Dates and Addresses

Dates

Fiscal year January 1 to December 31

Annual shareholders´ meeting May 11, 2006

Addresses

CEAG AG
Headquarters:
Bad Homburg v. d. H., Germany

WKN 620 110
ISIN DE 0006201106 CEA

Business address
Von-Liebig-Strasse 11
D-48346 Ostbevern, Germany
Tel.: +49 (0) 25 32 - 81 - 0
Fax: +49 (0) 25 32 - 81 - 129
eMail: info.ceag@friwo.de
Internet: http://www.ceag-ag.com

Public Relations/
Investor Relations
Ms. Gudrun Richter
Tel.: +49 (0) 25 32 - 81 - 158
Fax: +49 (0) 25 32 - 81 - 129
eMail: richter@friwo.de

The annual report is also available in German.

1819581

CEAG AG

ANNUAL REPORT 2005

Insights

FRIWO®
POWERUNLIMITED

At a Glance

Key Figures for the CEAG Group

(The group currency is EUR)

In millions of EUR		2005	2004	Change
Unit sales				**in %**
CEAG		209.7	154.7	**36**
FMP		189.6	142.0	**34**
FPS		20.1	12.7	**58**
Revenues (external)				
CEAG		230.1	160.4	**43**
FMP		166.7	113.4	**47**
FPS		63.3	47.1	**35**
EBIT				
EBIT (before restructuring)		5.6	3.6	**56**
EBIT (after restructuring)		5.6	3.6	**56**
FMP		6.0	3.4	**77**
FPS		-0.3	0.3	
EBIT operating margin	%	2.5	2.3	
EBT		4.7	2.7	**75**
Consolidated net profit		4.2	2.1	**103**
Balance sheet				
Balance sheet total		124.6	70.2	**78**
Subscribed capital		20.0	20.0	
Number of shares	in millions	7.7	7.7	
Equity		30.8	20.4	**51**
Equity ratio	%	24.7	29.0	
Capital expenditure		12.6	7.9	**59**
Employees (as of Dec. 31)		17,447	10,352	**69**
Germany		253	251	**1**
Abroad		17,194	10,101	**70**
Share				
Earnings per share	EUR	0.55	0.27	**104**
Dividend per share	EUR	-	-	

Five-Year Overview

Key Figures for the CEAG Group

(The group currency is EUR)

In millions of EUR		2005	2004	2003	2002	2001
Unit sales						
CEAG		209.7	154.7	139.2	122.6	107.8
FMP		189.6	142.0	131.9	116.5	–
FPS		20.1	12.7	7.3	6.1	–
Revenues (external)						
CEAG		230.1	160.4	167.4	191.4	213.8
FMP		166.7	113.4	129.7	149.1	–
FPS		63.3	47.1	37.7	42.3	–
EBIT						
EBIT (before restructing)		5.6	3.6	4.2	-3.2	-1.7
EBIT (after restructing)		5.6	3.6	4.2	-16.1	-2.9
FMP		6.0	3.4	5.2	4.0	–
FPS		-0.3	0.3	-1.0	-7.2	–
EBIT operating margin	%	2.5	2.3	2.5	-1.7	-0.8
EBT		4.7	2.7	2.8	-17.6	-4.5
Consolidated net profit		4.2	2.1	2.8	-25.1	-2.7
Balance sheet						
Balance sheet total		124.6	70.2	77.7	86.8	135.1
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		30.8	20.4	19.8	22.6	53.6
Equity ratio	%	24.7	29.0	25.5	26.0	39.7
Capital expenditure		12.6	7.9	7.2	6.8	9.2
Employees (as of Dec. 31)		17,447	10,352	9,539	8,727	8,519
Germany		253	251	245	298	431
Abroad		17,194	10,101	9,294	8,429	8,088
Share						
Earnings per share	EUR	0.55	0.27	0.36	-3.26	-0.35
Dividend per share	EUR	-	-	-	-	-

Contents

Foreword

Dear Friends and Shareholders of CEAG,

The CEAG Group enjoyed a successful fiscal year 2005. We recorded significant growth in unit sales and revenues, consolidated our position in key markets and noticeably improved the Group's results of operations. We are very pleased with these achievements, even if they are only a stepping stone – especially in terms of earnings.

In 2005, we sold 209.7 million FRIWO power supplies and chargers, a year-on-year rise of 36%. Consolidated revenues were even more pleasing, rising by 43% to EUR 230.1 million.

The driving force behind this positive development was the sustained uptrend on the global mobile telephone market, which grew by around 20%, outstripping market forecasts. As a result, our FRIWO Mobile Power (FMP) business unit increased sales of mobile telephone chargers by almost 34%, outperforming the sector. This was partly due to the fact that key existing customers increased their market share, which had a knock-on effect on CEAG sales, and partly due to the successful acquisition of new customers, which we had planned for the fiscal year. Our new customers alone accounted for double-digit growth in FMP's revenues. These developments represent a milestone on our quest to achieve a widely diversified and balanced customer base. This positive top-line growth has enabled the CEAG Group to extend its position as the world leader in power supplies and chargers for mobile phones – and that despite the tough competition that continues to shape this market. Our efforts to compensate the gradual wind-up of our linear charger business by increasing our sales of switch mode technology have also proven successful. In 2005, for example, unit sales in FMP switch mode chargers were 70% higher than in the prior year (2005: 82.6 million units; 2004: 48.6 million units).

Matthias Grevener
(Member of the
Management Board)

Rolf Endress
(Chairman of the
Management Board)

In 2005, our second business unit, FRIWO Power Solutions (FPS) also maintained the growth course of the prior year, increasing revenues by 35%. Less a result of the economic environment, especially with the mood of German consumers - a key factor for FPS - remaining subdued, this development was mainly attributable to the new customers and projects acquired by the business unit over the last few years. The fact that this top-line growth was not sufficiently reflected in FPS' operating result is primarily due to the provision set up for a product recall.

In terms of costs, CEAG had to rise to a number of challenges in 2005. These included, in particular, the relentlessly high price of raw materials, but also increasing wage levels in China, the appreciation of the Chinese currency and additional costs due to temporary interruptions in the energy supply to the local plants. The fact that CEAG managed to increase consolidated EBIT by EUR 2.0 million to EUR 5.6 million in the face of these drawbacks is testament to the progress the Group has made over the last few years in terms of efficiency, cost awareness and flexibility – indispensable qualities for a midmarket company operating in a globalized economy. Still, this rise in EBIT should not obscure the fact that we are not yet satisfied with the Group's earnings strength. The main thing, however, is that earnings are moving in the right direction.

We are entering fiscal year 2006 on an optimistic note. Industry experts have forecast continued growth in the global market for mobile telephones, and there are signs at least that German consumers are starting to loosen their belts. CEAG's main priority is to expand production capacities ahead of further growth, taking account of the Group's flexibility and financing strength. This will involve addressing the issue of whether the Group has an adequate level of vertical integration.

Our aim is to bring CEAG's profits to a level that will pave the way for a period of sustainable growth. Pivotal to this growth story will be the ongoing success in selling our current generation of switch mode chargers.
This is the prerequisite for ensuring that CEAG remains an attractive investment in the future.

Ostbevern, Germany, February 13, 2006

Rolf Endress
Chairman of the Management Board

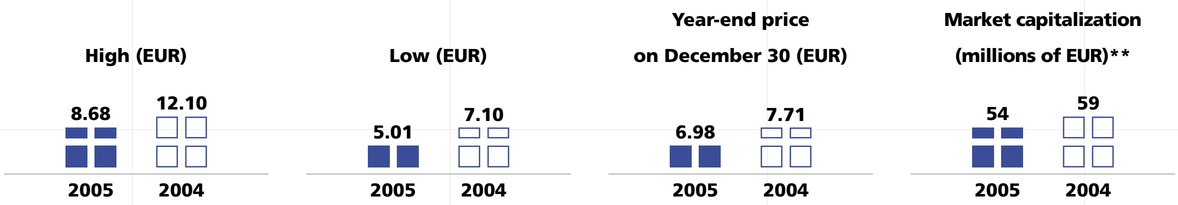
Matthias Grevener
Member of the Management Board

CEAG Stock

Dynamic Stock Market Trend in 2005

The international stock markets put in a positive performance in 2005. The European exchanges, in particular, showed a marked uptrend, growing at a much faster pace than in the previous year. On the back of robust global growth, burgeoning company profits and low interest rates, most of the relevant indices saw double-digit growth. The German DAX stock index closed the fiscal year at 5,408 points, recording a year-on-year rise of 27.1% compared with the 7.3% recorded in 2004. Climbing higher still were the MDAX (up 36.0%) and the SDAX (up 35.2%). The Prime All Share Index, which comprises all of Deutsche Börse's Prime Standard stocks, grew by almost 27%.

Performance data for the CEAG stock*



* All information based on Xetra closing prices

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

CEAG Stock in 2005 (Xetra)

The downtrend of the CEAG stock that set in during the second half of 2004 continued into 2005. Following a year-end price of EUR 7.71 in 2004, the stock dropped to an annual low of EUR 5.01 on July 15, 2005. The stock then rallied, however, reaching an annual high of EUR 8.68 on November 18, 2005. The CEAG stock closed the fiscal year at EUR 6.98. This equals a 9.5% decrease on the year-end price in 2004.

The CEAG Stock vs. Prime All Share Index

The CEAG stock could not keep up with the positive performance of the Prime All Share Index in 2005. Only in the final quarter did the stock start to close the gap. Landesbank Baden-Württemberg (LBBW) is CEAG's designated sponsor.

CEAG Stock in 2005 (Xetra)

CEAG Stock vs. Prime All Share Index

Segment Switch in 2006

On December 5, 2005, CEAG announced that it was switching from the Prime Standard to the General Standard segment of Deutsche Börse. The new listing, which will become effective on April 11, 2006, will reflect the Company's size and allow it to exploit cost advantages.

Annual Document

Annual Document in Accordance With Sec. 10 WpPG (German Securities Prospectus Act)
CEAG AG issues securities admitted to trading on an organized market and pursuant to Sec. 10 WpPG must make an "Annual Document" available to the public at least once a year.

Above all, this document must contain the information published or made available to the public pursuant to the provisions of securities law defined in Sec. 10 (1) WpPG.

More information can be found at http://www.ceag-ag.com.

Type of Information	Publication Date
Financial calendar 2005	August 12, 2004
Invitation to the Shareholders' Meeting	March 11, 2005
CEAG Consolidated Financial Statements 2004	March 11, 2005
CEAG AG Financial Statements 2004	March 11, 2005
Q1 Report	May 12, 2005
Q2 Report	August 3, 2005
Financial Calendar 2006	September 27, 2005
Q3 Report	November 9, 2005
Corporate Governance Report	December 1, 2005
Ad Hoc: Segment Switch	December 5, 2005

Report of the Supervisory Board

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. 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. Furthermore, the records and papers, etc. within the meaning of Sec. 111 (2) AktG (German Stock Corporation Act) did not have to be inspected. 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 in the strategic business unit, FRIWO Mobile Power (FMP), focused on new customer acquisitions and their profitability, as well as investments in expanding capacity in China. The performance of the second business unit, FRIWO Power Solutions (FPS), was also closely followed. In this connection, the Supervisory Board was also informed of the risks surrounding a product recall in the FPS business unit in Japan. Furthermore, the strategic plan, the effects of the appreciation of the Chinese currency, price increases for raw materials and rising wage levels in China were also on the agenda for discussion.

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 December 8, 2004. The new compliance declaration adopted at the meeting on November 30, 2005 still contains four deviations. The Management Board and Supervisory Board issued a corporate governance report that is published in this annual report on page 14 and 15 and includes the compliance declaration of November 30, 2005.

Supervisory Board and Committee Meetings

The Supervisory Board held five meetings in the period under review. The Audit Committee met once during the fiscal year and discussed the Company's financial statements and consolidated statements as of December 31, 2004 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, 2005. In the period under review, a Finance Committee was established which advised the Management Board on an M&A transaction that was subsequently not realized. During the eight meetings held, the Finance Committee also discussed the strategic alignment of the Group and the two business units as well as the optimization of the Group structure. The Personnel Committee held five meetings overall.

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, 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) of the German Commercial Code (HGB) showed that the Management Board has taken the measures pursuant to Sec. 91 (2) AktG (German Stock Corporation Act) in a suitable form 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 16, 2006, the Audit Committee was informed in detail about the financial statements, consolidated financial statements and the audit findings. It 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 2006 the appointment of Ernst & Young as auditor for fiscal year 2006. The latter 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, 2006
The Supervisory Board

Berndt-Michael Winter
Chairman

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)
- Mast-Jägermeister AG, Wolfenbüttel (Germany) (member of the supervisory board)
- Thiel Logistik AG, Grevenmacher (Luxembourg) (chairman of the board of directors)

Rita Brehm
Assembly worker
Chairperson of the works council
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. 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)
- OEB Traktionsbatterien AG, Zurich (Switzerland) (member of the administrative of directors)
- Deta Douglas Battery LLC, Winston-Salem (NC/USA) (chairman of the supervisory 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) (since October 25, 2005)
- Kraftverkehr Bayern GmbH/ Südkraft Logistik GmbH, Munich (Germany) (member of the supervisory board) (until October 19, 2005)
- Thiel Logistik AG, Grevenmacher (Luxembourg) (deputy chairman of the board of directors)

Supervisory Board Committees

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

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

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

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 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)

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

As of December 31, 2005

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 Government 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 meet the requirements of the German Investor Protection Improvement Act (AnSVG). For instance, an insider list is kept which contains the names of all relevant persons.

Compliance Declaration Pursuant to Sec. 161 AktG (German Stock Corporation Act) Dated November 30, 2005

The Management Board and Supervisory Board of CEAG AG declare the following pursuant to Sec. 161 AktG:

"The Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code (as amended on May 21, 2003) published on July 4, 2003 in the electronic version of the *Bundesanzeiger* (German Federal Gazette) since the last compliance declaration on December 8, 2004 with the following exceptions and shall continue to comply with the recommendations of the Government Commission as amended on June 2, 2005 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 compensation structure and not issue any binding instruction to the Personnel Committee (No. 4.2.2 (1) of the Code).

3 The disclosures of Management Board compensation shall not be personalized in the notes to the consolidated financial statements in order to protect the members' privacy (No. 4.2.4 Sentence 2 of the Code).

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) Sentence 1 of the Code)."

Bad Homburg v. d. H., Germany, November 30, 2005

Berndt Michael Winter
Chairman of the Supervisory Board

Rolf Endress
Chairman of the Management Board

Matthias Grevener
Member of the Management Board

Management and Corporate Structure

As CEAG AG with its headquarters in Bad Homburg v.d.H., Germany, is subject to the German Stock Corporation Act (AktG), 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 (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 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 auditor's 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, 2005 (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 auditor. 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 an independent auditor. The auditor is elected by the shareholders' meeting, and the audit engagement is issued by the Supervisory Board. The Supervisory Board's Audit Committee determines the audit priorities and fees and reviews the auditor's 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.

Report on the Structure of Management Board Compensation at CEAG AG

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

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

Compensation comprises two components: fixed compensation and a variable bonus. 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 measurement criteria is contractually agreed upon. The proportion of variable compensation increases as the target income increases and is a maximum of 48% of the target income for 100% target achievement in 2005. The bonus can range from 0% to 200% of the target bonus depending on quantitative results and qualitative performance. Management Board compensation is therefore heavily dependent on results. The Supervisory Board's Personnel Committee may fix a special bonus and may grant stock options in accordance with legal provisions. An exercisable stock option plan does not exist at present.

In addition, pension commitments and other regular ancillary benefits are granted.

Management Report for the CEAG Group and CEAG AG

General and Overall Economic Conditions

The CEAG Group

CEAG AG with its subsidiaries is the world's leading supplier of chargers for mobile telephones. It also develops, produces and sells individual power supplies and chargers for IT and communications, household appliances and power tools, industrial applications and medical technology.

CEAG AG, the holding company of the FRIWO Group, holds all shares in the FRIWO companies. In Germany, these include FRIWO Gerätebau GmbH, with its own production plant, and FRIWO Mobile Power GmbH. The Group also has three subsidiaries with production plants in China, a service company in Hong Kong and sales companies in Japan, the United States and Brazil.

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 provides a full account of the situation of CEAG AG as well as the Group. Operating activities are divided up between two business units, namely FRIWO Mobile Power (FMP) and FRIWO Power Solutions (FPS). FMP mainly focuses on the high-volume markets such as those for mobile telephones while FPS focuses on highly fragmented markets such as those for medical technology, household appliances and power tools. Each business unit is equipped with a management function which oversees sales, development, production, procurement and general administration. CEAG AG acts as the holding company but also conducts research activities. The FPS business unit purchases services and products from the FMP plants.

The Group's main KPIs are unit sales, revenues, EBIT and EBITA. The economic value-added (EVA) concept – a surplus profits method – is also used to assess performance and involves comparing the adjusted performance indicator NOPAT (net operating profit after taxes) with capital employed.

The consolidated financial statements were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs), while the separate 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 2005, with GDP growth of 4% underpinning the global economy's solid grounding. Temporary concerns voiced by economic experts that high raw material prices, in particular for crude oil, could significantly depress growth were wide of the mark.

The United States was the main driver of global growth, with a forecast GDP of 3.6% reflecting sustained economic growth. In addition, the Chinese economy continued to flourish, with forecast growth of some 9%. India and the other emerging Asian countries also continued to have buoyant economies, and the Japanese economy continued to recover. Growth was also fuelled by the oil exporting countries, central and eastern Europe and Latin America.

The euro area, however, failed to benefit from the strong wave of economic growth during the period under review. At the end of November 2005, the OECD forecast growth of only 1.4% for the euro area. The growing need for labor market reforms, the tax and social security systems, the massive budgetary problems and high public spending continue to be seen as the greatest obstacles to long-term economic recovery. With growth of 1.1% forecast, Germany continues to lag behind the rest of Europe. As in prior years, this is due to flagging demand from private households, despite the continued uptrend in German exports.

Sources:
Monthly Report October 2005, European Central Bank; "Zins- und Währungsperspektiven" [Interest and Currency Perspectives] 4th Quarter 2005, WestLB AG; "Konjunkturbericht November 2005" [Economic Report November 2005], Bundesverband deutscher Banken e.V. [Federal Association of German Banks]; OECD Report November 2005.

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 to fuel growth throughout 2005. Overall, growth was considerably stronger than originally forecast at the beginning of the year. The market research institute Gartner Dataquest upwardly adjusted its forecasts several times during the year, projecting global unit sales of 812 million mobile telephones in its last forecast (January 2006). This represents a year-on-year increase of 20% (674 million mobile telephones). With a market share of over 23% (prior year: 21%), CEAG was able to strengthen its leading position in chargers for mobile telephones.

Growth in this market was powered by strong demand, especially from the Asia-Pacific region (chiefly China and India) and Latin America, with unit sales up 22% and 41% on the prior year, respectively. Growth of between 73% and 22% in Africa, the Middle East and eastern Europe also contributed to this upward trend, albeit with a lower volume in absolute terms. By contrast, growth in North America and western Europe was considerably slower, with the lowest level of growth in 2005 being reported in Japan.

Growth in emerging countries such as China and Brazil continues to be bolstered by the first-time purchase of mobile telephones, while the purchase of replacement telephones, chiefly triggered by technological advances, is fuelling growth in saturated markets such as those in western Europe.
The market in which mobile telephone manufacturers operate is becoming increasingly monopolized by a handful of major players. In the third quarter of 2005, for example, the six largest manufacturers held a market share of 82%, with the two largest manufacturers jointly accounting for 51%. In this environment, smaller players are finding it increasingly difficult to meet the market's price and technical requirements. In 2005 as in the prior year, there were major changes in market shares in some cases. In particular, Nokia, the worldwide No. 1, and Motorola managed to increase their market share.

The performance of the FPS business unit hinges greatly on the domestic economy, as around 46% of FPS's revenues are generated in Germany. According to IMS Research Euro PSS, the power supply market in Germany grew by almost 7% in the first three quarters of 2005, with the European power supply market growing by a total of 8%. Growth, however, in the individual member states varied widely. While the market in the Benelux states grew by almost 35%, it contracted by 34% in France (source: IMS Research Euro PSS, December 2005). Nonetheless, FPS managed to increase its revenue intake by almost 28% in Europe.

Business Performance and Assessment

Production and Unit Sales in the CEAG Group

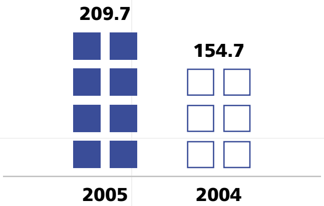
CEAG sold 209.7 million power supplies and chargers worldwide in 2005 compared to 154.7 million units in the prior year. The 36% rise is a considerable improvement on 2004 (up 11%). The three Chinese plants (Shajing, Xixiang and Beijing) were operating at full capacity and had to be expanded.

In June 2005, CEAG sold its one billionth power supply/charger since the foundation of Friemann & Wolf Gerätebau GmbH (FRIWO) in 1971. The increasing pace of growth in the markets in which CEAG operates is evidenced by the fact that the 750 millionth unit was manufactured as recently as November 2003.

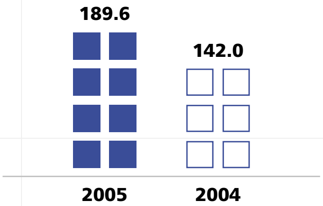
Thanks to a number of new customers and continued dynamic growth on the mobile telephone market, the FMP business unit reported unit sales of 190.0 million units. This represents an increase of 34% against the same prior-year period (142.0 million units). In contrast to the prior year, when CEAG only managed to secure itself a small share of the growth on the market for mobile telephones, the Group enjoyed above-average growth in 2005. This is attributable to market-share gains by existing customers and the acquisition of major new customers in the period under review. By contrast, sales of chargers for MD and CD players, digital cameras, etc., dropped. The reason for this decrease is CEAG's strategic decision to shift its focus away from this segment and therefore not to acquire any new customers.

Unit sales in the FPS business unit grew by 58% from 12.7 million units to 20.1 million units in 2005, marking a continuation of the upward trend in unit sales as seen in the prior year.

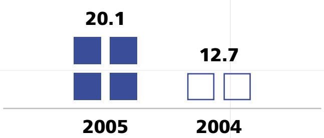
Unit sales CEAG Group
in millions



Unit sales FMP
in millions



Unit sales FPS
in millions



Consolidated Revenues

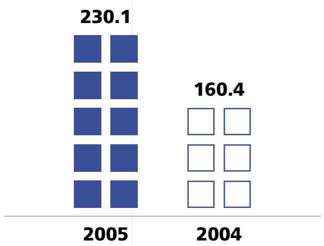
The CEAG Group generated revenues of EUR 230.1 million in 2005, up 43% on the prior year (EUR 160.4 million).

The FMP business unit reported a 47% rise in revenues in 2005, up from EUR 113.4 million to EUR 166.7 million. FMP accounted for 72% of consolidated revenues, up slightly on the prior year (71%).

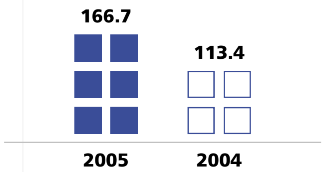
In addition to market-share gains by existing customers and the acquisition of new customers operating on the market for mobile telephones, the continued rise in sales of higher-priced power supplies and chargers with switch mode technology also contributed to the growth in revenues in this business unit, accounting for 57% of revenues compared to 49% in the prior year. What is more, new customers contributed more than 13% to FMP's total revenues.

The FPS business unit saw its revenues rise from EUR 47.1 million to EUR 63.3 million, an increase of 35% on the prior year. This growth was mainly achieved on the back of new projects, particularly in the product segments consumer goods (e.g. shavers and electric toothbrushes), power tools (e.g. drills) and IT and communications (e.g. headsets). The increase in revenues can be largely attributed to products manufactured in the Far East, which are generally sold at below average prices on the market.

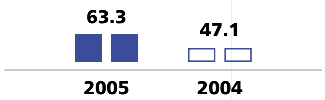
Consolidated revenue
in millions of EUR



Revenue FMP
in millions of EUR



Revenue FPS
in millions of EUR



Overall Economic Situation of the Group

In fiscal year 2005, the CEAG Group saw its unit sales and revenues grow vigorously, with both business units contributing to this success. CEAG's results of operations also improved despite unforeseen additional and non-recurring expenditure and the Group even managed to increase its market share. On the whole, the Management Board is pleased with the Group's performance during the period under review.

Results of Operations, Financial Position and Net Assets

Consolidated Earnings

During the period under review, the CEAG Group's earnings were shaped by buoyant growth in revenues, on the one hand, and largely unforeseeable negative cost factors, on the other. These included the following:

- The prices of CEAG's key raw materials (copper, plastic and metals) remained high during the period under review. For instance, the price of copper rose sharply, mainly due to high demand from China.
- The appreciation of the Chinese currency against the US dollar, wage increases in China as well as interruptions to the energy supply to the Chinese plants resulted in additional expenditure.
- Strong demand from mobile telephone manufacturers led to temporary production bottlenecks which had to be compensated for by overtime and air transportation, thus entailing additional expenditure.

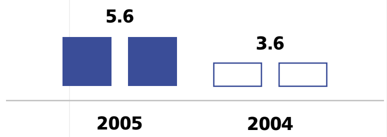
Some of the additional expenditure was passed on to customers through price increases. Despite this, the gross profit margin fell from 12.5% in the prior year to 11.2% in 2005. However, strong revenue growth more than offset this effect, with the result that gross profit increased from EUR 20.0 million to EUR 25.8 million.

At EUR 10.2 million, general administrative expenses were 12.5% higher than the EUR 9.1 million of the prior year. Other operating income and expenses stood at EUR 1.8 million (expense) compared with EUR 1.1 million (income) in 2004. Expenses included allocations to provisions for warranties of EUR 1.9 million.

EBIT came in at EUR 5.6 million, an increase of EUR 2.0 million on the prior year (EUR 3.6 million). At -EUR 0.9 million, the financial result remained unchanged against the prior year (-EUR 0.9 million).

EBIT

in millions of EUR



The Group saw its EBT rise to EUR 4.7 million, compared with the EUR 2.7 million achieved in the prior year. Net profit came to EUR 4.2 million (2004: EUR 2.1 million). This corresponds to earnings per share of EUR 0.55 (prior year: EUR 0.27).

At EUR 6.0 million, EBIT in the FMP business unit was up considerably on the prior year (EUR 3.4 million). The FPS business unit reported negative EBIT of EUR 0.3 million (prior year: EUR 0.3 million). The result is lower than originally forecast due to the provision recognized for the product recall.

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, for example, are subject to foreign exchange controls.

CEAG strives to minimize currency risks by organizing local financing in the main trading currencies.
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 interest expense largely correlates with the average amount drawn and the short-term interest rates.
CEAG aims to ensure that non-current assets do not exceed non-current liabilities. This objective was achieved in 2005.

Capital Structure

Foreign companies account for the largest share of the Group's liabilities and are mainly reported in CNY and HKD. Compared with the prior year, these currencies were stronger than the EUR as of the balance sheet date. This increased the carrying amounts of these major balance sheet items (this will be hereinafter referred to as "currency effects").

	Balance sheet date	
In foreign currency/EUR	**2005**	**2004**
Brazil (BRL)	2.7830	3.6331
China (CNY)	9.5204	11.0925
Hong Kong (HKD)	9.1781	10.5794
Japan (JPY)	138.9000	141.0300
USA (USD)	1.1797	1.3604

Equity rose from EUR 20.4 million to EUR 30.8 million, of which EUR 3.8 million can be attributed to currency effects, and EUR 2.6 million to the valuation effects of cash flow hedges for copper and foreign currencies. EUR 4.2 million is attributable to the net profit for the year. The equity to balance sheet ratio stood at 25% compared to 29% in the prior year, owing to the increase in the balance sheet total due to the increased business volume.

Trade payables rose from EUR 27.7 million to EUR 65.5 million, with EUR 8.6 million resulting from currency effects. Compared to the prior-year period, production in the Group in the last quarter of 2005 was up considerably, resulting in higher procurement needs. This coupled with the long payment terms in Asia drove liabilities up.

Due to repayments in line with the contractual terms and conditions, non-current liabilities to banks decreased from EUR 0.5 million to EUR 0.3 million. Current financial liabilities were down from EUR 9.8 million to EUR 7.6 million despite contrasting currency effects (EUR 0.3 million).

The balance sheet total of the CEAG Group stood at EUR 124.6 million as of December 31, 2005, up by a considerable EUR 54.4 million year on year. This growth reflects the increased business volume and currency effects.

Cash Flow

The CEAG Group reported an increase in cash flow from operating activities from EUR 11.3 million to EUR 19.1 million for fiscal year 2005. This positive cash flow from operating activities contrasts with the cash outflow from investing activities of EUR 12.4 million (prior year: EUR 7.2 million). The cash flow and bank loan raised were used to repay a large portion of the loan to DELTON. Overall, a EUR 2.7 million drop in borrowings was reported. The sum of cash flows led to an increase in cash and cash equivalents to EUR 7.5 million (December 31, 2004: EUR 3.4 million).

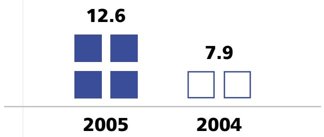
Amount of Assets / Asset Structure

Foreign companies account for the largest share of the Group's assets and are mainly reported in CNY and HKD. Compared with the prior year, these currencies were stronger than the EUR as of the balance sheet date. This increased the carrying amounts of these major balance sheet items (this will be hereinafter referred to as "currency effects").

The Group's property, plant and equipment rose from EUR 17.7 million to EUR 25.2 million in the fiscal year. In addition to the currency effects of EUR 2.7 million, capital expenditure well in excess of depreciation gave rise to this high amount.

EUR 12.6 million was invested in the CEAG Group in 2005, EUR 4.7 million more than in the prior year (EUR 7.9 million). The increase can be largely attributed to the expansion of capacities in China for switch mode products but also reflects the expected rise in unit sales in the first quarter of 2006.

Capital expenditure
in millions of EUR



Inventories were up from EUR 32.3 million to EUR 50.2 million, of which EUR 6.2 million relates to currency effects. The increase in inventories was necessary to cover the anticipated rise in the business volume in the first quarter of 2006, which is expected to considerably outstrip the sales volume achieved in the first quarter of 2005.

At EUR 29.9 million, receivables are significantly up on the prior year (EUR 13.6 million). In addition to currency effects (EUR 3.4 million), high unit sales in November and December fuelled this increase.
The Group operates in different currency zones, some of which are subject to foreign exchange restrictions. For this reason, the rise in cash and cash equivalents was not used to quickly repay liabilities.

Economic Situation of CEAG AG

The results in the separate financial statements of CEAG AG prepared in accordance with the German Commercial Code (HGB) are largely determined by the Company's own expenses and the profits and losses absorbed from its subsidiaries. It has concluded domination and profit and loss transfer agreements with the German subsidiaries. The foreign companies distribute dividends to these subsidiaries.

CEAG AG reported investment income of EUR 0.9 million for 2005 (prior year: EUR 8.5 million). Higher dividend payments from these subsidiaries were waived due to the growth-driven capital requirements of these companies.
A net loss for the year of EUR 1.1 million was generated compared to the net profit for the year of EUR 6.4 million in 2004.

Assets mainly comprise the carrying amounts of the subsidiaries disclosed under financial assets and receivables from group companies. The year-on-year fall in financial assets is due to a capital repayment made by a subsidiary in fiscal year 2005.

CEAG AG repaid most of its liabilities to affiliated companies in 2005 and is now largely equity financed.

The separate financial statements of CEAG AG are drawn up in accordance with the provisions of the German Commercial Code (HGB).

As in prior years, the Management Board explored strategic options for the business units, and thereby reviewed potential M&A transactions. 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.

Significant Events After the Balance Sheet Date

In January 2006, the Supervisory Board of CEAG AG appointed Frank Gumbinger as successor to the previous CFO, Matthias Grevener. The appointment will become effective at the close of the shareholders' meeting on May 11, 2006.

Risk Management

CEAG is an internationally operating company. For this reason, effective professional risk management is an indispensable part of corporate governance. In fiscal year 2005, therefore, we 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, in line with its function as a prevention system, 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 levels are reported to higher management levels (Management Board, Supervisory Board). This ensures that all identified risks are addressed and reinforces risk awareness in the Group through the involvement of several management levels.

The risk management system in place guarantees that risks are addressed in accordance with the Law on Control and Transparency in Business (KonTraG) in the CEAG Group.

The development of the global economy, interest and exchange rate effects – especially the US dollar-euro and US dollar-renminbi exchange rates – increasing prices for raw materials and personnel expenses and uncertainties surrounding the future development of the market for mobile telephones are risks that can have a lasting impact on business performance. In addition, the Company generates most of its revenues from a few major customers.
As an internationally operating manufacturer of electronic goods, CEAG is exposed to numerous legal risks, including risks related to product liability, warranties, tax law and other legal disputes.
Companies with high-cost production plants are also sensitive to risks from the underutilization of capacities. High investments made by the CEAG Group to expand capacities in fiscal year 2005 have increased this risk in comparison to the prior year.

The foreign currency risk as a transaction risk represents a significant risk due to the international operations of the CEAG Group. In CEAG's case, foreign currency risks result from balance sheet items denominated in foreign currencies and future transactions whose incoming and outgoing payments are in different currencies. The foreign currency risk of the individual subsidiaries is assessed on the basis of their local currency against all other currencies. Subsidiaries are not permitted to engage in speculative foreign currency borrowing or investment. Subsidiaries preferably obtain financing in their local currency or on a hedged basis. The Group has a treasury function which regularly assesses currency risks, and hedges against major consolidated risks by entering into foreign exchange contracts, selling foreign currencies or debt in foreign currencies. Foreign currency risks between USD, BRL, HKD and CNY are not hedged. Risks from future transactions are countered by endeavoring to conduct transactions in the currency in which production costs are incurred.

Identifiable USD gains against the EUR for 2006 were sold forward in some cases before the balance sheet date. These transactions are explained in the notes to the consolidated financial statements.

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. With regard to foreign currency translation effects, our risk management approach works on the principle that investments in our foreign companies are long term and profits can be continually reinvested.

As of the balance sheet date, the Company entered into forward contracts for copper. These are explained 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 fiscal year 2005, one of CEAG's customers had to recall products on the Japanese market. CEAG has insurance cover against such claims. The insurance firm pointed out possible gaps in coverage during an initial assessment. CEAG is in dialog with the insurance firm. The customer has presented CEAG with an estimate of the anticipated costs. The matter is being investigated at present, with costs EUR 3 million estimated. CEAG has accordingly recognized a provision on the basis of the assessment of the costs expected to be incurred and the deductible from the insurance firm. At present, it cannot be ruled out that higher expenses will not be incurred by CEAG.

DELTON AG, the majority shareholder of CEAG AG, has granted some of the required credit lines to the Company. This financing is currently set to expire on June 30, 2006. With support from DELTON AG, CEAG AG is now attempting to secure full independent financing once again.

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

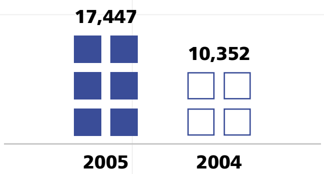
Employees

The CEAG Group employed a total of 17,447 employees as of the balance sheet date. This represents an increase of 7,095 year on year (10,352). The considerable increase in personnel is due to a major increase in the production volume of both business units, in particular the FMP business unit.

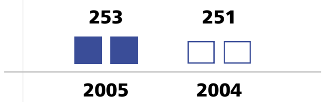
At the end of 2005, the Group employed around 17,194 workers abroad, 7,093 more than at the end of 2004. In Germany, 253 staff were employed at CEAG AG's headquarters in Ostbevern as of the balance sheet date (December 31, 2004: 251).

The Management Board would like to thank all employees and the works council for their valuable contribution to the Group's success in the period under review.

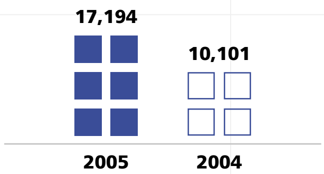
Employees



Employees Germany



Employees Abroad



Research and Development

The project commenced in 2004 in the FMP business unit on the design of miniaturized plug-in chargers with less then five watts of power output was successfully completed in 2005. The focus of this project was on the expansion of the product range, mainly for customers of mobile telephone chargers in North America and Asia. Thanks to the special positioning of the components, for which a patent application has been filed, a highly compact plug-in charger has been developed to production stage. In addition, CEAG developed a new generation of power management chips (ASIC's) to further strengthen its market position. These component parts are used in the reasonably priced chargers for our high-volume segment of first-time mobile telephone buyers.

A universal charger for power tools was developed by the FPS business unit in collaboration with the respective customer in 2005. An innovative solution for which a patent application has been filed recharges nickel cadmium, nickel metal hydride and lithium batteries. For the consumer equipment market segment, CEAG developed a charger which can transfer energy through induction. This does away with contact parts and plug connections which can corrode if they come in contact with aggressive materials and thereby impair the energy transfer.

Research activities in the fiscal year remained focussed on miniaturizing switch mode power supply products. Particular attention was placed on reducing the energy consumption of these products when in use. Prototypes with a particularly high efficiency ratio were developed in collaboration with Chinese universities. In this regard, the Company is preparing itself for the upcoming introduction of the EuP Directive (on the eco-design of energy-using products) which sets out regulations on the energy to be consumed by a product throughout its entire life cycle. Research on transformers continued in collaboration with a partner.

Environmental Report

Environmental protection is particularly important to CEAG. 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. These measures are 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 appliances 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 the period under review. In addition, FRIWO complied 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 as **WEEE reg. No. DE 70846847** and bear a symbol enabling end users to dispose of the products free of charge.

Outlook

The future development of the CEAG Group depends on the performance of its existing customers, its continued success in acquiring new customers and the performance of relevant markets.
Unit sales with existing customers are expected to largely mirror the performance of the market.

Economic experts expect the global economy to continue to grow in 2006. In its half-yearly report at the end of November 2005, the OECD forecast GDP growth of 2.9% in 2006 and 2007 for its 30 member states, compared with 2.7% in 2005. The United States and the emerging Asian countries such as China and India will remain the main driving forces behind the economic upswing. The OECD expects growth in the euro zone to be weaker than the global benchmark, forecasting GDP growth of 2.1% compared to the expected 1.4% in 2005.
Signs of an upturn in the German economy became stronger at the end of 2005. The Munich-based ifo Institute expects the export market to continue to flourish and see an increase in investments. The increase in VAT planned for the beginning of 2007 might temporarily jump-start private consumption in 2006, even if there are no signs of a lasting recovery.

The global market for mobile telephones grew at a faster pace in 2005 than forecast. For 2006, Gartner Dataquest predicts double-digit growth in mobile telephone sales, which is expected to be fuelled by continuing dynamic growth in Asia and Latin America and by additional multimedia applications such as MP3 players and video functions. The market is also expected to grow in 2007.

The CEAG Group stands in good stead to benefit from the continued market growth and consolidate its leading position on the global power supply market. In 2006, the FMP business unit will supply six of the world's ten largest manufacturers of mobile telephones from 2005. Analysts expect that the leading mobile telephone manufacturers will stand to gain more from the market growth than smaller players.

In addition to building on the relationships established with the customers acquired in 2005, focus in the FMP business unit will be placed on further expanding production capacity at the Chinese plants within the Group's financing scope. In this connection, the Management Board is reviewing the option of outsourcing in close dialog with customers. The right level of vertical integration is another issue, which will have to be addressed in due time. The rapidly changing conditions make flexibility a must for CEAG.
This growth will go hand in hand with increased tied-up capital in the form of receivables and inventories. The Company will also continue to invest in its production plants by gearing them up for switch mode technology. To this end, there are currently no plans to distribute dividends from the 2006 net profit.

FMP currently has a high share in the market for linear chargers for mobile telephones. These chargers accounted for EUR 70.7 million of FMP's revenues in 2005. In the medium term, it is expected that these chargers will be replaced by switch mode technology. The FMP business unit's market share in this market segment is lower than in the market segment for linear chargers. The FMP business unit has successfully gone from being a supplier of linear appliances to an established supplier of both technologies. Nevertheless, growth in the coming years will be dampened by the shift away from linear technology by customers.

The FPS business unit will continue to benefit from the new customers and projects acquired over the past few years. In addition, a slight improvement in domestic consumer confidence might boost demand for consumer goods. The effects of increased demand would be felt by the business unit over the course of time.

The Group operates in different currency zones. The US dollar is the main trading currency. As a result, a fall in the US dollar to euro exchange rate could clip revenues. What is more, a stronger renminbi could drive costs up in the Group as considerable production costs are incurred in this currency.

Wages in southern China, the cost of electronic components, and raw materials such as copper, other metals and plastics, have a major impact on the costs in the CEAG Group.
The Company's interest expense is primarily influenced by the short-term market interest rates.

From 2006 onward, the CEAG Group will adopt a different reporting structure. In addition to the two operating units, namely FMP and FPS, the holding company will be disclosed in the future as a separate entity which performs all of the Group's central functions under one roof. The reorganization will provide for a better overview of the performance of the operating units and thus increase the transparency of the CEAG Group.

On the whole, the Management Board expects the positive business performance to continue in 2006 and 2007. Provided no unforeseen events occur, the Management Board expects consolidated revenues and consolidated EBIT to continue to improve.
Due to the large number of external factors beyond the influence and control of the Company, these improvements have not been quantified.

Relationships With Affiliated Companies

In its report on relationships with affiliated companies in fiscal year 2005, the Management Board made the following declaration:

"Our Company has 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 of the steps taken or omitted."

Ostbevern, Germany, February 13, 2006
CEAG AG
The Management Board

Contents

Consolidated Income Statement of the CEAG Group

for Fiscal Year 2005

In thousands of EUR	2005	2004
Revenues	**230,077**	**160,448**
Cost of sales	-204,284	-140,454
Gross profit	**25,793**	**19,994**
Research costs	-634	-597
Selling expenses	-7,529	-7,622
General administrative expenses	-10,216	-9,080
Other operating expenses	-4,534	-3,498
Other operating income	2,741	4,574
Income from investments	17	19
Earnings before interest, taxes and amortization (EBITA)	**5,638**	**3,790**
Amortization of goodwill	0	-168
Earnings before interest and taxes (EBIT)	**5,638**	**3,622**
Interest income	100	36
Interest expense	-1,014	-964
Earnings before income taxes (EBT)	**4,724**	**2,694**
Income taxes	-491	-611
Consolidated net profit	**4,233**	**2,083**
Earnings per share (basic and diluted) (in EUR)	0.55	0.27

Consolidated Cash Flow Statement of the CEAG Group

for Fiscal Year 2005

In thousands of EUR	2005	2004
Consolidated net profit	4,233	2,083
Amortization and depreciation on non-current assets	6,493	5,386
Change in provisions	1,661	338
Gain/loss on the disposal of non-current assets	-45	-245
Change in deferred taxes	-146	-128
Change in inventories	-12,864	-6,506
Change in trade receivables and other assets that cannot be allocated to investing or financing activities	-16,767	9,927
Change in trade payables and other liabilities that cannot be allocated to investing or financing activities	35,576	1,094
Other non-cash effects	918	-637
Cash flow from operating activities	**19,059**	**11,312**
Cash received from disposals of property, plant and equipment/intangible assets	219	682
Cash paid for investments in intangible assets	-1,043	-65
Cash paid for investments in property, plant and equipment	-11,553	-7,841
Cash flow from investing activities	**-12,377**	**-7,224**
Cash paid to repay financial liabilities to affiliated companies	-3,253	-9,254
Cash paid to repay a long-term annuity loan	-201	-183
Cash received from/cash paid to repay current liabilities to banks (net)	752	2,754
Cash flow from financing activities	**-2,702**	**-6,683**
Effect of exchange rates on cash and cash equivalents	90	220
Net change in cash and cash equivalents	**4,070**	**-2,375**
Cash and cash equivalents at beginning of fiscal year	3,426	5,801
Cash and cash equivalents at end of fiscal year	**7,496**	**3,426**

Consolidated Balance Sheet of the CEAG Group

as of December 31, 2005

Assets

In thousands of EUR	2005	2004
Non-current assets		
Intangible assets	1,159	419
Property, plant and equipment	25,213	17,732
Financial assets	5	5
	26,377	**18,156**
Deferred taxes	1,378	231
	27,755	**18,387**
Current assets		
Inventories	50,186	32,279
Trade receivables	29,914	13,590
Other assets	9,005	2,181
Prepaid expenses	263	343
Cash and cash equivalents	7,496	3,426
	96,864	**51,819**
Total assets	**124,619**	**70,206**

Equity and liabilities

In thousands of EUR	2005	2004
Equity		
Subscribed capital	20,020	20,020
Capital reserve	15,440	15,440
Revenue reserves	-6,077	-8,160
Other reserves	-2,784	-9,014
Consolidated net profit	4,233	2,083
	30,832	**20,369**
Non-current liabilities		
Non-current liabilities to banks	321	522
Provisions for pensions and similar obligations	2,427	2,211
Other non-current provisions	876	909
Deferred taxes	1,568	0
	5,192	**3,642**
Current liabilities		
Provisions for income taxes	978	855
Other current provisions	3,039	1,305
Current financial liabilities	7,604	9,775
Trade payables	65,511	27,720
Other liabilities	11,463	6,540
	88,595	**46,195**
	93,787	**49,837**
Total equity and liabilities	**124,619**	**70,206**

Statement of Changes in Equity for the CEAG Group

for Fiscal Year 2005

In thousands of EUR	Subscibed capital	Capital reserve
As of Dec. 31, 2003	**20,020**	**15,440**
First-time adoption of IAS 19 (2005)		
First-time adoption of IAS 39 (2004)		
As of Jan. 1, 2004	**20,020**	**15,440**
Other changes		
Currency translation		
Total result recognized directly in equity		
Consolidated result		
Total result for the period		
Allocation to revenue reserves		
As of Dec. 31, 2004	**20,020**	**15,440**
Other changes		
Currency translation		
Total result recognized directly in equity		
Consolidated net result		
Total result for the period		
Allocation to revenue reserves		
As of Dec. 31, 2005	**20,020**	**15,440**

Statement of Recognized Gains and Losses of the CEAG Group for Fiscal Year 2005

In thousands of EUR	2005	2004
Changes in the fair value of financial instruments used for hedging purposes recognized under equity	3,250	-53
Actuarial gains/losses from defined benefit pension obligations and similar obligations	-172	-32
Adjustment item for the currency translation of foreign subsidiaries	3,767	-1,600
Deferred taxes on changes in value netted directly with equity	**-615**	0
Changes in value recognized directly under equity	**6,230**	-1,685
Consolidated net profit	**4,233**	2,083
Total result for the period	**10,463**	398

Revenue reserves	Other reserves	Consolidated result	Consolidated equity
-11,040	**-7,365**	**2,759**	**19,814**
	36		**36**
90		31	**121**
-10,950	**-7,329**	**2,790**	**19,971**
	-85		**-85**
	-1,600		**-1,600**
	-1,685		**-1,685**
		2,083	**2,083**
	-1,685	**2,083**	**398**
2,790		-2,790	**0**
-8,160	**-9,014**	**2,083**	**20,369**
	2,463		**2,463**
	3,767		**3,767**
	6,230		**6,230**
		4,233	**4,233**
	6,230	**4,233**	**10,463**
2,083		-2,083	**0**
-6,077	**-2,784**	**4,233**	**30,832**

Segment Report

Segment Report of the CEAG Group for Fiscal Year 2005

By business segment in thousands of EUR	2005 FMP	2005 FPS
External revenues	166,748	63,329
Internal revenues	27,464	377
Segment result (EBIT)	5,962	-324
Interest		
Income taxes		
Consolidated net profit		
Segment assets	100,389	17,695
Other assets		
Balance sheet total		
Segment liabilities	76,655	9,000
Other liabilities		
Debt		
Investments in intangible assets and property, plant and equipment	10,483	2,113
Amortization/depreciation on intangible assets and property, plant and equipment	5,310	1,183
Other non-cash expenses	1,787	2,960

By geographical segment in thousands of EUR	2005 Europe	2004 Europe
External sales	117,234	93,769
Segment assets	24,610	22,730
Investments in intangible assets and property, plant and equipment	2,445	1,006

2005 Consolidation	2005 Group	2004 FMP	2004 FPS	2004 Consolidation	2004 Group
	230,077	113,372	47,076		160,448
-27,841	0	13,443	300	-13,743	0
	5,638	3,362	260		3,622
	-914				-928
	-491				-611
	4,233				2,083
-2,339	115,745	51,141	17,458	-2,050	66,549
	8,874				3,657
	124,619				70,206
-2,339	83,316	33,545	7,190	-2,050	38,685
	10,471				11,152
	93,787				49,837
	12,596	6,987	919		7,906
	6,493	4,239	1,147		5,386
	4,747	2,412	1,286		3,698

2005 Asia	2004 Asia	2005 Americas	2004 Americas	2005 Group	2004 Group
86,829	40,796	26,014	25,883	230,077	160,448
87,001	40,778	4,134	3,041	115,745	66,549
9,780	6,770	371	130	12,596	7,906

Notes

Notes to the Consolidated Financial Statements for Fiscal Year 2005

General (1)
CEAG AG, the holding company of the FRIWO Group, is one of the world's leading suppliers of chargers and power supplies for mobile telephones and other appliances along with the FRIWO subsidiaries.

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 2005 are published in the *Bundesanzeiger* (German Federal Gazette) and filed with the commercial register of the local court of Bad Homburg v. d. Höhe, Germany, under HRB No. 6024.

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 commercial register of the local court of Bad Homburg v. d. Höhe, Germany.

The consolidated financial statements of CEAG AG will be authorized for issue by the Management Board on February 13, 2006 (day of authorization by the Management Board for submission to the Supervisory Board).

Accounting Policies

Basis for the Preparation of Financial Statements (2)
The consolidated financial statements were prepared using the historical cost system, with the exception of derivative financial instruments, which were measured at fair value. We refer to Note (36).

The key 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).

Declaration of Compliance With IFRSs (3)

With its equity securities, CEAG AG trades on a regulated market in the European Union and is thereby obligated, pursuant to the IAS regulation adopted by the EU in July 2002, to prepare its consolidated financial statements for fiscal years beginning on or after January 1, 2005 in accordance with the IFRSs endorsed by the European Union. As a result, in addition to the IFRSs endorsed by the EU, CEAG AG must also comply fully with the requirements set out in Sec. 315a HGB (German Commercial Code).

Use of Discretion 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 discretionary options were exercised with regard to the need to test non-current assets for impairment. We refer to Note (23).

Significant assumptions and estimates relate to the assumptions made in the measurement of provisions (we refer to Note (30)), the underlying value of inventories (we refer to Note (24)) and deferred taxes (we refer to Note (17)).

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 assumed as of the date of acquisition. Differences arising from netting are recognized as derivative goodwill. Negative differences arising from capital consolidation as of the date of acquisition are immediately recognized in profit or loss. The hidden reserves disclosed after measurement of assets and liabilities at fair value on first-time consolidation are carried forward, written down or reversed in subsequent periods in line with changes in assets and liabilities. Derivative goodwill is regularly tested for impairment in subsequent periods and written down to the net realizable value in cases 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 sales, intercompany profits and losses and all other intercompany expenses and income are eliminated.

We refer to 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, 2005 have been 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 2005 were adopted.

The accounting policies applied are largely consistent with those applied in the prior year. In its prior-year financial statements, CEAG adopted the International Accounting Standards revised in the course of the IASB's improvement project. These standards are mandatory for fiscal years starting from January 1, 2005; earlier adoption from January 1, 2004 was encouraged by the IASB. CEAG followed this recommendation.

As of December 31, 2005, only the following new standards and interpretations were adopted for the first time.

IAS 19	Employee Benefits
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement (2004)
IFRS 2	Share-Based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shaares in Co-Operative Entities and Similar Instruments

Due to first-time adoption of IAS 39 (2004), the embedded derivates recognized in prior years under other liabilities/other assets no longer need to be recognized. Other liabilities of EUR 130 thousand (January 1, 2004: EUR 121 thousand) were disclosed as of December 31, 2004. The adjustment of the comparative amounts and equity increased equity by EUR 121 thousand as of January 1, 2004 and by EUR 130 thousand as of December 31, 2004. As a result, the prior-year result improved by EUR 9 thousand. In fiscal year 2005, embedded derivatives of EUR 82 thousand were disclosed as other liabilities.

CEAG made use of the option in the revised version of IAS 19 (2005) in fiscal year 2005 and reported pension provisions as defined benefit obligations (DBO). The actuarial gains and losses were recognized directly in equity. The adjustment to the prior-year period increased equity by EUR 36 thousand as of January 1, 2004 and by EUR 4 thousand as of December 31, 2004. The prior-year result remained unchanged.

In March 2004, the IASB published IFRS 3, *"Business Combinations"* and substantially revised IAS 36 and IAS 38. The revised standards must be applied to fiscal years as of January 1, 2005. CEAG did not disclose any goodwill at the end of fiscal year 2004, and no assets with an indefinite useful life were reported. First-time application of IFRS 3, IAS 36 and IAS 38 thus did not have any effect on CEAG's consolidated financial statements.

First-time adoption of IFRS 2 and IFRS 5 did not have an effect on CEAG's consolidated financial statements as an exercisable stock option plan is not in place at present and there are no assets available for sale within the meaning of IFRS 5.

The adoption of these additional standards and interpretations did not have a material effect on the consolidated financial statements of CEAG as of December 31, 2005.

In addition, adoption of the new standards did not have an effect on the basic and diluted earnings per share for fiscal year 2004. The basic and diluted earnings per share for the prior year (2004) after adjustment of the result still comes to EUR 0.27.

The IASB also adopted the following standards and interpretations in 2005.

IAS 39	Supplementary Notes on the Fair Value Option, Financial Guarantee Contracts, Cash Flow Hedge Accounting for Forecast Intergroup Translations.
IFRS 6	Exploration and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market

Mandatory adoption of IFRS 7 from January 1, 2007 and mandatory adoption of the other standards and interpretations from January 1, 2006 is not expected to have an effect on CEAG's consolidated financial statements.

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

IAS 21	Supplementary Notes: 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

Mandatory adoption of these standards is not expected to have an effect on CEAG's consolidated financial statements.

Changes in Disclosure (7)
The breakdown of the items reported under equity was changed in fiscal year 2005 to improve clarity. The items other revenue reserves, valuation reserve for cash flow hedges and currency translation differences, which were grouped under revenue reserves in the prior year, were reclassified into two reserve items. The item other revenue reserves is now disclosed separately under the caption revenue reserves. The valuation reserve for cash flow hedges, the item for currency translation differences and the reserve for actuarial gains on provisions for pensions and similar obligations which had to be recognized in connection with the first-time adoption of IAS 19 are included in the item other reserves. The prior-year disclosure was adjusted accordingly. We refer to Note (28) for information on the change in other reserves.

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

Revenues include trade receivables from consolidated companies net of internal sales, customer discounts, rebates and bonuses. Revenues are recognized when the products and merchandise have been delivered or the service has been rendered.

Cost of sales comprises the cost of conversion 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 against income in the period 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 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 under equity, deferred taxes are also recognized or reversed on the face of the balance sheet. 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 the 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 cancelled or expires.

The Group assesses on each balance sheet date whether the **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 company. A hedge of the foreign currency risks of a firm commitment is always accounted for as a cash flow hedge. 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 liability 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** should be recognized at cost and systematically 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 capitalized and treated 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 conversion 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 systematically over their expected useful lives unless the actual pattern of use indicates that they are impaired.

Systematic 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 the 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 of conversion comprises direct material costs, direct production costs and all production-related overheads, including production-related depreciation. Production-related development costs and logistics costs are also disclosed in this item. 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.

The IASB published some changes to IAS 19 in December 2004. In addition to supplementary disclosures, IAS 19 now provides for the full recognition of all actuarial gains and loss directly in equity. CEAG has been using this “third option” since fiscal year 2005. The prior-year disclosure was adjusted accordingly.

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 were 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.

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 capitalized 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 broken down in such a way into the components financing expenses and repayment of the lease so that the residual carrying amount of the lease bears interest at a constant rate. Financing expenses 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 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.

CEAG China Ltd., Hong Kong, China, which was founded in December 2005, was added to the consolidated group. The company serves as a services company for the three Chinese subsidiaries. This change to the consolidated group did not have a significant effect on the presentation of our net assets, financial position and results of operations.

The consolidated group therefore comprises three domestic and seven foreign companies. We refer to the disclosures on shareholdings in Note (41).

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 companies 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 have been 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 (28)).

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

	Balance sheet date		Average	
In foreign currency/EUR	**2005**	**2004**	**2005**	**2004**
Brazil (BRL)	2.7830	3.6331	3.0424	3.6285
China (CNY)	9.5204	11.0925	10.1640	10.1219
Hong Kong (HKD)	9.1781	10.5794	9.6924	9.6801
Japan (JPY)	138.9000	141.0300	136.8713	134.3816
USA (USD)	1.1797	1.3604	1.2448	1.2429

Segment Reporting

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 focuses on the high-volume markets such as those for mobile telephones, CD/MD players and similar products, whose sales structure is solely based on key accounts. The FPS (FRIWO Power Solutions) business unit focuses on medical and industrial technology, power tools and applications in the communications industry. Sales are regionally structured for this unit, with some support from commercial agents and distributors.

Sales made between the two 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 were no 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 of the FMP business unit who is represented in all geographical segments came to 56% (prior year: 53%) of total revenues for all segments in the year under review.

Sales to another customer of the FMP business unit who is represented in all geographical segments came to 7% (prior year: 10%) of total revenues for all segments in the year under review.

The prior-year figures were adjusted in some instances to take account of the effects from the first-time adoption of IAS 39 (2004) and IAS 19 (2005). We refer to our explanations on "Changes to Accounting Policies" in Note (6).

Notes to the Income Statement

The prior-year figures were adjusted in some instances to take account of the effects from the first-time adoption of IAS 39 (2004) and IAS 19 (2005). We refer to our explanations on "Changes to Accounting Policies" in Note (6).

Revenues (11)
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 (12)
Expenditure on basic research is disclosed in this item. We also refer to the notes on research and development costs in Note (19).

Selling Expenses (13)
Selling expenses comprise the costs of the sales departments as well as costs for advertising and commission expenses.

General Administrative Expenses (14)
Personnel and material expenses for administration and the costs for external services are disclosed in this item.

Other Operating Expenses and Income (15)

In thousands of EUR	**2005**	**2004**
Losses on disposals of assets	10	28
Exchange losses	2,680	3,456
Other expenses	1,844	14
Other operating expenses	**4,534**	**3,498**
Gains on disposals of assets	55	272
Exchange gains	2,195	3,281
Other income	491	1,021
Other operating income	**2,741**	**4,574**
Other operating expenses/income (net)	**-1,793**	**1,076**

In 2005, other operating expenses (net) of EUR 1,793 thousand were reported (prior year: other operating income (net) of EUR 1,076 thousand).

Financial Result (16)

In thousands of EUR	**2005**	**2004**
Other interest and similar income	100	36
Interest and similar expenses	-892	-848
(of which to affiliated companies)	(-123)	(-368)
Interest portion of allocations to provisions for pensions and similar obligations	-122	-116
Financial result	**-914**	**-928**

Income Taxes (17)

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	2005	2004
Current income taxes	463	779
Taxes from prior years	174	-20
Adjustment of deferred tax assets on loss carryforwards	0	276
Change in the adjustment of deferred tax assets from prior years	-286	-568
Change in deferred taxes on temporary differences	140	144
	491	**611**

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

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 the income statement	recognized in equity	currency translation
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 earnings 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**

In the prior year, the following results were reported.

In thousands of EUR	2004 Assets	2004 Liabilities	2003 Assets	2003 Liabilities
Intangible assets	0	3	0	3
Property, plant and equipment	539	0	464	0
Inventories	117	173	90	173
Trade receivables	0	0	0	0
Other assets	0	0	0	0
Retained earnings of foreign subsidiaries	0	260	0	0
Provisions for pensions	74	0	85	0
Other provisions	5	12	0	12
Liabilities	0	1	0	1
Loss carryforwards	3,808	0	3,808	0
Total	**4,543**	**449**	**4,447**	**189**
Netting	-449	-449	-189	-189
Adjustment	-3,863	0	-4,155	0
Consolidated balance sheet	**231**	**0**	**103**	**0**

In thousands of EUR	Net			Of which		
	2004	**2003**	Change	recognized in the income statement	recognized in equity	currency translation
Intangible assets	-3	-3	0	0	0	0
Property, plant and equipment	539	464	75	93	0	-18
Inventories	-56	-83	27	29	0	-2
Trade receivables	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Retained earnings of foreign subsidiaries	-260	0	-260	-260	0	0
Provisions for pensions	74	85	-11	-11	0	0
Other provisions	-7	-12	5	5	0	0
Liabilities	-1	-1	0	0	0	0
Loss carryforwards	3,808	3,808	0	0	0	0
Netting	0	0	0	0	0	0
Adjustment	-3,863	-4,155	292	292	0	0
Consolidated balance sheet	**231**	**103**	**128**	**148**	**0**	**-20**

The total amount of deductible temporary differences for which no deferred tax assets were disclosed is EUR 1,373 thousand (prior year: EUR 4,704 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 2005, deferred tax assets of EUR 865 thousand were recognized for the first time on loss carryforwards of 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, 2005 for which no deferred tax assets were recognized amounts to EUR 26.2 million (prior year: EUR 23.3 million) for corporate income tax and EUR 24.2 million (prior year: EUR 21.8 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 assets were recognized on loss carryforwards of EUR 3.3 million (prior year: EUR 1.8 million) for the two subsidiaries in the United States and Japan. The loss carryforward reported by FRIWO Electrical (Beijing) Co. Ltd. (prior year: EUR 1.2 million) was utilized in the current year. The loss carryforwards may be utilized within 20 years in the United States and within seven years in Japan.

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

In thousands of EUR	2005	2004
Earnings before taxes	4,724	2,694
Estimated tax expense [1]	1,795	1,024
Differing tax rates abroad	-621	-25
Non-deductible goodwill amortization	0	64
Non-deductible other expenses	39	127
Non-deductible foreign investment income	41	187
Non-recognition of deferred taxes	1,349	1,567
Tax effects from temporary differences not recognized/adjusted to date	-896	-968
Non-recognition of taxes due to local tax exemptions	-1,345	-1,296
Taxes for prior years	174	-20
Other effects, net	-45	-49
	491	**611**

[1] Estimated tax expenses at a rate of 38% (prior year: 38%) for CEAG AG

The prior-year figures were adjusted in some instances to take account of the effects from the first-time adoption of IAS 39 (2004) and IAS 19 (2005). We refer to our explanations on "Changes to Accounting Policies" in Note (6).

Earnings Per Share (18)

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 0.55 in 2005 (prior year: EUR 0.27). The number of shares (7.7 million no-par shares) has not changed in the reporting year. An exercisable stock option plan does not exist at present. As there are no financial instruments that could be exchanged for shares, diluted earnings are the same as basic earnings.

In thousands of EUR	2005	2004
Number of no-par shares outstanding	7,700,000	7,700,000
Consolidated net profit (in thousands of EUR)	4,233	2,083
Earnings per share (in EUR)	0.55	0.27

The prior-year figures were adjusted in some instances to take account of the effects from the first-time adoption of IAS 39 (2004) and IAS 19 (2005). We refer to our explanations on "Changes to Accounting Policies" in Note (6).

Other Disclosures on the Income Statement

Research and Development Costs (19)

Costs of EUR 5.9 million were reported in the year under review for research and development (prior year: EUR 5.4 million). Basic research accounted for EUR 0.6 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 administrative expenses.

Amortization and Depreciation (20)

In thousands of EUR	2005	2004
Amortization of intangible assets	320	471
(of which systematic goodwill amortization excluding restructuring)	(0)	(168)
Depreciation on property, plant and equipment	6,173	4,915
	6,493	**5,386**

Only systematic amortization and depreciation were charged in the period under review.

Cost of Materials (21)

In thousands of EUR	2005	2004
Cost of raw materials, consumables and supplies and of purchased good	**152,067**	**99,820**

Personnel Expenses and Number of Employees (22)

In thousands of EUR	2005	2004
Personnel expenses	**38,757**	**30,479**

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

Number of employees	2005	2004
Germany	253	248
Abroad	13,394	9,875
	13,647	**10,123**

Notes to the Balance Sheet

Schedule of Consolidated Non-Current Assets of CEAG AG for Fiscal Year 2005

	Cost					
In thousands of EUR	Jan. 1, 2005	Additions	Disposals	Transfers	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
Payments 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**	**Transfers**	**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	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**

Schedule of Consolidated Non-Current Assets of CEAG AG for Fiscal Year 2004

	Cost					
In thousands of EUR	Jan. 1, 2004	Additions	Disposals	Transfers	Currency translation differences	Dec. 31, 2004
Intangible assets						
Goodwill	2,701	0	0	0	-168	2,533
Industrial property rights and similar rights and assets	3,071	32	15	94	-15	3,167
Payments on account	94	33	0	-94	0	33
	5,866	**65**	**15**	**0**	**-183**	**5,733**
Property, plant and equipment						
Land and buildings	11,885	277	1,019	0	-194	10,949
Technical equipment and machinery	31,729	5,754	437	111	-1,870	35,287
Other equipment, furniture and fixtures	17,961	1,193	2,548	27	-223	16,410
Payments on account and assets under construction	270	617	0	-138	-44	705
	61,845	**7,841**	**4,004**	**0**	**-2,331**	**63,351**
Financial assets						
Investments	5	0	0	0	0	5
	67,716	**7,906**	**4,019**	**0**	**-2,514**	**69,089**

Depreciation/amortization						Carrying amount	
Jan. 1, 2004	Additions	Disposals	Transfers	Currency translation differences	Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
2,533	168	0	0	-168	2,533	0	168
2,502	303	15	0	-9	2,781	386	569
0	0	0	0	0	0	33	94
5,035	**471**	**15**	**0**	**-177**	**5,314**	**419**	**831**
7,436	660	803	0	-138	7,155	3,794	4,449
22,369	3,360	283	-20	-1,075	24,351	10,936	9,360
15,827	895	2,481	20	-148	14,113	2,297	2,134
0	0	0	0	0	0	705	270
45,632	**4,915**	**3,567**	**0**	**-1,361**	**45,619**	**17,732**	**16,213**
0	0	0	0	0	0	5	5
50,667	**5,386**	**3,582**	**0**	**-1,538**	**50,933**	**18,156**	**17,049**

Property, Plant and Equipment (23)

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 for individual assets or assets classed as cash-generating units for fiscal year 2005.

In prior years, the property, plant and equipment in particular at the Ostbevern production plant in its entirety as a cash-generating unit was tested for impairment. There were no indications for the need to conduct an impairment test in fiscal year 2005, mainly due to the stabilized results and earnings expectations of this cash-generating unit.

Inventories (24)

In thousands of EUR	2005	2004
Raw materials, consumables and supplies	16,899	10,279
Work in process	3,582	3,192
Finished goods and merchandise	29,705	18,808
	50,186	**32,279**

The carrying amount of the inventories recognized at net realizable value is EUR 2,052 thousand (prior year: EUR 3,088 thousand).

Write-downs on inventories came to EUR 3.1 million (prior year: EUR 2.3 million) as of December 31, 2005. The year-on-year difference of EUR 0.8 million (prior year: EUR 0.3 million) was recognized in profit or loss during the period under review.

Current price trends on the sales market are taken into account when determining sales-market related write-downs. Inventory days, expected consumption and saleability are factored into the calculation of 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.

Receivables and Other Assets (25)

In thousands of EUR	2005	2004
Trade receivables	29,914	13,590
Other assets	9,005	2,181
	38,919	**15,771**

In the period under review, trade receivables and other assets were adjusted by EUR 34 thousand (prior year: EUR 449 thousand).

Other claims for refunds from the tax office, derivative financial instruments, receivables from material orders, rent deposits, other asset items, and receivables from import VAT are recognized as other assets. Tax refund claims of EUR 584 thousand (EUR 762 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 (26)

Prepaid expenses comprise prepaid insurance premiums and other prepaid items.

Cash and Cash Equivalents (27)

Cash and cash equivalents comprise cash on hand and balances at banks.

In thousands of EUR	2005	2004
Checks and cash on hand	643	82
Bank balances	6,853	3,344
	7,496	**3,426**

Equity (28)
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 does not hold treasury shares either directly or indirectly. The capital reserve is available to offset any future losses and in part to increase capital stock subject to the restrictions of Sec. 150 AtkG (German Stock Corporation Act), but not for distributions.

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

The revenue reserves recognized in the consolidated balance sheet and the item other reserves contain earned consolidated equity as of December 31, 2004.

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

In thousands of EUR	Cash flow hedges	Provisions for pensions and similar obligations	Foreign currency	**Total**
As of Dec. 31, 2003	**109**		**-7,474**	**-7,365**
First-time adoption of IAS 19 (2005)		36		**36**
As of Jan. 1, 2004	**109**	**36**	**-7,474**	**-7,329**
Unrealized gains/losses from cash flow hedges	56			**56**
Realized gains/losses from cash flow hedges	-109			**-109**
Net result from cash flow hedges	**-53**			**-53**
Unrealized gains/losses from provisions for pensions and similar obligations		-32		**-32**
Net result from provisions for pensions and similar obligations		**-32**		**32**
Currency translation differences			-1,600	**-1,600**
As of Dec. 31, 2004	**56**	**4**	**-9,074**	**-9,014**
Unrealized gains/losses from cash flow hedges	3,306			**3,306**
Realized gains/losses from cash flow hedges	-56			**-56**
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 for pensions and similar obligations		-172		**-172**
Net result from provisions for pensions and similar obligations		**-172**		**-172**
Currency translation differences			**3,767**	**3,767**
As of Dec. 31, 2005	**2,691**	**-168**	**-5,307**	**-2,784**

Provisions for Pensions (29)

The actuarial gains and losses reported are recognized directly under equity.

The present value of the defined benefit obligation developed as follows:

In thousands of EUR	2005	2004
Defined benefit obligation as of Jan. 1.	2,211	2,138
Current service cost (present value of the pension claims earned in the fiscal year)	63	65
Interest expense	122	116
Actuarial gains/losses	172	32
Benefits paid	-141	-140
Defined benefit obligation as of Dec. 31	2,427	2,211

The actuarial calculation is based on the following parameters: a discount rate of 4.5% (prior year: 5.5%), 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 for the first time in fiscal year 2005.

The present values of the pension obligation are not covered by capital.

The obligations, which solely relate to Germany, chiefly comprise fixed employee benefits related to length of service; a commitment based on income and length of service has also been made. All obligations result from individual agreements.

The prior-year figures disclosed were adjusted in some instances to take account of the effects from the first-time adoption of IAS 19 (2005). We refer to our explanations on “Changes to Accounting Policies” in Note (6).

Other Provisions (30)

In thousands of EUR	As of Jan. 1, 2005	Utilization	Reversal	Allocation	Currency translation	As of Dec. 31, 2005
Other non-current provisions						
Personnel and welfare	**909**	281	0	248	0	**876**
Other current provisions						
Warranties	**1,162**	297	0	1,858	144	**2,867**
Sales	**59**	0	13	0	0	**46**
Other	**84**	49	0	91	0	**126**
	1,305	346	13	1,949	144	**3,039**

The obligations for long-service awards and provision for pre-retirement part-time work are disclosed under non-current provisions in the balance sheet. The provision for pre-retirement part-time work concerns the German companies. The provision for pre-retirement part-time work is expected to be utilized within the next six 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. We also refer to our explanations on contingencies in Note (34).

The sales obligations mainly involve potential losses from pending sales transactions. These obligations are expected to be utilized within the next fiscal year.

Non-Current Liabilities (31)

In thousands of EUR	Residual term <1 year	Residual term 1 to 5 years	Residual term Dec. 31, 2005	Residual term < 1 year	Residual term 1 to 5 years	Residual term Dec. 31, 2004
Annuity loans	201	**321**	522	192	**522**	714

Non-current liabilities to banks relate to an annuity loan which has a term of five years. The current portion of EUR 201 thousand (prior year: EUR 191 thousand) is disclosed under current liabilities to banks. We refer to the explanations on interest and collateral in Notes (32) and (36).

Current Liabilities (32)

In thousands of EUR	2005	2004
Liabilities to banks	7,416	6,334
Trade payables (third parties)	65,511	27,681
Liabilities to affiliated companies	188	3,480
(of which current financial liabilities)	(188)	(3,441)
(of which trade)	(0)	(39)
Other liabilities	11,463	6,540
(of which taxes)	(203)	(168)
(of which social security)	(346)	(346)
	84,578	**44,035**

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

The remaining other 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 improvement in business performance.

The liabilities to banks and the loan disclosed under non-current liabilities are fully secured by land charges and other collateral rights. The liability of EUR 4.2 million to a German bank (including the annuity loan reported under non-current liabilities) is fully secured by a land charge of EUR 5 million (prior year: EUR 5 million) and other collateral rights relating to the Ostbevern plant. The liability of EUR 3.5 million to a foreign bank is fully secured by trade receivables of the borrowing company.

Notes to the Cash Flow Statement (33)

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 periods 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	2005	2004
Interest paid	-892	-848
Interest received	100	36
Income taxes paid/received (net)	-514	-413

EUR 192 thousand of the long-term annuity loan was repaid in fiscal year 2005.

The prior-year figures were adjusted in some instances in the cash flow statement to take account of the effects from the first-time adoption of IAS 39 (2004) and IAS 19 (2005). We refer to our explanations on "Changes to Accounting Policies" in Note (6).

Other Disclosures

Contingencies (34)

In fiscal year 2005, one of CEAG's customers had to recall products on the Japanese market. CEAG has insurance cover against such claims. The insurance firm pointed out possible gaps in coverage during an initial assessment. CEAG is in dialog with the insurance firm.
The customer has presented CEAG with an estimate of the anticipated costs. The matter is being investigated at present, with costs of EUR 3 million estimated. CEAG has accordingly recognized a provision on the basis of the assessment of the costs expected to be incurred and the deductible from the insurance firm. At present, it cannot be ruled out that higher expenses will not be incurred by CEAG.

Other Financial Commitments (35)

In thousands of EUR	2005	2004
Purchase commitments for property, plant and equipment	1,282	174
Rent and lease obligations	7,769	6,855
(of which due next year)	(2,782)	(2,225)
(of which due in two to five years)	(4,987)	(4,630)
	9,051	**7,029**

The rent and lease obligations include rent of EUR 7,032 thousand (prior year: EUR 6,213 thousand) for sites in China, mainly for factory buildings.

Lease expenses of EUR 2,530 thousand (prior year: EUR 2,120 thousand) were recognized in profit or loss in fiscal year 2005.

Financial Instruments (36)

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 2006.

As a processor 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 by using derivative financial instruments on the basis of the copper index for selected product groups. 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 revenues from these sales will be recognized in fiscal year 2006. The cash flows from the derivative as well as the cash flows used to purchase the copper are reported in US dollars. As of the balance sheet date, EUR 658 thousand was recognized as a reduction in the cost of inventories. These inventories will be included in the cost of sales in January and February 2006.

The derivative financial instruments recognized are classified as held for trading. The nominal volumes and market values as of the balance sheet date are shown in the following table.

	Nominal volume		Market value	
In thousands of EUR	**2005**	**2004**	**2005**	**2004**
Forward exchange contracts (cash flow hedges)	9,381	1,243	-210	56
Foreign exchange contracts (other)	2,421	649	-7	2
Copper hedges (cash flow hedges)	10,573	0	3,516	0

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.

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 2005 are short-term borrowings. EONIA, HIBOR, LIBOR, SIBOR and EURIBOR are the reference interest rates used by the lenders to settle 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, Germany, of approx. EUR 1,000 thousand ends in mid-2008. The residual liability under the annuity loan (see Note (31)) was EUR 522 thousand as of the balance sheet date (prior year: EUR 714 thousand). The development of market interest rates is subject to constant monitoring and analysis.

At year end, the borrowing facilities raised in the various currencies and presented here at present value in the group currency are shown below.

In thousands of EUR	**Borrowing facility**	**Drawings**	**Residual facility**
EUR	8,366	4,407	3,959
HKD	14,837	0	14,837
USD	2,826	2,402	424
JPY	1,120	1,120	0
CNY	2,101	0	2,101
	29,250	**7,929**	**21,321**

The average interest rate for borrowings stood at 5.7% in 2005. Some of the loans raised are subject to covenants. This figure is derived from the debt/equity ratio as of the balance sheet date. 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 (37)

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 105 thousand (prior year: EUR 97 thousand) in the reporting year. In addition, DELTON AG granted CEAG AG a borrowing facility in the year under review. EUR 1.4 million of the borrowing facility totaling EUR 5.0 million (prior year: EUR 10.0 million) had been utilized as of December 31, 2005. The interest expense for the loans utilized in the fiscal year came to EUR 123 thousand (prior year: EUR 368 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 (38)

Remuneration for members of the Supervisory Board for fiscal year 2005 comes to EUR 55 thousand (prior year: EUR 51 thousand). The fixed remuneration per Supervisory Board member is EUR 5,000 p.a. The variable remuneration depends on the amount of dividends declared and was not paid in 2005. The chairman of the Supervisory Board receives three times, the deputy twice the above amount. Committee members, other than the chairman and deputy member of the Supervisory Board, receive additional remuneration of EUR 2,000.

Total remuneration of the Management Board for fiscal year 2005 amounts to EUR 768 thousand (prior year: EUR 583 thousand), consisting of a fixed component of EUR 462 thousand and a variable component of EUR 306 thousand. In addition, termination benefits of EUR 120 thousand were recognized in profit or loss. EUR 80 thousand (prior year: EUR 72 thousand) was allocated to the provision for pension obligations for current Management Board members. The provision thus comes to EUR 399 thousand (prior year: EUR 318 thousand).

Former members of the Management Board and their survivors received pension benefits of EUR 75 thousand (prior year: EUR 75 thousand). Total provisions of EUR 1,151 thousand (prior year: EUR 1,041 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 (39)

Members of the Supervisory Board held a total of 120 shares as of December 31, 2005 (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 (40)

The auditor’s fees recognized as an expense in fiscal year 2005 cover the services shown below.

In thousands of EUR	2005
Audit of the financial statements	270
Tax consulting	13
Other services	16
	299

Shareholdings (41)

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	Shareholding	Equity	Net profit/loss 2005**
FRIWO Mobile Power GmbH, Ostbevern, Germany	100 %	19,884	1,599*
FRIWO Gerätebau GmbH, Ostbevern, Germany	100 %	5,879	-575*
FRIWO Far East Ltd., Hong Kong, China	100 %	11,585	1,541
FRIWO CEAG Electrical (Shenzhen) Company Ltd., XiXiang, China	100 %	13,692	2,220
FRIWO Electrical (Beijing) Co., Ltd., Beijing, China	100 %	3,117	2,136
CEAG China Ltd., Hong Kong, China	100 %	-5	-5
FRIWO USA, Inc., Colorado Springs, USA	100 %	-361	-165
FRIWO Japan Co., Ltd., Tokio, Japan	100 %	-2,258	-1,191
FRIWO do Brasil Ltda., São Paulo, Brazil	100 %	572	318

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

Corporate Governance Disclosure (42)

The Management Board and Supervisory Board issued the declaration required pursuant to Sec. 161 AktG (Stock Corporation Act) and made it available to the shareholders.

Bad Homburg v. d. Höhe, Germany, February 13, 2006
CEAG AG
The Management Board

Rolf Endress
Chairman of the Management Board

Matthias Grevener
Member of the Management Board

Audit Opinion

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the report on the position of the Company and the Group:

“We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity, the statement of recognized gains and losses as well as the notes to the financial statements, prepared by CEAG AG, Bad Homburg v.d. Höhe, Germany, for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the report on the position of the Company and Group 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, whether due to error or fraud, materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with applicable accounting principles and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the report on the position of the Company and the Group are examined primarily on a test basis as part 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 and 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, on the basis of knowledge we have gained during the audit, the consolidated financial statements comply with IFRSs as adopted by the EU and 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 report on the position of the Company and the Group is consistent with the consolidated financial statements, and as a whole provides an appropriate view of the Group's position and appropriately presents the opportunities and risks of future development."

Düsseldorf, Germany, February 17, 2006
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Hans Dingler
Wirtschaftsprüfer

Thomas Harms
Wirtschaftsprüfer

Glossary

Cash flow hedge	A hedge that meets the requirements for cash flow hedges under IAS 39. Changes in fair value are reported directly in equity.
Corporate Governance Code	The Corporate Governance Code encompasses recommendations for corporate management and standards of conduct for listed companies recognized on an international and national level.
FMP	FRIWO Mobile Power – strategic business unit producing power supplies and chargers for the high-volume markets of the telecommunications industry. Core segment: power supplies and chargers for mobile telephones.
FPS	FRIWO Power Solutions – strategic business unit producing power supply equipment for medical technology, IT/communications, power tools and industrial applications. This unit has a lower production volume than FMP.
Free float	Shares of a public company that are freely available to the investing public.
General Standard	Segment of the Frankfurt Stock Exchange (FWB) since 2003.
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards. Standards intended to ensure better international comparability of financial statements.
ISIN	ISIN International Securities Identification Number – global securities code.
EN ISO 9001:2000	Certification of process-based quality management in accordance with international standards.
DIN EN ISO 14001	Certification of an environmental management system in accordance with universally applicable standards. FRIWO's aim is to manufacture all its products without the use of hazardous substances before July 1, 2006.
OEM	Original equipment manufacturer – a company that buys products or components from a manufacturer and uses them in proprietary products or resells them under its own name.
Power supplies	Individual products or product solutions used to supply electricity to a wide variety of devices/applications.
Power supply market	Global market for power supplies with a wide variety of product segments, applications and country-specific features.
Prime All Share	The Prime All Share Index comprises all companies that meet the stringent criteria of the Prime Standard. It includes all companies from the DAX, MDAX, SDAX, TecDAX and Prime Standard.
Prime Standard	Premium segment of the Frankfurt Stock Exchange (FWB) since 2003, with international transparency requirements.
RoHS	Restriction of the use of certain Hazardous Substances in electrical and electronic equipment (EC Directive 2002/95/EC from January 27, 2003). This includes lead-free soldering, which has already been introduced at FRIWO.
WEEE	WEEE (Waste Electrical and Electronic Equipment), EU Directive which provides for the scrapping old equipment).