash and cash equivalents at end of half year	**12,388**	**3,226**

Balance Sheet of the CEAG Group

as of June 30, 2007

Assets

In thousands of EUR	June 30, 2007	Dec. 31, 2006
Non-current assets		
Intangible assets	1,132	1,222
Property, plant and equipment	25,572	28,710
Financial assets	5	5
	26,709	**29,937**
Deferred taxes	945	1,731
	27,654	**31,668**
Current assets		
Inventories	43,364	56,771
Trade receivables	33,653	36,611
Other assets	3,734	3,649
Prepaid expenses	99	215
Cash and cash equivalents	12,388	2,522
	93,238	**99,768**
Total assets	**120,892**	**131,436**

Equity and liabilities

In thousands of EUR	June 30, 2007	Dec. 31, 2006
Equity		
Subscribed capital	20,020	20,020
Capital reserve	2,002	2,002
Revenue reserves	22,964	11,594
Other reserves	-8,501	-7,530
Consolidated net profit	3,617	11,370
	40,102	**37,456**
Non-current liabilities		
Non-current liabilities to banks	11,100	2,288
Provisions for pensions and similar obligations	2,516	2,499
Other non-current provisions	1,150	1,114
Deferred taxes	722	1,693
	15,488	**7,594**
Current liabilities		
Provisions for income taxes	739	693
Other current provisions	2,206	2,157
Current financial liabilities	835	6,057
Trade payables	49,825	63,497
Income tax liabilities	327	128
Other liabilities	11,370	13,854
	65,302	**86,386**
	80,790	**93,980**
Total equity and liabilities	**120,892**	**131,436**

Statement of Recognized Income and Expense

In thousands of EUR	1–6/2007	1–6/2006
Changes in the fair value of financial instruments used for hedging purposes recognized in equity	-652	2,440
Adjustment item for the currency translation of foreign subsidiaries	-425	-1,896
Deferred taxes on changes in value recognized directly in equity	106	-349
Changes in value recognized directly in equity	**-971**	**195**
Consolidated net profit	**3,617**	**6,413**
Total income/expense for the period	**2,646**	**6,608**

Statement of Changes in Equity of the CEAG Group

	Subscribed capital	Capital reserve	Revenue reserves	Other reserves	Consolidated net profit	Consolidated equity
As of Dec. 31, 2005	**20,020**	**15,440**	**-6,077**	**-2,784**	**4,233**	**30,832**
Total income/expense recognized directly in equity				195		**195**
Consolidated net profit					6,413	**6,413**
Total income/expense for the period				**195**	**6,413**	**6,608**
Allocation to revenue reserves			4,233		-4,233	**0**
As of June 30, 2006	**20,020**	**15,440**	**-1,844**	**-2,589**	**6,413**	**37,440**
As of Dec. 31, 2006	**20,020**	**2,002**	**11,594**	**-7,530**	**11,370**	**37,456**
Total income/expense recognized directly in equity				-971		**-971**
Consolidated net profit					3,617	**3,617**
Total income/expense for the period				**-971**	**3,617**	**2,646**
Allocation to revenue reserves			11,370		-11,370	**0**
As of June 30, 2007	**20,020**	**2,002**	**22,964**	**-8,501**	**3,617**	**40,102**

Segment Report

Segment Report for the CEAG Group

In thousands of EUR (by business unit)	FMP	FPS	Holding company	Consolidation	Group
1–6/2007					
Revenues	141,916	43,702	0	-21,551	164,067
Segment result (EBIT)	2,869	2,929	-1,135	0	4,663

1–6/2006	FMP	FPS	Holding company	Consolidation	Group
Revenues	136,049	36,779	0	-18,325	154,503
Segment result (EBIT)	7,788	1,621	-1,684	0	7,725

Notes to the Consolidated Financial Statements for the First Half of 2007

Financial Reporting in Accordance With International Financial Reporting Standards (IFRSs) and Accounting Policies

In the interim consolidated financial statements as of June 30, 2007, prepared on the basis of International Accounting Standard (IAS) 34 "Interim Financial Reporting", the same accounting policies were applied as for the consolidated financial statements for fiscal year 2006, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the related interpretations.

Consolidated Group

The consolidated group has not changed since CEAG AG's annual report for 2006.

Related Party Transactions

No significant transactions were entered into with related parties.

Financial Instruments

Non-Recourse Factoring

A non-recourse factoring agreement was concluded by a subsidiary in Germany in the first half of 2007. This had a positive effect of EUR 2.9 million on cash flow and capital tied up. The factoring facility is limited to EUR 10 million.

The other borrowing facilities have remained substantially unchanged in their respective local currency compared with December 31, 2006.

Note Loan

A note loan with two tranches in euros and US dollars was raised for mid-term financing. The aggregate amount comes to the equivalent of EUR 8.7 million.

Review

These interim consolidated financial statements were neither audited pursuant to Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] nor reviewed by an auditor.