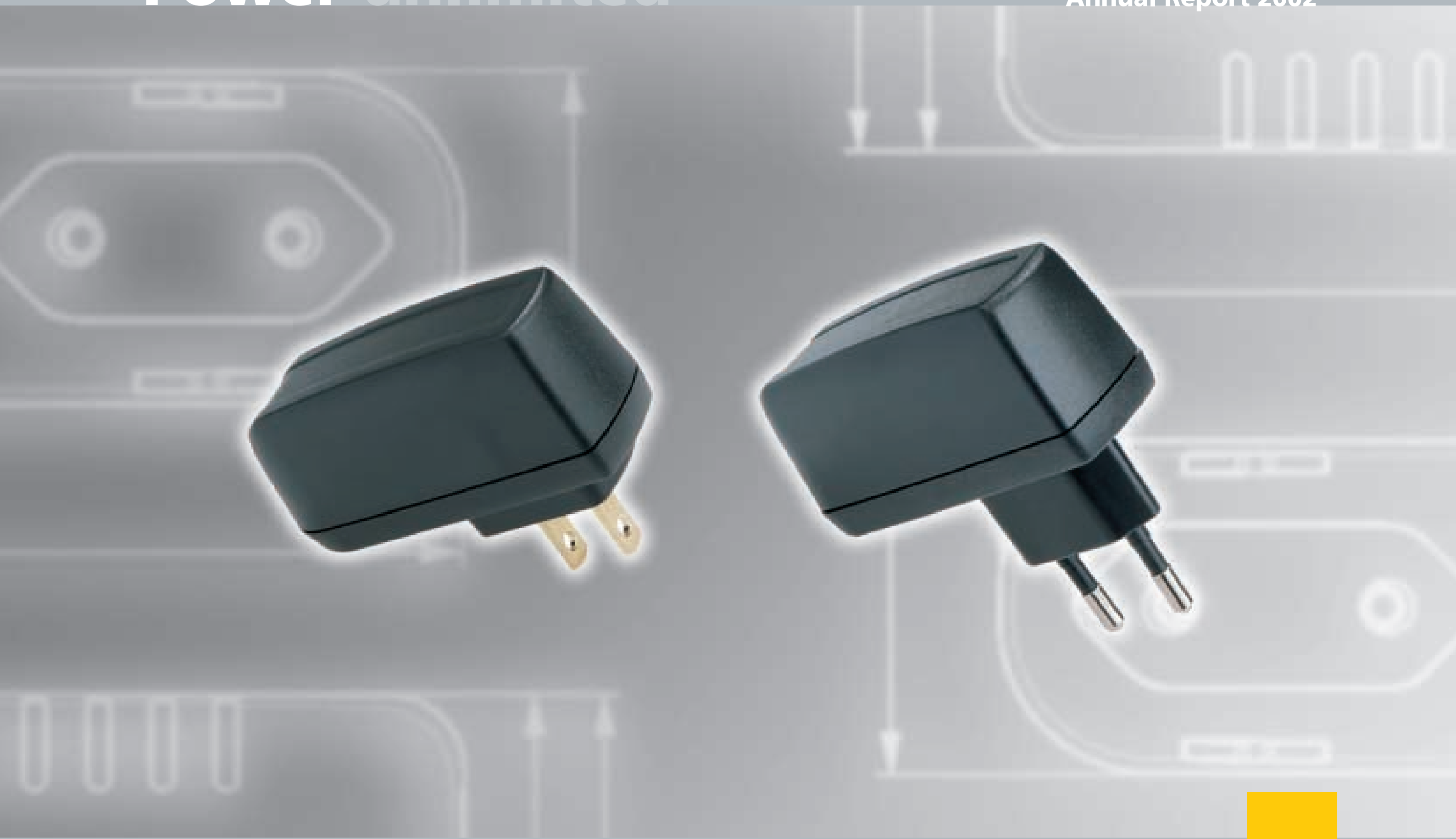
Power unlimited

Annual Report 2002



FRIWO®

CEAG AG

At a glance

Key figures for the CEAG Group
(The group currency is the EUR)

in millions of EUR		2002	2001	2000
Income statement				
Total revenue		191.4	213.8	260.8
Domestic revenue		55.3	64.8	121.4
Foreign revenue		136.1	149.0	139.4
EBIT (before restructuring)		-3.2	-1.7	24.1
EBIT (after restructuring)		-16.1	-2.9	22.4
Earnings before income taxes		-17.6	-4.5	20.2
EBIT operating margin	%	-8.4	-1.4	8.6
Net profit/loss		-25.1	-2.7	11.9
Balance sheet				
Balance sheet total		86.8	135.1	152.1
Subscribed capital		20.0	20.0	20.0
Number of shares	in millions	7.7	7.7	7.7
Equity		22.6	53.6	58.7
Equity ratio	%	26.0	39.7	38.6
Capital expenditure		6.8	9.2	10.6
Employees (as of December 31)		8,727	8,519	8,095
Employees in Germany		298	431	526
Employees abroad		8,429	8,088	7,569
Share				
Earnings per share	EUR	-3.26	-0.35	1.55
Dividend per share	EUR	-	-	0.55

In accordance with International Financial Report Standards (IFRS).

Our Mission Statement

To design, manufacture and sell innovative and competitive power solutions to customers. Worldwide.

CEAG AG. Germany.

With the FRIWO brand and a market share of 27% in 2002, CEAG AG, a holding company of the FRIWO Group registered in Bad Homburg v.d.H., with its head office in Ostbevern/Westphalia, Germany, is the leading supplier of chargers for mobile phones worldwide.

Along with chargers and power supplies for high-volume mobile telephony and IT markets, FRIWO's individual products are manufactured for IT & communication, power tools, automation and medical technology.

Group Organization CEAG AG

CEAG AG
Holding of the FRIWO Group

Business Unit
FMP
FRIWO Mobile Power

High-volume customer-specific solutions

Mobile phones
Chargers for mobile phones

Cordless phones
Power supplies for cordless telecommunication

Other consumer portable products
Power supplies for
- PDAs
- CD/MD/DVD players
- digital cameras

Business Unit
FPS
FRIWO Power Solutions

Standard and customer-specific solutions

IT and Communication
Power supplies for communication and IT including
- modems
- routers
- set-top boxes
- printers

Consumer equipment and tools
Power supplies for tools and home applications including
- screwdrivers
- vacuum cleaners
- lawnmowers
- E-bikes

Industrial equipment
Power supplies for
- door, locking and security technology
- industrial vehicles
- DIN rail

Medical equipment
Power supplies for medical purposes and rehabilitation including
- wheelchairs
- blood transfusion pumps
- blood pressure monitors


FRIWO EMC
CEAG AG
FRIWO Gerätebau
FRIWO Japan
FRIWO CEAG Electrical
FRIWO Far East, Hong Kong
FRIWO Industrial Co.
FRIWO do Brasil

Foreword

Dear Friends and Shareholders,

The weak global economy made itself felt throughout fiscal year 2002. The economic recovery that had been repeatedly forecast for the western industrial nations did not materialize and even the growth rates of the emerging markets fell far short of expectations. Turbulence on the currency markets and concern at the prospect of war added further strain.

Our unsatisfactory performance in 2001 prompted us to restructure the CEAG Group at the start of 2002 after we had carried out a comprehensive analysis. The restructuring process aims to create the conditions which will foster sustained profitability in a market and an economic environment that have grown more and more difficult. At the heart of this process is the division of the Company into two strategic business units with different success factors and very distinct market positions.

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

As part of the restructuring process, we have also decided to transfer all production from the US and Mexico and remaining manufacturing of high-volume products from Germany to China.

Buoyed by the FMP business, unit sales in 2002 were very good, growing by almost 14% (122.6 million units). We expanded our global market share for mobile phone chargers from 23.5% to 27%, and further consolidated our market position. Opening up the markets in the US and South America further and significant progress with cost-cutting were key factors in this success.

Revenues for the CEAG Group shrank by 10.5% (6% net of currency effects) to EUR 191.4 million.

Orders and revenues in the FPS unit did not bounce back in the second half of the year as forecast, leading to severe underutilization of the plant in Ostbevern, Germany.

Foreword

At the end of the year, therefore, we decided to reduce headcount by a further 72 workers, in addition to the measures taken in spring 2002 on a global basis.

Including other write-downs, these two steps resulted in restructuring expenses of EUR 12.9 million. The implementation of the new strategy has resulted in notable success, especially for FMP. FMP has returned to the profit zone, but FPS is still affecting our results negatively to a considerable extent. Before restructuring expenses, the CEAG Group achieved positive EBIT of EUR 0.7 million in the fourth quarter and EBIT for the year was - EUR 3.2 million. Including currency losses, extraordinary write-downs on inventories and restructuring expenses, EBIT for the year came to - EUR 16.1 million.

Over the fiscal year, we have made great progress with slimming down the organization and further cost-cutting, lowering the breakeven point to the extent that the Company’s return to the profit zone is achievable even under difficult market conditions.

In December 2002, a German business magazine judged “CEAG well placed for a turnaround”, taking a view which is certainly realistic. With the focus on selected market segments and the different orientation of the two business units, the Group is heading for growth and profitability again.

On the whole, we enter the new fiscal year with a sense of confidence. Together with our staff, CEAG will once again mobilize all its forces in 2003 to prove our abilities to both our customers and our shareholders.

Bad Homburg v.d.H./Ostbevern (Germany), March 30, 2003

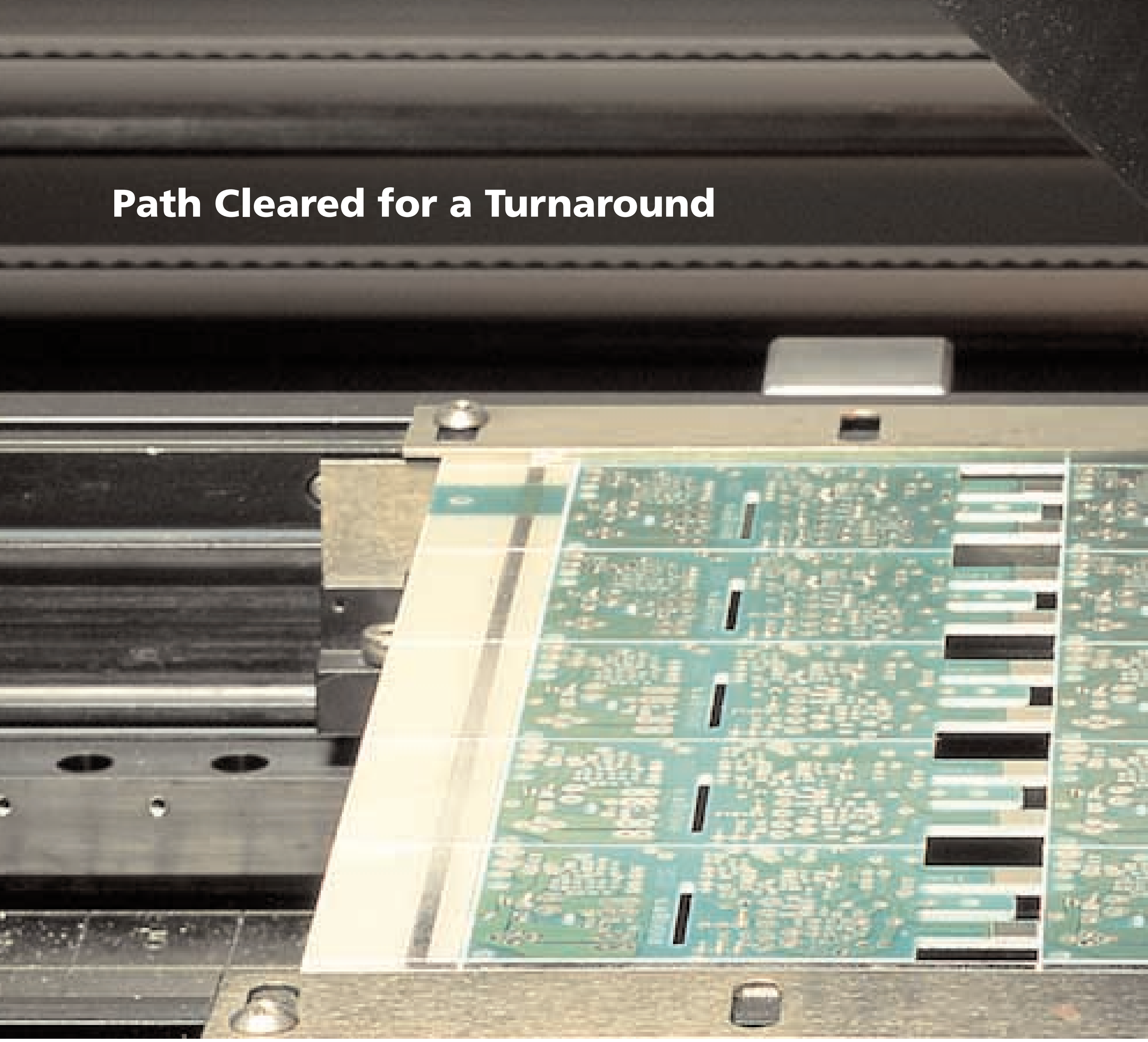
Rolf Endress

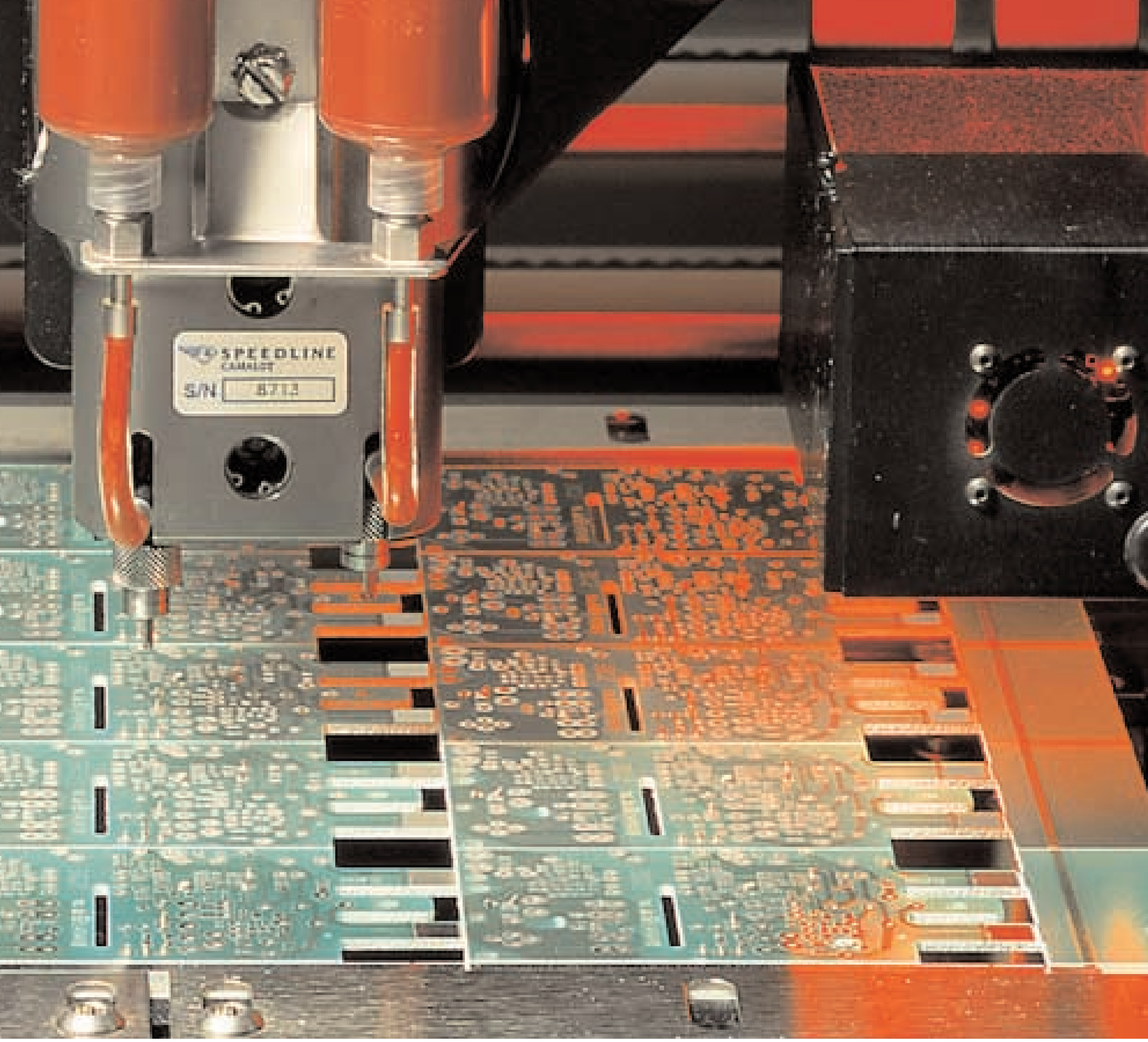
Chief Executive Officer

Matthias Grevener

Chief Financial Officer

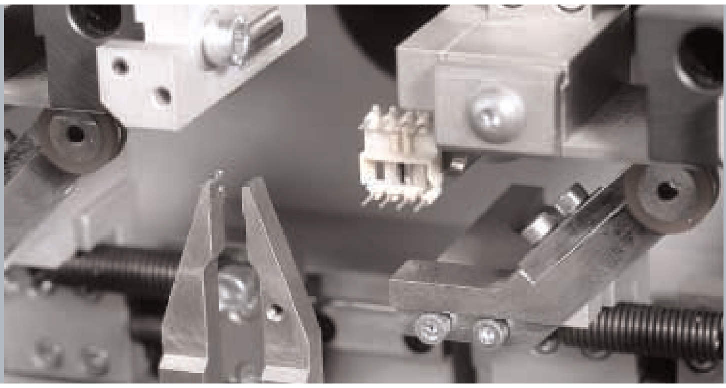
Path Cleared for a Turnaround





The change in the global economic and market environment to one characterized by weak growth prompted broad-based realignment on the part of CEAG AG. With the clear goal of "strength to face the future, streamlined for a turnaround", a targeted restructuring program was set out to implement corporate strategy.

Given the current economic situation, the decision to restructure required both courage and determination. Above all, however, it required the mobilization of all available skills and resources. Trusting in the core worth and strength of the Company, the problem areas identified at the beginning of 2002 were subjected to group-wide restructuring. Longstanding corporate values such as a tradition founded on decades and firmly established core competencies formed the basis for the restructuring of the Company.

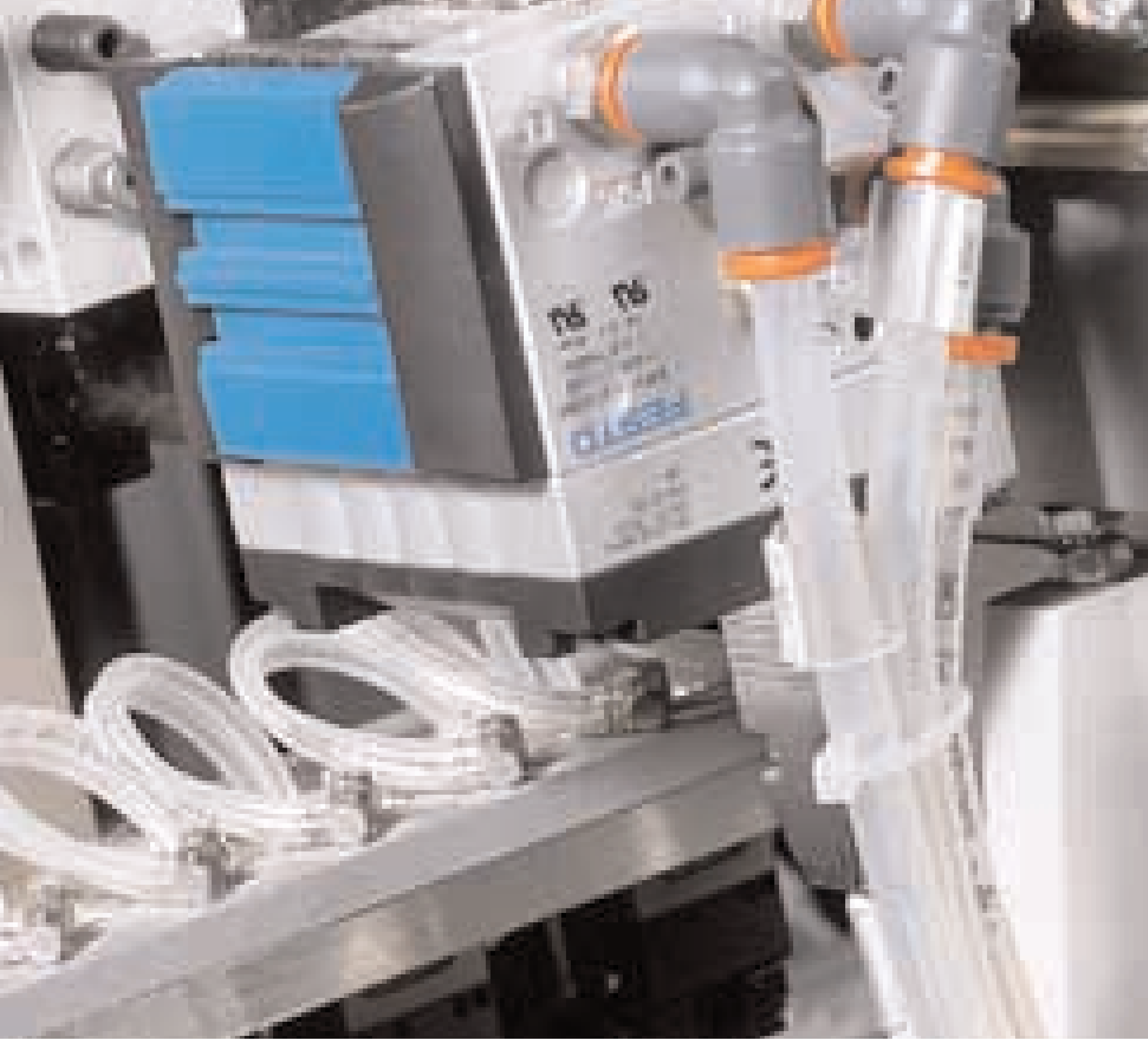


As a global leader in manufacturing power supply equipment, CEAG can look back on the FRIWO brand's history of over thirty years of success. With its innovative strength and technical expertise, the Company has been a defining influence on power supply technology and has established itself as a leader on the international market for providing and supplying power supplies.
FRIWO opened its first plant in China in 1990. Ten years later, a second Chinese plant was opened in Xixiang, to produce power supplies and chargers. These plants have the considerable advantage of flexible production capacity and internationally competitive manufacturing costs. The Company's efficiency on the world market is confirmed by reviewing weekly production figures. In 1971, when FRIWO invented the world's first plug-in power supply, 1,000 units were manufactured per week in Ostbevern, Germany. The first automatic final assembly machines were put into operation in 1988, and production rose to 100,000 units. Since 2001, more than 3 million FRIWO power supplies and chargers have been manufactured per week in China on a seasonal basis. Most of these units are supplied to the large mobile phone manufacturers. CEAG thus leads the market in this segment, with a 27% share of the global market.

We have made considerable progress toward our goal of "a clear return to the profit zone", taking steps in all areas of the business. Our research and development department is working intensively on cutting-edge switch mode power supply technology which will improve our competitive position. With new management and organizational structures in the sales and marketing department, the Company is positioned in a more market and customer-oriented way. These steps have led to a more competitive product portfolio and provided the potential to structure production capacity extremely flexibly. The Company is also less dependent on demand and state of the economy as a result.

All in all, CEAG AG has taken up the gauntlet of a changed market and increased competition and has made an important step toward consolidation with the new strategic focus. This new focus is the key to a future of sustained growth and increased value.

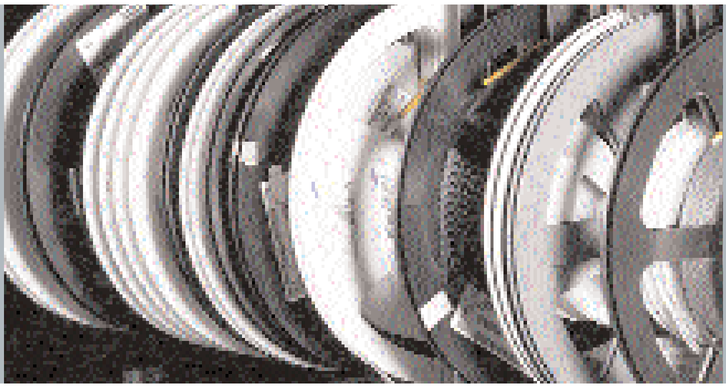
SPRINT and STEP –
a Reform Package for the Future



SPRINT – Achieving New Strategic Alignment Quickly

At the end of 2001, CEAG AG began to assess its business segments and locations. In early 2002, a detailed analysis was carried out with the help of an external business consultancy (McKinsey), in which comparisons were made with the global market and competitive situation according to productivity and profitability criteria. The SPRINT – **S**ustainable **PR**ofitability through **IN**novative **T**urnaround – strategic program was developed and implemented throughout the Group.

The division of the operating business into two business units independent of each other was the cornerstone of the SPRINT consolidation measures. The new FRIWO Mobile Power (FMP) business unit encompasses the high-volume power supplies and chargers for telecommunications while the FRIWO Power Solutions



(FPS) unit covers power supply equipment specifically for the medical technology, IT/communications, electric tools and industrial applications markets.

The SPRINT roadmap restructured capacity and locations in line with this division. In the interests of flexibility and cost efficiency, all manufacturing of high-volume products is concentrated in the two FRIWO plants in China. Capacity in other plants had to be adjusted as a result.
Colorado Springs (USA) has been converted from a plant to a sales center and production in Chihuahua (Mexico) has been closed down. The transfer of high-volume production to China has also affected Ostbevern (Germany) in the form of headcount reduction.

The sales strategy was also redefined under SPRINT. Regional markets will be targeted more efficiently with "sales energizing" programs customized for the different sales channels. Along with more intensive use of the platform strategy, these programs will extract new market and sales potential for FRIWO products.

STEP by Step – Cost-Cutting Showing Results

Under the STEP – **ST**rategic **E**volution **P**roject – umbrella, CEAG established a cost management program in all departments more than two years ago. STEP stands for optimizing the cost structure throughout the entire value-added chain while increasing productivity at the same time.

Processes such as "design-to-cost" (DTC) or "purchase-to-cost"(PTC) provide for efficient cost management from product development through to production, logistics and sales. These processes aim not only to reduce costs, but also focus on increasing productivity. The financial control function is networked throughout the Group, so there is a high level of cost transparency.

The resounding success of STEP is proved by quantitative results: savings realized in 2001 came to a total of EUR 20 million and costs were again reduced in 2002, this time by more than EUR 23 million.

Management With Conviction

Leadership, commitment and professionalism – these are the management skills which are called for, especially in these times of flux. The decision to carve a new route out to a profitable future for the Company also prompted CEAG to optimize its management structure in line with slimming the organization down as required.

The concentration of operations on two strategic business units, FMP and FPS, has streamlined the corporate structure.
All FMP activities are grouped under FRIWO Mobile Power GmbH, which was still known as CEAG Verwaltung GmbH as of December 31, 2002.
Barry Slaughter, the head of this business unit, is an experienced power supply expert. He has been with the Company since 1994 and heads the business of high-volume FRIWO products from Hong Kong.
The FPS activities are grouped under FRIWO Gerätebau GmbH. As part of the restructuring, this business unit reports to an independent head. CEAG appointed Felix Zimmermann, an industry expert who has many years of power supply experience, to be head of this unit as of January 1, 2003.

Matthias Grevener replaced Hans-Heiner Eddelbüttel as Chief Financial Officer on August 1, 2002.
Rolf Endress thus has a top management team working with him to face the challenges of the future. The management motto, “power unlimited”, is aimed both at the motivated and committed workforce and at management itself.

Leading the Market in Power Supplies – the New FMP and FPS Business Units

The global power supply market is characterized by many product segments with extremely varied applications.

One of these segments is that of power supplies and chargers of which high volumes are required for use in telecommunications equipment such as mobile and cordless phones, PDAs and CD/MD players. Growth in this high-volume power supply market is driven mainly by technical innovations in the equipment. This is best illustrated by the mobile phones which dominate the market. With desirable functions such as a multimedia picture messaging service (MMS) and built-in cameras, they provided renewed stimulus.

Power supplies and chargers in lower production volumes are another, much more fragmented product segment in small power supplies. These supply power for equipment used in medical, laboratory or measuring technology, electric household appliances, toys, modems and many other applications. In this low-volume, highly-fragmented power supply market, success can only be achieved through a targeted product and sales strategy.

As a global player which is represented in key segments of the power supply market by its FRIWO products, CEAG AG has divided its business into two strategic business units which operate independently in clearly defined markets.

FMP – FRIWO Mobile Power: Core Business

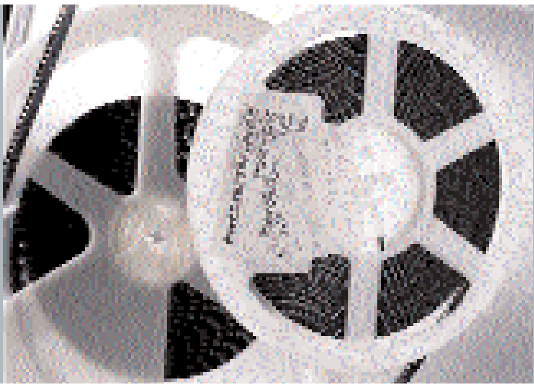
- The Company has grouped high-volume power supply products for the mobile telecommunications appliances under the FMP business unit. Power supplies and chargers for mobile phones are the core segment.

- FRIWO holding 27% of the global market means that every fourth mobile phone uses a FRIWO power supply or charger. In 2002, the Company produced 113.9 million units just for this market segment, 21% more than in the previous year (93.9 million units).

- Expanding on switch mode technology is the top priority in product development. The Company is preparing itself to stand up to increased competition with an innovative, high-performance range of switch mode power supplies, and is pushing for the success of its linear power supplies and chargers on the market.

- The transfer of all FMP production from Ostbevern (Germany) to the two Chinese plants in Shajing and Xixiang in reaction to market requirements creates optimal conditions for flexible and efficient utilization of manufacturing capacity. This successful production strategy will be extended on by building a third FRIWO plant in China, this time in Beijing. The Beijing plant will commence production in 2004.

- Sales and marketing are closely tailored to customer requirements. Skilled key account management, streamlined sales structures and an integrated logistics system ensure that FMP products are delivered to the production lines of the equipment manufacturers they supply at the precise times and in the volumes specified.



FPS – FRIWO Power Solutions: 2002 Difficult

- In this second business unit, CEAG focuses on a more demanding product portfolio: power supply equipment for medical technology, IT/communications, power tools and industrial applications.

- The market for FPS products is highly fragmented and caters to an extremely diverse range of customers and consumers. These target groups are extremely sensitive to the economy as a whole and levels of demand. The FPS market has not developed satisfactorily in the past two years. In Europe, and in Germany especially, the performance of the FPS business unit was held very much in check by weak unit sales and low revenues.

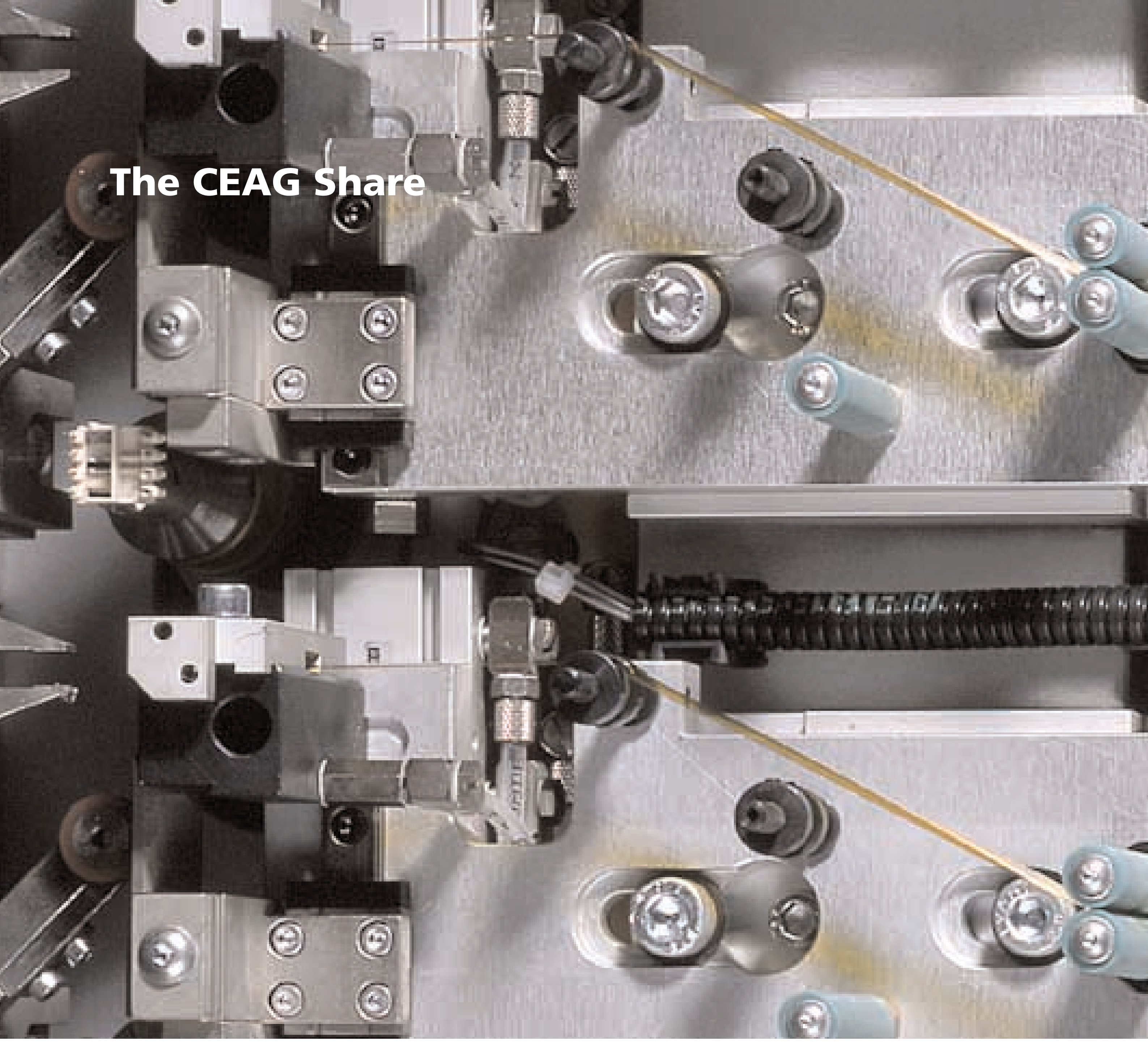
The Company reacted to this situation by implementing the SPRINT program, restructuring FPS as follows:

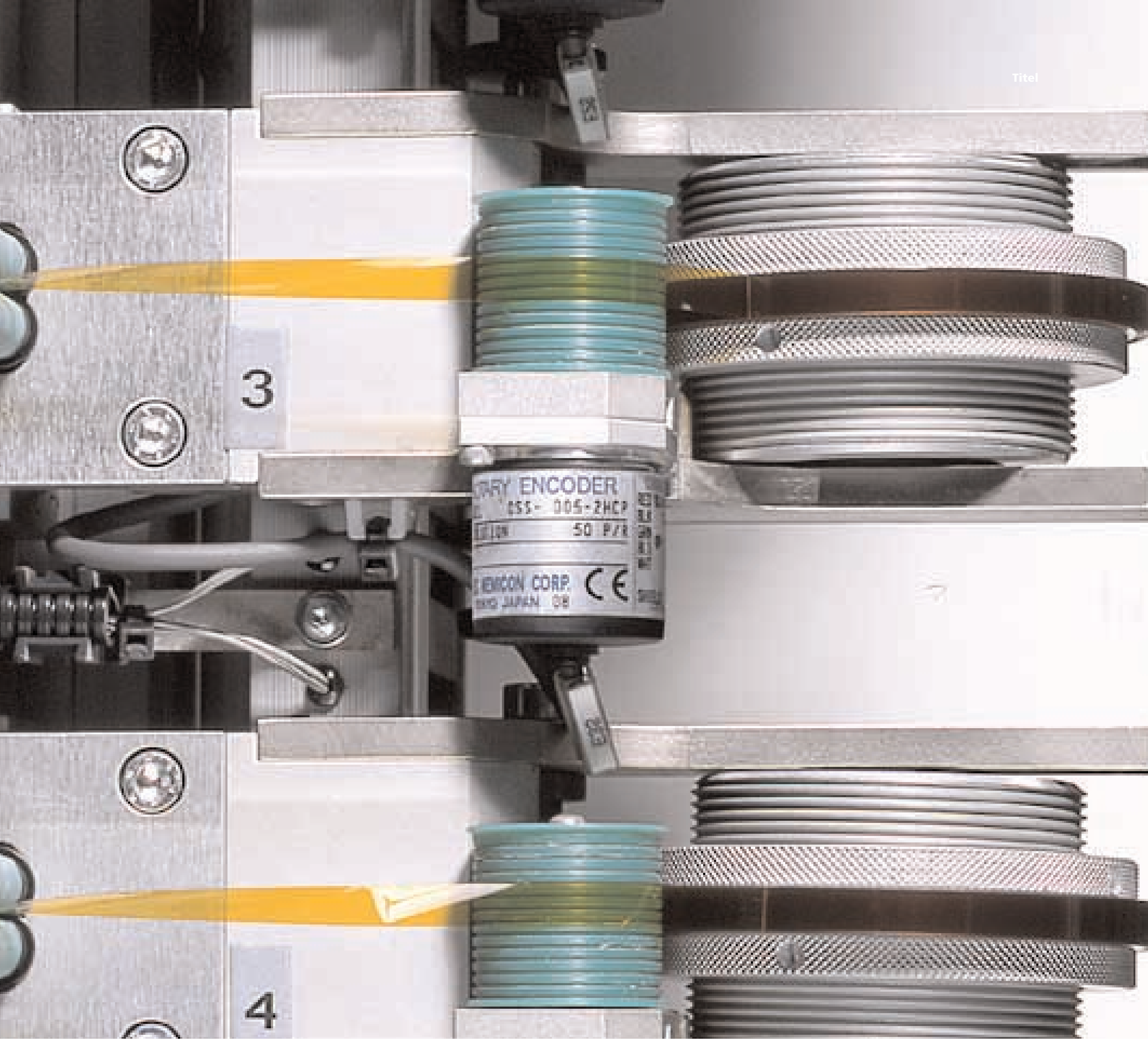
- The decision to close the plants in Colorado Springs (USA) and Chihuahua (Mexico), to adjust capacity at the plant in Ostbevern (Germany) and to utilize the plants in China has made the business unit’s manufacturing structure leaner and more flexible.

- The ongoing optimization of the FPS product range is being guided by the principle of reducing the complexity of the specific product groups in line with market and customer requirements. A cost-efficient product range with high margins is our goal. The IT/communications products have the potential to be top-selling products.

- FPS products are sold through a global sales network with support from commercial agents and distributors. Improved utilization of FPS infrastructure has led to the acquisition of new markets and customers.

The CEAG Share



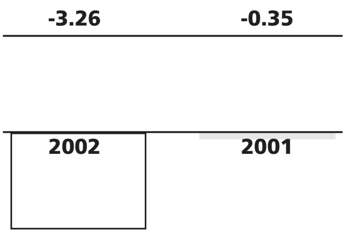


Contrary to all expectations, the almost uninterrupted dive in share prices on global stock exchanges continued in 2002. International stock markets have now been on a downhill slope for more than three years running. The sustained crisis in investor confidence, both on the part of institutional and private investors, continued to put pressure on stock prices and check any signs of recovery. Accounting scandals, erroneous forecasts and negative quarterly and annual results caused investors to lose confidence and, in many cases, to “rationalize” their portfolios. Concerns about the state of the economy and psychological knock-on effects reinforced this trend.

After an initial slump in the spring, the increased risk of war in the Middle East pushed already subdued stock markets down to a record low in autumn. On October 10, 2002, the Dow Jones index sank to 7,197 points, its lowest level since October 1997. The NASDAQ index of technology stocks fell to

The CEAG Share

Earnings per share



1,118 points, a six-year low. The day before, the DAX index had already plunged to its lowest level since September 1996, at 2,519 points.

Telecommunications stocks were not spared in the process. Their poor performance in the previous year and the general pessimism of the economy in 2002 left prices languishing at low levels or pushed them down even further. The CDAX Technology index plunged 50% against 2001. The SDAX index lost almost 30% over the year, while the NEMAX-50 index nose-dived by almost 70%.

The CEAG share lost 47% of its value against its price at the end of 2001 and closed at EUR 4.80 on December 30, 2002 (prior year: EUR 9.10). Earnings per share, calculated according to IAS 33 based on the consolidated net result for the year, came to - EUR 3.26.

At the end of 2002, Deutsche Börse confirmed that CEAG AG would be admitted to the Prime Standard. The Company has been listed in the new premium segment of the Prime Standard since January 1, 2003. The admission requirements are in line with international standards and include factors such as a high level of transparency, legal certainty and corporate integrity, which are integral elements of investor relations.

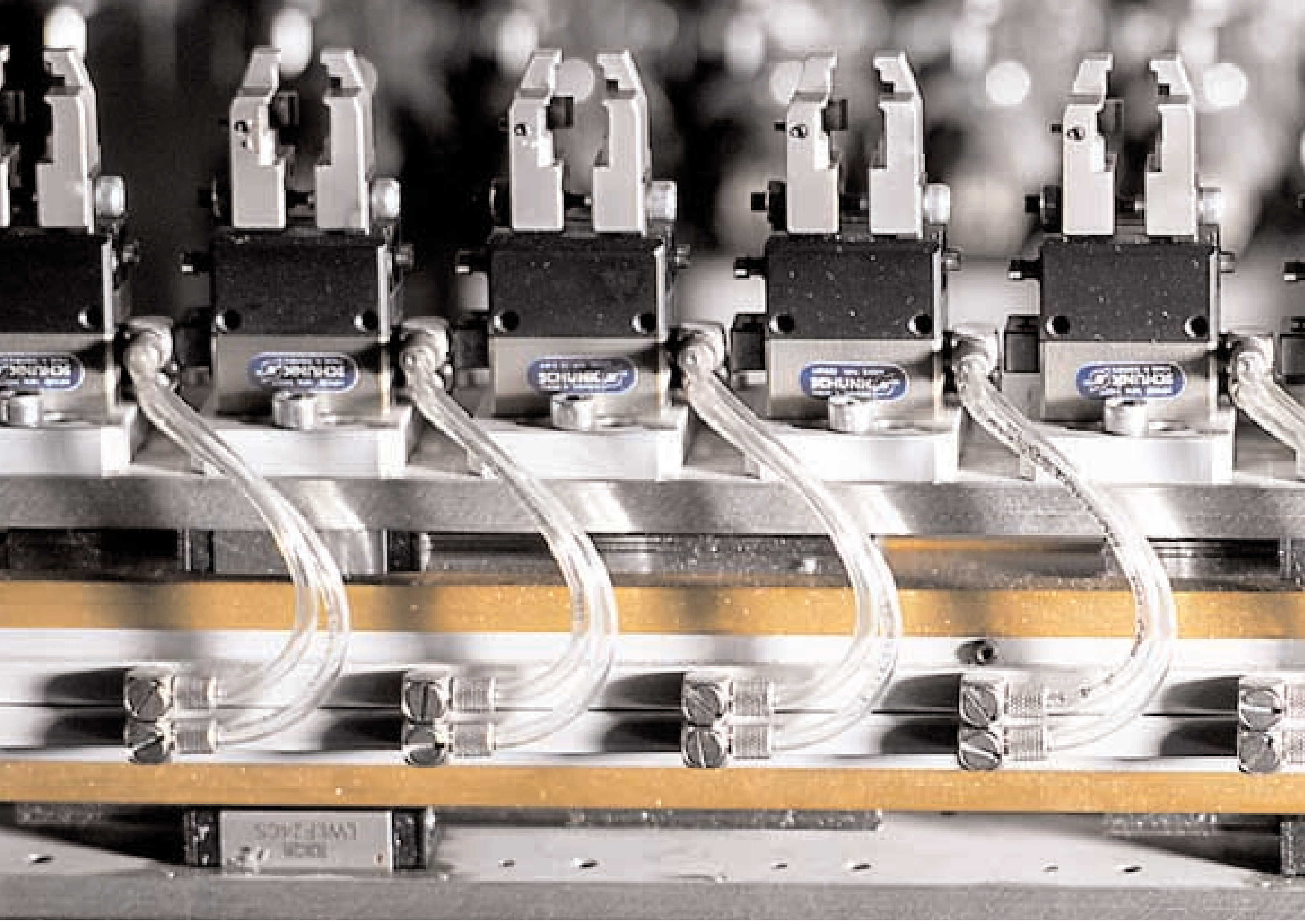
The conversion from the German securities identification number (Wertpapier-kennnummer/WKN) to the International Securities Identification Number (ISIN)

Corporate Governance

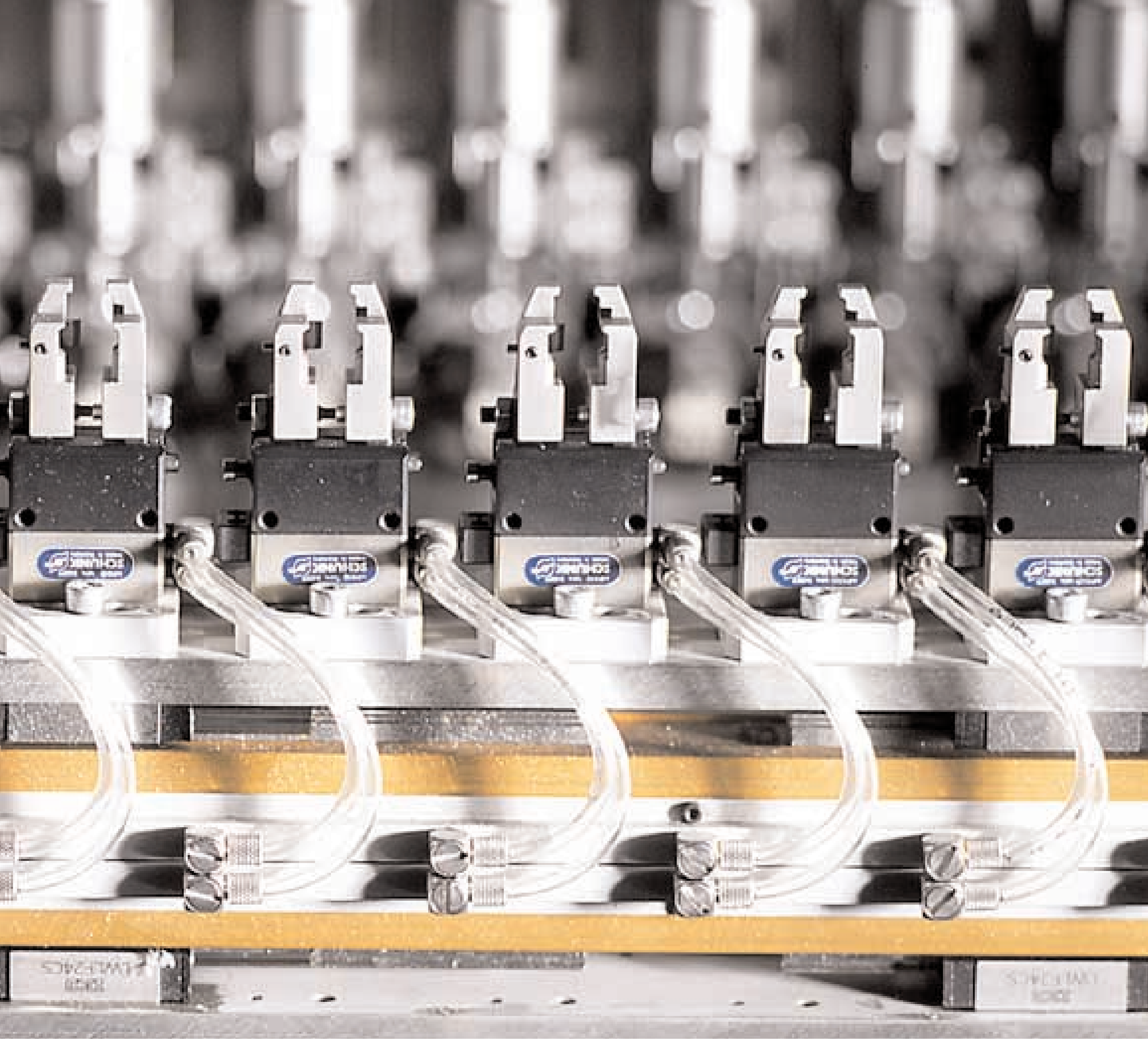
On December 20, 2002, the Supervisory Board and the Management Board issued a declaration of compliance in accordance with Sec. 161 of the Stock Corporation Act (AktG), stating that the principal recommendations of the government commission on a German Corporate Governance Code will be implemented. The declaration is available in full on the Company's homepage: www.ceag-ag.com. The main objective of this declaration is to present CEAG's guidelines and policies in a transparent fashion, in line with a responsible, principled corporate strategy, and thus to increase public confidence and the confidence of our investors, employees and business partners in us.

planned by Deutsche Börse means that the CEAG share will have a new identification code from April 22, 2003 onward. The CEAG share will then have the identification code DE0006201106, but will retain CEA as an abbreviation.

DELTON AG, Bad Homburg, is the majority shareholder of CEAG AG, with a 76.82% stake. As a strategic management holding company, DELTON AG groups the entrepreneurial activities of its sole shareholder, Stefan Quandt, into the following fields: pharmaceuticals, household products, logistics and power supply. 23.18% of CEAG shares are in free float.



Management Report

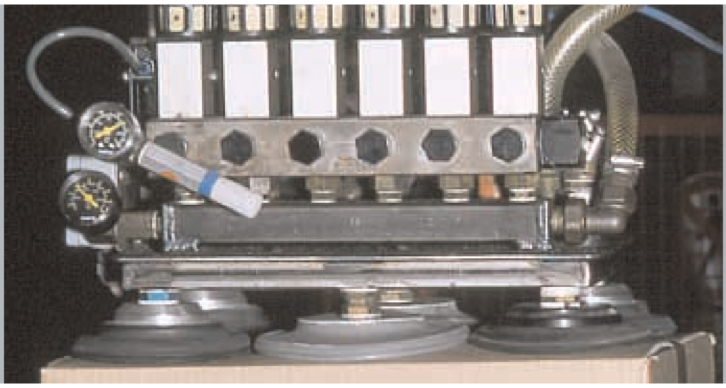


Management Report of CEAG Group and CEAG AG

With the FRIWO subsidiaries, CEAG AG is the world's leading supplier of chargers for mobile phones. It also manufactures individual products for IT & communication, power tools and medical technology.

As a holding company of the FRIWO Group, CEAG AG holds investments in FRIWO corporations. Therefore its net assets, financial position and results of oprations depend on the performance of the subsidiaries. The following group management report provides comprehensive information about the position of CEAG AG.

General Economic Conditions



The economic situation remained weak throughout 2002. The recovery that was hoped for and forecast every quarter did not materialize. Consumer reticence as a result of the uncertain economic situation led to great turbulence in many industries.

Reports of balance sheet manipulation, especially in the US, and profits nose-diving made the international capital markets even more jittery. Share prices dropped severely.

The share prices of many international German firms were also affected. The slump in the German stock exchanges – the DAX index ended 2002 around 45% lower than the year before – was made worse by sluggish growth in Germany, which even lagged behind its European neighbors.

Market Development

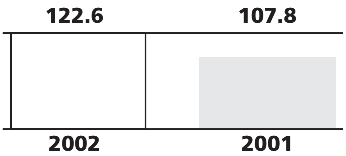
The power supply market as a whole was crippled by the economic slump worldwide in 2002. International power supply companies posted revenues between 30% and 50% lower than in 2001 (MTC Micro-Tech Consultants, 1-9/2002). Consolidation has begun on the market. The power supply market in Europe shrank over 25% against 2001, with revenues dropping to the level they were at in 1996. This negative trend over eight consecutive quarters only stopped toward the end of 2002 (EURO PSS/2002).

The mobile telephony market, the most important segment for CEAG's power supply business, grew 6% in 2002 to 423 million units (source: Garnter Dataquest, March 2003). Replacement purchases exceeded acquisitions for the first time. Despite this increase in unit sales, revenues fell for suppliers of power supplies to the mobile telephony industry. Further growth of the mobile telephony market depends to a large extent on production innovation. The latest trade publications from many mobile phone manufacturers are optimistic on this point.

The FPS business unit, which focuses on markets such as medical and industrial technology, power tools and applications in the communications industry, is particularly dependent on how the economy as a whole performs. Around 50% of FPS revenues are generated in Germany, with a further 20% from other countries in Europe.

Performance and Situation of the Company

Sales
in millions of units

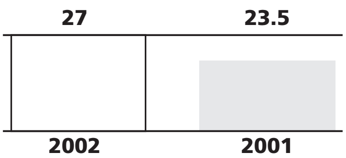


Restructuring

For CEAG, the fiscal year was one of strategic realignment and consolidation under the SPRINT program.

Implementing this program required considerable financial resources. The cost reduction which was given significant impetus by this program lays the foundation for a successful turnaround for the Company.

Global market share
in %

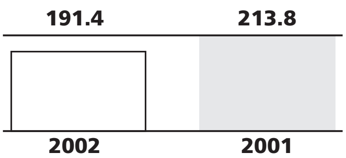


Unit Sales

In 2002, CEAG sold a total of 122.6 million FRIWO products worldwide, increasing unit sales by 13.8% against the previous year (107.8 million units). 116.5 million power supplies and power chargers were sold by the FMP business unit, a rise in unit sales of 16% against the previous year (100.5 million units). FMP supplied chargers for 113.9 million mobile phones in 2002 alone, 21% more than in 2001 (93.9 million mobile phones). Further opening up of the markets in the US and South America and progress made on cutting costs further consolidated our position as the top supplier for major mobile phone manufacturers. Our global market share grew robustly once again from 23.5% (2001) to our current share of 27%.

Unit sales of the products in our FPS business unit declined over the year, affected by the poor economic situation. 6.1 million units were sold, corresponding to a 15% decrease for the business unit.

Group revenues
in millions of EUR

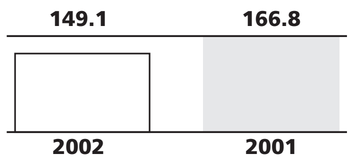


Revenue

Consolidated revenue for 2002 came to EUR 191.4 million, 10.5% (6% net of currency effects) lower than the prior-year figure of EUR 213.8 million. Revenue breaks down between the two business units as follows. FMP generated revenue of EUR 149.1 million, almost 11% lower than in the previous year (EUR 166.8 million) The weaker US dollar and price cuts canceled out the increase in FMP’s unit sales entirely. This made up 78% of consolidated revenue. With its low-volume FRIWO products, the FPS business unit brought in revenue of EUR 42.3 million in 2002, about 22% of consolidated revenue. Compared to the prior year (EUR 47.0 million), revenue from the FPS unit was down 10%.

Revenue generated by FPS in Europe fell by only 9% in comparison. The market as a whole was down by 25% (Euro PSS European Power Supply Statistics, 2002). However, FPS revenue fell far short of its original targets.

Revenue FMP in millions of EUR

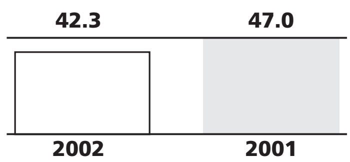


EBIT

The success of the SPRINT program began to show in FMP's results for the last quarter of 2002. Positive EBIT (before restructuring expenses) of EUR 2.6 million was generated. FMP's EBIT for the year reached EUR 4.0 million.

In the FPS business unit, lower revenues than in the previous year led to overcapacity that has since been cut. The write-downs on inventories resulted in EUR 1.6 million of special effects which pushed earnings down. EBIT (before restructuring expenses) of - EUR 7.2 million was generated over the year.

Revenue FPS in millions of EUR



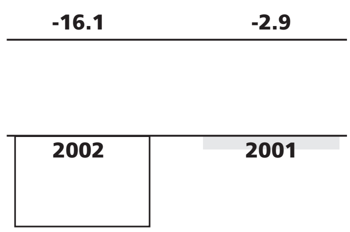
Improved margins as a result of transferring production from the US and Mexico to China, savings from the STEP program and lower overheads for both business units in the third and fourth quarters also had an effect on earnings.

Restructuring expenses, including other write-downs amounting to EUR 12.9 million, were mainly caused by expenses for cutting capacity at FPS, transferring FMP production from Germany to China and moving merchandise from the plants in the US and Mexico.

Consolidated EBIT before and after restructuring is - EUR 3.2 million and - EUR 16.1 million respectively. Net of interest, EBT comes to - EUR 17.6 million (prior year: - EUR 4.5 million).

Deferred tax assets were revalued in accordance with IAS 12 to account for anticipated tax-relevant profits. This resulted in an income tax expense of EUR 7.5 million and thus a net loss for the year of - EUR 25.1 million.

EBIT in millions of EUR



Research and Development

Generating Product and Brand Value

As one of the global leaders in manufacturing power supply products, CEAG presented more cutting-edge technology and a variety of innovative products under the FRIWO brand in 2002.

Our research and development focused on developing new power supply products and optimizing the power supply manufacturing process using the control chip developed for switch mode power supplies in the prior year. Over 10 million of these units have been sold just one year after being introduced on the market. The success of this new technology is based on the considerable cost savings from combining components in an integrated switch for very diverse product applications. It reduces standby loss to such an extent that the current generation of such equipment already meets the limits set for 2005.

Our R&D experts' goal in developing small power supplies was summed up by the motto "credit-card sized switch mode power supplies". With the mobile equipment supplied, e.g. mobile phones or PDAs, becoming lighter and lighter, power supplies and chargers are forced to keep pace with this trend of "miniaturization". With their innovative switch design centered around a converter with a piezo transformer, the "techies" at the FRIWO Group have once again proven their skills and creativity and given new direction to the Company's leading position in technology.
They have developed a 3-way switch mode power supply with wide range input capability which has a thickness of only 6mm and would fit on top of a credit card.
This sophisticated new power supply opens up completely new avenues for integrating power supplies in compact terminals. The next step will be to develop these power supplies to production stage such that high-volume manufacturing may be achieved.

Identifying environmentally friendly raw materials and manufacturing processes was another focus of our research and development work, in order to produce equipment without toxic materials (e.g. lead, cadmium and flame retardants) in plastics and circuit boards before European legislation on electronic waste takes effect in 2006.

Capital Expenditure

The Company filed applications for five patents and one sample in 2002.

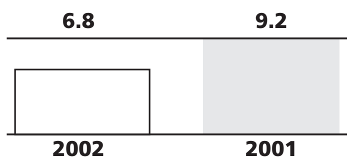
Our industrial research department made the first power supplies using piezo transformer technology, and also started designing mobile power supply systems with hydrogen fuel cells. The hydrogen fuel cells produce environmentally friendly power free of emissions.

Capital Expenditure

Improved Productivity and Infrastructure

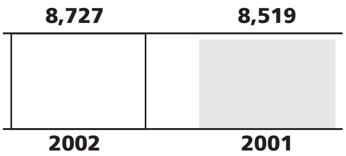
Capital expenditure focused above all on adapting productivity and capacity to the optimum levels and flexibility required for changed technologies and to meet market and customer requirements. At EUR 6.8 million, capital expenditure was some 26% lower than the EUR 9.2 million of the prior year. Investment in property, plant and equipment dominated capital expenditure, amounting to EUR 6.1 million. Of this sum, around EUR 5.2 million was used to acquire new machinery, tools and devices for the expansion of the series production of cutting-edge FRIWO switch mode power supplies and chargers at the plants
in China.

Capital expenditure
in millions of EUR

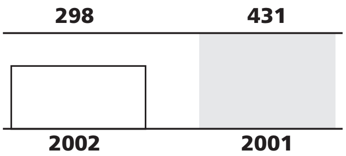


Employees

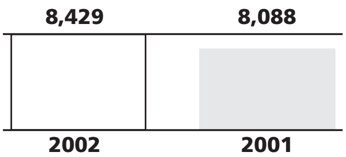
Total employees



Employees in Germany



Employees abroad



Conquering Challenges Together

The Company's strategic realignment also affected our staff during the fiscal year.

The CEAG Group had 8,727 employees at the end of 2002. This was an increase of 2.4% on the previous year (8,519). As of December 31, 2002, we had 298 employees in Germany (prior year: 431) and 8,429 abroad.

As a result of the reduction of the workforce in Germany, the Supervisory Board of FRIWO Gerätebau GmbH was dissolved as of February 27, 2002 after its legal status had been examined in court.

Capacity was increased in China but had to be reduced in Germany. The decision to stop production of power supplies in Mexico and the US was made at the same time. The job cuts in Germany were carried out in two phases. 125 jobs were cut in the second quarter because of the transfer of high-volume production and a further 72 staff were laid off at the end of the year in order to adjust capacity to the weak demand for FPS products.

The staff qualification programs for our employees in 2002 once again offered a challenging range of training opportunities. Method training and specialist courses were especially popular. Foreign language courses, which support the further globalization of the Company, were also very much in demand. We also offered a modular training program for managers. Training time, e.g. at Ostbevern (Germany), remained at a high level overall.

The strategic realignment and the need to stay competitive put pressure on every one of our employees. The Management Board would like to take this opportunity to thank all employees for their great commitment and support. Our staff's excellent skills and motivation have made a decisive contribution to clearing the way for a profitable future for the Company. We would also like to thank our employee representatives for their constructive work with us in a spirit of mutual trust.

Our Stance on the Environment

Taking Our Responsibility Seriously

During the fiscal year, CEAG's environmental and quality management work focused on taking further steps aimed at conserving resources and environmentally and socially responsible operations. The environmental and quality management systems implemented in the Company were reinforced in 2002 by their renewed certification for all departments.

The quality management system, which had hitherto been certified under the international standard ISO 9001:1994, was awarded the follow-up ISO 9001:2000 certificate on December 4, 2001 (legally binding as of the end of 2003) for a process-oriented quality management system. This certificate was also issued to the two FRIWO plants in China, which are already certified for environmental standards under ISO 14000. In line with our environmental responsibilities, we introduced more lead-free and cadmium-free production processes in our plants in China last year. The use of PVC-free components in FRIWO products is also being increased.
Certification under TL 9000 – the quality management seal specifically for the telecommunications industry, linked to ISO 9001:2000 – and SA 8000 for supply chain ethics will follow in 2003.

The quality management targets and measures implemented for the Group are filed in an electronic manual which can be accessed in all FRIWO offices and plants.

The following considerations remain fixed components of corporate strategy and are therefore of key importance:

- Ongoing commitment to protecting the environment and conserving resources
- Procurement of production materials which avoids risk and conforms with legal requirements
- High safety levels in manufacturing processes and working procedures

Risk Management

Timely Precautions for a Secure Future

As an international company, risk management is a key component essential to our corporate governance and strategy. In fiscal year 2002, therefore, we have developed our risk identification and monitoring systems further. These systems cover a variety of management and control mechanisms and include value-based performance measures, strategic, planning and budgeting processes and detailed analysis of markets, competitors and technology. The use and monitoring of these systems is performed by the financial control function in each of the subsidiaries. Central financial control tasks are carried out on business unit and group level. The systematic identification and evaluation of risks in accordance with the Law on Control and Transparency in Business (KonTraG) is therefore firmly in place in the Company.

The world economy, exchange fluctuations (mainly USD/EUR), rising raw material prices and uncertainty on the development of the market for mobile phones are the risks which could have sustained effects on our business performance. CEAG is well aware of these risks and reviews them regularly. Strategic goals are rigorously pursued in order to counteract the potential effects of these risks.

The Company is increasing its potential for innovation and its competitiveness for the future by investing in the plants in China and making targeted investments in development, especially in switch mode technology.

Under the proposal for a Directive on Waste Electrical and Electronic Equipment (WEEE) adopted by the EU parliament in December 2002, manufacturers of electrical and electronic equipment will be required by law to set up a system for taking back equipment and to secure financing for the collection and disposal of this equipment by January 1, 2006. As the details of the scheme will mainly be determined by the individual member states, the consequences for CEAG cannot be predicted as yet. We will keep close track of developments and reassess risk as necessary.

DELTON AG, the majority shareholder of CEAG AG, has extend the required credit lines to the Company for the restructuring phase. This financing is currently set to expire on June 30, 2003. With support from DELTON, CEAG AG is currently attempting to secure independent financing once again.
No risks to the status of the Company as a going concern have been established to date.

Outlook

Driving Our Return to the Profit Zone

CEAG faces the new fiscal year with a spirit of optimism, although no reliable prognosis may be made for the global economic situation and the market. Our goal for 2003 is to put the Company in the black. The strategic corporate realignment in 2002 has laid the foundation for future growth and profitability.

Our product strategy makes innovative switch mode technology the focus of all FMP sales and marketing activities. In comparison with conventional linear technology, switch mode technology offers shorter charging time and higher performance using less power. Production and capacity planning for FRIWO power supplies and chargers with this cutting-edge technology is geared toward more switch mode equipment.

Mobile phones with attractive new features (color displays, cameras and MMS) stimulated the telecommunications market considerably at the end of the previous year. Leading mobile phone manufacturers such as Nokia, Motorola, Samsung and Siemens forecast unit sales of approx. 435 million mobile phones in 2003. Industry experts expect many mobile phone owners to replace the phones they bought in the boom year of 2000 in 2003. This positive view is shared by some analysts. In their current report on the mobile telephony industry, for example, the investment bank Merrill Lynch has forecast much higher unit sales than mobile phone manufacturers have done. The investment bank has revised its original forecast of global sales of 410 million units to 474 million units in 2003 (Merrill Lynch). Our budget is based on sales of around 440 million units.

The FPS business unit will focus on extending the platform strategy, complemented by targeted original equipment manufacturer (OEM) projects. It will push ahead with the development of innovative, high-performance power supply equipment for industrial applications, power tools or medical technology and IT. The power supply market in Europe stopped shrinking for the first time in the fourth quarter, so moderate recovery may be expected in 2003.

The Company will also continue to operate “design-to-cost” (DTC) and “purchase-to-cost” (PTC) processes as part of the STEP cost-cutting program across the Group.

Financial Statements of CEAG AG

The complete set of the financial statements of CEAG AG, on which an unqualified opinion was rendered by Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Düsseldorf, (formerly Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, which has changed its name to Ernst & Young AG without a change in legal personality) has been published in the Federal Gazette and filed with the Local Court at Bad Homburg v.d.H. under HRB 6024. An offprint of CEAG AG's financial statements for 2002 is available from CEAG AG on request.

The capacity at both our plants in China will be well utilized in 2003. The CEAG Group will set up its third plant in China this year, to commence production in 2004. Situated in the Nokia Industrial Park in Beijing, this plant will be of strategic significance for further expansion in the growth market of China.

Through the rigorous consolidation of the Company in the past fiscal year, CEAG has pooled all its strengths aiming to achieve profitable growth. With innovative products, high productivity, a motivated workforce and a skilled management team, the path for our return to the profit zone is clear.

Relationships With Affiliated Companies

Pursuant to Sec. 21 of the Securities Trading Act (WpHG), DELTON AG, Bad Homburg v.d.H., notified us that holds 76.82% of the shares in our Company in its letter dated March 29, 1995.

In addition, Stefan Quandt also declared in accordance with Sec. 21 WpHG that he has an indirect interest of 76.8% in CEAG AG through DELTON AG. Pursuant to Sec. 17 (2) AktG, the CEAG AG is a dependent company of both DELTON AG and Stefan Quandt.

We have therefore prepared a report on relationships with affiliated companies in accordance with Sec. 312 AktG, and declared the following: "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."

Financial Statements CEAG Group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Strom/mA

Consolidated Balance Sheet of CEAG AG as of December 31, 2002

Assets

in thousands of EUR	Note	2002	2001
Non-current assets			
Goodwill	(6)	239	3,132
Other intangible assets	(7)	1,039	1,213
Property, plant and equipment	(8)	16,797	20,012
Financial assets	(9)	5	11
		18,080	**24,368**
Deferred taxes	(14)	101	7,068
Current assets			
Inventories	(10)	37,812	47,210
Trade receivables	(11)	21,793	31,843
Other assets	(11)	7,671	19,631
Prepaid expenses	(12)	222	395
Cash and cash equivalents	(13)	1,102	4,593
		68,600	**103,672**
Total assets		**86,781**	**135,108**

Equity and liabilities

in thousands of EUR	Note	2002	2001
Equity	(15)		
Subscribed capital		20,020	20,020
Capital reserve		15,440	15,440
Revenue reserves		12,181	20,844
Consolidated net loss		-25,064	-2,718
		22,577	**53,586**
Debt			
Non-current debt			
Non-current liabilities to banks		0	2,556
Provisions for pensions	(16)	2,118	2,045
Other non-current provisions	(17)	725	543
Deferred taxes	(14)	147	200
		2,990	**5,344**
Current debt			
Provisions for taxes		527	389
Other current provisions	(17)	4,923	2,237
Current financial liabilities	(18)	21,966	24,473
Trade payables	(18)	27,289	41,302
Other liabilities	(18)	6,509	7,777
		61,214	**76,178**
		64,204	**81,522**
Total equity and liabilities		**86,781**	**135,108**

Consolidated Income Statement of CEAG AG for Fiscal Year 2002

in thousands of EUR	Note	2002	2001
Revenue	(19)	**191,358**	**213,818**
Cost of sales	(20)	-168,088	-185,209
Gross profit		**23,270**	**28,609**
Research costs	(21) (30)	-343	0
Selling expenses	(22)	-12,443	-13,145
General administrative expenses	(23)	-11,119	-13,896
Other operating income	(24)	3,907	526
Other operating expenses	(25)	-6,590	-3,807
Restructuring expenses	(26)	-12,870	-1,206
Profit/loss from operations		**-16,188**	**-2,919**
Financial result	(27)	**-1,378**	**-1,559**
Earnings before income taxes		**-17,566**	**-4,478**
Income taxes	(28)	-7,498	1,760
Consolidated net loss		**-25,064**	**-2,718**
Earnings per share (basic and diluted) (in EUR)	(29)	-3.26	-0.35

Cash Flow Statement of the CEAG Group

in thousands of EUR	2002	2001
Earnings before income taxes and interest	-16,084	-2,881
Depreciation of non-current assets	8,911	7,961
Change in provisions	2,976	-1,355
Gain/loss on the disposal of non-current assets	924	-18
Change in inventories	6,354	9,055
Change in trade receivables and other assets that cannot be allocated to investing or financing activities	19,818	13,899
Change in trade payables and other liabilities that cannot be allocated to investing or financing activities	-13,834	6,766
Interest received	152	319
Interest paid	-1,511	-1,916
Income taxes paid	-326	-2,282
Other non-cash expenses and income	592	559
Cash flow from operating activities	**7,972**	**30,107**
Cash received from disposals of property, plant and equipment/intangible assets	817	131
Cash received from the sale of consolidated companies	313	0
Cash paid for investments in intangible assets	-703	-1,216
Cash paid for investments in property, plant and equipment	-6,103	-8,016
Cash paid for investments in financial assets	0	-1
Cash flow from investing activities	**-5,676**	**-9,102**
Dividend paid for the prior year	0	-4,235
Cash received from raising financial liabilities from affiliated companies	15,640	0
Cash paid to repay liabilities to banks	-20,703	-17,295
Cash flow from financing activities	**-5,063**	**-21,530**
Effect of exchange rates on cash and cash equivalents	-724	219
Net change in cash and cash equivalents	**-3,491**	**-306**
Cash and cash equivalents at beginning of fiscal year	4,593	4,899
Cash and cash equivalents at end of fiscal year	**1,102**	**4,593**

* For more information see, please see Note 38 of the notes to the financial statements.

Statement of Changes in Equity and Segment Report

Statement of Changes in Equity for the CEAG Group

in thousands of EUR	**Subscribed capital**	**Capital reserve**
January 1, 2001	**20,020**	**15,440**
Initial application of IAS 39	0	0
Dividends paid for 2000	0	0
Consolidated net loss	0	0
Currency translation differences	0	0
December 31, 2001	**20,020**	**15,440**
Consolidated net loss	0	0
Currency translation differences	0	0
December 31, 2002	**20,020**	**15,440**

Segment Report for Fiscal Year 2002

By business segment in thousands of EUR	**2002 SBU FMP**	**2002 SBU FPS**
External sales	149,047	42,311
Segment result (EBIT incl. restructuring expenses)	-788	-15,296
Interest		
Income taxes		
Consolidated net loss		
Segment assets	54,757	30,821
Other assets		
Segment liabilities	24,328	17,236
Other liabilities		
Investments in intangible assets and property, plant and equipment	4,757	2,049
Amortization/depreciation of intangible assets and property, plant and equipment	5,868	3,043
Impairment losses	0	3,528
Restructuring expenses	4,797	8,073
Non-cash expenses	760	2,808

By geographical segment in thousands of EUR	**2002 Europe**	**2001 Europe**
External sales	120,810	144,925
Segment assets	55,870	54,576
Investments in intangible assets and property, plant and equipment	1,322	5,173

Earned group equity	Currency translation adjustment	Group equity
20,938	**2,285**	**58,683**
39	0	39
-4,235	0	-4,235
-2,718	0	-2,718
0	1,817	1,817
14,024	**4,102**	**53,586**
-25,064	0	- 25,064
0	-5,945	-5,945
-11,040	**-1,843**	**22,577**

2002 Group	2001 Telco	2001 Non-Telco	2001 Group
191,358	165,190	48,628	213,818
-16,084			
-1,482			
-7,498			
-25,064			
85,578	115,139	8,308	123,447
1,203			
41,564			
22,640			
6,806	8,611	621	9,232
8,911			
3,528			
12,870			
3,568			

2002 Asia	2001 Asia	2002 Americas	2001 Americas	2002 Group	2001 Group
42,841	50,036	27,707	18,857	191,358	213,818
27,131	55,275	2,577	13,596	85,578	123,447
5,339	3,853	145	206	6,806	9,232

Notes

Notes to the Consolidated Financial Statements for Fiscal Year 2002

General (1)
CEAG AG is the world's leading supplier of chargers and power supplies for mobile phones. A holding company of the FRIWO Group, CEAG AG sells FRIWO brand products. The Company also produces custom-made power supplies and chargers for the electronics, information technology and medical technology industries as well as for door and locking technologies.

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

The consolidated financial statements and group management report of CEAG AG for fiscal year 2002 are published in the Federal Gazette and deposited with the commercial register of the Local Court of Bad Homburg v.d.H. under HRB 6024.

Basis and Methods

General Principles (2)
The consolidated financial statements of CEAG AG have been prepared in accordance with the provisions of the standards issued by the International Accounting Standards Board (IASB), London, in effect as of the balance sheet date. They comply with the European Union's group accounting directive (Directive 83/349/EEC). To ensure that the consolidated financial statements are equivalent to those prepared in accordance with the German Commercial Code (HGB), all disclosures and explanations required above and beyond the provisions of the IASB have been provided.

These consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are exempting consolidated financial statements as the requirements of Sec. 292a HGB are met. Compliance with these requirements is assessed on the basis of German Accounting Standard 1 (GAS 1) issued by the German Accounting Standards Committee (GASC).

The IFRS provisions applied differ from the HGB provisions in the following significant respects:

Goodwill from acquisitions prior to January 1, 1995 must be capitalized.

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably; i.e. there is no ban on the recognition of intangible assets that were not purchased for a consideration.

Non-current assets are generally depreciated on a straight-line basis. Regardless of whether property, plant and equipment are still used in operations or are destined for sale, these items must be subjected to an impairment test based on cash generating units and reduced to their recoverable amount as necessary.

Inventories are always valued according to their value on the sales market rather than according to the strict lower of cost of market principle under HGB provisions.

In contrast to Sec. 274 (2) HGB, deferred tax assets must be recognized, including deferred tax assets in respect of loss carryforwards that will be utilizable in subsequent periods.

The actuarial method used to calculate pension provisions under IAS 19 includes future salary and pension increases and differs from valuation according to German commercial law, which is typically based on tax regulations.

The application of revised IAS 19 did not result in any changes to be accounted for in 2002.

Overall, the rules governing the creation of provisions are more stringent. Provisions may only be recognized when an enterprise has a legal or

Notes

constructive obligation towards third parties and it is likely that the obligation will have to be settled. Under IFRS, the obligation has to be quantifiable and the most probable amount should be recognized.

Financial statements in accordance with IFRS are prepared without regard to tax regulations.

Primary and derivative financial instruments are recognized as assets and liabilities in the balance sheet. Depending on their classification, some financial instruments are measured at fair value – even if fair value exceeds (historical) cost. Under IFRS, hedging relationships may also qualify for special hedge accounting under which gains or losses are sometimes recognized directly in equity.

The financial statements are prepared on a cost basis except for certain financial instruments which are measured at fair value.

To improve the clarity and informative value of the presentation, individual items of the balance sheet and income statement have been grouped. These items are shown separately and explained in the notes to the financial statements. Current and non-current assets and liabilities are presented as separate classifications on the face of the balance sheet in accordance with IAS 1.53. The income statement was drawn up using the cost of sales method. In fiscal year 2002, research costs and restructuring expenses were disclosed separately in the income statement. The income statement for fiscal year 2001 was adjusted accordingly to account.

All amounts are in thousands of euros (EUR thousand) unless otherwise stated.

Consolidated Group (3)
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.
FRIWO-COMPIT Stromversorgung und Lichttechnik GmbH, Ostbevern (Germany), was included in consolidation until August 29, 2002, when it was sold. CEAG Verwaltung GmbH, Bad Homburg v.d.H. (soon to become FRIWO Mobile Power GmbH, Ostbevern (Germany), which was formed in November 2002, has joined the consolidated group.
This company pools our FMP operations in Europe. In addition, FRIWO Electrical (Beijing) Co. Ltd., Beijing, China, was founded at the beginning of the fiscal year and has been included in the consolidated group of CEAG AG since then. FRIWO Electrical (Beijing) Co. Ltd. did not commence its operations in the fiscal year. The consolidated group therefore comprises three domestic and six foreign companies. The changes in the consolidated group do not have a significant effect on the presentation of our financial position and performance.

Consolidation Policies (4)
The financial statements of the domestic and foreign subsidiaries included in consolidation have been prepared under uniform accounting policies.

Capital consolidation follows the purchase method. Any differences remaining after the allocation of hidden reserves and hidden charges are disclosed as goodwill or negative goodwill and recognized as expense or income. In accordance with SIC-8 the goodwill from initial consolidation prior to January 1, 1995 is still recognized directly in reserves.

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

Notes

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

Foreign Currency Translation (5)

In the single-entity financial statements receivables and liabilities in foreign currencies are disclosed at the exchange rate at the date of the transaction. They are then translated at the closing rate at the balance sheet date.

Schedule of Consolidated Non-Current Assets of CEAG AG for Fiscal Year 2002

	Cost						
in thousands of EUR	**Jan. 1, 2002**	**Change in consolidated group**	**Additions**	**Disposals**	**Transfers**	**Currency translation differences**	**Dec. 31, 2002**
Intangible assets							
Goodwill	3,591		123			-533	3,181
Industrial property rights and similar rights and assets	3,201		421	674		-34	2,914
Payments on account	87		159	23		-1	222
	6,879		**703**	**697**		**-568**	**6,317**
Property, plant and equipment							
Land and buildings	12,712		500	273	6	-709	12,236
Technical equipment and machinery	41,462		4,726	12,598	448	-3,100	30,938
Other equipment, furniture and fixtures	21,965	-82	822	4,116	18	-485	18,122
Payments on account and assets under construction	1,635		55	5	-472	-178	1,035
	77,774	**-82**	**6,103**	**16,992**		**-4,472**	**62,331**
Financial assets							
Investments	11			6			5
	84,664	**-82**	**6,806**	**17,695**		**-5,040**	**68,653**

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 at the balance sheet date, and the income statements are translated at annual average rates as these companies operate as independent entities in financial, economic and organizational terms. The resulting exchange differences are recognized directly under equity in the separate item “currency translation differences”.

The Group’s reporting currency is the euro, which is the reporting currency of CEAG AG.

Depreciation /amortization							Carrying amount	
Jan. 1, 2002	Change in consolidated group	Additions	Disposals	Transfers	Currency translation differences	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2002
459		2,819			-336	2,942	239	3,132
2,075		602	616		-9	2,052	862	1,126
		45				45	177	87
2,534		**3,466**	**616**		**-345**	**5,039**	**1,278**	**4,345**
6,129		1,522	2	-10	-318	7,321	4,915	6,583
32,422		2,757	11,119	229	-1,864	22,425	8,513	9,040
18,929	-46	1,166	4,039	-3	-280	15,727	2,395	3,036
282			5	-216		61	974	1,353
57,762	**-46**	**5,445**	**15,165**		**-2,462**	**45,534**	**16,797**	**20,012**
							5	11
60,296	**-46**	**8,911**	**15,781**		**-2,807**	**50,573**	**18,080**	**24,368**

Notes

Notes to the Balance Sheet

Goodwill (6)
Any excess of the cost of acquiring an enterprise over the fair value of the acquired enterprise's assets and liabilities is recognized as goodwill in the balance sheet. This goodwill should be reported at cost less any accumulated amortization and any accumulated impairment losses. If there are indications of an impairment and the recoverable amount is less than the amortized cost, an impairment loss is recognized on the goodwill. If the reasons for an impairment loss cease to apply, the impairment loss is reversed as appropriate.

Goodwill comprises the goodwill from capital consolidation. An impairment loss of EUR 2,696 thousand was recognized on the goodwill in the single-entity financial statements of FRIWO EMC, Inc., Colorado Springs, in the fiscal year. FRIWO EMC Inc. has discontinued its production activities and has been reorganized as a sales company.

Goodwill is amortized over a period of 20 years. CEAG's remaining goodwill from capital consolidation is amortized on a straight-line basis over a five-year period.

Other Intangible Assets (7)
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 of other intangible assets is three to four years. The amortization period and methods are reviewed at the end of each fiscal year. If there are indications of an 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 costs of purchasing 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 years.

Research and development costs are charged against income in the period in which they are incurred. The requirements for recognizing development costs as assets under IAS 38.45 have not been met.

Property, Plant and Equipment (8)
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.

Items of property, plant and equipment whose use is limited are depreciated systematically on a straight-line basis over their expected useful lives unless the actual pattern of use indicates that they are impaired. If there are indications of an impairment and the recoverable amount is less than the amortized cost, an impairment loss is recognized for the property, plant and equipment. If the reasons for an impairment loss cease to apply, the impairment loss is reversed as appropriate.

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
Motor 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.

Property, plant and equipment were reviewed in accordance with IAS 36 (“Impairment of Assets”).

As in the prior year, the production facilities in Ostbevern (Germany) were defined as one cash-generating unit. The impairment test resulted in continued

Notes

measurement at the cash-generating unit's recoverable amount. Net of systematic depreciation, the carrying amounts approximated the net selling price, such that no additional impairment losses had to be recognized.

In connection with the restructuring of FRIWO EMC Inc., further items of property, plant and equipment were reduced to their net selling price after an impairment test in accordance with IAS 36. The corresponding impairment loss of EUR 831 thousand is disclosed in restructuring expenses.

Financial Assets (9)
Financial assets relate to the investment in Taunus Treuhandgesellschaft mbH, Bad Homburg v.d.H., in which CEAG holds 10% of the capital stock. This investment is classified as available for sale under IAS 39 ("Financial Instruments: Recognition and Measurement") and should therefore be measured at fair value. Since the fair value could not be reliably determined, the investment is carried at cost.

The investment in Industrie-Versicherungsvermittlungsgesellschaft mbH, Bad Homburg v.d.H., was sold in fiscal year 2002.

Inventories (10)

in thousands of EUR	2002	2001
Raw materials, consumables and supplies	10,791	16,222
Work in progress	3,236	4,346
Finished goods and merchandise	23,785	26,642
	37,812	**47,210**

Inventories are measured at cost or at the lower net selling price as of the balance sheet date in accordance with IAS 2 ("Inventories") with due regard to the principle of item-by-item measurement. The weighted average cost method is used for interchangeable items in accordance with IAS 2.21.

Cost of conversion comprises material costs, production costs and appropriate allocations of the necessary material and production overheads, including production-related depreciation. Measurement included reasonable provision for inventory risks arising from a lower net selling price and resulted in impairment losses of EUR 5.1 million (prior year: EUR 4.6 million). In this process, the salability of the inventories was also taken into account.

The carrying amount of the inventories recognized at net realizable value is EUR 4,081 thousand.

Receivables and Other Assets (11)

in thousands of EUR	2002	2001
Trade receivables	21,793	31,843
Other assets	7,671	19,631
	29,464	**51,474**

Receivables and other assets are recognized at nominal value.

Foreign currency receivables are translated at the closing rate in accordance with IAS 21. Translation differences are reported in net profit or loss. Appropriate specific bad debt allowances account for recognizable risks; an allowance based on past experience is recognized for the remaining credit risk.

In the reporting year, trade receivables and other assets were adjusted by EUR 581 thousand (prior year: EUR 1,627 thousand).

The increase in receivables against the prior year is due to lower sales volumes and exchange rate fluctuations related to the balance sheet date.

The reduction in other assets is largely due to the utilization/conversion of receivables from cash and cash equivalents in Chinese currency at FRIWO Far East Ltd. (Hong Kong). Claims for refunds from the tax office and rent deposits are also recognized as other assets.

Notes

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

Prepaid Expenses (12)
Prepaid expenses comprise prepaid insurance premiums and other prepaid items.

Cash and Cash Equivalents (13)
Cash and cash equivalents comprise cash on hand and balances at banks. Cash and cash equivalents are carried at nominal value and break down as follows:

in thousands of EUR	2002	2001
Cash	28	25
Balances at banks	1,074	4,568
	1,102	**4,593**

Deferred Taxes (14)
Deferred taxes are calculated in accordance with IAS 12 (“Income Taxes”). Deferred tax assets and liabilities that are likely to arise in future are recognized for temporary differences between the carrying amounts in the consolidated financial statements and the tax base of assets and liabilities. Anticipated tax savings from loss carryforwards which are likely to be used in future are recognized as deferred tax assets.

Deferred tax assets related to deductible temporary differences and tax loss carryforwards exceeding taxable temporary differences are only recognized to the extent that it is reasonably probable that the enterprise will have sufficient taxable profit against which the unused tax losses can be utilized.

We also refer to our comments on “Income Taxes”.

Equity (15)

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 between January 1, 2001 and December 31, 2002. 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 future losses and, in part, to increase capital stock, but not for distributions.

The Management Board is entitled 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. No use has been made of this authorization to date. It is limited until May 31, 2007.

The Management Board is also authorized to grant subscription rights to no-par bearer shares in the Company to beneficiaries on a single occasion. No use has been made of this authorization to date. It is limited until December 31, 2005.

The capital stock has also been conditionally increased by up to EUR 156,000 by issuing up to 60,000 no-par shares (conditional capital). The conditional capital serves to grant subscription rights (stock option rights) to members of the Management Board and employees of the Company and to members of the management board/management and employees of enterprises affiliated to the Company within the meaning of Secs. 15 et seq. of the Stock Corporation Act (AktG). The conditional capital increase will only be carried out to the extent that the bearers of the stock options, which the Management Board and Personnel Committee of the Supervisory Board have been authorized to issue, exercise their subscription rights. An exercisable stock option plan does not exist at present.

The revenue reserves disclosed in the consolidated balance sheet comprise the consolidated equity earned up to December 31, 2001 and the item for currency translation differences.

Notes

Provisions for Pensions (16)
Development of provisions for pensions

in thousands of EUR	2002	2001
Provision, January 1	2,045	1,969
Benefits paid	-89	-106
Current service cost	39	64
Interest cost	123	118
Provision, December 31	**2,118**	**2,045**

Calculation of the amount of provision

in thousands of EUR	2002	2001
Present value of unfunded obligations	2,008	1,987
Unrecognized actuarial gains and losses	110	58
Provision, December 31	**2,118**	**2,045**

The provisions for pensions are recognized in accordance with the requirements of IAS 19 (revised 2002).

Pension obligations from direct pension commitments were calculated according to the projected unit credit method allowing for future adjustments to salaries and pensions. The actuarial calculation is based on the following parameters: a discount rate of 5.75% to 6.0%, a salary increase of 3.0% and a pension increase of 1.0% to 1.5%. In accordance with IAS 19.93, actuarial gains or losses exceeding 10% of the present value of the pension obligations were recognized as income or expense.

The interest portions of the changes in provisions for pensions are reported in the financial result and other expenses are disclosed under the respective functions.

The domestic obligations chiefly comprise fixed benefits related to length of service; a commitment based on income and length of service has also been made.

Other Provisions (17)

in thousands of EUR	Balance Jan. 1, 2002	Utilization	Reversal	Addition	Translation difference	Balance Dec. 31, 2002
Other non-current provisions						
Personnel and welfare	**543**	**202**	**57**	**441**	**0**	**725**
Other current provisions						
Restructuring	819	263	260	3,110	-59	3,347
Sales	106	106	0	142	0	142
Warranties	494	331	108	533	-40	548
Other	818	577	189	886	-52	886
	2,237	**1,277**	**557**	**4,671**	**-151**	**4,923**

Other provisions are recognized in accordance with IAS 37. Under this standard, provisions are only recognized when the enterprise 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.

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 FRIWO Gerätebau GmbH, Ostbevern (Germany), and CEAG Verwaltung GmbH, Bad Homburg v.d.H. (soon to become FRIWO Mobile Power GmbH, Ostbevern, Germany.

The sales obligations mainly involve potential losses from pending sales transactions.

The provisions for warranties cover warranties for deliveries and services rendered.

Notes

Current Liabilities (18)

in thousands of EUR	2002	2001
Liabilities to banks	6,326	24,473
Payments received on account of orders	0	180
Trade payables	26,554	41,302
Liabilities to affiliated companies	16,406	66
(of which current financial liabilities)	(15,640)	(0)
(of which trade)	(735)	(66)
(of which other)	(31)	(0)
Other liabilities	6,478	7,531
(of which taxes)	(224)	(1,056)
(of which social security)	(357)	(404)
	55,764	**73,552**

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

Liabilities are recognized at amortized cost.

Liabilities in foreign currencies are translated using the closing rate at the balance sheet date. Any differences between this rate and the rate at the date of the transaction are recognized in net profit or loss.

Other liabilities include embedded derivatives (in accordance with IAS 39) of EUR 90 thousand (prior year: EUR 44 thousand).

The remaining other liabilities include debtors with credit balances, sales bonuses and other liabilities relating to sales and operations.

The liabilities are all due within one year; they are not secured by liens or similar rights.

Notes to the Income Statement

Revenue (19)
Revenue from the sale of finished goods and merchandise and the related services are reported in this item. Revenues are recognized when the products and merchandise have been delivered or the service has been rendered. Revenues are disclosed net of general VAT, internal sales, trade discounts, volume rebates and any bonuses.

The development of sales by strategic business unit (SBU) and by region is presented in the segment reporting in accordance with IAS 14.

Cost of Sales (20)
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 production overheads, including systematic depreciation on production plant.

Research Costs (21)
Expenditure on basic research into piezo transformer technology, which was incurred in 2002 for the first time, is disclosed separately.

Selling Expenses (22)
Selling expenses comprise the costs of the sales departments as well as costs for advertising, logistics and commission expenses.

General Administrative Expenses (23)
Personnel and material expenses for administration and the costs for external services are disclosed in this item unless they are recharged internally to other functions.

Notes

Other Operating Income (24)

Other operating income mainly comprises exchange gains (EUR 3.7 million, prior year: EUR 0.3 million) and income from disposals of assets.

Other Operating Expenses (25)

in thousands of EUR	2002	2001
Losses on disposals of assets	0	4
Systematic goodwill amortization	122	213
Exchange losses	6,008	967
Impairment losses	0	2,282
Other expenses	460	341
	6,590	**3,807**

Exchange losses result from buying and selling goods in foreign currencies in the normal course of business.

Restructuring Expenses (26)

Restructuring expenses are reported separately for the first time; the prior year has been adjusted accordingly. In fiscal year 2002, the US subsidiary was substantially restructured, as were the operating companies in Germany.

in thousands of EUR	2002	2001
Personnel measures	5,720	1,206
Goodwill impairment	2,696	0
Consulting expenses	1,740	0
Scrapping of plant and machinery	1,193	0
Impairment loss at FRIWO EMC	831	0
Other expenses	690	0
	12,870	**1,206**

Financial Result (27)

in thousands of EUR	2002	2001
Investment result	**104**	**38**
Other interest and similar income	152	319
Interest and similar expenses	-1,511	-1,798
(of which to affiliated companies)	-(807)	-(31)
Interest portion of additions to provisions for pensions and similar obligations	-123	-118
Interest result	**-1,482**	**-1,597**
Financial result	**-1,378**	**-1,559**

Interest expenses are not included in cost of purchase or conversion.

Income Taxes (28)

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	2002	2001
Current income taxes	565	444
Adjustment of deferred tax assets on loss carryforwards	3,808	0
Adjustment of deferred tax assets from prior years	559	0
Change in deferred taxes on temporary differences	2,566	-2,204
	7,498	**-1,760**

Deferred taxes are recognized for all temporary differences between the tax base of assets and liabilities and their carrying amount in the IAS financial statements and for all loss carryforwards that may be utilized for tax purposes. Deferred tax assets and liabilities are measured at the tax rates expected at the time of realization. Deferred tax assets are only reported if there are likely to be taxable results against which the deferred tax asset may be used.

Notes

The corporate income tax rate for fiscal year 2003 was raised to 26.5% by the Act to Assist Flood Victims (Flutopferhilfegesetz).

In fiscal year 2002, back taxes of EUR 142 thousand (prior year: tax refunds of EUR 166 thousand) were incurred. These payments are attributable to prior periods. Consolidation entries also resulted in deferred taxes. In accordance with IAS 12 ("Income Taxes"), no deferred taxes are disclosed for goodwill recognized on capital consolidation.

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

in thousands of EUR	2002 Assets	2002 Liabilities	2001 Assets	2001 Liabilities
Intangible assets	0	3	115	19
Property, plant and equipment	664	206	2,079	492
Inventories	107	176	979	139
Receivables and other assets	0	0	426	313
Provisions for pensions	85	0	147	0
Other provisions	59	20	256	25
Liabilities	3	0	52	6
Loss carryforwards	3,808	0	3,808	0
Total	**4,726**	**405**	**7,862**	**994**
Netting	-258	-258	-794	-794
Adjustment	-4,367	0	0	0
Consolidated balance sheet	**101**	**147**	**7,068**	**200**

The realization of deferred tax assets for unused tax loss carryforwards depends on the achievement of taxable income or trade income in subsequent years. Now that the business model has been revised, with European FMP customers billed directly from the Far East, the expectation of making tax-relevant profits in Germany in the foreseeable future has changed. It is no longer considered probable that the tax loss carryforwards will be realized in Germany.

The domestic deferred tax assets carried over from the prior year were therefore written off in full. New domestic deferred tax assets have not been recognized in accordance with IAS 12.

Overall, no deferred tax assets were recognized on losses of EUR 13,834 thousand for the year under review and on temporary valuation differences of EUR 9,673 thousand.

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

in thousands of EUR	**2002**	**2001**
Earnings before income taxes	-17,566	-4,478
Estimated tax expense 1)	-6,675	-1,711
Differing tax rates abroad	-187	-578
Non-deductible goodwill amortization	988	56
Non-recognition of deferred tax assets on the elimination of intercompany profits in non-current assets	3,325	0
Non-recognition of deferred tax assets on loss carryforwards	5,396	0
Adjustment of deferred tax assets on loss carryforwards	3,808	0
Change in valuation differences between tax balance sheet and measurement in accordance with IAS	1,157	16
Non-recognition of taxes due to local tax exemptions	-1,261	-36
Adjustment of deferred tax assets	559	0
Taxes for prior years	0	166
Other effects, netted	388	327
	7,498	**-1,760**

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

Earnings Per Share (29)

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 3.26 in 2002 (prior year: - EUR 0.35). The number of shares (7.7 million no-par shares) has not changed in the reporting year.

Notes

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.

	2002	2001
Number of no-par shares outstanding	7,700,000	7,700,000
Consolidated net profit/loss (in thousands of EUR)	-25,064	-2,718
Earnings per share (in EUR)	-3.26	-0.35

Other Disclosures on the Income Statement

Research and Development Costs (30)

Costs of EUR 5.5 million were reported in the year under review (prior year: EUR 5.5 million). Basic research accounted for EUR 0.3 million of this amount and is disclosed separately for the first time in the year under review. The other costs are contained in cost of sales.

Depreciation and Amortization (31)

in thousands of EUR	**2002**	**2001**
Amortization of intangible assets	3,466	603
(of which systematic goodwill amortization excluding restructuring)	(122)	(213)
(of which impairment losses)	(2,696)	(8)
Depreciation of property, plant and equipment	5,445	7,358
(of which impairment losses)	(831)	(2,274)
	8,911	**7,961**

The impairment losses disclosed in 2002 are contained in restructuring expenses (see Note 26).

Cost of Materials (32)

in thousands of EUR	2002	2001
Cost of raw materials, consumables and supplies and of purchased goods	128,212	136,672
Cost of purchased services	1,082	2,819
	129,294	**139,491**

The reduction in the cost of materials reflects the lower level of business as well as cost savings and currency trends.

Personnel Expenses (33)

in thousands of EUR	2002	2001
Wages and salaries	37,108	35,163
Social security and other benefit costs	3,134	4,136
Pension costs	505	237
	40,747	**39,536**

Employees (34)

The average number of people employed by the Group over the year was as follows:

Number of employees	2002	2001
Blue collar	7,496	6,963
White collar	384	446
	7,880	**7,409**

Other Taxes (35)

Other taxes are disclosed in the expenses of the individual functions. They amount to EUR 36 thousand (prior year: EUR 109 thousand).

Notes

Other Disclosures

Other Financial Commitments (36)

in thousands of EUR	2002	2001
Purchase commitments for property, plant equipment	752	2,218
Rent and lease obligations	5,676	9,105
(of which due next year)	(2,003)	(1,719)
(of which due in two to five years)	(3,673)	(7,386)
(over which due in more than five years)	(0)	(0)
	6,428	**11,323**

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease were recognized as expenses on a straight-line basis over the lease term.

The rent and lease obligations include rent of EUR 5,487 thousand for sites in China, mainly for factory buildings. The item also includes obligations under non-cancelable operating leases for buildings of EUR 189 thousand. Under these leases, EUR 124 thousand of future minimum lease payments is due within one year and EUR 65 thousand is due in one to five years' time.

Financial Instruments (37)

Primary Financial Instruments:

The primary financial instruments recognized as assets in the balance sheet are classified according to IAS 39 ("Financial Instruments: Recognition and Measurement") as "held for trading", "held to maturity" and "available for sale" and are measured at cost or fair value under these categories. Any impairments or changes in fair value are reported in net profit or loss. Financial instruments that are liabilities are disclosed at the higher of amortized cost or repayable amount.

Derivative Financial Instruments:
The CEAG Group is exposed to currency risk on account of its international operations. It is also subject to interest risk and loan loss risk.

Currency risks are hedged naturally by the foreign currency positions when, for example, a trade account payable in US dollars is matched within the Group by one or more accounts receivable in the same currency of equivalent maturity and amount. Any remaining foreign currency risks are mitigated by concluding forward exchange transactions under targeted currency management. There were no open forward exchange transactions as of December 31, 2002.

“Regular way” purchases and sales of financial assets are accounted for at settlement date in accordance with IAS 39.

Embedded derivatives have been recognized in the balance sheet. To qualify as an embedded derivative, a financial instrument must meet all of the following conditions:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

- The hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

Certain deliveries by companies of the CEAG Group are made in a currency which is not the currency of the primary economic environment of one of the two contracting parties. These contracts are hybrid financial instruments whose embedded derivatives must be separated from the host contract.

As of the balance sheet date, a loss of EUR 90 thousand was made on the embedded derivatives related to the outstanding order volume.

Notes

The Group has receivables from a variety of customers. These receivables frequently include high individual accounts due from major customers. The credit risks associated with accounts receivable are addressed by applying a systematic procedure to select 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.

The CEAG Group 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 in fiscal year 2002 are short-term borrowings. EONIA 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 ten-year loan to CEAG AG of approx. EUR 2.6 million ends in mid-2003.

The development of market interest rates is subject to constant monitoring and analysis. Given the interest risk, longer term financing options will also be considered in future.

The following financial instruments are not disclosed at their fair value: cash and cash equivalents, other assets, trade payables, other liabilities and liabilities to banks. These financial instruments are reported at nominal value, which approximates their fair value, as the instruments are short term and bear interest at market rates.

We refer to the management report with respect to the Group's liquidity situation.

Notes to the Cash Flow Statement (38)

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

The assets and liabilities disposed of in connection with the sale of FRIWO COMPIT Stromversorgung und Lichttechnik GmbH, Ostbevern (Germany), are not included in the calculation of the change in net current assets.

Recognized assets and liabilities break down as follows:

in thousands of EUR

Non-current assets	195
Current assets	1,066
Liabilities/provisions	1,447

Cash and cash equivalents of EUR 137 thousand were transferred in connection with the sale of FRIWO COMPIT. The selling price totaled EUR 450 thousand.

Notes to the Segment Reporting (39)

Primary reporting is based on business segments for the first time in fiscal year 2002. For this purpose, we distinguish between our FMP and FPS activities. The FMP (FRIWO Mobile Power) business unit focuses on high-volume markets such as those for mobile phones, CD/MD/DVD players and similar products, whose sales structure is solely based on key accounts. The FPS (FRIWO Power Solutions) unit concentrates on medical and industrial technology, power tools and applications in the communications industry. Sales is regionally structured for this unit, with some support from commercial agents and distributors. The business units were created in the fiscal year – comparable prior-year figures cannot be determined with a reasonable amount of effort. The comparative information for the purposes of primary reporting for the prior year shows the prior year's disclosures for the Telco/Non-Telco segments, which were included in secondary reporting in the prior year.

Notes

The Group's secondary reporting format in the fiscal year is based on the geographical markets in which the CEAG Group sells its products. The geographical segments used are the three economic areas relevant for the CEAG Group, these being Europe, Asia and the Americas.

Sales to one customer from the FMP business unit who is represented in all geographical segments came to 50% (prior year: 47%) of total revenues for all segments in the year under review.

Sales to another customer from the FMP business unit who is represented in all geographical segments came to 16% (prior year: 20%) of total revenues for all segments in the year under review.

Related-Party Relationships (40)

DELTON AG, Bad Homburg v.d.H., holds the majority of shares in CEAG AG (disclosure pursuant to IAS 24). The CEAG Group received consulting services/cost recharges from DELTON AG of EUR 128 thousand (prior year: EUR 92 thousand) in the reporting year. In addition, DELTON AG granted CEAG AG a credit line of EUR 43.2 million in the year under review. All transactions were concluded at normal market rates or conditions.

DELTON AG holds shares in other entities which are thus also related parties for the companies in the CEAG Group. Services were purchased from these companies for EUR 96 thousand in the reporting year.

The shares in DELTON AG are wholly owned by Mr. Stefan Quandt. Mr. Quandt has pledged securities to secure a loan to CEAG AG through one of his affiliated companies. The term of the EUR 2.6 million loan runs from June 1, 1993 to June 1, 2003. Other than remuneration for his service on the Supervisory Board no transactions were recorded with Mr. Stefan Quandt.

Total Remuneration of the Supervisory Board and Management Board (41)

Remuneration for members of the Supervisory Board for the year 2002 comes to EUR 45 thousand (prior year: EUR 45 thousand). Total remuneration of the Management Board for fiscal year 2002 amounts to EUR 685 thousand (prior year: EUR 568 thousand), including remuneration paid to settle the employment contract of a member of the Management Board who left during the fiscal year. Former members of the Management Board and their survivors received pension benefits of EUR 25 thousand (prior year: EUR 25 thousand). Total provisions of EUR 848 thousand (prior year: EUR 1,020 thousand) have been accrued for pension obligations to former members of the Management Board and their survivors.

Shares Held by Members of the Management Board and Supervisory Board (42)

Members of the Supervisory Board held a total of 120 shares as of December 31, 2002 (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 or Supervisory Board.

Shareholdings (43)

The domestic companies listed have profit and loss transfer agreements with CEAG AG. The profit and loss transfer agreement with FRIWO-COMPIT Stromversorgung und Lichttechnik GmbH, Ostbevern (Germany), was annulled as of December 31, 2001. FRIWO Gerätebau GmbH, Ostbevern (Germany), and CEAG Verwaltung GmbH, Bad Homburg v.d.H. (soon to become FRIWO Mobile Power GmbH, Ostbevern (Germany) make use of the simplifications pursuant to Sec. 264 (3) HGB with respect to the preparation of notes to the financial statements and a management report.

Notes

in thousands of EUR	Shareholding	Equity	Net profit/loss
CEAG Verwaltung GmbH, Bad Homburg v.d. Höhe, Germany	100%	25	-24*
FRIWO Gerätebau GmbH, Ostbevern, Germany	100%	11,513	10,196*
FRIWO Far East Ltd., Hong Kong, China	100%	23,158	157
FRIWO CEAG Electrical (Shenzhen) Company Ltd., Xixiang, China	100%	8,560	4,338
FRIWO Electrical (Beijing) Co., Ltd, China	100%	-24	-434
FRIWO EMC, Inc., Colorado Springs, USA	100%	-140	-4,626
FRIWO Japan Co., Ltd., Tokyo, Japan	100%	-251	-255
FRIWO do Brasil Ltda., Sao Paulo, Brazil	100%	59	76

* before profit and loss transfer

The Supervisory Board and shareholders' meeting of CEAG AG have yet to approve the profit and loss transfer agreement with CEAG Verwaltung GmbH, Bad Homburg v.d.H. (soon to become FRIWO Mobile Power GmbH, Ostbevern (Germany). The required entries in the respective commercial registers have therefore not yet been made. The profit and loss transfer was taken into account in CEAG AG's financial statements as of December 31, 2002.

Corporate Governance Disclosure (44)
The Management Board and Supervisory Board have issued the declaration required pursuant to Sec. 161 AktG and made this available to the shareholders.

Sub-Group Consolidated Financial Statements (45)
DELTON AG, Bad Homburg v.d.H., is the majority shareholder of CEAG AG. The consolidated financial statements of CEAG AG are included in the consolidated financial statements of DELTON AG, which are deposited with the commercial register of the Local Court of Bad Homburg v.d.H.

Authorization for Issue (46)

The consolidated financial statements of CEAG AG will be authorized for issue by the Management Board on March 10, 2003 (day of authorization by the Management Board for submission to the Supervisory Board).

Bad Homburg v.d.H., March 9, 2003

CEAG AG

The Management Board

Rolf Endress

Matthias Grevener

Report of the Supervisory Board

The Supervisory Board was regularly informed about business developments over the past fiscal year at and between its meetings through written and verbal reports provided by members of the Management Board.

At these meetings, the situation of the Company and its subsidiaries was explained in detail. Business planning and significant events were also discussed. The Chairman of the Supervisory Board and the Management Board also met to discuss major transactions and to review the current development of the Company between Supervisory Board meetings.

Major Topics

Consultations focused on the project introduced by the Management Board at the end of the previous fiscal year to return the Company to profitability. The Supervisory Board discussed the resulting strategic realignment at length and kept abreast of its implementation. The Management Board received the Supervisory Board's support for the creation of the two business units FRIWO Mobile Power (FMP) and FRIWO Power Solutions (FPS).

The divergent market trends and drop in earnings were addressed in detail. The issue of underutilization of capacity at the German plant was also discussed.

The Supervisory Board monitored management based on the reports and information from the Management Board. Major transactions were discussed and examined in detail. The key points suggested by the Accounting Committee for the audit of the financial statements and the consolidated financial statements were ratified.

The Supervisory Board and the Accounting Committee familiarized themselves with the German Corporate Governance Code. This new code for listed companies is seen as a suitable basis on which to bring corporate information policies in line with international standards and increase transparency for the capital markets. The Supervisory Board and Management Board issued a declaration of compliance, stating that the principal recommendations of the

government commission on a German Corporate Governance Code will be implemented. In this connection, the Accounting Committee was renamed the Audit Committee.
The Supervisory Board and Management Board proposed the creation of approved capital of EUR 9,100,000.00 and the introduction of a stock option plan with the creation of conditional capital of EUR 156,000.00 to the annual shareholders' meeting for 2002. The shareholders' meeting adopted the appropriate resolutions, which were entered in the Company's commercial register on July 8, 2002. The Supervisory Board and the Management Board have yet to make use of their authorizations relating to approved capital and the implementation of the stock option program.

Supervisory Board and Committee Meetings
The Supervisory Board held four meetings in the reporting year. The Audit Committee also convened four times in the past fiscal year. At its meeting on March 18, 2002, the Audit Committee discussed the financial statements and consolidated financial statements with the auditors. The Audit Committee also defined the key elements for the audit of both sets of financial statements. The Personnel Committee had four meetings as well during the reporting year.

Personnel Changes
Ms. Renate Wurm, employee representative on the Supervisory Board of CEAG AG, retired from this office on May 31, 2002. The member elected in her place, Ms. Annemarie Hülsmann, is the new employee representative on the Supervisory Board. The Supervisory Board would like to thank Ms. Wurm for her dedication and her constructive work.

Ms. Rita Brehm, member of the Accounting Committee until May 31, 2002, retired from this position on this date and was elected as a member of the Personnel Committee in the place of Ms. Wurm. Ms. Annemarie Hülsmann was elected to the Accounting Committee on June 1, 2002.

Report of the Supervisory Board

Mr. Hans-Heiner Eddelbüttel, member of the Management Board and Chief Financial Officer of CEAG AG since May 5, 1998, retired from this office on August 15, 2002 in order to take up a new position with another industrial company. The Supervisory Board would like to thank Mr. Eddelbüttel for his constructive work on the Management Board of CEAG AG in a spirit of mutual trust and wishes him every success in his new role.
With effect from August 1, 2002, the Supervisory Board appointed Mr. Matthias Grevener as the Chief Financial Officer on the Management Board of CEAG AG.

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 Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (hereinafter referred to as "Ernst & Young", Düsseldorf, (formerly Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Düsseldorf, which has changed its name without a change in legal form)). An unqualified opinion was expressed on each set of financial statements. Ernst & Young also reviewed CEAG's early warning system for the detection of risk. The review showed that the Management Board has implemented a system which is capable of recognizing, at an early stage, developments posing a risk to the Company's ability to continue as a going concern. 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, the Audit Committee was informed in detail about the completion of the audit and the audit findings. They also received detailed information on the major aspects of the financial statements of CEAG AG as well as on 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. There was no cause for objection. The Supervisory Board agrees with the results of the audit and has 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 of the Stock Corporation Act (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 result of the audit 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 2003 the appointment of Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditors for fiscal year 2003. This is the combined firm created by the merger of the Arthur Andersen organization and the Ernst & Young organization in Germany and now provides the combined organizations' services on the market. It has issued a declaration in accordance with Sec. 7 (2), first sentence of the German Corporate Governance Code.

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.H., March 20, 2003

The Supervisory Board

Berndt-Michael Winter
Chairman

Report of Independent Auditors

We have audited the consolidated financial statements prepared by CEAG AG, v.d.H., consisting of the consolidated balance sheet, consolidated income statement, statement of changes in consolidated equity, consolidated cash flow statement and notes to the consolidated financial statements for the fiscal year from January 1, 2002 to December 31, 2002. The preparation and contents of the consolidated financial statements are the responsibility of the Company's Management Board. Our responsibility is to assess whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. Evidence supporting the disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group as well as the cash flows of the fiscal year in accordance with IFRS.

Our audit, which included the group management report prepared by the Management Board for the fiscal year from January 1 to December 31, 2002, has not led to any reservations.

In our opinion, the group management report on the whole provides a suitable understanding of the Group's position and suitably presents the risks of future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2001 comply with the requirements exempting the Group from the preparation of consolidated financial statements and a group management report in accordance with German law.

Düsseldorf, March 19, 2003

Ernst & Young
Revisions- und Treuhandgesellschaft mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Thomas Harms	Tim Klinkosch
Wirtschaftsprüfer	Wirtschaftsprüfer

Boards

Supervisory Board

Berndt-Michael Winter, chairman of the management board of DELTON AG – **chairman** – other offices:* Microlog Logistics AG (chairman); DELTON Vermögensverwaltung AG (chairman); CeDo Household Products Ltd., United Kingdom; Thiel Logistik AG (chairman of administrative board).
Dr. jur. Albrecht Leuschner, chairman of the management of Deutsche EXIDE GmbH – **deputy chairman** – other offices:* CENTRA S.A., Poland (chairman); Deutsche EXIDE Standby GmbH (chairman); HAGEN Batterie AG (chairman); JUNHGHEINRICH AG; Langguth-Erben GmbH & Co. KG (chairman); OEB Traktionsbatterien AG, Switzerland.
Rita Brehm, assembly worker, chairperson of the works council – other offices:* DELTON AG (deputy chairperson).
Prof. Dr. Hans-Jürgen Hellwig, lawyer and notary public – other offices:* Alte Oper Frankfurt GmbH; Frankfurter Sparkasse; Frankfurter Sparkasse; Putsch GmbH & Co. KG (deputy chairman of advisory board); Isabellenhütte Heusler GmbH KG (chairman of the advisory board).
Annemarie Hülsmann, member of office staff, since June 1, 2002.
Stefan Quandt, Dipl. Wirtschaftsingenieur (graduate of industrial engineering) – other offices:* DELTON AG (chairman); BMW AG (deputy chairman); Dresdner Bank AG; Gerling-Konzern Allgemeine Versicherungs-AG; DataCard Corporation, United States.
Renate Wurm, member of office staff, until May 31, 2002.

Management Board

Rolf Endress, Chief Executive Officer and President – member of the supervisory boards of:* FRIWO Far East Ltd., China; FRIWO Electrical (Shenzhen) Co. Ltd., China; FRIWO Electrical (Beijing) Co. Ltd., China; FRIWO EMC, Inc., USA; FRIWO Japan Co. Ltd., Japan.
Hans-Heiner Eddelbüttel, Chief Financial Officer and Vice President, until August 15, 2002.
Matthias Grevener, Chief Financial Officer, since August 1, 2002 – member of the supervisory boards of:* FRIWO Far East Ltd., China; FRIWO Electrical (Beijing) Co. Ltd., China; FRIWO EMC, Inc., USA; Intensiv-Filter Deutschland GmbH & Co. KG (advisory board).

* As of December 31, 2002

CEAG Management Team worldwide

From left to right:

Felix Zimmermann Managing Director FRIWO Power Solutions	Matthias Grevener CFO and Vice President	Rolf Endress CEO and President	Barry Slaughter Managing Director FRIWO Mobile Power

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WKN 620 110

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CEA

CEAG AG, Bad Homburg v.d.H

The annual report is also available in German.

Dates 2003

Fiscal year	January 1 – December 31
Preliminary result	February 27, 2003
Annual report 2002	April 16, 2003
Results press conference	April 16, 2003, 11:00 a.m.
Analyst conference	April 16, 2003, 14:00 a.m. (Dresdner Bank, Jürgen-Ponto-Platz, Frankfurt)
First quarter report	May 15, 2003
Annual shareholders' meeting	May 20, 2003, 14:00 a.m. (Kurhaus, Bad Homburg v.d.H.)
Semi-annual report	August 14, 2003
Third quarter report	November 13, 2003

Glossary

CDAX Technology	Stock market index for the technology industry.
Corporate governance	Corporate management standard based on a voluntary code of conduct for greater transparency in business and greater investor protection. The Corporate Governance Code encompasses recommendations for corporate management and standards of conduct for listed companies recognized on an international and national level.
Design-to-cost/DTC	Continuous cost-optimized product development process.
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 phones.
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	That part of equity which is independently held.
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards – standards intended to ensure better international comparability of financial statements.
ISIN	International Securities Identification Number – new global securities code replacing the previous German securities identification number (WKN) as of April 22, 2003.
ISO 9001:2000	Certification of process-based quality management in accordance with international standards.
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 Standard	New premium segment of the Frankfurt Stock Exchange (FWB) created as of January 1, 2003, with international transparency requirements (quarterly reports, financial statements in accordance with international accounting standards, corporate calendar, annual analyst conference, ad hoc press releases in English). CEAG meets these requirements and has been listed in this segment since its inception.
Purchase-to-cost/PTC	Continuous cost-optimized component and service procurement process.
SA 8000/Supply chain ethics	Standard for Social Accountability. The Council for Economic Priorities is responsible for this standard, which was issued in 1998. Its aim is to implement and enforce minimum social standards and worldwide certification in manufacturing enterprises.
"Sales energizing"	Targeted individual market and distribution-based sales programs to tap customer and sales potential.
SDAX	The Small Cap Index within the MDAX introduced in 1999. CEAG was listed in this index from June 2001. The Frankfurt Stock Exchange has reorganized the stock market from 2003. Since March 24, 2003 the SDAX has been a section of the Prime Standard and consists of the 50 best-performing small and midcaps from traditional industries.
SPRINT	**S**ustainable **PR**ofitability through **IN**novative **T**urnaround – strategic project at CEAG to realign the business and take it back to the profit zone.
STEP	**ST**rategic **E**volution **P**roject – a cost management program in place throughout the Group since 2000 to reduce variable costs and simultaneously increase productivity.

CEAG AG