Annual Report 2005

Deutsche Steinzeug Cremer & Breuer AG

Production of ceramic covering materials
in Meißen, Ötzingen, Schwarzenfeld, Sinzig and Alfter-Witterschlick

Core business
Ceramic covering materials

Deutsche Steinzeug Keramik GmbH,
Alfter-Witterschlick
100%

Meissen Keramik Vertriebs GmbH [1],
Dortmund
100%

Deutsche Steinzeug America Inc.,
Alpharetta/Georgia
100%

Deutsche Steinzeug France s.a.r.l.,
Norroy le Veneur
100%

Deutsche Steinzeug Schweiz AG,
Hergiswil
100%

Deutsche Steinzeug Italia srl.,
Veggia di Casalgrande
100%

Other companies

GELUNA Vermögensverwaltung GmbH,
Alfter-Witterschlick
100%

Deutsche Steinzeug Immobilien GmbH & Co. KG,
Alfter-Witterschlick
100%

Administrative and other companies

1) change of legal form 4/2006

Production company

Marketing company

Key indicators for the Deutsche Steinzeug Group

Fiscal year to 31 December		2005 €	2004 €	Change €	%
Group sales	(mill.)	230.5	235.8	-5.3	-2.2
EBITDA (result before interest and depreciations)	(mill.)	14.4	6.6	+7.8	>+100.0
EBITDA before special expenditure*	(mill.)	18.4	11.1	+7.3	+65.8
EBIT (operative result)	(mill.)	2.6	-3.2	+5.8	>+100.0
EBIT before special expenditure*	(mill.)	6.6	1.4	+5.2	>+100.0
EGT (result from ordinary operations)	(mill.)	-6.3	-14.6	+8.3	+56.8
EGT before special expenditure*	(mill.)	-2.3	-10.0	+7.7	+77.0
Group net loss	(mill.)	-4.5	-9.8	+5.3	+54.1
DVFA/SG net income	(mill.)	-4.4	-6.5	+2.1	+32.3
Investments in intangible assets and property, plant and equipment	(mill.)	6.7	5.8	+0.9	+15.5
Investments in financial assets	(mill.)	0.0	0.0	+0.0	+0.0
Total depreciations*	(mill.)	11.8	9.8	+2.0	+20.4
DVFA/SG cash flow	(mill.)	7.7	4.6	+3.1	+67.4
Balance sheet total	(mill.)	187.9	195.5	-7.6	-3.9
of which long-term assets	(mill.)	*113.0*	*118.0*	*-5.0*	*-4.2*
of which short-term assets	(mill.)	*74.9*	*77.5*	*-2.6*	*-3.4*
of which shareholders' equity	(mill.)	*0.4*	*4.3*	*-3.9*	*-90.7*
of which long-term liabilities	(mill.)	*79.8*	*95.3*	*-15.5*	*-16.3*
of which short-term liabilities	(mill.)	*107.7*	*96.0*	*+11.7*	*+12.2*
Working capital	(mill.)	40.0	43.0	-3.0	-7.0
Net indebtedness to banks	(mill.)	74.5	75.3	-0.8	-1.1
Employees	(Number)	1,672	1,720	-48	-2.8
EBITDA profit-sales ratio	(%)	6.25	2.80	+3.45	>+100.0
EBITDA profit-sales ratio before special expenditure*	(%)	7.98	4.71	+3.27	+69.4
EBIT profit-sales ratio	(%)	1.13	-1.36	+2.49	>+100.0
EBIT profit-sales ratio before special expenditure*	(%)	2.86	0.59	+ 2.27	>+100.0
EGT profit-sales ratio	(%)	-2.73	-6.19	+3.46	+55.9
EGT profit-sales ratio before special expenditure*	(%)	-1.00	-4.24	+3.24	+76.4
DVFA/SG profit-sales ratio	(%)	-1.92	-2.75	+0.83	+30.2
DVFA/SG-ROCE	(%)	-3.08	-4.17	+1.09	-26.1
EBIT-ROCE before special expenditure*	(%)	4.59	0.90	+3.69	> +100.0
Number of shares giving entitlement to dividend	(Number)	27,065,000	26,839,902	+225,098	+0.8
DVFA/SG net earnings per share adj.		-0.16	-0.24	+0.08	+33.3
DVFA/SG cash flow per share adj.		0.29	0.17	+0.12	+70.6
Dividend per share without tax credit adj.		0.00	0.00	+0.00	+0.0
Dividend per share with tax credit adj.		0.00	0.00	+0.00	+0.0
Price on last day of trading adj.		0.61	0.73	-0.12	-16.4
Market capitalization on last day of trading	(mill.)	16.5	19.6	-3.1	-15.8

* Special expenditure from restructuring

Chiesa di Francesco,
Bagheria/Italy

Unity series,
Agrob Buchtal Residential Ceramics

Nettebad,
Osnabrück/Germany

Contents

Dear Shareholders, Business Partners and Employees,

Dieter Schäfer, Chairman of the Board of Management

In previous years, I demonstrated to you on this occasion especially the difficult specific situation of the Ceramic Covering Materials industry on our main market, i.e. the Federal Republic of Germany, and informed you about the domestic building economy which has been on the decline for over a decade. I considered it to be particularly important to demonstrate to you that we have done our utmost to restructure the Ceramic Covering Materials Division. This also includes the performance of our sales team in the scope of a systematic market cultivation and the improvements achieved by our production team regarding the optimization of quality and output.

In this Report, I would like to concentrate essentially on the measures to implement the recapitalization of our Company. This is one of the reasons why we are exceptionally late in publishing our 2005 Annual Report. Moreover, we will not be holding the Annual General Meeting 2006 before the second half of August 2006, contrary to our initially announced financial schedule. This suggests that our Company was forced to handle a special challenge in the first few months of 2006.

In our previous years' reports and in the interim reports which we publish quarterly, we explained to you that Deutsche Steinzeug has achieved a comprehensive operative restructuring, last, but not least, by concentrating on its core competence – the manufacturing and sale of ceramic covering materials. This is also reflected by the ratios for the fiscal year 2005. We were again capable of improving the operating result before interest and depreciations (EBIDTA) and the operating result (EBIT) and have

Swimming pool Fildorado,
Filderstadt/Germany

Priest's office St. Bonifaz,
Munich/Germany

thus focused our efforts increasingly on the recapitalization of Deutsche Steinzeug. We have pointed out repeatedly that our balance sheet structure is extremely negatively charged, last, but not least due to such bank and pension liabilities which date back to a time when Deutsche Steinzeug was responsible for various divisions. Thus, the Supervisory Board and the Board of Management have set themselves the target to implement the changes in our capital structure via a strategic or financial investor. In this context, we would like to mention that any potential investor assigns the provision amount for pension liabilities to the financial debt, so that an indebtness of over 140 million € would result at the end of the year 2005. Due to this charge, potential investors determined a negative value for our Company in the scope of their business valuation consideration for our Company, rendering our search for investors much more difficult. We were forced to discover that – despite our intensive efforts – no strategic partner was available for a commitment, even if they might have benefited from certain synergies. The search for an investor was, moreover, aggravated by the fact that the successful recapitalization of the Company not only required additional liquidity and a reduction of the debt, but also the discharge and extension of the existing bank credits, as the creditor banks had limited their commitments in time. Before that backdrop, we increasingly focused, as of the II[nd] half year 2005, on finding financial investors for our Company. The postponement of the Annual General Meeting to August of this year is due to the fact that we have found a group of investors who are ready and able not only to provide additional equity capital in terms of cash, but also to discharge the existing bank credits which will expire before long by a medium-term credit. In Deutsche Bank AG, London, Goldman Sachs and Lone Star, we have found investors who are known as reliable finance providers, investors and shareholders. Moreover, the recapitalization results in a change to our shareholder structure. This, however, is indispensable from our point of view in order to achieve a better capitalization, which would not be achieved otherwise.

Moreover, I would like to mention the fact that the Italian Gruppo Concorde, with whom we have been cooperating successfully for quite some time at production level and who held a direct participation of just under 15% in Deutsche Steinzeug, has declared themselves willing to support not only all the required measures and resolutions, but to participate significantly in the increase in cash capital resolved by the extraordinary General Meeting in May. The family consortium being a majority shareholder also accompanies the resolved measures in positive manner. This

Calisto series,
Agrob Buchtal Residential Ceramics

Stadium Dynamo,
Zagreb/Croatia

documents a special responsibility of both groups of shareholders towards our Company and its staff.

What did we achieve in the Ist half year 2006 as regards recapitalization?

After having prepared, together with the investors, the contractual prerequisites at a financial, tax and antitrust level, we invited our shareholders to participate in an Extraordinary General Meeting on 11.05.2006. We were able to communicate to them on the occasion of this meeting that we could not see any conclusive alternative to the envisaged restructuring concept, as refinancing of the Company involving the former credit institutes and shareholders was not feasible.

This is why the Extraordinary General Meeting resolved with a huge majority of over 95% of the share capital represented the proposed capital reduction at a ratio of 6:1, a subsequent capital increase against contribution in cash up to approx. 9 million € and a capital increase against contribution in kind of approx. 12 million € by a debt to equity swap. This created the basis for a recapitalization to which all the parties concerned contributed. Thus, e.g. the Pensionssicherungsverein aG has taken over the major part of the Company's pension liabilities, and the creditor banks have accepted a depreciation of their claims. Moreover, the staff have also contributed to the recapitalization by renouncing their voluntary special benefits according to the collective agreement and a part of their monthly remuneration.

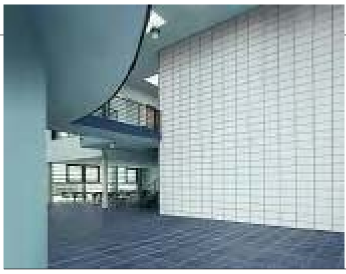
After implementing the capital measures resolved, our financial liabilities (bank and pension liabilities), which reached over 140 million € for the Group, will be cut by almost half to below 75 million €. After the capital decrease and an offset against the accrued losses and the capital increase including a capital increase against contribution in kind, our equity capital will increase to approx. 65 million €. Thus, we are able to report an equity ratio of approx. 35% of the balance sheet total and a safe capital base to build on in the future. This competitive balance sheet structure is enabled, last but not least, by the fact that the Pensionssicherungsverein aG and other parties secondarily liable have promised to take over the major part of our pension obligations. Thus, our cash out for pension payments is reduced by approx. 3.5 million € per year.

The resolutions made in the Extraordinary General Meeting have already been entered in the Commercial Register shortly after the General Meeting. Nevertheless, individual shareholders raised an action of avoidance against these resolutions of the General

Il San Gwangsung Church, Seoul/Korea

University of Dortmund/ Germany

Heilpädagogisches Zentrum (centre for remedial education), Irchenrieth/Germany



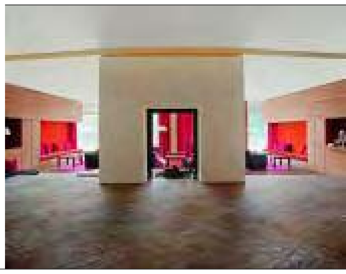
Hörsaalzentrum (lecture room centre),
Bochum/Germany

Meeting. We believe the resolutions have been made lawfully and were, moreover, indispensable to secure the Company's existence. Notwithstanding this, we are negotiating with the parties who submitted the motion to annul the resolutions, and try to take their concerns into account in the scope of implementation of the measures resolved on 11.05.2006. We are confident that we will be able to realize all measures at the latest by the end of August 2006.

Even if implementation of the recapitalization is a burden to our shareholders and especially to the families of the founders of the Company – last, but not least, the family shareholders are to lose the majority ownership in our Company after over 100 years – the resolutions were essential. Without these measures and the significant waiver on the part of banks, Pensionssicherungsverein and the staff, no investor would have been prepared to make a commitment to our Company. Adding to this, without these resolutions, without the contributions towards the restructuring on the part of the Pensionssicherungsverein aG and without the extension of the expiring credit lines, we would not have been able to report the assets of our Company on a going-concern basis. This might have endangered the existence of our Company.

Despite our successful operating business performance for the 2005 fiscal year, we still have to report a negative aggregate result. In this context, the fact that our annual financial statements have, for the very first time, been drafted according to IFRS/IAS is also essential, as valuations must be made in a much more future-oriented fashion than according to the provisions of HGB (German Commercial Code). In this context, restructuring became necessary during the year under review regarding the loss situation at our US-American subsidiary. This year, it is becoming apparent that the market position of Jasba in Germany and in the USA remains difficult, as in the previous year. Moreover, we had to adjust the assessment of our real estate due to new findings regarding the future development thereof. Finally, we could assume after the Ist quarter 2006 that the investor concept would be implemented with success, so that we had to take special issues resulting from this concept into account as well.

There is no doubt that we researched and analyzed in extreme detail possible alternatives to our recapitalization concept which has been initiated, but – I have to repeat myself – any other form of refinancing of our Company was not possible. The reasons why a high participation by a strategic partner did not



Lanos series,
Agrob Buchtal Architectural Ceramics

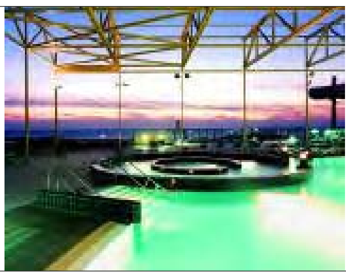
Administration building,
Nagold/Germany

come about were not only the difficult domestic building sector, but also the bank and pension liabilities to be transferred. An improvement of the liability side of the balance sheet, exclusively in line with a cash capital increase, would not have eliminated our structural problems and was thus judged to be insufficient to that extent by all parties involved, including the potential investors.

What do we expect for the future?
As explained above and as described in detail in the management report and the notes, we have improved our operating result again. In this context, it must be taken into consideration that consumption of ceramic covering materials declined in Germany in 2005 again and now amounts to approx. 130 million m^2 (approx. -5%). As our Company with its market share of approx. 12% in Germany was not able to avoid this trend altogether, domestic turnover declined by 2.6 million € to 152 million €. The decline in domestic turnover by 1.7% is, relatively speaking, lower than the market average and resulted in our Company regaining market shares. This is due to the slight increase of our average revenues, which last, but not least, emphasizes our excellent market position.

The fact that we report a decline in turnover by 3.2% in the export sector in 2005 is primarily based on the one-off order of paving stones delivered in 2004 for a major project in Abu Dhabi with an order volume of approx. 7 million €, which was unique in its magnitude. Adjusted by this special item, the export share has improved. Thus, Deutsche Steinzeug – despite all additional charges in conjunction with refinancing – has maintained an excellent market position and a good reputation with our partners and customers alike. To this effect, we benefited from our successful product development, our improved manufacturing structures and above all from our sales position in the market, last, but not least, however, from our USP Hydrotect. It is this excellent surface coating with its advantages regarding hygiene and cleanness that is arousing increasing interest in the Project business.

Once recapitalization is completed, our Company will again dispose of sufficient cash for investments to enhance its competitiveness. Here, the envisaged investments focus on even more flexible production structures and an optimized energy utilization. After we had invested in the previous years, as a rule, essentially below the volume of depreciation and thus had partially consumed the net asset values – last, but not least, for reasons of liquidity – we are planning, during the IInd half-year 2006, investments to continue to improve our product quality and flexibility as regards capacity utilization and to reduce our energy



Gezeitenland,
Borkum/Germany

consumption. Moreover, we envisage reinforcing our sales and marketing activities by expanding our position in Asia and Eastern Europe, by improving our presentation material in the market, but also by advertising for our Hydrotect surface coating.

During the fiscal year, we have made all efforts to secure the existence of Deutsche Steinzeug by means of a comprehensive restructuring and recapitalization programme. Notwithstanding the fact that the workload is distributed on a necessarily reduced workforce now, and bearing in mind the considerable special charges accompanying the restructuring, our employees showed themselves prepared to commit themselves especially to our Company, despite a partial waiver of wages and salaries. I would like to express my warmest gratitude to all of them for this. I would also like to thank the representatives of the bodies provided by the Works Constitution Act who supported all the imminent, difficult decisions in a constructive fashion throughout.

I am very confident that after the long phase of reorganization and restructuring, along with a recapitalization of the liability side of our balance sheet, our Company has managed to take the decisive step of positioning Deutsche Steinzeug successfully for the future. I would like to assure you that, nevertheless, we will not fail to identify and utilize all savings potentials to counteract at an early stage the anticipated cost increases, especially in the energy sector, but also aggravated competition at an international level. At the same time, we want to boost and expand our positioning on the market by strengthening our sales and marketing activities. If we are able to realize, once our investments envisaged for the current year and the future years are completed, taking account of the development of the industry and the national and international competition, a permanent EBITDA margin of approx. 10%, we can all be sure of having made and implemented the right decisions.

Frechen, June 2006

D. Schäfer

Dieter Schäfer

Cabana series,
Agrob Buchtal Architectural Ceramics

Medical centre,
Berlin/Germany

Hotel pool,
Windhoek/Namibia

Members of the Board of Management and the Supervisory Board

Eckehard Forberich and Dieter Schäfer

Board of Management

Eckehard Forberich
- as of 01.01.2006 -
Oberursel
Business school graduate, graduate physicist,
40 years old
Main fields of activity:
• Finance
• Controlling
• Informatics
• Strategic purchasing
• General administration
• Other investments

Dieter Schäfer
Chairman
Swisttal-Miel
Businessman,
58 years old
Main fields of activity:
• Overall coordination of the development of Deutsche Steinzeug Group
• Marketing and distribution
• Production, technology and environmental protection
• Logistics
• Personnel
• Legal affairs
• Ceramic investments

Shares held by the organ members:
Board of Management: 31,908
Supervisory Board: 45,652

Supervisory Board

Wilfried Delker
Chairman
Königswinter
Vice-President (rtd.) of American Standard Companies, Inc., Piscataway/USA

Gerd Schloßarek *
Deputy chairman
Kamen
Director of the Ceramics and Glass Industrial Section at the IG Bergbau, Chemie, Energie, Hanover

Herbert Allert *
Schwandorf-Ettmannsdorf
- up to 11.05.2006 -
Chief Executive of the IG Bergbau, Chemie, Energie, Oberpfalz district, Schwandorf

Georg Federer *
Schwandorf
Industrial clerk,
Deutsche Steinzeug Cremer & Breuer AG,
plant Schwarzenfeld

Peter Baron von le Fort
Hamburg
- as of 12.05.2006 -
Qualified auditor / tax consultant

Rainer Kloft *
Hahn
Chairman of the Central Employees' Council of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick

Christian Knell
Amorbach
- as of 12.05.2006 -
Director Business Development
Central Europe of HeidelbergCement AG, Heidelberg

Helmut Kossmann *
Rheinbach
- up to 11.05.2006 -
Head of Informatics,
Deutsche Steinzeug Cremer & Breuer AG,
Alfter-Witterschlick

Professor Dr. Eckart Kottkamp
Großhandorf
- as of 12.05.2006 -
Senior Advisor

Kaspar Kraemer
Cologne
- up to 11.05.2006 -
Graduate Engineer, Architect BDA

Dr. Hermann Rappe
Sarstedt
Pensioner

Manfred Rauser
Lindau
- as of 12.05.2006 -
Management consultant

Manfred F.J. Rütten
Monheim
- up to 11.05.2006 -
Chief Executive Officer (rtd.), North Rhine-Westphalia Employers' Association for Crafts, Düsseldorf

Dr. Stephan Schelo
Meerbusch
- as of 12.05.2006 -
Chairman of Managing Board of SPAR Handels AG, Schenefeld

Heinrich Schliefer
Seevetal
- up to 11.05.2006 -
Graduate Engineer, Counsellor

Dieter Vianden *
Munich
Deputy chairman of the Employees' Council of the Witterschlick plant of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick

Dr. Alexander Winkels
Erkrath
- as of 12.05.2006 -
Management consultant

Franz-Egon Wirtz
Cologne
- up to 11.05.2006 -
Member of the Management Board of S. Loevenich Immobilien AG, Frechen

* Employees' representative

Enormous stylistic variety.

Creativity and colourfulness characterize the current style of interior decoration just as the growing esteem of noble classics. Against the background of these competing trends, Deutsche Steinzeug is convincing by a collection of novelties whose stylistic variety attracts the attention of all those who understand living as an expression of their individual attitude to life. In addition, high-quality porcelain stoneware series offer the possibility of integrating the winter garden, the terrace and the balcony in the living area.

Unity series, Agrob Buchtal Residential Ceramics

Sardenia series, Agrob Buchtal Residential Ceramics

Prado series, Agrob Buchtal Residential Ceramics

Concept series, Agrob Buchtal Residential Ceramics


Wilfried Delker, Chairman of the Supervisory Board

Report of the Supervisory Board

In the fiscal year 2005, the Supervisory Board regularly monitored the work of the Board of Management and supported it with advice. The basis for this were the extensive written and oral reports of the Board of Management. The Supervisory Board provided the Board of Management with comprehensive advice on all matters important to the Company, also in addition to the regular meetings. The talks were focused on the situation of the Company, the restructuring efforts continued in the reporting year, and the strategic positioning of Deutsche Steinzeug Cremer & Breuer AG in the scope of negotiations with prospective investors concerning the recapitalization of the Company.

The Supervisory Board duly fulfilled its obligations pursuant to the law and the articles of incorporation in the 2005 business year. Once the concentration on the core business of ceramic covering materials, which had been planned for many years, was finalized in 2004, the Supervisory Board was informed comprehensively in five meetings about the Company's economic and financial situation. The status of the talks with potential financial investors regarding the recapitalization of the Company and the sustainable strengthening of its balance sheet structure has been reported in great detail. On 31.03.2006, Deutsche Steinzeug Cremer & Breuer AG issued an ad hoc publication according to which the Company had agreed, together with Deutsche Bank AG and co-investors, as well as with some of its lenders and other creditors, upon a recapitalization plan.

The Board of Management informed the Supervisory Board also in addition to the regular meetings orally and in writing on the current situation of the Company. All business transactions subject to approval were dealt with by the Supervisory Board and discussed and decided jointly with the Board of Management. Given the compelling economic background, the members of the Supervisory Board were in close contact with the Board of Management throughout the entire year of 2005 to provide advice and support.

The Audit Committee, formed on the basis of the German Corporate Governance Code, met once in the fiscal year. The Committee focused on questions regarding auditing, including the conversion to IFRS, and on risk management aspects. Besides, it prepared the resolutions of the Supervisory Board on the annual financial statements, the consolidated financial statement, the management report and Group management report. The Audit Committee also took suitable steps to ascertain and monitor the independence of the auditing company.

The consolidated financial statement and the annual financial statements as of 31.12.2005, the management report and Group management report of Deutsche Steinzeug Cremer & Breuer AG were audited by Dr. Glade, König und Partner GmbH, Auditing Company, Tax Consultancy Company, Neuss, appointed as auditors by the General Meeting; they have expressed an unqualified opinion. The annual financial statements, the consolidated financial statement, the management report and Group management report as well as the auditors' reports were presented to all members of the Supervisory Board. The relevant documents concerning the financial statements were discussed in detail in the balance sheet meeting of the Supervisory Board – in both committees in the presence of and upon a report of the auditors. The Supervisory Board examined the annual financial statements, the management report and Group management report as well as the consolidated financial statement. There were no objections. Thus, the Supervisory Board approved the result of the audit. The Supervisory Board approved the annual financial statements and the consolidated financial statement prepared by the Board of Management. Thus, the annual financial statements are approved. The Supervisory Board is in agreement with the management report and Group management report and in particular with the assessment regarding the future development of the Company.

In line with the envisaged recapitalization of the Company, an extraordinary general meeting was held on 11.05.2006 in which eight new Supervisory Board members were elected as shareholder representatives in separate elections. The re-election of the Supervisory Board had become necessary, as status proceedings had been initiated before and all members of the current Supervisory Board had resigned from their offices at the end of the day of the above-mentioned general meeting. As Deutsche Steinzeug has employed – and will continue to employ – permanently less than 2,000 members of staff, one third of the Supervisory Board's members have a co-determination right, as provided by law. Moreover, the four representatives delegated by the workforce to the Supervisory Board had been members of the Supervisory Board in office till the end of 11.05.2006. Their appointment as Supervisory Board members by the court has already been entered in the Commercial Register.

Effective as of 01.01.2006, the HR Committee has appointed Mr. Eckehard Forberich as member of the Board of Management for the departments of Finance, IT and Purchasing. This reflects the increased workload the Board of Management has to bear in the scope of the envisaged recapitalization and the Company's further development which has thus become possible.

On behalf of the entire Supervisory Board, I would like to express my thanks to the Board of Management, all employees and the members of the bodies provided by the Works Constitution Act for their efforts in the interest of the Company, its clients and shareholders. Moreover, I ask all of you to continue your commitment and your activities to ensure that the ongoing recapitalization of Deutsche Steinzeug Cremer & Breuer AG can be implemented successfully. The realization of the measures resulting therefrom shall ensure that the Company – in the still compelling economic background of the construction business – will be capable of investing sufficient liquid assets in the enhancement of its competitiveness. In doing so, we will be even better equipped to master future challenges together.

Frechen, 14 June 2006

Wilfried Delker
Chairman of the Supervisory Board

Plural Olymp series,
Agrob Buchtal Architectural Ceramics

Hotel swimming pool Safra Club,
Tampines/Singapore

Porsche Centre Lennetal,
Hohenlimburg/Germany

Business trend 2005, overall economic environment

For the Ceramic Covering Materials Division, the fiscal year 2005 was characterized by continued decline on the domestic market. The development of the building economy proved to have flattened even more distinctly than that of the tile sector. The savings rate in Germany remains unchanged at a high level. We assume that this is another reason why domestic consumption has slowed down to max. 130 million m². The final export figures not being available before mid-2006, we must presume that consumption might turn out to be even lower.

We have not yet been able to realize our budgeted export growth figures within the fiscal year 2005 as envisaged. While we were able to continue to strengthen our market position in Germany despite a slight decline in turnover, we have failed to achieve our ambitious growth target in the export sector. However, considering the previous years' figures adjusted by a major order for ceramic paving stones to the amount of approx. 7 million €, which must be considered as a one-off event, we can even boast an increase in export. Nevertheless, our export positioning in the fiscal year 2005 leaves us dissatisfied.

The Group turnover amounted to 230.5 million €. We have established our result for the first time according to the International Accounting Standards (IAS/IFRS) and adjusted the previous years' figures accordingly. Despite a slight decline in turnover, our result before interest and depreciations (EBITDA) has increased again. The continuing slight decline in the scheduled depreciation is due to the liquidity-related reluctance to invest. The low interest amounts for this year, already announced in the previous year's report, result from the reduction in the interest rate by the credit institutes financing us.

Architectural Ceramics
In the IInd half-year 2005, the preliminary work accomplished in previous years in the Architectural Ceramics Division started to pay off. The order backlog which was transferred to the current year at an almost unchanged level, increased considerably. This is one of the reasons why we are optimistic about our future export positioning. Thus, our considerable investments in foreign markets are paying off. The investments in our Sinzig factory regarding large-size supermarket tiles and porcelain stoneware also showed the first positive results in the IInd half-year 2005. On the other hand – as we had feared – competition in the supermarket area where the tile size 20 x 20 is common, has intensified considerably due to the fact that more suppliers are offering their products, while production costs are still on the rise.

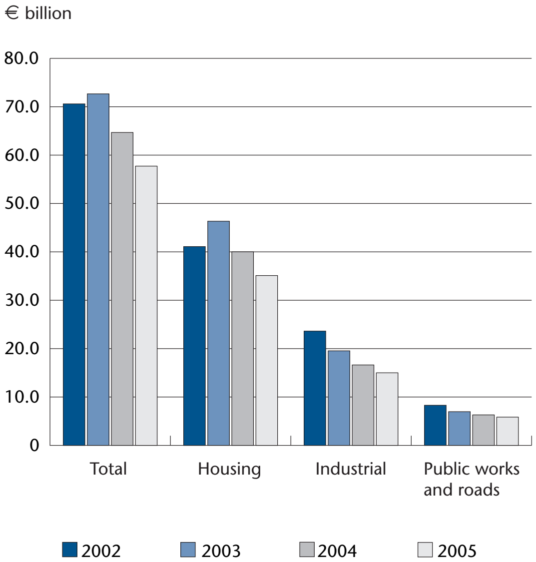

Thermal bath, Ptuj/Slovenia


Kaufhof, Kassel/Germany

Prado series, Agrob Buchtal Residential Ceramics

The increasing number of orders received is also beginning to reflect our investments in Facade Ceramics. However, the essential effects of these investments in product development and surface design will only become apparent in this year (2006). There are signs even now that investments in the Schwarzenfeld site will be indispensable in order to be able to manage the expected growth in demand of Facade Ceramics, and must be tackled as early as in the IInd half-year 2006. Our USP Hydrotect surface coating is turning out to become an increasingly valuable asset, especially as regards tenders for projects.

Approved building permits in Germany (2002 to 2005)



Residential Ceramics

The general trend in Residential Ceramics is towards large sizes – for wall as well as for floor tiles. Especially in the porcelain stoneware sector, competition has resulted in considerable price erosion due to the increased capacities in Germany and abroad. However, we find that our products' value regarding design and surface engineering has been enhanced continuously. This enables us to gradually phase out the lower price segment, as envisaged. In 2005, we started to invest in Residential Ceramics – more than in previous years – as regards display furniture and floor exhibits, so that we can optimize our positioning in the exhibitions of our dealer partners. These investments will be continued in 2006, as a satisfactory added value will only be achievable with a smart presentation which offers matching wall and floor tile assortments.

Jasba

Market supply with this product is ensured thanks to the investments made in 2004 at our Ötzingen production site as regards small-size Jasba mosaics. On the other hand, competitive pressure was increased noticeably in 2005 by South-East European and Asian manufacturers. Moreover, a low-priced glass mosaic from Asia is increasingly being offered as a substitute. The reluctance to refurbish existing buildings is certainly one of the main reasons for the weak development in this product sector, as the valuable

Jasba small-size mosaic is especially attractive to owners performing renovations under less cost pressure. This is aggravated by the fact that the larger part of the kitchen market no longer exists, as today, kitchen worktops are covered by large-size ceramics, granite, aluminium or glass materials.

Do-it-yourself markets

This market is still subject to sharp price competition. There is no end to discount wars, coupled with the fact that excess capacities in the Do-it-yourself (DIY) sector are unlikely to be eliminated in the near future. Thanks to a more highly priced product range, the assertion of our own brands in order to circumvent direct comparison with competitive products and the use of attractive wall/floor combinations, in 2005, we succeeded in stabilizing our turnover and – what is more important – in increasing the contribution margin. In this context, the improved IT facilities, optimized order handling and logistics are an important asset.

Miscellaneous

The reorientation of our US American subsidiary DSA required considerable value adjustments in 2005. However, we are confident that we will be able to stabilize our position on the US market thanks to an enlarged distribution structure and a better-positioned sales organization.

Segment reporting

Besides our key sales market, the domestic market of the Federal Republic of Germany (segment 1), which we supply as before with 64% of our turnover, we have subdivided our export markets worldwide into the two segments – Western European countries with Euro currency "Residual currency union countries (Residual EMU countries)" (segment 2), and "Turnover from other countries" (segment 3).

We are set to enhance the present export share long-term to well above 40%, assuming that the 50% limit can already be reached this year in Architectural Ceramics. We expect further export growth especially for the brands Jasba and from the DIY dealers. The present imbalance world-wide – 64% on the domestic market versus 16% from "Residual EMU countries" and 20% from "Other countries" – will be balanced by a systematic shift in the years to come to the foreign segments as export is enhanced; this is also due to the fact that the German domestic market has been declining strongly for over 10 years, and has now little free capacity left. On the contrary, the foreign markets are interesting for us in view of the building economy and price competition affecting the major part of our product portfolio, despite high transport costs, so that the major part of Deutsche Steinzeug's future revenue quality may depend on its success in the various regions abroad.

The analysis of net turnover versus the adjusted previous year 2004 in Germany (segment 1) shows a decline in turnover of 1,7%. However, considering the market's turnover slumping by approx. 5%, we are proud to state that we have developed considerably better than the ceramic market of Germany as a whole.

Felice series, Jasba

Esprit series, Meissen Keramik

The turnover increase of just under +3% in the "Residual EMU countries" (segment 2) shows that we have not realized our plans regarding enhancement of export shares to the extent envisaged initially. However, we assume that the preliminary work accomplished on the market – initial success began to become apparent in the first few months of 2006 – is gradually beginning to pay off.

The decline in turnover in the "other countries" world-wide (segment 3) to the amount of approx. 5 million € or just below -10%, results especially from the special effect of a major order (project: Corniche in Abu Dhabi) of a volume of 7 million € in 2004, which is unique in its magnitude.

The comparison of the EBIT result 2005 versus 2004 shows that we were able to improve our performance clearly in all three segments, with the highest EBIT yield coming from the "residual EMU countries".

The generally higher EBIT yield abroad is last, but not least, based on a changed product mix and a higher share in Architectural Ceramics with an accordingly higher added value.

Outlook

For the year 2006, our market outlook is especially positive for the Architectural Ceramics Division. This is reflected by the current order backlog which – regarding project applications – is at a ten-year high. Moreover, we are trying to reduce dependence on the domestic market gradually in Residential Ceramics, Jasba mosaics and in the DIY sector by targeted marketing actions and intensified sales actions.

Mistral series, Wessel Keramik

Toscana series, Medea Ceramica

Cabana series, Agrob Buchtal Architectural Ceramics

Meta series, Agrob Buchtal Architectural Ceramics

Michelangelo series, Agrob Buchtal Architectural Ceramics

Cronos series, Agrob Buchtal Architectural Ceramics

Aesthetically perfect large sizes.

With up-to-date design and architecturally convincing overall solutions, Deutsche Steinzeug maintains its clear leading position in the project sector. Independent of all the individual styles, the main emphasis is now put on calibrated large sizes: they can be laid with a particularly narrow joint and create an ambience of elevated elegance.

Earnings and assets situation, risk management

In the fiscal year 2005, Deutsche Steinzeug achieved a consolidated turnover of 230.5 million € with an average headcount of 1,690. Thanks to increased internal production and a higher-value product mix, the operative result was clearly better than in the previous year, despite a decline in turnover of 5.3 million €. The Group's result before interest and depreciations (EBITDA) amounted to 14.4 million € versus 6.6 million € in 2004. Taking the exceptional items into account, the adjusted operative Group EBITDA for 2005 amounts to 18.4 million € (AG: 16.2 million €). Due to the above-mentioned exceptional items, taking account of the provisions for restructuring for the fiscal year 2005, the Group had to report a loss amounting to 4.5 million € (AG: 15.0 million €). Systematic cost management, the "Company Alliance for Jobs" resolved by the shareholders and a higher-value product mix allow a clear improvement of the operating result.

In 2005, Deutsche Steinzeug also had to accept a noticeable decline in the German market volume for ceramic covering materials by 4.4% to 130 million m^2. As the Company with its market share of approx. 12% in Germany, was not able to avoid this trend altogether, domestic turnover declined by 2.6 million € to 152.0 million €. However, it must also be taken into account that the decline in domestic turnover of 1.7% is considerably lower than that of the general market and that Deutsche Steinzeug was thus again able to add to its market share. We are pleased to note that this growth went along with an increasing average revenue, which reflects our excellent market position as our customers' competent and reliable partner. Export in 2005 also showed a decline in turnover by 3.2% to 78.6 million €, which results from the fact that the 2004 export share was influenced positively by a major order.

Strip Tile series, Agrob Buchtal Architectural Ceramics

Agricultural Cooperative,
Karlsruhe/Germany

Exceptional item according to HGB (German Commercial Code) structure:

	Commercial Code DSCB AG €'000	IAS GROUP €'000
Depreciations		
Essentially "Jasba" goodwill	1,653	3,399
Financial result		
Essentially depreciation of the shareholding of Deutsche Steinzeug America	4,206	0
Extraordinary result		
Depreciation of the shareholding in DS-Immo KG	5,346	0
Allocation of a reserve for restructuring	2,900	2,900
Waiver of claims outstanding against GELUNA Vermögensverwaltung GmbH inclusive of corrected shareholding	1,900	0
Total	16,005	6,299

Adjusted by this special item, export was expanded especially in Asia and Eastern Europe, thanks to corresponding sales efforts. As the average revenue 2005 was also increased in the export sector versus the previous year, due to changes in the product mix, the quality of Deutsche Steinzeug's outcome within the Group has improved again. Apart from the optimized product mix, the increased utilization rate of all factories due to optimized production flexibility also contributed to the improvement. Here, the product improvement investments effected despite all savings measures are apparent. The EBITDA according to IAS, i.e. including all exceptional items which are not reflected in the exceptional charges as in case of accounting pursuant to HGB (German Commercial Code), amounts in 2005 to 14.4 million €, which is more than twice the previous year's figure. Adjusted by exceptional items in the scope of restructuring, the Group's operating margin – given an EBITDA of 18.4 million € – amounts to approx. 8.0% and thus is approximately at an average level with the German construction industry.

In 2005, exceptional items from restructuring expenses and non-cash related depreciations of balance sheet items caused a loss of 4.5 million € (AG: 15.0 million €).

The Group's 2005 scheduled depreciations on tangible assets is increased by 3.4 million € (AG: 1.7 million €) special write-offs which essentially concern the Goodwill of the Jasba business acquired in 1999. Here, the unexpectedly high import pressure from low-wage countries and a steady reluctance to consume in the premium segment are apparent. We started to reverse this trend as early as 2005 by product innovations and by reinforcing exports, so that the Jasba turnover is expected to stabilize for 2006. Moreover, the operative result (EBIT) was affected at Group and AG level by costs for advisory services and other resulting restructuring costs to the amount of 1.1 million € and a provision for expected costs for recapitalization to the amount of 2.9 million €. All the other special expenditures for the 2005 result concern, due to the different valuation of balance sheet items of the Group and the AG in past periods, exclusively the AG. According to recent findings, these are corrections of balance methods and receivables concerning subsidiaries originating from real estate (7.2 million €) and essentially Deutsche Steinzeug America (4.2 million €). Due to the fact that essential major orders have not been granted or have been omitted, Deutsche Steinzeug America had to show a loss. Due to the reorganization of the US sales sector, this loss situation was sorted out in the first few months of 2006, so that a slightly positive contribution to the result is expected for this year again.

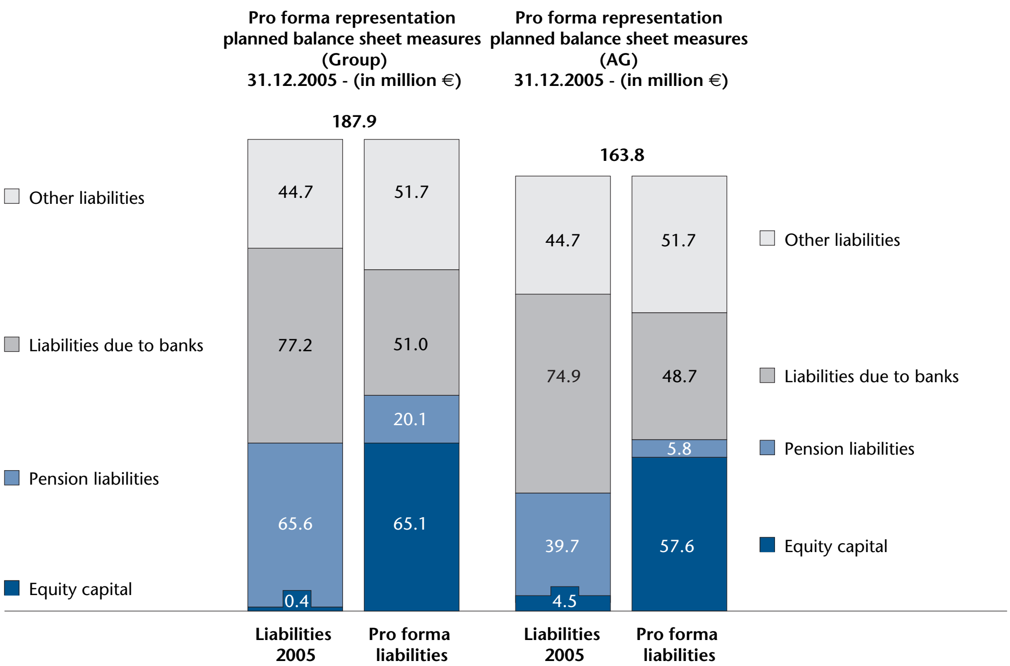
Concept series,
Agrob Buchtal Residential Ceramics

Balance sheet structure sustainable strengthens by recapitalization
The Group financial statements were drafted in 2005 in the scope of the general applicable regulations initially according to IAS accounting standards. The individual financial statements of Deutsche Steinzeug Cremer & Breuer AG, however, are drafted as before according to the HGB provisions. The most significant differences result from the divergent valuation approaches for the fixed assets and the pension provisions, which, however, are almost identical in extent, so that the revaluation effect does not lead to any significant changes for the disclosure of equity capital.

Especially before the backdrop of divergent valuation approaches regarding different assets in the Group's and the AG's individual balance sheets from past periods, the Group's equity capital amounts, as of 31.12.2005, to 0.4 million € and the AG's to 4.5 million €. The pension provisions in the Group amount to 65.6 million € (AG: 39.6 million €) and bank debt at the balance sheet date to 77.2 million € (AG: 74.9 millon €), so that the total of financial liabilities, i.e. 76% (AG: 70%) amounts to over three-fourths of the balance sheet total. In the scope of the envisaged recapitalization, the equity capital ratio will increase to approx. 35% and the total financial liabilities will be reduced almost by half. In the pro-forma view of the envisaged balance sheet measures (see graph), the debt will be reduced by 20.4 million € due to the capital increase against contribution in kind and by approx. 9.0 million € due to the capital increase against contribution in cash. Both effects influence the Group and the AG identically and will thus result in an identical increase in their equity capital. Moreover, agreements were made with PSVaG and parties secondarily liable for pension liabilities of Deutsche Steinzeug and several members of staff which – after deduction of compensation payments – will result in net debt relief (and an identical equity capital increase) in excess of 35 million € (AG: 23 million €). If these ratios were changed over to 31.12.2005, the Group would be

Balance sheet structure

Changes on the liabilities side because of the restructuring measures



Hotel Ponyhof,
Wolfringmühle/Germany

Westbad,
Munich/Germany

Goldline series,
Agrob Buchtal Architectural Ceramics

able to state – according to this pro-forma calculation – a equity ratio of 35% (AG: 35%).

The recapitalization detailed above in essential aspects was resolved at the extraordinary general meeting held on 11.05.2006 with a majority of over 95% of the votes. The resolutions required to this effect have already been entered in the Commercial Register. At the extraordinary general meeting, individual shareholders objected to the resolutions, as is apparent from the minutes. The Company believes that all resolutions which have been made with an overwhelming majority of votes can be implemented on schedule. Nevertheless, the Company has commenced talks with the objecting shareholders and is making every effort to take their ideas which essentially concern share option transactions into account. The Board of Management is confident that the capital measures resolved will have been realized by the end of August 2006.

Corporate Governance

In the scope of the recapitalization, multiple negotiations were conducted with potential investors during the year under review in close cooperation with the Supervisory Board. The Supervisory Board and especially its Chairman were informed in this context promptly and on a regular basis. Moreover, in separate preliminary meetings of the representatives of employer and employees on the Supervisory Board, essential items on the agenda of the following Supervisory Board meetings were discussed together with the Board of Management.

In line with the envisaged recapitalization, an extraordinary general meeting was held on 11.05.2006 in which eight new Supervisory Board members were elected as shareholder representatives in separate elections. The reelection of the Supervisory Board had become necessary, as status proceedings had been initiated before and all members of the current Supervisory Board had resigned from their offices at the end of the day of the above-mentioned general meeting. As Deutsche Steinzeug has employed – and will continue to employ – permanently less than 2,000 members of staff, one-third of the Supervisory Board's members have a co-determination right, as provided by law. Despite this change within this body, a certain continuity is ensured by the fact that on the part of the shareholder representatives, Mr. Wilfried Delker, the former and present chairman of the Supervisory Board, Dr. Hermann Rappe – Supervisory Board member – and Mr. Christian Knell, who in the past had been nominated as deputy member for the Supervisory Board, were reelected. Moreover, the four representatives delegated by the

Shopping centre Globetrotter,
Cologne/Germany

workforce to the Supervisory Board had been members of the Supervisory Board in office till the end of 11.05.2006. Their appointment as Supervisory Board members by the court has already been entered in the Commercial Register. Due to their former activities, all new members of the Supervisory Board dispose of specific experience in construction-related fields or in restructuring situations.

As the search for potential financial investors took considerably longer than anticipated, the Supervisory Board approved the Board of Management's request to assist them with staff. After the resignation of Dr. Ralph-Dieter Schrey, CEO, only one member of the Board of Management of Deutsche Steinzeug held responsibility for this area for a period of eighteen months. On 01.01.2006, Mr. Eckehard Forberich joined our Company as member of the Board of Management for the areas Finances, IT, Purchasing and General Administration. As the talks with the investors became more specific towards the end of 2005, the person appointed to this seat of the Board was also determined together with the investors. The enhancement of the Board of Management reflects the increased workload the Board has to bear in the scope of the envisaged recapitalization and the Company's further development which has thus become possible.

As in previous years, the Company has taken out a D&O insurance with an appropriate deductible for this year.

The remuneration of the Board of Management consists of fixed and variable components which comprise Company-specific targets as well as goals for each Board member. At the end of each fiscal year, the Chairman of the Supervisory Board redefines the variable remuneration parameters for the subsequent year based on specific targets for the Board of Management and the Company. Moreover, employer's pension commitments financed in a congruent fashion via reinsurances and company cars in line with the tasks and functions concerned are granted.

Risk report
We continued to reinforce our risk management in the fiscal year 2005, focusing on the extension and refinement of our internal reporting structures which incorporate all essential executives of the Company.

Felice series, Jasba

Monteverde,
Vienna/Austria

Cronos series,
Agrob Buchtal Architectural Ceramics

This helps communication to flow as smoothly as possible between the various departments as well. In 2005, we also had our IT systems analyzed; the results were extremely positive and showed only minor suggestions for improvement, which have, to a large extent, been implemented in the meantime. Our Reporting provides us with a sufficiently qualified tool which responds promptly, thus enabling us to detect and deal with all the essential risks which might threaten the Company.

The financial situation of Deutsche Steinzeug remained difficult in 2005 as before. Thus, risk management in the year under review focused especially on the early detection of deviations of the turnover and cost development from the budget, so as to react swiftly as regards the financial and liquidity position. Regarding interest, no special measures were required during 2005, as the interest rate assisting reorganization, which had been agreed in 2004 with the financing banks, extended over the entire year 2005.

Deutsche Steinzeug is exposed only to minor currency risks, as the contracts concluded in foreign currencies mostly cover minor volumes only.

The present development of energy prices implies on principle a risk for all industrial enterprises with high energy consumption. Although we have succeeded partially until now in passing the dramatic increases in gas and electricity costs to the market via our prices, we cannot ensure medium- to long-term that this procedure can be maintained. The invariably aggressive pricing policy of our competitors resulted for us temporarily in a clear reduction of sales which we can still compensate via improved proceeds. On principle, we assume that all tile manufacturers will have to scale up their sales prices medium-term, as the increasing energy costs will affect all providers world-wide. Notwithstanding this, the pressure on margins will become stronger due to the price increase for gas and electricity as explained, as our raw material suppliers and service providers – such as forwarding agents – are also affected. However, long-term hedging measures in view of these risks cannot be taken in an economically meaningful fashion for a Company of our size.

Almost all claims against our customers are covered by a commercial credit insurance. Due to our comprehensive risk management system regarding receivables, we managed to limit the default rate in 2005 to approx. 0.3%.

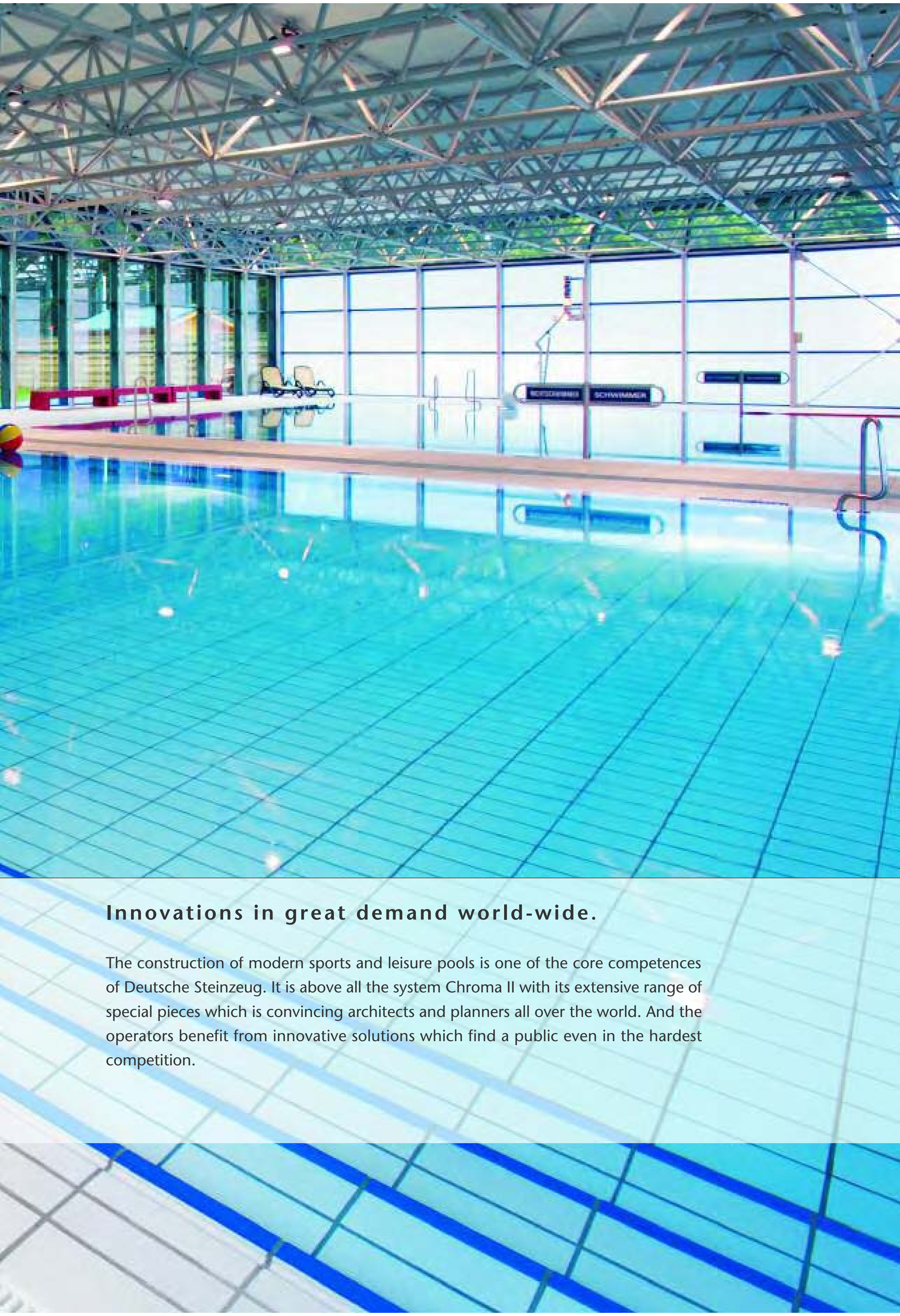
Moreover, Deutsche Steinzeug has concluded insurances to the extent usual in its industry to cover the risks of product liability resulting from production. These are reviewed once per year, also with the assistance of external experts.

Indoor wave-action pool Ocean Wave,
Norden/Germany

Australian Institute of Sports,
Canberra/Australia

Therma Sol,
Bad Soden-Salmünster/Germany

Indoor swimming pool,
Lüdinghausen/Germany



Innovations in great demand world-wide.

The construction of modern sports and leisure pools is one of the core competences of Deutsche Steinzeug. It is above all the system Chroma II with its extensive range of special pieces which is convincing architects and planners all over the world. And the operators benefit from innovative solutions which find a public even in the hardest competition.

Investments, environment, research and development

In 2005, the past years' reserved investment policy was continued. The investment volume increased to 6.7 million € (previous year: 5.8 million €). Investment activities focused on the extension of the production facilities to manufacture new products and to enhance flexibility in the factories. Research and development were orientated to the realization of new designs for highly robust tiles intended for the Project Ceramics division.

In 2005, investments reached a volume of 6.7 million € in the Group (AG: 6.5 million €) or approx. 88% (AG: approx. 78%) respectively of the annual regular depreciation. Compared to our competitors and with past fiscal years, the investment volume is considered as conservative and just sufficient to prevent us from jeopardizing our competitive position. Before the backdrop of the continuing difficult situation in the building economy and the high debt service for interest and principal, amortization and pension payments, priority was given to improving the cash flow and ensuring liquidity.

Essential investment projects

With an investment budget of 3.5 million €, the installation of a new roller-type kiln production line at the Sinzig site was the predominant investment project for 2005. The plant has been designed specifically for the production of highly robust supermarket tiles in the size of 20 x 20 cm which is in great demand. This facility also enables the production of large-size elements, such as 30 x 60 cm and 45 x 45 cm, which are being requested increasingly. The resulting flexibility helps us to continue to increase the utilization rates and to reduce the manufacturing costs for large-size elements significantly.

At the Ötzingen site, investments were made in an additional decoration line for the sizes 15 x 15 cm to 30 x 30 cm. Thus, flexible production of high-value small-size Project Ceramics series is possible. 0.4 million € were invested in the project, which also helps to improve the site's utilization rate considerably.

In the Witterschlick works, a volume of 0.4 million € was invested to install the third Hydrotect line in order to meet the continuously increasing demand for Hydrotect-coated products.

Investments in environmental protection

Deutsche Steinzeug invariably attaches great importance to an environmentally compatible production of its tiles. Thus, as a company whose production involves high energy consumption, we endeavour to save energy wherever this is efficient. The investment in a new roller-type kiln line in Sinzig permitted not only the production of new assortments and enhanced flexibility, but also a significant reduction in energy consumption, as the modern roller-type kiln has replaced two conventional, less efficient tunnel kilns. Thus, the specific energy consumption and the resulting CO_2 emission were reduced noticeably.

Research and development

In the research and development sector, we concentrated essentially on the further development of our products, sizes and product properties, focusing on innovative design development and especially on optimizing the production costs.

In the Schwarzenfeld factory, thanks to a change in the production procedure, manufacturing costs for large-size products with complex decoration in sizes up to 60 x 120 cm were reduced significantly. Ceramic facades can be realized in an even more superior fashion thanks to the development and implementation of new ceramic special pieces and a new substructure, thus providing the basis for the ceramic overall facade solution.

Investments in modern printing machines for large sizes up to 60 x 120 cm in Schwarzenfeld and Sinzig created the prerequisites for further expansion of the valuable large-size product ranges. These are used primarily in the field of prestigious Project Ceramics, e.g. in banks, top-grade buildings, airports and many other types of projects, but also in retail shops.

New mosaics with mixed sizes – the current trend – were developed for the brand Jasba. They are especially intended to permit innovative utilization of the existing variety of sizes.

The wall tile product range was expanded specifically with the growing segment of large-size elements (up to 30 x 60 cm) by developing new surfaces and applications. This includes e.g. the series Prado, Concept and Sierra, each of which is offered as an overall concept with matching floor tiles.

Tianjin Tai da Financial Service Zone, Beijing/China

Airport, Düsseldorf/Germany

Concept series,
Agrob Buchtal Residential Ceramics

Extraordinary events 2005/2006

Deutsche Steinzeug reacted to the continuing difficult situation on the domestic market with increased efforts as regards its quest for investors. Despite a slightly declining turnover, further cost savings resulted again in an improved operating result.

The intensive quest for investors to implement the recapitalization concept was completed with success.

For over two years, we have repeatedly pointed out the necessity of restructuring the liability side of our balance sheet. Supported by a group of investors, the resolutions for recapitalization of the Company were concluded at an extraordinary general meeting held on 11.05.2006.

The recapitalization concept comprises the following essential measures:

- capital reduction to compensate depreciations and to cover other losses;
- capital increase against contribution in cash of up to 9 million €;
- capital increase against contribution in kind by waiver of loan repayment claims with the release of collateral securities (land charges) to the extent of approx. 12 million €;
- reduction of the Group's pension liabilities to the amount of over 45 million €;
- the realization of all capital measures – as soon as possible, at the latest, however, by 31.08.2006;
- extension of previously short-term credit commitments by another 36 months.

In the scope of reviewing our budgeting and participation approaches – also before the backdrop of the financial statements initially drafted according to IAS/IFRS – we detected that considerable, not cash-related value adjustments had to be made. This concerns essentially the correction of the amount of Jasba Goodwill within Deutsche Steinzeug, which results from the continuing weakness of the Jasba mosaic market in Germany and abroad. This deterioration of the market position – now considered as permanent – required Deutsche Steinzeug also to adjust the value of the shareholding of its subsidiary Deutsche Steinzeug America.

Moreover, we corrected the shareholding, i.e. the value adjustment of claims against Deutsche Steinzeug Immobilien GmbH & Co. KG which is the owner of the former industrial production plant for stoneware pipes in Frechen. Another industrial piece of land owned by GELUNA Vermögensverwaltung GmbH is located in the Frankfurt area. These value adjustments are primarily necessary due to the updated value assessments for the pieces of land in question. Moreover, we were extremely interested in bringing the development scheme procedure pending for the Frechen land to a conclusion. Thus, it is ensured that the entire procedure – according to the new legislation – cannot be started all over again. In this case, it would have been impossible to rule out another delay by up to five years till the land is ready for building, which would have required a considerably higher depreciation amount.

In the scope of the recapitalization process, pension obligations are significantly reduced by the fact that recipients of benefits have been transferred to "Pensionssicherungsverein aG" against payment of compensation. This concerns a permanent number of almost 2,000 recipients of benefits.

Felice series, Jasba

The pension obligations are additionally reduced by the retransfer to the parties secondarily liable – especially AGROB AG, Ismaning – also against the payment of a compensation. This concerns a permanent number of over 300 recipients of benefits.

Restructuring terminated, the financial liabilities, i.e. such against credit institutes and pensioners, will have almost been cut by half from the present amount of 143 million € in the Group to below 75 million €.

These measures provide the Company with a competitive capital structure with the capital ratio improving to a solid percentage of 35%. Moreover, we are capable of gaining almost 3.5 million € of additional liquidity long-term, due to the reduced pension payments.

The "Company Alliance for Jobs" has turned out positively

The "Company Alliance for Jobs" could be extended in an income-related fashion. Necessary savings in the human resources area have enabled us to compensate, if necessary, the considerable financial extra outgoings for energy in the IInd half-year 2006 and in the fiscal year 2007 to a certain extent.

The dramatic increase in the energy costs (over 30% in the 2006 fiscal year) was not really forseeable. As we had concluded e.g. medium-term contracts with the power supply companies, we had based our budgeting on the assumption that our energy costs would increase by max. 20 – 22% in 2006. Given the prices which are now to be paid for one barrel of oil, we cannot rule out the fact that the cost price of gas will increase by almost 45% by the end of 2006, so that total energy costs would increase by over 35%. The almost incalculable development of gas prices can still be compensated to a certain extent by the fact that due to our contracts being tied to the heavy-oil price development, we can benefit from a time delay – positive for us – and a clear levelling of the price fluctuations for one barrel of oil. Thus, the price increase for industry is slightly more moderate than that for private consumers.

Employees

On 31.12.2005, Deutsche Steinzeug Cremer & Breuer AG had a total headcount of 1,672. At the same time in the previous year, the Company employed 1,720 persons. Most of the staff cuts were effected at the Sinzig site. Customer demand for the products manufactured there had already changed fundamentally in the previous year. This is why the entire tunnel kiln operations were ceased in the scope of an investment measure, and a new roller-type kiln commissioned. Moreover, the extension of the "Company Alliance for Jobs" resulted in a reduction of remuneration components. These adaptations plus the changes in pension costs within the IAS policies resulted in a reduction of the Group's human resources costs from 78.1 million € in the fiscal year 2004 to 67.5 million in the year under review (IAS). The human resources costs of the AG were cut from 58.4 million € in 2004 to 53.8 million € (HGB – German Commercial Code).

Investment measure resulted also in staff cuts
The changed customer demand – reported already in the previous year – as regards the supermarket tile sector – resulted in 2005, due to the statutory periods of notice, in staff cuts at the SInzig site. The shut-down of the last tunnel kiln concerned approx. 30 employees. In performing the necessary human resources measures, we did not only attach great value to socially compatible solutions but simultaneously utilized all opportunities to offer employees concerned by the shut-down alternative jobs within the Group of companies. Along with this measure, we invested approx. 3.5 million € in a new roller-type kiln. Thus, we can react even better to our customers' requirements. Moreover, our investment in the Sinzig site will help to secure the approx. 200 local jobs.

Short-time work due to continuous macro-economic difficulties

Difficulties in the building industry due to the macroeconomic environment and the resulting, disproportionately high inventory levels caused the Board of Management to proceed, together with the Works Council at the Schwarzenfeld site, to a one-time capacity adjustment of approx. 300,000 m^2. The short-time work which was coupled with a complete standstill in production in January 2005 affected approx. 480 members of staff. In view of social compatibility, the financial losses resulting for our staff were distributed over several months.

"Company Alliance for Jobs" extended

Before the backdrop of the demand for ceramic covering materials, which also declined during the year under review, the Board of Management extended the Company Alliance for Jobs at an early date, together with the Works Council, till 31.12.2006. The new agreement concluded provides on the one hand for a reduction in remuneration components, on the other hand for the promise to secure jobs by foregoing operational dismissals. The remuneration cuts include all members of staff, including the Board of Management and the executives, and are thus accepted to a maximum degree. Regarding facts which are still unforeseeable at the time of conclusion, there are savings clauses which can be used for further negotiations with the Works Council.

Thanks to our staff

Despite the difficult economic environment, Deutsche Steinzeug was capable of asserting itself on the market and even of expanding its position in some sectors in the year under review. The increased competitiveness was only ensured thanks to measures accepted by all employees. They deserve our special thanks. Despite financial losses, they clearly stated their loyalty to the Company by their great working commitment. We would also like to thank the members of the bodies provided by the Works Constitution Act who participated in this process in a constructive fashion and in a spirit of trust.

Deutsche Steinzeug shares

After the year 2004 was primarily characterized by a consolidation of the share market, the DAX climbed in 2005 by over 27% from 4,260 to 5,408 points. This positive development is essentially due to the world-wide business climate picking up significantly. In Germany, the economic mood improved clearly, but with domestic macro-economic growth – referred to the GDP (gross domestic product) at an international level – reaching just 0.9%, it remained relatively weak.

Macroeconomic boundary conditions

Most companies utilized the previous years to increase yield and reduce debt by consistent cost management. Thus, the targeted expansion drive can assert itself again within the strategic concepts of big companies. Contrary to this, Deutsche Steinzeug being a medium-sized supplier for the building industry, it has still to cope with a declining domestic market for ceramic covering materials which results from the continued distinct reluctance to consume on the part of private consumers and real estate owners who are Deutsche Steinzeug's most important target group.

The development of Deutsche Steinzeug is better than the share price development

The share of Deutsche Steinzeug Cremer & Breuer AG started the year 2005 with an opening price as of 03.01.2005 of 0.75 €. In the meantime, the share initially declined to an all-time low of 0.38 €, but recovered in the IInd half of the year and terminated the year on 31.12.2005 at a closing price of 0.61 €. On the one hand, the ambitious targets had not been reached completely, on the other hand, the operative result improved considerably versus the previous year, so that the share's average, low valuation versus the previous year is not comprehensible. Moreover, it must be taken into consideration that extreme price fluctuations are also a consequence of the relatively low trading volumes.

The shareholder structure

Since 2004, the shareholder structure of Deutsche Steinzeug Cremer & Breuer AG, whose share is listed in the General Standard, has changed just insignificantly. The family consortium still holds the majority of shares (50.09%). With just under 14.84%, the share of the Italian Gruppo Concorde remained approximately at the previous year's level. The remaining 35.07% of our shares are publicly held. Apart from this, the Company is not aware of shareholders holding over 5% of the voting rights in Deutsche Steinzeug Cremer & Breuer AG (all data

INHA University, General Hospital,
Incheon City/Korea

Indoor wave-action pool Ocean Wave,
Norden/Germany

The fair stand of Deutsche Steinzeug at the Bau 2005 fair was awarded the internationally renowned ADAM-Award in silver in the category XL. Due to this prize, the stand has been nominated for the German Design Prize, the only official design award of the Federal Republic of Germany.

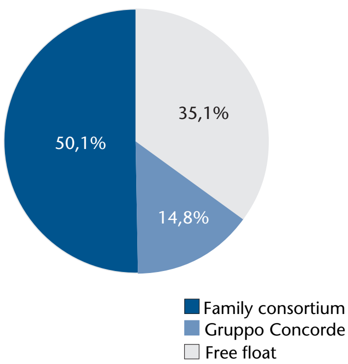
according to the publication of the mandatory notice according to WpHG [German Securities Trading Law] on 19.05.2006 in the German Börsen-Zeitung).

On 19.05.2006, we notified in Börsen-Zeitung that Deutsche Bank AG, The Goldman Sachs Group, Inc., MLQ, L.L.C., MTGLQ Investors, L.P., ELQ Investors, Ltd., Mr. John P. Grayken, Lone Star Management Co. V Ltd. (Bermuda), Lone Star Partners V L.P. (Bermuda), Lone Star Fund V (U.S.) L.P., LSF Global Partners, Ltd. (Bermuda), LSF Global Lendings, L.P. (Bermuda), LSF Global Aggregated Irish Holdings, Ltd., Lone Star International Finance Holdings (Ireland) Ltd., Lone Star International Finance Ltd. hold – pursuant to § 22 para. 2 WpHG – 64.93% of the voting rights. Pursuant to § 22 para. 2 WpHG, voting rights must be assigned to a notifying party if the latter coordinates their behaviour with a third party. To this effect, the notifying party must not necessarily have direct voting rights.

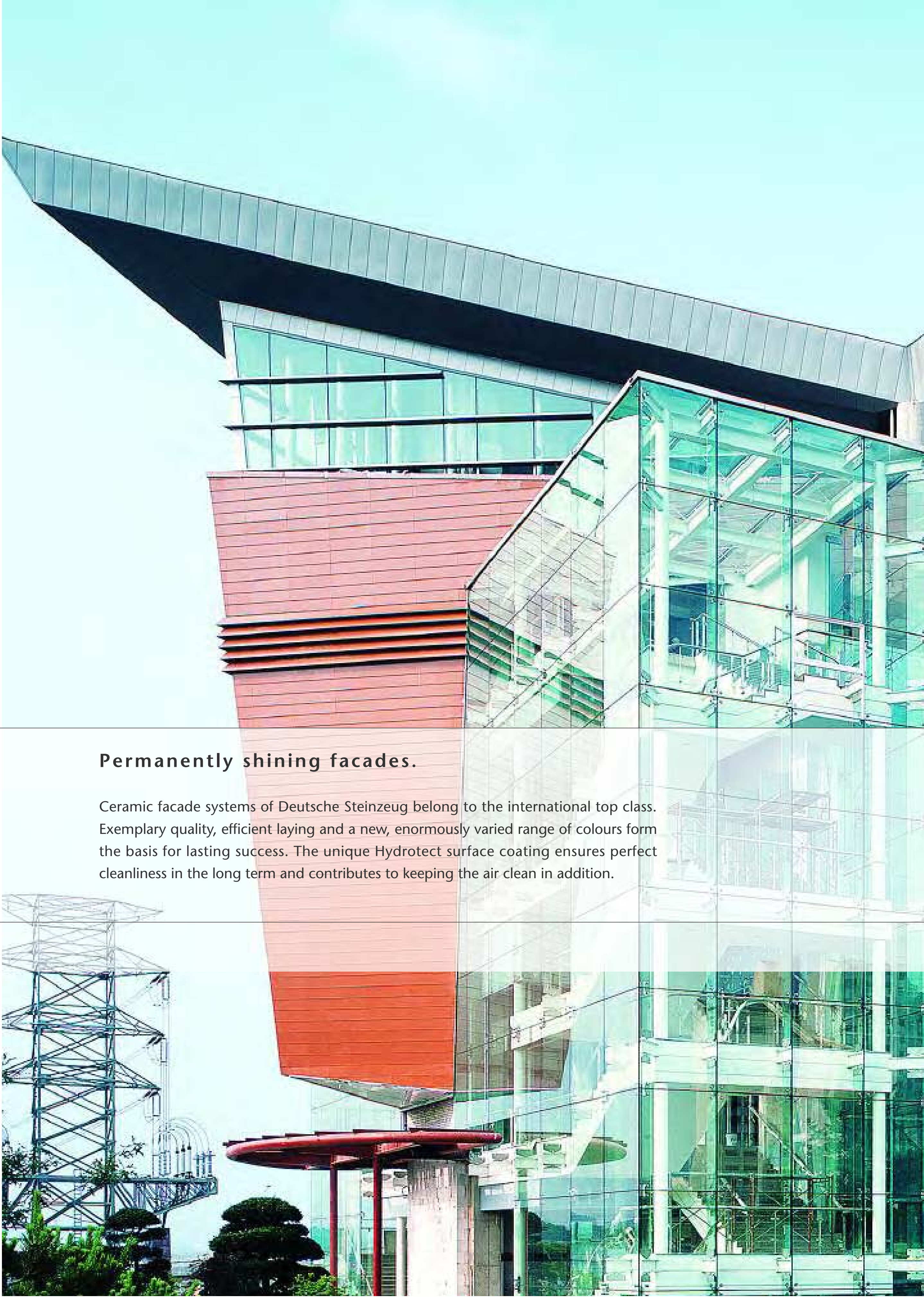
Earnings per share

Whereas the development of the operative EBITDA in 2005 was pleasantly positive versus the previous year, the earnings per share remain also clearly negative for the expired fiscal year. This is due to the exceptional items resulting from value adjustments regarding balance sheet methods and land not necessary for business operations, as well as in the provisions required to perform recapitalization. In 2005, the earnings per share amount to -0.17 € versus -0.36 € in the previous year.

Shareholders structure



Thermal bath,
Obernsees/Germany



Permanently shining facades.

Ceramic facade systems of Deutsche Steinzeug belong to the international top class. Exemplary quality, efficient laying and a new, enormously varied range of colours form the basis for lasting success. The unique Hydrotect surface coating ensures perfect cleanliness in the long term and contributes to keeping the air clean in addition.

Il San Gwangsung Church,
Seoul/Korea

Wilgenhof,
Eindhoven/Netherlands

PTT Telekom,
Eindhoven/Netherlands

Environmental Protection Centre of Ruhrkohle AG,
Essen/Germany

Business trend 2006 and outlook

After the building economy declined once more in the fiscal year 2005 and the tile consumption in our main sales market – the Federal Republic of Germany – slumped by another approx. 5%, we assume for the current year 2006 that tile consumption has bottomed. The first months' figures show a slight pick-up in the German building sector. In this context, however, infrastructural investments – also in conjunction with the Soccer World Cup which, in this year (2006), is being staged in Germany – contribute to positive figures. Planning and investment activities in the field of private housing – the sector most important for us – and especially in the general commercial civil engineering sector, are still subdued. Thus, we have based our turnover planning for the current year on accordingly conservative figures. On the whole, we expect growth only in export markets, and this for all application areas.

German market

The savings rate in Germany remains at an unchanged, extremely high level. This hits us especially hard, as our high-quality products rely by over 70% on building renovations. Due to the savings rate and the reluctance to consume, this area is still far from picking up. We expect for the III[rd] and IV[th] quarter of 2006 certain anticipatory effects due to the increase in the value-added tax scheduled for the year to come that will invigorate the economy. In the DIY sector, a devastating rebate war is being fought whose end is not yet foreseeable. Import pressure from Asia is rising relentlessly. The existing capacities in these countries are expanding fast, thus increasing the pressure to export products to Europe and the USA. However, the resulting import pressure is mainly making itself felt in the lower price segments. As we are increasingly leaving this product segment behind, we will succeed in avoiding this pricing pressure thanks to our targeted "project" work, but also thanks to the power of our brands and the USP Hydrotect.

Export

In export, the current year is bearing the fruit of our preliminary work due to the extension and new establishment of our sales office in China and the intensification of our sales activities in Russia and Eastern Europe. In Architectural Ceramics, we have recorded the highest order backlog over the past 10 years. This is primarily due to the advantages of our USP "Hydrotect". In this field, we are generating growth, both regarding conventional tiles as well as self-cleaning facade ceramics. Thus, we are confident that we will be able to increase our share especially on our foreign markets to over 35% this year. Especially in the Project sector, we aim for the first time at reaching an export share of 50%.

A good start to the year 2006

Early in 2006 and before the backdrop of the enormous rise in energy prices, we announced a distinct price increase on the market, which we have implemented systematically. Although this went along with a considerable slump in sales figures (-11% versus the previous year), we are able to report, after the I[st] quarter of 2006, sales figures 2.4 million € above the previous year's reference value. These figures show that we were able to significantly enhance our average revenues. The revenues – on the whole over 10% above the previous year – result on the one hand from price increases, on the other hand from the improvement of the product mix and the intensification of the high-value Project share. Thus, we were able to increase, in comparison to the previous year, and despite the burden resulting from rising energy costs and the initial implementation of the recapitalization measures – our result before interest and depreciations (EBITDA) as well as our operative result (EBIT).

Our factories work at a high utilization rate. However, we regret to state that the past years' reluctance to

Toledo series, Wessel Keramik

Detail from the world's greatest football painting on tiles (207 m²), Agrob Buchtal Architectural Ceramics

invest, for financial reasons, prevents us now from supplying our markets in the Project sector speedily. We were nevertheless able to exceed our previous years' figures as regards quality and product output. The investments made in spring 2005 in our Sinzig factory in the field of unglazed floor tile assortments regarding supermarket tiles and large-size porcelain stoneware are paying off in the meantime. The higher energy costs are an additional burden in the fiscal year 2006 by over 6.5 million €, but are compensated to a large extent – from today's point of view – by the price increases mentioned before and by the extension of the "Company Alliance for Jobs".

As in 2005, the Jasba product range has been hit especially hard by the reluctance to renovate in Germany, as this top-of-the-range product is mainly used for high-quality renovations. There is also the increasing competitive pressure from Asia, but also the competitive pressure due to extremely agressively priced substitution products, such as glass mosaics from China.

The capital measures resolved at the extraordinary general meeting dated 11.05.2006 have been entered without delay in the Commercial Register. After a capital decrease and an offset against the accrued losses and the capital increase incl. the capital increase against contribution in kind, our equity capital will amount to approx. 65 million €. This corresponds to a capital ratio of approx. 35% of the balance sheet total and means a safe capital base to build on in the future. The considerable reduction in pension costs due to the transfer of pension liabilities by "Pensionssicherungsverein aG" and AGROB AG as secondarily liable party incl. the reduction of the bank debt results in a reduction in the Group's financing debt of 140 million € by almost half, i.e. below 75 million €. Thanks to the medium-term credits, we are again able to invest in our factories, but also in sales and marketing activities, thus improving our market position even further.

The realization was however conditioned by the help of all creditors and our entire staff, the support by the shareholders and especially the family consortium.

Outlook to the results of 2006

For the current year, we expect to achieve an EBITDA of approx. 8.5%, referred to the net turnover. As the share of high-quality export articles will increase, with the domestic economy remaining flat, we anticipate on the whole, along with a rather declining sales volume, a steady development of turnover figures. The higher average revenues will help us primarily to cover the sharp rises in energy costs.

Our USP:

Hydrotect – tiles with integrated cleanliness

The unique Hydrotect coating relaxes water to thin, uniform film and activates the oxygen in the air. That is the basis of its three key advantages: **it has an anti-bacterial effect · it is extremely easy to clean · it destroys unpleasant odours**

As a result, Hydrotect proves its worth wherever perfect hygiene without unnecessary hard work is required. In the exterior area the coating ensures brilliantly clean facades and destroys airborne pollution. Hydrotect is ceramically fired in at high temperatures, is practically indestructible and has a permanent effect.

Details of the financial analysis

In order to inform our shareholders even more comprehensively and provide them with further insights into our commercial evaluations, we have compiled the following details of the financial analysis.

Deutsche Steinzeug Group income statement

	2005 €'000	2004 €'000	Change €'000
Sales	230,523	235,798	-5,275
Changes in finished goods and work-in-progress	-2,471	2,228	-4,699
Own production capitalized	173	226	-53
Total turnover and operating result	**228,225**	**238,252**	**-10,027**
Cost of materials	101,371	108,191	-6,820
Gross trading profit	**126,854**	**130,061**	**-3,207**
Personnel expenditure	67,129	75,411	-8,282
Other operating expenditure	51,526	51,591	-65
Other operating income	10,172	8,061	+2,111
EBITDA (result before interest and depreciations)	**18,371**	**11,120**	**+7,251**
Depreciations	11,827	9,803	+2,024
EBIT (operative result)	**6,544**	**1,317**	**+5,227**
Income from investments	75	104	-29
Depreciations of financial assets	884	1,020	-136
Interest balance	-8,043	-10,396	+2,353
EGT (Result from ordinary operations)	**-2,308**	**-9,995**	**+7,687**
Extraordinary expenditure*	-3,966	-4,563	+597
Tax balance	1,748	4,795	-3,047
Annual net loss	**-4,526**	**-9,763**	**+5,237**
DVFA/SG adjustments	98	3,287	-3,189
DVFA/SG result	-4,428	-6,485	+2,057
Shares of third parties	0	0	0
DVFA/SF net result	**-4,428**	**-6,485**	**+2,057**

* Special expenditure arising from restructuring

Terrano series,
Jasba

Administration building
Dortmund/Germany

Tornado series,
Wessel Keramik

Deutsche Steinzeug Group Capital Flow Statement

	2005 €'000
Group net loss	-4,526
Depreciations on fixed assets	12,710
Change in the reserves for pensions	-2,812
Other expenditure and revenues without effect on payment and earnings of essential importance	2,472
Profits / losses arising from the disposal of fixed assets	**-109**
cash flow from the result (1)	**7,735**
Change in the inventories	-51
Change in the other reserves	547
Change in the accounts receivable and other assets	-431
Change in other liabilities	-363
cash flow arising from current business operations (2)	**7,437**
Investments in intangible assets	-388
Investments in property, plant and equipment	-6,267
Investments in financial assets	-51
Inpayments from disinvestments	254
cash flow arising from investment activity (3)	**-6,452**
Dividend and profit distribution	0
Change in liabilities due to banks	-2,875
Other change in the financial debt	0
cash flow arising from financing activity	**-2,875**
Changes in the companies consolidated and currency-related changes (4)	**-181**
Changes in liquid funds / securities (1-4)	**-2,071**
Liquid funds / securities by 1 January	4,803
Liquid funds / securities by 31 December	2,732

Result in accordance with DVFA/SG

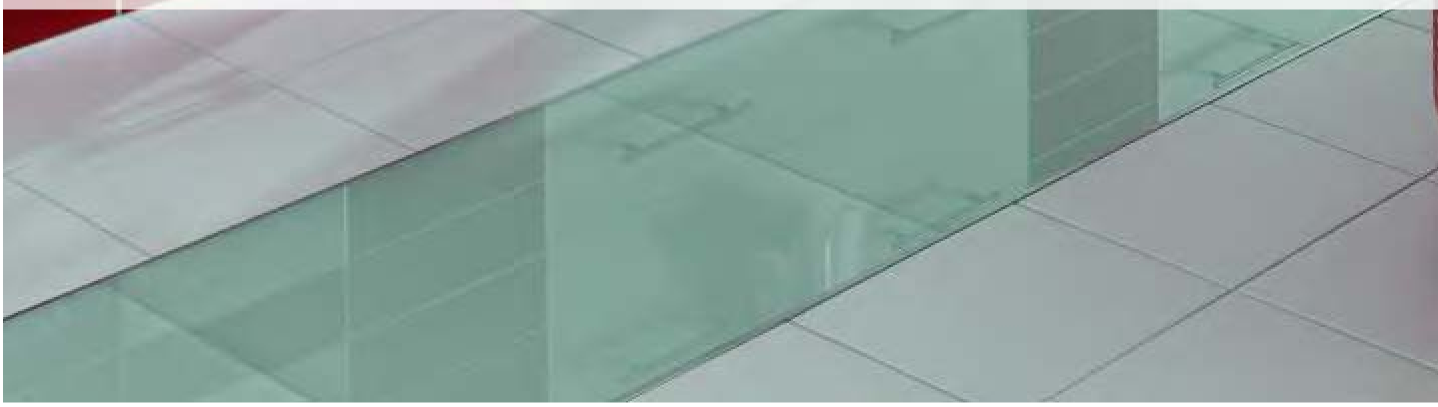
	2005 €'000	2004 €'000
Group net loss	**-4,526**	**-9,763**
Results of non-consolidated subsidiaries	158	-668
Disposal losses – investments	0	1,814
Book losses from land disposal	0	210
Expenditure in connection with "discounting operations"	0	2,820
Tax adaptations/deferred taxes	-60	-898
Adapted Group result	**-4,428**	**-6,485**
DVFA/SG result	**-4,428**	**-6,485**
Third-party shares of result	0	0
DVFA/SG net result	**-4,428**	**-6,485**
Number of dividend-bearing shares adj.	27,065,000	26,839,902
DVFA/SG net result per share (€)	**-0.16**	**-0.24**

Schlosshotel,
Aerzen/Germany

Terrano series, Jasba

Felice series, Jasba

Terrano series, Jasba



Masterly mosaics of timeless beauty.

About eleven million Germans want to make their bathrooms more attractive. Jasba, the mosaic specialist of Deutsche Steinzeug, is perfectly prepared for this trend. New series – alternatively in bright colours or discreet cotto shades – offer timeless beauty for every taste and are ideal for a comprehensive design of walls and floors.

Felice series, Jasba

Consolidated Balance Sheet as of 31.12.2005
Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2005 €'000	31.12.2004 €'000
Long-term fixed assets			
Intangible assets	1	15,419	19,432
Property, plant and equipment	2	75,103	76,376
Real estate held as financial investment	3	8,683	9,566
Other financial assets	4	8,291	8,240
		107,496	**113,614**
Other long-term assets	5	4,171	3,036
Deferred taxes	6	1,299	1,367
Total long-term fixed assets		**112,966**	**118,017**
Short-term assets			
Inventories	7	49,779	49,728
Accounts receivable, trade	8	19,440	15,887
Accounts due from affiliated companies	9	4	329
Other accounts receivable and assets	10	2,669	6,468
Securities	10	300	300
Liquid assets	11	2,732	4,803
Total short-term assets		**74,924**	**77,515**
Total assets		**187,890**	**195,532**

Liabilities and shareholders' equity	Note number	31.12.2005 €'000	31.12.2004 €'000
Shareholders' equity			
Share capital	12	27,065	27,065
Capital reserve	13	2,707	2,707
Reserves for own shares	14	-24,809	-15,584
Group net loss	15	-4,526	-9,763
Own shares (as negative value)	16	0	-137
Total equity capital		**437**	**4,288**
Long-term liabilities			
Pension reserves and similar obligations	17	65,635	68,447
Other long-term reserves	18	1,795	1,614
Long-term liabilities due to banks	19	10,904	15,151
Long-term accounts payable, trade	20	819	0
Other long-term liabilities	21	509	8,192
Deferred taxes	6	107	1,889
		79,769	**95,293**
Short-term liabilities			
Other short-term reserves	18	12,227	8,387
Short-term liabilities due to banks	19	66,278	64,907
Short-term accounts payable, trade	20	12,519	13,053
Other short-term liabilities	21	16,660	9,604
		107,684	**95,951**
Total liabilities		**187,453**	**191,244**
Total equity capital and liabilities		**187,890**	**195,532**

Consolidated Profit and Loss Statement for 2005
Deutsche Steinzeug Cremer & Breuer AG

	Note number	2005 €'000	2004 €'000
Sales	22	230,523	235,798
Change in finished goods and work-in-progress		-2,471	2,228
Production for own plant and equipment capitalized		173	226
Total operating performance		**228,225**	**238,252**
Other operating income	23	10,172	8,061
Cost of materials	24	101,371	108,191
Personnel expenses	25	67,498	78,113
Depreciations	26	11,827	9,803
Other operating expenses	27	55,123	53,452
		225,647	**241,498**
Earnings before interest and taxes (EBIT)		**2,578**	**-3,246**
Financial result	28	**-8,852**	**-11,312**
Result from ordinary operations		**-6,274**	**-14,558**
Taxes	29	**-1,748**	**-4,795**
Net loss		**-4,526**	**-9,763**

Group Notes 2005
Deutsche Steinzeug Cremer & Breuer AG

General

Deutsche Steinzeug Cremer & Breuer AG is a stock corporation registered in the Commercial Register of the Cologne Local Court (Germany) with headquarters in Frechen near Cologne. As top parent company in the Group, Deutsche Steinzeug Cremer & Breuer AG is responsible for the management of the Group, whose core business is the production of ceramic covering materials.

The consolidated financial statement of Deutsche Steinzeug Cremer & Breuer AG as of 31.12.2005 has been prepared for the first time according to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) in consideration of all interpretations of the International Financial Reporting Interpretations Committee (SIC or IFRIC). All accounting principles have been taken into account which are binding in the European Union for the fiscal year beginning on 01.01.2005. The previous year's figures have been determined according to the same principles. The supplementary provisions stipulated under Commercial Law are applied; thus, the consolidated financial statement has a discharging effect according to international accounting standards.

In addition to the balance sheet, the profit and loss statement and the development of the equity capital according to IAS 1, the financial statements include a capital flow statement according to IAS 7 as well as the segment reporting according to IAS 14. Individual items of the balance sheet as well as of the profit and loss statement are summarized for a clearer representation and are explained in the notes. The profit and loss statement is subdivided according to the total cost method.

Accounting and valuation methods

Intangible assets

According to the regulations of the IAS 38, an intangible asset is an identifiable, non-monetary asset without physical substance. The definition criteria with regard to the possibility of identification are only met if the asset is separable or arises from contractual or legal rights. The possibility of identification is the distinguishing feature between an identifiable asset and a goodwill. A goodwill results from the excess of the cost of acquisition over the attributable current values of the identifiable assets, debts and contingent liabilities in the case of a group of companies. Only a goodwill acquired for a consideration may be capitalized.

Intangible assets acquired for a consideration are valued at cost of acquisition. At the follow-up valuation, a distinction is made between intangible assets with limited and unlimited period of usefulness. The assets with limited period of usefulness are depreciated on schedule according to the straight-line method and in addition, if required, on the basis of an impairment test. In most cases, the period of usefulness is between three and five years. Assets with unlimited period of usefulness such as e.g. goodwill are depreciated on the basis of an impairment test only when required.

Since 01.01.2005, a goodwill acquired for a consideration is no longer depreciated on schedule due to the application of the IFRS 3. The value of this asset has to be checked by an impairment test to be carried out once per year according to IAS 36. For this, the book value of the goodwill is compared with the amount that can be realized. The amount that can be realized is the higher one of the two amounts of net value on realization and utility value. The net value on realization corresponds to the amount that can be realized from the sale of an asset at fair market conditions, minus the costs on sale.

The utility value was determined by discounting future cash flows before taxes on income with a risk-adapted discount interest rate (WACC). The basis for this is the corporate planning of the management; for the following years, a perpetuity adapted to the market situation was assumed.

If the book value is higher than the amount that can be realized, the book value of the asset must be reduced to its amount that can be realized. This reduction constitutes an expense due to impairment of value and is recorded as item affecting the current-period result.

Property, plant and equipment

Tangible fixed assets are capitalized at cost of acquisition or of production and regularly depreciated by the straight-line method in the following periods according to the expected economic period of usefulness.

The costs of acquisition are defined by the amount of the purchase price minus purchase price reductions and the incidental expenses required to put the asset in an operational state. The costs of production consist of the directly allocable direct cost as well as prorated indirect material and manufacturing overhead inclusive of depreciations. Maintenance and financial expenses are always recorded as items affecting the current-period result. Subsequent costs of acquisition or of production are capitalized if the valuation criteria are met.

The applied economic periods of usefulness are checked every year, and the future rates of depreciation are adapted if changes occur. In the Deutsche Steinzeug Cremer & Breuer AG Group, the following periods of usefulness form the basis:

Asset class	Period of usefulness in years
Premises	15 – 50
Kilns	15 – 20
Technical equipment and machines	3 – 15
Other fixtures and fittings	3 – 15
Vehicles	2 – 6

Should there be any grounds for an impairment of value of an asset, an impairment test according to IAS 36 is carried out. The asset is depreciated affecting current-period result if the utility value or net value on realization of the asset concerned has fallen below the depreciated cost of acquisition or of production. Should the grounds for an impairment of value no longer exist at a later time, a reinstatement of original values affecting current-period result is made, which must not exceed the depreciated cost of acquisition or of production which would have been determined at this time without the previous impairment of value.

Low-value items of the fixed assets are fully depreciated in the year of acquisition. Construction in progress and advance payments are balanced at cost of acquisition. Only after the asset concerned has been completed and is in an operational state, it is depreciated.

If assets are rented or leased and the lessor takes all essential risks and chances related to the property, the rental expenses or leasing installments are directly recorded as expense in the profit and loss statement. For cases in which the essential risks and chances are borne by one of the Group companies, the asset is allocated to the lessee according to IAS 17. The consequence of this is that the asset must be capitalized at the company with its attributable current value or the lower cash value of the leasing installments. The depreciation is divided up over the corresponding economic period of usefulness or, if shorter, over the term of the leasing contract. The corresponding payment obligations from the future leasing installments must be carried as liability.

Other financial assets

Financial assets

According to IAS 39, investments are classified as "assets to be held up to the final maturity". These financial assets are regularly checked for their value. They are balanced at depreciated cost of acquisition if no quoted market price is available. If a market price can be determined and this one is permanently lower than the book value of the asset, there is an expense due to impairment of value. Such a determined expense due to impairment of value is recorded as item affecting the current-period result. Should it turn out in the following periods that the reason for the impairment of value recorded in the previous years does no longer exist, a write-up affecting current-period result is made. The write-up must not exceed the amount of the impairment of value recorded in the previous years.

Loans are balanced at depreciated cost of acquisition.

Real estate held as financial investment

Land and buildings held for realizing rentals and/or for the purpose of increase in value have to be reported as real estate held as financial investment according to IAS 40. This real estate is not used within the scope of ordinary operations. The real estate held as financial investment is reported in the balance sheet separately from the assets used within the scope of ordinary operations. The assets are balanced according to the historical cost concept at depreciated cost of acquisition, and the buildings are regularly depreciated over the same period of time as the buildings in the fixed assets. The current market values are determined on the basis of official plans of benchmark land prices (Bodenrichtwertkarten), own calculations and existing offers. More detailed information about this is given in the explanation of the item under number 3.

Deferred taxes

Deferred taxes are formed for temporary differences between the valuations in the consolidated balance sheet and the tax balance sheet. These can be taxable temporary differences (deferred tax liabilities) and deductible temporary differences (deferred tax assets). As regards temporary differences, a distinction must be made between unlimited and limited differences; tax deferrals can be formed only for the limited differences. In the Deutsche Steinzeug Cremer & Breuer AG Group, the deferred taxes are calculated with a consolidated earnings-tax rate of 38%. Changes of the deferred taxes are always recorded as item affecting the current-period result. According to IAS 12, deferred taxes must not be reported as short-term items and can not be discounted. Provided that the requirements of the IAS 12 are met, an offset of the deferred tax receivables and liabilities has been made.

Inventories

Inventories are assets held for sale, in the production for sale or as raw materials and supplies for consumption at the production. According to IAS 2, they have to be valued at their cost of acquisition or of production if their net selling value is not lower. The costs of acquisition include the purchase price minus reductions in price and the incidental expenses. The directly allocable direct cost and the overhead to be allocated to the production process are included in the costs of production. Finance charges are not taken into account. The net selling value is defined as sales revenue expected to be realized, minus the costs having accumulated up to the time of sale. Independent of this, value adjustments are made for inventory risks resulting from the period of storage and/or reduced utility value. Subsequent reinstatements of original values are recorded as reduction of the materials usage or of the acquisition cost of the sold goods.

Accounts receivable and other assets

Accounts receivable and other assets are balanced at depreciated cost of acquisition. Recognizable risks of nonpayment are taken into account by adequate value adjustments, i.e. by individual value adjustment or lump-sum valuation adjustment. If the reasons for the valuation adjustment cease to apply, a write-up is made. Accounts receivable and other assets are separately reported according to their remaining term.

Liquid assets

The liquid assets include cash in bank and cash in hand.

Reserves and accrued liabilities

Reserves for pensions
According to IAS 19, reserves for pensions have to be formed for obligations arising from current pensions, expectancies and obligations similar to pensions as well as their safeguarding. The reserves are reported according to the present value of an expectancy (Projected-Unit-Credit-Method) on the basis of actuarial expert opinions of HEUBECK AG. In the case of this method, future increases of salaries and pensions to be expected are also taken into account in addition to the pensions and acquired expectancies known on the balance sheet date. Actuarial profits and losses and the expense for hours of service are allocated to the personnel expenditure, thus affecting current-period result. The actuarial profits and losses at the time of the changeover to IFRS have been fully taken into consideration at the valuation of the pension obligation. The corridor method has not been applied. The interest expense related to the pension obligations is included in the financial result. Existing reinsurances, which meet the conditions for scheduled assets, are balanced out with the corresponding pension obligation.

Other reserves and accrued liabilities
According to IAS 37, other reserves and accrued liabilities have to be formed for legal and de facto obligations to third parties arising from past events. The performance of the obligations must be probable and their amount must be reliably assessable. The reserves are assessed at the expected amount of performance. In the case of long-term accrued liabilities, a discounting is made if this is not of secondary importance.

Liabilities

Liabilities are assessed at the amount repayable including discounts.

Contingent liabilities

A contingent liability is a possible or already existing obligation whose implementation is unlikely. Contingent liabilities are regulated under IAS 37. Contingent liabilities are not reported in the balance sheet, but are explained under number 33.

Income and expense realization

Sales as well as other operating income are recorded at the time of the provision of supplies and services and if the inflow of the economic benefit is probable. The sales are reduced by sales deductions.

Operating expenses are affecting net income at the time of the utilization of services rendered or at the time of their causing. The other interest is recorded as current-period expense or income. Interest expenses arising in connection with the acquisition or production of assets are not capitalized.

Net earnings per share

According to IAS 33, the statement of the net earnings per share is also part of an annual financial statement. The net earnings per share correspond to the Group result after taxes on income divided by the weighted, average number of shares outstanding during the fiscal year.

Distinction between short-term and long-term items

According to IAS 1, the balance sheet must be subdivided into short- and long-term assets as well as short- and long-term liabilities. An asset or a liability is reported as short-term item if it meets at least one of the following criteria:

a. its realization/amortization is expected within the normal course of business,
b. it is primarily held for trading purposes,
c. its realization/repayment is expected within twelve months after the balance sheet date, or
d. it is a means of payment or equivalent to it, unless the exchange or the use of the asset for the fulfillment of an obligation are not restricted for a period of at least 12 months after the balance sheet date.

Use of estimates and assumptions

The preparation of the IFRS consolidated financial statement requires estimates and assumptions which have an influence on the valuation of assets and liabilities, the statement of contingent liabilities as of the balance sheet date as well as the reporting of income and expense. The actual amounts determined may differ from the amounts resulting from estimates and assumptions. The estimates and assumptions were made according to the information currently available at the time of preparing the financial statement.

Essential estimates and assumptions were made especially at the determination of the Group's uniform periods of depreciation, the value adjustments on inventories and accounts receivable, the parameters for the valuation of the pension reserve and the other reserves.

Consolidated companies

Apart from Deutsche Steinzeug Cremer & Breuer AG, 9 domestic and 5 foreign subsidiary companies are included in the consolidated financial statement of Deutsche Steinzeug like in the previous year. A further 7 companies which belong to the consolidated companies, each in itself and jointly, are of subordinate significance for the obligation of presenting an image of the asset, financial and earnings position of the Group in correspondence with the actual situation. With the changeover to IFRS, a change has occurred: Hürner Lufttechnik GmbH has been included in the consolidated financial statement, Vereinigte Steinzeugwerke GmbH is no longer included. Parent and subsidiary companies have stakes or voting rights of at least 20% but less than 50% in one domestic and one foreign company. About this, a survey of the companies belonging to the Group is attached as appendix to these notes.

Deutsche Steinzeug Cremer & Breuer AG, as the controlling company, has concluded controlling and profit-transfer agreements with Deutsche Steinzeug Keramik GmbH as well as Meissen Keramik GmbH.

Consolidation principles

Audited and inspected by auditing companies, the individual annual financial statements of all domestic companies as well as the individual annual financial statements, inspected by the Group auditors, of the foreign companies included in the consolidated financial statement form the basis for the consolidated financial statement. Loans, accounts receivable and liabilities as well as expenditures and revenues between the included companies are eliminated as well as intra-group profits arising from intra-group trade. The eliminations are based on statements of balance between the companies.

At the first-time preparation of the financial statement according to IFRS, the regulations of the IFRS 1 have been applied. The right to choose the non-retrospective application of the IFRS 3 with regard to the balanced goodwill has been used, the straight-line depreciation of this goodwill was stopped as of 01.01.2005. The preparation of the consolidated financial statement is made according to the regulations of the IAS 27, the consolidation of capital for the included companies is effected according to IFRS 3.

As a result of the changeover to IFRS as of 01.01.2004, the equity capital has changed compared to the provisions stipulated under Commercial Law as of 31.12.2003 as follows:

	€'000
Equity capital according to Commercial Code (HGB) as of 31.12.2003	**22,532**
Changes resulting from accounting and valuation differences	
Difference resulting from the valuation of the fixed assets	23,667
Valuation of pension reserve	-16,997
Deferred taxes	-6,331
Retirement of "shares of other shareholders" by final consolidation of Vereinigte Steinzeugwerke GmbH	-4,197
Other adjustments	-4,714
Equity capital according to IFRS as of 01.01.2004	**13,960**

The stated essential differences have the following reasons:

- The higher book values in the fixed assets according to IFRS essentially result from a 6b-reserve and longer periods of usefulness according to IFRS.

  In the years 1999 and 2000, a 6b-reserve formed in the years 1996 to 1998 was used for qualified new investments, i.e. the assets were valued in the commercial balance sheet at a value of € 0.--. As the principle of the 6b-reserve has a tax-based character, the International Accounting does not know this principle. The consequence of this is that all these assets had to be valued according to IFRS at their historical cost and developed up to the time of the transition – for the first time as of 31.12.2003.

  Another reason for the higher book values of the fixed assets are the different periods of usefulness of the Commercial Code (HGB) and the IFRS. In the commercial balance sheet, depreciations were made according to the tax depreciation tables in the past; the IFRS provide for the depreciation on the basis of the actual period of usefulness, i.e. over a period during which the asset can be used by the company.

- In the international accounting, the pension reserves previously balanced according to the component-based procedure pursuant to § 6a of the Income Tax Law (EstG) are determined by the expectancy present value method (Projected-Unit-Credit-Method) according to IAS 19.

- Deferred taxes are determined according to IFRS on the basis of different principles.

- Due to the final consolidation of Vereinigte Steinzeugwerke GmbH, in which Deutsche Steinzeug Cremer & Breuer AG has a stake of 60%, the shares of third parties in the equity capital have retired.

Currency conversion

In the individual financial statements with the Euro as national currency, all business transactions in foreign currency are assessed at the rate at the time of the first entry. Accounts receivable and liabilities in foreign currency outstanding on the balance sheet date are valued at the rate on the balance sheet date.

According to IAS 21, the individual balance sheets of the Group companies whose national currency is not the Euro are converted into Euro according to the concept of the functional currency. At all companies, the functional currency is the respective national currency, because all companies operate their business independently in financial, economic and organizational respect.

The items of the fixed assets are converted at the rates on the balance sheet date, as are the other balance sheet items. Depreciations, increases and decreases in inventories and annual results are converted at the rate on the balance sheet date. Currency differences resulting from this are reported in a separate item in the equity capital.

Currency (1 Euro =)		Rate on bal. sheet date		Average rate	
		2005	2004	**2005**	2004
US-Dollar	USD	**1.1797**	1.3621	**1.2441**	1.2439
Swiss Franc	SFR	**1.5551**	1.5429	**1.5483**	1.5438

The consolidated financial statement of Deutsche Steinzeug Cremer & Breuer AG was prepared in Euro; all amounts are stated in thousands € (€'000) if not separately specified.

Explanations of the consolidated balance sheet

Long-term assets

The long-term assets consist of the fixed assets, long-term accounts receivable and the deferred taxes. In the long-term assets, no assets governed by the regulations of the IFRS 5 are included.

Fixed assets

The itemization of the asset positions and their development in 2005 are presented as an appendix to these notes (Analysis of fixed assets). From all capitalized assets, a future economic benefit is expected.

1 Intangible assets

The development of the intangible assets presents itself as follows:

	Trademarks and licenses	Goodwill	Advance payments	Total
	€'000	€'000	€'000	€'000
Accumulated procurement costs				
Status as of 01.01.2004	**2,246**	**27,704**	**0**	**29,950**
Currency changes	0	0	0	0
Additions 2004	209	0	25	234
Disposals 2004	26	0	0	26
Transfers	0	0	0	0
Status as of 31.12.2004	**2,429**	**27,704**	**25**	**30,158**
Status as of 01.01.2005	**2,429**	**19,041**	**25**	**21,495**
Currency changes	0	0	0	0
Additions 2005	388	0	0	388
Disposals 2005	25	0	0	25
Transfers	25	0	-25	0
Status as of 31.12.2005	**2,817**	**19,041**	**0**	**21,858**
Accumulated depreciations				
Status as of 01.01.2004	**1,770**	**6,560**	**0**	**8,330**
Currency changes	0	0	0	0
Additions 2004	319	2,103	0	2,422
Disposals 2004	26	0	0	26
Transfers	0	0	0	0
Status as of 31.12.2004	**2,063**	**8,663**	**0**	**10,726**
Status as of 01.01.2005	**2,063**	**0**	**0**	**2,063**
Currency changes	0	0	0	0
Additions 2005	224	4,174	0	4,398
Disposals 2005	22	0	0	22
Transfers	0	0	0	0
Status as of 31.12.2005	**2,265**	**4,174**	**0**	**6,439**
Remaining book values				
Status as of 31.12.2005	**552**	**14,867**	**0**	**15,419**
Status as of 31.12.2004	**366**	**19,041**	**25**	**19,432**

In the item “Trademarks and licenses”, diverse software packages and a SAP license were capitalized as additions. The software packages are regularly depreciated over a period of usefulness of 3 years, the SAP license over a period of usefulness of 5 years. A right of use no longer relevant to business operation with a remaining book value of € 2,000 has been disposed of. The loss on disposal is reported with effect on the result within the other operating expenses.

According to IFRS 3.55, the regular depreciation of the capitalized goodwill is no longer permitted since 01.01.2005; it now has to be checked for a possible impairment of value every year according to the regulations of the IAS 36. The goodwill capitalized in the Deutsche Steinzeug Group was regularly depreciated by the straight-line method up to 31.12.2004 on the basis of a period of usefulness of 15 years. If the regular depreciation had been continued, a depreciation expense of € 2,096,000 would have resulted for the fiscal year 2005. At the check of the value (Impairment-Test) of the capitalized goodwill, depreciation requirements have resulted in two cases. The goodwill balanced in the marketing subsidiary Deutsche Steinzeug America Inc. as well as in Deutsche Steinzeug Cremer & Breuer AG for the division “Jasba“ had to be corrected. The expense resulting from the impairment of value, which is recorded under the item of depreciations with effect on the result, amounts to a total of € 4,174,000, of which € 1,759,000 are allocable to Deutsche Steinzeug America Inc. and € 2,415,000 to the division “Jasba” of Deutsche Steinzeug Cremer & Breuer AG. In accordance with the IAS transition provision of the IFRS 3.79, a balanced out statement of the net book values with the historical depreciations is made as of 01.01.2005.

Like in the previous year, no assets are included in the intangible assets which are subject to a limited property right. None of the intangible assets is pledged as security for liabilities.

2 Property, plant and equipment

In the item “Land, leasehold, rights and buildings”, only the assets used for operating purposes are included. Land and buildings which do not belong to this category are included in the other financial assets according to IAS 40. More detailed information about these assets is provided in number 3.

The addition at land and buildings results from the post-capitalization of land transfer tax.

Of the liabilities due to banks, € 58,772,000 are secured by mortgages on land and buildings.

Leasing

In the Group, there are only Operating-Lease contracts; there are no contracts which meet the criteria of Finance-Lease. None of the contracts provides for a favourable purchase option or a transfer of ownership after its termination. The Group rents office rooms for the marketing companies and leases movable assets. These are mainly vehicles and IT-as well as office equipment. The contracts provide for a basic rental period between 15 and 60 months. In the fiscal year 2005, the rental and leasing expenses amounted to € 3,004,000 (prev. year: € 3,922,000).

The obligations from Operating-Lease relationships are subdivided as follows:

	up to 1 year €’000	1 to 5 years €’000	over 5 years €’000
Operating-Lease			
Payment obligations	**2,471**	**1,135**	**0**

The fixed assets used for operating purposes developed as follows:

	Land and buildings	Technical equip., plant and machinery	Other equipment, operational and office equipment	Advance payments and construction in progress	Total
	€'000	€'000	€'000	€'000	€'000
Accumulated procurement costs					
Status as of 01.01.2004	**100,401**	**200,502**	**21,931**	**812**	**323,646**
Currency changes	-1	0	-24	0	-25
Additions 2004	1	1,596	1,267	2,710	5,574
Disposals 2004	3,440	2,012	627	0	6,079
Transfers	0	625	187	-812	0
Status as of 31.12.2004	**96,961**	**200,711**	**22,734**	**2,710**	**323,116**
Status as of 01.01.2005	**96,961**	**200,711**	**22,734**	**2,710**	**323,116**
Currency changes	2	0	68	0	70
Additions 2005	778	4,411	618	460	6,267
Disposals 2005	5	625	589	0	1,219
Transfers	0	2,565	119	-2,684	0
Status as of 31.12.2005	**97,736**	**207,062**	**22,950**	**486**	**328,234**
Accumulated depreciations					
Status as of 01.01.2004	**59,909**	**163,351**	**19,494**	**0**	**242,754**
Currency changes	-1	0	-11	0	-12
Additions 2004	2,115	4,342	924	0	7,381
Disposals 2004	1,259	1,557	566	0	3,382
Transfers	0	0	0	0	0
Status as of 31.12.2004	**60,764**	**166,136**	**19,841**	**0**	**246,741**
Status as of 01.01.2005	**60,764**	**166,136**	**19,841**	**0**	**246,741**
Currency changes	2	0	37	0	39
Additions 2005	2,021	4,527	881	0	7,429
Disposals 2005	0	608	470	0	1,078
Transfers	0	0	0	0	0
Status as of 31.12.2005	**62,787**	**170,055**	**20,289**	**0**	**253,131**
Remaining book values					
Status as of 31.12.2005	**34,949**	**37,007**	**2,661**	**486**	**75,103**
Status as of 31.12.2004	**36,197**	**34,575**	**2,893**	**2,710**	**76,376**

3 Real estate held as financial investment

The real estate held as financial investment can be subdivided into three groups:

1. Real estate suitable for commercial use
2. Residential land with buildings
3. Agricultural and forestry areas

The real estate suitable for commercial use is subject to a development programme with the intention of selling this real estate. The book value of this group in the consolidated financial statement amounts to 6.9 million € (previous year: 7.3 million €). The current market value, however, is 9.7 million €. Due to the developments and new knowledge in the current fiscal year 2005, a downward value adjustment in the amount of about 0.4 million € was required. The book values correspond to the depreciated cost of acquisition. The difference compared to the book values in the Group results from eliminations of intra-group profits, because individual plots of land were sold within the Group in the past.

The group of residential land with buildings and the group of agricultural and forestry areas include the historically grown property of land and buildings in the Group.

The book value of the residential land amounts to about 0.2 million € (previous year: about 0.7 million €); the current market values, however, amount to about 0.5 million €. The book values correspond to the depreciated cost of acquisition. The reported current market values are based on a determination of the earning power. In one case, this required a downward value adjustment of 0.5 million € in the fiscal year 2005.

The book value of the agricultural and forestry areas is 1.6 million € (previous year: 1.6 million €), whereas the current market values amount to 2.8 million €. The book values correspond to the historical cost of acquisition. The stated current market values have been determined by using official plans of benchmark land prices (Bodenrichtwertkarten) of the local authorities.

A valuation by an external expert as recommended by IAS 40 was abstained from for cost reasons.

The impairments of value in the total amount of about 0.9 million € determined for the fiscal year 2005 on the basis of the valuations are entered in the profit and loss statement with effect on the result in the item "Depreciations of financial assets and real estate held as financial investment in the financial result".

4 Other financial assets

The addition in the shares in affiliated companies results from the formation of a shell company in Deutsche Steinzeug Cremer & Breuer AG. A liquidated company with a remaining book value of € 0.-- has retired. At the other loans, an uncollectible receivable with a remaining book value of € 1.-- and a debt recovered have been withdrawn. A company intended for sale with a book value of € 300,000 has been transferred to the assets – also see number 10.

All investments are classified up to the final maturity.

The other financial assets developed as follows:

	Shares in affiliated companies	Other investments	Real estate held as financial investment	Other loans	Total
	€'000	€'000	€'000	€'000	€'000
Accumulated procurement costs					
Status as of 01.01.2004	**15,264**	**81**	**10,900**	**254**	**26,499**
Currency changes	0	0	0	0	0
Additions 2004	0	0	0	0	0
Disposals 2004	5,701	24	0	65	5,790
Transfers	-1,320	0	0	0	-1,320
Status as of 31.12.2004	**8,243**	**57**	**10,900**	**189**	**19,389**
Status as of 01.01.2005	**8,243**	**57**	**10,900**	**189**	**19,389**
Currency changes	0	0	0	0	0
Additions 2005	51	0	0	0	51
Disposals 2005	26	0	0	187	213
Transfers	0	0	0	-2	-2
Status as of 31.12.2005	**8,268**	**57**	**10,900**	**0**	**19,225**
Accumulated depreciations					
Status as of 01.01.2004	**3,937**	**59**	**1,334**	**239**	**5,569**
Currency changes	0	0	0	0	0
Additions 2004	1,020	0	0	0	1,020
Disposals 2004	3,911	25	0	53	3,989
Transfers	-1,020	0	0	0	-1,020
Status as of 31.12.2004	**26**	**34**	**1,334**	**186**	**1,580**
Status as of 01.01.2005	**26**	**34**	**1,334**	**186**	**1,580**
Currency changes	0	0	0	0	0
Additions 2005	0	0	883	0	883
Disposals 2005	26	0	0	186	212
Transfers	0	0	0	0	0
Status as of 31.12.2005	**0**	**34**	**2,217**	**0**	**2,251**
Remaining book values					
Status as of 31.12.2005	**8,268**	**23**	**8,683**	**0**	**16,974**
Status as of 31.12.2004	**8,217**	**23**	**9,566**	**3**	**17,809**

5 Other long-term assets and long-term accounts due from affiliated companies

The other long-term assets and accounts due from affiliated companies in the total amount of € 4,171,000 (previous year: € 3,036,000) are explained in numbers 9 and 10.

6 Deferred taxes

The deferred tax assets in the amount of € 1,299,000 (previous year: € 1,367,000) and the deferred tax liabilities in the amount of € 107,000 (previous year: € 1,889,000) result from temporary differences in the valuations between the consolidated balance sheet and the tax balance sheet. The deferred taxes were formed on the level of the individual companies; thus, satisfying the requirement of IAS 12.71 and IAS 12.74, the deferred tax assets and liabilities have been balanced out.

The deferred taxes concern the following balance sheet positions:

	Deferred tax assets		Deferred tax liabilities	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	€'000	€'000	€'000	€'000
Intangible assets			123	840
Fixed assets	8	6	9,891	10,136
Financial assets	752	797		
Inventories	1,093	1,424		
Other assets	1,975	1,773	144	174
Pension reserves	8,193	8,303		
Other reserves	1,485	493	110	94
Liabilities	12	28	2,362	2,268
Losses carried forward	304	166		
Balance	**-12,523**	**-11,623**	**-12,523**	**-11,623**
Balance sheet item	**1,299**	**1,367**	**107**	**1,889**

Taking into account the minimum taxation, the domestic losses carried forward can be carried forward without limitation in time; in the case of foreign losses carried forward, there are often limitations in time with regard to the possibility of carrying forward. The specific regulations of the individual countries were taken into consideration at the valuation accordingly. Deferred tax assets due to tax losses not yet made use of in the total amount of € 117,875,000 (previous year: € 114,072,000) have not been capitalized according to IAS 12.35 + 12.36.

The individual balance sheet positions are explained under the stated number; for further details on the deferred taxes, see number 29 "Taxes on income".

Short-term assets

The short-term assets include the inventories, short-term accounts receivable as well as securities and liquid assets.

7 Inventories

	31.12.2005 €'000	31.12.2004 €'000
Raw materials and supplies	6,741	6,256
Unfinished goods	3,356	2,964
Finished goods and trading stock	39,682	40,508
	49,779	**49,728**

There are no restraints on ownership or disposal. The inventories are pledged by transfer as security for the liabilities due to banks.

8 Accounts receivable, trade

The accounts receivable, trade are all due within one year and developed as follows in the fiscal year 2005:

	31.12.2005 €'000	31.12.2004 €'000
Accounts receivable, trade	19,440	15,887

The accounts receivable, trade are balanced at their nominal value. For recognizable non-payment risks, value adjustments in the amount of € 1,597,000 (previous year: € 2,239,000) have been assessed as of 31.12.2005.

The accounts receivable, trade are pledged by blanket assignment for the liabilities due to banks.

9 Accounts due from affiliated companies

The accounts due from affiliated companies have developed in the fiscal year as follows:

	Accounts due from affiliated companies as of 31.12.2005	Accounts due from affiliated companies as of 31.12.2004
	€'000	€'000
with a remaining term of		
up to 1 year	4	329
more than 1 year	2,923	2,000
Total	**2,927**	**2,329**

The accounts due from affiliated companies are balanced at nominal value. Accounts in foreign currency open on the balance sheet date were valued at the rate on the balance sheet date.

10 Other accounts receivable and assets

The other accounts receivable and assets include other accounts receivable and assets, securities and accruals. In contrast to the Commercial Code (HGB), IAS 1 does not provide for a separate position for the accruals and deferrals. That is why they are allocated to the other assets.

The values developed as follows:

	Value on 31.12.2005	with a remaining term of up to 1 year	over 1 year	Value on 31.12.2004	with a remaining term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Other accounts receivable and assets	3,697	2,449	1,248	7,103	6,067	1,036
Accrual and deferral	220	220	0	401	401	0
	3,917	**2,669**	**1,248**	**7,504**	**6,468**	**1,036**
Securities	300	300	0	300	300	0
	4,217	**2,969**	**1,248**	**7,804**	**6,768**	**1,036**

The position "other accounts receivable and assets" includes in particular rent deposits and other security deposits, tax receivables, accounts due from employees and outstanding accounts payable. In the fiscal year 2004, a claim for tax refund in the amount of € 3,116,000 had been capitalized, which was settled in the fiscal year 2005. Basically, this is also the main reason for the decline in the other accounts receivable and assets. The amount of € 300,000 reported under the securities is the book value of a company intended for sale.

11 Liquid assets

	31.12.2005	31.12.2004
	€'000	€'000
Checks and cash on hand	168	205
Cash in bank	2,564	4,598
	2,732	**4,803**

The cash on hand and the cash in bank are balanced at nominal amount; cash equivalents are not held.

Equity capital

The equity capital of Deutsche Steinzeug Group includes:

- the share capital and the capital reserves of Deutsche Steinzeug Cremer & Breuer AG
- the reserves for own shares of the consolidated companies since belonging to the Group
- the effects of the consolidation measures and
- the reduction of the equity capital by own shares of Deutsche Steinzeug Cremer & Breuer AG

The development of the equity capital is shown in a transitional statement of equity capital.

12 Share capital

The subscribed capital of Deutsche Steinzeug Cremer & Breuer AG is € 27,065,000 and is divided up into 27,065,000 individual share certificates with an accounting par value of € 1.--. The shares are in the name of the owners.

13 Capital reserves

The capital reserves in the amount of € 2,706,500 result from the capital reduction resolved by the Annual General Meeting on 17.06.2004.

14 Reserves for own shares

The reserves for own shares of the Group in the amount of € -24,809,000 (previous year: € -15,584,000) include the prorated losses made by the consolidated companies since belonging to the Group as of 31.12.2003. The Group net losses having accumulated since 01.01.2004 (IFRS opening balance sheet) have been carried forward to this position. In addition, foreign currency influences are included in this item.

15 Group result

This position includes the Group net loss for the fiscal year 2005.

16 Own shares

The own shares in the amount of € 137,000 held by Deutsche Steinzeug Cremer & Breuer AG in the previous year were sold in the fiscal year 2005.

Transitional statement of equity capital

	Share capital	Capital reserves	Res. f. o. shares	Group result	Own shares	Total equity capital
	€'000	€'000	€'000	€'000	€'000	€'000
Status as of 01.01.2004	**54,130**	**0**	**-19,905**	**-20,128**	**-137**	**13,960**
Reclassification of Group	0	0	-20,128	-20,128	0	0
Result for the year	0	0	0	-9,763	0	-9,763
Capital reduction	-27,065	0	0	0	0	-27,065
Allocation to the capital reserves	0	2,707	0	0	0	2,707
Compensation for loss carr. forward	0	0	24,359	0	0	24,359
Currency change	0	0	90	0	0	90
Change in own shares	0	0	0	0	0	0
Status as of 31.12.2004	**27,065**	**2,707**	**-15,584**	**-9,763**	**-137**	**4,288**
Status as of 01.01.2005	**27,065**	**2,707**	**-15,584**	**-9,763**	**-137**	**4,288**
Reclassification of Group	0	0	-9,763	-9,763	0	0
Group result	0	0	0	-4,526	0	-4,526
Currency change	0	0	538	0	0	538
Change in own shares	0	0	0	0	137	137
Status as of 31.12.2005	**27,065**	**2,707**	**-24,809**	**-4,526**	**0**	**437**

Long-term liabilities

17 Reserves for pensions

The reserves for pensions are formed for obligations arising from expectancies and current pensions in respect of former and active employees of the Group as well as their surviving dependants.

The reserves for pensions are calculated according to IAS 19 on the basis of actuarial assumptions. With regard to the life expectancy, Klaus Heubeck's 1998 Actuarial Tables were used for the fiscal year 2004 and the 2005 G Actuarial Tables for the fiscal year 2005. A fluctuation was not taken into account, as the company pension systems essentially had been closed in 1984/1996. The actuarial profits/losses are recorded with effect on the result in the profit and loss statement. The Defined Benefit Obligation (DBO) is carried as liability, taking into account scheduled assets. Reinsurances serve as scheduled assets.

For the calculations, the following parameters were used:

	31.12.2005	31.12.2004
	%	%
Assumed rate of interest	4.25	4.50
Expected yield on scheduled assets	4.00	4.00
Salary trend	2.00	2.00
Pension trend	1.75	1.75

The reserves for pensions and the pension expenses developed as follows:

	Status 01.01.2005	Change 2005	Status 31.12.2005	Status 01.01.2004	Change 2004	Status 31.12.2004
	€'000	€'000	€'000	€'000	€'000	€'000
Reserve for pensions	68,447	-2,812	65,635	63,529	4,918	68,447
Current service cost			108			171
Interest expense			3,075			3,321

The pension expenses are included in the personnel expenditure – the interest expense is reported pro ratio in the financial result.

The change of the Defined Benefit Obligation (DBO) as well as the scheduled assets results as follows:

	31.12.2005	31.12.2004
	€'000	€'000
Pension obligation (DBO) by 01.01.	70,813	65,554
Current service cost	108	171
Interest expense	3,075	3,321
Pension payments	-4,870	-5,019
Actuarial profits (-)/losses	-779	6,786
Pension obligation (DBO) by 31.12.	**68,347**	**70,813**
Scheduled assets by 01.01.	2,366	2,026
Revenue from scheduled assets	105	81
Employers' contributions	241	259
Scheduled assets by 31.12.	**2,712**	**2,366**
Pension obligation (DBO) by 31.12.	68,347	70,813
minus scheduled assets by 31.12.	2,712	2,366
Pension reserve acc. to balance sheet as of 31.12.	**65,635**	**68,447**

18 Long- and short-term other reserves

The long- and short-term other reserves developed as follows in the fiscal year:

	Status 01.01.2004	Currency changes	Transfer 2004	Utilization 2004	Retransfer 2004	Change in consolidated companies	Status 31.12.2004
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Long-term reserves	1,500	0	324	178	32	0	1,614
Taxes	838	0	2	14	28	5	803
Personnel	3,472	0	2,330	2,950	182	0	2,670
Guarantees and other remunerations	3,457	0	2,372	3,177	156	0	2,496
Others	3,125	-16	1,714	2,024	387	6	2,418
	12,392	**-16**	**6,742**	**8,343**	**785**	**11**	**10,001**

	Status 01.01.2005	Currency changes	Transfer 2005	Utilization 2005	Retransfer 2005	Change in consolidated companies	Status 31.12.2005
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Long-term reserves	1,614	0	328	100	47	0	1,795
Taxes	803	0	35	25	33	-13	767
Personnel	2,670	2	1,949	2,390	124	0	2,107
Guarantees and other remunerations	2,496	0	3,967	2,130	168	0	4,165
Others	2,418	30	4,550	1,652	171	13	5,188
	10,001	**32**	**10,829**	**6,297**	**543**	**0**	**14,022**

The long-term reserves include obligations concerning the recultivation of areas, the future contributions to Pensionssicherungsverein aG as well as the reserve to be formed for the preservation of business records as required by law.

The tax reserves include a reserve for corporate income and trade tax payments for prior years as well as for the payment of solidarity surcharge on income tax for prior years due to a tax audit for the years 1995 – 1998. In addition, smaller individual risks are carried as liability in this position.

The reserves for personnel include outstanding profit-sharing bonus and redundancy payments, contributions to trade associations as well as obligations arising from vacation and leisure time entitlements of employees. The reserve for future contributions to Pensionssicherungsverein aG in the amount of € 446,000 (previous year: € 388,000) actually also belongs to the reserves for personnel; because of its long-term character, however, it is recorded under the long-term reserves.

In the reserves for guarantees and other remunerations, the obligations arising from the usual product guarantees are included as well as outstanding bonus payments.

In the other reserves, the reserves for interest on taxes, audit fees, invoices not yet received, litigation risks as well as further individual items are recorded.

19 Long- and short-term liabilities due to banks

The liabilities due to banks are subdivided into long- and short-term liabilities as follows:

	Value by 31.12.2005	with a remaining term of up to 1 year	over 1 year	Value by 31.12.2004	with a remaining term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Long-term liabilities due to banks	10,904	0	10,904	15,151	0	15,151
Short-term liabilities due to banks	66,278	66,278	0	64,907	64,907	0
	77,182	**66,278**	**10,904**	**80,058**	**64,907**	**15,151**

Of the liabilities due to banks, € 58,772,000 (previous year: € 58,772,000) are secured by mortgages and € 16,166,000 (previous year: € 11,401,000) by blanket assignment of trade receivables as well as by transfer of inventories as security.

20 Long- and short-term accounts payable, trade

In the accounts payable, trade, the obligations from supplies and services received as well as the bills of exchange payable related to them are shown.

	Value by 31.12.2005	with a remaining term of up to 1 year	over 1 year	Value by 31.12.2004	with a remaining term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts payable, trade	13,338	12,519	819	13,053	13,053	0
- of which bills of exchange payable	85	85	0	10	10	0

Trade accounts payable in foreign currency open on the balance sheet date were valued at the rate on the balance sheet date.

The reported amounts correspond to the attributable current values.

21 Long- and short-term other liabilities

The long- and short-term other liabilities include the accounts due to affiliated companies, the other liabilities and the accruals and deferrals. As already mentioned under number 10, IAS 1 does not provide for a separate position for the accruals and deferrals in the balance sheet.

	Value by 31.12.2005	with a remaining term of up to 1 year	over 1 year	Value by 31.12.2004	with a remaining term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts due to affiliated companies	8,784	8,784	0	8,559	1,067	7,492
	8,784	**8,784**	**0**	**8,559**	**1,067**	**7,492**
Liabilities from taxes	705	705	0	638	638	0
Liabilities in the scope of social security	2,081	2,081	0	2,385	2,385	0
Other liabilities	5,569	5,060	509	6,195	5,495	700
Accrual and deferral	30	30	0	19	19	0
	8,385	**7,876**	**509**	**9,237**	**8,537**	**700**
	17,169	**16,660**	**509**	**17,796**	**9,604**	**8,192**

The liabilities from taxes essentially include the liabilities resulting from wage and church tax as well as solidarity surcharge on income tax. The liabilities in the scope of social security essentially include the employees' and employer's contributions to social insurance and trade association, which have not yet been paid.

The other liabilities mainly include receivables due as well as liabilities due to employees.

Explanations of the consolidated profit and loss statement

22 Sales revenues

The sales are divided up as follows:

	2005 €'000	2004 €'000
Germany	151,963	154,568
Other countries	78,560	81,230
	230,523	**235,798**

23 Other operating income

The other operating income includes the following:

	2005 €'000	2004 €'000
Income from the refund of mineral oil and electricity tax	3,386	3,437
Income from the retransfer of reserves	1,835	812
Income from payments of damages	535	57
Other operating income	4,416	3,755
	10,172	**8,061**

The other operating income includes out-of-period income in the amount of € 4,131,000 (previous year: € 2,468,000).

24 Expenditure on materials

The expenditure on materials is subdivided as follows:

	2005 €'000	2004 €'000
Cost of raw materials and supplies	58,405	58,815
Cost of trading stock	36,206	42,599
Cost of purchased services	6,760	6,777
	101,371	**108,191**

25 Personnel expenditure

The personnel expenditure includes the following:

	2005	2004
	€'000	€'000
Wages and salaries	53,851	58,026
Social security	11,706	12,637
Expenditure on pensions	1,941	7,450
	67,498	**78,113**

The expenditures on pensions include the benefits of Deutsche Steinzeug Group arising from contribution- and performance-oriented employer's pension commitments. The change in the pension reserve is set off against the current pension expenses. The interest quota arising from pension obligations is reported in the financial result.

The reason for the difference in the expenditures on pensions between the fiscal years 2004 and 2005 is the fact that the valuation of the pension reserve was made according to the new 2005G Mortality Table of Klaus Heubeck in the fiscal year 2005. This and a change in the interest rate taken as a basis from 4.5 to 4.25 % led to the result that a higher decrease (previous year: an increase) in the pension reserve could be set off against the current pension expenses. We also refer you to number 17 "Reserve for pensions".

In the fiscal year 2005 and 2004 respectively, the average number of employees in the Group was:

	2005	2004
	€'000	€'000
Wage earners	1,170	1,184
Salaried employees	520	542
	1,690	**1,726**

26 Depreciations

The depreciations are divided up as follows:

	2005	2004
	€'000	€'000
Depreciations of intangible assets	4,398	2,422
Depreciations of property, plant and equipment	7,429	7,381
	11,827	**9,803**

The depreciations of the fiscal year 2005 include non-scheduled depreciations in the amount of € 4,274,000 (previous year: € 2,000), which essentially are allocable to the goodwill under the intangible assets. For further explanations, we refer you to number 1 “Intangible assets”.

27 Other operating expenditure

The other operating expenditure mainly includes freight charges, commissions, maintenance expenses, advertising expenses as well as rentals paid. The other operating expenditure also includes the other taxes in the amount of € 451,000 (previous year: € 414,000). Furthermore, out-of-period expenditures in the amount of € 252,000 (previous year: € 577,000) are included in this item.

28 Financial result

The financial result includes the following:

	2005 €'000	2004 €'000
Income from investments	**75**	**106**
Depreciations of financial assets and real estate held as financial investment	**-883**	**-1,020**
Other interest and similar income	105	106
Interest and similar expenditures	-8,149	-10,504
Interest balance	**-8,044**	**-10,398**
Financial result	**-8,852**	**-11,312**

The income from investments includes the profit claims of the non-consolidated subsidiary companies.

With regard to the depreciations of financial assets and real estate held as financial investment in the amount of € 883,000, we refer you to number 3 “Real estate held as financial investment”. These are non-scheduled depreciations of real estate held as financial investment.

In the interest balance, an interest expenditure on pension reserves in the amount of € 3,075,000 (previous year: € 3,321,000) is included.

29 Income taxes

The income taxes include the income taxes paid or unpaid in the individual countries as well as the deferred taxes. The taxes comprise trade tax on earnings, corporate income tax, solidarity surcharge on income tax and the corresponding foreign income taxes.

The expenditure for income taxes is divided up according to origin as follows:

	2005 €'000	2004 €'000
Current taxes in Germany	-35	-3
Current taxes abroad	-178	66
Current taxes	**-213**	**63**
Deferred taxes in Germany	-804	-4,855
Deferred taxes abroad	-731	-3
Deferred taxes	**-1,535**	**-4,858**
Income taxes	**-1,748**	**-4,795**

The income taxes can be transferred to the fictitious expenditure for income taxes which would have resulted if the Group tax rate of Deutsche Steinzeug Cremer & Breuer AG of 38% had been applied to the IFRS Group result before taxes as follows:

	2005 €'000	2004 €'000
Result before taxes	-5,823	-14,144
Tax rate of Deutsche Steinzeug Group	38%	38%
Fictitious expenditure for income taxes	**-2,213**	**-5,375**
Deviating tax rates	-28	86
Valuation corrections of deferred taxes	493	495
Total amount transferred	**465**	**581**
Income tax expenditure	**-1,748**	**-4,795**

30 Net earnings per share

The key indicator for the net earnings per share results from the division of the Group result by the average weighted number of common shares outstanding during the period.

The net earnings per share developed as follows:

	2005	2004
Number of individual share certificates	26,833,743	26,806,077
Group result in € ‘000	-4,526	-9,763
Net earnings per share (in €)	-0.17	-0.36

Capital flow statement

31 Explanations of the capital flow statement

Following IAS 7, the capital flow statement shows the change of the liquid funds/marketable securities in the course of the period under review. For this purpose, a distinction is made between three categories: the cash flow arising from current business operations, the cash flow arising from investment activity and the cash flow arising from financing activity. The liquid funds/marketable securities comprise the liquid assets of the Group.

In the fiscal year 2005, the cash flow arising from current business operations could be increased by 2.9 million €. This is also reflected by the positive development of the result for the year with an improvement by 5.2 million € compared to the previous year. The depreciations increased because of special effects and the transfer of a restructuring reserve included in the other expenses without effect on payments and earnings of considerable importance have an increasing effect in this connection. The decline of the pension reserve, on the other hand, must be considered as decreasing effect.

The outflow of funds for investments amounts to 6.5 million € (previous year: 3.4 million €) in the fiscal year. The reason for the change compared to the previous year is a slightly increased investment activity. The essential effect, however, is the book value of the asset retirements by about 2.4 million € lower.

The cash flow arising from financing activity shows an inflow of funds of 2.9 million € (previous year: 1.8 million €) for the year 2005. While the financial debt could be reduced in the previous year by the repurchase of reinsurance cover, it was possible in the fiscal year 2005 to reduce liabilities due to banks by a tax refund resulting from this repurchase.

Segment reporting

32 Explanations of the segment reporting

According to the regulations of IAS 14 (Segment Reporting), individual data of annual financial statements have to be separately reported. The division is oriented to the internal reporting, which permits a reliable assessment of the risks and income of the Group. By the division into segments, the profitability and the prospects of success of the Group's individual activities are to be made clearer.

As Deutsche Steinzeug Group is actually operating only in one business division, the one of Ceramic Covering Materials, various details of the consolidated financial statement are divided up only for the geographical regions.

The division of the primary segment reporting is made according to the geographical regions in which Deutsche Steinzeug Group is operating. These regions can be subdivided into Germany, remaining EMU countries and the rest of the world.

The German market still is the main market for Deutsche Steinzeug. There, by far more than half of all sales are realized. As there is no exchange rate risk and a regional nearness to the production plants is given in the case of the remaining EMU countries, this was the criterion to decide on the EMU countries as further regional segment. The third geographical segment includes all other regions to which goods are supplied, inclusive of overseas markets and Asia. Due to the fact that the export activities of the company are being considerably forced up against the background of the better price quality and the higher growth in demand, the weighting of the segment reporting will alter to the disadvantage of the domestic market in the next years.

The segment data are determined on the basis of the accounting and valuation methods applied in the consolidated financial statement. The external sales correspond to the revenues from sales to third parties, the internal sales include the supply and service relations between the individual segments. The stated amounts for the asset and liability items or expenditures and income represent the value of the individual segments. If a clear allocation is not possible, allocation formulas are applied.

In this connection, the EBITDA corresponds to the result before taking into account the financial result, before income taxes as well as before the scheduled and non-scheduled depreciations of intangible assets and property, plant and equipment. Including the depreciations having accumulated in the individual segments, the EBIT results as result before the financial result and the income taxes.

The segment assets and the segment liabilities represent the values of the Group companies established in the countries. They are mainly commission companies, and there is one marketing company. For this reason, the segment assets and the segment liabilities in the EMU countries and in the rest of the world are of rather secondary importance.

The stated investments concern the intangible assets and property, plant and equipment. The depreciations refer to the assets existing in the segments.

The segment reporting is attached as appendix to these notes.

Other explanations

33 Contingent liabilities and commitments

	31.12.2005	31.12.2004
	€'000	€'000
Rental and leasing obligations	3,606	3,433
Guarantees	1,916	2,822
Order of securities for external liabilities	822	1,159
Warranties	365	394
Notes discounted	346	389
	7,055	**8,197**

34 Remuneration of the Supervisory Board and the Board of Management

The remuneration of the Supervisory Board of Deutsche Steinzeug Cremer & Breuer AG is laid down in the company's articles of association. For their activity, the members of the Supervisory Board receive a fixed remuneration of € 12,500 per year. The Chairman of the Supervisory Board receives the double, his Deputy the one and a half times amount of the aforementioned remuneration for an ordinary member. The total remuneration of the members of the Supervisory Board amounted to € 155,000 (previous year: € 172,000) in 2005.

The total remuneration of the Board of Management amounted to € 839,000 (previous year: € 1,124,000) in the year under review. Of the total remuneration of the Board of Management in 2005, fixed components accounted for € 459,000 and variable components for € 380,000.

For pension obligations in respect of former members of the Board of Management and their surviving dependants, a total of € 11,477,000 (previous year: € 13,429,000) has been allocated to pension reserves; the current remuneration for these persons was € 1,566,000 (previous year: € 1,692,000).

35 Relations to affiliated companies and persons

Business transactions with affiliated companies or persons that must be reported do not exist. Transactions between the companies of the Group were eliminated according to the consolidation principles.

A survey of the companies belonging to Deutsche Steinzeug Group is attached as appendix to these notes.

36 Events after the balance sheet date

On 31 March 2006, an ad hoc announcement pursuant to § 15 WpHG was issued according to which Deutsche Steinzeug Cremer & Breuer AG has agreed upon a recapitalization with Deutsche Bank AG London and other co-investors. Among other things, this recapitalization provides for a capital writedown in the ratio of 6:1, an increase of cash capital in the ratio of 1:2 by up to 9.0 million € and an increase of non-cash capital following by 12.26 million € by collecting loan receivables due from the company in the amount of approx. 20.4 million €. The company is to be released from further net liabilities in the amount of 24.0 million €. The extraordinary general meeting required for the approval of the capital measures was held on 11 May 2006. For more detailed information about this, please refer to the management report.

37 Proposed appropriation of the retained earnings of Deutsche Steinzeug Cremer & Breuer AG

Omitted as a result of balance sheet loss.

38 Corporate Governance Code

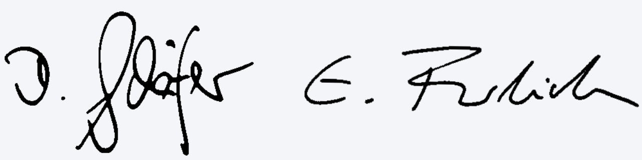
For the first time in December 2002 and last in December 2005, the Board of Management, at the same time acting on behalf of the Supervisory Board, made a statement concerning the compliance with the German Corporate Governance Code passed on 26.02.2002. According to this statement, the requirements of the Code are met in principle. In five cases, however, there are well-founded deviations from the recommendations. For this, refer to the publications in the internet at our homepage www.deutsche-steinzeug.de.

39 Auditor's fees

In the expense of the fiscal year, auditor's fees in the amount of € 340,000 are included, which are divided up into € 267,000 for the audit itself, € 54,000 for tax consultation and € 19,000 for other services.

Frechen, May 2006

Deutsche Steinzeug Cremer & Breuer AG
The Board of Management



Dieter Schäfer   Eckehard Forberich

Consolidated companies and balance sheet date

Name	Headquarters	Currency	Subscribed capital 31.12.2005	Share in the capital %
Parent company:				
Deutsche Steinzeug Cremer & Breuer AG	Frechen	€	27,065,000.00	
Included Group companies:				
Germany				
Deutsche Steinzeug Keramik GmbH	Alfter-Witterschlick	€	12,326,000.00	100.0
Meissen Keramik Vertriebs GmbH & Co. KG	Dortmund	€	1,540,000.00	100.0
Meissen Keramik Verwaltungs GmbH	Dortmund	€	26,000.00	100.0
Staloton Klinker Vertriebs GmbH	Schwarzenfeld	€	25,000.00	100.0
Deutsche Steinzeug Immobilien Verwaltungs-GmbH	Alfter-Witterschlick	DM	50,000.00	100.0
Deutsche Steinzeug Immobilien GmbH & Co. KG	Alfter-Witterschlick	DM	1,000,000.00	100.0
Hürner Lufttechnik GmbH	Alfter-Witterschlick	DM	4,000,000.00	100.0
GELUNA Vermögensverwaltung GmbH	Alfter-Witterschlick	€	520,000.00	100.0
BAK-Sondervermögen	Frechen	€	0.00	69.0
Other countries				
Deutsche Steinzeug America, Inc.	Alpharetta/USA	$	300,000.00	100.0
Deutsche Steinzeug Italia s.r.l.	Veggia di Casalgrande/Italy	€	20,000.00	100.0
Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	€	20,000.00	100.0
Deutsche Steinzeug Schweiz AG	Hergiswil/Switzerland	CHF	100,000.00	100.0
Deutsche Steinzeug France s.a.r.l.	Norroy le Veneur/France	€	50,000.00	100.0

Name	Headquarters	Currency	Subscribed capital 31.12.2005	Share in the capital %
Affiliated companies not included				
Segerkegelgesellschaft Dr. Gottfried Cremer OHG	Frechen		-	70.0
ABK AGROB BUCHTAL Iberica S.A.	Barcelona/Spain	ESP	10,000,000.00	100.0
Vereinigte Steinzeugwerke GmbH	Frechen	€	10,226,000.00	60.0
Jasba Ofenkachel Vermögensverwaltung GmbH	Ransbach-Baumbach	€	300,000.00	100.0
Unterstützungskasse der Firmen Agrob AG und Agrob Fliesen GmbH	Munich	DM	50,000.00	100.0
Meissen Keramik GmbH	Meißen	€	1,023,000.00	100.0
Buchtal-Baukeramik Vertriebsgesellschaft mbH	Guntramsdorf/Austria	ATS	14,000,000.00	100.0

The affiliated companies not included, each in itself and jointly, are of subordinate significance for presenting an image of the asset, financial and earnings position in correspondence with the actual situation.

Name	Headquarters	Currency	Subscribed capital 31.12.2005	Share in the capital %
Other investments not belonging to the consolidated companies:				
Cerit Grundstücksverwaltungsgesellschaft mbH & Co. Verwaltungs KG	Mainz	DM	1,900,000.00	100.0
Unifront B.V.	Breda/Netherlands	€	73,000.00	25.0

These companies are not subject to direct or indirect controlling by the parent company and thus are not to be included in the consolidated financial statement according to IAS 27.
A statement of the results of the last fiscal year for which an annual financial statement was drawn up is not made, as it is of subordinate significance for presenting an image of the Group’s asset, financial and earnings position in correspondence with the actual situation.

Analysis of fixed assets

	Total procurement and manufacturing costs						
I. Intangible assets	Status 01.01.2005 €'000	Currency changes €'000	Changes in consolidated companies €'000	Additions 2005 €'000	Disposals 2005 €'000	Transfers 2005 €'000	Status 31.12.2005 €'000
1. Trademarks and similar rights as well as licenses to such rights	2,429	0	0	388	25	25	2,817
2. Goodwill	19,041	0	0	0	0	0	19,041
3. Advance payments on intangible assets	25	0	0	0	0	-25	0
	21,495	**0**	**0**	**388**	**25**	**0**	**21,858**
II. Fixed assets							
1. Land, leasehold, rights and buildings	96,961	2	0	788	5	0	97,736
2. Technical equipment, plant and machinery	200,711	0	0	4,411	625	2,565	207,062
3. Other equipment, operational and office equipment	22,734	68	0	618	589	119	22,950
4. Advance payments and construction in progress	2,710	0	0	460	0	-2,684	486
	323,116	**70**	**0**	**6,267**	**1,219**	**0**	**328,234**
III. Other financial assets							
1. Shares in affiliated companies	8,243	0	0	51	26	0	8,268
2. Other investments	57	0	0	0	0	0	57
3. Real estate held as financial investment	10,900	0	0	0	0	0	10,900
4. Other loans	189	0	0	0	187	-2	0
	19,389	**0**	**0**	**51**	**213**	**-2**	**19,225**
	364,000	**70**	**0**	**6,706**	**1,457**	**-2**	**369,317**

	Total procurement and manufacturing costs						
I. Intangible assets	Status 01.01.2004 €'000	Currency changes €'000	Changes in consolidated companies €'000	Additions 2004 €'000	Disposals 2004 €'000	Transfers 2004 €'000	Status 31.12.2004 €'000
1. Trademarks and similar rights as well as licenses to such rights	2,246	0	0	209	26	0	2,429
2. Goodwill	27,704	0	0	0	0	0	27,704
3. Advance payments on intangible assets	0	0	0	25	0	0	25
	29,950	**0**	**0**	**234**	**26**	**0**	**30,158**
II. Fixed assets							
1. Land, leasehold, rights and buildings	100,401	-1	0	1	3,440	0	96,961
2. Technical equipment, plant and machinery	200,502	0	0	1,596	2,012	625	200,711
3. Other equipment, operational and office equipment	21,931	-24	0	1,267	627	187	22,734
4. Advance payments and construction in progress	812	0	0	2,710	0	-812	2,710
	323,646	**-25**	**0**	**5,574**	**6,079**	**0**	**323,116**
III. Other financial assets							
1. Shares in affiliated companies	15,264	0	0	0	5,701	-1,320	8,243
2. Other investments	81	0	0	0	24	0	57
3. Real estate held as financial investment	10,900	0	0	0	0	0	10,900
4. Other loans	254	0	0	0	65	0	189
	26,499	**0**	**0**	**0**	**5,790**	**-1,320**	**19,389**
	380,095	**-25**	**0**	**5,808**	**11,895**	**-1,320**	**372,663**

Accumulated depreciations							Book values	
Status 01.01.2005 €'000	Currency changes €'000	Changes in consolidated companies €'000	Additions 2005 €'000	Disposals 2005 €'000	Transfers 2005 €'000	Status 31.12.2005 €'000	Status 31.12.2005 €'000	Status 31.12.2004 €'000
2,063	0	0	224	22	0	2,265	552	366
0	0	0	4,174	0	0	4,174	14,867	19,041
0	0	0	0	0	0	0	0	25
2,063	**0**	**0**	**4,398**	**22**	**0**	**6,439**	**15,419**	**19,432**
60,764	2	0	2,021	0	0	62,787	34,949	36,197
166,136	0	0	4,527	608	0	170,055	37,007	34,575
19,841	37	0	881	470	0	20,289	2,661	2,893
0	0	0	0	0	0	0	486	2,710
246,741	**39**	**0**	**7,429**	**1,078**	**0**	**253,131**	**75,103**	**76,375**
26	0	0	0	26	0	0	8,268	8,217
34	0	0	0	0	0	34	23	23
1,334	0	0	883	0	0	2,217	8,683	9,566
186	0	0	0	186	0	0	0	3
1,580	**0**	**0**	**883**	**212**	**0**	**2,251**	**16,974**	**17,809**
250,384	**39**	**0**	**12,710**	**1,312**	**0**	**261,822**	**107,496**	**113,616**

Accumulated depreciations							Book values	
Status 01.01.2004 €'000	Currency changes €'000	Changes in consolidated companies €'000	Additions 2004 €'000	Disposals 2004 €'000	Transfers 2004 €'000	Status 31.12.2004 €'000	Status 31.12.2004 €'000	Status 31.12.2003 €'000
1,770	0	0	319	26	0	2,063	366	476
6,560	0	0	2,103	0	0	8,663	19,041	21,144
0	0	0	0	0	0	0	25	0
8,330	**0**	**0**	**2,422**	**26**	**0**	**10,726**	**19,432**	**21,620**
59,909	-1	0	2,115	1,259	0	60,764	36,197	40,492
163,351	0	0	4,342	1,557	0	166,136	34,575	37,151
19,494	-11	0	924	566	0	19,841	2,893	2,437
0	0	0	0	0	0	0	2,710	812
242,754	**-12**	**0**	**7,381**	**3,382**	**0**	**246,741**	**76,375**	**80,892**
3,937	0	0	1,020	3,911	-1,020	26	8,217	11,327
59	0	0	0	25	0	34	23	22
1,334	0	0	0	0	0	1,334	9,566	9,566
239	0	0	0	53	0	186	3	15
5,569	**0**	**0**	**1,020**	**3,989**	**-1,020**	**1,580**	**17,809**	**20,930**
256,653	**-12**	**0**	**10,823**	**7,397**	**-1,020**	**259,047**	**113,616**	**123,442**

Deutsche Steinzeug Group Capital Flow Statement to number 31 in the Group notes

	2005	2004
	€'000	€'000
Group net loss	-4,526	-9,763
Depreciations on fixed assets	12,710	10,823
Change in the reserves for pensions	-2,812	4,918
Change in the other reserves	547	-2,392
Other expenditure/revenues without effect on payments and earnings	2,472	-3,492
Profits/losses from the disposal of fixed assets	-109	2,068
Change in the inventories	-51	522
Change in the accounts receivable	-431	3,718
Change in liabilities (without due to banks)	-363	-1,815
Cash flow arising from current business operations	**7,437**	**4,587**
Inpayments from fixed asset disposals	254	2,430
Outpayments for investments in		
- intangible assets	-388	-209
- property, plant and equipment	-6,267	-5,599
- financial assets	-51	0
Cash flow arising from investment activity	**-6,452**	**-3,378**
Repurchase of reinsurance	0	12,158
Redemption of other loan debts	0	-16,264
Change in the liabilities due to banks	-2,875	-1,123
Other changes in the financial debt	0	3,420
Cash flow arising from financing activity	**-2,875**	**-1,809**
Changes in the companies consolidated and currency-related changes	**-181**	**-52**
Changes in liquid funds and securities	**-2,071**	**-652**
Liquid funds/securities on 01.01.	**4,803**	**5,455**
Liquid funds/securities on 31.12.	**2,732**	**4,803**

Segment Reporting
to number 32 in the Group notes

Primary Segments – Regions

	Germany		Rest of EMU		Rest of the world		Deutsche Steinzeug Group	
	2005	2004	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External sales	146,879	143,165	37,462	36,446	46,182	56,187	230,523	235,798
Comprehensive internal sales of the segments	5,084	11,403	0	0	-5,084	-11,403	0	0
Total sales	**151,963**	**154,568**	**37,462**	**36,446**	**41,098**	**44,784**	**230,523**	**235,798**
EBITDA	11,436	7,509	550	-315	2,419	-636	14,405	6,558
Depreciations	9,948	9,491	28	46	1,851	254	11,827	9,791
- of which non-scheduled	2,514	0	0	0	1,760	0	4,274	0
EBIT	**1,488**	**-1,982**	**522**	**-361**	**568**	**-890**	**2,578**	**-3,233**
Financial result	**-8,844**	**-11,319**	**-1**	**-3**	**-7**	**-2**	**-8,852**	**-11,324**
Investments	**6,628**	**5,611**	**19**	**93**	**60**	**103**	**6,707**	**5,807**
Operative assets	181,513	188,176	678	937	5,699	6,419	187,890	195,532
Operative debt	186,069	189,553	755	686	629	1,006	187,453	191,245
Operative net assets	**-4,556**	**-1,377**	**-77**	**251**	**5,070**	**5,413**	**437**	**4,287**
Employees (annual average)	**1,642**	**1,675**	**14**	**17**	**34**	**34**	**1,690**	**1,726**

Auditor's certificate

We have audited the consolidated annual financial statement – consisting of balance sheet, profit and loss statement, notes, capital flow statement and equity capital analysis as well as segment reporting – of Deutsche Steinzeug Cremer & Breuer AG, Frechen, and the report on the situation of the Company and the Group for the fiscal year from 01.01. to 31.12.2005. The preparation of the consolidated annual financial statement in accordance with the IFRS applicable in the EU and the provisions stipulated under Commercial Law pursuant to § 315a, section 1 of the Commercial Code (HGB) as well as the supplementary regulations in the articles of association falls within the responsibility of the legal representatives of the Company. It is our task to make a judgement on the consolidated annual financial statement and the report on the situation of the Company and the Group on the basis of the audit we have conducted.

We conducted our audit of the consolidated annual financial statement in accordance with § 317 of the Commercial Code (HGB), in compliance with the principles of proper auditing established by the IDW-Institut der Wirtschaftsprüfer (Institute of Auditors). Auditing should accordingly be planned and conducted in such a way that facilitates with adequate certainty the recognition of errors and breaches which essentially impact upon the representation of the asset, finance and earnings situation of the Group as laid out in the consolidated annual financial statement and the report on the situation of the Company and the Group which were compiled in strict adherence to the accounting regulations to be applied. In the determination of the auditing procedures, the knowledge on the business activity and on the economic and legal environment of the Company as well as the expectation of possible errors are taken into account. In the course of the audit, the efficiency of the internal controlling system and verification of the details in the consolidated annual financial statement and in the report on the situation of the Company and the Group are assessed on the basis of random samples. The audit includes the assessment of the annual financial statements of the enterprises included in the consolidated annual financial statement, the delimitation of the consolidated Group, the applied accounting and consolidation principles and the assessment of the legal representatives as well as an assessment of the overall representation of the consolidated annual financial statement and the report on the situation of the Company and the Group. We are of the opinion that our audit forms a sufficient and secure basis for our judgement.

Our audit has not led to any objections.

According to our judgement based on the knowledge gained in the audit, the consolidated annual financial statement complies with the IFRS applicable in the EU and the provisions stipulated under Commercial Law pursuant to § 315a, section 1 of the Commercial Code (HGB) as well as the supplementary regulations in the articles of association and conveys – in compliance with these provisions – an accurate picture of the asset, financial and earnings situation of the Group. The report on the situation of the Company and the Group is in accordance with the consolidated annual financial statement, conveys an accurate picture of the situation of the Group and presents the chances and risks of the future development accurately.

Neuss, 09. June 2006

Dr. Glade, König und Partner GmbH
Auditing Company
Tax Consultancy Company

(Dr. Hans-Joachim Glade)
Auditor

Balance Sheet as of 31.12.2005
Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2005 €'000	31.12.2004 €'000
Fixed assets			
Intangible assets		11,953	14,303
Property, plant and equipment		51,440	52,524
Financial assets		31,575	35,729
	1	**94,968**	**102,556**
Current assets			
Inventories	**2**	45,922	47,019
Accounts receivable and other assets	**3**	18,856	23,758
Shares in associated companies, own shares	**4**	2,592	8,475
Liquid assets		1,032	1,022
		68,402	**80,274**
Deferred charges and prepaid expenses	**5**	**380**	**430**
		163,750	**183,260**

Liabilities and shareholders' equity	Note number	31.12.2005 €'000	31.12.2004 €'000
Shareholders' equity			
Subscribed capital	**7**	27,065	27,065
Capital reserve		2,707	2,707
Earned surplus		0	137
Balance sheet loss		-25,279	-10,372
	6	**4,493**	**19,537**
Reserves and accrued liabilities	**9**	**50,818**	**49,742**
Liabilities	**10**	**108,438**	**113,981**
Deferred items		**1**	**0**
		163,750	**183,260**

Profit and Loss Statement for 2005
Deutsche Steinzeug Cremer & Breuer AG

	Note number	2005 €'000	2004 €'000
Sales revenues	13	180,628	188,589
Change in finished goods and work-in-progress		-3,359	1,279
Production for own plant and equipment capitalized		172	226
Other operating income	14	12,414	10,632
		189,855	**200,726**
Cost of materials	15	99,798	105,565
Personnel expenditure	16	53,843	58,386
Depreciation on intangible assets, plant and equipment	17	9,959	8,304
Other operating expenses	18	21,114	19,410
		184,714	**191,665**
		5,141	**9,061**
Financial result	19	**-9,737**	**-9,950**
Result from ordinary operations		**-4,596**	**-889**
Extraordinary result	20	**-10,146**	**-9,220**
Taxes	21	302	261
Net loss		**-15,044**	**-10,370**
Retained earnings brought forward from the previous year		-10,372	-24,360
Yield from the capital reduction		0	27,065
Allocation to capital reserves		0	-2,707
Withdrawal from the reserve for own shares		137	0
Balance sheet loss		**-25,279**	**-10,372**

Notes 2005
Deutsche Steinzeug Cremer & Breuer AG

General

The annual financial statement of Deutsche Steinzeug Cremer & Breuer AG has been prepared in accordance with the provisions of the Commercial Code (HGB) and of the Stock Corporation Law (Aktiengesetz). The presentation of the profit and loss statement is made using the total cost method.

Accounting and valuation principles

Property, plant and equipment and intangible assets have been valued at cost of acquisition or of production, minus the scheduled straight-line and non-scheduled depreciations, inclusive of non-scheduled special depreciations in respect of tax law. Low-value economic assets were fully depreciated in the fiscal year. The financial assets are assessed at cost of acquisition minus depreciations at the lower attributable value. At the previous year's statement of the down payments made, € 25,000 for software were transferred from property, plant and equipment to the intangible assets. The goodwill amortization is made pursuant to § 255, section 4, clause 3 in accordance with the expected utilization and analogous to the tax law provisions, i.e. straight-line with 6 2/3% p.a. (§ 7, section 1, clause 3 of the Income Tax Law) plus non-scheduled depreciations because of expected continuous decline in economic usefulness.

The inventories are valued at cost of acquisition or of production or at lower stock market prices or market values or at attributable values. Raw materials and supplies, operating materials and trading stock are assessed at costs of acquisition. Goods are valued at costs of production. The costs of production include those costs which can or must be reported according to the tax provisions. Interest which accrues in the period of production has not been included as assets. Deductions in value for recognizable risks, especially for such risks which result from period of storage and reduced utility value, have been made on an adequate scale.

Accounts receivable and other assets always have been valued at cost of acquisition. Foreign currency items have been assessed at the rate of their establishment or at the lower rate on the balance sheet date. Risks in the case of accounts receivable have been taken into consideration by means of adequate individual or general allowances. Covering claims from life insurances have been assessed at their actuarial asset value and – within the framework of the remaining term notes – delt with as long-term assets for the first time in the year under review. In the case of the shares in associated companies in the current assets, special depreciations were made, i.e. they have been assessed at the lower attributable value. The liquid assets valued at the nominal value include cash in bank and cash in hand.

The pension reserves have been determined using the component-based procedure on the basis of actuarial principles, taking as a basis an assumed rate of interest of 6%; the "2005 G Actuarial Tables" of Klaus Heubeck have been adopted here in full.

The other reserves and accrued liabilities take into account all recognizable risks and other uncertain obligations. The valuation of the reserves has been made according to a prudent commercial assessment. The liabilities are valued at the repayment amounts, pension debts have been assessed at their cash value. Liabilities in foreign currencies have been assessed at the rate of their establishment or at the higher rate on the balance sheet date.

Explanations of the balance sheet

1 Fixed assets

The itemization of the asset positions and their development in the year 2005 are presented as appendix 1 to this note (fixed-asset movement schedule). With regard to non-scheduled depreciations to be made, refer to number 17.

2 Inventories

This item includes:

	31.12.2005	31.12.2004
	€'000	€'000
Raw materials and supplies	6,666	6,172
Unfinished goods	3,356	2,964
Finished goods, trading stock	35,900	37,883
	45,922	**47,019**

3 Accounts receivable and other assets

	31.12.2005	31.12.2004
	€'000	€'000
Accounts receivable, trade	396	227
- of which with a remaining term of more than one year	0	0
Accounts due from affiliated companies	11,972	14,366
- of which with a remaining term of more than one year	2,923	5,500
Other assets	6,488	9,165
- of which accounts receivable with a remaining term of more than one year	3,414	102
Total	**18,856**	**23,758**
- of which with a remaining term of more than one year	6,337	5,602

Other assets include reinsurances of € 3,270,000 (previous year: € 2,877,000).

4 Marketable securities

In this position, the investments in Deutsche Steinzeug Immobilien GmbH & Co. KG, GELUNA Vermögensverwaltung GmbH and Jasba Ofenkachel Vermögensverwaltung GmbH are listed; writedowns of these investments were made, cf. number 20. The 225,098 own individual share certificates (computed nominal value of € 225,098 or 0.83% of the share capital) held on 31.12.2004 were sold in the fiscal year at a price of € 128,305.86. The revenue was used within the scope of ordinary activities.

5 Deferred charges and prepaid expenses

This item includes discounts in accordance with § 250 (3) of the Commercial Code (HGB) in the amount of € 306,000 (previous year: € 399,000).

6 Equity capital

	31.12.2005	31.12.2004
	€'000	€'000
Subscribed capital	27,065	27,065
Capital reserves	2,707	2,707
Reserves for own shares	0	137
Balance sheet loss*	-25,279	-10,372
Equity capital	**4,493**	**19,537**

Development of the equity capital in the fiscal year

	01.01.2005	Withdrawal from reserves	Annual loss	31.12.2005
	€'000	€'000	€'000	€'000
Nominal capital	27,065	0	0	27,065
Capital reserves	2,707	0	0	2,707
Reserves for own shares	137	-137	0	0
Balance sheet loss*	-10,372	137	-15,044	-25,279
	19,537	**0**	**-15,044**	**4,493**

* of which loss carried forward of € 10,372,000 (previous year: € 2,000)

7 Subscribed capital

The subscribed capital of Deutsche Steinzeug Cremer & Breuer AG amounts to € 27,065,000 and is divided up into 27,065,000 individual share certificates with an accounting par value of € 1.--. The shares are in the name of the owners.

8 Approved capital

With the approval of the Supervisory Board, the Annual General Meeting of 18.06.2003 authorized the Board of Management to increase the capital stock by issuing new shares against cash or in kind, once or several times, to a maximum total of € 27,065,000 by 18.06.2008. The Board of Management decides on a possible exclusion of subscription rights with the approval of the Supervisory Board.

9 Reserves and accrued liabilities

Reserves for pensions and similar liabilities have been formed for obligations arising from current pensions, expectancies and obligations similar to pensions as well as their safeguarding. The “2005 G Actuarial Tables” of Klaus Heubeck have been adopted. The interest expenditure for the pension obligations is included in the financial result.

The other reserves essentially include amounts for restructuring costs, expenditures on personnel, warranties and recultivation obligations as well as for outstanding invoices.

	31.12.2005 €'000	31.12.2004 €'000
Pension reserves	39,612	42,700
Tax reserves	732	732
Other reserves and accrued liabilities	10,474	6,310
	50,818	**49,742**

Structure of other reserves and accrued liabilities

	31.12.2005 €'000	31.12.2004 €'000
Restructuring expenditures	2,900	0
Reserves for personnel	2,123	2,582
Warranties	1,900	760
Recultivation obligations	1,431	1,436
Other obligations	2,120	1,532
	10,474	**6,310**

10 Liabilities

		Remaining term			
		of up to one year	of 2 to 5 years	of more than 5 years	Total
Type of liabilities		€'000	€'000	€'000	€'000
Liabilities due to banks		63,727	11,211	0	74,938
	prev. year	63,773	14,033	750	78,556
Accounts payable, trade		9,462	819	0	10,281
	prev. year	10,965	0	0	10,965
Accounts due to affiliated companies		14,211	6,000	0	20,211
	prev. year	7,550	13,732	0	21,282
Other liabilities		2,499	158	351	3,008
	prev. year	2,551	69	558	3,178
		89,899	**18,188**	**351**	**108,438**
	prev. year	84,839	27,834	1,308	113,981

Of the liabilities, € 58,772,000 (prev. year: € 58,772,000) are secured by mortgages and € 16,166,000 (prev. year: € 19,784,000) by blanket assignment of trade receivables as well as by transfer of inventories as security.

11 Other liabilities

The other liabilities include:

	31.12.2005	31.12.2004
	€'000	€'000
Liabilities from taxes	428	289
Liabilities from social security	1,716	2,009
	2,144	**2,298**

12 Contingent liabilities and commitments

The liabilities from guarantees and similar commitments exist for affiliated companies and amount to € 1,916,000 (prev. year: € 2,822,000) on the key date. Liabilities arising from the order of securities for external liabilities exist in the amount of € 822,000 (prev. year: € 1,159,000) as well as leasing and rental obligations in the amount of € 1,200,000 (prev. year: € 1,593,000). Liabilities from indemnity agreements exist in the amount of € 365,000 (prev. year: € 394,000). The “piercing the corporate veil“ for relief fund obligations not reported amounts to € 5,489,000 (prev. year: € 5,935,000) on the balance sheet date.

Explanations of the profit and loss statement

13 Sales revenue

	2005 €'000	2004 €'000
Germany	176,380*	183,004*
Other countries	4,248	5,585
	180,628	**188,589**

* mainly intra-company sales of Deutsche Steinzeug Cremer & Breuer AG to its marketing companies

14 Other operating income

Other operating income essentially includes: energy tax refunds, rental income, income from the passing on of costs to affiliated companies, income arising from the release of reserves and of valuation reserves, income arising from incidental revenue and insured losses.

The out-of-period income included in this item is € 3,296,000 (prev. year: € 1,532,000).

15 Expenditure on materials

	2005 €'000	2004 €'000
Cost of raw materials, supplies and trading stock and for purchased goods	93,057	98,827
Cost of purchased services	6,741	6,738
	99,798	**105,565**

16 Personnel expenditure/employees

	2005 €'000	2004 €'000
Wages and salaries	42,802	46,348
Social security	9,631	10,469
Expenditure on pensions	1,410	1,568
Expenditure on other benefits	0	1
	53,843	**58,386**

Annual average number of employees:	**2005**	**2004**
Wage earners	1,150	1,165
Salaried employees	284	295
	1,434	**1,460**

17 Depreciations

Of the depreciations, € 1,546,000 (prev. year: € 1,553,000) are accounted for by goodwill which is written off over 15 years. Extraordinary depreciations of the lower attributable value because of continuous decrease in value were made on goodwill (€ 868,000) and on land and buildings (€ 574,000).

Valuation adjustments related to the sale of certain land in the current assets were made in the amount of € 211,000 (prev. year: € 0.--).

18 Other operating expenditure

The position of other operating expenditure includes repairs and third-party work, marketing expenditures, renting and leasing expenditures, guarantee expenditures as well as other administration costs. The out-of-period expenditures amount to € 142,000 (prev. year: € 459,000).

19 Details of financial results

	2005 €'000	2004 €'000
Income from investments	1,114	10
- of which from affiliated companies	1,114	10
Income from profit transfer agreements	512	94
Depreciations from financial assets	4,205	0
Expenses from loss absorption	0	658
Result from investments	**-2,579**	**-554**
Income from loans of the financial assets	**0**	**2**
Other interest and similar income	212	355
- of which from affiliated companies	188	327
Interest and similar expenditures	7,370	9,753
- of which to affiliated companies	474	514
Interest balance	**-7,158**	**-9,398**
- of which from affiliated companies	-286	-187
Financial result	**-9,737**	**-9,950**

The interest burden of the existing pension obligations is included with € 2,463,000 (prev. year: € 2,568,000).

20 Extraordinary result

The extraordinary result includes:

	2005	2004
	€'000	**€'000**
Decreases in value of shares in affiliated companies in the current assets	5,746	7,420
Foregone receivables	1,500	1,800
Transfer to restructuring reserve	2,900	0
	10,146	**9,220**

21 Taxes

	2005	2004
	€'000	**€'000**
Income taxes	0	-28
Other taxes	302	289
	302	**261**

There were no tax rebates unrelated to the accounting period (prev. year: € 28,000), and there were also no tax expenditures unrelated to the accounting period (prev. year: € 3,000).

22 Other information

22.1 Remuneration of members of company organs
The total remuneration for the members of the Supervisory Board in 2005 was € 155,000 (prev. year: € 172,000). A total of € 11,477,000 (prev. year: € 13,429,000) has been allocated to reserves for pension obligations in respect of former members of the Board of Management and their surviving dependants; the current remuneration for these persons was € 1,566,000 (prev. year: € 1,692,000). In the reporting year, the total remuneration for the Board of Management was € 839,000 (prev. year: € 1,124,000). Of the total remuneration of the Board of Management in 2005, fixed components accounted for € 459,000, variable components for € 380,000.

22.2 Information on ownership of shares
The information required in § 285 No. 11 and § 313 Para. 2 of the Commercial Code (HGB) has been compiled separately in accordance with § 287 and § 313 Para. 4 of the Commercial Code (HGB). These have been filed with the Cologne Local Court, Commercial Register 42064. The substantial share ownership is presented in the appendix to these notes.

22.3 Appropriation of the retained earnings
Omitted as a result of balance sheet loss.

22.4 Statement concerning the Corporate Governance Code
For the first time in December 2002 and last in December 2005, the Board of Management, at the same time acting on behalf of the Supervisory Board, made a statement concerning the compliance with the German Corporate Governance Code passed on 26.02.2002. According to this statement, the requirements of the Code are met in principle. In five cases, however, there are well-founded deviations from the recommendations. For this, refer to the publications in the internet on our homepage www.deutsche-steinzeug.de.

22.5 Auditor's fees
In the expense of the fiscal year, auditor's fees in the amount of € 340,000 are included, which are divided up into € 267,000 for the audit itself, € 54,000 for tax consultation and € 19,000 for other services.

22.6 Members of the bodies of the parent company
The members of the bodies of Deutsche Steinzeug Cremer & Breuer AG as well as their professional activities and memberships in Supervisory Boards and other controlling bodies are shown in the summary page following these notes.

22.7 Control and profit and loss transfer agreements
Control and profit transfer agreements exist between Deutsche Steinzeug Cremer & Breuer AG as controlling enterprise and Deutsche Steinzeug Keramik GmbH, Alfter-Witterschlick, and Meissen Keramik GmbH, Meißen.

Frechen, May 2006

Deutsche Steinzeug Cremer & Breuer AG
The Board of Management

Dieter Schäfer   Eckehard Forberich

Analysis of fixed assets

	Total procurement and manufacturing costs				
	Status 01.01.2005	Additions 2005	Disposals 2005	Transfers 2005	Status 31.12.2005
I. Intangible assets	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
1. Trademarks and similar rights as well as licenses to such rights	2,406	280	25	25	2,686
2. Goodwill	23,469	0	0	0	23,469
3. Advance payments on intangible assets	25	0	0	-25	0
	25,900	**280**	**25**	**0**	**26,155**
II. Fixed assets					
1. Land, leasehold, rights and buildings	96,551	767	5	0	97,313
2. Technical equipment, plant and machinery	189,036	4,413	624	2,564	195,389
3. Other equipment, operational and office equipment	18,307	519	412	119	18,533
4. Advance payments and construction in progress	2,710	485	26	-2,683	486
	306,604	**6,184**	**1,067**	**0**	**311,721**
III. Financial assets					
1. Shares in affiliated companies	35,764	52	26	0	35,790
2. Other loans	1	0	1	0	0
	35,765	**52**	**27**	**0**	**35,790**
	368,269	**6,516**	**1,119**	**0**	**373,666**

	Accumulated depreciations				Book values	
	Status 01.01.2005	Additions 2005	Disposals 2005	Status 31.12.2005	Status 31.12.2005	Status 31.12.2004
I. Intangible assets	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
1. Trademarks and similar rights as well as licenses to such rights	2,043	215	25	2,233	453	363
2. Goodwill	9,554	2,415	0	11,969	11,500	13,915
3. Advance payments on intangible assets	0	0	0	0	0	25
	11,597	**2,630**	**25**	**14,202**	**11,953**	**14,303**
II. Fixed assets						
1. Land, leasehold, rights and buildings	61,093	2,227	0	63,320	33,993	35,458
2. Technical equipment, plant and machinery	176,562	4,245	622	180,185	15,204	12,474
3. Other equipment, operational and office equipment	16,425	647	296	16,776	1,757	1,882
4. Advance payments and construction in progress	0	0	0	0	486	2,710
	254,080	**7,119**	**918**	**260,281**	**51,440**	**52,524**
III. Financial assets						
1. Shares in affiliated companies	36	4,205	26	4,215	31,575	35,728
2. Other loans	0	0	0	0	0	1
	36	**4,205**	**26**	**4,215**	**31,575**	**35,729**
	265,713	**13,954**	**969**	**278,698**	**94,968**	**102,556**

Name Place of residence	Job title Main professional activity	Membership of other Supervisory Boards	Membership of controlling body
Supervisory Board			
Wilfried Delker Königswinter	Chairman of Supervisory Board Pensioner Vice President (rtd.) of American Standard Companies, Inc., Piscataway/USA	–	–
Gerd Schloßarek* Kamen	Deputy chairman Graduate economist Group Head Ceramics and Glass Section IG Bergbau, Chemie, Energie, Hanover	SAINT-GOBAIN GLASS DEUTSCHLAND GmbH, Aachen (Deputy Chairman) SEKURIT SAINT-GOBAIN DEUTSCHLAND GmbH, Aachen (Deputy Chairman)	BG Keramik und Glas, Würzburg (Chairman) BAD, Bonn Advisory Council Wächtersbacher Keramik GmbH & Co KG, Brachttal
Peter Baron von le Fort Hamburg - as of 12.05.2006 -	Qualified auditor/tax consultant	Ecoroll AG, Celle (Chairman)	Advisory Council of Bike & Outdoor Company GmbH, Hamburg (Deputy Chairman) Administrative Board of Markenfilm GmbH & Co. KG, Wedel (Chairman) Advisory Council of repac Montagetechnik GmbH & Co. KG, Gehrden/Hanover
Christian Knell Amorbach - as of 12.05.2006 -	Graduate engineer Director Business Development Central Europe of HeidelbergCement AG, Heidelberg	–	–
Professor Dr. Eckart Kottkamp Großhandorf - as of 12.05.2006 -	Senior Advisor	Hako-Werke GmbH, Bad Oldesloe (Chairman) Carl Scheck AG, Darmstadt Basler AG, Ahrensburg	Advisory Council of Hako-Holding GmbH & Co. KG, Bad Oldesloe (Chairman) Advisory Council of C. Mackprang GmbH & Co. KG, Hamburg (Chairman)
Kaspar Kraemer Cologne - up to 11.05.2006 -	Graduate engineer Architect BDA	–	Advisory Council Buchler, Braunschweig Advisory Council Fagus GmbH, Braunschweig
Dr. Hermann Rappe Sarstedt	Pensioner	–	–
Manfred Rauser Lindau - as of 12.05.2006 -	Management consultant	Hans R. Schmid Holding AG, Offenburg	–
Manfred F.J. Rütten Monheim - up to 11.05.2006 -	Pensioner Chief Executive Officer (rtd.) NRW Employers' Association for Crafts, Düsseldorf	–	Landesversicherungsanstalt Rheinprovinz, Düsseldorf
Dr. Stephan Schelo Meerbusch - as of 12.05.2006 -	Graduate engineer, graduate business engineer Chairman of Managing Board of SPAR Handels AG, Schenefeld	Rudolf Bunte GmbH, Papenburg (Deputy Chairman) Dr. Schmidt AG Group, Berlin SIP Salmander Industrieprodukte GmbH, Türkheim	Advisory Council of Kienbaum und Partner GmbH, Gummersbach Administrative Board of Schreck-Mieves GmbH, Braunschweig (Chairman)
Heinrich Schliefer Seevetal - up to 11.05.2006 -	Graduate engineer Counsellor	VK Norddeutsche Affinerie AG, Hamburg	PEK Norddeutsche Affinerie AG, Hamburg
Dr. Alexander Winkels Erkrath - as of 12.05.2006 -	Management consultant	Schmitz Cargobull AG, Altenberge (2nd Deputy Chairman)	–
Franz Egon Wirtz Cologne - up to 11.05.2006 -	Board of Management of S. Loevenich Immobilien AG, Frechen	–	Ceramcolor Holding AG, Zug/Switzerland (Chairman)
Herbert Allert* Schwandorf-Ettmannsdorf - up to 11.05.2006 -	Chief Executive of the IG Bauen-Agrar-Umwelt, Oberpfalz district, Schwandorf	Zusatzversorgungskasse der Steine und Erden-Industrie und des Betonsteinhandwerks VVaG, Munich	–

Name Place of residence	Job title Main professional activity	Membership of other Supervisory Boards	Membership of controlling body
Supervisory Board			
Georg Federer* Schwandorf	Industrial clerk	–	–
Rainer Kloft* Hahn	Industrial fitter Chairman of the Central Employees' Council of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–
Helmut Kossmann* Rheinbach - up to 11.05.2006 -	Information specialist Head of Informatics, Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–
Dieter Vianden* Munich	Caretaker Deputy Chairman of the Employees' Council of the Witterschlick plant of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–

* Employees' representative

Board of Management			
Dieter Schäfer Swisttal-Miel	Chairman of the Board of Management Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–
Eckehard Forberich Oberursel - as of 01.01.2006 -	Member of the Board of Management Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–

Analysis of investments Deutsche Steinzeug Cremer & Breuer AG

Company	Headquarters	Stake in %	National currency	Equity (in '000's national currency)	Net result 2005 (in '000's national currency)
1 Deutsche Steinzeug Keramik GmbH	Alfter-Witterschlick	100.0	€	13,057	-
2 Meissen Keramik Verwaltungs-GmbH	Dortmund	100.0	€	26	1
3 Meissen Keramik Vertriebs GmbH & Co KG	Dortmund	100.0	€	2,653	1,131
4 Staloton Klinker Vertriebs GmbH	Schwarzenfeld	100.0	€	25	-
5 Deutsche Steinzeug France s.a.r.l.	Norroy le Veneur/France	100.0	€	57	20
6 Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	100.0	€	175	101
7 Deutsche Steinzeug Schweiz AG	Hergiswil/Switzerland	100.0	CHF	369	203
8 Deutsche Steinzeug Italia S.r.l.	Veggia/Italy	100.0	€	152	15
9 Deutsche Steinzeug America, Inc.	Alpharetta/USA	100.0	$	4,190	-1,897
10 Deutsche Steinzeug Immobilien Verwaltungs-GmbH	Alfter-Witterschlick	100.0	€	31	1
11 Deutsche Steinzeug Immobilien GmbH & Co KG	Alfter-Witterschlick	100.0	€	2,293	-3,652
12 Meissen Keramik GmbH	Meißen	100.0	€	1,037	-
13 Jasba Ofenkachel Vermögensverwaltung GmbH	Ransbach-Baumbach	100.0	€	405	-79
14 Vereinigte Steinzeugwerke GmbH	Frechen	60.0	€	10,841	311
15 Deutsche Steinzeug AG	Alfter-Witterschlick	100.0	€	50	0
16 Buchtal Baukeramik Vertriebsges. mbH	Guntramsdorf/Austria	100.0	€	1,553	50
17 GELUNA Vermögensverwaltung GmbH	Alfter-Witterschlick	100.0	€	550	1
18 Hürner Lufttechnik GmbH	Alfter-Witterschlick	100.0	€	-603	-182
19 BAK Sondervermögen	Frechen	69.0	€	0	0
20 Segerkegelgesellschaft Dr. Cremer OHG	Frechen	70.0	€	2	2
21 Unterstützungskasse AGROB GmbH	Munich	100.0	€	26	0

Auditor's certificate

We have audited the annual financial statement – consisting of balance sheet, profit and loss statement as well as notes – based on the accounts and the report on the situation of the company and the Group represented by Deutsche Steinzeug Cremer & Breuer AG, Frechen, for the fiscal year from 01.01. to 31.12.2005. The accounts and the preparation of the annual financial statement and the report on the situation of the Company and the Group in accordance with the provisions stipulated under German Commercial Law and the supplementary regulations in the articles of association fall within the responsibility of the legal representatives of the Company. It is our task to make a judgement on the annual financial statement including the accounts on the basis of the audit we have conducted, as well as on the Group result and the report on the situation of the Company and the Group.

We conducted our audit of the annual financial statement in accordance with § 317 of the Commercial Code (HGB), in compliance with the principles of proper auditing established by the IDW – Institut der Wirtschaftsprüfer (Institute of Auditors). Auditing should accordingly be planned and conducted in such a way that facilitates with adequate certainty the recognition of errors and breaches which essentially impact upon the representation of the asset, finance and earnings situation of the Group as laid out in the annual financial statement and the report on the situation of the Company and the Group which were compiled in strict adherence to accounting principles. In the determination of the auditing procedures, the knowledge on the business activity and on the economic and legal environment of the Company as well as the expectation of possible errors are taken into account. In the course of the audit, the efficiency of the internal controlling system and verification of the details on the accounting, in the annual financial statement and in the report on the situation of the Company and the Group are assessed on the basis of random samples. The audit also includes the assessment of the applied accounting principles and the assessment of the legal representatives as well as an assessment of the overall representation of the annual financial statement and the report on the situation of the Company and the Group. We are of the opinion that our audit forms a sufficient and secure basis for our judgement.

Our audit has not led to any objections.

According to our judgement based on the knowledge gained in the audit, the annual financial statement complies with the legal provisions and the supplementary regulations in the articles of association and conveys – in compliance with standard accounting principles – an accurate picture of the asset, financial and earnings situation of the Company. The report on the situation of the Company and the Group is in accordance with the annual financial statement, conveys an accurate picture of the situation of the Company and presents the chances and risks of the future development accurately.

Neuss, 08. June 2006

Dr. Glade, König und Partner GmbH
Auditing Company
Tax Consultancy Company

(Dr. Hans-Joachim Glade)
Auditor

Financial calendar 2006/2007

24 August 2006	2006 Annual General Meeting
24 August 2006	Interim report I[st] half-year 2006
30 November 2006	Interim report as of 30 September 2006
04 May 2007	Publication of the 2006 Annual Report
31 May 2007	Interim report I[st] quarter 2007
14 June 2007	2007 Annual General Meeting

Publisher
Deutsche Steinzeug Cremer & Breuer AG
D-53015 Bonn, Postbox 2540
Phone: +49 (0) 228 391-10 06
Fax: +49 (0) 228 391-30 10 06
E-Mail: info@deutsche-steinzeug.de
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Deutsche Steinzeug Cremer & Breuer AG

D-53015 Bonn, Postbox 2540
Phone: +49 (0)2 28 - 3 91 - 10 06
Fax: +49 (0)2 28 - 3 91 - 30 10 06
E-Mail: info@deutsche-steinzeug.de
Internet: www.deutsche-steinzeug.de
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