

# Interim Report

as of 30.09.2008

at the same time Group interim financial report pursuant to § 37x  
WpHG within the second half-year 2008



DEUTSCHE STEINZEUG CREMER & BREUER Aktiengesellschaft  
ISIN DE000A0JQ429 / WKN A0JQ42

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**Dear shareholders, dear employees and business partners,**

Not only in Germany and Europe but above all also world-wide, the overall economic environment has considerably worsened during the last months. This development has also had a negative effect on the building industry. In view of this situation, our Company is preparing itself - as already announced in the semi-annual report - for a lasting drop in the demand for Ceramic Covering Materials. That is why we have worked out an extensive concept for the reorganization of our Company and are already in the internal and external implementation phase at the moment.

The future strategy focuses on covering the higher-quality and more profitable tile segment by an improved positioning of our successful brands AGROB BUCHTAL and JASBA. Nevertheless, we will of course also continue to supply the market with competitive entry-level products. On the other hand, there are still only a few suppliers in the market which are capable of offering such a comprehensive product range in the middle and high-quality segment as Deutsche Steinzeug. This not only applies to product sectors such as large-size wall tiles or decorated and unglazed porcelain stoneware for exclusive home design, but also to the continuous expansion of our competence with regard to the placing of the products in projects, for facade applications as well as in the sector of wellness/swimming pool construction in which we are the Company providing ceramic problem solutions.

In addition, based on a well-founded brand and market study, we decided to join together the product sectors of Residential and Architectural Ceramics to form one unified brand. The target group-orientated high-quality product range resulting from this will be exclusively marketed as of the beginning of next year under the brand AGROB BUCHTAL, which is appreciated by customers, architects and planners world-wide. From this joining together, we expect a wall and floor tile range even better matched to each other and thus a rounding off of our product portfolio both for our market partners and for planners and architects. At the same time, we make sure that our products can be made available to the market reliably and competently as usual by our sales force and also by the expert customer support of our marketing specialists. From the bundling of forces

under the brand name AGROB BUCHTAL we are expecting positive effects in the export sector in addition. There, the integrated Residential Ceramics wall tile programme will benefit from the excellent reputation of our Architectural Ceramics "made in Germany", which is already internationally represented to a large extent with an export share of more than 50%. At the same time, the export marketing will be strengthened by the systematic establishment of key accounts in selected areas in order to place our assortment in this way - for all product sectors and cross-nationally - in the invitations to bid and at product recommendations for internationally operating business groups. Regarding this, we will increasingly focus, besides the target groups already serviced such as supermarket chains, food chains or for ceramic facade claddings, on the fields of application of hotels, catering as well as the construction of hospitals and homes for old people. In this connection, our Hydrotect-coated tile surface is a particular USP.

In the mosaic sector, the status of the premium brand "Jasba" will be enhanced at the same time. To be able to satisfy the requirements of the demanding customers even more specifically and selectively, the mosaic marketing will be outsourced in an independent marketing company and controlled under the firm of Jasba Mosaik GmbH as of January 2009. This measure is expected to result in an even higher-value market positioning together with an optimized preparatory work at the "Point of Sale" (POS). At the same time, additional incentive structures will be created in order to be able to participate via cross-selling especially in the foreign markets in the growing demand for surface designs by means of mosaics in the field of Project Ceramics. To be able to respond to this trend even better, this sector will be expanded by an additional investment in design possibilities for mosaics in the sizes of 1x1 cm and 2x2 cm.

In the sector of the DIY superstore marketing via Meissen Keramik Vertriebs GmbH, the successful strategy of the last years of offering the DIY superstore operators high-quality product range concepts in the form of convincing design combinations with wall and floor tiles will be further pursued by a continuous increase in value of the range offered. This shows that the DIY superstores - in addition to their still aggressive-priced offers - are increasingly also taking into account the

growing importance of products of higher quality and with higher profit margin. Regarding this, Deutsche Steinzeug can rely on established brands like Meissen Keramik, Wessel and Medea as well as an attractive product programme.

The new positioning of the brands and the marketing will be supported by newly developed catalogue concepts and the gradual introduction of exclusive presentation furniture and sample cabinets for the "Point of Sale".

The strategic new positioning of Deutsche Steinzeug also involves a change in logistics. In autumn of this year, we informed our German customers that we will - with effect from 1.1.2009 - separately disclose and pass on the freight charges included in the selling prices up to now. With this separation of the costs for product and service, Deutsche Steinzeug, as the market leader in Germany, follows international practices, since already today, approximately 70% of the German market, above all by imports from Italy and Spain, are supplied in this way. Compared to most of the German competitors, Deutsche Steinzeug thus has decided on a new course, but it can be expected that further domestic manufacturers will follow the example of Deutsche Steinzeug within a one-year period at the latest. By the passing on of the freight charges, we have abstained from an additional price increase. Thus, we achieve with this measure that the increases in costs already realized or still to be expected in the year 2009 are passed on to the market. As it is very difficult to assess the market development, we will nevertheless implement further cost reductions in the Company by optimizing the production and making it more flexible as well as by a further improvement of the processes in administration and marketing.

The consistent orientation towards product sectors with higher margins described above in the more elevated segments, however, can only be achieved if the product range and the planned sales volumes are specifically adjusted to it. Besides the necessary qualified investment in visual and surface design, capacity adjustments like e.g. in the mosaic sector - as already reported in spring - can not be avoided. In addition to these adjustments related to production, Deutsche Steinzeug will be able to ensure the capacity utilization of its factories despite the decline in sales to be expected by the consistent insourcing of

goods purchased up to now, i.e. by the reduction of our OEM business.

As a result of the restrained business development, an appropriate capacity adoption for reducing the capital tie-up will be carried out already by the end of the year 2008 - and selectively also in 2009 - by reducing vacation and overtime as well as by short-time working in the production sector. These measures will significantly burden above all the result in 2008, so that in total a noticeable annual result must be assumed in 2008. Nevertheless, we expect that, as a result of the planned reduction of inventories and other current assets, the capital tie-up reduced in this way will be able to compensate the operating losses as regards liquidity.

But it is of particular importance for the development of our Company that we expect a considerable improvement of the income situation for the year 2009 again despite a changed sales and turnover structure due to the measures taken. The new positioning of the brands and the increased concentration on the value added of our product programmes in conjunction with cost reductions and the passing on of cost increases to the market are the necessary reaction to the changes in the demand structure on the ceramic markets.

The aforementioned further development of the product and production possibilities can be realized only carefully over time in the capital-intensive tile industry. Moreover, the economic situation on our main markets is expected to be very restrained at least for the next twelve to fifteen months. That is why we believe - also against the background of the considerable debt service payments - that it will be possible to achieve a sustainable positive result only as of 2010.

The extensive concept described above is welcome and particularly supported by our financial investors with which Deutsche Steinzeug is in a continuous and constructive dialogue. Furthermore, we are having talks at an advanced stage already at the moment with the lenders regarding a further extension of their commitment beyond 2009.

## **Economic background**

Since the last interim report, the economic situation in general and for the building industry has considerably deteriorated not only in Germany but world-wide. The reason why the downswing of the overall construction activity in the Federal Republic of Germany is more moderate compared to many European countries is basically the fact that the economic situation there still benefits to a high degree from infrastructure measures and industrial construction in 2008. The sectors of residential construction and renovation relevant to us, however, are still heavily declining. Thus, the decrease of the tile consumption in Germany is far more significant than the economic downswing, and in the last months, a massive slump of the Southern European tile consumption is to be noted in addition.

Regarding the general economic conditions, a more restrictive lending to property developers at home and abroad is now becoming noticeable as a result of the financial crisis. Especially the property markets in the USA, Spain and the UK are affected by that. But also in Eastern Europe and Russia, first signs of an economic slowdown are noticeable.

Nevertheless, we expect in the export sector also in future that we will be able to keep the turnover and sales level approximately constant due to the specific project positioning of our product range.

## **Performance of the Ceramic Covering Materials sector**

In the third quarter, Deutsche Steinzeug managed to reduce the decline in sales absolutely and in per cent of the turnover compared to the previous year despite the declining market trend. Furthermore, it should be mentioned in this connection that we succeeded by the end of September 2008 in increasing the average revenues in all product sectors by more than 1% despite the more difficult market environment and the tendency towards falling prices in the market. This shows the success of our consistently pursued strategy - as also described at the beginning - of rather adjusting our production quantities in this difficult economic environment than achieving planned sales

volumes by price reductions. In addition, we managed to increase the export share compared to the previous year by 4% to a total of almost 40%.

### Revenue situation

By 30.9.2008, Deutsche Steinzeug realized a turnover of 180.8 million €, which corresponds to a cyclical decline in turnover compared to previous year's figure of 2.9%. Thus, the decline versus the previous year could be reduced compared to the first-half result (-4.7%). Above all due to the capacity adjustments already implemented, a smaller increase in inventories and thus in current assets than in the previous year was achieved by the end of the third quarter despite the lower turnover. As a result of the effects described above, the Group's total operating performance by 30.9.2008 decreased compared to the previous year by approx. 3.9% to 183.9 million €.

The cost of materials decreased almost parallel to the turnover development by approx. 4.4 million € to 87.2 million €, while the gross yield quota by 30.9.2008 improved compared to the previous year by 0.4%-points to 52.6% because of a smaller share of purchased goods in the turnover - also due to the first successful insourcing of orders externally processed in the past.

The personnel expenses before special burden of 51.8 million € decreased despite increases of standard wage rates in the first nine months by 1.3 million € above all due to the personnel reduction as a result of the reorganization of the Ötzingen mosaic site.

The other operating expenses before special burden rose by 2.5 million € compared to previous year's figure. This is above all due to increased freight, rental and leasing costs as well as commissions and maintenance charges.

As a result of the turnover and cost development described above, the EBITDA before special effects amounts to approx. 12.1 million € by the end of the third quarter of 2008 and is thus at present approx. 3.4 million € lower than in the reference period of the previous year. Besides the unsatisfactory turnover development, the main causes for this are the burdens from

considerably increased energy and raw material costs and the already started capacity adjustments.

For the further assessment of the EBITDA development until the end of the year and for the medium term, we refer you to the description of the strategic new positioning in the introduction and to the explanations in the section "Outlook".

### Group key financial figures (without special effects)

| <u>EUR (millions)</u>   | <u>30.09.2008</u> | <u>30.09.2007</u> | <u>Change</u> |
|---|-------------------|-------------------|---------------|
| <b>Turnover</b>   | <b>180.8</b>      | <b>186.2</b>      | <b>-5.4</b>   |
| <b>Earnings before interest,<br/>taxes, depreciation and<br/>amortization (EBITDA) *)</b> | <b>12.1</b>       | <b>15.5</b>       | <b>-3.4</b>   |
| <b>Operating result (EBIT) *)</b>   | <b>6.0</b>        | <b>9.1</b>        | <b>-3.1</b>   |
| <b>Result from ordinary<br/>operations (EGT) *)</b>                                       | <b>-0.5</b>       | <b>2.8</b>        | <b>-3.3</b>   |

\*) The operating result before special burdens such as costs of social plan/transfer company in the amount of approx. 1.5 million € and book gains from disposals of non-operating assets (0.6 million €) is reported.

The depreciations and the net financial result are approximately at previous year's level.

### Investments

In the third quarter, investments in the total amount of 1.2 million € were implemented in the factories, which focused on a further increase in flexibility and efficiency of the production equipment in order to be able to respond to the trend towards smaller batch sizes in the high-quality sector even better.

At the Schwarzenfeld factory, the utilization of the roller-type kiln with high-quality KeraTwin facade panels could be significantly increased by the installation of a new kiln supply and discharge



system, which has resulted in a considerable cost reduction, so that in this case the extreme increases in energy prices could almost be compensated. In addition, the output of 1st choice products was considerably increased in this sector by the enlargement of the glazing line.

At the Sinzig factory, the production of the new large-size tiles with side lengths of up to 45x90 cm started, which backs up the pretension of Deutsche Steinzeug as a leading supplier of high-quality porcelain stoneware. To be able in future to supply the market even better in this attractive sector with high-quality floor tiles, the planning phase for additional decoration and calibration facilities has already begun.

At the Witterschlick factory, the implementation of the investment in a new cutting plant has started. With this measure, the factory will be able to carry out cutting works currently still outsourced at lower costs and, at the same time, with increased flexibility in the field of the post-processing of tiles, decorative elements, borders and trims, which is becoming more and more important.

At the Ötzingen factory, a considerable increase in efficiency for small batch sizes has been achieved by the installation of an buffer storage. This has also resulted in a reduction of time to delivery in the sector of the high-quality micro-mosaic.

Besides that, quite a number of individual measures were implemented in all factories, which have led to an optimization of manufacturing processes and thus to an increase in production efficiency and quality.

In the field of environmental protection, the planning of the extended flue gas purification plants for the Sinzig and Ötzingen factories is finished, so that they can be realized in the fourth quarter of 2008.

## **Employees**

On 30 September 2008, Deutsche Steinzeug had a total staff of 1,592 persons in Germany and abroad. The decline in the number of employees compared to the previous year is above

all based on capacity adjustments in the scope of the reorientation of the Ötzingen mosaic factory towards premium products as well as on capacity adjustments in the sector of product upgrading and the implementation of early retirement schemes at the Schwarzenfeld site. In addition, a personnel adjustment was carried out at the Sinzig site in the scope of which limited employment contracts were not extended.

On 30 September 2008, Deutsche Steinzeug Group employed 1,093 blue-collar workers and 499 white-collar workers. The total share of foreign staff members in other European countries and at our marketing subsidiary Deutsche Steinzeug America is approx. 2.6%.

### **Outlook**

As a result of the unsatisfactory market development, which has even deteriorated in the third quarter, Deutsche Steinzeug now expects that the previous year's figure as regards the turnover can not be achieved. Against this background, the production will be temporarily stopped in all factories - similar to the situation in the automotive industry - as of the end of November 2008 at the latest until the beginning of January 2009 by running down vacation, overtime and short-time working. In this way, the current costs and the capital tie-up by inventories are also reduced compared to the previous year. Due to the traditionally high fixed-cost share in production, this, however, considerably burdens the operating result, especially as the total operating performance is reduced accordingly by the reduction of the production capacity. Against this background, we expect a negative result for 2008. Apart from this, compensating payments for the personnel adjustments in the sectors of marketing and administration but also in production will burden the result in addition. As a result of natural fluctuations, the expiry of time limits and the discontinuation of temporary employment as well as early retirement schemes, the financial burden for this is considerably lower than in case of using social plans. Depending on the further market and turnover developments, however, additional measures or depreciations can not be excluded. This depends above all on the extent to which the set of measures introduced by the Federal Government will take effect in the domestic market. Moreover,

there are great uncertainties concerning the economic development of the other Western European countries, the USA and Asia. The very controversial assessment of the dollar exchange rate and the development of the energy prices also make a dependable forecast of the sales and turnover situation for the coming year more difficult.

As a result of the adjustments described above in production as well as at sales and turnover, we are striving for achieving an EBITDA in the amount of approx. 7% of the turnover for 2009 due to the measures taken. In the medium term - in case of sales volumes remaining on an approximately constant level - the turnover and the EBITDA will also be further increased by the intended upgrading of the product range and the high average revenues to be realized by this. The achieving of the EBITDA target margin of almost 10%, however, can not be expected before 2011, as the sustained economic slowdown will still burden the profitability until late in 2010.

We have already reacted to the market slump in the sector of Ceramic Covering Materials becoming more and more apparent at the beginning of the second half-year of 2008 and - as already announced in the semi-annual report - worked out a restructuring concept for the new positioning of our business segment. In addition, we started intensive talks with the financing banks concerning the extension of the credit lines and thus an appropriate securing of liquidity until the middle of 2010 already early. As far as this is concerned, the negotiations are at a final stage, and agreement has already been reached on the essential parameters.

### **Deutsche Steinzeug shares**

In the last months, the stock market was characterized by extreme declines in prices and volatilities. So, for example, the MSCI World Index has seen its most significant monthly sudden price fall in October ever since it has existed. The crisis of the banks caused by the financial crisis leads to a great uncertainty of the investors and to the general fear of a global recession. The share price of Deutsche Steinzeug anticipated this development already at the end of the second quarter of 2008,

as for the European tile and sanitary industry a considerable decline was recognizable already at that time. That is why the Deutsche Steinzeug share has developed comparatively stable during the last two months, so that, as regards the result for the entire year, Deutsche Steinzeug had to take hardly more losses on percentage basis than the SDAX.

With regard to the price performance of the Deutsche Steinzeug share, it still must be considered that the quantity traded is only very low and thus transactions involving a very low number of shares may result, at least temporarily, in substantial price variations.

Frechen, November 2008

The Board of Management

### Accounting Standards

The figures stated in the Group Interim Report of Deutsche Steinzeug Cremer & Breuer AG for the period from January to September 2008 have been prepared pursuant to the provisions of the International Financial Reporting Standards (IFRS) and the supplementary provisions of the German Stock Corporation Law (AktG - Aktiengesetz).

### Consolidated Balance Sheet as of 30.09.2008 - Deutsche Steinzeug Cremer & Breuer AG -

| Assets  | 30.09.2008        | 30.09.2007        |
|---|-------------------|-------------------|
|   | €000              | €000              |
| <b>Long-term fixed assets</b>                     |                   |                   |
| Intangible assets                                 | 14,970            | 15,076            |
| Property, plant and equipment                     | 75,906            | 77,264            |
| Real estate held as financial investment          | 8,534             | 5,889             |
| Other financial assets                            | 2,209             | 8,345             |
|   | <b>101,619</b>    | <b>106,574</b>    |
| Other long-term assets                            | 134               | 2,165             |
| Deferred taxes                                    | 790               | 1,169             |
|   | <b>102,543</b>    | <b>109,908</b>    |
| <b>Short-term assets</b>                          |                   |                   |
| Inventories                                       | 62,385            | 60,873            |
| Accounts receivable, trade                        | 29,688            | 29,617            |
| Accounts due from affiliated companies            | 1,688             | 0                 |
| Other accounts receivable and assets              | 3,377             | 3,856             |
| Liquid funds                                      | 4,165             | 7,210             |
|   | <b>101,303</b>    | <b>101,556</b>    |
| <b>Total assets</b>                               | <b>203,846</b>    | <b>211,464</b>    |
| <b>Liabilities and shareholders' equity</b>       | <b>30.09.2008</b> | <b>30.09.2007</b> |
|   | €000              | €000              |
| <b>Shareholders' equity</b>                       |                   |                   |
| Subscribed capital                                | 27,616            | 27,616            |
| Earnings reserves                                 | 33,312            | 31,102            |
| Group result                                      | -1,524            | 2,592             |
| <b>Total equity capital</b>                       | <b>59,404</b>     | <b>61,310</b>     |
| <b>Long-term liabilities</b>                      |                   |                   |
| Accruals for pensions and similar obligations     | 16,135            | 19,002            |
| Other long-term accruals                          | 1,311             | 1,379             |
| Liabilities due to banks                          | 72,291            | 71,340            |
| Accounts payable, trade                           | 890               | 839               |
| Other long-term liabilities                       | 936               | 6,560             |
| Deferred taxes                                    | 6,145             | 6,212             |
|   | <b>97,708</b>     | <b>105,332</b>    |
| <b>Short-term liabilities</b>                     |                   |                   |
| Other short-term accruals                         | 20,491            | 19,974            |
| Liabilities due to banks                          | 0                 | 368               |
| Accounts payable, trade                           | 14,234            | 11,169            |
| Other short-term liabilities                      | 12,009            | 13,311            |
|   | <b>46,734</b>     | <b>44,822</b>     |
| <b>Total liabilities</b>                          | <b>144,442</b>    | <b>150,154</b>    |
| <b>Total shareholders' equity and liabilities</b> | <b>203,846</b>    | <b>211,464</b>    |

### Consolidated Profit and Loss Statement Deutsche Steinzeug Cremer & Breuer AG

|   | 01-09/2008      | 01-09/2007     |
|---|-----------------|----------------|
|   | €000            | €000           |
| Sales   | 180,775         | 186,150        |
| Change in finished goods and work-in-progress     | 2,949           | 4,903          |
| Other own work capitalized                        | 125             | 316            |
| <b>Total operating performance</b>                | <b>183,849</b>  | <b>191,369</b> |
| Other operating income*                           | 6,771           | 5,141          |
| Cost of materials                                 | 87,189          | 91,571         |
| Personnel expenses*                               | 52,542          | 53,065         |
| Depreciations                                     | 6,184           | 6,403          |
| Other operating expenses*                         | 39,672          | 36,363         |
|   | <b>178,816</b>  | <b>182,261</b> |
| <b>Earnings before interest and taxes (EBIT)*</b> | <b>5,033 **</b> | <b>9,108</b>   |
| <b>Financial result</b>                           | <b>-6,498</b>   | <b>-6,348</b>  |
| <b>Net operating income*</b>                      | <b>-1,465</b>   | <b>2,760</b>   |
| <b>Taxes</b>                                      | <b>59</b>       | <b>168</b>     |
| <b>Group result for the period</b>                | <b>-1,524</b>   | <b>2,592</b>   |

\* Inclusive of restructuring costs for capacity adjustment at the Ötzingen site in the amount of approx. 1.5 million € and book profits from disposals of unnecessary business assets in the amount of 0.6 million €

\*\* The adjusted EBIT is 6.0 million €

### Consolidated Cash Flow Statement as of 30.09.2008 Deutsche Steinzeug Cremer & Breuer AG

|  | 30.09.2008 |
|--|------------|
|  | €000       |
| Inflow/outflow of funds arising from current business operations       | -4,802     |
| Inflow/outflow of funds arising from disinvestment/investment activity | -4,558     |
| Inflow/outflow of funds arising from financing activity                | 5,516      |
| Changes in the companies consolidated and currency-related changes     | 221        |
| Changes in liquid funds  | -3,623     |
| Liquid funds at the beginning of the period                            | 7,788      |
| Liquid funds at the end of the period                                  | 4,165      |