CEAG AG

ANNUAL REPORT 2006

CEAG AG

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Insights

Mission

Design, manufacture and sell innovative and competitve power solutions to customers worldwide.

Company Profile

CEAG AG, General Standard listed, has its registered office in Bad Homburg, Germany, and its headquarters in Ostbevern, Westphalia, Germany. The CEAG AG is the holding company of the two FRIWO business units.

The **FRIWO Mobile Power (FMP)** business unit operates in the mobile communication market and is the world's leading manufacturer of chargers for mobile telephones. It held a market share of some 28% in 2006.

The **FRIWO Power Solutions (FPS)** business unit manufactures custom-made power supplies and chargers for the four segments of IT and communications, power tools, industrial applications and medical technology.

CEAG AG/FRIWO Group is present in all major world markets, with state-of-the-art development centers, production and sales in Europe, Asia and North and South America. Consolidated revenues amounted to EUR 351.7 million in 2006. CEAG AG's principal shareholder is DELTON AG, holding almost 77% of its capital.

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Rolf Endress (Chairman of the Management Board) and Frank Gumbinger (Member of the Management Board)

Foreword

Dear Friends and Shareholders of CEAG,

Our Company continued to perform well in fiscal year 2006. The CEAG Group accelerated the pace of its growth, outperforming the market and further extending its lead as the world's biggest manufacturer of power supplies and chargers for the mobile telephone market. More importantly, we generated a significant year-on-year improvement in our results of operations. In other words, we have every reason to be satisfied with what we have achieved.

The figures are as follows: CEAG produced a total of 310.4 million power supplies and chargers in 2006, up some 48% on the prior year. Consolidated revenues rose by 53% to EUR 351.7 million. This unusually high growth was driven by the continued boom of the global mobile telephone market as well as the substantial increase in business with existing customers and the acquisition of new customers and new projects.

Recording a growth rate of around 21%, the mobile telephone market performed better than leading market experts had predicted at the beginning of the year under review. CEAG well outperformed this strong market growth, which allowed the FRIWO Mobile Power (FMP) business unit to extend its share of the global mobile telephone market from 23% to around 28%. This means that we succeeded in winning a much bigger chunk of the mobile telephone market in 2006.

The FRIWO Power Solutions (FPS) business unit, which serves various markets such as IT and communications, household appliances and power tools as well as industrial applications and medical technology, generated a significant profit for the first time in 2006. Focusing strongly on the four selected product segments and winning new customers and new products produced a 25% increase in revenues and an EUR 3.5 million rise in EBIT. Our strategy of reducing complexity and generating economies of scale at FPS by concentrating on major customers and implementing the platform strategy has proven to be successful. FPS has become one of the pillars of the CEAG Group.

A number of successful factors contributed to CEAG's above-average growth. First of all, the realignment of the Group at the beginning of the decade, which saw the establishment of two independently operating business units and the concentration of all high-volume production in China, was the right strategic choice. We now have efficient, effective and sufficiently flexible production structures, allowing us to respond to the strong growth we recorded in 2006 while maintaining the highest standards of quality and ensuring unconditional timeliness of delivery to our customers.

We invested in people and plant in China in time to reap maximum benefit from the dynamic growth of the industry. And in making these investments, we relied not only on the market forecasts available but also on our many years of experience with cyclical trends in the mobile telephone industry.

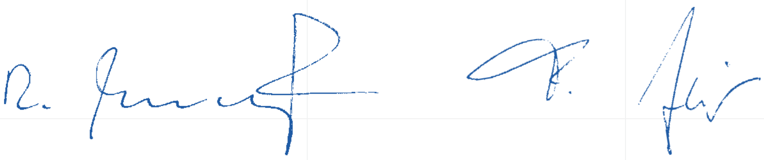
However, products which are both innovative and of the highest quality remain the foundation of our business success. In 2006, we almost doubled the share of total unit sales contributed by power supplies incorporating state-of-the-art switch mode technology; this trend is essential for our continued market success. We also won new, reputable customers among mobile telephone manufacturers in the past two years, allowing us to optimize our customer base.

Most importantly, the strong growth in volume in the past year translated into a significant improvement in the results of operations. We more than doubled the Group's EBIT to EUR 13.4 million. The EBIT margin climbed further, reaching 3.8% in the year under review (2005: 2.5%). We are pleased with this progress on earnings given the fact that we again had to absorb some considerable increases in costs in the fiscal year, such as for important raw materials or energy supplies to our Chinese plants. This progress is not just the result of strong volume growth, but also of continued cost control and cost-cutting initiatives, continuous improvements in efficiency and strict working capital management. However, the insolvency of BenQ Germany had a negative impact. We already made provision for this in the third quarter by writing off receivables, but the performance of BenQ worldwide has now prompted us to take further steps such as recognizing inventory allowances. In total, write-downs on BenQ receivables and inventories come to EUR 1.9 million.

Despite the positive earnings trend, the Management Board and Supervisory Board propose that no dividends be distributed for fiscal year 2006. No positive net cash flow was generated in the fiscal year due to the strong revenue growth and the greater level of capital tied up as a result as well as substantial investing activity. But rest assured that we will do our utmost to return to a position in which we can pay dividends.

2006 was an unusual year for the Company in terms of growth. The outlook is also positive: the global market for mobile telephones will continue to grow, although we must expect lower growth rates given that annual sales of mobile telephones have reached the one billion mark. The CEAG Group has demonstrated that it is capable of responding to changes in market conditions. In the past years, we grew much stronger and more efficient, and our good performance in 2006 offers a sound basis for the new fiscal year. We are counting on your continued support as a shareholder along the way.

Ostbevern, Germany, February 12, 2007



Rolf Endress
Chairman of the Management Board

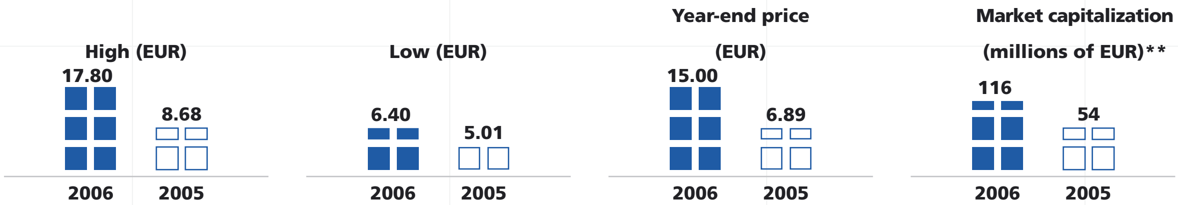
Frank Gumbinger
Member of the Management Board

CEAG Stock

Positive Trend on the Stock Markets Continues in 2006

The international stock markets continued to climb in 2006. Strong growth was seen on the exchanges in Europe and the United States in particular. Global factors driving this positive trend included the robust world economy, rising corporate profits and the less tense situation on the oil market. In Germany, the rise in corporate investment and the first positive effects of private consumption due to a slight recovery of the labor market had a positive impact on the stock markets.
Most of the relevant indices saw double-digit growth: the German DAX stock index closed the fiscal year at 6,597 points, recording a year-on-year rise of 22.0% compared with the 27.1% recorded in 2005. The CDax, comprising all German companies in the Prime Standard and General Standard, i.e. both traditional industry and technology stocks, saw even higher growth rates (up 24.1%). The MDax (up 28.6%) and the SDax (up 31.0%) also performed very well.

Performance data for the CEAG-stock*



* All information based on Xetra closing prices

** Calculated on the basis of the relevant year-end prices

Substantial Rise for CEAG Stock

The value of the CEAG stock increased considerably in 2006. Following a year-end price of EUR 6.89 in 2005, the stock dropped to an annual low of EUR 6.40 on March 3. After the announcement of the good results for fiscal year 2005, the stock rallied, well exceeding EUR 17 in May. After a slight drop in the subsequent months, the stock reached its annual high of EUR 17.80 on November 24, up 158% on the year-end price in 2005. The CEAG stock closed the fiscal year at EUR 15.00. This equals a 118% increase on the year-end price in 2005 (all information based on Xetra closing prices).

CEAG Stock Outperforms the CDax

The CEAG stock well outperformed the rising CDax in 2006. Though it underperformed the comparative index in the first two months of the year, the strong rally in March soon made good any ground that had been lost. From the second quarter onwards, the CEAG stock saw a much greater increase in value than the comparative index.

The CEAG Stock in 2006 (Xetra)

The CEAG Stock vs. Prime All Share Index

Change in Stock Market Segment

On April 11, 2006, CEAG switched from the Prime Standard segment of the Frankfurt Stock Exchange to the General Standard.
The move reflects the Company's size and allows it to exploit cost advantages.

From left: Herbert Ellefred, Dr. Albrecht Leuschner (deputy chairman), Berndt-Michael Winter (chairman), Rita Brehm, Prof. Dr. Hans-Jürgen Hellwig, Dr. Antonius Wagner

Report of the Supervisory Board

During the period under review, the Supervisory Board performed the duties incumbent upon it by law and the articles of incorporation. It regularly advised the Management Board on matters concerning the governance of the Company and monitored the Company's management. The Supervisory Board was regularly informed about business developments during its meetings through written and verbal reports provided by members of the Management Board. Major transactions were discussed and examined in detail.

At these meetings, the situation of the Company and its subsidiaries was explained in detail. Strategic business planning and significant individual transactions were also discussed. No external consultants apart from the auditors of the financial statements were required at these meetings. The chairman of the Supervisory Board and the Management Board also met to discuss major transactions and to review the current development of the Company between Supervisory Board meetings.

Major Topics

Consultations focused on the performance of both FRIWO business units, especially measures to optimize the customer portfolio, expanding capacities at the Chinese plants, production strategy and rising costs for personnel, materials and energy. Other important issues included the Group's cash flow, improving productivity, increasing profitability and analyzing the competitive situation and the resulting consequences. The agenda of the meetings also included the financing plan as well as the future strategic alignment of both business units. In relation to the FPS business unit, the risk related to a product recall in Japan in 2005 was again assessed. The insolvency of an FMP customer was analyzed for the FMP business unit.

The Supervisory Board satisfied itself that CEAG AG has complied with the recommendations of the German Corporate Governance Code pursuant to its compliance declaration of November 30, 2005. The new compliance declaration adopted at the meeting on November 29, 2006 still contains four deviations from the Code's recommendations. The Management Board and Supervisory Board issued a corporate governance report that is published in this annual report on pages 18 and 19 and includes the compliance declaration of November 29, 2006.

Supervisory Board and Committee Meetings

The Supervisory Board held eight meetings in the year under review. Five meetings and three conference calls with voting were held. The Audit Committee met once during the fiscal year and discussed the Company's financial statements and consolidated statements as of December 31, 2005 with the auditors. In addition, the Audit Committee ratified the key points for the audit of the financial statements and the consolidated financial statements as of December 31, 2006. The Financial Committee, which met three times, continued to consider strategic M&A options and the independence of both business units, as in the prior year. The Personnel Committee held three meetings overall.

People

At the annual shareholders' meeting on May 11, 2006, the members of the Supervisory Board, Prof. Dr. Hans-Jürgen Hellwig, Dr. Albrecht Leuschner, Dr. Antonius Wagner and Mr. Berndt-Michael Winter, were all individually re-elected.

Prof. Dr. Hans-Jürgen Hellwig, Dr. Antonius Wagner and Mr. Berndt-Michael Winter were elected until the close of the annual shareholders' meeting in 2011. Dr. Leuschner was elected until the close of the annual shareholders' meeting in 2008 on account of his age.

The term of office of the employee representatives on the Company's Supervisory Board also ended at the close of the annual shareholders' meeting on May 11, 2006. The employees of CEAG AG and its German subsidiaries re-elected Ms. Rita Brehm and Mr. Herbert Ellefred to the Company's Supervisory Board in a separate election. The term of office of the employee representatives ends at the close of the annual shareholders' meeting in 2011.

At its meeting on May 11, 2006, the Supervisory Board elected Mr. Berndt-Michael Winter as chairman of the Supervisory Board and Dr. Albrecht Leuschner as his deputy. In addition, the Supervisory Board elected the chairmen and members of the Personnel, Finance and Audit Committees.

Mr. Matthias Grevener resigned as a member of the Management Board of CEAG AG as of the close of the annual shareholders' meeting on May 11, 2006. Mr. Frank Gumbinger was appointed as a member of the Management Board of CEAG AG as of May 11, 2006. The Supervisory Board would like to thank Mr. Grevener for his enormous commitment and contribution to the Company and wishes him the very best for the future.

Explanations to the Disclosures Pursuant to Sec. 289 (4) and Sec. 315 (4) HGB

Sec. 289 (4) and Sec. 315 (4) HGB ["Handelsgesetzbuch": German Commercial Code] transpose Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004 on takeover bids. The obligation to make the disclosures specified in Sec. 289 (4) and Sec. 315 (4) HGB only affects companies whose voting shares are admitted to trading on a regulated market pursuant to Sec. 2 (7) WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": German Securities Acquisition and Takeover Act]. The disclosures are required regardless of whether or not a takeover bid has been made or is expected. This legislation is intended to enable potential bidders to obtain a comprehensive understanding of the potential target company and its structure as well as any takeover barriers.

The Supervisory Board reviewed the disclosures pursuant to Sec. 289 (4) and Sec. 315 (4) HGB in the management report in detail. Disclosures are made for the aspects relevant to the Company and disclosures that are not possible are specified. Details are provided on pages 36 and 37 of the annual report.

Financial Statements

The financial statements of CEAG AG presented by the Management Board and the consolidated financial statements and combined management report for CEAG AG and the Group were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Düsseldorf, Germany (hereinafter referred to as "Ernst & Young"). An unqualified opinion was expressed on each set of financial statements. The audit in accordance with Sec. 317 (4) HGB showed that the Management Board has taken adequate measures as required by Sec. 91 (2) AktG ["Aktiengesetz": German Stock Corporation Act] and that the risk monitoring system fulfills its functions.

The documents pertaining to the financial statements and the auditors' reports on the audit of the financial statements and the audit of the consolidated financial statements were made available to all members of the Supervisory Board in good time. In a joint meeting with the auditors on February 15, 2007, the Audit Committee was informed in detail about the financial statements, consolidated financial statements and the audit findings. They also received detailed information on the major aspects of the financial statements of CEAG AG as well as the consolidated financial statements. The Supervisory Board examined the financial statements, consolidated financial statements and the combined management report for CEAG AG and the Group. The audit findings did not lead to any objections. The Supervisory Board agrees with the results of the audit and approved the financial statements presented by the Management Board and the consolidated financial statements at today's meeting in the presence of the auditors. The financial statements have therefore been adopted in accordance with Sec. 172 AktG. The Supervisory Board agrees with the Management Board's management report.

In accordance with Sec. 312 AktG, the Management Board compiled a report on relationships with affiliated companies. Ernst & Young audited this report and issued the following opinion: "Based on our audit, which we performed in accordance with professional standards, and our professional judgment, we confirm that the factual disclosures in the report are correct, the Company's consideration for the transactions stated was not too high and that the measures stated in the report do not point to a substantially different assessment from that of the Management Board." The Supervisory Board, which also examined the report, agrees with the audit findings by Ernst & Young and raises no objection to the Management Board's report on the relationships with affiliated companies.

The Supervisory Board proposes to the annual shareholders' meeting for 2007 the appointment of Ernst & Young as auditors for fiscal year 2007. The latter firm has issued a declaration in accordance with No. 7.2.1 of the German Corporate Governance Code stating that no business, financial, personal or other relationships exist between Ernst & Young and CEAG AG that might question Ernst & Young's independence with regard to this engagement.

The Supervisory Board would like to thank the Management Board and all employees for their commitment and contribution in the past fiscal year.

Bad Homburg v. d. Höhe, Germany, February 22, 2007

Berndt-Michael Winter
Chairman of the
Supervisory Board

Boards

Supervisory Board

Berndt-Michael Winter
Chairman of the management board of DELTON AG
– Chairman –
Other offices:
- DELTON Vermögensverwaltungs AG, Bad Homburg (Germany) (chairman of the supervisory board)
- Delacher Logistics AG, Wolfurt (Austria) (member of the supervisory board from December 13, 2006)
- Quehenberger Logistik AG, Bergheim (Austria) (member of the supervisory board from December 13, 2006)
- Thiel Logistik AG, Grevenmacher (Luxembourg) (chairman of the management board)
- Mast-Jägermeister AG, Wolfenbüttel (Germany) (member of the supervisory board)

Dr. Albrecht Leuschner
Lawyer
– Deputy chairman –
Other offices:
- Hagen Batterie AG, Soest (Germany) (chairman of the supervisory board)
- Deutsche Exide GmbH, Büdingen (Germany) (chairman of the supervisory board)
- Jungheinrich AG, Hamburg (Germany) (member of the supervisory board)
- Langguth-Erben GmbH & Co. KG, Traben-Trarbach (Germany) (chairman of the advisory board until May 15, 2006)
- OEB Traktionsbatterien AG, Zurich (Switzerland) (member of the management board)
- Deta-Douglas Battery LLC, Winston-Salem (NC/USA) (chairman of the supervisory board)

Rita Brehm
Assembly worker
Chairperson of the works council (released from regular duties)
Other offices:
- DELTON AG, Bad Homburg (Germany) (deputy chairman of the supervisory board)

Herbert Ellefred
Project manager FRIWO FPS

Prof. Dr. Hans-Jürgen Hellwig
Lawyer and notary public
Other offices:
- Alte Oper Frankfurt GmbH, Frankfurt (Germany) (member of the supervisory board)
- Putsch GmbH & Co. KG, Kaiserslautern (Germany) (member of the advisory board)
- Isabellenhütte Heusler GmbH & Co. KG, Dillenburg (Germany) (chairman of the advisory board)

Dr. Antonius Wagner
Member of the management board of DELTON AG
Other offices:
- Microlog Logistics AG, Cologne (Germany) (deputy chairman of the supervisory board)
- Thiel Logistik AG, Grevenmacher (Luxembourg) (deputy chairman of the management board)

Supervisory Board Committees

Personnel Committee
Berndt-Michael Winter (chairman)
Rita Brehm
Dr. Albrecht Leuschner

Audit Committee
Dr. Antonius Wagner (chairman)
Rita Brehm
Dr. Albrecht Leuschner

Finance Committee
Dr. Albrecht Leuschner (chairman)
Prof. Dr. Hans-Jürgen Hellwig
Dr. Antonius Wagner

Management Board

Rolf Endress
Chairman of the Management Board (CEO)
Member of the following supervisory boards within the CEAG Group:
- FRIWO Far East Ltd., Hong Kong, China
- FRIWO CEAG Electrical (Shenzhen) Co. Ltd., China
- FRIWO Electrical (Beijing) Co. Ltd., China
- FRIWO USA, Inc., USA
- FRIWO Japan Co. Ltd., Japan
- CEAG China Ltd., Hong Kong, China

Frank Gumbinger
Member of the Management Board (CFO) (from May 11, 2006)
Member of the following supervisory boards within the CEAG Group:
- FRIWO Far East Ltd., Hong Kong, China (from May 10, 2006)
- FRIWO CEAG Electrical (Shenzhen) Co. Ltd., China (from May 10, 2006)
- FRIWO Electrical (Beijing) Co. Ltd., China (from May 10, 2006)
- CEAG China Ltd., Hong Kong, China (from May 10, 2006)

Matthias Grevener
Member of the Management Board (CFO) (until May 11, 2006)
Member of the following supervisory boards within the CEAG Group:
- FRIWO Far East Ltd., Hong Kong, China (until May 10, 2006)
- FRIWO CEAG Electrical (Shenzhen) Co. Ltd., China (until May 10, 2006)
- FRIWO Electrical (Beijing) Co. Ltd., China (until May 10, 2006)
- FRIWO USA, Inc., USA (until March 30, 2006)
- CEAG China Ltd., Hong Kong, China (until May 10, 2006)

Corporate Governance Report

The Management Board and Supervisory Board have issued the following corporate governance report:

Confidence in the business policies of CEAG AG is substantially influenced by responsible and transparent corporate governance. Good corporate governance is therefore the basis for all decision and control processes at CEAG AG.

For CEAG AG as a globally operating company with its headquarters in Germany, German law, especially the laws governing the stock exchange and capital market, the articles of incorporation and the German Corporate Governance Code implemented at the Company with very few exceptions form the basis for corporate governance. CEAG AG has also taken all the organizational measures necessary to ensure any insider information is handled in accordance with legal regulations. All relevant persons who perform work for the Company and have access to insider information in the performance of their duties have been included in an insider list and informed about their obligations under insider legislation. The complaints office required under the German General Equal Treatment Act ["Allgemeines Gleichbehandlungsgesetz"], which took effect in August 2006, was set up at CEAG. In the current fiscal year, a comprehensive "Memorandum on the General Equal Treatment Act" will inform all employees of the German group companies of CEAG AG about the subject of this Act and the resulting obligations for the conduct of employees and the Company. In addition, all employees with responsibility for personnel will receive separate training.

Compliance Declaration Pursuant to Sec. 161 AktG Dated November 29, 2006

The Management Board and Supervisory Board of CEAG AG declare the following pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act]: "The Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code (as amended on June 2, 2005) published on July 20/21, 2005 in the electronic version of the Bundesanzeiger [German Federal Gazette] since the last compliance declaration on November 30, 2005 with the following exceptions and shall continue to comply with them with the following exceptions:

1. The Company's current D&O insurance policy does not provide insurance coverage for intentional breaches of duty. Where there is insurance coverage, there is no deductible either for Management Board members or for Supervisory Board members. The Company has obtained personal undertakings from its Management Board and Supervisory Board members that they will bear the cost of any deductible even if insurance coverage is otherwise provided under a D&O insurance policy taken out by the Company. These undertakings ensure that Management Board members who cause damage to the Company or third parties through gross negligence in their management function bear the cost of all cases of damage in any one year up to a maximum of three fixed monthly salaries in the year in which the damage is caused. Supervisory Board members who cause damage to the Company or third parties through gross negligence in their supervisory function shall bear the cost of all cases of damage in any one year up to a maximum of half their annual remuneration in the year in which the damage is caused. Legal and other costs of defense are not included in calculating the damage. This does not involve any limitation of the liability of Management Board and Supervisory Board members towards the Company or third parties (No. 3.8 (2) of the Code).

2. The full Supervisory Board shall only consult on the Management Board's remuneration structure and not issue any binding instruction to the Personnel Committee (No. 4.2.2 (1) of the Code).

3. The disclosures relating to Management Board remuneration are not personalized in order to protect the members' privacy (Nos. 4.2.4 and 4.2.5 of the Code). The Company was exempted for a period of five years from the obligation to disclose Management Board remuneration under the German Act on the Disclosure of Management Board Remuneration ["Gesetz über die Offenlegung der Vorstandsvergütungen: VorstOG] dated August 3, 2005 by a resolution adopted at the shareholders' meeting in May 2006.

4. The remuneration of the Supervisory Board shall also not be personalized in the corporate governance report in order to protect the members' privacy (No. 5.4.7 (3) of the Code)."

Bad Homburg v. d. Höhe, Germany, November 29, 2006

Berndt-Michael Winter Chairman of the Supervisory Board	Rolf Endress Chairman of the Management Board	Frank Gumbinger Member of the Management Board

Management and Corporate Structure

As CEAG AG with its registered office in Bad Homburg v.d.Höhe, Germany, is subject to the German Stock Corporation Act, it has a two-tier management and supervisory structure with its Management Board and Supervisory Board. The shareholders' meeting is the Company's third executive body. All three bodies are required to act in the interests of the shareholders and the Company.

The Supervisory Board

The Supervisory Board has six members, two thirds of whom are shareholders and one third employee representatives in accordance with the German Act for One-Third Participation of Employees on Supervisory Boards ["Gesetz über die Drittelbeteiligung der Arbeitnehmer im Aufsichtsrat": DrittelbG]. The shareholders' representatives are elected by the shareholders' meeting, the representatives of the employees are elected by the employees in an election separate from the shareholders' meeting. The Supervisory Board has a five year term of office. The Supervisory Board regularly meets at least four times during the year. The Supervisory Board has adopted its own internal rules of procedure which set out the Supervisory Board's responsibilities and manner of working. The Supervisory Board monitors and advises the Management Board on the management of business. It discusses business performance, planning, strategy and its implementation at regular intervals. It approves the annual budget and the financial statements of CEAG AG and the Group, taking the auditors' reports into consideration. It is also responsible for appointing the members of the Management Board. Significant Management Board decisions require its approval.

The Supervisory Board has formed from its members a Personnel Committee, an Audit Committee and a Finance Committee, each comprising three members. These committees represent the entire Supervisory Board in performing the functions assigned to them by the internal rules of procedure or resolutions adopted by the Supervisory Board.

Members of the Supervisory Board held a total of 120 shares directly as of December 31, 2006 (prior year: 120 shares). No subscription rights for shares have been granted to the members of the Management Board and Supervisory Board.

The Management Board

The Management Board of CEAG AG, which currently has two members, is the Group's management body. It serves the Company's interests, aiming to achieve a sustained increase in its business value.

The responsibilities of the Management Board include the Company's strategic focus, planning and determining the budget, allocating resources and monitoring the management of the strategic business units. The Management Board is responsible for the preparation of the quarterly, annual and consolidated financial statements and for appointments to key positions in the Company.

The Management Board works closely with the Supervisory Board. It provides regular, timely and comprehensive information to the Supervisory Board on all issues of strategy and its implementation, planning, business performance, financial position and results of operations as well as business risks of relevance to the Company as a whole.

The Shareholders' Meeting

The shareholders' meeting, which convenes in the first eight months of the fiscal year, is the decision-making body for the shareholders of CEAG AG. Through this body, the shareholders participate in the fundamental decisions of CEAG AG. CEAG AG also allows its shareholders to exercise their rights as shareholders without having to attend the meeting personally through proxies who are bound to follow the shareholders' instructions. The chairman of the Supervisory Board chairs the shareholders' meeting. The shareholders' meeting passes resolutions on all affairs assigned to it by law with binding effect for all shareholders and the Company. These include in particular the appropriation of results, exoneration of the Management Board and Supervisory Board and the election of the auditors. All amendments to the articles of incorporation and changes in capital are adopted by the shareholders' meeting and implemented by the Management Board with the Supervisory Board's approval.

Financial Statements and Audit

The CEAG Group prepares its accounts in accordance with International Financial Reporting Standards (IFRSs). The financial statements of CEAG AG are prepared in accordance with the German Commercial Code (HGB). The Management Board is responsible for the preparation of the financial statements. The annual and consolidated financial statements are audited by independent auditors. The auditors are elected by the shareholders' meeting, and the audit engagement is issued by the Supervisory Board. The Supervisory Board's Audit Committee sets the audit priorities and fees and reviews the auditors' independence.

Risk Management

CEAG AG has a system for recording and managing business and financial risks. The elements of the risk management system are designed to identify and control entrepreneurial risks at an early stage.
The Management Board is responsible for the internal control and risk management system of the CEAG Group and also evaluates the effectiveness of this system.

Principles, policies, procedures and responsibilities are defined and established to allow correct and timely recognition of all business transactions, early identification of risks and regular provision of reliable information on the financial situation of the Company for internal and external use.

However, as the elements of the internal control and risk management system cannot avert risks altogether, the system cannot offer absolute protection against losses or fraud.

Financial Disclosure

Transparency is important to CEAG AG. The Company informs its shareholders, all capital market participants, financial analysts, shareholders' associations, the media and the interested public in regular, open and up-to-date bulletins on the Company's situation and significant changes to the business.

Remuneration Report

The remuneration report follows the recommendations of the German Corporate Governance Code dated June 12, 2006 and includes the disclosures of the management report pursuant to Sec. 289 (2) No. 5 HGB and Sec. 315 (2) No. 4 HGB as amended by the German Act on the Disclosure of Management Board Remuneration ["Gesetz über die Offenlegung der Vorstandsvergütungen: VorstOG] dated August 3, 2005. However, the annual shareholders' meeting of CEAG AG on May 11, 2006 adopted a resolution not to personalize the disclosures of remuneration pursuant to Sec. 285 (1) No. 9a Sentence 5 to 9 HGB and Sec. 314 (1) No. 6a Sentence 5 to 9 HGB for the Company's financial statements and consolidated financial statements for fiscal years 2006 to 2010.

This remuneration report is part of the management report audited by the auditors.

Management Board Remuneration

The Supervisory Board's Personnel Committee is responsible for setting Management Board remuneration.

The remuneration for members of CEAG AG's Management Board is based on the amount and structure of management board remuneration at comparable companies in Germany. It takes the special areas of responsibility of each Management Board member into account.

Remuneration comprises three components: fixed remuneration, a variable bonus and a contribution to retirement.

The fixed remuneration is paid as a monthly salary.
The bonus is dependent on the achievement of certain predefined financial and qualitative targets. The targets may be set for one or more years. The three measurement criteria are:

- Economic value added (EVA) of the CEAG Group
- Earnings before interest, taxes and amortization (EBITA) of the CEAG Group
- Qualitative strategic targets

An annual target income based on exact 100% target achievement in all three dimensions is contractually agreed upon. The proportion of variable remuneration increases as the target income increases and is a maximum of 30% to 48% of the target income for 100% target achievement in 2006. The bonus can range from 0% to 200% of the target bonus depending on quantitative results and qualitative performance. A minimum bonus for one year has been agreed upon with one member of the Management Board; otherwise, there is no minimum guaranteed bonus. Management Board remuneration is therefore heavily dependent on results.

The members of the Management Board also receive a contribution to retirement. The Management Board members either receive 6% of their annual target income as a defined contribution to retirement or an individual pension commitment at fixed amounts based on market rates. The commitment includes benefits in the event of disability as well as pensions for surviving spouses and children.

In the year under review, EUR 57 thousand was allocated to the pension provisions for active Management Board members.

Management Board members also receive ancillary benefits in the form of remuneration in kind (company car, insurance premiums, international assignment allowances and allowances for the maintenance of two households).

The Supervisory Board's Personnel Committee may also fix a special bonus and may grant stock options in accordance with legal provisions. An exercisable stock option plan does not exist at present, nor do any comparable incentives.

The employment contracts with the members of the Management Board do not offer severance payments in the event of premature termination. However, a severance payment is possible on the basis of an individual agreement on the termination of employment.

Supervisory Board Remuneration

The remuneration of the Supervisory Board is set out in Art. 18 of the articles of incorporation, which provides for remuneration in addition to the reimbursement of the expenses incurred by each member of the Supervisory Board. Remuneration consists of a fixed amount and a variable amount. The fixed amount is EUR 10,000. The variable amount is EUR 500 for each percent by which the dividend declared by the shareholders' meeting exceeds 4% of capital stock, or the equivalent amount for fractions of a percent. However, total remuneration to the members of the Supervisory Board is limited to three times the fixed amount. The fixed amount of remuneration is payable after the end of the fiscal year, the variable amount after the relevant resolution has been adopted by the shareholders' meeting.

The chairman of the Supervisory Board receives two times, the deputy one-and-a-half times the above amount. In addition, each committee member, other than the chairman of the Supervisory Board and his deputy, receives further remuneration of EUR 1,000.

The Company reimburses each Supervisory Board member for the VAT incurred on his or her remuneration.

Management Report for the CEAG Group and CEAG AG

Business and Overall Economic Conditions

Overview of the CEAG Group

CEAG AG with its subsidiaries is the world's biggest manufacturer of chargers for mobile telephones.
The Group develops, produces and sells individual power supplies and chargers for IT and communications, household appliances and power tools as well as for industrial applications and medical technology.

The CEAG Group includes the German companies FRIWO Gerätebau GmbH with its own production as well as FRIWO Mobile Power GmbH and three manufacturing companies in China. The Group also has a service company in Hong Kong and sales companies in Japan, the United States and Brazil. CEAG AG is the holding company of the FRIWO Group and directly or indirectly holds all shares in the FRIWO companies.

Given the structure of the Group, the net assets, financial position and results of operations of CEAG AG depend on the performance of the subsidiaries. The following group management report therefore also provides a full account of the situation of CEAG AG.

Operating activities are divided up between two business units, FRIWO Mobile Power (FMP) and FRIWO Power Solutions (FPS). FMP mainly operates on the high-volume market for mobile telephones. FPS, on the other hand, operates in different markets focused on the following: IT and communications, household appliances and power tools, industrial applications and medical technology.

Each business unit is equipped with a management function which oversees sales, development, production, procurement and general administration. As the holding company, CEAG AG performs functions related to group strategy and financing as well as financial control, law and public/investor relations. The FPS business unit also purchases services and products from the FMP plants in China.

Unit sales, revenues as well as EBIT and cash flow are key performance indicators for the Group. The concept of adequate return on capital based on economic value added (EVA) is also used to assess performance and involves comparing the adjusted performance indicator NOPAT (net operating profit after taxes) with capital employed.

The presentation of the segment report was extended for fiscal year 2006. For greater transparency, the holding company is shown as a separate segment for the first time. This form of presentation provides a better understanding of the business performance of the operating business units. The prior-year disclosure was adjusted accordingly.

The consolidated financial statements were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs), while the financial statements of CEAG AG were drawn up in accordance with the provisions of the German Commercial Code (HGB).

Overall Economic Conditions

The upward trend in the global economy continued in 2006, with GDP growth coming in at around 5%, reaching an even higher level than in the prior year. The fears held by some economic experts that the strong rise in oil prices in the first six months of the year could put a damper on economic growth proved unfounded given the sharp drop in prices in the second half of the year. Nonetheless, the higher prices for energy and raw materials, such as for copper, plastics and metals needed to manufacture CEAG's products, were noticeable. The price of copper reached a record high of almost USD 9,000 per metric ton in May. Since then copper prices have been subject to a degree of volatility, settling at a high level of around USD 6,300 at the end of the period under review.

The upswing in the economy was due to a large part to the dynamic growth of Asia's emerging markets which continued at a high pace in 2006. While GDP growth slowed towards the end of the year, the Asian economy was boosted by a steady rise in domestic demand and robust foreign trade. Economic growth was particularly high in China, at some 10%, with growth rates in the special economic zones well in excess of this figure. India also recorded ongoing strong growth. In Japan, the economic recovery that commenced in 2005 progressed. Latin America and eastern Europe were also centers of economic expansion.

Economic growth in the United States, on the other hand, slowed considerably from the spring of 2006, especially due to the downturn on the property market. However, the drop in oil prices in the second half of the year boosted purchasing power and investing activity remained vigorous. As a result, economic experts expect the situation in the United States will only have a moderate impact on the global economy.

The euro area grew much more strongly than in 2005, driven by greater investment in plant and equipment and, increasingly, by private consumption. In November 2006, the Federal Association of German Banks ["Bundesverband deutscher Banken e.V."] forecast GDP growth of around 2.5% for the year as a whole. Germany also saw a notable upturn in economic activity, mainly fueled by investment in plant in equipment and strong exports. Companies recorded a high level of capacity utilization as well as full order books and good earnings prospects.

Sources:
Monthly Report November 2006, European Central Bank;
"Wirtschaftstrends November 2006" [Economic Trends November 2006], WestLB AG;
"Konjunkturbericht November 2006" [Economic Report November 2006], Bundesverband deutscher Banken e.V.;
OECD Report November 2006.

Development of CEAG's Markets

The global market for mobile telephones is by far the most important industry for the FMP business unit and thus for the entire CEAG Group. Dynamic growth on the mobile telephone market, which was jump-started by a considerable upturn in global demand during the second half of 2004, continued at a high pace in 2006. Growth was comparable year on year.

The market research institute Gartner Dataquest upwardly adjusted its original forecasts for 2006 several times during the year, projecting global sales of 988 million mobile telephones in its last forecast (December 2006). This represents an increase of more than 21% on the 817 million mobile telephones sold in the prior year. On the back of this development, CEAG substantially built on its global lead in chargers for mobile telephones, increasing its market share from 23% to some 28% year on year.

One of the major factors behind the growth of the market for mobile telephones was strong demand in the Asia/Pacific region, especially India and China, as well as in the Middle East and Africa. Healthy but lower growth was registered in Latin and North America as well as eastern Europe. Growth was much less strong in the more mature markets such as those in western Europe and Japan. First-time buyers of mobile telephones continued to shape the market in the emerging economies, for instance China and Brazil. However, more sophisticated mobile telephones were also in greater demand here too. The focus of customer spending in western Europe was on upgrading to more technically advanced mobile telephones.

A small number of major mobile telephone manufacturers continued to dominate the market and extended their positions. The five biggest manufacturers reached a market share of around 81% in 2006.
The two leading manufacturers, Nokia and Motorola, extended their leads in 2006, accounting for a combined market share of some 55%. They also won a greater chunk of the Asian markets from local manufacturers and share first and second place in almost all individual markets. SonyEricsson was able to boost its market position mainly thanks to mobile telephones with music applications, while Samsung and LG lost ground in 2006.

Smaller manufacturers in particular suffered due to the intensive global competition. Sagem, but especially BenQ, lost significant market shares. This downward trend continued after BenQ Mobile GmbH & Co. OHG Deutschland GmbH filed for insolvency in September 2006.

Germany remains the most important market for the FPS business unit.
40% of revenues were generated in Germany, while the rest of Europe contributed over 30%. Our business volume in the Asian market has grown to 19% of revenues.

Source:
Gartner Dataquest December 2006

Business Performance and Assessment

Overall Economic Situation of the Group

The CEAG Group had a successful fiscal year 2006, recording buoyant growth in unit sales, revenues and earnings. Both business units, FMP and FPS, contributed to this development. CEAG was prepared for the great demand, generated especially by the market for mobile telephones, and was able to benefit from the dynamic growth of the market for chargers more than others. Overall, the Management Board considers business performance in the fiscal year to be satisfactory, despite extraordinary expenses and problematic developments emerging for the CEAG Group, especially

- the insolvency of BenQ Germany and the dramatic drop in unit sales by BenQ worldwide;
- the development of copper prices; and
- the ongoing and, in some cases, growing competitive pressure.

Production and Unit Sales

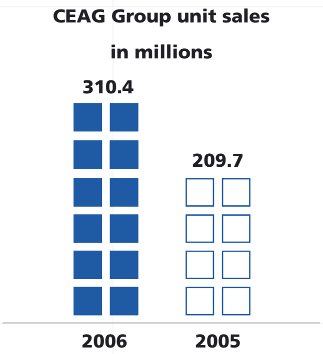
CEAG sold 310.4 million power supplies and chargers group-wide in 2006 compared to 209.7 million in the prior year. At 48.1%, growth was stronger than in 2005 (up 35.5%) and 2004 (up 11.2%). The three Chinese plants in Shenzhen (Shajing and Xixiang) and in Beijing were operating at high capacity and again had to be expanded substantially.

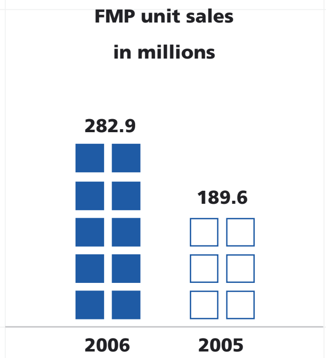
CEAG operates in rapidly expanding markets. Despite the strong increase in demand on the mobile telephone market, FMP was always able to deliver to its customers, and deliver on time, having adjusted its efficient process management system early on. The Company was prepared in plenty of time to respond to the market, successfully mastering the challenges associated with such growth, especially the expansion of capacities at the Chinese plants.

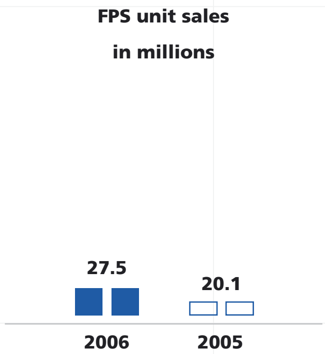
Innovative switch mode technology accounted for the greater part of total production volume in the year under review. In the FMP business unit, the share of products incorporating switch mode technology almost doubled year on year.

The FMP business unit sold 282.9 million units, an increase of 49.2% against the prior year (189.6 million units). FMP's growth rate was thus more than twice that of the overall market. This trend is due to the substantial growth in business with existing customers as well as the acquisition of new customers and projects.

Unit sales in the FPS business unit also rose considerably in the period under review, reaching 27.5 million units. This is an increase of 36.8% compared to the prior year (20.1 million units), marking a continuation of previous growth.







Consolidated Revenues

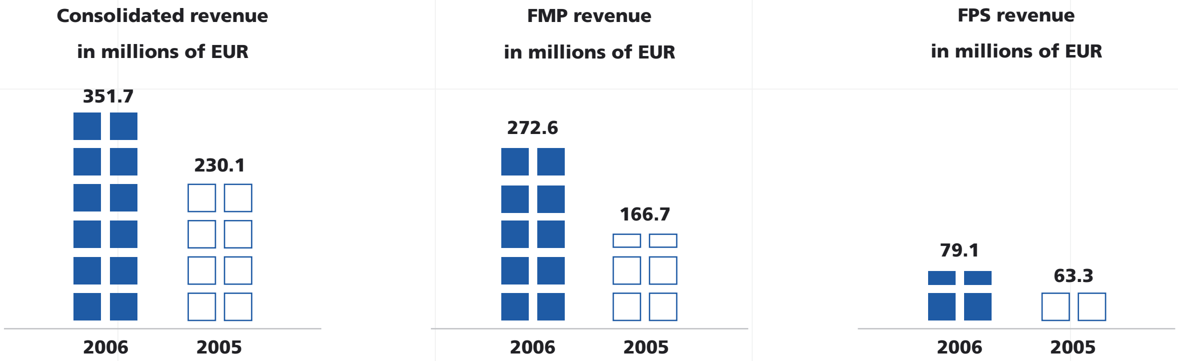
The CEAG Group generated revenues of EUR 351.7 million in 2006, up 52.8% on the prior year (EUR 230.1 million). As in 2005, revenue growth exceed that of unit sales due to the trend towards the more sophisticated switch mode products.

The FMP business unit increased its revenues by 63.5% from EUR 166.7 million to EUR 272.6 million, growing its share of consolidated revenues from 72.5% to 77.5%. In addition to market share gains by existing customers and the acquisition of new customers operating on the market for mobile telephones, the continued rise in revenues from power supplies and chargers incorporating switch mode technology also contributed to the growth in revenues in this business unit. New customer business grew from over 13% to more than 26% of FMP's total revenues.

The FPS business unit saw its revenues rise from EUR 63.3 million to EUR 79.1 million, an increase of 25.0% on the prior year, This growth was mainly achieved on the back of new projects, especially for household appliances (e.g. shavers and electric toothbrushes), in IT and communications (e.g. modems and headsets) and power tools (such as cordless drills).

In 2006, FPS continued to pursue its strategic objective of reducing the complexity and thus improving the efficiency of business processes and procedures by reducing the number of customers and increasing revenues with major customers. The business unit generated some 58% of its total revenues with its ten biggest customers in 2006 (2005: 52%).

The share of switch mode products in FPS revenues was extended still further, reaching 85% compared with 80% in the prior year.



Results of Operations, Financial Position and Net Assets

Consolidated Earnings

During the year under review, the CEAG Group's earnings were shaped by strong growth in revenues. However, this growth was impacted by considerable increases in costs and greater price pressure, which to some extent was not foreseeable during the prior year's budgeting process. These negative effects were largely due to the following developments:

- The prices of CEAG's key raw materials (copper, plastic and metals) remained high, with copper prices reaching a high of USD 8,788 per metric ton in May 2006. At year-end 2006, the price stood at USD 6,300, almost 40% higher than at the end of December 2005. With an annual consumption in excess of 5,000 metric tons of copper, this trend in world market prices puts a considerable drain on earnings.

Copper Prices in USD per Metric Ton

- Wage increases and regular energy shortages in China led to additional costs. Generators had to be purchased for the Chinese plants to offset these energy shortages at short notice and cater to the increased demand in the year under review.
- In the high-volume business that is the production of chargers for mobile telephones, competitive pressure has grown since the prior year, partly due to attempts by major electronics manufacturers to penetrate the supplier market for mobile telephones. Greater competition made itself felt in connection with the acquisition of a number of new projects for existing customers, affecting margins.

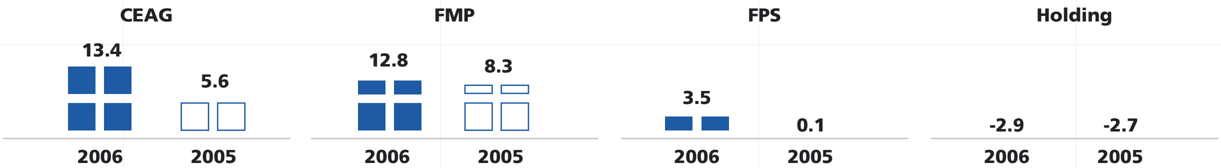
Against this backdrop, the gross profit margin dropped to 10.0% (2005: 11.2%). Despite this development, the substantial growth reported led to an increase in gross profit of EUR 9.3 million or 36.3% to EUR 35.1 million.

The Group had to expand its organization in response to the strong growth of both business units, which in the case of FMP was powered by the mobile telephone market. In addition, the insolvency of FMP's business customer BenQ Germany led to extraordinary expenses. Write-downs totaling EUR 1.9 million were charged on receivables and inventories in the financial statements to reflect the uncertainty surrounding the future of FMP's globally operating customer BenQ. On balance, research and development costs, selling and general administrative expenses as well as other operating expenses and income increased by EUR 1.6 million to EUR 21.7 million in 2006.

Consolidated EBIT came in at EUR 13.4 million, more than double the prior-year figure of EUR 5.6 million (up EUR 7.8 million or 138.3%). The EBIT margin improved from 2.5% in the prior year to 3.8%

EBIT

in millions of EUR



The financial result changed from -EUR 0.9 million in 2005 to -EUR 1.1 million in 2006, primarily due to higher interest costs incurred due to increasing borrowing during the year.

Consolidated earnings before taxes (EBT) improved substantially, climbing to EUR 12.3 million compared with EUR 4.7 million in the prior year. Taxes rose from EUR 0.5 million to EUR 0.9 million. Net profit came to EUR 11.4 million, well above the prior year's EUR 4.2 million. This corresponds to earnings per share of EUR 1.48, compared with EUR 0.55 in 2005.

The FMP business unit generated EBIT of EUR 12.8 million, up 54.6% from EUR 8.3 million. The FPS business unit posted an encouraging EBIT of EUR 3.5 million, contributing 26% of consolidated EBIT. The prior year's EBIT came in at EUR 0.1 million, having been reduced by the effects of a product recall in 2005. This product recall did not have any further impact on earnings in 2006.

Reported separately for the first time in fiscal year 2006, the EBIT of the holding company, CEAG AG, amounted to -EUR 2.9 million, a similar level to the prior year (-EUR 2.7 million).

Financial Position and Cash Flow

Financial Management in the CEAG Group

The CEAG group companies operate in different economic and currency zones. The companies operating in China and Brazil are subject to foreign exchange controls.
CEAG obtains most of its financing locally in the group companies' main transaction currencies, thereby limiting currency risks.

Loans are chiefly raised on a short-term basis. Drawings by the individual companies can vary considerably during the fiscal year. Due to the Group's business cycle there are timing differences in the recognition of liabilities, inventories and receivables.

The remaining amount of the loan granted by CEAG's majority shareholder, DELTON AG, in 2002, was fully repaid during the fiscal year. Since then, the CEAG Group has been fully independently financed. The CEAG Group had started to gradually repay the loan from its majority shareholder in prior years. Only a small amount of the borrowing facilities provided by banks were drawn as of December 31, 2006. Some borrowing facilities include clauses giving the banks the right to terminate in the event of any significant deterioration in the Company's net assets, financial position and results of operations in the future.

Capital Structure

A significant amount of the Group's liabilities are incurred abroad and are mostly recognized abroad in renminbi (CNY, China) and Hong Kong dollars (HKD). As of December 31, 2006, these currencies were weaker than the euro year on year. This reduced the carrying amounts of major balance sheet items.

	Balance sheet date	
In foreign currency/EUR	**2006**	**2005**
Brazil (BRL)	2.8177	2.7830
China (CNY)	10.2793	9.5204
Hong Kong (HKD)	10.2409	9.1781
Japan (JPY)	156.9300	138.9000
USA (USD)	1.3170	1.1797

The balance sheet total of the CEAG Group stood at EUR 131.4 million as of December 31, 2006, a moderate increase of EUR 6.8 million or 5.5% year on year despite the considerably greater business volume. Currency effects (-EUR 11.2 million) as well as efficient working capital management contributed to this result.

The equity of the CEAG Group increased to EUR 37.5 million at the end of December 2006, up 21.5% from the EUR 30.8 million reported as of December 31, 2005. The equity ratio improved from 24.7% to 28.5% year on year.

Trade payables came to EUR 63.5 million, a little lower than in the prior year (December 31, 2005: EUR 65.5 million). Net of the currency effect of -EUR 6.1 million, trade payables rose by 6.2%.

Cash Flow

The CEAG Group reported cash flow from operating activities of EUR 7.5 million in 2006, compared to EUR 19.1 million in the prior year. This drop is mainly attributable to the greater level of capital tied up as a result of business growth. The cash outflow from investing activities of EUR 13.1 million, following EUR 12.4 million in 2005, was influenced by the rise in business volume and mostly went towards extending switch mode capacities. Cash and cash equivalents amounted to EUR 2.5 million at the end of the period under review, compared with EUR 7.5 million as of January 1, 2006.

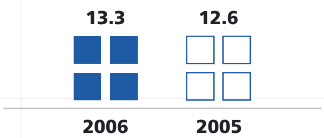
Assets

Property, plant and equipment rose from EUR 25.2 million to EUR 28.7 million in fiscal year 2006 due to the expansion of production capacities in China.

Capital expenditure in the CEAG Group totaled EUR 13.3 million in the year under review, compared with EUR 12.6 million in the prior year. Spending went towards expanding switch mode capacities in the three Chinese plants and reflects the high demand on the mobile telephone market.

Current assets mainly comprise inventories and trade receivables. Inventories rose 13.1% from EUR 50.2 million to EUR 56.8 million as a result of the considerable increase in unit sales of switch mode products. Net of currency effects, inventories would have risen by almost 24%. Trade receivables grew by 22.4% from EUR 29.9 million to EUR 36.6 million. This growth would have been 33% if exchange rates had been constant year on year.

Capital expenditure
in millions of EUR



Disclosures Pursuant to Sec. 289 (4) and Sec. 315 (4) HGB

CEAG AG's capital stock of EUR 20.02 million is divided into 7.7 million no-par bearer shares with equal rights. Thus each share represents a EUR 2.60 share in subscribed capital. The number of shares outstanding did not change in the fiscal year or the prior year. The contributions to capital have been paid up in full. CEAG AG does not hold treasury shares either directly or indirectly.

The Management Board of CEAG AG is not aware of any restrictions relating to the voting rights or transfer of shares.

At 76.82%, DELTON AG, Bad Homburg v. d. Höhe, Germany, holds the majority of voting rights in CEAG AG. Thus Mr. Stefan Quandt, the sole shareholder of DELTON AG, indirectly holds 76.82% of the voting rights in CEAG AG.

The shares issued do not grant any special rights conferring control.

The employees of CEAG AG do not have any kind of control over voting rights.

In accordance with Art. 7 (2) of the articles of incorporation of CEAG AG, the Supervisory Board determines both the number of and appoints the ordinary members and the deputy members of the Management Board. It also appoints one member of the Management Board as the chairman and other members as deputy chairmen. In accordance with Sec. 119 AktG ["Aktiengesetz": German Stock Corporation Act], the shareholders' meeting adopts amendments to the articles of incorporation. Under Art. 12 (2) of the articles of incorporation of CEAG AG, the Supervisory Board is only entitled to make amendments to the articles regarding the version.

According to Art. 4 (4) of the articles of incorporation, the Management Board is entitled until May 31, 2007 to increase the Company's capital stock by up to EUR 9,100,000.00 by issuing on one or more occasions no-par bearer shares in return for contributions in cash or in kind. The shareholders must be granted a subscription right, but one or more banks in accordance with Sec. 186 (5) Sentence 1 AktG or one or more companies operating in accordance with Sec. 53 (1) Sentence 1 or Sec. 53 b (1) Sentence 1 or (7) KWG ["Kreditwesengesetz": German Banking Act] may also underwrite the new no-par shares subject to the obligation to offer them to the shareholders for subscription. The Management Board is also authorized, with the consent of the Supervisory Board, to exclude the shareholders' subscription right in certain cases and to determine the rights conferred by the shares as well as the conditions of the share issue, again with the consent of the Supervisory Board.

The Company has not entered into any material agreement conditional on a change of control as a result of a takeover bid.

Likewise, the Company has not concluded any agreements on compensation in the event of a takeover bid with members of the Management Board or employees.

Economic Situation of CEAG AG

The results in the financial statements of CEAG AG prepared in accordance with the German Commercial Code are largely determined by two factors: its own expenses and the profits and losses absorbed from its subsidiaries. It has domination and profit and loss transfer agreements with the German subsidiaries. The foreign companies distribute dividends to these subsidiaries.

CEAG AG reports investment income of EUR 4.2 million for fiscal year 2006 (prior year: EUR 0.9 million). Higher dividend payments from these subsidiaries were waived due to the growth-driven capital requirements of these companies. The financial statements of CEAG AG report a profit after taxes of EUR 2.1 million after a loss of EUR 1.1 million in the prior year. EUR 13.4 million from the capital reserve was taken to offset most of the loss carryforwards from prior years.

The assets of CEAG AG mainly comprise the carrying amounts of the subsidiaries disclosed under financial assets and receivables from group companies.

As in prior years, the Management Board explored strategic options in the year under review, looking at the independence of both business units. The Management Board will continue to review the positioning of CEAG AG and existing alternatives, and incorporate changes to the markets in the Group's environment in its analysis. In this context, the Management Board has not ruled out the possibility that one business unit could be sold.

Risks

Professional and effective risk management is an integral and indispensable part of corporate governance at CEAG AG. In fiscal year 2006, we used and made a number of improvements to our risk identification and monitoring systems. CEAG's risk management system serves to systematically identify risks at an early stage and therefore to allow risks to be avoided from the outset or timely counteractive measures to be taken to minimize negative effects.

Group-wide principles and policies for structured recording, evaluation and reporting form the framework for efficient risk management. Risk owners, who are executives in all major functions of the Group, are responsible for identifying, evaluating, controlling and communicating risks. They are assisted by risk controllers, who make sure that material risks that exceed defined thresholds are reported to higher management levels. This system ensures that all identified risks are addressed, and the involvement of several management levels creates a risk culture and promotes risk awareness within the Company.

The risk management system in place guarantees that risks are addressed in accordance with the German Law on Control and Transparency in Business ["Gesetz zur Kontrolle und Transparenz im Unternehmensbereich": KonTraG] in the CEAG Group.

As an internationally operating group and manufacturer of electronic goods in the market for small power supplies, CEAG is exposed to numerous risks, including risks relating to product liability and warranties due to the high-volume production as well as the risk of underutilization of production capacities. Energy supply to the Chinese plants also poses a risk.

CEAG is also exposed to risks relating to the global economy as well as risks posed by the world's interest and currency markets. Risks such as rising prices for raw materials and the future development of target markets – such as the mobile telephone market for FMP – as well as changes in products and legislation can also have a lasting impact on the business performance of both business units. Dependency on major customers is another risk faced by both business units. Some agreements with our customers contain change of control clauses. There are also country-specific risks. One such example is the risk of inconsistent interpretation and application of legal, tax and customs regulations in China, where the legal system does not meet western standards and is subject to constant change.

Further risks relate to personnel, especially at the foreign subsidiaries. The labor market is extremely dynamic in emerging economies and there is a lack of well trained workers and specialists. Changes in staffing of key positions are frequent. General personnel expenses also rise much faster in these countries and are more difficult to predict than in western economies.

As a transaction risk, foreign currency risk represents a significant exposure due to the international operations of the CEAG Group. Foreign currency risks result from balance sheet items denominated in foreign currencies and future transactions whose incoming and outgoing payments are made in different currencies. The foreign currency risk of the individual subsidiaries is assessed on the basis of their local currency against all other currencies. Such risks are hedged naturally on the basis of foreign currency positions by matching accounts receivable and payable in the same currency.

Any remaining foreign currency risks are hedged by targeted currency management. Subsidiaries preferably obtain financing in their local currency or on a hedged basis as far as possible. Subsidiaries are not permitted to engage in speculative foreign currency borrowing or investment. The Group has a treasury function which regularly assesses currency risks and hedges against major consolidated risks by entering into forward exchange contracts or raising debt in foreign currencies. Foreign currency risks between USD, BRL, HKD and CNY are not hedged. CEAG counters risks from future transactions by endeavoring to conduct transactions in the currency in which production costs are incurred.

Many of CEAG's group companies do not operate in the euro zone. As the Group's reporting currency is the euro, the income statements of these companies need to be translated into euros.

As of December 31, 2006, the Company had entered into forward contracts for copper. These are presented in the notes to the consolidated financial statements. These contracts were entered into to ensure the calculability of costs for the planned consumption of copper based on customer projections for the linear appliances produced by the FMP business unit. Risks and rewards can arise if consumption projections are too low or too high and the price of copper changes dramatically.

In the year under review, BenQ Germany, a customer of the FMP business unit, had to file for insolvency. Provision was made in the financial statements for all identifiable risks (inventories and receivables). However, there is an additional risk of EUR 0.4 million given the uncertainty surrounding the future of this customer.

For some time now, CEAG has noticed attempts by major electronics manufacturers to gain a foothold on the market for mobile telephone chargers. Their entry on the market could further intensify the competitive situation, which was already noticeably intense in the year under review with greater pressure on sales prices.

As reported in the prior year, one of CEAG's customers had to recall products on the Japanese market in 2005. This did not have any further impact in the year under review.

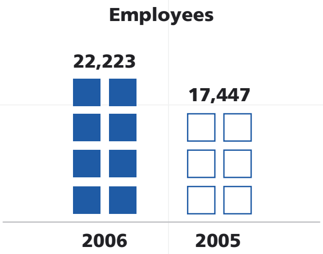
No risks to the ability of the Company to continue as a going concern have been established to date.

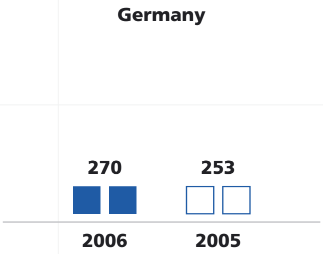
Employees

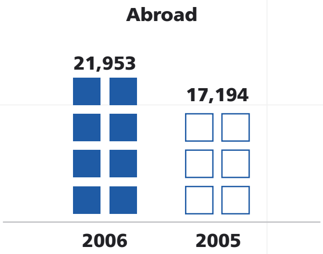
The CEAG Group employed a total of 22,223 employees as of the balance sheet date. This represents an increase of 4,776 compared to 17,447 employees as of the balance sheet date of the prior year (up 27.4%). Personnel requirements thus rose considerably as in the prior years; this is due to a major increase in the production volume of both business units, in particular the FMP business unit.

At the end of 2006, the Group employed 21,953 workers abroad, 4,759 more than at the end of 2005. Headcount increased almost exclusively at the Chinese production plants. In Germany, 270 people were employed at the headquarters of CEAG in Ostbevern, an increase of 17 on the prior year. Most new jobs in Germany were created in product development for both business units, in production for FPS and in administration.

The Management Board would like to thank all employees for their hard work and dedication in fiscal year 2006. Thanks to their commitment, the CEAG Group performed well and was able to post tremendous growth.







Remuneration Report

The remuneration report is included in the corporate governance report on pages 23 to 25. This remuneration report audited by the auditors forms part of the management report. The notes to the consolidated financial statements contain further details on the remuneration of the Management Board and Supervisory Board on pages 89 and 90.

Research and Development

Research and development activities in both business units, FMP and FPS, in fiscal year 2006 were focused on reducing costs and miniaturizing power supplies and chargers. For example, using new power management chips (ASICs) significantly reduces circuit complexity and thus size requirements. After the successful launch of the third generation of ASIC chip, CEAG has now embarked on planning for the fourth generation. CEAG has already been granted industrial property rights in this field of ASIC integration.

FPS successfully positioned its new platform for lithium-ion chargers in the strongly growing market for lithium-ion technology: the charging and discharging control mechanism, for which an application for a patent has been filed, ensures the gentle charging of the lithium-ion batteries and thus significantly improves the life of the batteries.

Another priority of both business units is reducing the energy used by a power supply in stand-by mode. All CEAG products using switch mode technology meet the standards of the US Environmental Protection Agency (EPA). In 2006, the system of reporting Energy Star-compliant appliances to EPA was introduced and extended. Energy Star is a US government-backed program for energy efficiency. The label is awarded to products that save energy and the program promotes households and buildings with a low level of electricity consumption.

All of CEAG's switch mode products meet the efficiency of Energy Star Level IV. This means that CEAG has committed itself to maintain energy efficiency, i.e. the ratio between input and output, at more than 65% for every product. Energy Star was created to make it easy for consumers to recognize products, households and buildings that save energy and money and help protect the environment.

In fiscal year 2006, CEAG began to register switch mode products with Energy Star. The State of California officially recognizes the measurements carried out in CEAG's own German laboratory. CEAG has also registered with the California Energy Commission (CEC). This is necessary to be able to sell power supplies in California.

FMP is also working on a technological solution that will enable it to manufacture and market its products without PVC and antimony trioxide.

FMP is coordinating a project entitled NIKOL sponsored by the German Federal Ministry of Education and Research in which eight industry partners are involved. The aim is to achieve a greater level of integration of passive filters in order to reduce components and increase miniaturization.

The Environment

Environmental protection is particularly important to CEAG AG. We strive to use natural resources responsibly in all stages of development and production and incorporate appropriate measures in all operating activities from the outset. This requires all relevant measures to be continually monitored and improved. What is more, effective environmental management also serves to reduce costs in development and production, for example by reusing components.

CEAG documented the materials used in all products and took steps to reduce the level of hazardous substances in compliance with the EU environmental directive on the restriction of use of certain hazardous substances (RoHS Directive). The conversion of products to comply with this directive did not present any problems in 2006. In addition, FRIWO complies with the legal provisions of the directive on waste electrical and electronic equipment (WEEE Directive, 2002/96/EC). The products sold by FRIWO under its own name are registered under WEEE reg. no. DE 70846847 and bear the appropriate symbol, enabling end users to dispose of the products free of charge.

Outlook

Economic experts are predicting significant growth for the global economy in 2007 and 2008. In its half-yearly Economic Outlook published at the end of November 2006, the OECD forecast GPD in the OECD countries to grow by 2.5% in 2007 and 2.7% in 2008. Overall, the upturn in the global economy is set to continue, albeit with a different geographical spread.

According to the OECD, China, India and other emerging markets in Asia will continue to grow strongly. Growth in the United States, on the other hand, will slow down: after an increase in GDP of 3.3% in 2006, 2.4% growth is expected for 2007.

A sound upswing is expected for the euro area. The OECD forecasts an increase in GDP of 2.2%. In Germany, the experts are expecting weaker growth than in 2006. However, the increase in VAT at the beginning of 2007 will not have a sustained negative impact on the economy and the improved consumption climate.

After substantial growth of 21% in 2006, market research institutes are predicting further vigorous growth for the world mobile telephone market in the years to come, although growth rates will be lower than in past years. The markets in China and India will continue to drive the rising demand, along with new mobile telephones with multimedia and music applications.

The CEAG Group responded well to the strong growth recorded in the year under review, especially in the FMP business unit, demonstrating that it is well equipped for further growth. The Group consolidated its leading position on the global market for mobile telephone chargers, significantly building on its market share in 2006.

The future position of the CEAG Group hinges on how the market, existing customers and price pressure – triggered by hefty competition – develop. Given the uncertain future of BenQ worldwide, the CEAG Group does not expect any major revenues from this FMP customer.

A key success factor in the power supply market is the price competitiveness of products, i.e. the value for money they offer. Technology leadership, innovative product design, scalable production conditions and lean cost structures play an important role in this context. For many years, CEAG has been one of the technology leaders in the manufacture of power supplies and will continue to dedicate itself to the continuous improvement of its products in the years to come. Planning and production processes that reduce or avoid costs such as design-to-cost (DTC) and purchase-to-cost (PTC) have been a part of the value-added chain and our corporate culture for years.

The high-volume market for mobile telephones is especially susceptible to short-term volatility in demand. The fluctuations and general growth patterns of this industry make flexibility in delivery capability and delivery timeliness another key success factor. The right level of vertical integration and the search for outsourcing solutions are items that remain on the agenda for CEAG in order to ensure the greatest possible flexibility of production in the future. A close eye needs to be had on the growing intensity of competition in this context.

CEAG expects that the technological change in power supply from linear to switch mode products will continue in both business units. This change will require significant investment in production capacities for switch mode products in the future. The aim must be to master this technological change without CEAG losing ground in the market. The Group has upped its activities in the switch mode field over the past few years and is now an internationally recognized supplier of power supplies and chargers using this technology.

Ensuring high quality standards is another make-or-break criterion for business success. This includes adhering to environmental protection standards in the relevant markets as well as meeting specific configurations required by customers for power supplies. CEAG remains in close contact with its customers so their needs and wants can be identified and taken into account in the planning process.

The FPS business unit is continuing on its growth path. The economic upturn that began in the euro area, including Germany, in 2006 and that is set to continue in 2007 could lead to a lasting improvement in the consumption climate and greater demand for consumer goods. FPS stands to benefit from this trend.

The prices of raw materials, especially copper, wages in China and the risks relating to the supply of energy in China will continue to impact on the production costs of the CEAG Group. However, the Group cannot directly influence the development of these factors, which thus pose a significant level of uncertainty in terms of future business performance. CEAG expects raw materials prices to remain high in 2007 and wages in China to increase further. Investment in emergency electricity generators will still be needed in the future in order to ensure that production runs smoothly.

Despite the substantial growth in unit sales and revenues in 2006, the Management Board believes that further growth in these figures is possible in 2007/2008. Whether the expected growth will translate into a further improvement in the Group’s earnings hinges to a significant degree on the factors described above.

Significant Events After the Balance Sheet Date

The organization in Japan will be restructured in the first quarter of 2007 and the employees integrated into FRIWO Gerätebau GmbH.

Relationships With Affiliated Companies

In its report on relationships with affiliated companies in fiscal year 2006, the Management Board made the following declaration:

"Our Company received suitable consideration for each of the legal transactions listed in the report on relationships with affiliated companies, as appropriate under the circumstances known to us at the time of the transactions. The Company was not disadvantaged by any steps taken or omitted."

Ostbevern, Germany, February 12, 2007
CEAG AG
The Management Board

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Income Statement of the CEAG Group

for Fiscal Year 2006

In thousands of EUR	Note	2006	2005
Revenues	**(12)**	**351,659**	**230,077**
Cost of sales		-316,513	-204,284
Gross profit		**35,146**	**25,793**
Research costs	(13) (20)	-659	-634
Selling expenses	(14)	-8,903	-7,529
General and administrative expenses	(15)	-12,808	-10,216
Other operating expenses	(16)	-3,644	-4,534
Other operating income	(16)	4,284	2,741
Income from investments		17	17
Earnings before interest and taxes (EBIT)		**13,433**	**5,638**
Interest income	(17)	132	100
Interest expense	(17)	-1,263	-1,014
Earnings before income taxes (EBT)		**12,302**	**4,724**
Income taxes	(18)	-932	-491
Consolidated net profit		**11,370**	**4,233**
Earnings per share (basic and diluted) (in EUR)	(19)	1.48	0.55

Cash Flow Statement of the CEAG Group

for Fiscal Year 2006

In thousands of EUR	2006	2005
Consolidated net profit	11,370	4,233
Amortization and depreciation on non-current assets	7,743	6,493
Change in provisions	-426	1,661
Gain/loss on the disposal of non-current assets	-61	-45
Change in deferred taxes	269	-146
Change in inventories	-11,324	-12,864
Change in trade receivables and other assets that cannot be allocated to investing or financing activities	-7,176	-16,767
Change in trade payables and other liabilities that cannot be allocated to investing or financing activities	7,179	35,576
Other non-cash effects	-91	918
Cash flow from operating activities	**7,483**	**19,059**
Cash received from disposals of property, plant and equipment/intangible assets	236	219
Cash paid for investments in intangible assets	-460	-1,043
Cash paid for investments in property, plant and equipment	-12,890	-11,553
Cash flow from investing activities	**-13,114**	**-12,377**
Cash paid to repay financial liabilities to affiliated companies	-188	-3,253
Cash received from/cash paid to repay non-current liabilities to banks (net)	2,075	-201
Cash received from/cash paid to repay current liabilities to banks (net)	-1,131	752
Cash flow from financing activities	**756**	**-2,702**
Effect of exchange rates on cash and cash equivalents	-99	90
Net change in cash and cash equivalents	**-4,974**	**4,070**
Cash and cash equivalents at beginning of fiscal year	7,496	3,426
Cash and cash equivalents at end of fiscal year	**2,522**	**7,496**

Balance Sheet of the CEAG Group

as of December 31, 2006

Assets

In thousands of EUR	Note	Dec. 31, 2006	Dec. 31, 2005
Non-current assets	(24)		
Intangible assets		1,222	1,159
Property, plant and equipment		28,710	25,213
Financial assets		5	5
		29,937	**26,377**
Deferred taxes	(18)	1,731	1,378
		31,668	**27,755**
Current assets			
Inventories	(25)	56,771	50,186
Trade receivables	(26)	36,611	29,914
Other assets	(26)	3,649	9,005
Prepaid expenses	(27)	215	263
Cash and cash equivalents	(28)	2,522	7,496
		99,768	**96,864**
Total assets		**131,436**	**124,619**

Statement of Recognized Income and Expense

In thousands of EUR	2006	2005
Changes in the fair value of financial instruments used for hedging purposes recognized in equity	-2,620	3,250
Actuarial gains/losses from defined benefit pension obligations and similar obligations	-33	-172
Adjustment item for the currency translation of foreign subsidiaries	-2,602	3,767
Deferred taxes on changes in value recognized directly in equity	509	-615
Changes in value recognized directly in equity	**-4,746**	**6,230**
Consolidated net profit	**11,370**	**4,233**
Total profit for the period	**6,624**	**10,463**

The statement of changes in equity of the CEAG Group is presented in Note (29).

Equity and liabilities

In thousands of EUR	Note	Dec. 31, 2006	Dec. 31, 2005
Equity	(29)		
Subscribed capital		20,020	20,020
Capital reserve		2,002	15,440
Revenue reserves		11,594	-6,077
Other reserves		-7,530	-2,784
Consolidated net profit		11,370	4,233
		37,456	**30,832**
Non-current liabilities			
Non-current liabilities to banks	(32)	2,288	321
Provisions for pensions and similar obligations	(30)	2,499	2,427
Other non-current provisions	(31)	1,114	876
Deferred taxes	(18)	1,693	1,568
		7,594	**5,192**
Current liabilities			
Provisions for income taxes		693	649
Other current provisions	(31)	2,157	3,039
Current financial liabilities	(33)	6,057	7,604
Trade payables	(33)	63,497	65,511
Income tax liabilities	(33)	128	329
Other liabilities	(33)	13,854	11,463
		86,386	**88,595**
		93,980	**93,787**
Total equity and liabilities		**131,436**	**124,619**

Segment Report

Segment Report of the CEAG Group for Fiscal Year 2006

By business segment in thousands of EUR	2006 FMP	2006 FPS	2006 Holding company
External revenues	272,592	79,067	0
Internal revenues	40,422	339	0
Segment result (EBIT)	12,799	3,549	-2,915
Interest			
Income taxes			
Consolidated net profit			
Segment assets	108,581	22,544	47,091
Other assets			
Balance sheet total			
Segment liabilities	74,312	9,864	3,976
Other liabilities			
Debt			
Investments in intangible assets and property, plant and equipment	11,291	2,036	23
Amortization/depreciation on intangible assets and property, plant and equipment	6,442	1,233	68
Other non-cash expenses	1,147	2,418	1,470

In thousands of EUR	2006 Europe	2005 Europe
External revenues (by geographical segment of customer)	170,905	117,234
Segment assets (by geographical segment)	25,356	24,610
Investments in intangible assets and property, plant and equipment (by geographical segment)	2,360	2,445

2006 Consolidation	2006 Group	2005 FMP	2005 FPS	2005 Holding company	2005 Consolidation	2005 Group
	351,659	166,748	63,329	0		230,077
-40,761	0	27,464	377	0	-27,841	0
	13,433	8,277	76	-2,715		5,638
	-1,131					-914
	-932					-491
	11,370					4,233
-51,033	127,183	96,540	18,612	48,415	-47,822	115,745
	4,253					8,874
	131,436					124,619
-5,031	83,121	73,842	7,603	3,004	-1,133	83,316
	10,859					10,471
	93,980					93,787
	13,350	10,369	2,113	114		12,596
	7,743	5,145	1,183	165		6,493
	5,035	821	2,960	966		4,747

2006 Asia	2005 Asia	2006 Americas	2005 Americas	2006 Group	2005 Group
151,718	86,829	29,036	26,014	351,659	230,077
97,523	87,001	4,304	4,134	127,183	115,745
10,730	9,780	260	371	13,350	12,596

Notes to the Finacial Statements

Financial Statements – Notes to the Financial Statements

Notes to the Consolidated Financial Statements for Fiscal Year 2006

General Information on the Company (1)
CEAG AG, the holding company of the FRIWO Group, and its FRIWO subsidiaries are one of the world's leading manufacturers of chargers and power supplies for mobile telephones and other appliances.

The business address of the parent company is CEAG AG, Von-Liebig-Strasse 11, 48346 Ostbevern, Germany.

The consolidated financial statements and group management report of CEAG AG for fiscal year 2006 are published in the electronic version of the Bundesanzeiger [German Federal Gazette] and filed with the electronic business register.

DELTON AG, Bad Homburg v. d. Höhe, Germany, holds the majority of shares in CEAG AG. The consolidated financial statements of CEAG AG are included in the consolidated financial statements of DELTON AG, which are filed with the electronic business register.

The consolidated financial statements of CEAG AG will be authorized for issue by the Management Board on February 12, 2007 (day of authorization by the Management Board for submission to the Supervisory Board).

Accounting Policies

Statement of Compliance With IFRSs (2)
CEAG AG participates with its securities in a regulated market in the European Union. The consolidated financial statements are prepared in accordance with IFRSs. In addition to the IFRSs endorsed by the EU, the Company must also comply fully with the requirements set out in Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code].

Basis of Preparation of the Financial Statements (3)
The consolidated financial statements were prepared using the cost method, with the exception of derivative financial instruments, which were measured at fair value. See Note (37).

The significant accounting policies used to prepare these consolidated financial statements are disclosed below. The policies described were consistently applied to the periods presented unless otherwise stated.

The consolidated financial statements were prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (EUR thousand).

Use of Judgment and Uncertainty of Estimates (4)
The preparation of the consolidated financial statements in accordance with IFRSs requires assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets, liabilities, income, expenses and contingent liabilities.

Significant judgment was exercised with regard to the need to test non-current assets for impairment. See Note (24).

Significant assumptions and estimates relate to the assumptions made in the measurement of provisions (see Note (31)), the underlying value of inventories (see Note (25)) and deferred taxes (see Note (18)).

Consolidation Policies (5)
The financial statements of the domestic and foreign subsidiaries included in consolidation have been prepared in accordance with uniform accounting policies. Capital is consolidated on the date of acquisition in accordance with the purchase method. Date of acquisition is the date on which control of the net assets and operations of the acquiree is effectively transferred to the CEAG Group. Under the purchase method, the cost of the shares acquired is netted with CEAG's share in the fair value of the assets acquired and the liabilities and contingent liabilities assumed as of the date of acquisition. Differences arising from netting are recognized as acquired goodwill. Negative differences arising from capital consolidation as of the date of acquisition are immediately recognized in profit or loss. The hidden reserves and charges disclosed after measurement of assets, liabilities and contingent liabilities at fair value on first-time consolidation are carried forward, written down or released in subsequent periods in line with changes in assets, liabilities and contingent liabilities. Acquired goodwill is regularly tested for impairment in subsequent periods and written down to its recoverable amount in the event of impairment.

The fiscal year of all consolidated companies is the calendar year and is the same as CEAG AG's fiscal year.

Intercompany receivables and liabilities are netted. Intercompany revenues, intercompany profits and losses and all other intercompany expenses and income are eliminated.

See our disclosures on the consolidated group in Note (9) and on foreign currency translation in Note (10).

Changes in Accounting Policies (6)
The consolidated financial statements of CEAG as of December 31, 2006 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) in effect as of the balance sheet date. These standards also encompass the International Accounting Standards (IASs) still in effect. In addition, all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) (formerly the Standing Interpretations Committee (SIC)) applicable to fiscal year 2006 were applied.

The accounting policies applied are largely consistent with those applied in the prior year. In its prior-year financial statements, CEAG applied the revised IAS 19 Employee Benefits effective as of January 1, 2006 early, as encouraged by the IASB, electing to disclose pension liabilities at the amount of the defined benefit obligation. In this case, the actuarial gains and losses are recognized directly in equity.

As of December 31, 2006, only the following new standards and interpretations were therefore applied for the first time:

IAS 39	The amendments with regard to “The Fair Value Option”, “Financial Guarantee Contracts”, “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market

In 2005, the IASB made amendments to IAS 39 Financial Instruments: Recognition and Measurement with regard to "The Fair Value Option", "Financial Guarantee Contracts" and "Cash Flow Hedge Accounting of Forecast Intragroup Transactions". These amendments shall be applied as of January 1, 2006. As in the prior year, CEAG did not make use of the fair value option for any assets or liabilities. Hence first-time application does not have any effects on CEAG's consolidated financial statements.

IFRIC 6, operative as of January 1, 2006, provides guidance on the recognition, in the financial statements of producers, of provisions for waste management costs in connection with the proper disposal of waste electrical and electronic equipment in accordance with IAS 37. CEAG provided for such risks in its past financial statements. Hence the first-time application of IFRIC 6 did not have any effects on CEAG.

The application of these additional standards and interpretations did not have a material effect on the consolidated financial statements of CEAG as of December 31, 2006.

The IASB also adopted the following standards, amendments and interpretations in 2006:

IAS 21	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives

These standards and interpretations must be applied in CEAG's consolidated financial statements for 2007. They are not expected to have any impact on CEAG.

IFRS 7 Financial Instruments: Disclosures adopted by the IASB in 2005 must be applied as of January 1, 2007. IFRS 7 will lead to changes and supplements to the disclosures in the notes.

The following standards and interpretations have already been adopted by the IASB but not yet endorsed by the European Union:

IFRS 8	Operating Segments
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

IFRS 8 Operating Segments supersedes IAS 14 Segment Reporting. In a key change to IAS 14, IFRS 8 adopts the full management approach, requiring segment reporting to follow the internal reporting structure. IFRS 8 is effective for fiscal years beginning after December 31, 2009.

IFRIC 10 Interim Financial Reporting and Impairment states that an entity may not reverse impairment losses recognized in an interim period on goodwill and certain financial instruments in the reporting or subsequent periods if a loss would not have been recognized, or a smaller loss would have been recognized, had an impairment assessment been made only at the interim balance sheet date. IFRIC 10 is effective for fiscal years beginning after October 31, 2006.

IFRIC 11 requires that share-based payment transactions be accounted for in accordance with IFRS 2 even when the entity acquires the equity instruments used to satisfy its obligations under the share-based payment arrangement specifically for this purpose (e.g. by repurchase or capital increase). IFRIC 11 is effective for fiscal years beginning after February 28, 2007.

IFRIC 12 comments on the licensee's accounting for public-to-private service concession arrangements. IFRIC 12 is effective for fiscal years beginning after December 31, 2007.

CEAG does not expect the future application of these standards to have an effect on its consolidated financial statements.

Changes in Disclosure (7)
The presentation of the segment report was extended for fiscal year 2006. For greater transparency, the holding company is shown as a separate segment for the first time, in line with the internal reporting structure. This form of presentation provides a better understanding of the business performance of the operating business units. The prior-year disclosure was adjusted accordingly.

As usual, the statement of changes in equity of the CEAG Group is disclosed in the notes to the consolidated financial statements.

Summary of Significant Accounting Policies (8)
The **income statement** was drawn up using the cost of sales method.

Revenues are generated by the goods and services sold by the consolidated companies net of internal sales, customer discounts, rebates and bonuses. Revenues are recognized when the goods have been delivered or the services rendered.

Cost of sales comprises the cost of goods sold and the cost of purchased merchandise. In accordance with IAS 2 Inventories, the cost of self-constructed goods comprises directly attributable costs such as material costs and direct labor as well as all production overheads, including production-related depreciation.

Production-related development costs and logistics costs are also disclosed in this item.

Research and development costs are charged as expenses in the periods in which they are incurred. The requirements for recognizing development costs as assets under IAS 38.57 are not met.

Deferred taxes are calculated in accordance with IAS 12. Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated balance sheet and their tax base and for loss carryforwards that may be utilized for tax purposes. Probable tax benefits and burdens arising from these differences are recognized as assets and liabilities, respectively. If the benefits or burdens underlying these deferred taxes are recognized directly in equity, deferred taxes are also recognized or reversed through equity. Consolidation entries also result in deferred taxes.
Deferred taxes are determined on the basis of the tax rates which, under the current legislation, apply or are expected to apply in the individual countries at the time of realization.
If deferred tax assets exceed deferred tax liabilities, the underlying value of these assets is assessed on the basis of the anticipated performance of the group company concerned.
Deferred tax assets and liabilities are netted if the Group has an enforceable right to set off current tax assets and liabilities and these relate to income taxes levied by the same taxation authority for the same taxable entity.

Current and non-current assets and current and non-current liabilities are presented as separate classifications on the face of the **balance sheet** in accordance with IAS 1.51.

Financial instruments: financial assets within the meaning of IAS 39 are financial assets measured at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. The Group defines the classification of its financial assets upon initial recognition and reviews this classification at the end of each fiscal year where permissible and appropriate. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. on the day on which the Group commits to purchase the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery within the time frame established by regulation or convention in the market place.

Financial assets are classified as held for trading if they are acquired for the purpose of selling them in the near term. Derivative financial instruments are also classified as held for trading except for derivatives that are designated and effective hedging instruments. Gains or losses from financial assets held for trading are recognized in profit or loss. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the receivable is derecognized or impaired.

Derecognition of financial assets: a financial asset (or part of a financial asset or part of a group of similar financial assets) is derecognized if the criteria under IAS 39.17 are met. A financial liability is derecognized when the obligation is canceled or expires.

The Group assesses on each balance sheet date whether a **financial asset** or group of financial assets is **impaired**. If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The amount of the reversal shall be recognized in profit or loss provided the carrying amount of the asset at the time of reversal does not exceed the amortized cost.

The Group uses **derivative financial instruments** such as forward exchange contracts and copper forward contracts to hedge currency and price risks. These derivative financial instruments are initially carried at the fair value on the date on which the relevant contract was concluded and are then subsequently remeasured to fair value. Derivative financial instruments are classified as assets if their fair value is positive and as liabilities if their fair value is negative. The fair value of forward contracts is calculated by reference to the current forward rates for contracts with similar maturity.

Hedging instruments: for the purpose of hedge accounting, hedging instruments can be classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. At present, CEAG only pursues the strategy of hedging cash flows.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. This documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The hedges are assessed on an ongoing basis to ascertain whether they have actually been highly effective throughout the financial reporting periods for which the hedge was designated.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or a forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity while the ineffective portion is recognized in profit or loss. Amounts directly recognized in equity are recognized in profit or loss in the period during which the hedged transaction affects profit or loss, for example when hedged financial income or expenses are recognized or when a forecast sale or purchase occurs. If the hedged transaction relates to the recognition of the cost of a non-financial asset or liability, the amounts recognized in equity are added to the original carrying amount of the non-financial asset or liability. If the forecast transaction is no longer expected to occur, the amounts previously recognized in equity are recognized in profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover of a hedging instrument into another hedging instrument or if the Group revokes the designation of a hedging instrument, the amounts previously recognized continue to be recognized separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the amount is recognized in profit or loss.

In accordance with IAS 38, **intangible assets** are recognized at cost and amortized on a straight-line basis over their expected useful life. The useful life for intangible assets (except for goodwill) is three to five years. The amortization period and method used are reviewed each period. If there are indications of impairment and the recoverable amount is less than the amortized cost, an impairment loss is recognized for the intangible assets. If the reasons for an impairment loss cease to apply, the impairment loss is reversed as appropriate. The cost of new software is recognized as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized on a straight-line basis over three to five years.

Property, plant and equipment are recognized at cost in accordance with IAS 16. The cost of self-constructed assets includes direct costs as well as all production overheads, including production-related depreciation. Interest expenses are not included in cost.

Items of property, plant and equipment whose use is limited are depreciated over their expected useful lives unless the actual pattern of use indicates that they are impaired.

Depreciation of property, plant and equipment is based on the following useful lives:

Buildings	10 to 50 years
Technical equipment and machinery	2 to 15 years
Other equipment, furniture and fixtures	2 to 15 years
Vehicles	5 years

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Complex items of property, plant and equipment which have clearly separable components with different useful lives are broken down into these respective components when calculating depreciation. Depreciation is calculated on the basis of the useful lives of the individual components.

Impairment of Non-Financial Assets
The Group assesses on each balance sheet date whether there is any indication that an asset may be impaired. If there are signs of impairment or if an annual impairment test is required, the Group makes a formal estimate of the recoverable amount. The recoverable amount of an asset is the higher of the fair value of an asset or that of a cash-generating unit less costs to sell and value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognized in the expense categories which correspond to the function of the impaired asset. On each balance sheet date it is assessed whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. If such indications exist, the recoverable amount is estimated. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount.

The increased carrying amount may not exceed the carrying amount that would have been determined net of amortization or depreciation had no impairment loss been recognized for the asset in prior years. A reversal of an impairment is recognized immediately in profit or loss, unless the asset is carried at revalued amount. In this case, the reversal is treated as a revaluation increase. After a reversal of an impairment loss is recognized, the amortization/depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Inventories are measured at cost or at the lower net realizable value as of the balance sheet date in accordance with IAS 2 Inventories with due regard to the principle of item-by-item measurement. The average cost method is used for interchangeable items in accordance with IAS 2.25.
Cost comprises direct material costs, direct production costs and all production-related overheads, including production-related depreciation. Interest expenses are not included in cost. Measurement includes reasonable provision for inventory risks arising from a lower net realizable value.

Receivables and other assets are recognized at amortized cost, which is generally their nominal value. Foreign currency receivables are translated at the closing rate in accordance with IAS 21. Translation differences are reported in profit or loss.
Adequate specific bad debt allowances are recognized for identificable risks to individual receivables.

The **provisions for pensions** are recognized in accordance with the requirements of IAS 19. Pension obligations from direct pension commitments were calculated according to the projected unit credit method, allowing for future adjustments to salaries and pensions.

Under IAS 19.93A all actuarial gains and losses are recognized in full directly in equity. CEAG has been using this "third option" since fiscal year 2005.

The interest portions of the changes in provisions for pensions are reported in the financial result and the other expenses in functional costs.

Other provisions are recognized in accordance with IAS 37. Under this standard, provisions are only recognized when the entity concerned has a present obligation (legal, contractual or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions recognized make adequate allowance for third-party risks in the financial statements. They are measured at the amount likely to be required. Provisions whose remaining term is expected to exceed one year are reported at present value if the effect is material. Provisions expected to be utilized within one year are disclosed under current provisions.

Liabilities are recognized at amortized cost. Liabilities in foreign currencies are translated using the closing rate. Any differences between the closing rate and the rate at the date of the transaction are recognized in profit or loss. The non-current liabilities from financing bear interest at market rates and the carrying amount therefore approximates the fair value.

Whether or not an arrangement is or contains a **lease** is determined on the basis of the economic substance of the arrangement and requires an assessment as to whether fulfillment of the contractual arrangement is dependent on the use of a certain asset or assets and whether the arrangement provides for the right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognized immediately in profit or loss. If it is not reasonably certain that the Group will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term or its useful life.

Lease payments for operating leases are recognized as an expense on a straight-line basis over the lease term.

Contingent liabilities are not recognized in the consolidated balance sheet until they are likely to materialize. They are disclosed in the notes if there is a possibility that they may eventuate. As an internationally operating company with different business segments, CEAG is exposed to numerous legal risks, including risks related to product liability, warranties, tax law and other legal disputes. The outcome of currently pending or future proceedings cannot be forecast with any certainty. Decisions could lead to expenses that are not fully covered by insurance policies and that could have a significant impact on the business and the results of operations. The Management Board does not expect decisions with a significant impact on the Group's net assets, financial position and results of operations to be passed to the Group's disfavor in the legal proceedings currently pending.

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date are reflected in the consolidated financial statements. Information indicative of conditions that arose after the balance sheet date are only disclosed in the notes to the financial statements.

Consolidated Group (9)
In addition to CEAG AG, all domestic and foreign companies in which CEAG AG directly or indirectly holds the majority of voting rights have been included in the consolidated financial statements.

The consolidated group comprises three domestic and seven foreign companies. See the disclosures on shareholdings in Note (42).

Foreign Currency Translation (10)
The Group's reporting currency is the euro, which is the reporting currency of CEAG AG.

Each group company determines its own functional currency. The items in the financial statements of each company included in the consolidated financial statements are measured using this functional currency. Foreign currency transactions are initially recorded at the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at the closing rate. All differences are recognized in profit or loss. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction. Non-monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the fair values were determined.

The financial statements of the foreign subsidiaries are translated in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates according to the functional currency concept. The balance sheets are translated using the closing rate on the balance sheet date, and the income statements are translated at average rates as these companies operate as independent entities in financial, economic and organizational terms. The functional currency of the foreign companies is their respective local currency. The exchange differences on translation are recognized directly under other reserves in equity in the separate item currency translation differences (see Note (29)).

Foreign currency translation is based on the following foreign exchange rates:

Exchange Rates

	Balance sheet date		Average	
In foreign currency/EUR	2006	2005	2006	2005
Brazil (BRL)	2.8177	2.7830	2.7379	3.0424
China (CNY)	10.2793	9.5204	10.0090	10.1640
Hong Kong (HKD)	10.2409	9.1781	9.7549	9.6924
Japan (JPY)	156.9300	138.9000	146.0623	136.8713
USA (USD)	1.3170	1.1797	1.2557	1.2448

Segment Reporting (11)

The reporting format for the primary segments is broken down by business unit. For this purpose, a distinction is made between FMP and FPS activities. The FMP (FRIWO Mobile Power) business unit is responsible for the high-volume market of mobile telephones. The FPS (FRIWO Power Solutions) focuses on IT and communications, household appliances and power tools as well as industrial applications and medical technology. Sales are regionally structured for this unit, with some support from commercial agents and distributors. The holding company monitors the operating segments and performs the Group's central functions. It is shown separately in line with the internal reporting structure.

Sales made between the business units are disclosed separately in the income statement and balance sheet (as receivables and liabilities). The transfer prices between the FMP and FPS business units are calculated on the basis of cost plus a margin. The corresponding effects are eliminated in the Group. There are no material effects on profit or loss to be consolidated at year-end.

The Group's secondary reporting format is based on the geographical markets on which CEAG sells its products. The geographical segments used are the three economic areas relevant for CEAG, these being Europe, Asia and the Americas. Sales to one customer from the FMP business unit who is represented in all geographical segments came to 53% (prior year: 56%) of total revenues for all segments in the year under review.

Sales to another customer from the FMP business unit who is represented in all geographical segments came to 16% (prior year: 7%) of total revenues for all segments in the year under review.

Notes to the Income Statement

Revenues (12)
The development of revenues by strategic business unit (SBU) and by region is presented in the segment report in accordance with IAS 14.

Research Costs (13)
Expenditure on basic research is disclosed in this item. Also see the disclosures on research and development costs in Note (20).

Selling Expenses (14)
Selling expenses comprise the costs of the sales departments as well as costs for advertising, write-downs on receivables and commission expenses.

General and Administrative Expenses (15)
Personnel and material expenses for administration and the costs for external services are disclosed in this item.

Other Operating Expenses and Income (16)

In thousands of EUR	2006	2005
Loss on disposals of assets	0	10
Exchange losses	3,323	2,680
Other expenses	321	1,844
Other opertating expenses	**3,644**	**4,534**
Gains on disposals of essets	61	55
Exchange gains	3,169	2,195
Other income	1,054	491
Other operating income	**4,284**	**2,741**
Other operating expenses/income (net)	**640**	**-1,793**

In 2006, other operating income (net) of EUR 640 thousand was reported (prior year: other operating expense (net) of EUR 1,793 thousand).

Financial Result (17)

In thousands of EUR	2006	2005
Other interest and similar income	132	100
Interest and similar expenses	-1,154	-892
(of wich to affiliated companies)	(-21)	(-123)
Interest portion of allocations to provisions for pensions and similar obligations	-109	-122
Financial result	**-1,131**	**-914**

Income Taxes (18)

Taxes on income paid or due in the individual countries as well as deferred taxes are stated as income taxes. Income taxes are calculated in accordance with IAS 12 and break down as follows:

In thousands of EUR	2006	2005
Current income taxes	760	463
Taxes from prior years	-98	174
Deferred income taxes	270	-146
	932	**491**

Recognized deferred taxes relate to the following balance sheet items and loss carryforwards:

In thousands of EUR	2006 Assets	2006 Liabilities	2005 Assets	2005 Liabilities
Intangible assets	0	0	0	1
Property, plant and equipment	511	1,587	581	953
Inventories	303	0	152	0
Trade receivables	0	0	13	0
Other assets	0	106	0	615
Retained earning of foreign subsidiaries	0	449	0	372
Provisions for pensions	69	0	73	0
Other provisions	40	12	21	12
Liabilities	0	0	0	0
Loss carryforwards	4,846	0	4,716	0
Total	**5,769**	**2,154**	**5,556**	**1,953**
Netting	-461	-461	-385	-385
Adjustment	-3,577	0	-3,793	0
Consolidated balance sheet	**1,731**	**1,693**	**1,378**	**1,568**

	Net			**Of which**		
In thousands of EUR	**2006**	**2005**	change	recognized in profit or loss	recognized in equity	currency
Intangible assets	0	-1	1	1	0	0
Property, plant and equipment	-1,076	-372	-704	-814	0	109
Inventories	303	152	151	168	0	-16
Trade receivables	0	13	-13	-12	0	-1
Other assets	-106	-615	509	0	509	0
Retained earning of foreign subsidiaries	-449	-372	-77	-77	0	0
Provisions for pensions	69	73	-4	-4	0	0
Other provisions	28	9	19	20	0	-2
Liabilities	0	0	0	0	0	0
Loss carryforwards	4,846	4,716	130	267	0	-136
Netting	0	0	0	0	0	0
Adjustment	-3,577	-3,793	216	181	0	33
Consolidated balance sheet	**38**	**-190**	**228**	**-270**	**509**	**-13**

In the prior year, the following results were reported:

In thousands of EUR	2005 Assets	2005 Liabilities	2004 Assets	2004 Liabilities
Intangible assets	0	1	0	3
Property, plant and equipment	581	953	539	0
Inventories	152	0	117	173
Trade receivables	13	0	0	0
Other assets	0	615	0	0
Retained earnings of foreign subsidiaries	0	372	0	260
Provisions for pensions	72	0	74	0
Other provisions	21	12	5	12
Liabilities	0	0	0	1
Loss carryforwards	4,716	0	3,808	0
Total	**5,555**	**1,953**	**4,543**	**449**
Netting	-385	-385	-449	-449
Adjustment	-3,792	0	-3,863	0
Consolidated balance sheet	**1,378**	**1,568**	**231**	**0**

	Net			Of which		
In thousands of EUR	2005	2004	change	recognized in profit or loss	recognized in equity	currency
Intangible assets	-1	-3	2	2	0	0
Property, plant and equipment	-372	539	-911	-899	0	-12
Inventories	152	-56	208	213	0	-5
Trade receivables	13	0	13	12	0	1
Other assets	-615	0	-615	0	-615	0
Retained earning of foreign subsidiaries	-372	-260	-112	-112	0	0
Provisions for pensions	72	74	-2	-2	0	0
Other provisions	9	-7	16	14	0	2
Liabilities	0	-1	1	1	0	0
Loss carryforwards	4,716	3,808	908	820	0	88
Netting	0	0	0	0	0	0
Adjustment	-3,792	-3,863	71	97	0	-26
Consolidated balance sheet	**-190**	**231**	**-421**	**146**	**-615**	**48**

The total amount of deductible temporary differences for which no deferred tax assets were disclosed is EUR 1,307 thousand (prior year: EUR 1,373 thousand).

The realization of deferred tax assets for unused tax loss carryforwards depends on the achievement of taxable income or trade income in subsequent years. As in the prior year, it is considered unrealistic that the tax loss carryforwards of the German companies will be realized. As a result, no deferred tax assets were recognized for these loss carryforwards.

In fiscal year 2006, deferred tax assets of EUR 1,029 thousand (prior year: EUR 865 thousand) were recognized on loss carryforwards of EUR 5.9 million (prior year: EUR 4.9 million) reported at FRIWO Far East. The Management Board assumes that the company will generate positive taxable income in the future.

The loss carryforward in Germany as of December 31, 2006, for which no deferred tax assets were recognized, amounts to EUR 28.1 million (prior year: EUR 26.2 million) for corporate income tax and EUR 26.2 million (prior year: EUR 24.2 million) for trade tax. With regard to tax loss carryforwards in Germany, from fiscal year 2004, current taxable income up to a maximum of EUR 1 million may be fully offset against loss carryforwards, while only 60% of income in excess of this amount may be offset.

No deferred tax asset was recognized on FRIWO USA, Inc.'s loss carryforward of EUR 1.3 million. The loss carryforwards in the United States can be used over a 20-year period. The loss carryforward of the Japanese subsidiary was used in the year under review.

The reconciliation from computed to actual tax expense is shown in the following table:

In thousands of EUR	**2006**	**2005**
Earning before income taxes	12,302	4,724
Estimated tax expense [1]	4,675	1,795
Differing tax rates abroad	-2,133	-621
Change in the tax rate for deferred taxes [2]	-176	0
Non-deductible other expenses	38	39
Non-deductible foreign investment income	90	41
Non-recognition of deferred taxes	742	1,349
Use of deferred taxes on loss carryforwards not previously recognized	-1,000	0
Tax effects from temporary differences not recognized/adjusted to date	9	-896
Non-recognition of taxes due to local tax exemptions	-1,503	-1,345
Taxes for prior years	-98	174
Other effects, net	288	-45
	932	**491**

[1] Estimated tax expense at the rate of CEAG AG of 38 % (prior year: 38 %)
[2] The change in the tax rate for deferred taxes relates to FRIWO CEAG Electrical (Shenzhen) Company Ltd., for which local tax exemptions expired as of December 31, 2006.

Earnings per Share (19)
Earnings per share are calculated in accordance with IAS 33 Earnings per Share on the basis of the consolidated net profit or loss and come to EUR 1.48 in 2006 (prior year: EUR 0.55). The number of shares (7.7 million no-par shares) has not changed in the reporting year. As there are no financial instruments that could be exchanged for shares, diluted earnings are the same as basic earnings.

In thousands of EUR	2006	2005
Number of no-par shares outstanding	7,700,000	7,700,000
Consolidated net profit (in thousands of EUR)	11,370	4,233
Earning per share (in EUR)	1.48	0.55

Other Disclosures on the Income Statement

Research and Development Costs (20)
Costs of EUR 6.4 million were reported in the year under review for research and development (prior year: EUR 5.9 million). Basic research accounted for EUR 0.7 million (prior year: EUR 0.6 million) of this amount. The other costs, which are costs for the project-related enhancement of the product range, are contained in cost of sales.

The following classes of expense are also included in cost of sales, research costs, selling expenses and general and administrative expenses.

Amortization, Depreciation and Impairment Losses (21)
Only amortization and depreciation were charged in the period under review.

In thousands of EUR	2006	2005
Amortization of intangible assets	330	320
Depreciation on property, plant and equipment	7,413	6,173
	7,743	**6,493**

Cost of Materials (22)

In thousands of EUR	2006	2005
Cost of raw materials, consumables and supplies and of purchased merchandise	241,352	152,067

Personnel Expenses and Number of Employees (23)

In thousands of EUR	2006	2005
Personnel expenses	56,713	38,757

The annual average number of people employed by the Group was:

Number of employees	2006	2005
Germany	264	253
Abroad	21,228	13,394
	21,492	13,647

Notes to the Balance Sheet

Statement of Changes in Non-Current Assets of the CEAG Group for Fiscal Year 2006

	Cost					
In thousands of EUR	Jan. 1, 2006	Additions	Disposals	Transfer	Currency translation differences	Dec. 31, 2006
Intangible assets						
Goodwill	2,867	0	0	0	-262	2,605
Industrial property rights and similar rights and assets	3,579	382	688	604	-33	3,844
Payments on account	660	78	0	-604	0	134
	7,106	**460**	**688**	**0**	**-295**	**6,583**
Property, plant and equipment						
Land and buildings	12,371	409	0	75	-367	12,488
Technical equipment and machinery	44,727	10,017	694	415	-3,449	51,016
Other equipment, furniture and fixtures	17,216	912	325	256	-354	17,705
Payment on account and assets under construction	1,888	1,552	0	-746	-203	2,491
	76,202	**12,890**	**1,019**	**0**	**-4,373**	**83,700**
Financial assets						
Investments	5	0	0	0	0	5
	83,313	**13,350**	**1,707**	**0**	**-4,668**	**90,288**

	Depreciation/amortization						Carrying amount	
	Jan. 1, 2006	Additions	Disposals	Transfer	Currency translation differences	Dec.31, 2006	Dec.31, 2006	Dec. 31, 2005
	2,867	0	0	0	-262	2,605	0	0
	3,080	330	634	0	-20	2,765	1,088	499
	0	0	0	0	0	0	134	660
	5,947	**330**	**634**	**0**	**-282**	**5,361**	**1,222**	**1,159**
	8,156	733	0	0	-245	8,644	3,844	4,215
	28,888	5,648	638	0	-2,011	31,887	19,129	15,839
	13,945	1,032	260	0	-258	14,459	3,246	3,271
	0	0	0	0	0	0	2,491	1,888
	50,989	**7,413**	**898**	**0**	**-2,514**	**54,990**	**28,710**	**25,213**
	0	0	0	0	0	0	5	5
	56,936	**7,743**	**1,532**	**0**	**-2,796**	**60,351**	**29,937**	**26,377**

Statement of Changes in Non-Current Assets of the CEAG Group for Fiscal Year 2005

	Cost					
In thousands of EUR	**Jan. 1, 2005**	**Additions**	**Disposals**	**Transfer**	**Currency translation differences**	**Dec. 31, 2005**
Intangible assets						
Goodwill	2,533	0	0	0	334	2,867
Industrial property rights and similar rights and assets	3,167	318	44	101	37	3,579
Payments on account	33	725	0	-98	0	660
	5,733	**1,043**	**44**	**3**	**371**	**7,106**
Property, plant and equipment						
Land and buildings	10,949	851	6	114	463	12,371
Technical equipment and machinery	35,287	7,542	2,356	174	4,080	44,727
other equipment, furniture and fixtures	16,410	1,663	1,540	149	534	17,216
Payment on account and assets under construction	705	1,497	27	-440	153	1,888
	63,351	**11,553**	**3,929**	**-3**	**5,230**	**76,202**
Financial assets						
Investments	5	0	0	0	0	5
	69,089	**12,596**	**3,973**	**0**	**5,601**	**83,313**

Depreciation/amortization						Carrying amount	
Jan. 1, 2005	Additions	Disposals	Transfer	Currency translation differences	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
2,533	0	0	0	334	2,867	0	0
2,781	320	44	2	21	3,080	499	386
0	0	0	0	0	0	660	33
5,314	**320**	**44**	**2**	**355**	**5,947**	**1,159**	**419**
7,155	692	0	0	309	8,156	4,215	3,794
24,351	4,512	2,301	-3	2,329	28,888	15,839	10,936
14,113	969	1,454	1	316	13,945	3,271	2,297
0	0	0	0	0	0	1,888	705
45,619	**6,173**	**3,755**	**-2**	**2,954**	**50,989**	**25,213**	**17,732**
0	0	0	0	0	0	5	5
50,933	**6,493**	**3,799**	**0**	**3,309**	**56,936**	**26,377**	**18,156**

Property, Plant and Equipment (24)
CEAG reviews property, plant and equipment each year to check whether there are indications that an asset may be impaired.

The Management Board of CEAG did not find any indication of impairment of individual assets or assets classed as cash-generating units for fiscal year 2006.

Inventories (25)

In thousands of EUR	2006	2005
Raw materials, consumables and supplies	13,971	16,899
Work in process	5,943	3,582
Finished goods and merchandise	36,857	29,705
	56,771	**50,186**

Write-downs on inventories came to EUR 5.8 million (prior year: EUR 3.1 million) as of December 31, 2006. The year-on-year difference of EUR 2.7 million (prior year: EUR 0.8 million) was recognized in profit or loss during the period under review. Inventories for BenQ Mobile GmbH & Co. OHG account for EUR 1.4 million of this amount.

Current price trends on the sales market are taken into account when determining sales-market related write-downs. Inventory days, expected consumption and salability are factored into the calculation of the recoverable amount (net realizable value). If no other product-specific indicators exist, it is assumed that past sales trends can be used as a basis for estimating future sales.

Based on past experience, finished goods and work in process not consumed within one year are assumed to be either unsellable or only sellable as scrap.

The carrying amount of the inventories recognized at net realizable value is EUR 3.0 million (prior year: EUR 2.1 million).

Receivables and Other Assets (26)

In thousands of EUR	2006	2005
Trade receivables	36,611	29,914
Other assets	3,649	9,005
	40,260	**38,919**

As of the balance sheet date, write-downs on trade receivables and other assets were recognized in the amount of EUR 1.0 million (prior year: EUR 34 thousand). Receivables from BenQ Mobile GmbH & Co. OHG account for EUR 0.5 million of this amount.

Other claims for refunds from the tax office, derivative financial instruments, rent deposits, other asset items and receivables from import VAT are recognized as other assets. Tax refund claims of EUR 739 thousand (EUR 584 thousand) are disclosed. They mainly comprise receivables from German and foreign VAT.

All receivables and other assets are due in less than one year.

Prepaid Expenses (27)
Prepaid expenses comprise prepaid insurance premiums and other prepaid items.

Cash and Cash Equivalents (28)
Cash and cash equivalents comprise cash on hand and bank balances.

In thousands of EUR	2006	2005
Checks and cash on hand	633	643
Bank balances	1,889	6,853
	2,522	**7,496**

Equity (29)
The subscribed capital and capital reserve relate to CEAG AG. CEAG AG's capital stock of EUR 20 million is divided into 7.7 million no-par bearer shares with equal rights. Thus each share represents a EUR 2.60 share in subscribed capital. The number of shares outstanding did not change in the fiscal year or the prior year. The contributions to capital have been paid up in full. CEAG AG does not hold treasury shares either directly or indirectly.

The Management Board is authorized to increase capital stock by up to EUR 9,100,000 on one or more occasions by issuing no-par bearer shares in return for contributions in cash or in kind. To date, no use has been made of this authorization, which will expire on May 31, 2007.

In accordance with a resolution adopted by the Management Board, CEAG AG used EUR 13.4 million of its capital reserve of EUR 15.4 million to offset most of the loss carried forward in accordance with German commercial law, reducing its capital reserve to the minimum EUR 2 million prescribed by law.

Statement of Changes in Equity of the CEAG Group for Fiscal Year 2006

	Subscribed capital	Capital reserve	Revenue reserves	Other reserves	Consoli-dated net profit	Consolida-ted equity
As of Dec. 31, 2004	**20,020**	**15,440**	**-8,160**	**-9,014**	**2,083**	**20,369**
Total income/expense recognized directly in equity				6,230		6,230
Consolidated net pofit					4,233	4,233
Total result for the period				**6,230**	**4,233**	**10,463**
Allocation to revenue reserves			2,083		-2,083	0
As of Dec. 31, 2005	**20,020**	**15,440**	**-6,077**	**-2,784**	**4,233**	**30,832**
Total income/expense recognized directly in equity				-4,746		-4,746
Consolidated net pofit					11,370	11,370
Total result for the period				**-4,746**	**11,370**	**6,624**
Allocation to revenue reserves			4,233		-4,233	0
Withdrawal from the capital reserve		-13,438	13,438			0
As of Dec. 31, 2006	**20,020**	**2,002**	**11,594**	**-7,530**	**11,370**	**37,456**

The composition and development of other reserves is presented in the following table:

Statement of Changes in Other Reserves of the CEAG Group for Fiscal Year 2006

In thousands of EUR	Cash flow hedges	Provisions for pensions and similar obligations	Foreign currency	Total
As of Dec. 31, 2004	**56**	**4**	**-9,074**	**-9,014**
Changes in the fair value of financial instruments used for hedging purposes recognized in equity	3,250			3,250
Tax effect from gains/losses from cash flow hedges	-615			-615
Net result from cash flow hedges	**2,635**			**2,635**
Unrealized gains/losses from provisions fpr pensions and similar obligations		-172		-172
Net result from provisions for pensions and similar obligations		**-172**		**-172**
Currency translation differences			3,767	3,767
Total income/expense recognized directly in equity	2,635	-172	3,767	6,230
As of Dec. 31, 2005	**2,691**	**-168**	**-5,307**	**-2,784**
Changes in the fair value of financial instruments used as hedging instruments recognized in equity	-2,620			-2,620
Tax effect from gains/losses from cash flow hedges	509			509
Net result from cash flow hedges	**-2,111**			**-2,111**
Unrealized gains/losses from provisions for pensions and similar obligations		-33		-33
Net result from provisions for pensions and similar obligations		**-33**		**-33**
Currency translation differences			-2,602	-2,602
Total income/expense recognized directly in equity	-2,111	-33	-2,602	-4,746
As of Dec. 31, 2006	**580**	**-201**	**-7,909**	**-7,530**

Provisions for Pensions (30)
The actuarial gains and losses are recognized directly in equity.

Present Value of the Defined Benefit Obligation

In thousands of EUR	2006	2005
Defined benefit obligation as of Jan. 1	**2,427**	**2,211**
Current service cost (present value of the pension claims earned in the fiscal year)	73	63
Interest expense	109	122
Actuarial gains/losses	33	172
Benefits paid	-143	-141
Defined benefit obligations as of Dec. 31	**2,499**	**2,427**

The actuarial calculation is based on the following parameters: a discount rate of 4.5% (prior year: 4.5%), a salary increase of 3.5% (prior year: 3.5%) and a pension increase of between 1.0% and 1.5% (prior year: 1.0% to 1.5%).
With regard to life expectancy, the 2005 mortality tables published by Dr. Klaus Heubeck were used.

The present values of the pension obligation are not funded.

The obligations, which solely relate to Germany, chiefly comprise fixed employee benefits related to length of service; commitments based on income and length of service have also been made. The commitments are all based on individual agreements.

Other Provisions (31)

In thousands of EUR	As of Jan. 1, 2006	Utilization	Reversal	Allocation	Currency difference	As of Dec. 31, 2006
Other non-current provisions						
Personnel and welfare	**876**	369	0	607	0	**1,114**
Other current provisions						
Warrenties	**2,867**	1,569	201	758	-119	**1,736**
Other	**172**	0	2	251	0	**421**
	3,039	**1,569**	**203**	**1,009**	**-119**	**2,157**

The obligations for long-service awards and the provision for phased retirement are disclosed under non-current provisions in the balance sheet. The provision for phased retirement concerns the German companies. The provision for phased retirement is expected to be utilized within the next five years.

The provisions for warranties cover warranties for deliveries and services rendered and obligations from product recalls. These obligations are expected to be utilized within the next two fiscal years. Also see our explanations on contingencies in Note (35).

Non-Current Liabilities (32)

In thousands of EUR	Residual term < 1 year	Residual term 1 to 5 years	Residual liability Dec. 31, 2006	Residual term < 1 year	Residual term 1 to 5 years	Residual liability Dec. 31, 2006
Annuity loan	212	**109**	321	201	**321**	522
Investment loan	586	**2,179**	2,765	0	**0**	0
	798	**2,288**	3,086	201	**321**	522

Non-current liabilities to banks relate to an annuity loan which has a term of five years and an investment loan with quarterly repayments, which also has a term of five years. The current portion of EUR 212 thousand (prior year: EUR 201 thousand) of the annuity loan and EUR 568 thousand (prior year: EUR 0 thousand) of the investment loan is disclosed under current liabilities to banks. See the explanations on interest and collateral in Notes (33) and (37).

Current Liabilities (33)

In thousands of EUR	2006	2005
Liabilities to banks	6,057	7,416
Trade payables (third parties)	63,497	65,511
Liabilities to affiliated companies	35	188
(of which current financial liabilities)	(0)	(188)
(of which trade)	(35)	(0)
Income tax liabilities	128	329
Other liabilities	13,819	11,463
(of which taxes)	(453)	(159)
(of which social security)	(15)	(346)
	83,536	**84,907**

Payment obligations are reported as long or short term depending on their maturity.

The remaining liabilities include tax liabilities, sales bonuses and other liabilities relating to sales and operations and are considerably up on the prior year due to the increase in business volume.

Liabilities to banks and the loans disclosed under non-current liabilities are fully secured by land charges and other collateral rights. The liabilities of EUR 4.4 million to German banks (including the annuity loan reported under non-current liabilities) are fully secured by land charges of EUR 5 million (prior year: EUR 5 million) and other collateral rights relating to the Ostbevern operations. The liability of EUR 3.9 million to a foreign bank is secured by material assets of FRIWO Far East Ltd., especially regular receivables from customers, and is subject to the achievement of certain financial covenants.

Notes to the Cash Flow Statement (34)
The cash flow statement is classified in accordance with IAS 7 Cash Flow Statements and shows how the Group's cash and cash equivalents have changed in the course of the year under review due to inflows and outflows of funds.

The cash and cash equivalents at the beginning and end of the period under review reflect the composition of cash and cash equivalents in the respective balance sheet.

Interest and tax payments are shown in the following table:

In thousands of EUR	2006	2005
Interest paid	-1,190	-892
Interest received	132	100
Income taxes paid/received (net)	-819	-514

Other Disclosures

Contingencies (35)
In the year under review, a customer of the FMP business unit had to file for insolvency. Provision was made in the financial statements for all identifiable risks (inventories and receivables). However, there is an additional risk of EUR 0.4 million given the uncertainty surrounding the future of this customer.

Other Financial Commitments (36)

In thousands of EUR	2006	2005
Purchase commitments for property, plant and equipment	1,185	1,282
Rent and lease obligations	9,733	7,769
(of which due next year)	(3,442)	(2,782)
(of which due in two to five years)	(6,291)	(4,987)
	10,918	**9,051**

The rent and lease obligations include rent of EUR 8,935 thousand (prior year: EUR 7,032 thousand) for the sites in China, mainly for factory buildings.

Rent and lease expenses of EUR 3,062 thousand (prior year: EUR 2,530 thousand) were recognized in profit or loss in fiscal year 2006.

Financial Instruments (37)

CEAG is exposed to currency risks on account of its international operations. These are hedged naturally on the basis of foreign currency positions by matching accounts receivable and payable in the same currency. Any remaining foreign currency risks are mitigated by concluding forward exchange contracts in the context of targeted currency management. The forward exchange contracts designated as cash flow hedges are used to hedge expected future revenues in US dollars in fiscal year 2007.

As a manufacturer of copper goods, CEAG is exposed to risks from fluctuations in the price of copper. CEAG hedges against prices risks on the procurement side of operations for selected product groups by using derivative financial instruments on the basis of copper indices. These commodity futures reported as cash flow hedges serve to hedge a portion of the cash flows used to purchase copper for expected future sales of products made using copper. The cash flows from the derivative as well as the cash flows used to purchase the copper are denominated in US dollars. As of the balance sheet date, EUR 0.8 million was recognized as a reduction in the cost of inventories. These inventories will be included in the cost of sales in January and February 2007.

The nominal volumes and market values of the derivative financial instruments recognized at the balance sheet date are shown in the following table:

	Nominal volume		Market value	
In thousands of EUR	**Dec. 31, 2006**	**Dec. 31, 2005**	**Dec. 31, 2006**	**Dec. 31, 2005**
Forward exchange contracts (cash flow hedges)	2,685	9,381	79	-210
Forward exchange contracts (others)	1,592	2,421	-2	-7
Copper hedges (cash flow hedges)	1,553	10,573	607	3,516

The positive market values are reported under other assets, and the negative market values under other liabilities. The market values are determined in accordance with the mark-to-market method.

The nominal value of the financial instruments approximates their fair value, as the instruments are short term and bear interest at market rates.

CEAG is exposed to the risk of changes in interest rates on account of its liabilities to lenders. As in the prior year, most liabilities to affiliated companies and banks in fiscal year 2006 are short-term borrowings. HIBOR, SIBOR and EURIBOR are the reference interest rates used by the lenders for most of the loans drawn as of the balance sheet date. The fixed-interest period for a five-year loan to FRIWO Gerätebau GmbH, Ostbevern, of EUR 1.0 million ends in mid-2008. The residual liability under the annuity loan (see Note (32)) was EUR 321 thousand as of the balance sheet date (prior year: EUR 522 thousand). The development of market interest rates is subject to constant monitoring and analysis.

At year-end, the borrowing facilities used in the various currencies and presented here at their equivalent in the group currency are shown below:

In thousands of EUR	Borrowing facility	Drawings	Residual facility
EUR	8,321	4,438	3,883
HKD	15,592	2,768	12,824
USD	1,519	1,139	380
RMB	18,484	0	18,484
	43,916	**8,345**	**35,571**

The average interest rate for borrowings was 6.04% in 2006. Some of the loans raised are subject to covenants. The borrowing facilities are partly secured by land charges and other collateral rights.

The Group has receivables from a variety of customers. These receivables frequently include high individual accounts from major customers. The default risks associated with accounts receivable are addressed by applying a systematic procedure for the selection of customers, analyzing payment histories and setting appropriate credit limits. The receivables and other assets recognized as of the balance sheet date represent the maximum risk of default.

Related Party Disclosures (38)
Under IAS 24, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

DELTON AG, Bad Homburg v. d. Höhe, Germany, holds the majority of shares in CEAG AG and is therefore a related party of CEAG AG and its subsidiaries. The CEAG Group received consulting services and cost recharges from DELTON AG of EUR 193 thousand (prior year: EUR 105 thousand) in the reporting year. In addition, DELTON AG granted CEAG AG a borrowing facility in the year under review. In 2006, CEAG AG fully repaid a loan granted by DELTON AG.
As of December 31, 2005, EUR 1.4 million was drawn under this loan (including guarantees). The agreement on a borrowing facility from DELTON AG was terminated (prior year: EUR 5.0 million). The interest expense for the loans utilized in the fiscal year came to EUR 21 thousand (prior year: EUR 123 thousand). All business transactions were settled at arm’s length.

Mr. Stefan Quandt is a related party of CEAG AG, since he is the sole shareholder of DELTON AG. There were no transactions with Mr. Stefan Quandt.

Total Remuneration of the Supervisory Board and Management Board (39)
Remuneration for members of the Supervisory Board for fiscal year 2006 comes to EUR 67 thousand (prior year: EUR 55 thousand). The fixed remuneration per Supervisory Board member is EUR 10,000 p.a. The variable remuneration depends on the amount of dividends declared and was not paid in 2006.

The chairman of the Supervisory Board receives two times, the deputy one-and-a-half times the above amount. Committee members, other than the chairman and deputy chairman of the Supervisory Board, receive additional remuneration of EUR 1,000.

Total remuneration of the Management Board for fiscal year 2006 amounts to EUR 1,115 thousand (prior year: EUR 768 thousand), consisting of a fixed component of EUR 529 thousand (EUR 118 thousand from affiliated companies) and a variable component of EUR 586 thousand. In the year under review, EUR 57 thousand was allocated to the pension provisions for active Management Board members (prior year: EUR 80 thousand). The provisions amount to EUR 444 thousand (prior year: EUR 399 thousand).

Former members of the Management Board and their survivors received pension benefits of EUR 77 thousand (prior year: EUR 75 thousand). Total provisions of EUR 1,173 thousand (prior year: EUR 1,151 thousand) have been accrued for pension obligations towards former members of the Management Board and their survivors.

Shares Held by Members of the Management Board and Supervisory Board (40)

Members of the Supervisory Board held a total of 120 shares directly as of December 31, 2006 (prior year: 120 shares). No shares are held by Management Board members. No subscription rights for shares have been granted to the members of the Management Board and Supervisory Board.

Audit Fees (41)

The auditors' fees recognized as an expense in fiscal year 2006 cover the services shown below:

In thousands of EUR	2006	2005
Audit services	239	270
Tax services	14	13
Other services	141	16
	394	**299**

Shareholdings (42)

The domestic companies listed have profit and loss transfer agreements with CEAG AG. FRIWO Gerätebau GmbH, Ostbevern, Germany, and FRIWO Mobile Power GmbH, Ostbevern, Germany, make use of the simplifications pursuant to Sec. 264 (3) HGB.

In thousands of EUR	Share-holding	Equity	Net profit/ loss 2006*
FRIWO Mobile Power GmbH, Ostbevern, Germany	100 %	19,839	3,241**
FRIWO Gerätebau GmbH, Ostbevern, Germany	100 %	6,145	1,097**
FRIWO Far East Ltd., Hong Kong, China	100 %	12,752	2,338
FRIWO CEAG Electrical (Shenzhen) Company Ltd., Shenzhen, China	100 %	14,300	5,818
FRIWO Electrical (Beijing) Co., Ltd., Beijing, China	100 %	5,373	3,193
CEAG China Ltd., Hong Kong, China	100 %	39	45
FRIWO USA, Inc., Colorado Springs, USA	100 %	-16	323
FRIWO Japan Co., Ltd., Tokio, Japan (in liquidation)	100 %	206	2,369
FRIWO do Brasil Ltda., São Paulo, Brazil	100 %	77	-502

* in accordance with IFRSs
** before profit and loss transfer

Corporate Governance Disclosure (43)

The Management Board and Supervisory Board issued the declaration required pursuant to Sec. 161 AktG and made it available to the shareholders.

Bad Homburg v. d. Höhe, Germany, February 12, 2007

CEAG AG

The Management Board

Rolf Endress
Chairman of the Management Board

Frank Gumbinger
Member of the Management Board

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the combined management report:

"We have audited the consolidated financial statements prepared by CEAG AG, Bad Homburg v.d. Höhe, Germany, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity, the statement of recognized income and expense and the notes to the financial statements, together with the combined management report for the fiscal year from January 1 to December 31, 2006. 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 Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 combined 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 the entities to be included in consolidation, the accounting consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the 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 and the additional requirements of German commercial law pursuant to Sec. 315a (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 combined 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 relating to future development."

Düsseldorf, Germany, February 15, 2007
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Thomas Harms
Wirtschaftsprüfer
[German Public Auditor]

Tim Klinkosch
Wirtschaftsprüfer
[German Public Auditor]

Dates and Addresses

Financial Calendar

Fiscal Year January 1 – December 31

Annual shareholders' meeting May 8, 2007

Addresses

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The annual report is also available in German.

At a Glance

Key Figures for the CEAG Group

(The group currency is EUR)

In millions of EUR		2006	2005	Change
Unit sales				in %
CEAG		310.4	209.7	**48.1**
FMP		282.9	189.6	**49.2**
FPS		27.5	20.1	**36.8**
Revenues (external)				
CEAG		351.7	230.1	**52.8**
FMP		272.6	166.7	**63.5**
FPS		79.1	63.3	**24.9**
EBIT				
CEAG		13.4	5.6	**138.3**
FMP		12.8	8.3	**54.6**
FPS		3.5	0.1	**-**
Holding		-2.9	-2.7	**-7.4**
EBIT margin	%	3.8	2.5	**-**
EBT		12.3	4.7	**160.4**
Consolidated net profit		11.4	4.2	**168.6**
Balance sheet				
Balance sheet total		131.4	124.6	**5.5**
Subscribed capital		20.0	20.0	**-**
Number of shares	in millions	7.7	7.7	**-**
Equity		37.5	30.8	**21.5**
Equity ratio	%	28.5	24.7	**15.4**
Capital expenditure		13.3	12.6	**6.0**
Employees (as of Dec. 31)		22,223	17,447	**27.4**
Germany		270	253	**6.7**
Abroad		21,953	17,194	**27.7**
Share				
Earnings per share	EUR	1.48	0.55	**168.6**
Dividend per share	EUR	-	-	**-**

Power Supplies and Chargers
Netz- und Ladegeräte

FRIWO Mobile Power

MOBILE POWER

FRIWO Power Solutions

IT & COMMUNICATION
IT & KOMMUNIKATION

CONSUMER EQUIPMENT AND TOOLS
MOBILE HAUSHALTSGERÄTE UND WERKZEUGE

INDUSTRIAL EQUIPMENT
INDUSTRIELLE ANWENDUNGEN

MEDICAL EQUIPMENT
MEDIZINTECHNIK

Five-Year Overview

Key Figures for the CEAG Group

(The group currency is EUR)

In millions of EUR		2006	2005	2004	2003	2002
Unit sales						
CEAG		310.4	209.7	154.7	139.2	122.6
FMP		282.9	189.6	142.0	131.9	116.5
FPS		27.5	20.1	12.7	7.3	6.1
Revenues (external)						
CEAG		351.7	230.1	160.4	167.4	191.4
FMP		272.6	166.7	113.4	129.7	149.1
FPS		79.1	63.3	47.1	37.7	42.3
EBIT						
CEAG		13.4	5.6	3.6	4.2	-3.2
FMP		12.8	8.3	3.4	5.2	4.0
FPS		3.5	0.1	0.3	-1.0	-7.2
Holding		-2.9	-2.7	-	-	-
EBIT margin	%	3.8	2.5	2.3	2.5	-1.7
EBT		12.3	4.7	2.7	2.8	-17.6
Consolidated net profit		11.4	4.2	2.1	2.8	-25.1
Balance sheet						
Balance sheet total		131.4	124.6	70.2	77.7	86.8
Subscribed capital		20.0	20.0	20.0	20.0	20.0
Number of shares	in millions	7.7	7.7	7.7	7.7	7.7
Equity		37.5	30.8	20.4	19.8	22.6
Equity ratio	%	28.5	24.7	29.0	25.5	26.0
Capital expenditure		13.3	12.6	7.9	7.2	6.8
Employees (as of Dec. 31)		22,223	17,447	10,352	9,539	8,727
Germany		270	253	251	245	298
Abroad		21,953	17,194	10,101	9,294	8,429
Share						
Earnings per share	EUR	1.48	0.55	0.27	0.36	-3.26
Dividend per share	EUR	-	-	-	-	-