Half-Yearly Financial Report 2008

CEAG AG

# FRIWO Power Solutions

08

FRIWO®

# At a Glance

- Consolidated revenues and unit sales down
- Consolidated net profit of EUR 10.8 million boosted by the sale of the FMP business unit
- FPS business unit repeats the good prior-year EBIT margin of over 6%

## Key Figures for the CEAG Group (According to IFRSs)

| In millions of EUR | | 1 – 6/2008 | 1 – 6/2007 | Change in % |
|---|---|---|---|---|
| | | | | |
| **Unit sales** | **In millions of units** | | | |
| CEAG/FPS | | 14.2 | 15.0 | -4.8 |
| | | | | |
| **Revenues (with third parties)** | | | | |
| CEAG/FPS | | 38.9 | 43.7 | -11.1 |
| | | | | |
| **EBIT** | | | | |
| CEAG (from continuing operations) | | 1.4 | 1.8 | -21.2 |
| EBIT margin | % | 3.6 | 4.1 | - |
| | | | | |
| FPS EBIT | | 2.5 | 2.9 | -15.7 |
| FPS EBIT margin | % | 6.4 | 6.7 | - |
| Holding company EBIT | | -1.1 | -1.1 | 7.0 |
| | | | | |
| Earnings before income taxes (EBT) from continuing operations | | 2.0 | 2.0 | - |
| | | | | |
| Profit from continuing operations | | 1.4 | 2.0 | -29.9 |
| Profit from discontinued operations | | 9.4 | 1.6 | - |
| Consolidated net profit | | 10.8 | 3.6 | - |
| | | | | |
| Earnings per share (from continuing and discontinued operations) | EUR | 1.41 | 0.47 | - |
| | | | | |
| Capital expenditure (continuing operations) | | 1.0 | 0.6 | 67.2 |
| | | | | |
| **Employees (as of Sept. 30)** | | | | |
| CEAG/FPS | No. | 310 | 286 | 8.4 |

The FRIWO Mobile Power (FMP) business unit was sold on May 7, 2008. Unless otherwise stated, all information in this half-yearly financial report relates to the continuing operations of the CEAG Group, i.e. the FRIWO Power Solutions (FPS) business unit and CEAG AG (the holding company).

# Dates and Addresses

## Financial Calendar

**Fiscal Year January 1 – December 31**
Annual shareholders' meeting August 21, 2008

## Addresses

**CEAG AG**
Registered office:
Bad Homburg v. d. Höhe,
Germany

**WKN 620 110**
**ISIN DE 0006201106 CEA**

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

**Contact**
Ms. Gudrun Richter
Tel.: +49 (0) 25 32 - 81 - 158
Fax: +49 (0) 25 32 - 81 - 129
E-Mail: richter@friwo.de

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

# Contents

# Summary


- Consolidated revenues and unit sales down
- Consolidated net profit of EUR 10.8 million boosted by the sale of the FMP business unit
- FPS business unit repeats the good prior-year EBIT margin of over 6%

CEAG AG has reported moderate growth in the first six months of 2008. FPS's unit sales, revenues and earnings were down on the same period in 2007. This is due in particular to the fall in unit sales in the IT and communications markets as well as to currency effects from the continued rise of the euro against the US dollar. Growth in other market segments, which was pleasing at times, was not able to cushion the decrease. Adjusted for currency effects, that is assuming stable exchange rates compared to the prior-year period, revenues in the first six months of 2008 were 3.0% short of the corresponding prior-year figure. FPS's earnings before interest and taxes (EBIT) matched the good level of the prior year, net of currency effects. Overall, the sale of FMP improved consolidated net profit by EUR 8.4 million.


# Interim Group Management Report

## The CEAG Group at a Glance

CEAG AG and its subsidiaries are global manufacturers of high-quality power supplies and chargers for various markets and industries. The Group develops, produces and sells equipment to the markets for IT and communications, household appliances and power tools, industrial applications and medical technology. The Group's products are sold under the FRIWO brand.

FRIWO Gerätebau GmbH with its registered office in Ostbevern, Germany, and the sales/service companies in the US and China are part of the CEAG Group. CEAG AG is the holding company of the FRIWO Group and directly or indirectly holds all shares in the FRIWO companies.

The FRIWO Power Solutions (FPS) business unit is equipped with its own management function which oversees sales, development, production, procurement and general administration. As the holding company, CEAG AG performs functions related to group strategy and financing as well as financial control, legal affairs and public/investor relations.

## Significant Events During the Reporting Period

### Sale of FMP

On February 7, 2008, CEAG AG signed an agreement on the sale of the FRIWO Mobile Power (FMP) business unit to a subsidiary of Flextronics International Ltd., which is located in Singapore. FMP develops, produces and sells power supplies and chargers for the mobile telephone industry. Flextronics is a leading electronics manufacturing services provider.

After the necessary approvals had been granted by the antitrust authorities and all other conditions had been met, FMP's business activities were transferred to Flextronics as of May 7, 2008. The transaction was thus completed as planned in the first half of the year.

The final purchase price came to approx. EUR 56.2 million.

### Change in Shareholder Structure

DELTON AG, Bad Homburg v.d. Höhe, Germany, informed CEAG AG's Management Board on June 9, 2008 that it had sold its shares in CEAG AG to Cardea Holding GmbH, Grünwald, Germany, a subsidiary of VTC Industrieholding GmbH, Munich, Germany. Until that date, DELTON AG had held a majority shareholding of 76.82% in CEAG AG's capital stock.

### Mandatory Bid by Cardea for Shares in CEAG AG/Statement of Reasoned Position by the Management Board and Supervisory Board

Following its assumption of the majority shareholding in CEAG AG, Cardea Holding GmbH submitted a mandatory bid to CEAG AG's shareholders for the acquisition of their shares on June 30, 2008 in line with the provisions of the German Securities Acquisition and Takeover Act ["Wertpapiererwerbs- und Übernahmegesetz": WpÜG]. As its voting rights exceeded the 30% threshold, Cardea/VTC was required under the German Securities Acquisition and Takeover Act to make such a bid. The bid was for the statutory minimum price of EUR 9.11 per CEAG share in cash; the bid was valid until July 28, 2008 inclusive.

As required by law, CEAG AG's Management Board and Supervisory Board published a statement of reasoned position on the bid on July 8, 2008. Overall, the Management Board and Supervisory Board came to the conclusion that the bid price of EUR 9.11 was in line with legal requirements and could be deemed appropriate. It was at the lower end of the range of possible prices. In reaching their conclusion, the Company's executive bodies made use of a fairness opinion prepared by Sal. Oppenheim.

In view of this and due to the fact that it could be more advantageous for an individual CEAG shareholder to accept or reject the bid depending on their individual situation and assessment, the Management Board and Supervisory Board did not issue a recommendation of whether to accept or reject the bid.

As of July 28, 2008, Cardea Holding GmbH held 82.30% of the shares in CEAG AG.

## General Economic Environment

The growth in the German economy is set to decline in 2008 according to the Federal Association of German Banks ["Bundesverband deutscher Banken"] in its economic report for June. Gross domestic product (GDP) is predicted to rise by between 2.3% and 2.5% and could thus come in at just below the prior year's growth rate of 2.5%. Experts observed disparate trends in the first half year: while the German economy reported considerable growth in the first quarter due to strong demand from the construction industry, the second quarter was expected to be flat.

The global economy is forecast to weaken in 2008. Several factors play a role in the stalling economy. Inflation has risen significantly around the world in recent months due to hikes in the prices of commodities, energy and food, which have been considerable in some cases. Furthermore, the US subprime crisis and the resulting turbulence in the international capital and finance markets continue to dampen economic development. There were adjustments to share prices in the equity markets, with the financial sector being hit particularly hard.

## Conditions in the Industry

As a manufacturer of power supplies and chargers, FPS operates on various mid and high-volume global markets. Unlike for mobile telephones, hardly any detailed market data on industry trends are available for these very different markets. Recent behavior of FPS customers, however, suggests that demand in the IT and communications industry, for example, has started to flag in recent months. Modems and routers, for example, have seen a sharp dip. Demand for household appliances, industrial applications and medical technology, by contrast, has picked up.

## Unit Sales

Unless otherwise stated, the figures below exclusively comprise the income and expense of the FPS business unit and of CEAG AG as its holding company. The profit of FMP, which was sold in the reporting period, is disclosed separately after tax under "Net profit from discontinued operations". The prior-year figures have been adjusted accordingly.

Through FPS, the CEAG Group sold 14.2 million units in the first six months of 2008, a decrease of 4.8% on the comparable prior-year period (15.0 million units). The decline is chiefly attributable to weaker demand from the IT and communications segments which was evident, for example, in customers delaying and postponing projects. It should be noted in this regard that FPS reported unusually strong growth in the first half of 2007 compared to the prior year, giving it a good starting position.

In the second quarter, unit sales stood at 6.9 million units (second quarter of 2007: 7.2 million units, down 4.8%).

## Revenues

Through FPS, the CEAG Group generated revenues of EUR 38.9 million in the first six months of 2008. This represents a drop of 11.1% compared to a year earlier (EUR 43.7 million). The main reasons for the drop are the lower unit sales and the further rise of the euro against the US dollar. Adjusted for currency effects, revenues were 3.0% down against the first half of 2007.

In the second quarter, revenues came to EUR 19.0 million (second quarter of 2007: EUR 20.8 million, down 8.4%).

## Earnings

The CEAG Group generated earnings before interest and taxes (EBIT) of EUR 1.4 million for the first half of 2008 compared with EUR 1.8 million in the same prior-year period. The EBIT margin decreased from 4.1% to 3.6%, which was a result of the lower revenues ensuing from the negative impact of the strong euro. Net of currency effects, EBIT was on a par with the prior year. The other operating expenses (EUR 1.1 million) and other operating income (EUR 1.4 million) mainly relate to realized exchange gains and losses.

In the first six months, FPS generated EBIT of EUR 2.5 million (prior-year period: EUR 2.9 million). The second quarter accounted for EUR 1.4 million of this amount (second quarter of 2007: EUR 1.1 million). The unit achieved a margin of 6.4% in the first six months following 6.7% in the same prior-year period. Despite the dip in revenues, profitability was kept at a stable 6%.

After six months, the holding company's EBIT amounted to -EUR 1.1 million, exactly the same figure as in the first half of 2007.

The CEAG Group's EBIT came to EUR 0.9 million in the second quarter following EUR 0.7 million a year earlier, which was also considerably higher than in the first quarter of 2008 (EUR 0.5 million).

At EUR 2.0 million, earnings before income taxes (EBT) from continuing operations in the first half of 2008 were exactly in line with the prior year.

The CEAG Group reports net profit from continuing operations of EUR 1.4 million for the first half of 2008, compared with EUR 2.0 million in the first half of 2007. This figure contains a EUR 0.6 million increase in income taxes (prior year: EUR 0.0 million) which is attributable to the provisions of the German Corporate Income Tax Act relating to the transfer of shares from DELTON AG to Cardea Holding GmbH and CEAG AG's resulting loss of existing tax loss carryforwards with retroactive effect as of December 31, 2007. As of January 1, 2008, therefore, the consolidated tax group of CEAG AG/FRIWO Gerätebau GmbH no longer has any loss carryforwards as a result of the share transfer. Profits will therefore be subject to standard income tax as of 2008.

Net profit from discontinued operations, which comprised FMP's activities until its sale on May 7, 2008 and the gain on sale thereon, came to EUR 9.4 million, following EUR 1.6 million in the first half of 2007. The EUR 9.4 million includes the gain on the sale of the business unit of EUR 8.4 million.

Consolidated net profit for the first six months came to EUR 10.8 million. In the same prior-year period it came to EUR 3.6 million. This corresponds to earnings per share of EUR 1.41, compared with EUR 0.48 in the first half of 2007.

## Net Assets and Financial Position as of June 30, 2008

The sale of FMP had a considerable effect on the net assets and financial position of the CEAG Group. Total assets of the CEAG Group as of June 30, 2008 decreased by EUR 37.0 million to EUR 90.9 million (December 31, 2007: EUR 127.9 million).

Non-current assets dropped from EUR 28.3 million to EUR 8.4 million.

Current assets fell by EUR 17.1 million to EUR 82.5 million. Working capital was reduced considerably as a result of the sale of FMP: inventories decreased from EUR 48.4 million to EUR 9.8 million. Trade receivables fell from EUR 32.7 million to EUR 7.1 million. Cash and cash equivalents, by contrast, rose from EUR 15.5 million to EUR 55.2 million and contain cash from the sale of FMP.

The CEAG Group's equity climbed from EUR 44.6 million to EUR 66.7 million. This was chiefly due to first-half net profit and the deconsolidation of the FMP entities. The equity ratio rose sharply to 73.3% (December 31, 2007: 34.8%) as a result of the higher equity and lower balance sheet total.

Non-current liabilities fell overall from EUR 13.2 million to EUR 8.5 million and included bank liabilities of EUR 5.0 million (December 31, 2007: EUR 9.0 million).

Current liabilities dropped from EUR 70.2 million to EUR 15.7 million. The drop was attributable in particular to trade payables, which shot down from EUR 53.2 million to EUR 9.3 million. The remaining liabilities decreased from EUR 12.4 million to EUR 4.5 million.

## Cash Flow

Cash flow from operating activities for the first half of 2008 amounted to EUR 0.1 million, compared with EUR 7.7 million in the same prior-year period. This figure contains FMP's loss from operating activities of EUR 2.8 million until it was deconsolidated (prior year: EUR 5.3 million).

Cash flow from investing activities climbed to EUR 38.4 million, after EUR 1.4 million in the first half of 2007. It is largely attributable to the gain on the sale of FMP. Adjusted for the sale, cash flow from investing activities of CEAG AG/FPS comes to EUR 1.0 million (prior year: EUR 0.6 million).

## Employees

The Group's headcount totaled 310 as of June 30, 2008, a rise of 24 employees compared to a year earlier. This increase is related to the expansion of the Chinese sales and service company.

## Significant Opportunities and Risks

The CEAG Group's risk profile has changed somewhat since the sale of FMP on May 7, 2008. Please refer to the group management report as of December 31, 2007, in addition to which we would like to mention the following:

### General Economic Risks and Risks Specific to the CEAG Group

In the first half of 2008 and in the second quarter in particular, the economies of the major industrialized nations cooled off. Higher prices for raw materials, mineral oil and food stuffs coupled with the turbulence on the financial markets as a result of the subprime crisis are curbing consumers' propensity to spend (cf. section 2.3). It cannot be ruled out that these developments may negatively affect demand from key FPS customers and thereby also have a negative impact on net assets, financial position and results of operations of the CEAG Group.

Furthermore, end consumers and politicians are also directing demands for more customer and environmentally friendly products to manufacturers of power supplies and chargers. The FPS markets are equally affected.

The sale of FMP's production sites in China has significantly reduced the risk of inconsistent interpretation and application of legal provisions in connection with Chinese labor law and tax and customs regulations. Nonetheless, the abovementioned risks for the FPS sales and service company in China could have a negative effect on the net assets, financial position and results of operations of the CEAG Group.

## Currency Risk

A major share of revenues is invoiced in US dollars for FPS, consequently a major share of purchases is also made in US dollars. As FMP has been sold, FMP-specific risks have dissipated but the dependence on the US dollar exchange rate nonetheless has a major influence on the net assets, financial position and results of operations of the CEAG Group. Furthermore, two FRIWO entities are outside the eurozone.

## Procurement, Production and Price Risks

In its production chain, CEAG, through FPS, also processes intermediate products or components from other manufacturers. CEAG works closely with its suppliers. Some of these are CEAG's sole suppliers. For this reason, we are not always able to ensure high-quality or sufficient production and supply quantities. There is a risk of bottlenecks in delivery and supply which would negatively impact business performance. There are also risks from price changes, product liability and warranties.

Even after the sale of FMP, a large portion of FPS products will continue to be manufactured in China. Through its Vista Point Technologies business unit, Flextronics renders production services for FPS which FMP had previously provided. FPS also works with other suppliers. A short or long-term interruption in these supply arrangements or potential quality problems would have a significant effect on the business performance of FPS. FPS could be indirectly affected by external factors affecting production in China fuelled by increased procurement prices. Such factors include, for example, changes in the cost of labor and materials or ensuring uninterrupted power supply in China. CEAG could face similar problems in its cooperation with a Polish production partner. These risks could have considerable negative effects on the CEAG Group's net assets, financial position and results of operations.

## Personnel Risks

Major personnel risks to date have related, in particular, to FMP’s production sites in China, due to rising labor costs or high employee turnover. Following the sale of FMP and with it the production sites in China, CEAG will in future only be indirectly affected by these risks through its business relationships with the external suppliers, which could nonetheless have a negative impact on the net assets, financial position and results of operations of the CEAG Group.

## Competitive Risks

Competition is picking up on some of the markets in which CEAG operates through FPS. Growing competition puts added pressure on prices and margins which can have a knock-on effect on the Group’s business performance and the development of earnings. In addition, FPS is currently the sole provider of power supplies to some customers. If new competitors enter the market, there is a high risk that margins for these customers will increasingly come under pressure which would also negatively affect the net assets, financial position and results of operations of the CEAG Group.

## Contractual Risks

The agreement concluded between a subsidiary of Flextronics International Ltd. and CEAG AG pertaining to the sale of FMP sets forth certain guarantees under which CEAG AG could be called upon. This again could have considerable negative effects on the net assets, financial position and results of operations of the CEAG Group.

## Opportunities

The CEAG Group’s opportunity profile largely corresponds to that described in the group management report as of December 31, 2007.

## Outlook

The Management Board expects the overall economic conditions to deteriorate further for the CEAG Group over the course of the year as a result of the clouding over of the global economy.

On the cost side, persistently high raw materials, energy and wage costs are expected. A halt in the appreciation of the euro is not currently on the horizon.

The Management Board assumes that unit sales in the IT and communications markets will again fall short of the prior-year figure in the second half. The positive sales trend in the markets for household appliances and power tools, industrial applications and medical technology, by contrast, is expected to continue.

The development of revenues and earnings depends to a large extent on the described factors shaping exchange rates as well as on market and cost aspects. If, for example, the EUR/USD exchange rate should persist at its present high level, it looks as though consolidated revenues and consolidated EBIT will fall short of the prior-year figures for 2008 as a whole.

The loss of domestic tax loss carryforwards will increase tax liabilities in 2008 and thus impinge on consolidated net profit in comparison to the prior year.

Moreover, the results of operation, financial position and net assets of the CEAG Group in the current year will be substantially influenced by the sale of the FMP business unit. We intend to distribute a major slice of the sales proceeds to our shareholders. To this end, a proposal will be made to the annual shareholders' meeting of August 21, 2008 to distribute a dividend of EUR 4.00 per share. If this proposal is approved, EUR 30.8 million would be payable on August 22, 2008.

The administrative expenses of the CEAG Group will gradually be brought in line with the new group structure to the extent permitted by the holding company's function. These measures are not expected to produce noticeable savings until next year.

Ostbevern, Germany, August 2008

CEAG AG
The Management Board

# Income Statement of the CEAG Group

## From January 1 to June 30, 2008

| In thousands of EUR | 1 – 6/2008 | 1 – 6/2007 |
|---|---|---|
| **Revenues** | 38.863 | 43.702 |
| Cost of sales | -32.439 | -36.935 |
| **Gross profit** | 6.424 | 6.767 |
| Research costs | -29 | -37 |
| Selling expenses | -2.107 | -2.462 |
| General and administrative expenses | -3.192 | -2.895 |
| Other operating expenses | -1.132 | -464 |
| Other operating income | 1.439 | 868 |
| Income from investments | 11 | 17 |
| | | |
| **Earnings before interest and taxes (EBIT)** | 1.414 | 1.794 |
| Interest income | 897 | 459 |
| Interest expense | -266 | -206 |
| **Earnings before income taxes (EBT) from continuing operations** | 2.045 | 2.047 |
| Income taxes | -611 | 0 |
| **Net profit from continuing operations** | 1.434 | 2.047 |
| Net profit from discontinued operations | 9.411 | 1.570 |
| **Consolidated net profit** | 10.845 | 3.617 |
| | | |
| Earnings per share (basic and diluted) (in EUR) | | |
| from continuing operations | 0,19 | 0,27 |
| from continuing and discontinued operations | 1.41 | 0.47 |

# Cash Flow Statement of the CEAG Group

## From January 1 to June 30, 2008

| In thousands of EUR | 1 – 6/2008 | 1 – 6/2007 |
|---|---|---|
| Consolidated net profit | 10.845 | 3.617 |
| Gain on the sale of FMP | -8.404 | 0 |
| Depreciation and amortization of non-current assets | 2.621 | 4.360 |
| Change in provisions | -688 | 149 |
| Gain/loss on the disposal of non-current assets | 0 | 11 |
| Change in deferred taxes | -348 | -79 |
| Change in inventories | 7.953 | 13.407 |
| Change in trade receivables and other assets that cannot be allocated to investing or financing activities | 1.299 | 2.345 |
| Change in trade payables and other liabilities that cannot be allocated to investing or financing activities | -13.186 | -15.965 |
| Other non-cash effects | -24 | -134 |
| **Cash flow from operating activities** | **68** | **7.711** |
| Thereof attributable to discontinued operations | -2.825 | 5.334 |
| | | |
| Cash received from disposals of property, plant and equipment/intangible assets | 83 | 158 |
| Cash paid for investments in intangible assets | -52 | -74 |
| Cash paid for investments in property, plant and equipment | -3.745 | -1.512 |
| Sale of FMP *) | 42.126 | 0 |
| **Cash flow from investing activities** | **38.412** | **-1.428** |
| Thereof attributable to discontinued operations | -2.713 | -833 |
| | | |
| Cash received from/cash paid to repay non-current liabilities to banks (net) | -3.970 | 8.812 |
| Cash received from/cash paid to repay current liabilities to banks (net) | 5.145 | -5.222 |
| **Cash flow from financing activities** | **1.175** | **3.590** |
| Thereof attributable to discontinued operations | 5.654 | -2.394 |
| | | |
| Effect of exchange rates on cash and cash equivalents | 0 | -7 |
| **Net change in cash and cash equivalents** | **39.655** | **9.866** |
| | | |
| Cash and cash equivalents at beginning of fiscal year | 15.539 | 2.522 |
| **Cash and cash equivalents at end of half year** | **55.194** | **12.388** |

*) The cash received from the sale of the FMP business unit has been reduced by the cash paid, costs to sell and the portion of the purchase price which only becomes freely available after the customary guarantees set forth in the purchase agreement have expired.

# Balance Sheet of the CEAG Group

## as of June 30, 2008

### Assets

| In thousands of EUR | June 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 668 | 1.349 |
| Property, plant and equipment | 7.521 | 24.797 |
| Financial assets | 5 | 5 |
| | **8.194** | **26.151** |
| Deferred taxes | 223 | 2.147 |
| | **8.417** | **28.298** |
| **Current assets** | | |
| Inventories | 9.766 | 48.354 |
| Trade receivables | 7.098 | 32.747 |
| Other assets | 10.408 | 2.855 |
| Prepaid expenses | 41 | 137 |
| Cash and cash equivalents | 55.194 | 15.539 |
| | **82.507** | **99.632** |
| **Total assets** | **90.924** | **127.930** |

## Equity and liabilities

| In thousands of EUR | June 30, 2008 | Dec. 31, 2007 |
|---|---|---|
| Equity | | |
| Subscribed capital | 20.020 | 20.020 |
| Capital reserves | 2.002 | 2.002 |
| Revenue reserves | 33.120 | 22.964 |
| Other reserves | 699 | -10.271 |
| Consolidated net profit | 10.845 | 9.842 |
| | 66.686 | 44.557 |
| | | |
| Non-current liabilities | | |
| Non-current liabilities to banks | 5.000 | 8.970 |
| Provisions for pensions and similar obligations | 2.186 | 2.308 |
| Other non-current provisions | 1.179 | 1.321 |
| Deferred taxes | 148 | 586 |
| | 8.513 | 13.185 |
| Current liabilities | | |
| Provisions for income taxes | 400 | 659 |
| Other current provisions | 338 | 2.296 |
| Current financial liabilities | 4 | 631 |
| Trade payables | 9.260 | 53.247 |
| Income tax liabilities | 1.221 | 956 |
| Other liabilities | 4.502 | 12.399 |
| | 15.725 | 70.188 |
| | 24.238 | 83.373 |
| Total equity and liabilities | 90.924 | 127.930 |

# Statement of Recognized Income and Expense

| In thousands of EUR | 1 – 6/2008 | 1 – 6/2007 |
|---|---|---|
| Changes in the fair value of financial instruments used for hedging purposes recognized in equity | 243 | -652 |
| Actuarial gains/losses from defined benefit pension obligations and similar obligations | 31 | |
| Adjustment item for the currency translation of foreign subsidiaries | 11.075 | -425 |
| Deferred taxes on changes in value recognized directly in equity | -65 | 106 |
| **Changes in value recognized directly in equity** | **11.284** | **-971** |
| **Consolidated net profit** | **10.845** | **3.617** |
| **Total income/expense for the period** | **22.129** | **2.646** |

# Segment Report for the CEAG Group

| In thousands of EUR (by business unit) | FMP | FPS | Holding company | Group |
|---|---|---|---|---|
| **1 – 6/2008** | | | | |
| Revenues | | 38.863 | 0 | 38.863 |
| Segment result (EBIT) | | 2.470 | -1.056 | 1.414 |
| Net profit from discontinued operations | 9.411 | | | 9.411 |
| **1 – 6/2007** | **FMP** | **FPS** | **Holding company** | **Group** |
| Revenues | | 43.702 | 0 | 43.702 |
| Segment result (EBIT) | | 2.929 | -1.135 | 1.794 |
| Net profit from discontinued operations | 1.570 | | | 1.570 |

# Notes to the Consolidated Financial Statements for the First Half of 2008

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

In the interim consolidated financial statements as of June 30, 2008, prepared on the basis of International Accounting Standard (IAS) 34, "Interim Financial Reporting", the same accounting policies were applied as for the consolidated financial statements for fiscal year 2007, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the related interpretations.

## Consolidated Group

The consolidated group has shrunk considerably as a result of the sale of FMP. A list of the sold entities is provided in the notes to the annual report for 2007. The consolidated group as it remains comprises, in addition to CEAG AG as the holding company, FRIWO Gerätebau GmbH and its subsidiaries FRIWO USA, Inc. and FRIWO Power Solutions Technology (Shenzhen) Co., Ltd.

## Sale of the FMP Business Unit

Net profit from discontinued operations breaks down as follows:

| | FMP |
|---|---|
| Net gain on sale | 8.404 |
| Current net profit | 1.007 |
| **Net profit from discontinued operations** | **9.411** |

The gain on sale from the transaction is composed as follows:

| | FMP |
|---|---|
| Sales proceeds | 56.178 |
| less assets and liabilities including equity interests | -43.829 |
| less transaction costs | -3.809 |
| **Gain on sale before income taxes** | **8.540** |
| Income taxes | -136 |
| **Net gain on sale** | **8.404** |

Current net profit from discontinued operations breaks down as follows:

| | FMP 01 – 04/2008 |
|---|---|
| Revenues | 75.789 |
| Gross profit | 3.941 |
| Earnings before interest and taxes (EBIT) | 1.347 |
| Earnings before income taxes (EBT) | 858 |
| **Net profit** | **1.007** |

The following assets and liabilities were deconsolidated:

| | FMP |
|---|---|
| Non-current assets | 20.544 |
| Current assets | 60.027 |
| Cash and cash equivalents | 3.965 |
| **Total deconsolidated assets** | **84.536** |
| | |
| Changes in equity | -11.945 |
| Non-current liabilities | 502 |
| Current liabilities | 46.377 |
| Current financial liabilities | 5.773 |
| **Total deconsolidated liabilities and changes in equity** | **40.707** |
| | |
| **Total deconsolidated assets and liabilities including equity interests** | **43.829** |

## Related Party Transactions

No significant transactions were entered into with related parties.

## Statement of Changes in Equity of the CEAG Group

| In thousands of EUR | Subscribed capital | Capital reserves | Revenue reserves | Other reserves | Consolidated net profit | Consolidated equity |
|---|---|---|---|---|---|---|
| As of Dec. 31, 2006 | 20.020 | 2.002 | 11.594 | -7.530 | 11.370 | 37.456 |
| Total income/expense recognized directly in equity | | | | -971 | | -971 |
| Consolidated net profit | | | | | 3.617 | 3.617 |
| Total income/expense for the period | | | | -971 | 3.617 | 2.646 |
| Allocation to revenue reserves | | | 11.370 | | -11.370 | 0 |
| As of June 30, 2007 | 20.020 | 2.002 | 22.964 | -8.501 | 3.617 | 40.102 |
| | | | | | | |
| As of Dec. 31, 2007 | 20.020 | 2.002 | 22.964 | -10.271 | 9.842 | 44.557 |
| Total income/expense recognized directly in equity | | | 314 | 10.970 | | 11.284 |
| Consolidated net profit | | | | | 10.845 | 10.845 |
| Total income/expense for the period | | | | 10.970 | 10.845 | 22.129 |
| Allocation to revenue reserves | | | 9.842 | | -9.842 | 0 |
| As of June 30, 2008 | 20.020 | 2.002 | 33.120 | 699 | 10.845 | 66.686 |

## Financial Instruments

### Note Loan

The note loan of USD 5.0 million raised in the prior year was repaid early in connection with the sale of FMP.

## Contingent Liabilities

As a result of the agreement with Flextronics, CEAG AG has both limited and unlimited warranty risks. The risks for which CEAG bears limited liability are secured via a bank gurantee of EUR 8.6 million with a one-year term as of the date of completion of the sale.

## Review

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

## Other Disclosures

Cardea Holding GmbH, Grünwald, Germany, a subsidiary of VTC Industrieholding GmbH, Munich, Germany, has a majority shareholding in CEAG AG. The consolidated financial statements of CEAG AG are included in the consolidated financial statements of VTC Industrieholding.

# Management Compliance Statement

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

Rolf Endreß
Chairman of the Management Board

Frank Gumbinger
Member of the Management Board