CREATON®
NATURAL CLAY SETS THE TONE

Annual Report 2005

CREATON GROUP AT A GLANCE

Figures in EUR million	2004*	2005*	Change 2005/2004
Sales revenues	133.1	134.9	1.4 %
Total output	138.5	141.9	2.5 %
EBITDA	27.3	26.7	–2.2 %
Operating profit (EBIT)	14.4	14.2	–1.4 %
Earnings from ordinary activities	11.7	11.8	0.9 %
Net income for the year	6.4	7.3	14.1 %
Investments	18.1	13.5	–25.4 %
Balance sheet total	189.2	192.1	1.5 %
Share capital	86.2	89.6	3.9 %
Disbursement per preferred share in EUR	0.95	0.40	–57.9 %
Payroll as at Dec. 31	771	782	1.4 %

*) Calculated according to IFRS

CREATON AG is the leading German clay roofing tile manufacturer. The name CREATON stands for a unique and broad range of products, a strong export focus, ultra-modern and eco-friendly technologies and a consistent brand image. Since late 2005 the Belgian Etex Group S.A., a construction materials holding company with worldwide operations headquartered in Brussels, has held a majority stake in CREATON.

Key dates and information

2006	General Meeting	July 13, 2006, Forum am Hofgarten, D-89312 Günzburg
	Dividend disbursement	July 14, 2006
	Interim report as at June 30	August 2006
2007	General Meeting	June 22, 2007, Forum am Hofgarten, D-89312 Günzburg
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◁ *Church in Emerkingen, Germany, Biber tile "NOBLESSE"*

Contents

CREATON milestones

Entrepreneurial success crucially depends on whether the right strategic foundations have been laid. CREATON's corporate culture hinges on decision-making in a foresighted, responsible manner and ultimately this comprises one of the mainstays of our outstanding market position. In this Annual Report we shall be portraying some of the important crossroads in the history of CREATON AG – from the merger of the two founding companies, our initial stock exchange listing, and our internationalization through to the entry of strategic investor Etex. On pages 30 to 35 you can read about additional key milestones in the CREATON story.

Preface by the Management Board

Dear Shareholders and friends of the Company,

2005 was a highly turbulent yet successful year for CREATON. It began with an unusually long winter, which initially disrupted our ambitious sales and profit targets. Yet this was followed by a successful phase making up the ground lost, and culminated in a sunny autumn in which we were able to make good the setback of the first few months. The fact that we succeeded in doing so is first and foremost due to our strongly motivated employees, and I would like on behalf of the Board to take this opportunity to thank them for their exemplary efforts. Overall, Group sales edged up in 2005 to EUR 135 million. That said, the prevailing difficulties in the construction sector dragged on earnings, and consequently our operating profits did not match those of the previous year. However, owing to extraordinary profits, the net income for the year nonetheless rose from EUR 6.4 million to EUR 7.3 million. Moreover, our sound equity/assets ratio also improved mildly from 46 percent to 47 percent. We wish to continue down this stable path to the future, and therefore propose to the General Meeting that the Company disburse a dividend of EUR 0.28 for ordinary shares and EUR 0.40 for preferential shares.

Internationalization strategy continues to reap success

The fact that we bucked general trends in the sector and delivered a highly gratifying performance is primarily due to our excellent export business, which grew by almost one quarter and now accounts for almost 30 percent of total business volume. This vindicates our decision to actively expand our international activities. And we pressed ahead with specific expansion activities: In Spring 2005 we started operations at our plant in Lenti/Hungary – the first of its kind outside Germany. This move represents a major change in how CREATON operates. While previously we supplied our expanding markets in East and South-East Europe from Germany, we now profit from manufacturing products locally. This allows us to work the region to much better effect. However, we remain committed to our production plants in Germany. Clay roofing tiles from Hungary are only offered in South-East Europe and not in Germany. Lenti is not intended to replace German facilities but merely to complement them. By supplying the growth markets of South-East Europe from Hungary we can minimize transport costs and work the region more effectively in the long term. The start-up of production in Hungary went extremely well: In this first year we succeeded in producing over half of the targeted normal annual volume, and from the very outset the clay roofing tiles CREATON manufactured in Hungary have sold extremely well.

Strong position in Germany shored up

Germany continues to be our most important market. At home we asserted our position as market leader in clay roofing tiles despite the ongoing sluggishness in the construction sector. We owe this strong position to an attractive, high-class product spectrum that is unrivalled in the sector. Once again the ceramic speciality products made in our Weroth plant (Rhineland-Palatinate) posted strong sales. Thanks to this new Competence Center for facade and screed replacement tiles we can make larger, attractively glazed products, which are in great demand. This success underlines the wisdom of our decision to press ahead with the Center’s expansion and establish its products as a second focus of business activity.

Etex as new partner for future expansion

CREATON is in an enviable position today. Not only do we continue to turn a profit in a crisis-ridden sector, operations are also based on a sound financial footing. Yet we expect the pressure on our earnings situation to increase rather than decrease, and we want CREATON to maintain its successes of previous years. Given the faltering economy and consolidation trends in our market that means we must expand further, and more quickly than ever before – especially outside Germany and with highly profitable products. Accordingly, we plan to build a second plant at our Hungarian location. Over the mid-term we will also strengthen our activities in Weroth. Other projects must and will follow.

At present we can still realize our ambitious expansion plans alone, but by teaming up with a strong partner we will be able to do so more swiftly, energetically and, most importantly, over a longer period. This insight prompted the founding families in December 2005 to sell all of CREATON's ordinary shares and thus all voting rights to the Belgian Etex Group. Subsequently, as part of a public takeover offer Etex acquired 0.38 percent of the preferential shares and now holds a 60.38 percent stake in CREATON.

Etex is an international group, whose activities are an excellent complement to those of CREATON. We are confident the new majority shareholder will continue to drive our successful strategy and expansion projects forward; indeed, this is to its advantage as it wishes to position itself still better both on the German and the East and Southeast European markets. We are currently busy devising the concepts. What is already certain: we plan to retain the brands, hubs and all jobs. And since Etex already has a broad-based, highly efficient distribution system in place for its facade business our products should also benefit from this cooperation.

Members of the Management Board (from left to right in the picture)

Karsten Schüssler:	*Finances, Controlling*
Alfons Hörmann:	*CEO, Strategy, Marketing/Sales*
Hans-Josef Berchtold:	*Technology, Purchasing*

Responsible behavior driven by tradition

The decision by the founding families to sell their shares to Etex fits seamlessly into the CREATON tradition, which is characterized by responsible corporate action and timely responses to altered circumstances. Whether we think of the Berchtold and Ott brickworks, which merged to form CREATON, our IPO, our international gearing or the expansion of our second core business area, special ceramic products – in each case courage and responsibility were needed to steer the company's fortunes in the right direction. This has prompted us to devote a special section of the Annual Report to the strategic milestones in CREATON's development. For the time being, Etex is the last important chapter. By joining forces with the Etex Group we are not only securing our future from a position of strength but also paving the way for further expansion. Working together with our new partner and despite the tough overall conditions we are keen to continue previous years' successes in 2006 and ensure a positive future for CREATON by making proactive, daring entrepreneurial decisions.

Yours,

Alfons Hörmann
Chairman of the Board
CREATON AG

CREATON IN THE HEADLINES

April 2005:
"CREATON shareholders receive a bonus stake in business success" *(Börsen-Zeitung, April 6, 2005)*

We wanted our shareholders to also benefit from the successful course of business year 2004. For this reason in April we proposed that in addition to the stable dividend a bonus disbursement be made of EUR 0.08 per share. For preferred shares this translated into a distribution of EUR 0.95 or a dividend return of 5.9 % compared with the 2004 end-of-year price.

May 2005:
"Clay roofing tile manufacturer Creaton opens new plant in Hungary" *(Augsburger Allgemeine, May 28, 2005)*

It was official: Together with guests from several countries, in May we opened our new plant in Hungary. The

new facility at Lenti lies at the heart of our growth markets and in the future will produce some 21 million plain and extruded interlocking tiles annually. To mark the opening we held an Open Day at which locals had an opportunity to gain an impression of their new neighbors.

June 2005:
"Even outstanding pupils have to pull their weight" *(Allgäuer Zeitung, June, 28, 2005)*

In June, around 500 shareholders and guests attended the General Meeting in Günzburg and showed how satisfied they were with the company's performance. This year, however, it was not all good news for our shareholders. Due to the long cold spell in early 2005 we had to down-

scale our ambitious forecasts for the year as a whole slightly. Six months into the year it became clear that last year's high sales figures and profits, which we were originally targeting, would hardly be matched. Nonetheless, compared with competitors in the sector we were still on a very sound footing.

Auch Musterschüler müssen sich anstrengen

Creaton AG plant jeweils zweites Werk in Ungarn und Rheinland-Pfalz – Ergebnisse von 2004 werden 2005 wohl nicht erreicht

◁ *Heinrich-Heine University in Düsseldorf, Germany, "TONALITY"-"CLASSIC" colour grey*

"CREATON – a member of The Best Club"

(Thüringer Allgemeine, June 25, 2005)

In the nationwide TOP 100 Innovation Prize CREATON received an award for being one of Germany's 100 most innovative companies. The criteria for the TOP 100 quality seal are the market success of new products and

a company's innovation management. CREATON received the prize, of which Lothar Späth is the patron, for the second time in five years.

August 2005: CREATON at the Small Cap Conference

In September, CREATON made its third appearance at the DVFA's (German Society of Investment Professionals) Small Cap Conference, one of the largest meet-the-analysts

events for small and mid caps. In panel discussions and one-on-ones, a total of 240 investment professionals found out all about the 26 corporations participating. Once again, the response to our presentation was extremely positive.

November 2005: 10th anniversary of CREATON listing

November 9 marked the 10th anniversary of the CREATON AG IPO. This strategically important step in 1995 increased our financial strength and the overall awareness of the CREATON brand. At the time we issued 2.8 million preferred shares, offering investors an attractive investment.

Etex Group and CREATON embark on joint future

In December, the CREATON founding families decided to sell all the ordinary shares to the Belgian construction materials holding company Etex. CREATON thus has a new majority shareholder who has a strategic interest in our company and will support us going forward.

"Strong growth outside Germany"

(Thüringische Landeszeitung, November 24, 2005)

A strong performance outside Germany and extraordinary earnings impacted positively on the Q1-Q3 figures, which were released at the end of November. Having almost made up the ground we had initially lost in terms of sales and earnings in the summer months, the company felt that there was an excellent chance after all that in 2005 it would match the high prior-year figures.

Im Ausland ein kräftiges Wachstum

Creaton hat Umsatzrückstand aufgeholt

Wertingen/Großengottern. [dpa/tlz] Der auch in Thüringen engagierte Tondachziegel-Hersteller Creaton hat einen Umsatz- und Gewinnrückstand zum Halbjahr per Ende September ausgeglichen. Das Nettoergebnis sei dank eines Sonderertrags stabilisiert worden. Creaton unterhält in Großengottern (Unstrut-Hainich-Kreis) drei Dachziegel-Werke mit etwa 200 Beschäftigten. Seit Anfang November gehört die Gruppe – vorbehaltlich der noch ausstehenden kartellrechtlichen Freigabe – zum belgischen Baustoff-Riesen Etex.

Per Ende September wurde ein Umsatz von 100,1 Millionen erwirtschaftet. Er lag damit etwa auf dem Niveau des Vorjahreszeitraums von 101,3 Millionen Euro. Die anhaltend schwache Branchenkonjunktur sei durch ein kräftiges Wachstum im Ausland ausgeglichen worden. Der Inlandsumsatz sank in den ersten neun Monaten um 7 Prozent, der Umsatz im Ausland stieg um 19 Prozent.

Ein außerordentlicher Ertrag in Höhe von 1,85 Millionen Euro trug zu einem im Vergleich zum Vorjahreszeitraum stabilen Gewinn von 6,0 Millionen Euro bei. Auch künftig sei angesichts eines anhaltenden Drucks auf die Ertragslage durch die kräftig gestiegenen Energiepreise vor allem im Ausland eine weitere Expansion geplant. Dazu ist unter anderem ein zweites Werk in Ungarn vorgesehen.

In den Thüringer Produktionsstandort wurden seit 1990 nach Firmenangaben etwa 125 Millionen Euro investiert. Das dritte Werk war 1998 in Betrieb gegangen.

December 2005:
10 million plain tiles produced in Lenti

Having successfully gone turnkey, the plant ramped up operations step by step and in the second half of the year worked at full capacity. In December, the 10-millionth

plain tile rolled off the line in Lenti in the customary CREATON quality. To a large extent we have the outstanding collaboration between our Hungarian production team, the technical team from Germany, and our suppliers to thank for the enormous success of our first production facility outside Germany.

Creative apprentices for children with cancer

Unusual objects made from clay roofing tiles for a good cause: The CREATON apprentices were in every sense "Creative with clay" and sold the products they made at the Christmas bazaar in Wertingen. The proceeds from these unusual objects made from clay roofing tiles – such as flower pots and make-up tables – were donated to a society which supports children suffering from cancer.

Management Report and Group Management Report of CREATON AG

In business 2005, CREATON again bucked the weak trend in the construction industry and posted slight growth in consolidated sales, which rose to EUR 134.9 million. The key to this success: our strong business outside Germany, which surged almost by a quarter to EUR 39 million on the back of the commencement of operations in our plant in Lenti, Hungary, in the Spring. Our earnings position was again influenced by the ongoing squeeze on prices and in operating terms was slightly down on the prior year. Thanks to extraordinary earnings, net income for the year nevertheless rose 14 percent to EUR 7.3 million. Despite continuing difficult market conditions we hope that in 2006 we will emulate this positive development, which is gratifying on an industry comparison. Together with our new majority shareholder Etex we intend to expand our leading market position in Germany further and press ahead with our strategy of internationalization.

CREATON AG

CREATON AG is Germany's leading manufacturer of clay tiles, with 12 ultra-modern plants in Bavaria, Rhineland Palatinate, Saxony, Thuringia and Hungary. In our core business we offer a diverse, high-quality range of plain tiles and pan tiles. Our second pillar of operations is attractive special ceramic products for facades and as screed replacement. Alongside our main sales region of Germany, we are increasingly selling our products in strong-growing markets outside the country, especially in Southeast Europe. Our plants as well as our selling and administrative activities are controlled centrally by the CREATON AG parent company. The Group includes two German and four non-German subsidiaries; details on the scope of consolidation can be found in the Notes to the consolidated annual financial statements, item B.

CREATON AG welcomed a new majority shareholder on board at the end of 2005: Belgian construction materials holding company Etex Group S.A., Brussels. Via its Etex Holding GmbH subsidiary in Heidelberg, on December 8, 2005 Etex acquired from the founding families all the 4.2 million CREATON AG ordinary shares or 60 percent of the capital stock and all the voting rights. Etex made a takeover offer to holders of the preferred shares and by the deadline the offer had been accepted by 26,431 shares or 0.38 percent of the capital stock. The Etex Group is active in the global roofing market and thus has a strategic interest in CREATON, as it can benefit from our leading position in the German market and our strong presence in Southeast Europe.

The 2005 CREATON AG annual financial statements have been prepared in line with HGB and the consolidated annual financial statements have been compiled in keeping with IFRS.

Macroeconomic trends restrained worldwide

CREATON is primarily active in Germany and Europe. In Euroland economic conditions in 2005 were restrained overall according to estimates by the Arbeitsgemeinschaft deutscher wirtschaftswissenschaftlicher Forschungsinstitute. However, the trend in Europe went in two directions: In the new East European EU member states gross domestic product (GDP) surged 4.1 percent, whereas in West Europe the figure was only 1.5 percent. Provisional estimates by the German Statistics Office show German GDP as having risen by 0.9 percent in 2005.

◁ *Private House in Revfülöp, Hungary, "KERA-BIBER" bright blue streaked*

Construction cycle: Germany continues to bring up the rear

The European construction industry, which according to information from the EUROCONSTRUCT research network grew 1.3 percent, performed unevenly. While activity in many of the large West European markets, specifically Germany, was not stimulated at all in 2005, the Central and East European countries were able to report growth of a good 5 percent. In Germany, according to Hauptverband der deutschen Bauindustrie, German construction industry sales sagged 5.7 percent on the year. Although in the second half signs increased that an end to the doldrums was in sight, this was only seen in public-sector contracts and commercial construction. By contrast, residential construction continued bleak. Despite a short-term burst in demand in December owing to the final termination of subsidies for owner-occupied homes, order receipts for residential construction slumped 7.2 percent in 2005 as a whole. This was especially true of new construction activities. In our opinion, the decrease was less significant in the renovation and modernization segment, which accounts for around two thirds of our sales.

On the German roofing market we were confronted by a further increase in the price squeeze and competitive pressure, a trend rendered even worse by the extremely cold weather at the beginning of the year. Moreover, concentration in the industry continues. All in all, market volume contracted in the review period by 3 to 4 percent. High-grade clay roofing tiles have further extended their market lead over other roofing products. In 2005, the German facades market most probably also dwindled slightly, but there were definitely growth opportunities for innovative and large-sized ceramic products. On balance, at the international level, both the roofing and facade markets again tended far more favorable.

◁ *Private living room in Emstetten, Germany, screed replacement tile, grey*

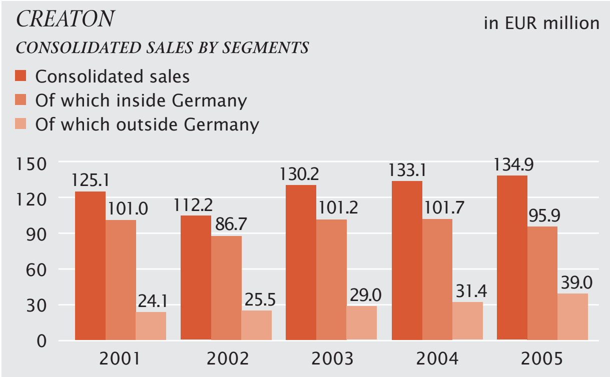
With its new plant, CREATON extends its position outside Germany

CREATON AG has performed well in what is a difficult situation on balance. In the clay roofing tiles segment, our main operating activity, we maintained our leading position in the German market and achieved further growth outside the country. We managed to expand both inside and outside Germany as regards our second pillar of activities, namely specialist ceramic products for facades and screed replacement.

In order to make focused use of the opportunities for growth in Southeast Europe, in Spring 2005 we opened a new plant in Lenti, Hungary, and as scheduled ramped up roll-out there in the course of the year. In this way, we are expanding our capacities there as of 2006 by some 21 million plain tiles and extruded roof tiles a year and securing our position in this region, which sees high unit sales. In the start-up year, the new plant in Hungary already produced more than half the normal annual output. Our other factories all ran at full capacity. All in all, Group production volume in 2005 rose a good 6 percent to about 180 million tiles and components. Total output increased 2.4 percent to EUR 141.9 million.

Consolidated sales slightly up despite construction industry doldrums

The expanded capacities formed the basis on which we could then boost unit sales volumes outside Germany and thus offset the weak domestic business cycle and the related fierce price squeeze. While the business volume inside Germany fell 6 percent in 2005 to EUR 95.9 million, outside the country we scored rampant growth of 24 percent, with sales reaching EUR 39.0 million. On aggregate, CREATON AG consolidated sales edged up from EUR 133.1 million to EUR 134.9 million in 2005, and thus performed better than had been expected following the extremely long and cold winter. Thanks to our attractive range of products and hard-hitting selling, we made up the lost ground in the second half. In 2005, CREATON AG posted sales of EUR 131.9 million as compared with EUR 131.7 million one year earlier. The lion's share of this figure, namely EUR 95.9 million were booked inside Germany, and around 27 percent or EUR 36.0 million outside the country.



Calculated through 2002 according to HGB and thereafter according to IFRS

Proportion of sales outside Germany rises to 29 percent

As a result of the stronger international business, the proportion of total consolidated sales booked outside Germany rose from 23.6 percent to 28.9 percent. We scored emphatic growth in 2005 in our most important markets – Austria, Poland, and in particular Hungary. There, our new plant made an especially beneficial impact. We are also very well represented in Slovenia, Switzerland, Italy, Russia and Great Britain. Alongside countless private roofs and facades, our products are now proudly on display on numerous renowned buildings – including the roof of the Holocaust Museum in Budapest and the facade of Heyzel Business Park in Brussels.

Successes with specialist ceramic products

Our slightly positive sales trend bucked the general industry trend and was also driven by our innovative product range. Around 60 percent of the total volume is booked with product models introduced to market over the last five years. The main sellers: clay roofing tiles and components (85 percent): Plain tiles accounted for 20 percent, standard pan tiles 24 percent and large and XXL-pan tiles 41 percent of sales. Business volume with other items, including screed replacement and facade tiles, came to 15 percent of total sales.

Earnings enhanced by extraordinary profits

Our 2005 earnings position was impaired by both the ongoing price squeeze and higher energy costs. In purely operative terms, earnings were therefore slightly down on the year. Here, extraordinary profits of EUR 1.77 million were a welcome help, stemming from an agreement with the former subsidiary Ströher on the partial repayment of a loan from CREATON, for which we had entered a value impairment. Thus, other operating income rose from EUR 2.7 million to EUR 4.6 million.

Higher energy costs spelled a 12 percent increase in cost of materials to EUR 33.8 million. Personnel expense rose 2 percent to EUR 35.5 million. Other operating expenses were trimmed from EUR 46.6 million to EUR 46.0 million by means of consistent cost management. Consolidated EBITDA, which we consider the yardstick of our earnings power, slipped in 2005 from EUR 27.3 million to EUR 26.7 million.

After factoring in depreciation/amortization, which fell from EUR 12.9 million to EUR 12.5 million, EBIT came to EUR 14.2 million, as against EUR 14.4 million one year earlier. Owing to the lower credit volume and favorable interest rates, the net financial loss improved EUR 0.3 million to EUR -2.4 million. For this reason, consolidated earnings from ordinary activities rose 1 percent to EUR 11.8 million. Of this figure, EUR 9.6 million was sourced inside and EUR 2.2 million outside Germany. After deducting the tax load, which was slightly down on the year, we report consolidated net income for 2005 of EUR 7.3 million, 14 percent up on the year, or an EPS of EUR 1.16, up from EUR 1.01 in 2004.

Dividend of EUR 0.40 planned

CREATON AG EBITDA came to EUR 20.3 million, as compared with EUR 21.9 million, while EBIT ran at EUR 9.1 million, as compared with EUR 8.9 million, as depreciation/amortization fell from EUR 13.1 million to EUR 11.2 million. Earnings from ordinary activities rose slightly from EUR 10.0 million to EUR 10.7 million and net income for the year increased from EUR 6.5 million to EUR 7.3 million. Unappropriated profits amounted to EUR 5.1 million, compared to EUR 5.5 million one year earlier. We propose to the General Meeting that of this figure a dividend be paid per ordinary share of EUR 0.28 and of EUR 0.40 per preferred share. This level, which is down on the year, enables us to rely on a sound capital base for the strategic advancement of the Group and invest further.

Private House in Polzela, Slovenia, ▷
Biber tile "NOBLESSE"

Investments in our new Lenti plant

In 2005, alongside the usual replacement and rationalization measures the focus of our investing activities was on completion of the new plant in Lenti, which accounted for the majority of our investment commitments, which fell from EUR 18.1 million to EUR 13.5 million in 2005. All in all, we invested around EUR 18 million in the Lenti project. Of this figure, about one third was financed from cash flow, and two thirds via favorable bank loans. In addition and to a minor extent, we were awarded regional and Hungarian investment grants. In 2005, CREATON AG invested EUR 4.8 million as against EUR 11.4 million one year earlier.

Sound financial position

Our financial management focuses on striking an optimal balance between own funds, long-term liabilities to finance major investment projects, and current debt to bridge seasonal fluctuations in unit sales. Given CREATON's sound capital structure, we are able to rely on a sufficient swath of external financing options. We deploy systematic cash management in order to bundle payment flows and manage liquidity centrally. Detailed information on our hedging policy, financial derivatives and foreign-exchange transactions are to be found in the Notes to the consolidated annual financial statements under item H.

In 2005, the cash flow from operating activities was EUR 17.6 million, EUR 2.8 million less than in the previous year. On a y-o-y comparison, net income has admittedly risen, but reserves increased less, depreciation/amortization was lower, and trade accounts payable were also markedly less. Moreover, allocations were made to financial assets of EUR 1.8 million relating to the above-mentioned loan repayment by Ströher. The cash flow for investing activities fell, owing to the lower overall volume of investments, from EUR 17.4 million to EUR 12.9 million. The cash drain from financing activities dropped from EUR 6.6 million to EUR 4.1 million, although the dividend disbursement for 2004 was increased to include a bonus. Here, the sale of own shares totaling EUR 1.5 million made itself felt.

Asset position: prime equity/assets ratio of 47 percent

Little changed in 2005 as regards the CREATON Group's sound balance sheet structure. As at December 31, 2005 the balance sheet total edged up 1.5 percent to EUR 192.1 million. Fixed assets ran at EUR 154.4 million, 1 percent more than at the same date one year earlier, with the lion's share, namely EUR 149.9 million, being accounted for by tangible assets (prior year: EUR 149.1 million). The turnkey of the Lenti plant in Hungary meant that the items for buildings and technical plant and machinery rose, while the item for prepayments made and work in process fell accordingly. All in all, fixed assets continued to comprise around 80 percent of the balance sheet total.

Current assets rose 4 percent to EUR 34.0 million, with inventories climbing from EUR 23.0 million to EUR 26.8 million, among other things owing to stock-piling. By contrast, receivables and other assets were reduced by careful receivables management from EUR 7.5 million to EUR 5.8 million. Deferred taxes came to EUR 3.6 million (prior year: EUR 3.8 million) and cash and cash equivalents to EUR 1.4 million (prior year: EUR 2.0 million).

In the period under review, we allocated additional funds to the revenue reserves, and the Group's share capital as at December 31, 2005 thus rose 4 percent to EUR 89.6 million. In other words, the equity/assets ratio improved from 45.6 percent to 46.6 percent. We scaled

◁ *Hospital in Buchen, Germany, "TONALITY"-"CLASSIC" and Baguette tile colour toscana* back our long-term liabilities due to banks from EUR 34.1 million to EUR 32.5 million. Owing to the rise in the item for other long-term debt, these have remained almost unchanged. Deferred tax liabilities totaled EUR 24.4 million, up from EUR 23.5 million one year earlier. Current liabilities have dropped 1 percent to EUR 29.4 million. For detailed information on off-balance-sheet financing instruments, please consult the Notes to the consolidated annual financial statements under item H.

At CREATON AG, the balance sheet total decreased by just under 3 percent to EUR 131.9 million. Own funds rose slightly from EUR 78.0 million to EUR 79.8 million, meaning that the equity/assets ratio improved from 58 percent to over 60 percent.

Payroll rises to 782 employees

As at December 31, 2005 the CREATON Group had 782 staff members, 11 more than one year earlier. New recruits were brought on board at Lenti and in our sales section. The total includes 16 trainees and interns from the vocational college on sandwich courses (prior year: 18). In 2005, all the trainees and interns who successfully completed their courses were taken on.

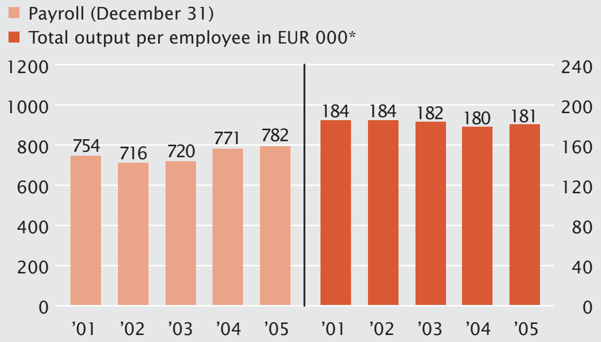
CREATON Group staff members by location

	Dec. 31, 2004	Dec. 31, 2005
Großengottern	202	189
Autenried	175	163
Guttau	117	118
Wertingen	105	101
Roggden	64	60
Weroth	30	32
Lenti/Hungary	7	46
Specialist consultants	71	73
CREATON Group	771	782

In order to foster motivation and cooperation between the various sections, in 2005 we pressed ahead with our job-changing program, offering staff the chance to inform themselves on site about workflow in other areas of the company. Moreover, we supported career-related advanced training activities, specialist courses and classes for master craftsmen.

To better adjust for capacity fluctuation, as scheduled in 2005 we introduced annual work-time accounts at all our facilities. We believe this will bring interesting cost savings – as will the switch in shift hours at Großengottern. Moreover, at the end of 2005 we installed new time planning software that will likewise enhance efficiency. Personnel expense as a ratio of total output held steady in 2005 at 25.0 percent. Total output per staff member rose slightly to EUR 181 thousand.

Group employees and total output per employee



* Calculated through 2002 according to HGB, as of 2003 according to IFRS

Sales: Our clients' partner

Innovative marketing and a high-impact sales force are key factors contributing to CREATON AG's success. In 2005 we continued our high-level activities in these areas. The focus was on our new base in Lenti, Hungary. Having systematically tapped the Southeast Europe region in recent years, the sales team there was further expanded following turnkey at Lenti. To increase our market focus and links, we invited our clients and partners from the market region to the official opening ceremony.

Schoolhouse in Győr, Hungary, ▷
"DOMINO" tile, grey engobe slipped

As in prior years, we also ran various specialist and advance training seminars for our commercial, crafts and architectural clients, thus strengthening ties to our partners. In 2005, we again took part in the keynote trade fairs to present our attractive product range to the broader trade public. Following the successful kick-off at "BAU" in Munich, in 2005 we concentrated mainly on international trade fairs in order to further augment CREATON brand awareness.

As part of a Kaizen program, in the period under review we systematically optimized our internal sales team workflow and boosted its efficiency. The pilot project was successful and will be implemented in other areas next year.

Purchasing: Rising energy costs

In the field of purchasing, like the German economy as a whole we had to confront rising energy costs. CREATON as a company whose manufacturing facilities require high energy inputs, was especially hard hit. By means of consistent monitoring and fixed-price contracts, we managed to limit the excess strain and increase certainty in our budgeting going forwards. In order to offset the higher energy prices in part, in 2005 we also opted for various cost-cutting measures, and these had a gratifying initial success. On balance, in 2005 consolidated cost of materials increased from 21.7 percent to the considerable figure of 23.8 percent of total output.

In the period under review, in order to secure raw materials supplies to our plants in Wertingen, Roggden and Großengottern we acquired some three hectares of new pits. We also continued investigating raw material qualities at possible new sites.

R&D – to boost market success and enhance efficiency

In 2005, as in the past our R&D effort focused on new color/shape combinations for our products, on the one hand, and on innovative manufacturing technologies, on the other. As regards products, development work concentrated on appealing, high-grade models destined to improve our market opportunities further. Among other things, in 2005 we presented large pan tiles with a protective "FINESSE" glaze in wine red and expanded our clay-tile line in modern anthracite and slate tones. Our innovative "FIRSTFIX" system offers a rational fastening solution for ridge tiles. We rounded out the facade range to include an anti-graffiti glaze and additional color tones. As regards process development, the main emphasis was on energy-saving and cost-cutting technologies that

assured ongoing high product quality. For example, we optimized our drying and firing process at the Weroth plant, augmenting its performance by 15 percent.

As a direct member of the Forschungsstelle der deutschen Ziegelindustrie e.V. CREATON is committed at the national level to basic research and is benefiting from the bundled representation of our interests by this body.

Securing recognized high quality

We have for years now relied on systematic QS management in order to secure the industry-wide recognized high quality of CREATON products. In 2005 we again organized internal audits to prepare for the regular external ISO 9000 certification processes. And in our quality workshops we fostered know-how transfer between the individual sites. Activities in 2005 focused on start-up at the Lenti plant, where we achieved the customary high CREATON quality in all production stages from raw materials processing through to firing just after production commenced. In the field of facades, we are increasingly addressing client-specific requirements and the relevant client audits. As our international reach extends, meeting country-specific product guidelines is becoming ever more important.

New technologies for environmental protection

CREATON prioritizes protecting the environment, and we consistently work to this end. Each year we achieve improvements in this regard, and they bring both ecological and economic advantages. In 2005, among other things we standardized our packaging materials and thus reduced raw materials inputs by around 25 percent. The new coating technology for glazes and engobes, first used in the Autenried plant, has brought materials savings of about 30 percent, while also through multiple cycles reducing waste-water volume by 40 percent.

We also meet our commitment to ecology by re-cultivating and re-naturalizing pits that are no longer used. In 2005 we created six hectares of arable soil and two hectares of biotopes in Bavaria as well as 2.5 hectares of arable land in Thuringia.

In 2005, as announced pan-European CO_2 emission trading started, designed to help reduce the carbon dioxide load created by industry. Our Wertingen and Lenti plants duly take part in this. We are represented on the Environmental Committee of Bundesverband der deutschen Ziegelindustrie in order to be able to actively influence the trading concepts, which the individual countries have not yet designed optimally.

Assuming social responsibility

For CREATON, being active as an entrepreneur means assuming social responsibility. For this reason, we are committed to Germany as our hub and consider it our task to secure jobs there as far as possible. The new plant in Hungary is not in conflict with this. Our clearly stated strategy here is not to sell products from Lenti on the German market, but to use it to exclusively service markets in Southeast Europe. Indeed, we expect that the new plant and the related better market penetration will swiftly impact very positively on our existing factories in Germany. The resulting successes were already discernible in the start-up year of 2005. We offer our staff secure and attractive jobs. And all the plants shall continue unchanged under the aegis of the new majority shareholder.

CREATON considers itself a citizen of the places where its plants are located and endeavors to act as a good neighbor. At special events and open days, relatives of our staff and members of the local population can find out about CREATON. We also support regional clubs and carefully nurture up-and-coming talent in the worlds of culture and sport. Then there are the donations we make, for example in the form for roofs for community buildings.

Relations to affiliated companies

Since Etex Holding GmbH, Heidelberg, (Etex) acquired 100 percent of the vote-bearing ordinary shares on December 8, 2005 pursuant to section 15 AktG CREATON AG, Wertingen, is an affiliated company of Etex. The corresponding information according to section 25 para. 1 WpHG has been published on December 12, 2005. Because there is no controlling agreement, the CREATON AG Board of Management has presented its relations to affiliated companies for the period December 8-31, 2005 in line with section 312 AktG in a separate report (Dependent Companies Report) and attached the following declaration at the end of it: "In the case of all the legal transactions listed in the Report on Affiliated Companies, our Company received due consideration and was not disadvantaged by the measures taken or not taken, as outlined in the Report. This assessment is based on the circumstances known to us at the time of the transactions subject to reporting requirements."

Risk report

Entrepreneurial success entails consciously taking risks. Only in this way can one consistently seize the opportunities that arise. We operate a systematic risk management regime in order to identify risks at an early date, minimize them and master them; it also gives us an indication into existing opportunities. Our risk management system relies on SAP-supported Group controlling and reporting, monitoring various early-warning indicators, open communication between the managers responsible and systematic identification, documentation, evaluation and control of possible risks. From today's viewpoint, all risks can be controlled and do not danger the existence of the Company. The following factors make up the focal point of our monitoring of risks and opportunities.

The sector in general and competitors – The ongoing weak market in Germany and the related excess capacities remain an important risk to our business. In order to offset the resulting high competitive pressures and price squeeze, we prioritize firstly innovative products, ultra-modern production processes and exceptionally efficient sales structures. Secondly, we are deliberately and consistently expanding our activities outside Germany, thus locking into the opportunities offered by fast-growth markets.

◁ *Holocaust Museum in Budapest, Hungary, "KERA-BIBER" bright red streaked*

Innovations – In our fiercely contested market, power as an innovator brings a key competitive edge. Each year, we present countless product novelties both in our core clay tile segment and with specialist ceramic elements – and this considerably improves our market opportunities.

Product quality – As a provider of high-grade products, it is imperative for our success in the market that we secure the discerning level of quality for which we are known. To this end, we have introduced a Group-wide QA system that covers all processes from development via the entire production chain to deliveries. In addition, we have all our sites regularly certified by outside experts.

Production and capacity – Efficient, highly function factories are critical given the fact that clay roof tile manufacture is seasonal and requires intense use of plant. We minimize downtime risks by in principle setting very high technological standards for our production plant, regularly reinvesting in them, and carefully maintaining them. In our new plants we deploy proven processes that feature ultra-modern technology. We have introduced a flexible work-time model at all our sites that can in part balance out demand peaks in order to cushion seasonal capacity fluctuations.

Raw materials and energy supply – Stocks of high-grade raw materials are the essential basis for product quality and thus honing our competitive edge. We therefore secure the pits located in the vicinity of our factories either by owning the respective real estate or by signing long-time contracts for their use. Before acquiring new properties we closely examine the quality of the raw materials they offer. We consider the rising cost of energy to be an increasing risk, as they lead invariable to additional expenses given our energy-intensive production plant. Given the prime level already achieved, it is almost impossible to make further energy savings, and we are thus forced to offset the additional strain by raising prices.

Environmental protection – In order to keep the inevitable eco-impact of our production facilities as low as possible, we practice consistent eco-management and when developing new processes always assess their eco-compatibility. Ecological action is part of our corporate culture and influences the decisions we take in all the relevant areas. For example, our own emission ceilings are in many cases far more stringent than statutory regulations. Our plants in Wertingen and Lenti are obliged to take part in the pan-European CO_2 emission trading and in 2005 we were allocated the corresponding emission rights. As a next step we will assess with our monitoring system whether these rights suffice and how we can if necessary make up any shortfall.

New majority shareholder – Following the change in our shareholder structure, since the end of 2005 CREATON has been majority owned by the Etex Group, a large international construction materials corporation. This gives rise to new opportunities: We wish to exploit the potential for growth and synergies in all divisions on the basis of our good market position.

Financial risks – A strong equity base and sound financial management make CREATON largely financially independent. Details on liquidity, exchange-rate and credit risks as well as hedging transactions are listed in the Notes under item H. We pre-empt defaults on receivables by means of consistent receivables management, credit sale insurance and a bank direct debit system for our clients inside Germany.

◁ *Office Building VOPAK in Rotterdam, Netherlands, "TONALITY"-"COLOR" december01 and december05*

Other – To minimize IT risks, we make use of the latest data security technology and redundant systems in key sub-sections. We reduce legal risks by relying on expert external advice. To avoid HR risks, we rely on suitable screening criteria, a wide range of advance training opportunities, and our team-focused corporate culture.

Following the end of the business year

In the first few months of the current year, conditions in our sector did not change fundamentally. The business performance remained slightly down on the year owing to the extremely inclement winter months. By taking part in the key trade fairs, such as "Dach und Wand", which took place in Cologne in February, we are paving the way for the new season. The innovations we presented, such as our new line of patio products, met with gratifyingly strong interest. Furthermore, we addressed possible concepts and strategies to exploit synergies with the Etex Group.

Outlook

The economy and the market – Economic research institutes anticipate that in the current year the German and European economies will pick up slightly. According to forecasts by HWWA, German GDP will rise 1.4 percent and that in the European Union by 2.0 percent. The construction industry, so EUROCONSTRUCT suggests, will only grow slightly at the European level. In Germany, Hauptverband der deutschen Bauindustrie assumes 2006 will see the end of the decade-long downturn, with business stabilizing at a low level, supported by commercial and public-sector construction. By contrast, residential construction will probably remain an unappealing segment. For these reasons, business prospects in Germany will not change emphatically from today's viewpoint. In terms of new residential construction we expect to see an ongoing decline, but a stable trend in the fields of modernization/renovation and innovative specialist ceramic products. The gratifying trend toward high-grade products such as clay roofing tiles will endure in our opinion.

Business development – Given this scenario and despite what are doubtless difficult market conditions, our goal for 2006 is to emulate the success of the last two years. We expect to slightly boost sales by further intensifying our business outside Germany and our activities with specialist ceramic products and secure the good level of earnings without noticeable higher energy costs. To this end, not only is strict cost management necessary, but also price increases, which we have scheduled for April of this year.

Purchasing – In the field of purchasing and logistics, we expect to lock into medium-term synergies through the Etex Group, which could lead to additional cost savings. The strong rise in energy prices will also continue to place a considerable strain on the Company. To secure our raw material supplies, we have filed for permission to convert 20 hectares of land in Autenried into pits, which will ensure that the location has supplies guaranteed for the next 20 years.

R & D, quality assurance – Our R & D efforts will concentrate, among other things, on product advances for the planned second plant in Lenti. To this end we are relying on the long-standing successful cooperation with product designer Michael C. Ludowici. In the current year, we will expand our clay roofing tile range to include some new shape/color combinations. There will also be further

Health Resort in Binz, Rügen, Germany, ▷
Biber tile "PROFIL" natural red

innovations with our specialist ceramic products. In the field of quality assurance, external certification of the Wertingen, Großengottern and Lenti sites is also on the agenda. Moreover, we will be testing the snow-load our tiles can withstand jointly with a scientific research institute, and thus once again act as the industry trailblazer.

EMPLOYEES – The number of employees will presumably not change in the current year. All our hubs will remain in operation within the new Etex Group.

INVESTMENTS – In the current year, we have scheduled investments of a good EUR 5 million, largely for rationalization and replacement measures. Noteworthy investments in new buildings are planned for subsequent years depending on the state of the market.

STRATEGY – In coming years, we will continue to bring our strategy to bear unchanged. In the future, too, we intend to counteract the weakness of the German market by means of innovative products, such as large-size facade elements with high-quality glazes while tapping new international client groups. We will expand our international position, not least by means of the second plant planned in the medium term for Lenti, thus consistently locking into the opportunities for growth outside Germany. In order to strengthen our activities in the field of specialist ceramic elements, over the next few years we intend to expand our activities at our Weroth hub.

We intend to swiftly advance along the path to our strategic goals precisely on the back of the new opportunities offered us through our membership of the Etex Group. In particular, we will strengthen our roofing activities in the growth markets of East and Southeast Europe from our new hub in Lenti. However, improvement in German market conditions constitutes the crucial basis for corporate success. It thus remains to be seen whether reliable underlying conditions produced by skilful political hands will lead in the medium term to a somewhat better market environment.

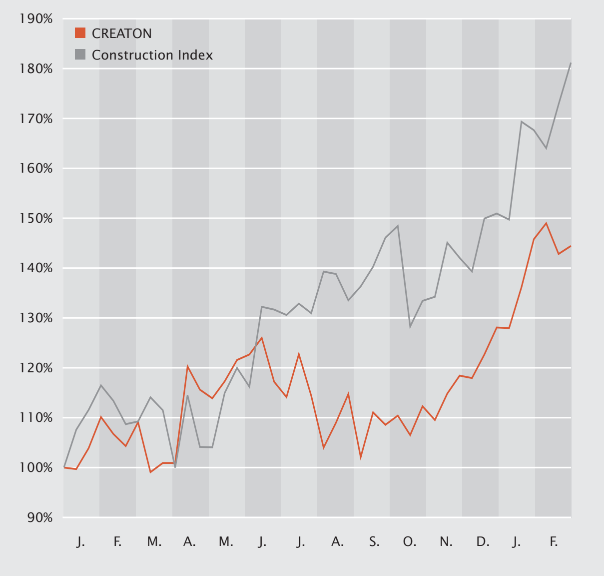
Wertingen, March 2006
CREATON AG
The Board of Management

The CREATON share

Stock markets on the up

In 2005, European stock markets performed very well. Almost all the major exchanges posted strong growth, and in the course of the year it the DAX, the German share index, climbed a good 27 percent to 5,408 points. This gratifying trend can be attributed first and foremost to the increased profits generated by many listed companies. On the back of successfully completed restructuring measures, low valuation levels and high disbursements, shares once again began to catch the eye of investors. The early general election in Germany, which both there and in other countries kindled hopes of further reforms, was another beneficial factor. Given this scenario the Construction sectoral index rose appreciably by around 51 percent.

CREATON share price and Construction Index

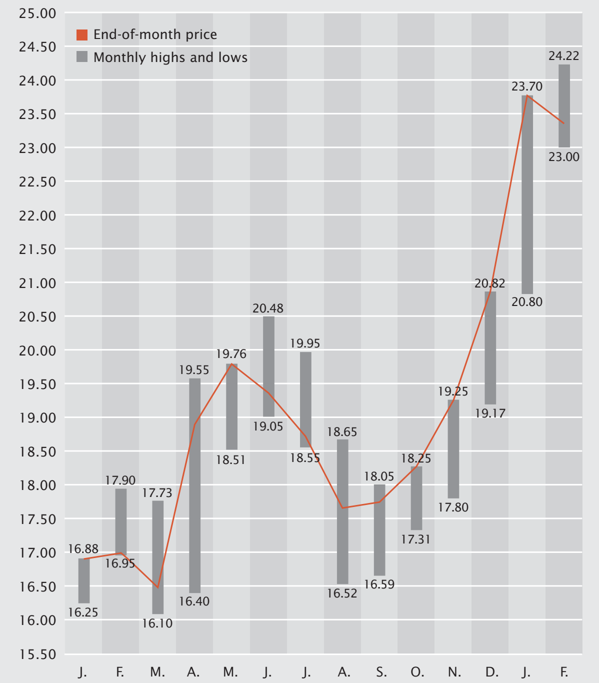


Jan. 3, 2005: CREATON equity 16.30 EUR = 100 % Construction Index 246.63 points = 100 %

CREATON share up 28.5 percent

In 2005, the CREATON share likewise made good headway. Having begun the year quoted at EUR 16.30, it initially scarcely moved at all before closing the end of March at EUR 16.10, its low for the year. Shored up by the proposal of an increased disbursement for business 2004, the equity had climbed to over EUR 20 by the time of the General Meeting at the end of June. Having lowered our forecasts for the year as a whole, in the second half of the year the share dropped once more slightly. And it was not until the fourth quarter that the price soared again, closing 2005 at a high for the year of EUR 20.82, an mark-up of 28.5 percent. The year-end rally was primarily triggered by the entry of our new majority shareholder and its offer to buy out the holders of preferred shares. In the first few weeks of this year the price of the CREATON share has continued to rise, and in mid-February was quoted at EUR 23.22.

The CREATON share in 2005 – monthly highs and lows



Etex new majority shareholder at CREATON AG

On December 8, 2005 the founding families of CREATON sold all the 4.2 million CREATON AG ordinary shares to Etex Holding GmbH in Heidelberg, a subsidiary of Etex Group S.A., a Belgian construction materials holding company based in Brussels. This made Etex, which now holds all the voting rights, the new majority shareholder in CREATON AG. As a strategic investor Etex will in future support and promote the advancement of our company. Given the on-going difficult situation in the construction industry and the increasing squeeze on prices, CREATON will benefit from the arrival of our strong partner.

Bid to preferred shareholders

On December 20, 2005 Etex Holding GmbH tabled a voluntary public offer to CREATON AG shareholders to buy their preferred shares at a price of EUR 19.50 each. In a joint statement, the Management Board and the Supervisory Board declared that they considered the bid to be appropriate. On January 24, 2006 the bid was raised to EUR 22.00. Up until the deadline on February 28, 2006 the bid had been accepted for 26,431 shares, so that Etex holds 4.2 million ordinary shares and 26,431 preferred shares, in other words 60.38 percent of the capital stock. CREATON AG itself holds 617,250 preferred shares, or almost 9 percent, with the rest in free float.

Dividend of EUR 0.40 planned

In 2005, CREATON AG retained earnings totaled EUR 5.1 million. The Management Board and the Supervisory Board propose that of this figure a dividend be paid of EUR 0.28 per ordinary share and EUR 0.40 per preferred share.

Key figures on the share	2004	2005
ISIN: DE 0005483036		
Bloomberg code: CRN3		
Reuters code: CRNG_p		
No. of preferred shares in million units	2.8	2.8
– of which held by CREATON AG	0.7	0.6
No. of ordinary shares (ISIN DE 0005483002)	4.2	4.2
EPS[1] (EUR)	1.01	1.16
Cash flow per share[1] (EUR)	4.34	4.18
Share capital per share[1] (EUR)	13.68	14.04
High for the year (EUR)	16.75	20.82
Low for the year (EUR)	13.72	16.10
End-of-year price (EUR)	16.20	20.82
Market capitalization (as at Dec. 31 in EUR m)[1]	102.1	132.9
Disbursement per preferred share (EUR)	0.95	0.40
Return on dividend, 2004 incl. bonus (Dec. 31, in %)	5.9	1.9

[1] Basis 2004: 6.3 million shares, 2005: 6.4 million shares

High-level Investor Relations in 2005

In 2005 we pressed ahead with our high-grade communications with shareholders and the financial community. In the context of the press conference presenting our annual financial statements, the Annual General Meeting, and presentations to analysts we have carefully nurtured direct contact to investors and financial market specialists. In the form of press releases and ad hoc disclosures as well as two interim reports we also provide information on current developments. All publications as well as additional background material are to be found as downloads in the IR section of our www.creaton.de Web site, which we redesigned and expanded in 2005.

Corporate Governance Report

CREATON has pledged to conduct responsible, transparent management. Our principles and guidelines are therefore geared to the requirements of the German Corporate Governance Code. On almost all items our own regulations on the rights and duties of the shareholders and General Meeting, the duties of the Management and Supervisory Boards, and on transparency, accounting, and auditing concur with the Code. In our Corporate Governance Declaration, which can be downloaded from the Internet, we disclose all points where there are discrepancies.

German Corporate Governance Code

Declaration pursuant to section 161 of the German Stock Corporation Act, amended version

According to section 161 of the German Stock Corporation Act, publicly-listed corporations are required once a year to state to what extent they comply with the recommendations of the German Corporate Governance Code. CREATON AG puts the majority of the recommendations into practice. Where we depart from the Code on specific points, we still fulfill all the legal regulations which we consider adequate for CREATON AG in such cases.

We comply with the recommendations of the German Corporate Governance Code (in the version of June 2, 2005) with the following exceptions:

1. The capital stock of CREATON AG is divided into ordinary shares and preferred shares. Each ordinary share on principle carries one vote (Code, no. 2.1.2).

2. Salaries of the Management Board are listed as a total in the Explanatory Notes attached to this Annual Report. Total remuneration of members of the Board is made up of a fixed and a variable component. The variable component is pegged to the Company's profits. No stock options are granted (Code no. 4.2.3). No statement broken down into the fixed and variable components or by individual Board member is given (Code no. 4.2.4).

3. The Supervisory Board has formed no committees (Code no. 5.3).

4. The members of the Supervisory Board receive fixed emoluments. No variable components are provided (Code no. 5.4.7 para. 2).

5. The emoluments of members of the Supervisory Board are stated in the Explanatory Notes attached to this Annual Report, sub-divided into emoluments for their activities and other remuneration. No information is provided on emoluments for the services individually rendered by members of the Supervisory Board (Code no. 5.4.7 para. 3 – item 2).

6. In the Corporate Governance Report, no details are given according to Code no. 6.6 para. 2 and 3 (Code no. 6.6 para. 3).

7. The consolidated annual financial statements are released in April of the following business year and the interim reports within two months of the end of the respective period reviewed (Code no. 7.1.2).

CREATON AS PART OF THE ETEX GROUP

Since late 2005 the Etex Group, a Belgium-based construction materials holding company with international operations, has held a majority stake in CREATON. This gives the company a strong strategic partner who will promote its future expansion. Etex was founded 100 years ago and, like CREATON, is a traditional family-owned company with sound financial foundations. With its payroll of over 12,500, in 2005 Etex posted sales revenues of around EUR 1.5 billion. The 80 locally managed companies in the Etex group are spread over 39 countries on all continents and are among the market leaders for small-format roofing, roof and facade panels, as well as flooring and wall cladding.

CREATON IS ADMIRABLY SUITED TO ETEX ...

For our new parent company, the new stake acquired in CREATON was an important strategic step: On the one hand, Etex is thereby able to strengthen its position in Germany, still Europe's largest market. To date the Etex Group has been represented in the German roofing market by its subsidiaries Eternit for concrete roofing tiles as well as Pfleiderer and Meindl, which turn out clay roofing tiles. Through its takeover of CREATON, Etex has emerged as Germany's largest domestic supplier of clay roofing tiles, and the one with the widest range of products. And on the other, the stake in CREATON enables Etex to vastly improve its market position in the rapidly growing region of Eastern Europe, as CREATON is in an outstanding position there, in particular in Hungary, Poland and Slovenia.

... AND ETEX IS ADMIRABLY SUITED TO CREATON

Conversely, CREATON AG is also set to benefit enormously from its new majority shareholder. Given the ongoing decline in the construction industry our competitive environment has changed dramatically over the past ten years. Being the profitable, well-established company that it is, CREATON has done a superb job of weathering the crisis. In the future, with a strong strategic partner at our side we will be able to overcome the enduring difficulties in the building industry even better and implement our expansion plans even more swiftly. Etex is the ideal partner in this respect. In addition, thanks to Etex's extensive distribution network, we will now be able to distribute our range of roofing, facade and flooring products all the more efficiently worldwide. In summary, this means that there is now nothing standing in the way of further expanding our market position in the German and international markets.

BUSINESSPARK HEYZEL IN BRUSSELS, BELGIUM, ▷
"TONALITY" COLOUR TOSCANA

CREATON MILESTONES

Making the right decision at the right time involves great entrepreneurial skill. Anybody wishing to set the correct strategy for the future needs to act both courageously and responsibly, sometimes bucking current trends and carefully exploiting opportunities as they arise. CREATON has always made decisions such as these with foresight and, as such, has achieved a whole series of milestones that have been decisive in the history of the company and will be a positive influence in the future. In this chapter we wish to highlight some of these milestones.

Two long-standing companies merge

From the very outset team spirit determined the fortunes of CREATON AG. Berchtold and Ott, the two families of entrepreneurs that established their tile-making companies in 1884 and 1941 respectively, decided at an early stage to work closely together, thereby paving the way for the foundation of CREATON. In 1975, this collaboration was sealed when Joseph Berchtold GmbH acquired a 52 percent stake in Ernst Ott GmbH & Co. KG. Seventeen years later, in 1992, the two companies merged to become CREATON Berchtold und Ott GmbH. This move also brought a new generation of managers to the fore, who – with the valuable support of the senior Berchtold and Ott family members – in the space of just a few years

1948 Josef Berchtold GmbH

transformed CREATON from a successful regional supplier into Germany's largest manufacturer of clay roofing tiles.

CREATON – the idea of a brand

To accompany the fusion the company was also given a new name, and the products duly branded. Since 1992 CREATON has stood for "Creative with clay" or "Natural clay sets the tone", for attractive, high-quality clay roofing tiles and a strong, innovative company. The consistent development of our brand has been an additional

The CREATON brand, 10 years "natural clay sets the tone"

important cornerstone in the company's success story. In the early 1990s the idea of a brand for the clay roofing tile industry was something completely new that caused many in the sector initially to shake their heads in disbelief. However, within just a short space of time the success we enjoyed proved us right. The CREATON brand increased public awareness of us enormously, while at the same time providing clients with the guarantee that with a CREATON tile they buy a brand product that can be relied on. The same guarantee still applies and is fleshed out by our ten compelling brand characteristics. Among other things, high quality and easy-to-lay tiles, product variety as well as exemplary eco-friendliness, cost effectiveness, and precision.

National expansion

One of our most important guidelines is to deliberately treat changes as new opportunities. For this reason we used German reunification to adopt a clear strategy of expansion in the new federal states in the East. Shortly after the Wall came down we began looking for a suitable location in Eastern Germany. In Großengottern in Thuringia we identified outstanding raw materials and investment conditions. Furthermore it was an extremely favorable base from which to lock into the building boom that took place in the new federal states in the 1990s.

Grossengottern in Thuringia, Germany, the most modern production site for clay roofing tiles in Europe

In 1992, we built our first greenfield plant in Thuringia, which went turnkey in 1993. The large-size tiles we manufactrued there sold so well that we immediately began construction of another plant, which began production two years later. This enabled us to more than double our capacity for large-size tiles such as "FUTURA" "RATIO" and "DOMINO", and continue the success story.

Hubs in the vicinity of neighboring countries

Since the 1990s we have been present nationwide in Germany. From our hubs in Bavaria, Thuringia and Saxony we are also in a prime position to further penetrate fast-growth markets outside Germany.

Going public

CREATON preferred share

Following the successful transformation from regional to nationwide supplier, further growth was an item on the CREATON agenda. In order to put our planned expansion on a sound capital base in the long term we decided to go public. In November, 1995 we issued 2.8 million preferred shares without voting rights at a price of DM 42 (EUR 21.47) on the second-tier markets on the stock exchanges in Frankfurt/Main and Munich. The IPO not only strengthened our financial foundations, but also general awareness of the CREATON brand. Despite the highs and lows that both the exchanges and the industry experienced over the next few years, the CREATON share remained an interesting investment.

Roofs for Europe and the world

While the German building industry was increasingly lagging, we intensified our activities outside the country, making us, yet again, pioneers in the sector. Initial export success came in 1993, after which sales revenues outside Germany grew continuously. Using our Central European neighbors as a stepping stone we began increasing our focus on Eastern and South-Eastern Europe, in other words regions with great potential, given their forthcoming accession to the EU. Alongside Austria, Italy and Switzerland, Hungary, Poland and Slovenia were soon among our most important export markets. Even outside

Palace in Warsaw, Poland, "SINFONIE" tile natural red

Europe the name CREATON increasingly became associated with an attractive, high-grade and safe roof. Several large historical buildings and prestigious objects were given new CREATON roofs, for example the Royal Castle in Warsaw, the Holocaust Museum in Budapest, the Hofbräuhaus in Las Vegas, and the Buddhist School in Singapore. Subsequently an increasing number of private developers worldwide began placing their trust in our brand. Today around 29 percent of total sales revenues are sourced outside Germany, a success story in which not least our skilled, highly motivated marketing team have played a part.

"Hofbräuhaus" in Las Vegas, USA, Biber tile "KLASSIK" natural red

Holocaust Museum in Budapest, Hungary,
"KERA-BIBER" bright red streaked

Bringing color to roofs

Despite being in the doldrums, the German building industry remained the No. 1 European market and our major sales region. By means of new ideas and innovative products CREATON succeeded in standing its ground in difficult times and even increased its market share. One of the things that was instrumental in this context was the color campaign we launched in the early 1990s. For centuries German roofs had been dominated by nothing other than traditional reds and browns. In the late 20th century, CREATON set a new trend in favor of roofs with more color. Together with color designer Friedrich Ernst

Church "St. Nikolaus" in Friedrichshafen, Germany,
Biber tile "NOBLESSE"

von Garnier we developed the "NOBLESSE" collection, which boasts 60 coordinated colors for our plain tiles. New color varieties for standard and large tiles followed. And the result? Today we book around 80 % of total sales revenues with colored glazed or engobe slipped products. This has marked a real revolution in the roofing market, for which CREATON initially came in for much criticism, but which is now unstoppable.

New facility in Saxony the gateway to Eastern Europe

Given the increasingly stiff competition in the industry, only companies of a certain size will be able to survive in the long term. In addition to self-generated growth, our strategy has also involved acquiring other companies, provided they are suitable. In 1998, we had the rare opportunity to buy up a clay tile-producing company that boasted suitable, modern capacity – in the form of the Ströher Group. We seized the opportunity, thereby adding

Production site in Guttau, Saxony, Germany

two modern clay roofing tile plants in Saxony to our production network. In the years that followed we quickly expanded the hub in Saxony, successfully integrating it into our Group. We manufacture particularly sturdy models there, such as "KERA-BIBER" and "KERA-PFANNE", which complement our product range admirably. Furthermore, located close to the Polish border, the facility is ideally suited to targeting this high-growth neighbor even more intensively.

XXL clay roofing tile

Successful innovations need not only to be of a particularly high quality and have an aesthetic appeal, they must also be cost-effective. At the turn of the century, in response to this requirement, CREATON introduced a totally new product: the "MAGNUM" large-size tile. In doing so, we once again embarked on a course destined to spawn further growth, because the huge size of "MAGNUM" means that for one square meter of roof only 8.5 tiles are required. Roofers can thus lay the tiles more quickly, saving them time and money. This greater cost efficiency has enabled us to access new market segments in which mainly cheaper materials had previously been used. For the manufacture of "MAGNUM" we built a third plant at the Großengottern facility, thereby creating Europe's most modern clay roofing tile production site.

Special ceramic products: a second mainstay

In order to tap new client groups for a few years now we have been relying on a second mainstay: special ceramic products for facades and floors. Our "TONALITY" facade system lends itself admirably to designing all types of buildings, combines aesthetic appeal with functionality and is increasingly being used in large-scale building projects both inside and outside Germany. The second special product, the CREATON screed replacement tile is an interesting alternative to traditional paving and, in addition, saves developers time, as it is ready to be walked on in a particularly short space of time. We initially manufactured both products in our existing plain tile plants but their success in the market soon persuaded us to establish a new site specifically for their production. To this end in 2004 we acquired a ceramic production facility in Weroth (Rhineland-Palatinate), which afforded us totally new opportunities for these niche products. We pooled our facade and screed paving activities in our new Competence Center for Special Ceramic Products. We have also benefited from the region's valuable raw materials as well as the excellent production plant which we acquired and then expanded in line with our requirements. Considerably larger formats and a wider selection of colors have enabled us to clearly strengthen our position in the facade sector.

Ultra-modern roller kiln in our plant Weroth, Rhineland-Palatinate, Germany

Production for new markets outside Germany

As a result of significant increase in the business we conduct outside Germany, this has become appreciably more important over the past few years. In particular we have been able to vastly improve our position in the fast-growing market of South-Eastern Europe. For this reason we decided to erect our first plant outside Germany: in Lenti, in the south-west of Hungary. In addition to its strategically favorable location close to the borders of four countries, namely Austria, Croatia, Hungary and Slovenia,

Lenti, Hungary, ultra-modern plant for plain tiles and extruded roof tiles

the outstanding quality of the raw materials in the region and its economic stability were both deciding factors in the choice of the site. Following extensive planning and trials, construction work commenced in the summer of 2004, with the Lenti plant going turnkey as early as April, 2005. The clay roofing tiles produced there are supplied exclusively to markets outside Germany. As such the new facility is in no way competing with production sites in Germany, which it admirably complements. Given that we aim to intensify our activities outside Germany over the coming years our first plant outside the country likewise represents a further strategic milestone for CREATON.

Strong partner for future growth

Any company in our line of business wishing to enjoy success in the future needs to expand quickly and on an international basis. And a prerequisite for this is an extremely solid financial footing that also enables far-reaching investment decisions to be taken at short notice. For this reason our expansion plans are easier to realize together with a strong partner. The Berchtold and Ott families, the founders and for several years owners of CREATON, shared this opinion and in November, 2005 sold their stake in CREATON to Etex, a construction materials holding company with international operations. The new majority shareholder is the ideal partner for us, enabling us to boost our market position in Germany and put the company on a firmer footing in other countries. As such, as far as the future of CREATON is concerned all lights are once again showing green.

Report of the Supervisory Board

Sehr geehrte Aktionäre,

Dear Shareholders,

For CREATON AG 2005 was a year when key strategic decisions for the future were taken. Turnkey of our first plant outside Germany and the entry of a new majority shareholder both comprised significant steps that will help shore up the Company's future. At the operating end, given ongoing difficult market conditions last year, CREATON faced major challenges that we once again mastered very successfully. One crucial factor was also the constructive and highly motivated efforts of all the staff and the Management Board and we would like to take the opportunity to thank the entire CREATON team for their outstanding performance.

In keeping with the duties incumbent upon it according to the statutes and applicable law, the Supervisory Board duly monitored the work of the Management Board in 2005 on an ongoing basis and provided advice wherever called for. We received oral and written reports that kept us constantly and fully abreast of business developments. The Management and Supervisory Boards remained in constant contact.

In the framework of the four ordinary Supervisory Board meetings in business 2005 we exhaustively analyzed and empirically examined all key issues of business policy, in particular the Company's business and financial position and current status, important business events, the financial, investment and human resource planning, and all major decisions and items of business requiring our approval. We discussed all these matters and then went into them in detail with the Management Board. In business 2005, the Supervisory Board on several occasions made use of its right to consult the Company's books, documentation and assets.

Furthermore, the Supervisory Board monitored advances to CREATON corporate governance and adherence to the recommendations of the German Corporate Governance Code. The declaration of compliance pursuant to section 161 AktG issued by the Management and Supervisory Boards is permanently available to shareholders via our www.creaton.de Web site, where it is to be found in the Investor Relations sections under mandatory disclosures.

Of the Supervisory Board's Balance Sheet Affairs, Audit, Personnel and Planning comittees, in the period under review the Balance Sheet Affairs committee an the Audit committee convened once.

Meetings: the main points covered

At our first Supervisory Board meeting on April 27, 2005 the focus was on examining and discussing the annual financial statements for 2004. Moreover, we informed ourselves in particular on production turnkey at the new plant in Lenti, Hungary, which had taken place on April 15, 2005 with the traditional kiln-firing ceremony. At our second meeting on June 24, 2005 we primarily concerned ourselves with the cost-cutting measures to offset the further squeeze on prices. Other topics addresses were the current status of the Lenti plant and possible activities to make up by the end of the year for the sales shortfall seen in the first few months. In our third meeting on September 23, 2005 we discussed, among other things, the ongoing difficult competitive conditions. Moreover, we assessed and discussed concepts for expanding the two Lenti and Weroth hubs. An important topic at the last meeting of the year, on December 21, 2005, was the new shareholder structure and the future incorporation of CREATON AG into the international Etex Group. Furthermore, we appraised and discussed the budget figures for 2006 and studied the statement to be issued by the Management and Supervisory Boards on the takeover offer Etex made to the freefloat shareholders.

Audit of the annual financial statements

The Supervisory Board commissioned AWT Audit Wirtschafts-Treuhand AG, the auditors elected by the General Meeting, to audit the annual financial statements. The annual financial statements of CREATON AG have been prepared in line with the principles of HGB, the consolidated annual financial statements in line with International Financial Reporting Standards (IFRS). AWT has audited the accounting, the Company annual financial statements, the consolidated annual financial statements and the joint Management Report for the Company for business 2005 and issued an unqualified opinion on each.

The annual financial statements, the consolidated annual financial statements and the joint Management Report for the Company and the Group as well as the audit opinion by the independent auditors and the proposal on the allocation of retained earnings were all made available in due time to all members of the Supervisory Board and were duly examined by them. The documents mentioned were closely and exhaustively discussed by the Supervisory Board at the meeting on the annual financial statements convened on March 15, 2006 in the presence of the auditors, who reported on the key findings in their audit opinion. We concur with the findings of the audit. Following conclusion of our own examination, we have no objections to raise against the annual financial statements, the consolidated annual financial statements, the joint Management Report for the Company and the Group, and the proposal on the allocation of the retained earnings. At our meeting of March 15, 2006 we therefore approved the annual financial statements of CREATON AG and the consolidated annual financial statements as prepared by the Management Board. The annual financial statements of CREATON AG are thereby considered adopted.

Relations with affiliated companies

The Management Board has compiled a report on relationships to affiliated companies and presented it to the Supervisory Board along with the audit opinion prepared by the independent auditors. The auditors issued the following unqualified opinion on it:
“After our due examination and in our judgment, we hereby confirm that the factual information given in said report is correct and that the consideration provided by CREATON AG in the context of the legal transactions listed in the report was not inappropriately high.”

The auditors participated in the Supervisory Board discussions on the report on relationships to affiliated companies and reported on the key findings in its audit opinion. The Supervisory Board’s examination of the report on relationship to affiliated companies and the audit opinion prepared by the independent auditors gave rise to no objections; the Supervisory Board concurs with the findings of the independent auditors. Following its conclusive examination, the Supervisory Board raised no objections to the declaration by the Management Board at the end of the report on relationships to affiliated companies.

Personal

In the framework of our new shareholder structure, various changes were made to the membership of the Supervisory Board. After the sale of their shares, on December 8, 2005 the representatives of the founding families, Dr. Rainer Berchtold, Mr. Markus Berchtold and Mr. Christoph Schwarz, all resigned from the Board. We would like to thank them cordially for their constantly constructive and sterling efforts on behalf of the Board. With effect from December 13, 2005 Messrs Philippe Coens, Frederic Deslypere and Alfons J. Peeters were appointed by the court as new Supervisory Board. We would like to welcome them on board and look forward to working together with them. On November 25, Mr. Joachim Treibl retired from the Supervisory Board as the employees' representative as he had terminated his employment contract with CREATON. We likewise wish to thank him for his constructive contribution to the Board's work. The CREATON staff will elect a new representative.

Wertingen, March, 2006
The Supervisory Board

Professor Dr. Norbert Wieselhuber

Members of the Supervisory Board

Professor Norbert Wieselhuber, Munich (Chairman)
Managing Partner of Dr. Wieselhuber & Partner GmbH, Munich

J. Alfons Peeters, Mechelen, Belgium (Deputy Chairman, as of Dec. 13, 2005)
Head of the European Division of the Etex Group S.A., Brussels, Belgium
CEO of Eternit AG, Heidelberg
Managing Director of Pfleiderer Dachziegel GmbH, Winnenden

Dr. Rainer Berchtold, Wertingen (Deputy Chairman, until Dec. 8, 2005)
Managing Partner of Financial Consulting Services GmbH, Wertingen
Chairman of the Supervisory Board of Springer AG Management Consultants, Königstein

Markus Berchtold, Wertingen (until Dec. 8, 2005)
Graduate in business engineering

Ivanka Burger, Blaustein
Employees' representative
Member of staff in the Export Department at CREATON AG, Wertingen

Philippe Coens, Tervuren, Belgium (as of Dec. 13, 2005)
Managing Director, Chairman of the Executive Committee of the Etex Group S.A., Brussels, Belgium
Member of the Supervisory Board of Eternit AG, Heidelberg

Frédéric Deslypere, Brussels, Belgium (as of Dec. 13, 2005)
Company Secretary of the Etex Group S.A., Brussels, Belgium
Member of the Advisory Board of Promat GmbH, Ratingen

Christoph Schwarz, Ziemetshausen (until Dec. 8, 2005)
Engineer

Joachim Treibl, Mühlhausen-Felchta (until Nov. 25, 2005)
Employees' representative
Head of the Loading Bay at CREATON AG, Wertingen

Church in Harburg, Germany, ▷
Biber tile "KLASSIK" natural red

01_Commercial building in Potsdam, Germany, "DOMINO" tile grey engobe slipped, 02_Private House in Mozirje, Slovenia, Biber tile "KLASSIK" copper red engobe slipped, 03_Church in Illereichen, Germany, Biber tile "NOBLESSE", 04_Private House in Hohenstein, Germany, "FUTURA" tile grey engobe slipped, 05_Church in Szedged, Hungary, Biber tile "KLASSIK" natural red, 06_Private House in Welschensteinach, Germany, Biber tile "NOBLESSE", 07_School in Hochdorf, Switzerland, "KERA-PFANNE" brown matt sintered, 08_Private House in Sinn-Fleisbach, Germany, "KERA-PFANNE" anthracite sintered/engobe slipped, 09_Buddhism Center in Gretzen-bach, Switzerland, Biber tile "NOBLESSE"/"FINESSE", 10_Private House in Sinn-Fleisbach, Germany, "KERA-PFANNE" anthracite sintered/engobe slipped, 11_Office building "Krzywy Domek" in Sopot, Poland, Biber tile "NOBLESSE"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12_Private House in Obermumpf, Switzerland, "KERA-BIBER" tile bright blue streaked, 13_Private House in Barendrecht, Netherlands, "DOMINO" tile grey engobe slipped, 14_Private House in Flensburg, Germany, "MAGNUM" tile anthracite engobe slipped, 15_Private House in Revfülöp, Hungary, "KERA-BIBER" tile bright blue streaked, 16_Private House in Solms-Oberndorf, Germany, "KERA-PFANNE" anthracite sintered/engobe slipped, 17_Condominium in Linz, Austria, "DOMINO" tile natural red, 18_Church in Munningen, Germany, Biber tile "NOBLESSE", 19_Private House in Stuttgart, Germany, Biber tile "KLASSIK" natural red, 20_Commercial building in Unterinn, Germany, Biber tile "PROFIL" earth coloured engobe slipped, 21_Nursing home in Mühlhausen, Germany, "FUTURA" tile grey engobe slipped, 22_Town-Hall in Plauen, Germany, Biber tile "MANUFAKTUR", 23_Church in Gorica, Slovenia, Biber tile "KLASSIK" brown engobe slipped


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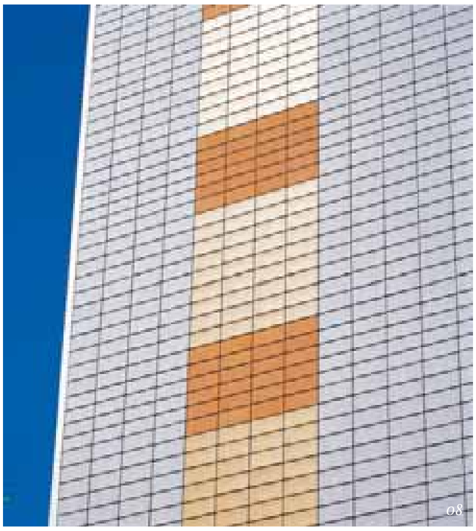
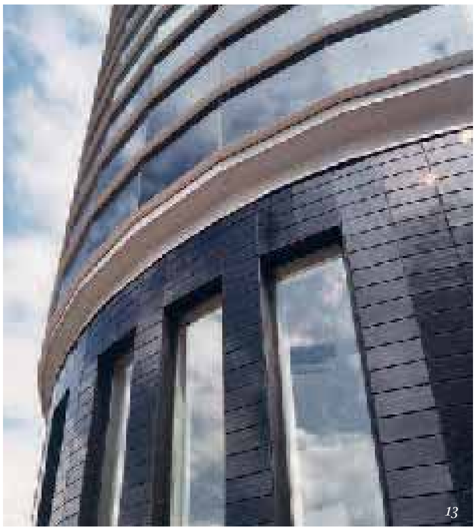

08


09


10

01_School in Steinkirchen, Germany, "TONALITY"-"COLOR" colour FR03 natural red, 02_Business Park Katzberg in Langenfeld, Germany, "TONALITY"-"CLASSIC" colour light grey, 03_Office building in Gouda, Netherlands, "TONALITY"-"COLOR" in different glazes/engobes, 04_Turkish Business Center in Moskow, Russia, "TONALITY"-"CLASSIC" special colour sahara-white, 05_BICC-Tower in Frankfurt am Main, Germany, "TONALITY"-"CLASSIC" colour orange, 06_Private House in Ravensburg, Germany, "TONALITY"-"COLOR" colour april03, 07_Business Park Katzberg in Langenfeld, Germany, "TONALITY"-"CLASSIC" colour light grey, 08_Multi-storey residence in Salzburg, Austria, "TONALITY"-"COLOR" in glazed colours, 09_Runde Turmstrasse in Darmstadt, Germany, "TONALITY"-"COLOR" colour FR3 natural red, 10_Appartment house in Giengen, Germany, "TONALITY"-"CLASSIC" colour beige



11_Condominium in Bonn, Germany, "TONALITY"-"COLOR" colours FO02 and FR5, 12_Tram depot in Hannover, Germany, "TONALITY"-"COLOR" colour FR03 natural red, 13_Digital World in Manchester, Great Britain, "TONALITY"-"COLOR" colour black glazed, 14_Chalet furniture store in Wiesbaden, Germany, "TONALITY"-"CLASSIC" colours beige and brick-red, 15_Edinburgh Park in Edinburgh, Great Britain, "TONALITY"-"COLOR" colour manganese-anthracite, 16_Juridicum Heinrich Heine University in Düsseldorf, Germany, "TONALITY"-"CLASSIC" colour grey, 17_Condominium in Berlin, Germany, "TONALITY"-"COLOR" colour FR03 natural red, 18_Juridicum Heinrich Heine University in Düsseldorf, Germany, "TONALITY"-"CLASSIC" colour grey, 19_P&C in Lübeck, Germany, "TONALITY"-Baguette tile special colour sand beige, 20_Logistics hall in Grossengottern, Germany, "TONALITY"-"COLOR" in different colours, 21_Office building in Tokyo, Japan, "TONALITY"-"COLOR" special colour, 22_Hospital in Buchen, Germany, "TONALITY"-"CLASSIC" and Baguette tile colour toscana

Annual financial statements of the CREATON Group

◁ Church in Szombathely, Hungary,
"KERA-BIBER" bright red streaked

Balance sheet as at December 31, 2005

(PRIOR-YEAR FIGURES FOR COMPARISON)

ASSETS	Note	Dec. 31, 2005/EUR 000	Dec. 31, 2004/EUR 000
Fixed assets	(1)		
Intangible assets			
Concessions, industrial and similar rights and assets as well as licenses to such rights and assets		2,644	2,860
Tangible assets			
Land, similar rights and buildings, including buildings on third-party land		64,276	58,593
Technical plant and machinery		79,092	73,911
Other plant, operating and office equipment		6,219	6,802
Prepayments made and work in process		291	9,785
Financial assets			
Shares in affiliated companies		0	1
Shares in associated companies		0	21
Loans to associated companies		750	750
Other loans		1,114	0
Deferred tax claims	(2)	3,572	3,779
		157,958	156,502
Current assets	(3)		
Inventories			
Raw materials and supplies		7,124	5,579
Work in progress, unfinished services		807	596
Finished goods and merchandise		18,866	16,849
Receivables and other assets	(4)		
Trade accounts receivable		3,346	4,169
Receivables from associated companies		59	63
Other current receivables		2,324	3,281
Other financial assets		12	12
Tax refund claims		54	0
Cash and cash equivalents	(5)	1,409	2,010
Prepaid expenses	(6)	104	177
		34,105	32,736
		192,063	189,238

LIABILITIES	Note	Dec. 31, 2005/EUR 000	Dec. 31, 2004/EUR 000
Share capital			
Subscribed capital	(7)	16,340	16,128
Capital reserve	(8)	29,457	28,157
Revenue reserves	(9)	20,403	18,203
Cumulative other share capital	(10)	23,355	23,718
		89,555	86,206
Long-term debts	(11)		
Pension accruals		5,424	5,309
Other long-term accruals		2,238	1,821
Liabilities due to banks		32,517	34,065
Public-sector grants and subsidies		8,488	8,501
Deferred tax liabilities	(12)	24,446	23,540
		73,113	73,236
Current liabilities	(13)		
Liabilities due to banks		9,524	9,481
Prepayments received on orders		32	0
Trade accounts payable		6,676	8,543
Other current liabilities		5,755	5,874
Tax accruals		1,420	1,758
Other accruals		5,988	4,139
Deferred charges	(14)		
Public-sector grants and subsidies		0	0
Other deferred items		0	1
		29,395	29,796
		192,063	189,238
Contingent liabilities	(27)	740	1,257

Income statement

for the period January 1 – December 31, 2005

(prior-year figures for comparison)

	Note	2005/EUR 000	2004/EUR 000
Sales revenues	(15)	134,874	133,147
Increase/(decrease) in			
finished goods and work in progress	(16)	2,414	2,620
Other own output capitalized	(17)	0	21
Other operating income	(18)	4,621	2,736
Total output		141,909	138,524
Cost of materials	(19)	(33,757)	(30,020)
Gross profit		108,152	108,504
Personnel expense	(20)	(35,459)	(34,610)
Scheduled amortization/depreciation	(21)	(12,538)	(12,941)
Other operating expense	(22)	(45,955)	(46,564)
Operating profit		14,200	14,389
Income from other securities and loans			
from financial assets	(23)	137	227
Other interest and similar income		27	88
Loss attributable to associated companies			
carried at equity		(21)	(41)
Amortization on financial assets and			
marketable securities		0	(190)
Interest and similar expense		(2,515)	(2,769)
Earnings from ordinary activities		11,828	11,704
Taxes on income	(24)	(4,516)	(5,313)
Consolidated net income for the year		7,312	6,391
Profit carried forward		23,846	23,432
Dividends		(5,481)	(4,977)
Allocation to revenue reserves		(2,200)	(1,000)
Retained earnings		23,477	23,846

CREATON Group

Cash flow statement

for the period January 1 – December 31, 2005

(prior-year figures for comparison)

	2005/EUR 000	2004/EUR 000
Operating activities		
Consolidated net income for the year	7,312	6,391
Amortization/depreciation on fixed assets	12,538	13,131
Allocations to fixed assets	(1,765)	0
Change in deferred tax assets and liabilities	1,113	1,523
Increase/(decrease) in accruals	2,043	3,021
Allocation to/(write-back of) public-sector grants	(13)	(555)
(Profit)/loss attributable to associated companies	21	41
(Profit)/loss from the disposal of fixed assets	0	(257)
(Increase)/decrease in inventories, trade receivables and other assets that cannot be classified as investing or financing activities	(1,720)	(2,141)
Increase/(decrease) in trade accounts payable and other liabilities that cannot be classified as investing or financing activities	(1,955)	(747)
Cash flow from current operating activities	17,574	20,407
Investing activities		
Receipts from disposals of intangible assets	1	1
Payments for investments in intangible assets	(536)	(303)
Receipts from disposals of tangible assets	58	624
Payments for investments in tangible assets	(12,866)	(17,574)
Receipts from disposals of financial assets	500	0
Payments for investments in financial assets	(99)	(190)
Cash flow for investing activities	(12,942)	(17,442)
Financing activities		
Dividends	(5,481)	(4,977)
Sale of own shares	1,512	0
Receipts from taking up credits	6,321	5,679
Payments for redeeming credits	(6,479)	(7,351)
Cash flow for financing activities	(4,127)	(6,649)
Change in cash impacting on the income statement	505	(3,684)
Change in cumulative other share capital not impacting on the income statement	6	(95)
Exchange-rate differences	236	0
Cash and cash equivalents at the beginning of the period	(990)	2,789
Cash and cash equivalents at the end of the period	(243)	(990)

Schedule of movements in fixed assets and value impairments

for the period January 1 – December 31, 2005

	PURCHASE/PRODUCTION COSTS					
	Status as at Jan. 1, 2005 EUR 000	Exchange-rate difference EUR 000	Additions EUR 000	Disposals EUR 000	Reclassifications EUR 000	Status as at Dec. 31, 2005 EUR 000
Intangible assets						
Concessions, industrial and similar rights and assets as well as licenses to such rights and assets	8,390	0	536	12	29	8,943
Tangible assets						
Land, similar rights and buildings, including buildings on third-party land	93,534	(11)	2,489	0	5,360	101,372
Technical plant and machinery	181,033	0	8,730	1	4,136	193,898
Other plant, operating and office equipment	45,443	(1)	1,324	547	(24)	46,195
Prepayments made and work in process	9,785	(227)	292	58	(9,501)	291
Minor-value assets	8	0	31	39	0	0
	329,803	(239)	12,866	645	(29)	341,756
Financial assets						
Shares in affiliated companies	1	0	0	1	0	0
Shares in associated companies	62	0	0	0	0	62
Loans to associated companies	750	0	0	0	0	750
Other loans	3,983	0	99	2,582	(250)	1,250
	4,796	0	99	2,583	(250)	2,062
	342,989	(239)	13,501	3,240	(250)	352,761

VALUE ADJUSTMENT							NET BOOK VALUE	
Status as at Jan. 1, 2005 EUR 000	Exchange-rate difference EUR 000	Additions EUR 000	Allocations EUR 000	Write-backs EUR 000	Reclassi-fications EUR 000	Status as at Dec. 31, 2005 EUR 000	Status as at Dec. 31, 2005 EUR 000	Status as at Dec. 31, 2004 EUR 000
5,530	0	777	0	11	3	6,299	2,644	2,860
34,941	(2)	2,157	0	0	0	37,096	64,276	58,593
107,122	(2)	7,685	0	1	2	114,806	79,092	73,911
38,641	(1)	1,888	0	547	(5)	39,976	6,219	6,802
0	0	0	0	0	0	0	291	9,785
8	0	31	0	39	0	0	0	0
180,712	(5)	11,761	0	587	(3)	191,878	149,878	149,091
0	0	0	0	0	0	0	0	1
41	0	21	0	0	0	62	0	21
0	0	0	0	0	0	0	750	750
3,983	0	0	1,765	2,082	0	136	1,114	0
4,024	0	21	1,765	2,082	0	198	1,864	772
190,266	(5)	12,559	1,765	2,680	0	198,375	154,386	152,723

SCHEDULE OF CHANGES IN THE SHARE CAPITAL

STATUS AS AT DECEMBER 31, 2005

(PRIOR-YEAR FIGURES FOR COMPARISON)

	Subscribed capital EUR 000	Capital reserve EUR 000	Revenue reserves EUR 000	Cumulative other share capital EUR 000	Total EUR 000
Status as at Dec. 31, 2003	16,128	28,157	17,203	23,399	84,887
All income and expenses entered under share capital	0	0	0	6,296	6,296
Dividends paid	0	0	0	(4,977)	(4,977)
Allocation to revenue reserves	0	0	1,000	(1,000)	0
Status as at Dec. 31, 2004	16,128	28,157	18,203	23,718	86,206

	Subscribed capital EUR 000	Capital reserve EUR 000	Revenue reserves EUR 000	Cumulative other share capital EUR 000	Total EUR 000
Status as at Dec. 31, 2004	16,128	28,157	18,203	23,718	86,206
All income and expenses entered under share capital	0	0	0	7,318	7,318
Dividends paid	0	0	0	(5,481)	(5,481)
Allocation to revenue reserves	0	0	2,200	(2,200)	0
Sales of own shares	212	1,300	0	0	1,512
Status as at Dec. 31, 2005	16,340	29,457	20,403	23,355	89,555

LIST OF ALL INCOME/(EXPENSES) INCLUDED UNDER SHARE CAPITAL

STATUS AS AT DECEMBER 31, 2005

(PRIOR-YEAR FIGURES FOR COMPARISON)

	2005/EUR 000	2004/EUR 000
Consolidated net income for the year	7,312	6,391
Market valuation adjustments for financial instruments	42	(99)
Exchange-rate differences	(36)	4
	7,318	6,296

CREATON Group
Notes to the financial statements
as at December 31, 2005

A. PRINCIPLES AND METHODS

By virtue of being a capital-market-oriented company, according to article 4 of the EC regulation no. 1606/2002 issued on July 19, 2002, CREATON AG is obliged to apply international accounting standards when preparing its consolidated annual financial statements.

The consolidated annual financial statements of CREATON AG and its subsidiaries have been drawn up pursuant to the International Financial Reporting Standards (IFRS). The IFRS also include the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and/or those of the former Standing Interpretations Committee (SIC).

All standards valid for business years commencing on January 1, 2005 or thereafter and that have been adopted by the EU in EU legislation have been considered. Supplementarily the regulations of section 315a para. 1 HGB were taken into account when applying selected regulations under section 160 AktG. In the CREATON Group not all these deviations come to bear.

The IFRS govern the accounting and valuation methods outlined below that deviate in principle from German Commercial Law.

In the CREATON Group not all these deviations come to bear.

- Translation of foreign-exchange receivables and liabilities at the exchange rate valid on December 31, with the resulting differences in values being factored into the income statement
- Intangible assets that are own output are carried in the balance sheet
- Profits booked on a pro-rated basis in line with project progress shall be considered realized in the case of longer-term client orders
- Long-term accruals are entered at cash value
- Other accruals are not formed to the extent that the probability of their being used is less than 50 percent
- Entry of deferred taxes in line with the balance-sheet-oriented liabilities method; deferred tax claims from fiscal loss carryforwards are carried as assets
- Capitalization of the assets and entry of the remaining liabilities as liabilities in the case of financing leasing contracts in line with the classification criteria of IAS 17
- Valuation of pension accruals according to the projected unit credit method and considering future salary trends and the corridor rule pursuant to IAS 19
- Valuation of financial instruments with the exception of loans extended and receivables or of financial instruments held until final maturity at the applicable market value
- No scheduled amortization shall be charged on goodwill that results from corporate mergers, applying IFRS 3 (2004) in connection with the annual value impairment test pursuant to IAS 36 (2004)
- Share-based emoluments shall be booked to the income statement pursuant to IFRS 2 (2005)
- Errors shall be corrected without this affecting the income statement; the same policy shall be applied to the impact of changes in accounting and valuation methods
- Assets which the company plans to sell shall be carried and valued separately

B. SCOPE OF CONSOLIDATION

The scope of consolidation includes CREATON AG as the parent company, two domestic and four foreign companies (in the prior year two domestic and three foreign companies).

The scope of consolidation includes the following companies:

Company	Shareholders	Capital stock		%	Profit/loss 2005 EUR 000
Germany					
CREATON AG, Wertingen	Ordinary shareholders	EUR 000	10,752	60	7,295
	Preferred shareholders	EUR 000	7,168	40	
CREATON Beteiligungs-GmbH, Wertingen	CREATON AG	EUR 000	27	100	3
CREATON KERA-DACH					
GmbH & Co. KG, Wertingen	CREATON AG	EUR 000	1,100	100	2,121
	CREATON Beteiligungs-GmbH				
Austria					
CREATON GmbH, Vienna	CREATON AG	EUR 000	36	100	422
Poland					
CREATON POLSKA Sp. z o.o., Warsaw	CREATON AG	Zl 000	50	100	(2)
– no current operations –					
Hungary					
CREATON HUNGARY Kft., Lenti	CREATON AG	Ft. 000	29,000	100	(331)
CREATON TRADE Kft., Lenti	CREATON HUNGARY Kft.	Ft. 000	41,000	100	(18)

The profit/loss for the year stated is given in line with the values calculated using the regulations in the respective country.

Changes in the scope of consolidation

In business 2005, CREATON POLSKA Sp. z o.o., Poland, was for the first time included in the consolidation as part of the preparations for its operating activities to commence. In prior years, it was not included in the consolidation as it only had a subordinate impact on the assets, financial and earnings position of the CREATON Group.

Impact of changes in the scope of consolidation

Owing to first-time inclusion of CREATON POLSKA Sp. z o.o., Poland, in the consolidation, other assets have risen by EUR 2 thousand. No other impact was seen.

Participations and associated companies

CREATON KERA-DACH GmbH & Co. KG, holds 50 percent of the shares in Oberlausitzer Tonbergbau GmbH. The company is carried at equity.

There are no other direct or indirect CREATON AG participations that require reporting.

There were no reciprocal relationships between the companies included in the consolidated annual financial statements.

C. CONSOLIDATION METHODS

All key subsidiaries that come under the legal or factual control of CREATON AG have been fully included in the consolidation for the consolidated annual financial statements. Joint ventures and associates in which between 20 percent and 49 percent of the capital stock is owned and over which CREATON can potentially exercise a material influence are entered at equity. Other participations are carried at purchase cost. A list of the subsidiaries is given above.

In the case of first-time consolidation of subsidiaries the purchase costs of the participations are juxtaposed to the consolidated value of the stake in the equity of the respective company at the time of the acquisition. The new valuation method pursuant to IFRS (2004) is applied here. When defining the share capital subject to the consolidation, all hidden reserves and encumbrances were disclosed. Minority holdings are carried over at market value. Any remaining differences between purchase cost and the re-valued pro-rated equity gives rise to a difference in assets or liabilities. A capitalized difference from capital consolidation is carried as goodwill. Scheduled depreciation is not charged. Annual value impairment tests are made to ascertain the development of the exploitation of the market position gained through the respective merger and potential of the company to add value. In the case of there being a need for a value impairment, this is charged to the income statement as an expense from the amortization of goodwill. Negative differences are entered as earnings. As part of subsequent consolidation, the hidden reserves and encumbrances disclosed are carried over and amortization charged/or written off in line with the treatment of the corresponding assets and debts.

For Company acquisitions that occurred prior to the first-time application of IFRS 3 (2004), the historical consolidation methods are retained.

In the case of portfolio companies carried at equity, the purchase cost is each year raised or lowered in line with the changes in equity capital of the associated company attributable to the CREATON Group. The allocation or carry-over of a difference in the valuation of the participation between the purchase cost of the participation and the pro-rated equity capital of the company, the principles applicable to full consolidation are accordingly applied.

The impact of intra-Group business transactions has been eliminated. Intra-Group receivables and liabilities are netted, interim earnings and losses in the assets and inventory assets eliminated, intra-Group income netted against the corresponding expenses. No interim earnings under inventory assets were eliminated owing to their immaterial value. Pursuant to IAS 12, tax deferrals are charged for temporary differences arising from the consolidation.

To the extent that this concurs with IFRS 1 the consolidation methods were retained.

IAS 27 has been revised by the International Accounting Standards Board (IASB) and is applied for the first time in the new form by the CREATON Group in business 2005. Henceforth, all subsidiaries shall be included in the consolidated annual financial statements and prohibitions on consolidation (e.g., if there is an intention to sell the participation on) have been cancelled. Accounting and valuation methods shall henceforth always be applied uniformly, and no exceptions to this principle are allowed any longer. The changed regulations did not lead to any alterations to the consolidated annual financial statements.

D. CURRENCY TRANSLATION

In the consolidated annual financial statements, the annual financial statements of the non-German Group member companies are translated into EUR in line with the functional-currency concept. The functional currency is derived from the primary economic area in which the respective company is active. In the CREATON Group the functional currency is the respective local currency. This method translates the individual balance-sheet items at the middle exchange rate valid on December 31. Equity capital items for the non-German subsidiaries are translated at the historical rates at the date of first-time inclusion in the consolidation. Currency translation for items in the income statement is effected at the average exchange rate for the year. Differences arising from currency translation are entered under equity capital and not charged to the income statement.

The functional currency of the Hungarian subsidiaries included in the consolidation is Hungarian forint. The exchange rate on December 31, 2005 was Ft. 251.8891 per EUR 1.00 (prior year: Ft. 245.9419), the average exchange rate for the year was Ft. 247.8220 per EUR 1.00 (prior year: Ft. 251.4701).

The functional currency for the Polish subsidiary included in the consolidation is Polish zloty. The underlying exchange rate at year-end 2005 was Zl 3.8634 per EUR 1.00 and the average rate for the year Zl 4.03355 per EUR 1.00.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" was revised by IASB and was applied by the CREATON Group for the first time for business 2005 in the revised form. In future, disclosed hidden reserves and goodwill that has arisen from the acquisition of foreign subsidiaries will be carried over in the functional currency of the subsidiary and translated at the respective December 31 exchange rate without this impacting on the exchange rate. To date the CREATON Group has availed itself of the option of carrying these values forwards in the reporting currency, a policy that has now been discontinued. The revised regulation is applied to all company acquisitions as of business 2005. The disclosed hidden reserves and goodwill carried through financial 2004 will, as in the past, be carried over in EUR.

E. ACCOUNTING AND VALUATION POLIICIES

The annual financial statements of the companies included in the consolidated annual financial statements are drawn up according to uniform accounting and valuation principles, and these were also applied in the previous financial year. To this end, financial statements prepared according to country-specific regulations are adjusted to conform to the Group-wide uniform accounting and valuation policies of the CREATON Group, to the extent that they do not concur with IAS/IFRS and the discrepancies in the valuations are material.

Standards and interpretations to be used for the first time

The IASB regularly issues new and/or revised standards and interpretations. To the extent that there are no specific transitional stipulations for these regulations, the changes they necessitate shall in principle be applied retrospectively. The opening balance-sheet value of the share capital and comparable values shall to this end be adjusted as if the new accounting and valuation method had always been used.

For financial year 2005 essentially the following new and/or revised regulations were applied for the first time:

- IAS 1 Presentation of the financial statements
- IAS 8 Accounting and valuation methods, changes to accounting estimates and errors
- IAS 16 Tangible assets
- IAS 32 Financial instruments: disclosure and presentation
- IAS 39 Financial instruments: recognition and measurement

The IASB has issued the following new and/or revised standards and interpretations for business years that commence on or after January 1, 2006:

- IFRS 6 Exploration for and evaluation of mineral resources
- IFRS 7 Financial instruments: disclosure
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental funds
- IFRIC 6 Liabilities arising from participating in a specific market

Mandatory application of these standards and interpretations is at the earliest for business years as of January 1, 2006. The CREATON Group is not applying these regulations ahead of time. The impact of first-time application of the new regulations to the consolidated annual financial statements for business 2006 cannot at present be reliably gauged.

Structure of the balance sheet by maturity dates

In keeping with the revised version of IAS 1, the balance sheet will as of financial 2005 be structured according to maturity dates.

To this end, assets, liabilities and accruals shall be classified as current if they are realized/consumed during the normal cycle of business or if their individual remaining term is less than 12 months after the balance-sheet date. All other items shall be classified as non-current and thus long-term.

In the item for other loans a total of EUR 250 thousand (prior year: EUR 0 thousand) was reclassified as current. Of long-term liabilities, the repayment sums for the next business year of EUR 7,871 thousand (prior year: EUR 6,481 thousand) was reclassified as being current.

Public-sector subsidies are itemized separately by maturity. Here, investment subsidies, investment grants and investment support in Hungary are entered as long-term items and emission rights are posted under current financial debt.

Financial assets

The concept of “financial assets” covers financial investments, current and long-term receivables, other securities as well as cash and cash equivalents.

According to IAS 39, financial assets shall be categorized as one of the four following items: held-till-maturity financial investments; loans and receivables; available-for-sale financial assets; and financial assets or liabilities held for trading.

These assets are capitalized at the date of fulfillment, i.e., at the date at which they arise or they become the property of the company, at the fair value, if necessary taking into account the transaction costs.

Financial investments held to maturity, as well as loans and receivables, shall be valued on the balance sheet date at the purchase cost carried forward using the effective-interest method. Should the market value of the expected future cash flow as at the balance sheet date fall below the cash value, then a value impairment shall be charged in the income statement.

Available-for-sale financial assets and financial assets or liabilities held for trading are on principle carried at the fair value. Changes in the value of available-for-sale financial assets are booked under the valuation reserve under share capital and not to the income statement; if necessary the measurement shall take account of deferred taxes. Value impairments to available-for-sale financial assets shall be charged to income for the period. Value upgradings shall not be entered in the income statement.

IAS 32 and 39 have been revised by IASB. Disclosure and presentation of financial instruments are now completely summarized in IAS 32. Recognition and measurement are regulated in IAS 39. The valuation of financial assets at fair value has partly been changed. For example, a new category of financial assets has been created that allows valuation in the income statement at the respective fair value for all financial assets. Moreover, new regulations have been defined for writing financial assets off the books. The changes in IAS 39 shall essentially be applied retroactively as of business 2005. This had no notable impact on the consolidated annual financial statements of CREATON AG.

Intangible assets

Intangible assets acquired for consideration are carried at purchase cost, intangible assets that come under own output and from which the Group will probably benefit in the future and which can be reliably valued are capitalized at production cost, and written off on schedule on a straight line basis over their useful lives. The amortization on principle assumes a useful life of 3-8 years.

Tangible assets

Material assets that are used in operations for longer than one year are carried at their purchase or production costs, less scheduled straight-line depreciation. The purchase cost includes the purchase price, directly attributable overheads as well as purchase cost reductions. Tangible assets calculated in foreign currencies are translated into EUR at the offering price valid on the day of the invoice. Production costs include all costs directly attributable to the manufacturing process as well as a suitable part of production-related overheads. Financing costs are not carried. The useful lives assumed correspond to the expected useful lives of the assets in the Group. They are re-assessed each year and if needed adjusted with effect for the future.

For buildings, a useful life of 20-50 years has been assumed. The useful life assumed for technical plant and machinery is up to 20 years. Operating and office equipment is written off over 3-20 years assuming normal use.

The revised version of IAS 16 (revised in 2004) states that each essential part of a tangible asset shall be capitalized separately and depreciated in line with its individual useful life. Major inspections are now to be carried at book value as separate purchase costs under tangible assets. This method shall prospectively be applied as of financial 2005 as it was not possible to establish the cumulative impact on prior periods beforehand owing to the fact that the data required had not been gathered.

Value impairments

Extraordinary amortization/depreciation is charged on intangible assets and tangible assets at December 31 if the “realizable sum” of the asset has fallen to below its book value. The “realizable sum” is defined as the respectively higher value of the net sales value and the cash value of the expected cash inflow from the asset.

Financial assets

Financial assets are capitalized at purchase cost on the day of fulfillment, i.e., at the date on which the asset arises or is assigned.

Financial assets are on principle carried according to IAS 39 and subdivided as follows: held-till-maturity financial investments, available-for-sale financial assets, available-for-sale financial assets and receivables.

As regards subsequent valuation as at December 31 the reader is referred to the notes on financial assets on page 57.

Associated companies are carried at equity.

Long-term receivables and other assets

Long-term receivables are classified under loans and receivables.

Inventories

The item for inventories comprises raw materials and supplies, work in progress and finished goods, as well as merchandise. Raw materials and supplies as well as merchandise are on principle valued at the average purchase cost. Work in progress and finished goods are entered at production cost. Production costs include all costs directly attributable to the production process as well as a suitable proportion of product-related overheads. Financing costs are not included as part of purchase or production costs.

The valuation as at December 31 is at the lower of purchase/production cost, on the one hand, and the realizable net sales price less attributable costs, on the other. On principle, the net sales price for the final product is taken.

Current financial assets

Financial assets that are current assets include receivables and other financial assets, securities, as well as cash and cash equivalents.

All current financial assets are initially entered at purchase cost on the date of fulfillment, i.e., at the point in time when the receivable arises or commercial ownership is transferred. The purchase cost of monetary receivables at below market interest or not bearing interest shall correspond to the cash value on the date when the receivable arises.

For the subsequent valuation as at the next December 31, the reader is referred to the notes on financial assets on page 57.

As regards hedging transactions, please see page 77.

Receivables

With the exception of derivatives, current receivables are classified as loans and receivables. If there are doubts as to whether a receivable can be recovered, then it is carried at the lower realizable figure for the future payment received. Alongside individual value impairments that are then necessary, discernible risks in the form of general credit risks are taken into account by charging lumpsum value impairments.

Receivables held in foreign currencies are valued at the middle rate on December 31. Changes in value are entered to the income statement.

To the extent that they are not effective hedging instruments, derivatives shall be classified as “financial assets at fair value” as carried on the income statement.

Other financial assets

Marketable securities are held as other available-for-sale financial assets at the attributable fair value on December 31, to the extent that this can be reliably defined. Fluctuations in value from one year-end to the next are reflected in the reserves – if necessary considering deferred taxes – and do not impact on the income statement.

Cash and cash equivalents

Bank balances and cash balances are carried at ongoing purchase cost. Foreign-currency credits and balances are valued at the middle rate on December 31.

Share capital

Shares issued are carried at the value of the consideration received, less directly attributable transactions costs. Disbursements to shareholders are deducted from the share capital. Advantages to the income tax bill associated with these transactions are booked to share capital and not to the income statement. Own shares are deducted direct from the share capital.

IAS 32 has been revised by the IASB and is applicable to the CREATON Group for the first time in the revised form as of business 2005. Accordingly, the financial instruments issued by CREATON AG shall be classified on first entry in the books as equity or as outside capital depending on their economic thrust. Share capital shall only be deemed to exist if there is no duty incumbent on CREATON AG to repay the capital or buy back the shares. Retrospective application of IAS 32 did not lead to a reclassification of the CREATON Group share capital.

Accruals

Accruals for pensions and similar obligations contain accrual obligations for service-related old-age provisions. In the case of service-related pension approvals (defined benefits), the employee is approved a certain pension figure. The risk as regards the actual pension payment disbursed is borne by the Company until the date when the pension is paid out. The accrual is compiled according to the projected unit credit method for pensions in line with IAS 19 and defined by independent insurance experts. Actuarial profits/losses are not booked to the income statement unless they exceed the corridor of 10 percent of the obligation entailed.

Outside plan assets are netted against the relevant pension obligations. To the extent that the plan assets carried consist of qualified insurance contracts, the market value of the plan assets is assumed to be the cash value of the pension obligations covered, so that no item is entered in the balance sheet.

The interest portion carried under pension expenses is entered under financial income/loss as interest expense.

The accrual for pensions and similar obligations as well as accruals for part-time employment in pre-retirement age, long-service awards and assistance in the case of sudden death, are all classified as long-term accruals.

Tax and other accruals are formed to the extent an obligation to a third party obtains as a result of an event in the past and which will probably lead in the future to an outflow of assets, and this drag on assets can be reliably estimated. If an accrual is not formed because one of the above criteria is not met, then the corresponding obligations are posted under contingent liabilities.

Accruals for obligations that will presumably not place a drag on assets as early as the next year are formed on a par with the cash value of the expected outflow of assets.

The valuation of accruals is re-assessed as at each new December 31.

Liabilities

In the case of first-time entry of financial liabilities, these are posted at purchase cost including transaction costs.

After first-time inclusion, financial liabilities that are classified as impacting on the income statement at the attributable fair value are carried at the attributable market value. The other liabilities are carried at the ongoing purchase cost and factoring in effective interest.

Derivatives are either classified as impacting on the income statement at the attributable fair value or as "effective hedging instruments" and in both cases are booked at the attributable market value.

All other financial liabilities, such as liabilities due to banks or payables due to suppliers are carried at the ongoing purchase cost.

All liabilities held in foreign currencies are entered at the middle rate on the respective December 31. Changes in value are booked to the income statement.

Public-sector subsidies

Public-sector subsidies are entered as deferred income. No deduction is made when calculating the purchase or production costs of the asset. To offset depreciation, the items are written back on schedule and the income then entered in line with the depreciation period for the plant and machinery for which the subsidies were granted.

Moreover, a special item has been established for toxic emission rights issued without consideration for emission rights issued in the current business year by Deutsche Emissionshandelsstelle im Umweltbundesamt. These are written back as consumed.

Deferred tax items

Pursuant to IAS 12, deferred tax items are charged for all temporary differences between the book values and the fiscal value taken for the assets and debts. Fiscal loss carryforwards that can probably be used in the future are on principle capitalized on a par with the deferred tax claim.

Deferred tax assets from temporary differences eligible for deduction that exceed the temporary differences subject to tax are only carried to the extent that it can be assumed with due certainty that the respective company will generate sufficient taxable income to realize the corresponding advantage.

Derivative financial instruments

The CREATON Group on principle uses derivative financial instruments to hedge interest-rate and exchange-rate risks. These hedging transactions are either concluded to hedge the attributable market value or future cash flow.

To hedge variable interest-rate payments, on principle interest-swap deals in which the underlying variable interest is swapped for a fixed interest rate over the entire period involved have been concluded. To hedge exchange-rate risks, forward exchange transactions and forex options are used.

Pursuant to IAS 39, all financial derivatives are entered in the balance sheet at purchase cost and then valued at the attributable market value as at the next December 31.

To the extent that the financial instruments used do not qualify as effective hedging transactions, all fluctuations in market value are directly factored into the income or loss for the period.

If the financial instruments used qualify as effective cash-flow hedges in the reading of IAS 39, then the fluctuation in market value over the entire term of the derivative does not impact on income for the period. Instead, the item is booked to the relevant valuation reserve. If a financial asset arises from the secured payment flow, then at the point in time when the underlying transaction is entered in the balance sheet, the result from the hedging transaction shall be withdrawn from the share capital and considered as a profit or loss in the period in question.

In the case of an effective hedge of the attributable market value, the fluctuations in market value for the asset or debt hedged and in the financial instrument offset each other as regards the income statement.

The Group's hedging policy is to conclude only effective derivative deals to hedge against interest and exchange rate risks.

Realization of earnings/expenses

Sales revenues and other operating income are realized on performance of the service and/or with the assignment of dangers to the client.

Changes in inventories relating to work in progress in the production process as at December 31 are entered at pro-rated production costs.

Operating expenses impact on income as at the time the service is rendered and/or the time at which it is caused.

Guarantee expenses are booked as at the time of realization of the corresponding sales revenue.

Interest income/expense are booked pro-rated for the period using the effective-interest method. Dividends are on principle entered at the time of disbursement.

Assumptions and estimates, errors

Preparing consolidated annual financial statements involves bringing assumptions and estimates to bear as regards the future, for example as regards the expected useful lives of fixed assets or the attributable market value of financial assets and liabilities. The expectations impact on the scale and disclosure of the assets, liabilities and contingent liabilities. New information and increasing experience can lead to an estimate being revised. Such changes are prospectively factored into the income statement.

At present, there is no uncertainty as regards estimates that could necessitate a substantial adjustment of the disclosed assets and liabilities in the coming business year.

Errors can occur when gathering and defining data or in the presentation of financial statements, for example by errors in the calculations, errors in applying accounting and valuation principles, or the erroneous interpretation of the matter at hand. Material errors from past periods shall be retrospectively applied and the opening balances adjusted accordingly.

F. Explanatory notes to the balance sheet

Discrepancies may occur from rounding owing to the presentation in EUR thousands.

1. Fixed assets

The schedule of changes in fixed assets, with the exception of deferred taxes, can be seen from the table on page 50.

The Management Report gives an account of the investments.

Intangible assets

Intangible assets include licenses, loam excavation, usufruct and other right, including IT software acquired for consideration.

The income statement presents the amortization on intangible assets under “expenses for scheduled amortization”.

Tangible assets

Tangible assets are encumbered by liens of EUR 80,481 thousand, the same figure as the prior year. The actual figure operative is EUR 40,388 thousand (prior year: EUR 40,546 thousand).

An appraisal of the value of the fixed assets did not lead to any indication that impairments may have occurred.

No damages were paid for value-impaired or lost tangible assets.

Rented assets

Financing leasing

No rented assets are carried as tangible assets such as can be classified as financing leasing owing to the nature of the underlying leasing contracts but cannot be categorized as the legal property of the Group.

Operating leases

The rental and leasing contracts signed are classified as operating lease contracts in terms of their business intent, meaning that the leasing object shall be attributed to the lessor.

Leasing contracts for real estate at our factory hubs in Wertingen, Roggden and for Plant I in Autenried have a remaining term of 11 years.

As a rule, the operating lease contracts for cars have a term of 3-4 years. The contracts usually end automatically after expiry of that time; in part, we hold options to extend the contracts.

The following sums are due in the subsequent periods:

		EUR 000
Land and buildings	Total	5,110
of which < 1 year		465
of which > 1 year		4,645
Other plant, operating and office equipment	Total	1,908
of which < 1 year		1,051
of which > 1 year		857

Financial assets

The shares in associated companies relate to those held in Oberlausitzer Tonbergbau GmbH, which is included at equity in the consolidated annual financial statements. In business 2005, the company booked a loss of EUR 82 thousand, the same figure as the prior year. Owing to the loss in business 2005, the book value of the stake was written off as zero.

Loans are valued at ongoing purchase cost since these are receivables or loans extended by the Company. The book value of loans to associated companies is identical to the market value thereof and is EUR 750 thousand, as in the prior year. The loans were granted for an unlimited period.

Other loans relate to a loan to the former affiliated company Ströher GmbH. As in the prior year, interest claims arising under the terms of the loans contract have been booked as an addition to other loans. To support the turnaround efforts at Ströher GmbH, a waiver on receivables of EUR 2,082 thousand was charged to account for the loan, for which a complete value impairment was charged in financial 2002. As part of the novation of the loan, on September 30, 2005 a repayment was made of EUR 500 thousand and the further redemption of the loan will be in six equal installments of EUR 250 each on the September 30 of the respective year. To cover the lack of interest payable as of the time of the novation, a value impairment on a par with the amount discounted and at an interest rate of 3.5 percent has been charged. The value impairment remaining after the waiver of the receivable was accounted for by a write-back of EUR 1,765 thousand. The write-back was entered under other operating income.

The current portion of other loans totaling EUR 250 thousand is carried under other current receivables.

2. *Deferred tax claims*

Deferred tax claims result primarily from fiscal loss carryforwards. These are only capitalized to the extent that the use of the fiscal loss carryforwards is probable. The deferred tax assets from fiscal loss carryforwards relate primarily to the trade-tax loss carryforwards of CREATON KERA-DACH GmbH & Co. KG. The reduction in deferred tax claims essentially depends on the further use of the loss carryforward.

3. *Current assets*

Inventories

Inventories can be sub-divided as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Raw materials and supplies	7,124	5,579
Work in progress, unfinished services	807	596
Finished goods and merchandise	18,866	16,849
	26,797	23,024

The value impairments made in the framework of a valuation at the lower of cost or market on December 31 amounted to EUR 229 thousand for raw materials and supplies (prior year: EUR 472 thousand) and for finished goods and merchandise EUR 649 thousand (prior year: EUR 1,342 thousand).

No revaluations were made in business 2005 of value impairments charged in former years.

In the CREATON Group, no inventories are assigned as collateral.

4. *Receivables and other assets*

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Trade accounts receivable	3,346	4,169
Receivables from associated companies	59	63
Other current receivables	2,324	3,281
Other financial assets	12	12
Tax refund claims	54	0
	5,795	7,525

A figure of EUR 1 thousand (prior year: EUR 139 thousand) was charged to individual value impairments for trade receivables in financial 2005. Write-backs totaling EUR 102 thousand (prior year: EUR 61 thousand) were made.

Other current receivables consisted of the following:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Turnover tax	618	1,669
Mineral oil tax refunds	1,060	1,068
Investment grant	29	113
Receivables from employees	103	100
Lending against credit	43	230
Receivables from the Labor Office (BfA)	90	56
Current redemption portion of other loans	250	0
Others	131	45
	2,324	3,281

The book values stated under receivables and other assets comprise financial assets and are calculated at ongoing purchase cost, since the items are solely Company receivables or loans extended by it. The ongoing purchase costs of these monetary assets corresponds to their market value. Receivables and other assets are not pledged as loan collateral. Moreover, the financial assets are exposed to no risk of changes in interest rates. The default risk for doubtful receivables has been taken into account in the form of value impairments or in the case of actual default covered by credit insurance.

Other financial assets are made up of marketable securities as well as cooperative shares.

5. *Cash and cash equivalents*

The cash balances listed here came to EUR 11 thousand (prior year: EUR 19 thousand).

The balance on current accounts, as in the prior year, essentially bore up to 0.5 percent interest. Overnight money and fixed-interest deposits in foreign currency were carried at between 3.40 percent and 4.30 percent. The prior year, current account balances held in Euro were carried at rates of between 1.45 percent and 1.75 percent and overnight money and fixed-interest deposits in foreign currencies bore interest of between 3.80 percent and 4.25 percent.

Foreign exchange balances are valued at the average rate on December 31, 2005.

There were no pledges of bank balances for existing loans or for approved credit lines.

6. *Prepaid expenses*

Prepaid expenses relate to prepaid sums such as trade-fair charges and fees, where the relevant expense is attributable to subsequent years. Prepaid expenses have a remaining term of less than one year.

Share capital

7. *Subscribed capital*

The CREATON Group capital stock amounts to EUR 16,340 thousand (prior year: EUR 16,128 thousand). The difference between the CREATON Group capital stock and that of CREATON AG is EUR 1,580 thousand (prior year: 1,792 thousand). This corresponds to the nominal value of 617,250 own shares (prior year: 700,000 shares) that are deducted direct from the subscribed capital. The capital stock continues to be made up of 4,200,000 ordinary shares and 2,800,000 preferred shares without voting rights. Both types of shares are bearer shares.

The Annual General Meeting authorized the Board of Management, subject to the approval of the Supervisory Board, to raise the capital stock by a maximum of EUR 8,960 thousand up until June 24, 2009 by one or several issues of new ordinary bearer shares and/or preferred bearer shares without voting rights (Authorized Capital I). The number of shares must rise in the same proportion as does the capital stock. The capital increases can be effected either for cash or against contributions in kind.

Moreover, the Board of Management is authorized, again subject to the approval of the Supervisory Board, to decide on whether or not to exclude subscription rights for existing shareholders. Such an exclusion is, however, only permissible, to avoid fractional amounts and/or in the case of a capital increase against contributions in kind designed to acquire companies, parts of companies or participations in companies or other key operational means. Furthermore, such an exclusion shall be permissible if the capital increase for cash does not exceed 10 percent of the capital stock and the issue price does not substantially fall short of the stock-market price of the shares. In addition, subscription rights for bearers of a particular share category can be excluded as regards the other share category to the extent that the subscription ratio for both types of share is equal.

The Annual General Meeting on June 18, 1999 empowered the Company to acquire own shares through to December 17, 2000 up to a maximum total of 10 percent of the CREATON AG capital stock. The Board of Management was authorized, subject to approval of the Supervisory Board, to sell the own shares or, again subject to approval of the Supervisory Board and without an extra resolution of the AGM being required to this effect, to withdraw such shares or use them as a contribution in kind in exchange for a performance rendered by a third party, without the shares being restricted to these uses. These authorizations can be used once or on several occasions, individually or at once.

8. *Capital reserve*

The capital reserve contains additional payments from the issue of shares in connection with the IPO of CREATON AG on November 9, 1995.

In line with the regulations of IAS 32, the pro-rated discount contained in own shares of EUR 8,322 thousand (prior year: EUR 9,617 thousand) was deducted direct from the capital reserve.

9. *Revenue reserves*

The revenue reserves contain profits posted in former years by companies included in the consolidated annual financial statements to the extent that such was not distributed. Moreover, in the revenue reserves we have netted capitalized differences from the capital consolidation prior to the time of first-time adoption of IAS/IFRS for the consolidation of subsidiaries. This was retained in concurrence with IFRS 1.

10. *Cumulative other share capital*

The cumulative other share capital contains not only the income and expenses carried as share capital but also the dividends paid and allocations to the revenue reserves. The cumulative other share capital is reduced by the netted deferred tax assets of EUR 46 thousand (prior year: EUR 72 thousand), without this affecting the income statement.

The list of all income and expenses carried under share capital contains the consolidated net income for the current financial year as well as other value impairments carried in the consolidated balance sheet and which according to IAS/IFRS shall not be booked to the income statement. These include adjustments for the market value of derivative financial instruments as well as differences from exchange-rate translations.

The figures fluctuate considerably owing to factors that the Board of Management cannot influence as they depend on share-price, exchange-rate and interest-rate changes.

11. *Long-term debts*

Pension accruals

	Jan. 1, 2005 EUR 000	Consumption EUR 000	Repayment EUR 000	Allocation EUR 000	Dec. 31, 2005 EUR 000
Pension obligations	6,938	201	0	699	7,436
Plan assets	(1,629)	0	0	(383)	(2,012)
Pension accruals	5,309	201	0	316	5,424

Pension accruals relate to employees in Germany. Pensions cover old-age and disability pensions as well as pensions for descendants. As a rule, there are fixed contribution plans depending on the duration of employment.

The plan assets result from the capitalized value of the respective reinsurance coverage.

To value the pension accruals and identify pension costs, we make use of the 10-percent unit Corridor Rule. Actuarial profits/losses are not factored in to the figure if they do not exceed ten percent of the scope of the insurance.

Any figure exceeding the corridor is assigned on a pro-rated basis across the average remaining employment term of the active payroll, booked to the income statement and factored into the balance sheet.

Owing to the actuarial profits not entered, the pension accruals in the balance sheet exceed the cash value of the pension obligations.

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Cash value of fund-financed pension obligations	3,030	2,945
Cash value of non-fund-financed pension obligations	4,685	3,894
Plan assets	(2,012)	(1,629)
Actuarial profits/(losses) not entered	(279)	99
	5,424	5,309

The market value of the plan assets discounted from the pension obligations corresponds to the cash value of the relevant pension obligations.

The expense from allocations to pension accruals carried in the income statement and the income from writing this item back is made up as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Expense for employment service	316	163
Interest on expected pension obligations	383	207
Expected income from plan assets	(383)	(314)
	316	56

Expense for employment service hours and the amortized actuarial profits are charged as personnel expense, the interest premium for the expected pension obligations entered as an interest expense.

Income from the budgeted assets is carried as other operating income.

The following premises were applied when calculating pension obligations:

	Dec. 31, 2005 %	Dec. 31, 2004 %
Interest rate	5.00	5.50
Trend for salary increases	0.00	0.00
Trend for pension increases	1.00	1.00
Probability of fluctations	7.00	8.50

The actuarial cash value of the pension accrual has been calculated by drawing on the actuarial tables compiled by Prof. Klaus Heubeck in 2005.

Other long-term accruals

The trend for other long-term accruals was as follows:

	Jan 1, 2005 EUR 000	Consumption EUR 000	Write-back EUR 000	Allocation EUR 000	Dec. 31, 2005 EUR 000
Recultivation	1,153	148	0	154	1,159
Long-service awards	388	0	0	22	410
Part-time employment in pre-retirement age	280	81	0	470	669
	1,821	229	0	646	2,238

Recultivation

The accrual for recultivation covers the outlays necessary to restore the clay pits to their natural state after use. The calculations are based on a corresponding expert report.

Long-service awards

The accrual for long-service awards is made on a calculation of the actuarial cash value based on the actuarial tables composed by Prof. Klaus Heubeck in 2005.

Part-time employment in pre-retirement age

The benefit payments made by the employer and the additional contributions to pension insurance made that are not based on payment for part-time labor constitute an independent severance obligation by the employer that does not come under the original benefits and remuneration obligations foreseen in the employment relationship. They are thus so-called “termination benefits” (for waiving previously agreed full-time employment). This obligation shall be carried as a liability and impact as an expense for the first time as at year-end of the year in which the Company can no longer cease to fulfill this obligation.

If the part-time employment in pre-retirement age is structured in line with the block model, then the employee works full hours during the employment phase, although he is only paid in line with part-time employment for that period. In this way, during the employment term the employer carries payment in arrears on a par with the working hours not remunerated. This shall be taken into account in the form of a cumulative debt item. The debt item is written back in the periods when the employee is paid in line with the part-time arrangement, without actually working.

Reimbursement claims against the BfA Labor Office are capitalized if it is factually certain that they will accrue to the Company. A receivable on the scale of the reimbursement sum shall be entered as soon as the relevant application has been approved. Reimbursement sums are not considered as reducing the accrual prior to fulfillment of the conditions for them being made. Reimbursement sums are carried under other current receivables and total EUR 90 thousand (prior year: EUR 56 thousand).

The accrual for part-time employment in pre-retirement age relies on a calculation of the actuarial cash value based on the actuarial tables composed by Prof. Klaus Heubeck in 2005.

Long-term liabilities due to banks

	Total EUR 000	of which < 1 year EUR 000	of which 1-5 years EUR 000	of which > 5 years EUR 000	Sum total > 1 year EUR 000
Liabilities due to banks 2005	40,388	7,871	23,612	8,905	32,517
Liabilities due to banks 2004	40,546	6,481	25,883	8,182	34,065

The current portion of long-term liabilities due to banks is posted under current liabilities due to banks.

Liabilities owed to banks consist of investment loans.

Collateral for liabilities due to banks by the Group takes the form of liens totaling EUR 80,481 thousand, as it did the prior year. Actual recourse to the liens totaled EUR 40,388 thousand, as opposed to EUR 40,546 thousand the prior year.

Long-term liabilities due to banks entail the following fixed-interest periods and nominal interest rates:

Interest fixed till	Interest rates 2005 from – to in %	as at 2005 EUR 000	Interest rates 2004 from – to in %	as at 2004 EUR 000
2006	5.25 – 5.75	97	5.25 – 5.75	292
2007	3.90 – 4.35	5,113	3.90 – 4.35	7,670
2008	–	0	–	0
2009	–	0	–	0
2010	–	0	–	0
2011	5.50	865	5.50	1,023
2011	6-month EURIBOR + margin	13,324	6-month EURIBOR + margin	15,546
2012	5.05 – 5.85	8,989	5.05 – 5.85	10,366
2013	–	0	–	0
2014	3-month EURIBOR + margin	12,000	3-month EURIBOR + margin	5,649
		40,388		40,546

The market value of long-term liabilities owed to banks is identical to their book value.

Public-sector grants and subsidies

Allocations from the public sector were composed as follows:

	Jan. 1, 2005 EUR 000	Allocation EUR 000	Write-back EUR 000	Dec. 31, 2005 EUR 000
Investment grants	6,524	0	434	6,090
Investment subsidies	1,977	0	214	1,763
Investment promotion, Hungary	0	678	43	635
	8,501	678	691	8,488

The investment grants approved for CREATON KERA-DACH GmbH & Co. KG in connection with the new factory building constructed at Guttau were entered under deferred charges. The income from the investment grants is entered under other operating income, the expenses from the allocation to the deferred item are contained under other operating expenses. These items are written back in line with the useful life of the economic assets supported in this manner to the tune of EUR 434 thousand (prior year: EUR 451 thousand) and are factored into other operating income.

The subsidies granted by the Thuringia Economics Ministry in line with the Act to Enhance the Structure of the Regional Economy were earmarked for construction of the new roofing tile plant in Großengottern and were entered under deferred charges. As in the prior year, a figure of EUR 70 thousand was written back in line with the useful life of this subsidized asset. In addition, the subsidies granted in prior years by the Saxony Economics Ministry to CREATON KERA-DACH GmbH & Co. KG are carried under this item. A figure of EUR 144 thousand (prior year: EUR 147 thousand) was written back in line with the useful lives of the economic assets subsidized. The sums written back are carried under other operating income.

The investment support provided in business 2005 to CREATON HUNGARY Kft. in the context of the new plant built in Lenti, Hungary totaled EUR 678 thousand and was entered under deferred charges. A figure of EUR 43 thousand is written back in line with the useful life of the economic assets and carried under other operating income.

12. *Deferred tax liabilities*

Deferred tax liabilities came to EUR 24,446 thousand (prior year: EUR 23,540 thousand).

We desisted from netting deferred tax assets against deferred tax liabilities owing to the different tax debtors/creditors and the differing periods of time involved.

13. *Current liabilities*

	31. Dez. 2005 EUR 000	31. Dez. 2004 EUR 000
Liabilities due to banks	9,524	9,481
Prepayments		
received on orders	32	0
Trade accounts payable	6,676	8,543
Other current liabilities	5,755	5,874
	21,987	23,898

The book values carried for the financial debt classified as current liabilities are calculated at ongoing purchase cost, with the exception of the financial derivatives.

There are risks of interest-rate changes specifically as regards the market value of the financial derivatives.

Other liabilities were structured as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Tax liabilities	1,040	999
Liabilities for social benefits	864	894
Liabilities due to employees	2,089	1,738
Power and energy costs	948	1,135
Creditor debts	422	399
Market value of financial derivatives	125	189
License fees	0	121
Other	267	399
	5,755	5,874

Current accruals

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Tax accruals	1,420	1,758
Other accruals	5,988	4,139
	7,408	5,897

Tax accruals contain taxes on income that were formed for the current business year and for periods for which the tax return has not yet been filed.

Other accruals were made up as follows:

	Jan. 1, 2005 EUR 000	Consumption EUR 000	Write-back EUR 000	Allocation EUR 000	Dec. 31, 2005 EUR 000
Guarantee obligations	960	0	0	10	970
Bonus	2,193	2,184	9	3,023	3,023
Legal and consultancy costs	109	90	0	202	221
Annual report	110	110	0	110	110
Guarantee taken up	240	15	44	0	181
Outstanding invoices	16	8	8	835	835
Sales representatives	74	74	0	165	165
Travel expenses	63	63	0	0	0
Other	374	335	0	444	483
	4,139	2,879	61	4,789	5,988

The accrual for guarantees relates primarily to possible claims being brought for returned goods, price rebates, and replacement deliveries made free-of-charge as well as warranties. Moreover, the item also contains the expected reclaim costs for changes in glazes to the “FINESSE” tile series.

Owing to the bankruptcy of Emil Schönhöfer GmbH, a former associated company, the expected claims from guarantees issued on its behalf are entered in the accrual for guaranteed claims. Moreover, this item also covers another guarantees claim expected.

CREATON is the opinion that the existing accruals are appropriate on the basis of information currently available. Owing to the inherent difficulties of estimating the committing, it cannot be excluded that actual costs will exceed existing accruals. The possible impact on operating profits cannot be predicted owing to the uncertainties regarding the scale and point in time of the payments. The Board of Management is of the opinion that additional expenses, to the extent that these should be incurred at all, would not substantially impact on CREATON’s financial situation, but could have a material influence on the operating profit in a particular period.

14. *Deferred charges*

The item for deferred charges is made up of the following:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Public-sector grants and subsidies	0	0
Other deferred items	0	1
	0	1

Allocations from the public sector entail toxic emission rights that developed as follows:

	Jan. 1, 2005 EUR 000	Allocation EUR 000	Write-back EUR 000	Dec. 31, 2005 EUR 000
Toxic emission rights	0	144	144	0

For the emission rights granted free of charge in the current business year by the German Emission Trading Agency attached to the German Environmental Agency a current deferred charge of EUR 144 thousand has been established. The write-back is made in keeping with actual consumption and is entered under other operating income.

G. *EXPLANATORY NOTES TO THE INCOME STATEMENT*

15. *Sales revenues*

Sales revenues are made up of the following products:

	2005 EUR 000	2004 EUR 000
Extruded roof tiles	87,576	88,992
Plain tiles	26,307	24,959
Facade tiles	4,153	2,880
Screed replacement tiles	1,197	749
Other	15,641	15,567
	134,874	133,147

Sales revenues can be sub-divided geographically as follows:

	2005 EUR 000	2004 EUR 000
Inside Germany	95,869	101,703
Outside Germany	39,005	31,444
	134,874	133,147

16. *Changes in inventory*

	2005 EUR 000	2004 EUR 000
Increase/(decrease) in finished goods and work in progress	2,414	2,620

Part-gains are not realized. Work in progress is capitalized at the production costs incurred to the extent these are probably covered by revenues.

17. *Other own output capitalized*

Other own output capitalized essentially relates to technical plant and machinery.

18. Other operating income

The key items for other operating income were as follows:

	2005 EUR 000	2004 EUR 000
Write-back of deferred item for		
– Investment subsidies	214	217
– Investment grants	434	451
– Emission rights	144	0
– Investment promotion Hungary	43	0
Exchange-rate gains	48	265
Investment grant	0	113
Income – disposal of assets	58	375
Income – allocations to fixed assets	1,765	0
Income – re-insurance coverage	383	314
Claims for damages received	496	191
Expenses passed on	357	188
Car use	368	341
Rental	129	99
Other	182	182
	4,621	2,736

Exchange-rate gains on foreign-currency items essentially contain gains from exchange-rate differences between the date when the items arose and the payment date as well as exchange-rate gains from the valuation at year-end. Exchange-rate losses from these transactions are carried under other operating expenses.

Income from claims for damages paid was essentially booked under product liability insurance.

19. Cost of materials

	2005 EUR 000	2004 EUR 000
Raw materials and supplies	10,642	9,196
Merchandise	5,118	5,089
Purchasing costs	719	852
Power and energy costs	16,040	13,579
Outside services	1,714	1,676
Bonuses and discounts	(476)	(372)
	33,757	30,020

20. Personnel expense

	2005 EUR 000	2004 EUR 000
Wages and salaries	29,500	28,672
Social benefit payments	5,042	5,013
Expenses for old-age provisions		
and for old-age support	917	925
	35,459	34,610

Allocations to the pension accruals are the main component of the expenses for old-age provisions.

The average payroll for the year was as follows:

	2005	2004
Salaried staff	238	232
Wage-earners	538	512
	776	744
Trainees	15	14
Total	791	758

21. Expense for scheduled amortization/depreciation

	2005 EUR 000	2004 EUR 000
Intangible assets	777	708
Tangible assets	11,761	12,233
	12,538	12,941

The amortization/depreciation carried contains no extraordinary depreciation.

22. Other operating expenses

	2005 EUR 000	2004 EUR 000
Operations		
Maintenance and repairs	6,405	7,770
Vehicle pool	1,069	846
Guarantee and warranty costs	738	642
Other	816	402
Administration		
Legal, consultancy, and audit expenses	2,153	2,488
Rent, leasing, licenses	2,077	1,866
Data transmission	709	829
Insurances	614	692
IT expense	366	502
Other	194	397
Sales		
Freight outward	18,577	16,682
Packaging materials	3,642	3,847
Advertising, Public Relations	3,165	3,496
Travel expenses	982	937
Commisions	1,151	998
Other	686	533
Ancillary personnel expenses	1,302	1,574
Other		
Allocation to the deferred item for investment grants	0	113
Laboratory equipment	255	229
Loss from disposals of assets	58	118
Value impairments on receivables	41	129
Donations	119	393
Other taxes	371	414
Exchange-rate losses	223	0
Other	242	667
	45,955	46,564

23. Financial result

	2005 EUR 000	2004 EUR 000
Income from other securities and loans of financial assets	137	227
Other interest and similar income	27	88
Loss attributable to associated companies carried at equity	(21)	(41)
Amortization on financial assets and marketable securities	0	(190)
Interest and similar expense	(2,515)	(2,769)
	(2,372)	(2,685)

24. Taxes on income

	2005 EUR 000	2004 EUR 000
Current income tax expense	3,439	3,735
Tax refunds from prior year	(11)	(5)
Deferred taxes	1,088	1,583
	4,516	5,313

The taxes on income contain no expenses or income resulting from changes to the accounting and valuation methods.

In Business 2005, the deferred tax rate inside Germany came to 38 percent, the same rate as the prior year. Outside Germany, the deferred tax rate applied for the current business year was 16 percent, as against 19 percent one year earlier. The change of the tax rate only impacts to a subordinate extent on the deferred tax bill.

Deferred taxes attributable to the market valuation of financial assets and cash flow collateral are netted against share capital without this impacting on the income statement. They total EUR 46 thousand, as compared with EUR 72 thousand the prior year.

On balance, the deferred tax assets and liabilities carried in the balance sheet are structured as follows:

	2005 EUR 000	2004 EUR 000
Fixed assets	20,485	18,964
Tax-free reserves	3,848	4,525
Pension accruals	(171)	(168)
Market valuation of financial instruments	(46)	(72)
Loss carryforwards	(3,123)	(3,232)
Other	(119)	(256)
	20,874	19,761

The following table shows a reconciliation statement for the expected tax expense as compared with that actually carried. In order to calculate the expected tax expense, earnings before taxes on income are multiplied by a tax rate of 38 percent for financial 2005 and 2004. These consist of a corporation tax rate of 25 percent and 13 percent for trade income tax and the German solidarity surcharge.

	Base 2005 EUR 000	Tax 2005 EUR 000	Base 2004 EUR 000	Tax 2004 EUR 000
Expected income tax expense	11,828	4,495	11,704	4,448
Non-deductible operating expenses		78		177
Special fiscal factors		(157)		532
Losses not nettable under fiscal law		3		34
Other		97		122
Actual income tax expense		4,516		5,313

The special fiscal factors essentially reflect the effect of operational audits and supplementary balance sheets.

In the event of full disbursement, deferred tax claims of EUR 794 thousand exist that arose in prior years from compound profits on which a higher corporation tax rate was charged. Owing to changes in the fiscal regulations in the wake of the German Tax Relief Reduction Act of May 2003, no tax claims for disbursements can be made until January 1, 2006.

Open profit disbursements lead to a reduction in corporation tax of 1/6 of the profit disbursed and at the most on the scale of the credit balance set and the sum that arises given the even spread of the corporation tax credit across the remaining reconciliation period of 14 years.

The proposed dividend for business 2005 leads, if disbursed, to a corporation tax credit of EUR 56 thousand.

25. Earnings per share

	2005	2004
Consolidated net income		
for the year in EUR	7,311,695	6,390,867
Dividend-bearing ordinary shares	4,200,000	4,200,000
Dividend-bearing preferred shares	2,122,230	2,100,000
Dividend per ordinary share in EUR	0.28	0.83
Dividend per preferred share in EUR	0.40	0.95
Earnings per ordinary share in EUR	1.12	0.97
Earnings per preferred share in EUR	1.24	1.09
Earnings per share		
(no distinction) in EUR	1.16	1.01

The undiluted EPS is calculated as the quotient of Group income and the weighted average of shares outstanding during the business year, although treasury shares are not included. Neither in financial 2005 nor financial 2004 were earnings diluted.

26. *Cash flow statement*

The cash flow statement shows how CREATON Group cash and cash equivalents changed in the business year. Cash flow is structured here as cash flow for/from operating activities, that for/from investing activities and cash flow for/from financing activities. The cash holdings shown in the cash flow statement result from the balance of the balance-sheet items for cash and cash equivalents as well as current liabilities due to banks without the current portion of long-term liabilities due to banks.

Interest of EUR 1,927 thousand was paid (prior year: EUR 2,045 thousand) and interest income taken of EUR 130 thousand (prior year: EUR 80 thousand).

Payments for taxes on income came to EUR 3,568 thousand (prior year: EUR 2,337 thousand) and tax refunds amounted to EUR 10 thousand (prior year: EUR 0 thousand).

In business 2005, as in the prior year, no subsidiaries were acquired or sold.

There are no limitations on rights of disposal over cash and cash equivalents.

H. *OTHER INFORMATION*

27. *Contingent liabilities*

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Liabilities from issuing and assigning bills	158	583
Liabilities from granting guarantees	582	674
	740	1.257

No claims had been brought at the time when these financial statements were prepared.

28. *Other financial obligations*

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Long-term lease contracts for operating property	5,110	5,575
due in up to one year	465	465
due in over one year	4,645	5,110
Licenses	2,333	2,550
due in up to one year	217	217
due in over one year	2,116	2,333
Leasing fees	1,908	2,368
due in up to one year	1,051	1,057
due in over one year	857	1,311
Order guarantees	436	425
	9,787	10,918

Other financial obligations are not discounted.

Additional contingent liabilities and other financial liabilities such as come under disclosure requirements in the Explanatory Notes were not known as at December 31, 2005.

29. *Hedging policy and financial derivatives*

Derivative financial instruments

In business 2005, as part of medium-term financing, interest-rate swap deals were effected with Dresdner Bank AG. The expenses made as part of the interest swaps are listed under interest expense.

As at December 31, 2005 CREATON AG had availed itself of a collateralized credit line of EUR 2,556 thousand. The collateral for the interest swap limited until September 30, 2007 is reduced every six months by EUR 639 thousand. The fixed interest granted CREATON AG is 3.1450 percent, the variable interest rate for Dresdner Bank AG is pegged to the 6-month EURIBOR. Moreover, an interest swap limited until March 30, 2010 was concluded for EUR 6,000 thousand. The interest rate for CREATON AG is based on the 5-year EURIBOR, but a max. of 3.9 percent, the variable interest rate for Dresdner Bank AG set at the 3-month EURIBOR.

As part of financing the new factory facility in Guttau CREATON KERA-DACH GmbH & Co. KG availed itself of collateralized credit lines of EUR 13,418 thousand. The collateral was an interest swap limited until September 30, 2011 which is reduced every six months by EUR 1,118 thousand. The fixed interest borne by CREATON KERA-DACH GmbH & Co. KG is 3.1417 percent, the variable interest rate for Dresdner Bank AG is pegged to the 6-month EURIBOR.

Foreign currency risks

CREATON AG is exposed to exchange-rate risks from invoicing in Polish zloty and Swiss francs. The Company's policy is to limit these risks by means of systematic financial management, which also involves the use of financial derivatives. The corresponding financial transactions are only concluded with counter-parties who have top-grade credit ratings.

Credit risk

An appropriate volume of value impairments on receivables and a credit sale insurance duly take discernible risks into account.

Liquidity risk

The relevant financial planning tool is used to identify at an early date trends for future liquidity such as arise as part of the Group's strategy and planning. This system outlines probable liquidity required against a target horizon of as a rule up to three years.

No hedging transactions were carried out to hedge against exchange-rate risks as at December 31, 2005.

The market value of derivative transactions are capitalized as other assets or assigned as other liabilities to the liabilities.

The market values for financial derivatives stated indicate the price at which an independent third party would take on the rights and/or duties from this financial instrument. The market values were calculated on the basis of the market information available as at December 31.

30. *Occurrences after December 31, 2005*

The reader is referred to the statements in the Management Report. No other items that come under disclosure requirements occurred.

31. *Segment reporting*

The CREATON Group is sub-divided into two segments: inside Germany and outside Germany. The division by geographic segment is made in line with the client's registered domicile.

The segment information is based on the same accounting and valuation methods as the consolidated annual financial statements.

Segment result by geographical market

Business 2005

	Inside Germany EUR 000	Outside Germany EUR 000	Reconciliation EUR 000	Group EUR 000
External sales	95,869	39,005	0	134,874
Consolidated sales	0	15,494	(15,494)	0
Total output	100,704	56,838	(15,633)	141,909
Cost of materials	(23,516)	(25,735)	15,494	(33,757)
Personnel expense	(24,702)	(10,757)	0	(35,459)
Amortization/Depreciation	(8,629)	(3,909)	0	(12,538)
Other operating expenses	(32,597)	(13,497)	139	(45,955)
Operating profit	11,260	2,940	0	14,200
Financial loss	(1,687)	(685)	0	(2,372)
Earnings from ordinary activities	9,573	2,255	0	11,828
Taxes on income	(3,655)	(861)	0	(4,516)
Consolidated net income for the year	5,918	1,394	0	7,312

Business 2004

	Inside Germany EUR 000	Outside Germany EUR 000	Reconciliation EUR 000	Group EUR 000
External sales	101,703	31,444	0	133,147
Consolidated sales	0	7,888	(7,888)	0
Total output	105,699	40,775	(7,950)	138,524
Cost of materials	(23,161)	(14,747)	7,888	(30,020)
Personnel expense	(26,702)	(7,908)	0	(34,610)
Amortization/Depreciation	(9,787)	(3,154)	0	(12,941)
Other operating expenses	(33,820)	(12,806)	62	(46,564)
Operating profit	12,229	2,160	0	14,389
Financial loss	(2,050)	(635)	0	(2,685)
Earnings from ordinary activities	10,179	1,525	0	11,704
Taxes on income	(4,622)	(691)	0	(5,313)
Consolidated net income for the year	5,557	834	0	6,391

Total output covers not only sales revenues but also changes in inventories, own work capitalized, and other operating income. Cost of materials is subdivided on the basis of the volumes sold. Freight costs entered under other operating expenses are allocated as actually incurred. The other items were assigned in line with the pro-rated portion of sales.

The column for reconciliation covers Group revenue accruing outside Germany as well as material and other costs incurred.

Segment assets, debts and investments by geographical market

	Inside Germany EUR 000	Outside Germany EUR 000	Reconciliation EUR 000	Group EUR 000
Segment assets (2005)	133,969	54,468	3,626	192,063
Segment assets (2004)	141,664	43,795	3,779	189,238
Segment debts (2005)	53,460	23,182	25,866	102,508
Segment debts (2004)	59,700	18,034	25,298	103,032
Segment investments (2005)	3,160	10,242	99	13,501
Segment investments (2004)	5,863	12,014	190	18,067

Segment assets includes all assets tied down for operating activities that are used by a segment, in particular ongoing means of payment, receivables, inventories and tangible assets and intangible assets, less value impairments. Segment assets contain not deferred or other claims to tax reimbursements as well as other loans; these are itemized in the reconciliation column.

Segment debts cover all operating debts and are primarily made up of liabilities and accruals. Segment debts do not contain any deferred or other tax accruals; these are itemized in the reconciliation column.

Segment investments cover all investments in fixed assets used for operating activities. The reconciliation relates to investments in other loans.

The division by segment is essentially based on the respective share of sales. Investments are divided up by the expected share of sales.

Segment sales, assets and investments, by product

	Plain tiles EUR 000	Pan tiles EUR 000	Other EUR 000	Reconciliation EUR 000	Group EUR 000
External sales (2005)	26,307	87,576	20,991	0	134,874
External sales (2004)	24,959	88,992	19,196	0	133,147
Segment assets (2005)	36,762	122,337	29,338	3,626	192,063
Segment assets (2004)	34,647	124,050	26,742	3,799	189,238
Segment investments (2005)	9,458	2,908	1,036	99	13,501
Segment investments (2004)	11,090	3,415	3,372	190	18,067

The “Other” segment contains the following products: facade and screed replacement tiles and accessories purchased as merchandise.

32. *Information on relations to friendly companies and affiliated persons*

According to IAS 24, relations to companies that are controlled by the CREATON Group but are not included as consolidated companies in the consolidated annual financial statements as well as relations to affiliated companies shall be disclosed. As part of their normal business activities, CREATON Group member companies also render services for the associated company Oberlausitzer Tonbergbau GmbH. As part of the latter's business activities, it also performs services for the CREATON Group. These supplies and services are settled at market prices.

Intra-Group trade receivables and liabilities are settled at market prices. These business transactions are eliminated.

According to IAS 24, likewise persons or companies who control the CREATON Group must be disclosed. Control is deemed to exist if a shareholder owns more than half the ordinary shares in CREATON AG or by dint of the Articles of Incorporation or contractual agreements can potentially direct the financial and business policy of the CREATON Group.

Moreover, according to IAS 24 business transactions with associates must be disclosed if the latter have a material influence on the CREATON Group financial or business policies, and this shall include close family members or interposed companies. A material influence on the CREATON Group financial or business policies is deemed to exist if a stake of 20 percent or more ordinary shares is held in CREATON AG, a seat is held on the CREATON AG Board of Management or Supervisory Board, or another key management position is held.

Relations to affiliated persons are presented below.

The total remuneration of the CREATON AG Board of Management in business 2005 came to EUR 1,773 thousand (prior year: EUR 1,624 thousand). Accruals for Management Board pensions are carried totaling EUR 1,817 thousand (prior year: EUR 1,565 thousand).

No advances, loans, warranties or guarantees were granted to Management Board members.

Supervisory Board members received remuneration totaling EUR 81 thousand (prior year: EUR 83 thousand) for their work on the Supervisory Board. Other emoluments for loam sales accruing to members of the Supervisory Board came to EUR 169 thousand (prior year: EUR 166 thousand). Accruals for pensions for members of the Supervisory Board ran at EUR 2 thousand (prior year: EUR 799 thousand). Former members of the Supervisory Board received other remuneration of EUR 470 thousand (prior year: EUR 466 thousand); accruals for pensions came to EUR 1,782 thousand (prior year: EUR 795 thousand).

No advances, loans, warranties or guarantees were granted to active or former members of the Supervisory Board.

With effect from December 8, 2005 ETEX Holding GmbH acquired 100 percent of the ordinary shares in CREATON AG. The reader is referred here to the detailed discussion in the Relations to Affiliated Companies Report pursuant to section 312 AktG included in the Management Report.

33. *Remuneration of the independent auditors*

	2005 EUR 000	2004 EUR 000
Audit of the annual financial statements	145	138
Tax consultancy	42	30
	187	168

34. Board of Management and Supervisory Board

Board of Management:

Alfons Hörmann, Sulzberg (Chairman),
Board member responsible for Strategy, Marketing & Sales
Chairman of the Supervisory Board of Schöck AG, Baden-Baden
Member of the Advisory Council of Hörmann GmbH & Co. Beteiligungs KG, Kirchseeon
Member of the Advisory Council of Schwering Türenwerk GmbH & Co. KG, Reken/Westphalia

Hans-Josef Berchtold, Wertingen,
Board member responsible for Technology and Purchasing
Member of the Advisory Council of Brauerei Felsenkeller, Herford

Karsten Schüssler, Wertingen,
Board member responsible for Finances and Controlling
Chairman of the Advisory Council of Sigel Holding GmbH, Mertingen

Supervisory Board:

The members of the Supervisory Board are presented individually on page 38 of this Report.

35. Compliance declaration according to section 161 German Stock Corporation Act

The declaration of compliance with the German Corporate Governance Code called for under section 161 German Stock Corporation Act was issued by the Board of Management and the Supervisory Board and made accessible to the shareholders.

36. Shareholdings by the Board of Management and Supervisory Board

The Board of Management holds no shares (prior year: 614,688 shares) and the Supervisory Board holds no shares (prior year: 1,873,327 shares).

37. Proposal on the allocation of the CREATON AG retained earnings

The Board of Management and the Supervisory Board propose to the CREATON AG General Meeting that the retained earnings totaling EUR 5,149,120.78 be allocated as follows:

Payment of a dividend of EUR 0.28 on the dividend-bearing capital stock of EUR 10,752,000.00	EUR	1,176,000.00
Payment of a dividend of EUR 0.40 per preferred share on the dividend-bearing capital stock of EUR 7,168,000.00 and considering the non-dividend-bearing capital stock of treasury shares of EUR 1,580,160.00	EUR	873,100.00
Allocations to the revenue reserves	EUR	3,100,000.00
Carried forward	EUR	20.78

Wertingen, March 14, 2006

CREATON AG

Hans-Josef Berchtold   Alfons Hörmann   Karsten Schüssler

Audit opinion by the independent auditors

"We have examined the consolidated annual financial statements, consisting of the balance sheet, the income statement, the schedule of changes in equity, the cash flow statement and the explanatory notes prepared by CREATON AG, Wertingen, as well as the Group Management Report for the business year January 1 – December 31, 2005. The Company's legal representatives were responsible for preparing the consolidated annual financial statements and Group Management Report in line with IFRS in the manner applicable in the EU, and the supplementary stipulations pursuant to section 315a of para. 1 of HGB. Our duty was on the basis of the audit we conducted to pass judgment on the consolidated annual financial statements including the accounts, and on the Group Management Report. In addition, we were commissioned to ascertain whether the consolidated annual financial statements concur with IFRS overall.

We undertook our examination of the consolidated annual financial statements pursuant to section 317 of HGB and in line with the German generally accepted accounting principles laid out by Institut der Wirtschaftsprüfer (IDW). The examination shall accordingly be planned and carried out such that it can with due certainty be ascertained whether the consolidated annual financial statements in consideration of the principles of due accounting and the picture of the assets, financial and earnings position conveyed by the Group Management Report are free of material misstatements. When defining the audit process, a knowledge of the business activities and the economic and legal conditions under which the Company operates as well as expectations of possible errors shall be considered. In the context of the audit, the efficacy of the accounting-related internal control systems and the quality of the documentation on which the statements in the accounts, the consolidated annual financial statements and the Group Management Report are based shall be evaluated primarily by random samples. The examination includes an assessment of the annual financial statements of the companies included in the consolidated annual financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied as well as the key assessments made by the legal representatives of the Company and an appraisal of the overall presentation of the consolidated annual financial statements as well as the Group Management Report. We are of the opinion that our examination forms a duly sound basis for our judgment.

Our examination led to no objections.

On the basis of the insights gained from our examination, the consolidated annual financial statements comply with IFRS as applicable in the EU, the additional commercial law stipulations applicable pursuant to section 315a para. 1 HGB and IFRS overall and, in keeping with these regulations, present a picture of the assets, financial and earnings position of the CREATON Group that concurs with the actual facts. The Group Management Report is consistent with the consolidated annual financial statements and overall gives an accurate account of the Company's position and of the opportunities and risks innate in future business."

AWT
AUDIT WIRTSCHAFTS-TREUHAND AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Ellgaß	Huber
Public certified auditor	Public certified auditor

Stuttgart, March 14, 2006

Annual financial statements of CREATON AG

CREATON AG

BALANCE SHEET *AS AT DECEMBER 31, 2005*

(PRIOR-YEAR FIGURES FOR COMPARISON)

ASSETS	Note	Dec. 31, 2005/EUR 000	Dec. 31, 2004/EUR 000
Fixed assets	(1)		
Intangible assets			
Concessions, industrial and			
similar rights and assets, and			
licenses in such rights and assets		2,495	2,812
Goodwill		111	445
		2,606	3,257
Tangible assets			
Land, similar rights and buildings,			
including buildings on third-party land		34,336	36,619
Technical plant and machinery		15,458	19,292
Other plant, operating and office equipment		2,690	3,093
Prepayments made and work in process		291	172
		52,775	59,176
Financial assets			
Shares in affiliated companies		22,360	22,349
Loans to affiliated companies		1,594	1,110
Other loans		1,365	0
		25,319	23,459
Current assets	(2)		
Inventories	(2a)		
Raw materials and supplies		6,219	4,708
Unfinished goods and services		423	397
Finished goods and merchandise		18,275	16,944
		24,917	22,049
Receivables and other assets	(2b)		
Trade receivables		2,658	3,822
Receivables from affiliated companies		9,023	7,499
Other assets		3,497	2,971
		15,178	14,292
Securities	(2c)		
Own shares		10,061	11,340
Other securities		1	1
		10,062	11,341
Cash balances, German Bundesbank			
and other bank balances, and checks		847	1,503
Prepaid expenses	(3)	234	326
		131,938	135,403

EQUITY AND LIABILITIES			Note	Dec. 31, 2005/EUR 000	Dec. 31, 2004/EUR0 000
Share capital					
Subscribed capital			(4)		
Ordinary shares				10,752	10,752
Preferred shares				7,168	7,168
Capital reserve			(5)	37,774	37,774
Revenue reserves			(6)		
Reserve for own shares			(6a)	10,061	11,340
Other revenue reserves			(6b)	8,930	5,451
Retained earnings			(7)	5,149	5,535
				79,834	78,020
Special reserves with an equity component			(8)		
Depreciation under section 4,					
Act Promoting Regional Economic Activity				9,177	10,819
Special item for investment grants				35	105
				9,212	10,924
Accruals					
Pension accruals			(9)	7,075	6,419
Tax accruals			(10)	1,403	1,502
Other accruals			(11)	9,558	7,299
				18,036	15,220
Liabilities			(12)		
Liabilities due to banks				15,884	21,169
Prepayments received				5	0
Trade accounts payable				5,739	6,239
Liabilities due to affiliated companies				433	595
Other liabilities				2,795	3,236
of which for taxes	EUR 000	683			
(2004	EUR 000	800)			
of which for social security contributions	EUR 000	745			
(2004	EUR 000	778)			
				24,856	31,239
				131,938	135,403
Contingent liabilities			(13)	47,616	48,133

CREATON AG

Schedule of movements in fixed assets and value adjustments

for the period January 1 – December 31, 2005

	PURCHASE/PRODUCTION COST				
	Status on Jan. 1, 2005 EUR 000	Additions EUR 000	Disposals EUR 000	Reclassifications EUR 000	Status on Dec. 31, 2005 TEUR
Intangible assets					
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	8,291	414	11	29	8,723
Goodwill	5,472	0	0	0	5,472
	13,763	414	11	29	14,195
Tangible assets					
Land, similar rights and buildings, including buildings on third-party land	73,306	158	0	0	73,464
Technical plant and machinery	140,751	2,458	1	96	143,304
Other plant, operating and office equipment	43,360	867	545	(9)	43,673
Prepayments made and work in process	172	292	57	(116)	291
Minor-value assets	9	32	41	0	0
	257,598	3,807	644	(29)	260,732
Financial assets					
Shares in affiliated companies	36,657	11	0	0	36,668
Loans to affiliated companies	1,110	484	0	0	1,594
Other loans	3,983	100	2,582	0	1,501
	41,750	595	2,582	0	39,763
	313,111	4,816	3,237	0	314,690

VALUE ADJUSTMENT						NET BOOK VALUE	
Status on Jan. 1, 2005 EUR 000	Additions EUR 000	Allocations EUR 000	Dissolutions EUR 000	Reclassifications EUR 000	Status on Dec. 31, 2005 EUR 000	Status on Dec. 31, 2005 TEUR	Status on Dec. 31, 2004 TEUR
5,479	755	0	11	5	6,228	2,495	2,812
5,027	334	0	0	0	5,361	111	445
10,506	1,089	0	11	5	11,589	2,606	3,257
36,687	2,441	0	0	0	39,128	34,336	36,619
121,459	6,387	0	0	0	127,846	15,458	19,292
40,267	1,265	0	544	(5)	40,983	2,690	3,093
0	0	0	0	0	0	291	172
9	32	0	41	0	0	0	0
198,422	10,125	0	585	(5)	207,957	52,775	59,176
14,308	0	0	0	0	14,308	22,360	22,349
0	0	0	0	0	0	1,594	1,110
3,983	0	1,765	2,082	0	136	1,365	0
18,291	0	1,765	2,082	0	14,444	25,319	23,459
227,219	11,214	1,765	2,678	0	233,990	80,700	85,892

CREATON AG

Income statement

for the period January 1 – December 31, 2005

(prior-year figures for comparison)

	Note	2005/EUR 000	2004/EUR 000
Sales revenues	(17)	131,920	131,676
Increase/(decrease) in inventory			
of finished and unfinished goods		1,830	2,303
Other own output capitalized		0	21
Other operating income	(18)	6,044	5,630
Total output		139,794	139,630
Cost of materials	(19)		
a) Cost of raw materials and supplies			
and purchased merchandise		(34,414)	(31,529)
b) Cost of purchased services		(12,722)	(11,915)
		(47,136)	(43,444)
Gross profit		92,658	96,186
Personnel expenses	(20)		
a) Wages and salaries		(25,598)	(25,510)
b) Social security, pension			
and other benefit costs		(6,464)	(6,395)
Depreciation/amortization			
on intangible and tangible fixed assets		(11,214)	(13,053)
Other operating expense	(21)	(40,329)	(42,373)
Operating income		9,053	8,855
Income from participations	(22)	2,651	2,262
Income from other securities			
and loans of financial assets	(22)	181	301
Other interest and similar income	(22)	25	71
Amortization on financial assets and			
on securities carried as marketable securities	(22)	0	(190)
Interest and similar expense	(22)	(1,219)	(1,276)
Earnings from ordinary activities		10,691	10,023
Taxes on income	(23)	(3,258)	(3,385)
Other taxes	(24)	(138)	(164)
Net income for the year	(25)	7,295	6,474
Profit carried forward		5,535	5,038
Dividends		(5,481)	(4,977)
Withdrawal from other revenue reserves		70	1,400
Withdrawal from the reserve for own shares		1,349	0
Allocation to the reserve for own shares		(70)	(1,400)
Allocation to other revenue reserves		(3,549)	(1,000)
Retained earnings		5,149	5,535

CREATON AG
Notes to the financial statements
as at December 31, 2005
(pursuant to section 284 et seq. HGB in connection with section 160 et seq. AktG)

A. GENERAL INFORMATION

The annual financial statements have been prepared in line with the stipulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The same accounting and valuation methods have been used for these annual financial statements as were applied in the prior year.

Given the fact that reporting is in EUR thousands, differences can arise from rounding.

B. ACCOUNTING AND VALUATION POLICIES

The balance sheet is structured in line with section 266 para. 2 and 3 HGB.

The income statement is structured in staggered form in line with the cost of production method (section 275 para. 1 and 2 HGB).

The annual financial statements have been prepared by partially taking the allocation of retained earnings into account.

I. Fixed assets

Intangible assets are posted at purchase cost including ancillary costs, less scheduled amortization.

Tangible fixed assets are carried at purchase or production cost, less scheduled depreciation. Purchase costs include the purchase price, ancillary costs and cost deductions.

Tangible assets calculated in foreign currencies are converted into EUR at the offering prices valid on the day on which the accounts were drawn up. Manufacturing costs for self-produced assets are calculated taking into account direct costs and prorated production overheads. No interest on outside capital was factored in.

Amortization and depreciation

Scheduled amortization/depreciation is charged on a straight-line basis and, to the extent permitted under fiscal law, using a geometric sliding scale. In cases where the latter method is applied, the depreciation is switched over to a straight-line basis in that year in which the sum for straight-line depreciation exceeds that arrived at by the sliding-scale method. As of business 2004, depreciation of asset erosion on real estate containing clay pits will be written off.

Higher depreciation as is permitted under fiscal law in the sense of section 254 HGB and investment subsidies granted for the purchase or production costs of fixed assets are entered under the special item with an equity component.

As of business 2004, depreciation on additions to movable assets is charged on a prorated basis.

Minor-value assets come under the simplification rule in section 6 para. 2 German Income Tax Act (EStG), and are fully written off in the year acquired.

Shares in affiliated companies are valued at purchase cost.

Loans are carried at nominal value, less extraordinary amortization.

II. Current assets

a) Inventories

Raw materials and supplies as well as merchandise held for resale are valued in line with the principle of lower of cost or market pursuant to section 253 para. 3 sentence 1 and 2 HGB at purchase cost. Purchase costs and purchase cost reductions are duly considered.

Fixed values have been assumed for part of these items which are subject to little fluctuation in terms of volume and value.

Unfinished and finished goods are valued according to the retrograde method in line with statutory stipulations. The value carried does not consider the expenses, which under fiscal law shall be capitalized. Interest on outside capital is likewise ignored.

The formation of value impairments takes all discernible inventory and warehousing risks into account. Unfinished and finished goods and goods held for resale are valued free of losses as soon as the value derived from the sales markets is lower than the purchase or production cost.

b) Receivables and other assets

Receivables and other assets are on principle carried at nominal value. A lump-sum value impairment is charged to cover general credit risk from trade accounts receivable from outside third-parties. Discernible individual risks have been taken into account by corresponding value adjustments.

Sums in foreign currency are valued at the bid price on the date of purchase or at the lower bid price on the balance sheet date.

c) Securities

Own shares and other securities are entered at purchase cost or at the lower quoted price on the balance sheet date.

III. Prepaid expenses and deferred charges

Items for prepaid expenses are established to the extent permissible under Commercial Law. Differences from the higher sum to be repaid for liabilities are written back on schedule across the term of the respective liability.

IV. Accruals

Accruals for pension obligations are carried at the partial value pursuant to section 6a EStG. They were calculated using actuarial methods on the basis of an interest rate of 6 percent p.a. The actuarial tables compiled by Prof. Klaus Heubeck in 2005 are taken as the basis for calculating the pension obligations.

Other accruals are calculated such as to take all discernible risks and uncertain obligations duly into account. The accrual for jubilees and long-service awards has on principle been calculated in line with the fiscal law, with the exception of section 52 para. 6 EStG, and has been discounted at a rate of 5.5 percent p.a.

The accrual for part-time employment by pre-retirees has been formed in keeping with the obligations actually expected and has been discounted at a rate of 3.5 percent p.a.

V. Liabilities

Accounts payable are entered at the amounts actually repayable. Unhedged foreign currency trade payables have been translated into EUR and entered as liabilities at the offer price on the date of receipt of invoice or at the higher offer price at year-end.

C. *EXPLANATORY NOTES TO THE BALANCE SHEET*

1. *Fixed assets*

The item for intangible assets contains licenses, loam pit, utilization and other rights acquired for consideration. Investments totaling EUR 414 thousand relate mainly to the purchase of IT software. Amortization on other intangible assets is charged on a straight-line basis of between 4 and 15 years in keeping with their usual service lives or contractually agreed usage period. The goodwill contains the added value from the merger of Josef Berchtold GmbH and Ernst Ott GmbH & Co. KG.

As regards land, similar rights and buildings, including buildings on third-party land, EUR 158 thousand was committed to expanding business and factory buildings.

Investments in technical plant and machinery of EUR 2,458 thousand relate primarily to investments in replacements.

Additions of other plant, operating and office equipment relate among other things to EUR 541 thousand for the vehicle pool, investments of EUR 188 thousand in IT hardware, and various items of operating equipment totaling EUR 106 thousand.

Buildings are written off over 10-25 years, while depreciation on technical plant and machinery as well as operating and office equipment is generally 3-15 years.

The depreciation of EUR 10,125 thousand charged as scheduled in business 2005 on tangible assets included minor-value assets of EUR 32 thousand.

Tangible assets are encumbered with liens of EUR 53,965 thousand, the same figure as the prior year. The actual lien valuation is EUR 15,884 thousand (prior year: EUR 21,169 thousand).

The composition of financial assets was as follows:

Corporation	Partners		Capital stock	%	Profit/loss 2005 EUR 000
Germany					
CREATON Beteiligungs-GmbH	CREATON AG	EUR 000	27	100	3
CREATON KERA-DACH	CREATON AG				
GmbH & Co. KG	CREATON Beteiligungs-GmbH	EUR 000	1,100	100	2,121
Austria					
CREATON GmbH, Vienna	CREATON AG	EUR 000	36	100	422
Poland					
CREATON POLSKA Sp. z o.o.,					
Warsaw	CREATON AG	ZL 000	50	100	(2)
– no ongoing operating activities –					
Hungary					
CREATON HUNGARY Kft., Lenti	CREATON AG	FT 000	29,000	100	(331)
CREATON TRADE Kft., Lenti	CREATON HUNGARY Kft.	FT 000	41,000	100	(18)

The profit/loss for the year stated is given in line with the values calculated using the regulations in the respechive country.

Loans to affiliated companies

Loans to affiliated companies relate to the loan of EUR 1,594 thousand granted to CREATON HUNGARY Kft., Hungary.

Other loans

This item is made up of a loan to Ströher GmbH. In past years, the entire loan has been written off owing to the business condition of the borrower. In business 2005 a change was agreed to the loan contract and in so doing part of the loan waived, with a corresponding allocation made for the residual part.

Changes in fixed assets can be seen from the schedule of movements on page 86.

2. *Current assets*

a) *Inventories*

Inventories are made up of the following:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Raw materials and supplies	6,219	4,708
Unfinished goods and services	423	397
Finished goods and merchandise	18,275	16,944
	24,917	22,049

b) *Receivables and other assets*

Receivables and other assets are structured as follows in line with the terms to maturity stated:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Trade receivables	2,658	3,822
of which with a remaining term		
of more than one year	0	0
Receivables from		
affiliated companies	9,023	7,499
of which with a remaining term		
of more than one year	0	0
Other assets	3,497	2,971
of which with a remaining term		
of more than one year	2,040	1,628

Other assets predominantly involve claims to tax reimbursements as well as reinsurance claims from life insurances.

c) *Securities*

The item for own shares includes 617,250 preferred shares from a share buyback by CREATON AG. For further details on the item, please consult the notes below on “reserve for own shares” given in the section on revenue reserves.

3. *Prepaid expenses*

Prepaid expenses include, among other things, discounts totaling EUR 132 thousand (prior year: EUR 152 thousand) written back over the term of the loans. The expense from writing them back is entered under interest and similar expense.

4. *Subscribed capital*

The share capital of CREATON AG is EUR 17,920 thousand and continues to be made up of 4,200,000 ordinary shares and 2,800,000 preferred shares without voting rights. In both cases, the stock are bearer shares. They are entered in the balance sheet pursuant to section 152 para. 1 of AktG as subscribed capital.

The Annual General Meeting authorized the Board of Management, subject to the approval of the Supervisory Board, to raise the capital stock by a maximum of EUR 8,960 thousand up until June 24, 2009 by one or several issues of new ordinary bearer shares and/or preferred bearer shares without voting rights (Authorized Capital I). The number of shares must rise in the same proportion as does the share capital. The capital increases can be effected either for cash or against contributions in kind. Moreover, the Board of Management is authorized, again subject to the approval of the Supervisory Board, to decide on whether or not to exclude subscription rights for existing shareholders. Such an exclusion is, however, only permissible, to avoid fractional amounts and/or in the case of a capital increase against contributions in kind designed to acquire companies, parts of companies or participations in companies or other key operational means. Furthermore, such an exclusion shall be permissible if the capital increase for cash does not exceed 10 percent of the capital stock and the issue price does not substantially fall short of the stock-market price of the shares. In addition, subscription rights for bearers of a particular share category can be excluded as regards the other share category to the extent that the subscription ratio for both types of share is equal.

5. *Capital reserve*

The capital reserve contains additional payments from the issue of shares as part of IPO of CREATON AG on November 9, 1995.

6. *Revenue reserves*

a) *Reserve for own shares*

The Annual General Meeting on June 18, 1999 empowered the Company to acquire own shares through to December 17, 2000 up to a maximum total of ten percent of the current CREATON AG share capital. The Board of Management was authorized, subject to approval of the Supervisory Board, to sell the own shares or, again subject to approval of the Supervisory Board and without an extra resolution of the Annual General Meeting being required to this effect, to withdraw such shares or use them as a contribution in kind in exchange for a performance rendered by a third party, without the shares being restricted to these uses. These authorizations can be used once or on several occasions, individually or at once.

The proportion of own shares carried as at December 31, 2005 came to EUR 1,580 thousand or 8.8 percent of the nominal capital stock.

During the business year 82,750 own shares were sold. The surplus of EUR 158 thousand compared with the purchase price has been entered under the item for other operating income.

As at December 31, 2005, owing to the increase in the stock market quotation for the shares, a compellingly necessary allocation for own shares of EUR 70 thousand was posted under other operating income. The allocation to the reserve for own shares reduced the retained earnings by the same amount. To offset this, EUR 70 thousand was withdrawn from other revenue reserves.

b) *Other revenue reserves*

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Status as at January 1	5,451	5,851
Allocation pursuant to		
Management Board resolution	2,200	1,000
Allocation from the reserve		
for own shares	1,349	0
Withdrawal for own shares	(70)	(1,400)
Status as at December 31	8,930	5,451

The Board of Management made use of its right pursuant to section 58 of AktG and resolved an allocation of EUR 2,200 thousand (prior year: EUR 1,000 thousand) to the other revenue reserves.

7. *Retained earnings*

CREATON AG posted retained earnings of EUR 5,149 thousand, comprising net income for business 2005 of EUR 7,295 thousand; the profit brought forward amounted to EUR 54 thousand after the dividend disbursement of EUR 5,481 thousand and an allocation of the revenue reserves of EUR 2,200 thousand.

8. *Special reserves with an equity component*

As in the prior year, in financial 2005 the Company made use of the option under section 247 para. 3 of HGB and continued to form a special reserve with an equity component under section 4 of the Act Promoting Regional Economic Activity and for investment subsidies and grants.

As in the prior business year, we charged no special depreciation pursuant to section 4 of said Act. Write-downs were therefore made in line with the fiscal stipulations and totaled EUR 1,642 thousand, as compared with EUR 2,420 thousand the prior year. The write-down has been entered under other operating income.

The subsidies granted by the Thuringia Economics Ministry in line with the Act to Enhance the Structure of the Regional Economy were earmarked for construction of the new roofing tile plant in Großengottern and were entered under the special item for investment subsidies. As in the previous year, no allocation was made in financial 2004. A figure of EUR 70 thousand was written back on this in line with fiscal amortization and compared with EUR 70 thousand the prior year. An average useful service life of eight years was assumed to obtain and the write-back is factored into other operating income.

A special item for the toxic emission rights issued free of charge with a current market value of EUR 144 thousand was set up for emission rights received during the 2005 business year from the German Emissions Trading Office attached to the Federal Environmental Agency and fully written back. The write-back is entered under other operating income.

For the special reserves with an equity component, assuming the Company continues to turn a profit, in coming years it will carry a correspondingly higher annual income tax bill of some 38 percent of the respective write-backs expected.

9. *Accruals for pensions and other obligations*

Pension accruals fully cover obligations from current pensions and future pension claims. They correspond to the partial value in keeping with section 6a of EStG. The actuarial tables compiled by Prof. Klaus Heubeck for 2005 are taken as the basis for calculating the pension obligations and an annual interest rate of 6 percent assumed.

In financial 2005, the pension accruals rose EUR 656 thousand, as compared with EUR 539 thousand the prior year.

All commitments are fully covered.

10. *Tax accruals*

Tax accruals contain the presumable tax bill for business 2005 of EUR 1,403 thousand.

11. *Other accruals*

Other accruals can be broken down as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Guarantee obligations	970	960
Bonus	2,782	1,997
Royalties	0	173
Severance payments	91	135
Interest, tax audit	24	24
Legal and consultancy costs	194	85
Annual report	110	110
Recultivation	1,270	1,154
Collateral used	181	240
Deferred maintenance	43	218
Duty for handicapped persons	26	22
Professional associations	14	36
Vacation payments	233	227
Long-service awards	454	383
Outstanding invoices	782	16
Overtime payments/performance bonuses/ part-time employment by pre-retirees	1,815	1,312
Issuing rights	156	0
Other	413	207
	9,558	7,299

Guarantee obligations

This accrual relates to possible claims for returned goods, price discounts, and replacement supplies free of charge and guarantee commitments. Moreover, the item also includes the expected claims for reimbursement of costs for changes in glazes for the "FINESSE" roofing tile series.

Recultivation

The accrual for recultivation covers the outlays necessary to restore the clay pits to their natural state after use. The calculations are based on a corresponding expert report.

Collateral used

Given the bankruptcy of a former affiliate, namely Emil Schönhöfer GmbH, this accrual covers the expected withdrawals for collateral cover given. Moreover, it also includes an additional expected guarantee claim.

Deferred maintenance

It was not possible to carry out various repairs as scheduled in business 2005. The work was therefore performed at the beginning of 2006.

Vacation payments

These accruals mainly cover holiday entitlements for 2005 on the basis of collective wage agreements and not yet taken, including the related statutory social insurance contributions.

Long-service awards

As in the prior year, the accruals for long-service awards are on principle calculated in line with the requirements of the German Commercial Code. The allocations for shortfalls for award claims through Dec. 31, 1992 not permissible under fiscal law is entered in full under commercial law. The calculations are based on actuarial reports and the 2005 basic tables prepared by Prof. Klaus Heubeck, and assume an annual interest rate of 5.5 percent.

Part-time employment by pre-retirees

The allocations to the accrual for part-time employment in pre-retirement age are made on the full scale of the expected claims, and a discount of 3.5 percent charged.

12. Liabilities

The structure and terms of liabilities are as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Liabilities due to banks	15,884	21,169
maturing in less than one year	5,628	6,956
maturing in 1 – 5 years	8,156	10,713
maturing in more than 5 years	2,100	3,500
Prepayments received on orders	5	0
maturing in less than one year	5	0
maturing in 1 – 5 years	0	0
maturing in more than 5 years	0	0
Trade accounts payable	5,739	6,239
maturing in less than one year	5,739	6,239
maturing in 1 – 5 years	0	0
maturing in more than 5 years	0	0
Liabilities due to affiliated companies	433	595
maturing in less than one year	433	595
maturing in 1 – 5 years	0	0
maturing in more than 5 years	0	0
Other liabilities	2,795	3,236
maturing in less than one year	2,795	3,236
maturing in 1 – 5 years	0	0
maturing in more than 5 years	0	0

Liabilities due to banks consist mainly of investment credits.

The item for other liabilities contains, among other things, wage and church tax, social security contributions, and liabilities owed to energy utilities and to clients.

Liabilities due to banks are collateralized by assigning collateral and property liens. The Company has encumbered the real property of the Autenried and Großengottern operations to a total of EUR 53,965 thousand, the same figure as the prior year. The actual value is EUR 15,884 thousand, as against EUR 21,169 thousand the prior year. Trade accounts payable are collateralized via the customary retention of title.

13. *Contingent liabilities*

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Liabilities from issuing and assigning bills	158	583
Liabilities from granting guarantees	37,232	37,324
Collateral for third-party liabilities	10,226	10,226
	47,616	48,133

Of the liabilities arising from granting guarantees EUR 22,250 thousand, the same figure as the prior year, apply to guarantee commitments for CREATON KERA-DACH GmbH & Co. KG. Moreover, in the context of building the new factory in Hungary, in 2004 we assumed a guarantee on behalf of CREATON HUNGARY Kft., Hungary totaling EUR 14,440 thousand.

As regards collateral put up for third-party liabilities, in the framework of financing the new factory building in Hungary free land charges on the real property of the Großengottern works were assigned to CREATON HUNGARY Kft., Hungary.

No claims had been brought by the time the financial statements were compiled.

14. *Other financial commitments*

Other financial commitments are structured as follows:

	Dec. 31, 2005 EUR 000	Dec. 31, 2004 EUR 000
Long-term rental agreements	465	465
Licenses	217	217
Leasing charges	1,000	1,041
Order guarantee	964	392
	2,646	2,115

The statements on long-term rental agreements, licenses and leasing charges present annual expenses. The remaining term of the long-term rental agreements is 11 years, the average remaining terms of the licenses 10 years. The average remaining term for leasing contracts is approx. two years.

No discounting had been undertaken on the above figures on other financial commitments.

Other contingent liabilities and other financial commitments such as should be explained in these notes or in the balance sheet did not exist as at December 31, 2005.

15. *Derivative financial instruments*

Since business 2004, as part of the medium financing, interest-rate swap transactions were carried out with Dresdner Bank AG. The expenses connected with the interest-rate swaps are carried as interest expense. As at December 31, 2005 a total of EUR 2,556 thousand of the collateralized credit line had been used. The collateral in the form of the interest-rate swap, which expires on September 30, 2007 decreases on a half-year basis by EUR 639 thousand. The fixed interest rate carried by CREATON AG is 3.145 percent, the variable interest paid to Dresdner Bank AG is based on the 6-month EURIBOR.

Moreover, an interest-rate swap running until March 30, 2010 was concluded for a total of EUR 6,000 thousand. The interest rate carried by CREATON AG is based on the 5-year EURIBOR, and a maximum of 3.9 percent; the variable interest paid to Dresdner Bank AG is set at the 3-month EURIBOR.

The market value of the interest rate swaps totals a charge of EUR 53 thousand to the Company. The market value was calculated using recognized mathematical procedures and the NPV on the basis of the market data available at the valuation date.

16. *Cash flow statement*

	2005	2004
	EUR 000	EUR 000
Operating activities		
Net income for the year	7,295	6,474
Amortization/depreciation on fixed assets	11,214	13,243
Allocations to fixed assets	(1,765)	0
Increase/(decrease) in accruals	2,818	1,047
Allocation to/(write-back of) special reserves with an equity component	(1,712)	(2,490)
Amortization on capitalized discounts	20	42
(Allocations)/amortization on own shares	(70)	(1,400)
(Profit)/loss from the disposal of fixed assets	0	22
(Increase)/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	(2,332)	(6,037)
Increase/(decrease) in trade payables and other liabilities not attributable to investing or financing activities	(1,100)	576
Cash flow from operating activities	14,368	11,477
Investing activities		
Payments for investments in intangible assets	(414)	(302)
Receipts from disposals of tangible assets	58	295
Payments for investments in tangible assets	(3,807)	(7,015)
Receipts from disposals of financial assets	500	4,500
Payments for investments in financial assets	(595)	(4,074)
Cash flow for investing activities	(4,258)	(6,596)
Financing activities		
Dividends	(5,481)	(4,977)
Payments for repaying loans	(3,956)	(3,904)
Cash flow for financing activities	(9,437)	(8,881)
Changes in cash and cash equivalents	673	(4,000)
Cash and cash equivalents at the beginning of the period	(1,497)	2,503
Cash and cash equivalents at the end of the period	(824)	(1,497)

Cash and cash equivalents are made up of cash balances, balances with the German Bundesbank, bank balances and checks totaling EUR 847 thousand, as compared with EUR 1,503 thousand the prior year, and current liabilities due to banks of EUR 1,671 thousand, as against EUR 3,000 thousand the previous year.

There were no constraints on rights to dispose over the cash and cash equivalents.

Interest and dividends are explained in greater detail under the item for financial income.

In financial 2005 the Company paid interest of EUR 1,187 thousand (prior year: EUR 1,142 thousand) and received interest of EUR 128 thousand (prior year: EUR 80 thousand). During the year under review, the Company paid taxes on income of EUR 3,117 thousand (prior year: EUR 2,061 thousand) and received refunds of EUR 11 thousand (prior year: EUR 0 thousand).

D. EXPLANATORY NOTES TO THE INCOME STATEMENT

17. Sales revenues

In 2005, the Company booked net sales of EUR 131,920 thousand, compared with EUR 131,676 thousand the prior year. Of this figure, 72.72 percent was recorded inside Germany, as against 77.2 percent one year before. Divided by operational area, 66 percent of sales were sourced by pressed pan tiles, as opposed to 67 percent one year earlier, and 19 percent with plain tiles, the same proportion as the year before. Other sales relate primarily to merchandise and other products.

18. Other operating income

Other operating income can be sub-divided as follows:

	2005 EUR 000	2004 EUR 000
Income from disposals of fixed assets	58	83
Accruals written back	150	42
Income from sale of own shares	158	0
Special item for investment subsidies written back	70	70
Special item for emission rights written back	144	0
Exchange-rate gains	45	204
Indemnification	496	191
Income from write-backs of value impairments charged	80	0
Private use of vehicles and phones	361	335
Allocation for own shares	70	1,400
Special item for depreciation under section 4 of the Law Promoting Regional Economic Activity written back	1,642	2,420
Increased capitalized value of the refund coverage insurance	412	314
Gain from merger	0	40
Income from allocations to financial assets	1,765	0
Other	593	531
	6,044	5,630

19. Cost of materials

Cost of raw materials and supplies totaled EUR 7,908 thousand, as compared with EUR 9,896 thousand the year before; costs of merchandise purchased came to EUR 26,506 thousand, as against EUR 21,633 thousand in 2004.

Expenses for services bought in mainly contain production-related power costs.

20. Personnel expense

The item for social security contributions and expenses for old-age provisions and support contains expenses for old-age provisions of EUR 1,368 thousand, compared with EUR 1,245 thousand one year earlier.

21. Other operating expenses

Other operating expenses are composed as follows:

	2005 EUR 000	2004 EUR 000
Operations	6,104	6,809
Vehicle pool	1,249	1,218
Administration	5,978	6,613
Distribution	25,690	25,935
Ancillary personnel expenses	326	561
Other	982	1,237
	40,329	42,373

Other operating expenses relate as regards operations primarily to repairs totaling EUR 4,594 thousand, compared with EUR 5,782 thousand in the prior year, expenses for recultivation came to EUR 435 thousand, as against EUR 123 thousand one year before, and expenses for guarantees and payments on goodwill of EUR 736 thousand, as opposed to EUR 667 thousand in 2004. Other operating expenses relating to distribution essentially include outgoing freight costs of EUR 17,183 thousand, compared with EUR 16,913 thousand one year before, and packaging expenses of EUR 3,194 thousand, as against EUR 3,406 thousand in 2004. Losses from disposals of fixed assets totaled EUR 58 thousand, as compared with EUR 105 thousand one year earlier.

22. Net financial income

Net financial income can be sub-divided as follows:

	2005 EUR 000	2004 EUR 000
Income from participations	2,651	2,262
of which from affiliated companies	2,651	2,262
Income from other securities and loans of financial assets	181	301
of which from affiliated companies	82	111
Other interest and similar income	25	71
of which from affiliated companies	0	0
Amortization on financial assets and on securities carried as current assets	0	(190)
of which from affiliated companies	0	0
Interest and similar expenses	(1,219)	(1,276)
of which to affiliated companies	(34)	(7)

Income from participations contain the withdrawable net income of CREATON KERA-DACH GmbH & Co. KG totaling EUR 2,121 thousand as well as a profit disbursement by CREATON GmbH, Austria, of EUR 530 thousand.

Income from other securities and loans of financial assets contain the income from the loans to Ströher GmbH and to CREATON HUNGARY Kft., Hungary.

In financial 2005, other interest and similar income includes interest income from cash investments with banks.

Interest and similar expense contain expenses from writing back discounts of EUR 20 thousand, as against EUR 42 thousand one year before.

23. *Taxes on income*

Expenses for corporation tax and the solidarity surcharge for business 2005 totaled EUR 2,129 thousand, as against EUR 2,239 thousand one year before. Expenses for trade tax came to EUR 1,139 thousand, as opposed to EUR 1,152 thousand the prior year. Tax rebates for prior years totaling EUR 11 thousand are factored into the accounts for business 2005, as compared with a figure of EUR 5 thousand one year before.

24. *Other taxes*

Other taxes relate to property tax and vehicle tax.

25. *Net income for the year*

Net income for the year is emphatically positively influenced by the write-back of special reserves with an equity component.

The future income tax bill will probably be less than 38 percent of the fiscal benefits of which the Company avails itself; essentially they are presented in the special reserves with an equity component.

E. *OTHER INFORMATION*

26. *Management and Supervisory Boards*

Board of Management:

Alfons Hörmann, Sulzberg (Chairman),
Board member responsible for Strategy, Marketing & Sales
Chairman of the Supervisory Board of Schöck AG, Baden-Baden
Member of the Advisory Council of Hörmann GmbH & Co. Beteiligungs KG, Kirchseeon
Member of the Advisory Council of Schwering Türenwerk GmbH & Co. KG, Reken/Westfalen
Hans-Josef Berchtold, Wertingen,
Board member responsible for Technology and Purchasing
Member of the Advisory Council of Brauerei Felsenkeller, Herford
Karsten Schüssler, Wertingen,
Board member responsible for Finances and Controlling
Chairman of the Advisory Council of Sigel Holding GmbH, Mertingen

Total remuneration of the CREATON AG Board of Managements in financial 2005 came to EUR 1,757 thousand, as compared with EUR 1,580 thousand one year earlier. The accruals for Board of Management pensions are carried in the balance sheet at EUR 1,817 thousand, as against EUR 1,565 thousand one year earlier.
The Management Board holds no shares (prior year: 614,688 shares).

Supervisory Board:

The members of the Supervisory Board are presented individually on page 38 of this Report.

The members of the Supervisory Board received emoluments for their activities on said Board totaling EUR 81 thousand, compared with EUR 83 thousand the prior year. For members of the Supervisory Board, other remuneration for loam purchases amounted to EUR 169 thousand, as against EUR 166 thousand the previous year. Accruals for pensions of Supervisory Board members came to EUR 2 thousand, as against EUR 799 thousand one year before. Former members of the Supervisory Board received other remuneration of EUR 470 thousand, as compared with EUR 466 thousand in 2004; accruals for pensions came to EUR 1,782 thousand, as opposed to EUR 795 thousand one year earlier.

The Supervisory Board holds no shares (prior year: 1,873,327 shares).

No advances, loans, guarantees or warranties were granted to members of either Board.

27. *Payroll*

During business 2005, excluding trainees CREATON AG employed on average 624 persons (2004: 635), of which 411 persons (prior year: 422) were wage-earners and 213 (2004: 213) salaried staff.

28. *Information pursuant to section 285, item 16, HGB*

The Management and Supervisory Boards duly issued the Declaration of Compliance with the German Corporate Governance Code as required by section 161 of AktG and made it accessible to the share holders.

29. *Information pursuant to section 285, item 17, HGB*

The volume of fees charged by the auditor such as are subject to disclosure obligations can be sub-divided as follows:

	2005 TEUR	2004 TEUR
Audit of the annual financial statements	120	104
Tax consultancy	22	22
	142	126

30. *Proposal on the allocation of retained earnings*

The Board of Management and the Supervisory Board propose to the General Meeting that the retained earnings of EUR 5,149,120.78 be allocated as follows:

Payment of a dividend of EUR 0.28 per ordinary share on the dividend-bearing capital stock of EUR 10,752,000.00	EUR 1,176,000.00
Payment of a dividend of EUR 0.40 per preferred share on the dividend-bearing capital stock of EUR 7,168,000.00 and considering the non-dividend bearing capital stock held as own shares of EUR 1,580,160.00	EUR 873,100.00
Allocations to the revenue reserves	EUR 3,100,000.00
Carried forward	EUR 20.78

Wertingen, March 14, 2006

CREATON AG

Hans-Josef Berchtold Alfons Hörmann Karsten Schüssler

Audit opinion by the independent auditors

"We have examined the annual financial statements consisting of the balance sheet, the income statement and the explanatory notes including the accounts for CREATON AG, Wertingen, as well as the Management Report on the Company and the Group for the business year January 1 – December 31, 2005. The Company's legal representatives were responsible for preparing these documents in line with the stipulations of German commercial law and the supplementary regulations laid out in the Articles of Incorporation. Our duty was on the basis of the audit we conducted to pass judgment on the annual financial statements including the accounts, and on the Management Report on the Company and the Group.

We undertook our examination of the annual financial statements pursuant to section 317 of the German Commerical Code (HGB) and in line with the German generally accepted accounting principles laid out by Institut der Wirtschaftsprüfer (IDW). The examination shall accordingly be planned and carried out such that with due certainty be such inaccuracies and violations can be identified as materially impact on the picture of the assets, financial and earnings position as conveyed by the annual financial statements (in consideration of the principles of due accounting) and by the Management Report for the Company and the Group. When defining the audit process, a knowledge of the business activities and the economic and legal conditions under which the Company operates as well as expectations of possible errors shall be considered. In the context of the audit, the efficacy of the accounting-related internal control systems shall be assessed as well as primarily random samples taken to evaluate the quality of the documentation on which the statements in the accounts, the annual financial statements and the Management Report on the Company and the Group is based. The examination includes an assessment of the accounting principles applied and of the key estimates made by the legal representatives of the Company as well as an appraisal of the overall presentation of the annual financial statements as well as the Management Report on the Company and the Group. We are of the opinion that our examination forms a duly sound basis for our judgment.

Our examination led to no objections.

On the basis of the insights gained from our examination, the annual financial statements comply with the statutory regulations and the supplementary stipulations of the Articles of Associations, and in keeping with principles of due accounting, present a picture of the assets, financial and earnings position of CREATON AG, Wertingen, that concurs with the actual facts. The Management Report on CREATON AG, Wertingen, and the CREATON Group, is consistent with the annual financial statements and overall gives an accurate account of the Company's position and of the opportunities and risks innate in future business."

AWT
AUDIT WIRTSCHAFTS-TREUHAND AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Ellgaß	Huber
Certified public auditor	Certified public auditor

Stuttgart, March 14, 2006

CREATON *clay roofing tile glossary*

Bat
clay as a raw material before extrusion.

Concrete roofing tiles
consist of approx. 70 percent sand, approx. 21 percent cement, approx. 7.5 percent water and approx. 1.5 percent chemical coating materials.

Clay
fine grain sediment stone, consisting primarily of clay minerals, whose chemical structure is responsible for clay displaying plastic features when it absorbs water.

Clay roofing tiles
consist of clays and loams, which occur naturally in the earth's crust and contain primarily clay minerals and quartz. When fired, the clay minerals are transformed into silicates. Their color depends on the temperature at which they were fired and the level of iron oxide in the raw material.

Engobes
consist of clay silts containing minerals, to which natural minerals or metal oxides can be added to produce the desired color. They are used as finishing and alter only the color of the tile surface, not the characteristics of the tile itself.

Screed replacement tiles
CREATON ceramic elements that can be used as dry screed.

Glazing
consists primarily of ground, melted special compound glasses (glass frits). The glaze coloring is produced by inorganic additives (mostly simple metal oxides) or by ceramic pigments (various clay slips). The glazing seals the outer surface of the tile's body and makes the tile extremely robust.

Grinding mill
coarse grinding and mixing aggregate in raw material processing.

H-frames
H-shaped firing aid for transporting clay roof tiles through the kiln.

Hydrocasing technology
insulation of the tunnel kiln car with the aid of a water bath.

Important basic features of ceramics
frost resistance, resistance to ultra violet-light, acid resistance, color fast, dimensional stability, break resistance also under great stress, water resistance.

Loam
mixture of clay, fine sand and sand, which may contain other coarser ingredients such as shingle, gravel and stones.

Natural red
firing color that is produced solely by natural raw materials, without the addition of color-altering metal oxides.

Recultivation
transformation of quarried land into farming land.

Renaturalization
transformation of a quarried mine into natural areas, e.g., biotopes, mixed forests, mixed fruit meadows, etc.

CREATON CLAY ROOFING TILE GLOSSARY

Roller kiln

kiln for the production of ceramic tiles and similar products: the raw materials are transported through the kiln on ceramic rollers.

Soaking pit

raw material storage basin, in which the clay for high-quality products is prepared for weeks.

Tunnel kiln

kiln for the production of ceramic products, in which the temperature and gas composition conditions are constant and the articles lie flat as they are transported through the tunnel at a constant speed.

Types of tiles

plain tile:
flat extruded clay tile without grooves, cut in various ways. As a rule it is laid in double layers and with an overlap.
extruded roof tiles:
shaped or curved roof tile with interlocking joints.
dual cavity interlocking clay tile:
extruded roof tile with interrupted circular interlocking joints.
flat roof tile:
extruded roof tile with several circular interlocking joints.
pan tile:
curved extruded clay roof tile with no interlocking joints.
sliding tile:
extruded roof tile with sliding interlocking joints and as a rule a special shape with interrupted circular interlocking joints.

THE LAST FIVE YEARS

		2001 (HGB)	2002 (HGB)	2003 (IFRS)	2004 (IFRS)	2005 (IFRS)
Sales						
Net sales revenues	EUR million	125.1	112.2	130.2	133.1	134.9
Inside Germany	EUR million	101.0	86.7	101.2	101.7	95.9
Outside Germany	EUR million	24.1	25.5	29.0	31.4	39.0
Non-German share	%	19.3	22.8	22.3	23.6	28.9
Earnings						
Operating profits (EBIT)	EUR million	14.1	10.2	9.9	14.4	14.2
Earnings from ordinary activities	EUR million	12.2	2.2	7.5	11.7	11.8
Net income for the year	EUR million	10.4	0.1	4.3	6.4	7.3
EPS[1]	EUR million	0.31	0.38	0.68	1.01	1.16
Assets and capital						
Fixed assets	EUR million	99.5	113.4	148.2	152.7	154.4
Current assets	EUR million	46.3	49.2	31.5	32.6	34.0
(of which cash and marketable securities)[4]	EUR million	15.2	9.0	3.0	2.0	1.4
Share capital[2]	EUR million	74.3	67.4	84.9	86.2	89.6
Balance sheet total	EUR million	146.1	163.4	184.0	189.2	192.1
Cash flow/investments						
Cash flow[1]	EUR million	26.0	20.5	22.5	27.3	26.7
Investments	EUR million	8.1	41.0	10.0	18.1	13.5
Amortization/depreciation	EUR million	20.1	22.3	12.6	12.9	12.5
Net financial loss (cash and cash equivalents less financial liabilities)[5]	EUR million	–12.5	–35.1	–29.5	–30.2	–27.8
Key figures						
Equity/assets ratio[2]	%	50.8	41.3	46.1	45.6	46.6
Asset coverage (non-current capital in % of fixed assets)[6]	%	122.8	112.0	94.4	94.0	94.3
Profitability						
Return on sales after taxes	%	8.3	0.1	3.3	4.8	5.4
ROE (Return on equity)[2]	%	14.0	0.1	5.1	7.4	8.1
Total return on capital	%	7.1	0.0	2.3	3.4	3.8
EBIT margin	%	11.3	9.1	7.6	10.8	10.5
Payroll as at Dec. 31[3]		754	716	720	771	782
Disbursement						
Disbursement per preferred share	EUR	0.87	0.87	0.87	0.95	0.40
Disbursement per ordinary share	EUR	0.75	0.75	0.75	0.83	0.28

[1] Calculated until 2002 according to DVFA/SG, as of 2003 pursuant to IFRS (EBITDA)

[2] until 2002 incl. 50% of the special reserves with an equity component

[3] incl. part-timers

[4] as of 2003 without own shares

[5] as of 2003 incl. own shares at market year-end price, until 2002 at the balance-sheet value

[6] as of 2003 incl. public-sector grants

CREATON

NATURAL CLAY SETS THE TONE

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