Annual Report 2006

DEUTSCHE
STEINZEUG




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 , 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

Production company

Sales company

Key indicators for the Deutsche Steinzeug Group

Fiscal year to 31 December		2006 €	2005 €	Change €	%
Group sales	(mill.)	238.2	230.5	+ 7.7	+ 3.3
EBITDA (result before taxes, interest and depreciations)	(mill.)	59.0	14.4	+ 44.6	>+100.0
EBITDA before special effects	(mill.)	20.5	18.4	+ 2.1	+ 11.4
EBIT (result before taxes and interest)	(mill.)	51.4	2.6	+ 48.8	>+100.0
EBIT before special effects	(mill.)	12.9	6.6	+ 6.3	+ 95.5
EGT (result from ordinary operations)	(mill.)	42.1	-6.3	+ 48.4	>+100.0
EGT before special effects	(mill.)	5.6	-1.4	+ 7.0	>+100.0
Group net profit	(mill.)	35.8	-4.5	+ 40.3	>+100.0
Group net profit before special effects	(mill.)	5.4	-1.2	+ 6.6	>+100.0
DVFA/SG net income	(mill.)	3.6	-4.4	+ 8.0	>+100.0
DVFA/SG net income before special effects	(mill.)	5.4	-1.2	+ 6.6	>+100.0
Investments in intangible assets and property, plant and equipment	(mill.)	8.4	6.7	+ 1.7	+ 25.4
Investments in financial assets	(mill.)	0.9	0.0	+ 0.9	+ 0.0
Total depreciations	(mill.)	7.5	11.8	- 4.3	- 36.4
DVFA/SG cash flow	(mill.)	4.0	7.4	- 3.4	- 45.9
Balance sheet total	(mill.)	198.2	187.9	+ 10.3	+ 5.5
of which long-term assets	(mill.)	112.1	113.0	- 0.9	- 0.8
of which short-term assets	(mill.)	86.1	74.9	+ 11.2	+ 15.0
of which shareholders' equity	(mill.)	59.0	0.4	+ 58.6	>+100.0
of which long-term liabilities	(mill.)	89.0	79.8	+ 9.2	+ 11.5
of which short-term liabilities	(mill.)	50.2	107.7	- 57.5	- 53.4
Working capital	(mill.)	39.0	40.0	- 1.0	- 2.5
Net indebtedness to banks	(mill.)	53.0	74.5	- 21.5	- 28.9
Employees (number)	(Number)	1,653	1,628	+ 25	+ 1.5
EBITDA profit-sales ratio	(%)	24.76	6.25	+ 18.51	>+100.0
EBITDA profit-sales ratio before special effects	(%)	8.59	7.98	+ 0.61	+ 7.6
EBIT profit-sales ratio	(%)	21.60	1.13	+ 20.47	>+100.0
EBIT profit-sales ratio before special effects	(%)	5.43	2.86	+ 2.57	+ 89.9
EGT profit-sales ratio	(%)	17.66	-2.73	+ 20.39	>+100.0
EGT profit-sales ratio before special effects	(%)	2.35	-0.60	+ 2.95	>+100.0
DVFA/SG profit-sales ratio	(%)	1.50	-1.92	+ 3.42	>+100.0
DVFA/SG profit-sales ratio before special effects	(%)	2.28	-0.51	+ 2.79	>+100.0
DVFA/SG-ROCE	(%)	2.40	-3.08	+ 5.48	>+100.0
DVFA/SG-ROCE before special effects	(%)	3.66	-0.82	+ 4.48	>+100.0
EBIT-ROCE before special effects	(%)	8.72	4.59	+ 4.13	+ 90.0
Number of shares giving entitlement to dividend	(Number)	27,615,618	27,065,000	+ 550,618	+ 2.0
DVFA/SG net earnings per share adj.		0.13	-0.16	+ 0.29	>+100.0
DVFA/SG cash flow per share adj.		0.15	0.29	- 0.14	- 48.3
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.		2.69 **	0.61 *	+ 2.08	>+100.0
Market capitalization on last day of trading	(mill.)	74.3	16.5	+ 57.80	>+100.0

* WKN 552800

**WKN A0JQ42 (Frankfurt) / A0JQ43 (Düsseldorf)

Tianjin Tai da Financial Service Zone, Beijing/China

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Motion series, Agrob Buchtal Residential Ceramics

Letter from the Chairman of the Board of Management

Dear Shareholders, Business Partners and Employees,

Dieter Schäfer,
Chairman of the Board of Management

In our last Annual Report, which we did not publish until in July due to our Extraordinary General Meeting held in May, 2006, we already outlined the key activities for the implementation of our Company's recapitalization. The resolutions you passed last May as our shareholders have been implemented in the meantime.

In our Annual Report 2006, we are able to show an equity capital of 59.0 million € due to the significantly oversubscribed cash capital increase amounting to approx. € 10,850,000 and to the increase in non-cash capital amounting to € 12,255,000 by the contribution of credit claims against the Company (debt-to-equity-swap), as well as the capitalization profits of 38.6 million €. This translates as an equity capital ratio of 29.8% of the balance sheet total. The comparison with the past year's figures demonstrates once again the necessity of the recapitalization measures which have been executed. The capitalization performance, which is reflected on the liability side of our balance sheet, has finally enabled our Company to regain a competitive balance sheet structure.

The shareholding situation at Deutsche Steinzeug has also been subject to considerable change during the recapitalization period. The family syndicate which has held the majority of shares in our Company for over one hundred years (in the end: nearly 51.0%), has been replaced by financial investors centered around Deutsche Bank London, Goldman Sachs and Lonestar. The holding quota of all investors participating in the recapitalization amounts in total to 62.5%, including BNP Paribas S.A., Paris, France, which also participated in the debt-to-equity-swap. Upon coordination with the financial investors and in order to comply with the recapitalization measures, the family of the Company's founders deliberately waived their share options and currently – after the necessary capital reduction – still hold a quota of nearly 10%. The Italian Gruppo Concorde, with whom we have successfully cooperated for many years and who has held shares in our Company for eight years now, has approved all balance sheet and recapitalization measures. Moreover, despite the capital reduction, it has participated overproportionally in the cash capital increase. This extraordinary reorganization contribution was essential in order to demonstrate to all recapitalization parties that this process is fully approved by the "old shareholders". After recapitalization, the equity share of Gruppo Concorde amounts to a total of approx. 9%.

Amar series, Jasba

Due to the constructive contribution on the part of all participants in the operating and financial reorganization, we finally succeeded in cutting our pension liabilities reported in the balance sheet by approx. 46 million €. The acceptance of pension liabilities ("Leistungsfall") by Pensionssicherungsverein aG (PSV) for a going-concern-business is an extremely unusual measure. The final decisive aspect was that Deutsche Steinzeug was capable of credibly demonstrating that all participants in the reorganization have made appropriate contributions to the revitalization of our Company. The participants not only comprise the "old shareholders", the lending banks and the employees who accepted cuts in their wages and salaries over the past few years, but also the new investors, who were willing to switch part of the debt taken over by them into equity capital – with a certain adjustment – and to participate additionally in the cash capital increase with the amount of 5.0 million €. Besides, it was crucial that we have been able to plausibly document the importance for our Company of a significant reduction of the pension expenses. The fact that approx. 1,700 employees cannot be expected to finance over 4,300 pensioners and potential pensioners long-term has contributed considerably to the unusual fact of the PSV's taking over the pension liabilities. In this regard, it was necessary that we had made all efforts in the past to position Deutsche Steinzeug regarding sales, turnover and costs, so that the Company – after reasonably reducing bank and pension liabilities – will be able to operate permanently and successfully in a market environment which will certainly not become less difficult.

In the year under review, the construction sector recorded its first growth within eleven years. The number of persons employed has stabilized at a level of nearly 750,000 which actually translates as a 50% loss of construction jobs over the past ten years. However, the encouraging development of the construction sector in 2006 only became evident in the tiles industry after a considerable delay. Beginning from the last quarter of the past year, the tiles market has also been able to participate in the positive economic development, which, however, has not been sufficient to stop the negative sales trend of the past few years. So far, for 2006 as a whole, we expect sales to decrease again by 3% to 4%, relative to the domestic producers of fine ceramics, in the field of Ceramic Covering Materials. Within the same period, however, we were able – for the first time in many years – to increase the turnover of tiles and panels compared to the previous year. The reasons for the realized increase of the average returns per square metre were a change of the product mix, the higher value of the tile range and the increased prices which have become necessary due to higher costs for energy and raw materials.

St. Vincenz-Krankenhaus (hospital), Paderborn/Germany

Globally, we are one of the few tile producers offering the complete range of products. This requires a differentiated focus of the sales force, especially, however, also different production processes. To this effect, we rely on USPs such as, in particular, our competence in Projects and our high-value glazing techniques, e. g. for the mosaic brand Jasba. In the wake of the recapitalization, Deutsche Steinzeug started to change its sales policy carefully in the past year. Especially in the second half of 2006, we focused our sales efforts more on the quality of our product range rather than on quantity. This caused our sales volume to decrease by nearly 1 million square metres, i. e. by approx. 5% for the year as a whole. In this context, we have consciously accepted losses in sales, especially as regards low-profit products, in favour of higher-valued tile assortments. Therefore, despite the decrease in sales shown above, we were able to increase our turnover in the reporting year by approx. 8 million € (which is approx. 3.3%) to 238.2 million €. This gradual adaptation of our sales policy and our production policy in line with that was only possible, because we have been striving for many years not only to use our five domestic production sites to full capacity, but also to cover peak demands (with the exception of the product ranges Architectural Ceramics and high-value Jasba mosaics) by long-term production co-operations for our product brands. In this context, the co-operation with our production partner and minority shareholder Gruppo Concorde acts as a major support which, however, has hardly been affected by the reduced purchased volumes.

Another factor decisive for the change of focus regarding sales and turnover is also the continuing extension of our export activities, especially in Eastern Europe and Asia. Besides, determination of the product range also requires a thorough analysis of the requirements from the different markets. Especially in case of Architectural and high-value Residential Ceramics including Jasba mosaics, the freight expenses – despite the unfavourable revenue/kg-weight ratio typical for tiles – are still reasonable even for long transport routes. In these segments, criteria such as ceramic problem solutions, haptics of the tile surface, Hydrotect surface coating and many others are decisive in addition to the intensive advisory services. It is apparent that such sales efforts were only successful because they were continued independently of the economic fluctuations of the domestic market, as they normally require a long lead time. Finally, thanks to our persistence in soliciting these overseas markets with a focus on a long-term market success, initial signs of success became apparent in 2006.

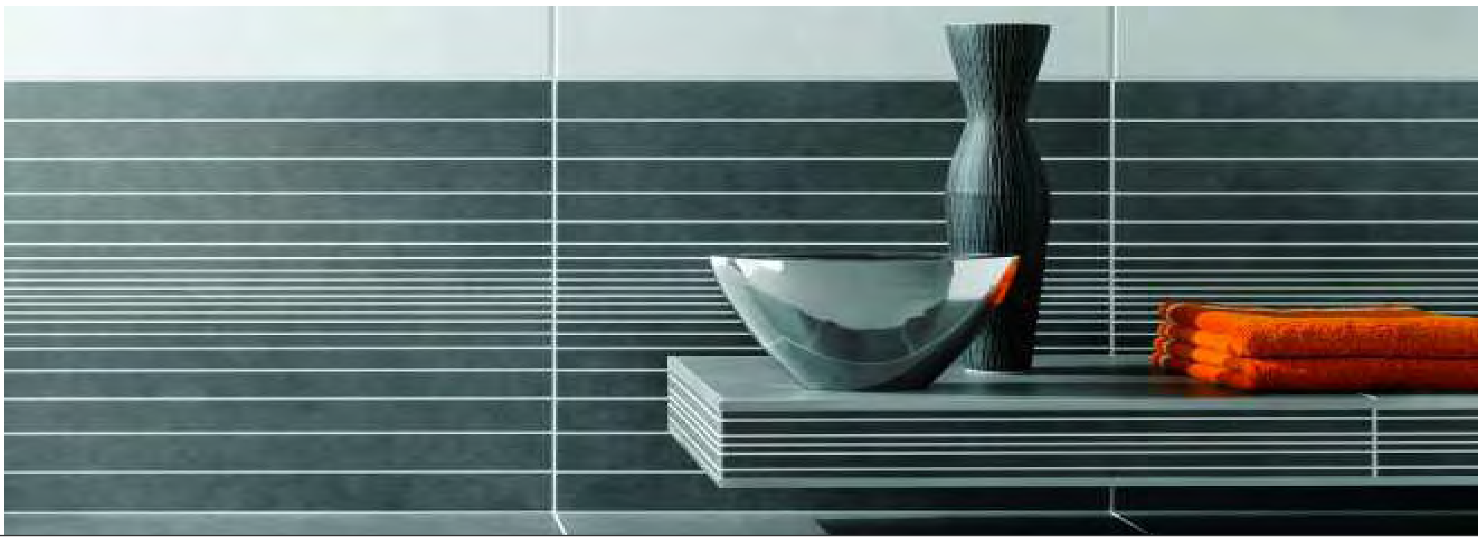
Europa Sportpark, Berlin/Germany

The positive export development in 2006 was supported by the fact that – on the domestic market in Germany – the renovation market is clearly climbing out of its trough. This development benefits us especially, as we traditionally generate 60% - 70% of our turnover with our products in this market segment. At present, no exact figure can be put on the extent to which tax incentives support owner-occupier housing investments.

Our specialization and the enhanced focus on superior products resulted in consequences for the production sites. Within the limited scope of the investment funds available, we have strived to accelerate the optimization of production batch and lot sizes concerning the continued increasing diversity of our products. The mere fact that we have succeeded in keeping production costs at nearly the previous year's levels – despite considerable cost increases for energy and raw materials, especially for glazes and pigments – evidences that the persons in charge of our production have utilized all opportunities to limit the increase of production costs as far as possible by implementing a broad range of individual measures.

Due to the planned and necessary investments, upon finalization of these measures, we will be able to continue to decrease our production costs despite the continuing high cost pressure at energy and raw materials. This means that we will strive to achieve our first strategic interim target in the medium term, i.e. a continued improvement of the EBITDA (earnings before interest, taxes, depreciation and amortization) relative to turnover. However, the profit situation will be aggravated in the current year 2007, as – during the realization of the comprehensive investment measures – the production costs will increase temporarily due to inevitable interruptions and/or short-term downtimes in the normally fully continuous production process. Thus, we cannot exclude any delivery bottlenecks in view of our very demanding assortments. We are counteracting these influences by considerably shortening this year's company holidays at the production sites or by suspending them completely at one production site. However, in total the turnover risks resulting from the complete range of measures and the additional costs which are due to the production interruptions will negatively affect our result situation.

Concerning our positioning on the market, our extremely successful presentation at the international trade fair BAU in January 2007 has demonstrated impressively that our maintaining of the differentiated albeit cost-intensive distribution channel policy which involves separate sales teams – despite the uncontested necessity of restructuring – was correct and is appreciated by the market. This strategy is also reflected appropriately in



Concrete series – *Stripes*, Agrob Buchtal Residential Ceramics

Central Station, Gelsenkirchen/Germany

our sales cost budget. Although all the employees of our Company had to accept wage cuts in order to secure jobs, we have e. g. continued to increase the sales force on our important export markets. As already mentioned above, in this context, we can see that such counter-cyclical investments abroad are increasingly paying off. A first sign of this development is also the fact that the export share of the business sector Architectural Ceramics passed the 50% mark in 2006 for the first time.

Upon completion of the recapitalization and reorganization of Deutsche Steinzeug, the most difficult phase of the reorganization for our Company and its employees is beginning now, i.e. a sustainable increase of profits despite increasing costs. Certainly, the foundations for all this have been laid: our capital base is adequate again. We record sufficient liquidity and have even surpassed our turnover and result budget for 2006. By focusing strictly on superior products and increasing exports, with the planned investments we dispose of a future-capable strategy.

Nevertheless, the cost and competition situation will continue to face us with ever new challenges: the employees – after years of lower wages and salaries – can enjoy an increase of wages and salaries of nearly 3% due to a surprisingly offensive pay settlement. Following the extremely moderate settlements of the past few years, the pay settlement negotiated for the fine ceramics industry now certainly reflects the economic upswing. However, this was not taken fully into account when budgeting HR expenses for the current year. This return to focusing on normality regarding wage adjustments, but also the burdens explained above caused by the continuing increase in costs for energy and raw materials make it clear that right now this is neither the time for relinquishing cost cutting measures nor for breathing a sigh of relief. On the contrary: we expect that the consolidations within our sector regarding industry and trade will continue and that this will lead to increased competitive pressure. Besides, more than half of the global tile production per year is already being manufactured in China. Even if most of these goods are still being absorbed by the tremendous domestic demand of Asian countries and as the logistics for the “semi-finished product”, namely tiles are not straightforward, at least the increasing OEM transactions of European producers with Asian products are creating an increasing competition which we cannot ignore. Moreover, besides the personnel expenses, gas and power consumption are still among the biggest cost components. Therefore, we must not underestimate the uncertainties of the energy price development and its effects on the prices of raw materials, nor the liquidity constraints resulting from our investment volume planned for 2007 and – despite all moderation of the parties to collective bargaining – a high level of HR costs. Before this backdrop, our most important tasks comprise the definition of further cost cutting potentials and analogously the optimization of our production structures.

We will make all efforts required to secure and extend the success so far achieved for the Company. I am confident that we will be able to count on the support of all our employees and the bodies provided by the Works Constitution Act, as the constructive and trusting cooperation has paid off handsomely, especially in our very difficult common past. Last but not least, I would thus like to thank the members of our supervisory board and the board provided by the Works Constitution Act for their support. Our thanks include all employees as they have proven – despite a sometimes extreme workload combined with income losses – their readiness to perform at a high level in the recent difficult period of our Company .

I would like to thank you, dear shareholders, for the understanding and patience you have shown in the past few years. I trust that long-term, we will be able to make up the decrease in value we have suffered in the past by an even more active market solicitation and the further development of our product range.

Frechen, 30 March 2007

Dieter Schäfer

Lavita series, Jasba

Board of Management and Supervisory Board

Members of the Board of Management and the Supervisory Board

Eckehard Forberich and Dieter Schäfer

Board of Management

Dieter Schäfer
CEO
Swisttal-Miel
Businessman, 58 years old
Main fields of activity:
- Overall coordination of the development of Deutsche Steinzeug Group
- Marketing and distribution for the core business Ceramic Covering Materials
- Production, technology and environmental protection in the core business Ceramic Covering Materials
- Logistics
- Personnel
- Legal affairs
- Ceramic investments

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

Shares held by the organ members:
Board of Management: 16,097
Supervisory Board: 4,700

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 -
Chief Executive of Marktkauf Holding GmbH,
Bielefeld, and 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

Swimming Centre, Shenzhen/China

Neanderbad, Erkrath/Germany

Rurwelle, Kreuzau/Germany

Aesthetically and technically at the top.

Whether competitive sport centre or wellness oasis: in swimming pool construction, Agrob Buchtal has secured an excellent reputation for itself thanks to top quality made in Germany. Creative planners and architects benefit from a practically unlimited variety of colours and sizes as well as from technically sophisticated pool edge and shower tub systems. Competent advice regarding application techniques is a matter of course with us.

Pirbadet, Trondheim/Norway

Report of the Supervisory Board

Monteverde, Vienna/Austria

Wilfried Delker,
Chairman of the Supervisory Board

In the fiscal year 2006, the Supervisory Board regularly monitored the work of the Board of Management and supported it with advice. The basis for this were the detailed written and oral reports of the Board of Management. The Supervisory Board also provided the Board of Management with comprehensive advice on all matters important to the Company, outside of the regular meetings. In this regard, the discussions focused on the negotiations with the investors involved in the recapitalization of the Company and the Company's economic situation, the reorganization measures which were continued in the reporting year and the future strategic orientation of Deutsche Steinzeug Cremer & Breuer AG taking the new boundary conditions into account.

The Supervisory Board duly fulfilled its obligations pursuant to the law and the Articles of Incorporation in the fiscal year 2006. In six meetings, the Supervisory Board was informed comprehensively about the economic and financial situation of the Company. The discussions focused on the recapitalization of the Company and the sustained strengthening of its balance sheet structure. On 31 March 2006, Deutsche Steinzeug Cremer & Breuer AG issued an ad hoc announcement that it had agreed, together with Deutsche Bank AG and other investors as well as with some of its lenders and other creditors, upon a recapitalization plan. The related capital measures were resolved by the Extraordinary General Meeting on 11 May 2006 and implemented on schedule over the reporting year. In July 2006, the proceedings concerning the contestation of individual resolutions which had been passed in the Extraordinary General Meeting with a large majority and which mainly concerned the trading in subscription rights were concluded in terms of a settlement.

As well as in the regular meetings, the Supervisory Board also had the Board of Management continually inform it orally and in writing concerning 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. Before the background of the negotiations with the investors and banks and with the economic environment continuing to be difficult, the members of the Supervisory Board and especially the Chairman of the Supervisory Board were in close contact with the Board of Management over the entire year 2006 in order to provide advice and support.

Xeno series, Agrob Buchtal Architectural Ceramics

Moreover, the Supervisory Board dealt intensively with strategic considerations on the medium-term further development of Deutsche Steinzeug. These considerations centered on the investment policy along with product- and sales-related positioning on the domestic and on selected export markets.

The Audit Committee, formed on the basis of the recommendations of the German Corporate Governance Code, met twice in the reporting year. The Committee focused on questions regarding accounting, including the reporting of the Group accounting in accordance with IFRS, and on risk management issues. Besides, it prepared the resolutions of the Supervisory Board on the annual financial statement, the consolidated annual financial statement, the Consolidated Management Report on the Company and for the Group. The Audit Committee also took suitable steps to ascertain and monitor the independence of the auditing company.

The HR Committee met twice in the reporting year. It dealt intensively with reviewing the targets agreed with the Board of Management regarding the bonus settlements for the past fiscal year and the bonus-related agreement on targets for that of 2007.

The consolidated annual financial statement and the annual financial statement as of 31.12.2006, the Consolidated Management Report on Deutsche Steinzeug Cremer & Breuer AG and for the Group were audited by Dr. Glade, König und Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Neuss, appointed as auditors by the General Meeting; they have expressed their unqualified opinion. The annual financial statement, the consolidated annual financial statement, the Consolidated Management Report on the Company and for the Group as well as the auditors' reports were available to all members of the Supervisory Board. The relevant documents concerning the annual financial statements were discussed in detail in the Audit Committee and in the Annual Accounts Meeting of the Supervisory Board – in both Boards this being done in the presence of and following a report by the auditors. The Supervisory Board examined the annual financial statement, the Consolidated Management Report on the Company and for the Group as well as the consolidated annual

Swimming Centre, Shenzhen/China

PTC, Ljubljana/Slovenia

financial statement. There were no objections. Thus, the Supervisory Board approves the result of the audit. The Supervisory Board approved the annual financial statement and the consolidated annual financial statement prepared by the Board of Management. Thus, the annual financial statements are approved. The Supervisory Board is in agreement with the Consolidated Management Report on the Company and for the Group, and in particular with the assessment regarding the future development of the Company.

In the Extraordinary General Meeting dated 11 May 2006, eight members of the Supervisory Board were elected as shareholder representatives in separate elections. The new election of the Supervisory Board which had hitherto been composed of six representatives of the shareholders and of the employees alike had become necessary as status proceedings had been initiated previously and all members of the Supervisory Board then in office had retired from office at the end of the day of the Extraordinary General Meeting. As Deutsche Steinzeug has employed for several years now – and will continue to employ – permanently less than 2,000 members of staff, the Supervisory Board is composed following the one-third parity scheme as provided by law. As three of the elected employers' representatives had already belonged to the former Supervisory Board, and all four employees' representatives had also been members of the previous Supervisory Board, continuity in the Supervisory Board and in cooperation with the Board of Management was ensured. Moreover, the Chairman of the Supervisory Board, Mr. Delker, was also re-elected. The employees' representatives were appointed by the courts as members of the newly elected body on 30 May 2006.

Moreover, the Supervisory Board reports pursuant to § 171 sect. 2 clause 2 AktG [German Stock Corporation Law] the following regarding the information to be provided pursuant to §§ 289 sect. 4 HGB [German Commercial Code], 315 sect. 4 HGB:

1. §§ 289 sect. 4 no. 1 HGB, 315 sect. 4 no. 1 HGB
The Company's subscribed capital (capital stock) amounting to € 27,615,618 consists of 27,615,618 bearer share certificates with a total calculated share in the capital stock of € 1.00 each.

2. §§ 289 sect. 4 no. 2 HGB, 315 sect. 4 no. 2 HGB
The Company and three of its essential shareholders, i.e. Deutsche Bank AG, ELQ Investors Ltd. and Lone Star International Finance Limited, concluded on 30 March 2006 a so-called Accession Agreement in which the shareholders ELQ

Investors Ltd. and Lone Star International Finance Limited have acceded to an existing Investment Agreement between the Company and Deutsche Bank AG. In this Accession Agreement, these three of the Company's shareholders (investors) have agreed mutually on the following restrictions as regards the transferability of their shares in the Company.

a) If an investor **(transferring investor)** sells the shares it holds in the Company to a third party who is not a party to the Accession Agreement **(purchaser)**, the investors not transferring their shares **(remaining investors)** have a preemption right to the shares to be transferred on a pro rata basis to their participations in the Company. The preemption right may only be exercised subject to the conditions agreed between the transferring investor and the purchaser.

b) If the preemption right is not exercised, the remaining investors may demand of the transferring investor to ensure that the purchaser acquires also the shares held by them in the Company, acquired in the scope of the 2006 Company recapitalization, under the same conditions as have been agreed between the transferring investor and the purchaser **(tag-along right)**.

c) If the preemption right is not exercised and if the tag-along right is not exercised either, the transferring investor may require the remaining investors additionally to co-sell the above-mentioned shares in the Company to the purchaser **(drag-along right)**. The purchase price to be paid in this context must correspond on principle to the market value of the shares being sold. The drag-along right is subject to various conditions. It depends, amongst other things, on the purchaser's acquiring at least 50.1% of the Company's share capital from the investors.

d) Neither the preemption right nor the tag-along right, nor the drag-along right takes effect if one of the investors only sells the first 10% of the shares it holds, which it acquired in the scope of the 2006 Company recapitalization, to diverse shareholders via the Stock Exchange. This applies accordingly to the sale of other packages of 10% of these shares, which can be effected at two-month intervals, however provided that the transferring investor must previously offer to the other investors the shares to be sold, and at market price.

There are no further restrictions known to the Company's Board of Management which concern the votes or the transferability of the shares.

3. §§ 289 sect. 4 no. 3 HGB, 315 sect. 4 no. 3 HGB

The following persons participate directly or indirectly in the Company's capital:

Holder of the participation	Degree of participation	Type of participation
Goldman Sachs, Petersborough Court, 133 Fleet Street, London, EC4A 2BB, Great Britain	55,31%	22.51% direct participation and 32.8% attributable in acc. to § 22 sect. 2 WpHG [German Securities Trading Law]
Deutsche Bank AG London, Winchester House, 1 Great Winchester Street, London EC2N 2 DB, Great Britain	55,31%	17.25% direct participation and 38.06% attributable in acc. to § 22sect. 2 WpHG [German Securities Trading Law]
Lone Star International Finance Limited, 1st Floor, 25-28 Adelain Road, Dublin 2, Republic of Ireland	55,31%	15.55% direct participation and 39.76% attributable in acc. to § 22 sect. 2 WpHG [German Securities Trading Law]

The information presented in the above table regarding the allocation of participations pursuant to § 22 sect. 2 WpHG are exclusively based on the appropriate publications of the owners of the participations in the 1st half-year 2006. The Company is not aware of any such coordination truly still being performed by the holders of the participations.

4. §§ 289 sect. 4 no. 4 HGB, 315 sect. 4 no. 4 HGB
The Company has not issued shares carrying special rights.

5. §§ 289 sect. 4 no. 5 HGB, 315 sect. 4 no. 5 HGB
Employees participating in the Company's capital decide themselves on the exercising of their voting and control rights.

6. §§ 289 sect. 4 no. 6 HGB, 315 sect. 4 no. 6 HGB
The appointment and revocation of members of the Company's Board of Management depend on §§ 84 et seq. AktG (German Stock Corporation Law), the amendment of the Articles of Incorporation on §§ 133, 179 AktG (German Stock Corporation Law). Moreover, the Company's Supervisory Board is entitled,in accordance with § 15 of the Company's Articles of Incorporation, to decide on amendments to the Articles of Incorporation which only concern the wording.

7. §§ 289 sect. 4 no. 7 HGB, 315 sect. 4 no. 7 HGB
The Company's Board of Management is entitled to increase the Company's share capital until 18 June 2008 with the consent of the Supervisory Board by issuing bearer shares against contributions in kind or in cash, one-time or several times by up to € 25,236,881. The new shares can also be issued to Company employees. The Board of Management is entitled to decide with the consent of the Supervisory Board about any exclusion of the subscription right. Moreover, the Board of Management determines the form and content of the share certificates and any dividend coupons and certificates of renewal.

8. §§ 289 sect. 4 no. 8 HGB, 315 sect. 4 no. 8 HGB
On 30 March 2007, the Company signed, together with Meissen Keramik Vertriebs GmbH, Deutsche Steinzeug Keramik GmbH and Deutsche Steinzeug Immobilien GmbH & Co. KG, each acting as borrower, a loan agreement with Deutsche Bank AG, Goldman Sachs International Bank, MHB-Bank AG and Banca Nazionale del Lavoro International S.A. The loan agreement covers a total volume of € 76,340,810.36 and serves to finance practically all of the Company's bank liabilities. Thus, it must be considered as an essential agreement of the Company.

The loan agreement requires that a change of control at the Company has the following legal consequences:

a) A change of control according to the loan agreement is deemed to exist if a person who is not a party to the loan agreement, or a group of such persons, who act jointly within the meaning of §§ 2 sect. 5, 30 sect. 2 WpÜG, hold or acquire over 50% of the Company's share capital. However, such a change of control is not deemed to exist if one of the lenders either itself or via affiliated companies acquires or holds over 50% of the Company's share capital.

Moreover, a lender cannot invoke the existence of a change of control which it has caused itself by transferring shares in the Company held by itself.

Ascara series, Agrob Buchtal Residential Ceramics

Sportschule (school of physical education), Hennef/Germany

b) If there is a change of control within the meaning of the loan agreement, the loan agreement is considered as terminated, causing all outstanding credits, interest or other amounts under the loan agreement and related financing agreements to become due and payable within four-and-a-half months.

9. §§ 289 sect. 4 no. 9 HGB, 315 sect. 4 no. 9 HGB

No indemnification agreements have been concluded by the Company to the benefit of members of the Board of Management or employees as regards the case of a takeover offer.

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 performance in the fiscal year 2006. Before the back-drop of the boundary conditions in the construction industry, which will also remain challenging in the future, I would like to ask you to maintain your commitment towards Deutsche Steinzeug Group. The successful recapitalization of our Company enables us to continue to enhance our competitiveness in Germany and abroad in order to be even better prepared for the challenges ahead.

Frechen, 27 April 2007

Wilfried Delker
Chairman of the Supervisory Board

Consolidated Management Report on Deutsche Steinzeug Cremer & Breuer AG and for the Group

Fitness centre, Grasbrunn/Germany

Business trend 2006, overall economic environment

In Germany, so far Deutsche Steinzeug's most important market which amounts to 62% of our turnover, a remarkable economic growth of approx. 2% was achieved during the fiscal year 2006. Whilst the main construction trade also showed growth figures of approx. 2% during the past year, overall consumption of Ceramic Covering Materials in Germany declined by another -4% to approx. 125 million square metres over the year 2006. Nevertheless, it is assumed that turnover in the Federal Republic of Germany has increased versus the previous year – despite declining volumes – by 2 to 3 percentage points, given the price increases caused by the extreme rise in energy costs, but also due to a transition offset in favour of higher-priced porcelain stoneware. Especially the last few months of the year 2006 suggested a clear turnaround as regards both the development of volumes and the stabilization of sales figures. By comparison, the 1st half year of 2006, showing a decline in volume of over 6% and in turnover of 2%, was clearly negative. At present, we assume that in 2007, the market will continue to pick up, a trend which commenced at the end of last year.

Once we were confident that the recapitalization described under "Profits and assets" is being implemented, we carefully modified sales and pricing policies in the market. Thus, we have systematically turned away from the extremely aggressively priced small sizes in the wall tile and porcelain stoneware sector and focused our sales activities on large sizes and thus higher-value Ceramic Covering Materials. This meant consciously accepting a decline in sales of approx. 0.9 million square metres at Group level. The modification of the product mix described above, an increased focus on exports where traditionally higher-value products are sold, but also our consistent price-increase policy – brought about by the extreme rise in energy costs – have more than compensated the described decline in sales by an increase in the average revenue by 10%. We were thus able to enhance Group turnover by approx. 3.3% to 238.2 million €.

Along with the positive sales development, the Group EBITDA – adjusted by recapitalization and special effects – was increased in 2006 by approx. 11.4 % to 20.5 million €. This corresponds to an operating margin of approx. 8.6% at Group level. It must be taken into account that this operative EBITDA margin would have been even higher if the drastic increases in energy and raw material purchase costs had not burdened the result to so an extreme extent. Thus, energy costs at Group level increased by approx. 30.0% over the past year. At the same time, the prices of individual raw material groups such as glazes and pigments, whose extraction or processing also depends

Steintherme, Belzig/Germany

Salvador-Allende-Straße, Magdeburg/Germany

substantially on energy input, rose significantly, the sum of these factors resulting in an overall increase in material expenses of approx. 10% within the Group.

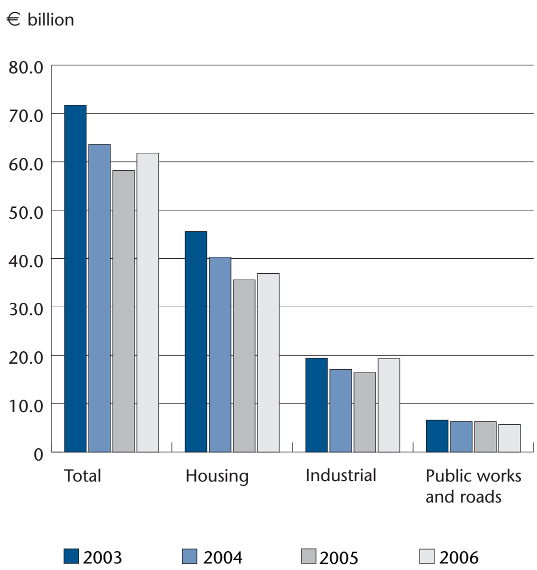
Amortization and depreciation (before special write-offs) in the Group are approximately at the previous year's level (approx. 7.5 million €), resulting in an operating EBIT at Group level of 12.9 million € (without reorganization and special effects) for 2006, which corresponds to an operating margin of 5.4%.

Architectural Ceramics

In the Architectural Ceramics sector in Germany, Deutsche Steinzeug benefited especially from the average growth of 3.5% in industrial building construction in 2006. Given the 1.0% growth in public construction projects, this sector also contributed slightly to a recovery in the main construction trade. It must be taken into account that the picking up of the general construction industry, which commenced in the first half of 2006, was not reflected by Ceramic Covering Materials until the last few months of the year. Moreover, in this sector, Deutsche Steinzeug was also able to benefit from the further

Approved building permits in Germany

(2003 to 2006)



global growth in the construction trade, so that at Deutsche Steinzeug, Architectural Ceramics achieved a foreign turnover of over 50% for the first time after a lengthy period. Due to the fact that our Project range (including supermarket tiles) as well as the entire facade sector are especially well suited for the export business, as the freight charges here are not of primary interest versus the pricing, Deutsche Steinzeug will strive to continue to increase the export share.

In this context, we can fall back on our long-standing, systematic market cultivation in other European countries and on the growth markets such as Eastern Europe, Russia and China, which is especially backed by our brand Agrob Buchtal, which is established world-wide. For architects and planners, this brand is tantamount to competent problem solutions in the field of Ceramic Covering Materials and in the special fields of facade and swimming pool technique.

Further, regarding Architectural Ceramics, our investment in the extension of our porcelain stoneware production site in Sinzig is paying off; this enables us to serve the strong growth market of porcelain stoneware floor tiles even better. Besides, the Hydrotect surface coating also proves itself as USP in the field of facade technique, which is gaining importance. The fact that the coated facade panels are practically self-cleaning when used outside under the influence of rain water, meaning that the complex facade cleaning required at intervals of ten to fifteen years can be dispensed with, deserves particular mention. Furthermore, the active catalyst effect of the special glaze surface contributes actively to an improvement of the ambient air.

Residential Ceramics

Irrespective of the picking up of the general economy, there is still a considerable reluctance to invest in the field of Residential Ceramics. This concerns especially the renovation market which is important for Deutsche Steinzeug. Despite the adopted tax incentives for refurbishment of owner-occupied homes and the increasing demand for homes suited for the elderly, including the requirement of barrier-free access to showers and bathrooms etc., we have not succeeded in shortening the refurbishment cycles over the past few years. For this reason, in this field, we will especially focus our range of products on our competence as regards the quality requirements of refurbishment, e.g. calibration, planarity, size and colour as well as the Hydrotect coating of our

Ayana series, Agrob Buchtal Residential Ceramics

Pure series, Agrob Buchtal Residential Ceramics

tiles. Independently of that, we are also trying in the Residential Ceramics sector to remove the pressure to generate turnover from the German domestic market by means of increased export efforts. Thus, in 2006, we managed to increase the export share, still low for this product range at present, from well below 20 percentage points by 2 percentage points.

In accordance with the market requirements, in 2006, we extended the capacity in our wall tile works – especially Witterschlick – as regards large-size products, while reducing capacity for small sizes. As this trend is continuing in the wall and floor sector alike, we will extend the large-size production facilities with the appropriate decoration and shaping units by means of additional investments.

Due to the continued establishment of capacities by our porcelain stoneware competitors in Germany and abroad, the Residential Ceramics sector has come under especially strong price and competitive pressure. We cannot, of course, avoid this development completely, but during the past 2 years, we have, at least to a certain degree, been able to counteract the price decline in the field of porcelain stoneware by positioning our products at a higher quality level, in conjunction with attractive wall/floor combinations and superior design. Our strong presence at the point of sale and the comprehensive market cultivation by our own sales force in the field of Residential Ceramics contributes essentially to this effect. Last but not least, this strategy has also been mirrored in a moderate, but pleasing growth of the average revenue realized.

Amar series, Jasba

Jasba

Regarding Jasba, the turnover level and the export share were stabilized approximately versus the previous year. Thereby, the high expectations in the brand Jasba were not satisfied, which must be seen before the backdrop of a considerably aggravated competitive pressure from manufacturers from Southern Europe and Asia and by the low-cost glass mosaics from China and India, which are increasingly being used as substitutes.

Although increasingly impudent product knock-offs both from European countries and China are tending to undercut the prices of our products more and more – which has also resulted in losses on a few European markets – we have nevertheless succeeded in compensating the declines on Western European markets by achieving additional growth in markets such as Northern America and Russia.

At the same time, the brand Jasba is particularly affected by the above-mentioned reluctance to invest, especially in the up-market refurbishment sector. To counteract this trend, we took measures as of the 2nd half of 2006 to provide the presentation of the brand Jasba with a more emotional touch, and to enhance the Jasba product family versus our competitors via demanding innovations, such as for example the 1 x 1 cm micro-mosaics. Here, we can benefit from our many years of know-how at our Ötzingen site as regards glaze surfaces, colours and colour combinations. This high-value niche strategy can only be realized by adapting the production site to extremely small batch sizes and a complex development of glazes, along with the fabrication of glazed stoneware floors, to match the colours of our mosaic range. By combining the systematic use of the Hydotect surface and improving product presentation, we trust that Jasba will be able to defend its high market share in an increasingly difficult market.

Trentino series, Medea Ceramica

Siberia series, Meissen Ceramics

Do-it-yourself centres

The consolidation in this market already expected for a long time only proceeded slowly in 2006, resulting in a serious price competition caused by existing excess capacities in sales areas. We nevertheless succeeded in increasing slightly the average price obtained for our products and thus improving the quality of the result accordingly, by means of conclusive product concepts such as wall/floor combinations in matching colours with appropriate decorations. Thus, we stabilized our turnover level despite declining sales, which is not only due to the improvement of our product range, but also to our optimized range of services as regards logistics, IT interfacing and many other factors.

Trendline series, Meissen Ceramics

Felice series, Jasba

Segment reporting

To continue to reduce the dependence of the most important sales market – the domestic market of the Federal Republic of Germany, which, long-term, is expected to grow only slightly – Deutsche Steinzeug is striving to increase the export share to approx. 40% mid-term. The major part of this export growth is expected in the segment "Other World", which includes the growth markets of Asia – here especially China – as well as Russia and North America, whereas the development in the Other EMU segment is expected to be similar to that of Germany.

Germany

The turnover in the domestic segment was increased by approx. 0.8% in 2006. In terms of sales volume, this means, compared to the other players, a slight loss of market share; nevertheless, our market share – referred to turnover – has remained constant at just below 14%. Deutsche Steinzeug will also have to face a similar trend in the future, especially as regards sales. Due to the revenue quality, trading up in the product range incl. our tendency to higher-priced items within the individual product ranges, which is also reflected in an increase of the average revenue by approx. 12%, the sales losses were indeed more than compensated in terms of turnover. Being a German manufacturer, we certainly benefit in this respect from our vicinity to the market and the close interaction with our market participants' vertical stages of distribution.

Other EMU

In this segment – with sales figures of 39.5 million € – the countries Austria, Switzerland, Italy and France as well as the Netherlands are our most important sales markets. On these markets, Deutsche Steinzeug benefits from the many years of systematic market cultivation, in part via its own country-specific sales companies, meaning that we are able to approach the specifications of the various markets in a very differentiated fashion. As we are exposed more sharply to the competition of the other European manufacturers on the foreign markets and do not have the advantage of being a local producer, correct selection of the product range is very important in order not to be induced to make sales dependent on the direct price comparison. Our intensive market cultivation in the project sector with the appropriate architects and project leaders plus the UPS of the Hydrotect surface coating takes us out of the direct competition regarding many products. Our increasingly demanded facade ceramics and the highly-priced product Jasba Mosaic add to this.

Other world

In 2006, this segment featured the strongest growth in turnover by 9.8% to 50.7 million € in total. This is especially due to its combining the strongest-growth regions, i.e. Asia, Eastern Europe, Russia and North America. This segment is also expected to provide further positive impulses for the future, fostered by an additional expansion of the sales force in these regions. As in previous years, investments into these markets were also increased in 2006, by providing sample presentations and presence in showrooms. However, we will also only be able to position ourselves successfully in this segment long-term by means of special products such as selected project and upmarket residential and mosaic ceramics. In the "me-too" segment with its high market volumes, there is an extremely intensive price competition on the part of the manufacturers from the leading manufacturing countries, e.g. China, Italy, Spain, Turkey and the United Arab Emirates. Moreover, in this price segment, our export opportunities are limited by the freight costs in relation to the value of the goods.

Hotel Vier Jahreszeiten, Munich/Germany

Stadium Dynamo, Zagreb/Slovenia

Outlook

While the year 2007 is expected to show a continued, moderate picking up of the economy in Germany, which will also be reflected by a slight growth of approx. 1% for the construction industry, the general world-wide economy shows first hints of a macroeconomic clouding as regards growth. Regarding our cost structure, we anticipate a continued rise in energy and raw material prices. In the human resources cost sector, the pay settlement of spring 2007 showed for the first time that – after years of only moderate pressure – the restraint in wage policy has come to an end, which is why we must expect an approx. 3% increase in personnel costs for 2007 and 2008. The initiated investments to enhance the facilities and flexibility of our Sinzig porcelain stoneware production, but also the improvement of the production flows incl. conversion of the drier in Schwarzenfeld, are bound to disturb or even temporarily suspend our fully automatic production flows. In conjunction with the extreme rise in energy costs which, due to the usual calculation method in our supply contracts, will only be reflected with a time offset, thus burdening us especially during the first few months of this year 2007, the investments will prevent us from reaching full performance output, so that overall our production costs will increase temporarily. As the overall investment measures will, however, result, after commissioning, in a further optimization of our production flows and increase of our output, we expect a clear improvement as regards supplying the market as of early 2008. To this effect, we are continuing to focus on a higher-value product mix, our leading competence in the project sector and the extension of our export activities over all sales areas.

Top quality in exclusive design.

As leading supplier of high-quality ceramics, Agrob Buchtal makes a decisive contribution to the development of stylish interior decoration. The company demonstrates its high innovation potential above all by comprehensive concepts for wall and floor, which are convincing thanks to superior design. The products are manufactured on state-of-the-art production plants and are subject to severe quality controls.

Concrete series – *Stone*, Agrob Buchtal Residential Ceramics

Ayana series – *Cinta*,
Agrob Buchtal Residential Ceramics

Concrete series – *Stars*,
Agrob Buchtal Residential Ceramics

Motion series – *Vogue*,
Agrob Buchtal Residential Ceramics

Don Mills Station, Toronto/Canada

Profit and assets situation

Lee Shau Kee Building, Hongkong/China

In the fiscal year 2006, Deutsche Steinzeug realized a consolidated turnover of 238.2 million € (AG 190.5 million €) with 1,653 employees on average (AG: 1,406), which corresponds to a growth in Group turnover of over 3%. The foreign share in the Group turnover was increased again by approx. 5% to 37.9%. In favour of the considerably higher-quality product mix realized, reflected within the Group by an increase in average revenue by approx. 10% versus the previous year, the decline in sales versus 2005 by just below 5% had to be accepted. Due to the average value added per square metre sold, which was realized this way, the operative result before depreciation and amortization (EBITDA) for 2006 was again increased significantly as in the previous year. The Group EBITDA amounted – without capitalization and special effects – to 20.5 million € versus 18.4 million € (before exceptional items) in 2005. Taking the total special effects into account, Group EBITDA for 2006 amounts to 59.0 million € (AG: 15.9 million €). In 2006, the corresponding profit for the year amounts for the Group to 35.8 million € (AG: 24.7 million €). Without including the capitalization and special effects, this shows that for the first time since 2001 we were able to report an operative Group profit for the year to the amount of 5.4 million € (AG: 1.9 million €).

Strategy as manufacturer offering the entire range of products for upmarket Ceramic Covering Materials while increasing the export share pays off

Deutsche Steinzeug acts on the market as a manufacturer offering the entire product range from white-body earthenware wall tiles for the residential and DIY market sector, including upmarket porcelain stoneware floor coverings and mosaics, through to sophisticated ceramic facade solutions, to offer its customers specific solutions suiting their requirements. The products are marketed via four different, specialized sales organizations to be able to attend to the clientele in question optimally and in line with their specific requirements. This differentiated sales policy helps Deutsche Steinzeug to apply its entire ceramic competence in Germany and abroad in a targeted fashion. This is also reflected by Deutsche Steinzeug's being able to enhance its average revenue by

Mercedes Benz Center, Stuttgart/Germany

approx. 10% and to also increase the export share significantly. The foreign share in the Group turnover in 2006 totalled 37.9%.

Thanks to the strategic focus described above, Deutsche Steinzeug succeeded in increasing turnover by over 3% within the Group despite a decline in volume of the tile consumption all over Germany by approx. 4% to 125 million square metres per year. The total decline in volume in 2006 amounted to approx. 5% within the Group, which was more than compensated by the increase of the average revenue mentioned above. In 2006, total turnover increased by 7.7 million € (AG: 9.8 million €) versus the previous year to 238.2 million € (AG: 190.5 million €). Thus, the domestic market share for Ceramic Covering Materials stabilized at approx. 14%.

As a consequence of the upmarket product mix and the growth figures in exports, revenue quality was also increased accordingly. Moreover, the enhanced degree of production flexibility – thanks to targeted investments – is reflected positively; despite the high product diversity, coupled with relatively small batch sizes within our full-range strategy, it has permitted a further improved capacity utilization. This enabled us to essentially compensate the cost increases which are dramatic in part. Thus, the costs for material usage and purchased services, especially due to the increased energy costs, rose within the Group by just below 10% to 110.8 million €. Personnel expenses costs within the Group also increased slightly in 2006 by 1.6% to 68.6 million € despite the "Alliance for Jobs". This reflects the fact that we had to employ a few temporary workers due to the higher-quality product mix and the more complex batch size production. Besides, in the past year 2006, for the first time after an extended pause, we paid a year-end bonus in the scope of a fixed one-time amount, which also increased Personnel expenses costs versus the previous year.

Due to the capitalization effects described below, the other operating income cannot be compared essentially with the previous year's figures. In total, the capitalization profits at Group level in terms of EBITDA amount to 38.6 million €. These are reported

Capestone series, Agrob Buchtal Architectural Ceramics

Aggua, Troisdorf/Germany

in the AG with 25.6 million €. The Group's operative EBITDA, adjusted by this sum, including any other special effects, amounts in 2006 to 20.5 million € (AG: 15.9 million €), meaning that the EBITDA yield in the Group versus the previous year (before exceptional items) was increased by 0.6 percentage points to 8.6%.

Within the Group, depreciations amount to approx. 7.5 million € (AG: 7.7 million €) and are thus at previous year's level (before exceptional items). Despite the fact that credit obligations and (interest-bearing) pension liabilities had already been reduced in the 2nd half of 2006, it was not possible to essentially reduce interest costs which in total reached the net amount of 7.4 million € within the Group (AG: 6.9 million €), as after the accomplished recapitalization, the restructuring interest rate – still valid over the entire year 2005 – was not applied any longer. Moreover, the 2006 financial result both within the Group and the AG was burdened by the depreciation amounting to 2.1 million € on the book value of a non-consolidated subsidiary. This had become necessary as negotiations about the sale of its only valuable asset – a rented-out built-on site – had shown that the book value resulting from a Sale-and-Lease-Back assessment cannot be realized in the foreseeable future. The reduced book value now reported corresponds to the present market value.

Within the Group, the profit for the year amounts to 35.8 million € (AG: 24.7 million €). Without capitalization and special effects (and without the corresponding share in deferred taxes), the profit for the year would amount to 5.4 million € (AG: 1.9 million €). As the pension liability differential amounts between the Group accounting according to IFRS and from the point of view of taxation (which in this respect follows rather the HBG [German Commercial Code] accounting method) have declined from 65.6 million € to 19.7 million € as a consequence of the recapitalization, the deferred tax item to be reported on the liability side of the balance sheet increases by 6.1 million €, which results in a corresponding item of identical extent in the Group Profit and Loss Statement in terms of deferred taxes. As on the one hand, according to binding information obtained from the tax authorities, the capitalization profits only reduce the losses carried forward in terms of corporation and trade taxes, without generating a payment charge, whereas, on the other hand, the deferred taxes to be reported affect only the financial accounting, no liquidity constraints result from taxes due to the recapitalization.

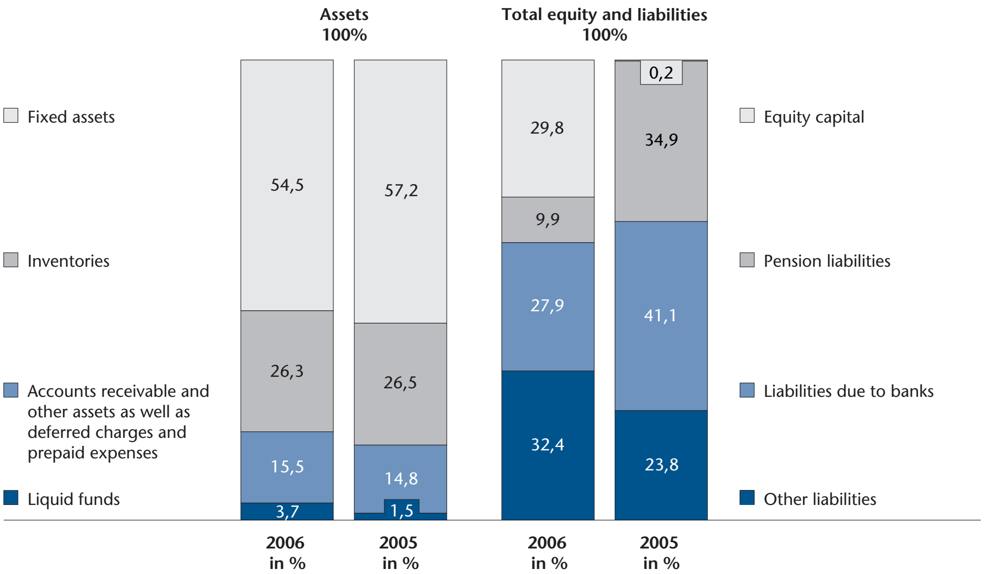
Balance sheet structure sustainable reinforced due to recapitalization
In the scope of the successfully implemented recapitalization of Deutsche Steinzeug, the equity ratio of 0.2% in the previous year was increased by the end of 2006 to 29.8% at Group level (AG: 30.2%). At the same time, liabilities resulting from borrowing from banks have declined by 21.9 million € (AG: 22.4 million €) and the pension liabilities by 46.0 million € (AG: 29.0 million €). With this equity ratio and bank liabilities approximately at the amount of the equity capital, Deutsche Steinzeug rank, regarding essential financial ratios, solidly in the intermediate ranks of German enterprises in the building and building suppliers' trade, which already had a positive effect on our rating in 2006 as regards relationships with our customers and suppliers. The following is a more detailed explanation of the essential capitalization effects:

Capital recuction: In the scope of the capital reduction of 6:1, the number of shares was first reduced by merging six shares into one share, and the resulting profit from capital reduction plus release of the capital reserve was offset against the losses carried forward.

Cash capital increase: In total, a cash capital increase to the amount of 10.8 million € was performed against the issue of 10.8 million shares at a nominal value of 1.00 €.

Debt-to-equity-swap: In addition to the cash capital increase, total liabilities from bank loans amounting to 20.4 million € were converted into 12.3 million € equity capital against the issue of 12.3 million shares at a nominal value of 1.00 €.

Balance sheet structure



The new shares created are to be admitted for trade at the stock exchange within the specified deadline, namely by 14 August 2007. At present, the new shares created are only admitted for OTC transactions at the Düsseldorf stock exchange.

Reduction of pension liabilities: In total, the pension liabilities in the Group decreased by 46 million €. Pensionssicherungsverein and Agrob AG took over total pension liabilities of the AG (in accordance with IFRS accounting) to the extent of 39.8 million € against a compensating payment of 10.2 million €. So far, 3.2 million € of this total liability have been discharged. Regarding the residual liability to the amount of 7.0 million € which is to be redeemed by selling land (partially undeveloped) not necessary for business operations, a term of payment of end-2008 has been agreed, and the corresponding amounts have been entered on the liability side as other liabilities. On the whole, Deutsche Steinzeug has thus succeeded in not only improving its balance sheet figures but also in relieving itself permanently from annual pension payments to the amount of approx. 3.9 million € for over 2600 retired members of staff.

Ensuring mid-term financing: As of 31 July 2006, all credits were extended by three years, maintaining moderate amounts for repayment. In this regard, a syndicated loan agreement in accordance with the LMA standard with a term to mid-2009 was concluded with the financing banks on 30 March 2007. In this context, Deutsche Steinzeug was not only granted an extension of the credit lines with amortization rates adjusted to our investment volume and cash requirement, but also an additional credit line of up to 10.0 million € until the end of 2008, providing us with interim financing for the development of our Frechen property, which is to be sold as land not necessary for business operations and to be used for repayment of the residual liability due to PSV.

School of physical education,
Bad Blankenburg/Germany

Amar series, Jasba

Racv Club Pool/Australia

Corporate Governance
and information to be submitted pursuant to §§ 289 and 315 HGB

As in the past, the Company continues to strive to comply with the Corporate Governance Code as far as possible and to deviate from the recommendation only to the extent that the adaptation to the requirements of a medium-sized company of the order of magnitude such as ours appears justified under feasibility considerations. The compliance statement for 2006 is published under the address www.deutsche-steinzeug.de (Investor Relations).

Co-operation of Board of Management and Supervisory Board: The process of the recapitalization project was characterized by close coordination between the Board of Management and the Supervisory Board. Moreover, coordination talks were conducted on a regular basis between the Supervisory Board, especially its Chairman, and the Board of Management. In addition, essential items on the agenda of the subsequent Supervisory Board meetings were discussed together with the Board of Management in separate preliminary meetings of the representatives of employer and employees on the Supervisory Board. The new members of the Supervisory Board elected on 11 May 2006 dealt intensively with the Company and its future strategic orientation. In the scope of the Supervisory Board meetings, but also in the scope of the preliminary talks, the strategic key areas of Deutsche Steinzeug, especially as regards the future investment, production and sales policy, were explained in detail by the Board of Management.

Upon completion of the recapitalization of Deutsche Steinzeug, the Supervisory Board's focal topics will be, in addition to its normal supervisory function, primarily its attending the future strategic orientation and investment policy.

Conflicts of interest: In the fiscal year 2006, no consulting or other service agreements were concluded with members of the Supervisory Board.

Transparency and financial publicity: Investors can obtain information about current Group developments via internet at any time. All investors are treated equally as regards disclosure of information. A compilation of the publications of Deutsche Steinzeug Cremer & Breuer AG is being made available for inspection on the internet under www.deutsche-steinzeug.de (Investor Relations) at the same time as the publication of this Annual Report.

Kita (day nursery) Sonnenschein, Leinefelde/Germany

Accounting and audit of the annual financial statements: The consolidated annual financial statement and the quarterly reports are based on the IFRS accounting principles, the annual financial statement of the parent company Deutsche Steinzeug Cremer & Breuer AG on the provisions of the HGB (German Commercial Code). The audit committee and the Supervisory Board have satisfied themselves that the auditor has the required professional qualification and independence. The auditor has presented a statement of independence to the Supervisory Board. There were no clues giving rise to suspicion about the sufficient independence of the auditor.

Appropriate remuneration of the Board of Management and the Supervisory Board: The remuneration of the Board of Management consists of fixed and variable components which comprise Company-specific targets as well as targets for the individual members of the Board of Management. At the end of each fiscal year, the Chairman of the Supervisory Board redefines, in consultation with the HR Committee, the variable remuneration parameters for the subsequent year based on separate targets for the Board of Management. Beyond that, pension commitments secured by reinsurances and company cars aligned to the tasks and functions concerned are granted.

In 2006, the Supervisory Board's remuneration was settled exclusively by fixed remunerations to the amount of € 12,500 p.a. The Chairman of the Supervisory Board receives twice this amount, his representative one-and-half times this amount. Besides, the Supervisory Board's expenses were refunded.

Director's dealings: Dieter Schäfer, Chairman of the Board of Management, participated in the 2006 cash capital increase by utilizing his subscription rights as regular shareholder, thus being allocated 10,779 shares.

Information pursuant to § 289 sect. 4 HGB and § 315 sect. 4 HGB

1. §§ 289 sect. 4 no. 1 HGB, 315 sect. 4 no. 1 HGB
The Company's subscribed capital (capital stock) amounting to € 27,615,618 consists of 27,615,618 bearer share certificates with a total calculated share in the capital stock of € 1.00 each.

2. §§ 289 sect. 4 no. 2 HGB, 315 sect. 4 no. 2 HGB
The Company and three of its essential shareholders, i.e. Deutsche Bank AG, ELQ Investors Ltd. and Lone Star International Finance Limited, concluded on 30 March 2006 a so-called Accession Agreement in which the shareholders ELQ Investors Ltd. and Lone Star International Finance Limited have acceded to an existing Investment Agreement between the Company and Deutsche Bank AG. In this Accession Agreement, these three of the Company's shareholders (investors) have agreed mutually on the following restrictions as regards the transferability of their shares in the Company.

a) If an investor **(transferring investor)** sells the shares it holds in the Company to a third party who is not a party to the Accession Agreement **(purchaser)**, the investors not transferring their shares **(remaining investors)** have a preemption right to the shares to be transferred on a pro rata basis to their participations in the Company. The preemption right may only be exercised subject to the conditions agreed between the transferring investor and the purchaser.

b) If the preemption right is not exercised, the remaining investors may demand of the transferring investor to ensure that the purchaser acquires also the shares held by them in the Company, acquired in the scope of the 2006 Company recapitalization, under the same conditions as have been agreed between the transferring investor and the purchaser **(tag-along right)**.

Nautilus, Angouleme/France

Hotel Latvia, Riga/Latvia

c) If the preemption right is not exercised and if the tag-along right is not exercised either, the transferring investor may require the remaining investors additionally to co-sell the above-mentioned shares in the Company to the purchaser **(drag-along right)**. The purchase price to be paid in this context must correspond on principle to the market value of the shares being sold. The drag-along right is subject to various conditions. It depends, amongst other things, on the purchaser's acquiring at least 50.1% of the Company's share capital from the investors.

d) Neither the preemption right nor the tag-along right, nor the drag-along right takes effect if one of the investors only sells the first 10% of the shares it holds, which it acquired in the scope of the 2006 Company recapitalization, to diverse shareholders via the Stock Exchange. This applies accordingly to the sale of other packages of 10% of these shares, which can be effected at two-month intervals, however provided that the transferring investor must previously offer to the other investors the shares to be sold, and at market price.

There are no further restrictions known to the Company's Board of Management which concern the votes or the transferability of the shares.

3. §§ 289 sect. 4 no. 3 HGB, 315 sect. 4 no. 3 HGB

The following persons participate directly or indirectly in the Company's capital:

Holder of the participation	Degree of participation	Type of participation
Goldman Sachs, Petersborough Court, 133 Fleet Street, London, EC4A 2BB, Great Britain	55.31%	22.51% direct participation and 32.8% attributable in acc. to § 22 sect. 2 WpHG [German Securities Trading Law]
Deutsche Bank AG London, Winchester House, 1 Great Winchester Street, London EC2N 2 DB, Great Britain	55.31%	17.25% direct participation and 38.06% attributable in acc. to § 22 sect. 2 WpHG [German Securities Trading Law]
Lone Star International Finance Limited, 1st Floor, 25-28 Adelain Road, Dublin 2, Republic of Ireland	55.31%	15.55% direct participation and 39.76% attributable in acc. to § 22 sect. 2 WpHG [German Securities Trading Law]

Neanderbad, Erkrath/Germany

Collina series, Agrob Buchtal Residential Ceramics

The information presented in the above table regarding the allocation of participations pursuant to § 22 sect. 2 WpHG are exclusively based on the appropriate publications of the owners of the participations in the 1st half-year 2006. The Company is not aware of any such coordination truly still beeing performed by the holders of the participations.

4. §§ 289 sect. 4 no. 4 HGB, 315 sect. 4 no. 4 HGB
The Company has not issued shares carrying special rights.

5. §§ 289 sect. 4 no. 5 HGB, 315 sect. 4 no. 5 HGB
Employees participating in the Company's capital decide themselves on the exercising of their voting and control rights.

6. §§ 289 sect. 4 no. 6 HGB, 315 sect. 4 no. 6 HGB
The appointment and revocation of members of the Company's Board of Management depend on §§ 84 et seq. AktG (German Stock Corporation Law), the amendment of the Articles of Incorporation on §§ 133, 179 AktG (German Stock Corporation Law). Moreover, the Company's Supervisory Board is entitled,in accordance with § 15 of the Company's Articles of Incorporation, to decide on amendments to the Articles of Incorporation which only concern the wording.

7. §§ 289 sect. 4 no. 7 HGB, 315 sect. 4 no. 7 HGB
The Company's Board of Management is entitled to increase the Company's share capital until 18 June 2008 with the consent of the Supervisory Board by issuing bearer shares against contributions in kind or in cash, one-time or several times by up to € 25,236,881. The new shares can also be issued to Company employees. The Board of Management is entitled to decide with the consent of the Supervisory Board about any exclusion of the subscription right. Moreover, the Board of Management determines the form and content of the share certificates and any dividend coupons and certificates of renewal.

8. §§ 289 sect. 4 no. 8 HGB, 315 sect. 4 no. 8 HGB

On 30 March 2007, the Company signed, together with Meissen Keramik Vertriebs GmbH, Deutsche Steinzeug Keramik GmbH and Deutsche Steinzeug Immobilien GmbH & Co. KG, each acting as borrower, a loan agreement with Deutsche Bank AG, Goldman Sachs International Bank, MHB-Bank AG and Banca Nazionale del Lavoro International S.A. The loan agreement covers a total volume of € 76,340,810.36 and serves to finance practically all of the Company's bank liabilities. Thus, it must be considered as an essential agreement of the Company.

The loan agreement requires that a change of control at the Company has the following legal consequences:

a) A change of control according to the loan agreement is deemed to exist if a person who is not a party to the loan agreement, or a group of such persons, who act jointly within the meaning of §§ 2 sect. 5, 30 sect. 2 WpÜG,hold or acquire over 50% of the Company's share capital. However, such a change of control is not deemed to exist if one of the lenders either itself or via affiliated companies acquires or holds over 50% of the Company's share capital.

   Moreover, a lender cannot invoke the existence of a change of control which it has caused itself by transferring shares in the Company held by itself.

b) If there is a change of control within the meaning of the loan agreement, the loan agreement is considered as terminated, causing all outstanding credits, interest or other amounts under the loan agreement and related financing agreements to become due and payable within four-and-a-half months.

9. §§ 289 sect. 4 no. 9 HGB, 315 sect. 4 no. 9 HGB

No indemnification agreements have been concluded by the Company to the benefit of members of the Board of Management or employees as regards the case of a takeover offer.

ASV Sports & Health Club, Cologne/Germany

Risk report

Pure series, Agrob Buchtal Residential Ceramics

Our risk policy is in line with our striving for a long-term increase in the corporate value. This means on the one hand that we attempt to avoid inappropriate risks as regards our mid- and long-term target range, but on the other hand, that we are all the more prepared to take risks which are reasonable and to a manageable extent controllable, if these can reinforce our core sector of Ceramic Covering Materials. Besides, the Company is exposed to external risks both on the sales and procurement side, as these are typical for a company in our industry and of our size. Separate details on this aspect are provided in the report on the development of business 2006 and the outlook.

Deutsche Steinzeug disposes of a functional risk management which is based essentially on our efficient and detailed reporting and the meetings with the risk officers at monthly or even shorter intervals. To that extent, we are provided 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.

Liquidity risks: In the scope of recapitalization, our constrained liquidity position of past years has eased, but we continue to strive to keep credit utilization as low as possible by active management of current assets. Moreover, Deutsche Steinzeug prepares a rolling twelve-month liquidity forecast at monthly intervals. In future, a twenty-four month forecast will be prepared and updated several times per year.

In the scope of the syndicated loan agreement in accordance with the LMA (Loan Market Association) standard which was concluded on 30 March 2007, so-called Financial Covenants which have been stipulated accordingly will have to be complied with in future. These concern compliance with certain financial ratios, reporting obligations and rules of conduct which are not uncommon in such type of loan agreements. Should this not be possible in the long run for no matter which reasons, e.g. in case of a deterioration of the order flow, the banks granting the loans can insist on principle on immediate repayment of the loans. As a matter of form, we would like to point out that in such cases it is possible to come to an agreement on the continuation of the loans in the scope of a so-called waiver.

Ferienpark Plauer See,
Alt Schwerin/Germany

Interest risks: The interest situation did not require any special precautions to be taken in 2006, like in the previous year, as the reorganization interest rate was used till August, since a fixed interest rate was also agreed with the banks.

Exchange rate risks: Deutsche Steinzeug only performs noteworthy foreign currency transactions in US $, other currencies playing an only negligible role. As receipts and expense in US $ are practically neutralized over the year, except for a small amount, the Company is only exposed to minor currency risks which are not hedged separately to this extent.

Operational risks: The business environment of Deutsche Steinzeug is influenced by the domestic and world-wide macroeconomic boundary conditions which affect the construction industry especially. Due to the ongoing world-wide competitive pressure, unforeseeable risks for our Company's sales opportunities may arise from the economic boundary conditions and from the conduct of individual competitors on the markets in question. On the supplier side, risks may result in the subcontracting area and as regards energy and raw material prices. Should a subcontractor's supply capability cease at short notice, it may not be possible to find an equivalent replacement immediately. Thus, sales opportunities might be lost or penalties incurred, or Deutsche Steinzeug might be compelled to purchase overpriced products from third parties to ensure its supply capability. On principle, the Company strives to take possible risks in this context only where this is justified by actual business opportunities. In the energy sector, Deutsche Steinzeug commissioned an energy consultant with the structured purchase of electrical power and gas in 2006, so that as of 2007, and as far as this is reasonable, a portfolio effect can be achieved by purchasing successive energy packages for up to three years in advance, in order to be less susceptible to future price fluctuations, and to enhance planning security. However, the structured purchase of energy cannot prevent energy cost prices from rising long-term. On principle, we assume that in this scenario all tile manufacturers will have to scale up their sales prices medium-term, as the increasing energy costs affect all providers world-wide. This also applies to the costs for procurement of raw materials, whose generation or extraction requires huge amounts of energy, and to services, e.g. in the transport sector.

As in the previous years, almost all claims against our customers are covered by a commercial credit insurance with an appropriate retention. Where this is not possible, e.g. in the case of some Eastern European or Russian customers, we cooperate closely with the commercial credit insurance providers and – if necessary and justified – take manageable risks with defined internal credit limits. By means of this approach, we have succeeded in limiting the default rate to a very low level in 2006, as in the previous year.

Moreover, Deutsche Steinzeug has concluded insurance contracts to the extent usual in its industry to cover the risks of product liability resulting from production. These are reviewed once per year, including the assistance of external experts. This also applies to all the other essential insurance policies such as for fire damage and business interruption. As in previous years, the Company has concluded a D&O insurance with an appropriate retention for members of the Group's bodies.

Drehnte-Park, The Hague/Netherlands

Winkelcentrum Klanderij, Enschede/Netherlands

KFC/Iceland

Ideal for individual concepts.

Architects all over the world appreciate the demanding design, the excellent quality and the efficient installation of the ceramic facade systems from Agrob Buchtal. An enormous variety of colours and sizes supports the development of individual design concepts – as for example in the case of the Muhammad Ali Center in Louisville, USA, whose facade underlines the function of the building by artistic means.

Muhammad Ali Center, Louisville/USA

Forum, Brescia/Italy

Investments, environment, research and development

Upon completion of the recapitalization of Deutsche Steinzeug Cremer & Breuer AG, the implementation of a strategic three-year investment program was commenced in 2006, with which Deutsche Steinzeug prepares for the market situation of the years to come, by investing heavily into efficiency-enhancing restructuring and extension of the porcelain stoneware capacities which are in high demand. To this effect, the Group investment volume increased to 9.2 million € already in 2006 (AG: 8.1 million €). This year's investment activities are focused on the extension of the production facilities to manufacture new products and to enhance flexibility in the factories. Beside the development of new designs and sizes for the conventional range, research and development focused on the realization of large-size project ceramics and an enhanced range of special pieces for facades, plus the further development of larger glazed and unglazed facade panels in the KeraTwin segment. Moreover, the introduction of a new 1 x 1 cm micro-mosaic of the Jasba brand was prepared.

Essential investment projects

As early as at the end of 2006, extension and optimization of the porcelain stoneware capacities at the Sinzig site was commenced. The new kiln is to be started up for production in autumn 2007, permitting an additional output of over 1 million square metres as of 2008, to supply this still growing product category even better.

The Sinzig site is becoming more and more important for Project Ceramics. The realignment of this factory as regards production had become necessary as the demand for ever-more fashionable and larger-sized porcelain stoneware, but also the volume of supermarket tiles, were growing continuously. Thus, in 2006, we prepared the location with an initial investment budget of just below 2.0 million € in order to enhance substantially the degree of flexibility and the grading capacity involved by autumn 2007 by decoupling the production flows completely. By installing the appropriate storage areas and thus the related concentration of our sorting department, along with the necessary increase of the processing capacity, in the long run we are investing into the core element which will be key for our supply in the Project sector in the next few years. Once the overall measure is finished, we will be in a position to utilize the growth opportunities in this area, and even reduce production costs.

Concrete series,
Agrob Buchtal Residential Ceramics

At the Schwarzenfeld site, replacement of two tile driers has been started. The measure, for which 1.4 million € have been budgeted, will be completed at the end of the 1st quarter of 2007. Moreover, an investment of over 1.1 million € was made into the production facilities for the considerably growing segment of ceramic facades. Besides an optimization in body preparation and shaping technology, the postprocessing of the ceramic facades was extended in this context by a powerful cutting plant as a considerable improvement of the availability of the KeraTwin facades in horizontal format which are in increasing demand. Moreover, to satisfy the ever-increasing demand for facades with Hydrotect coating, 0.4 million € were invested at that site into another Hydrotect plant.

At the Witterschlick factory, 0.4 million € were invested to considerably expand the capacity and decoration facilities for wall tiles up to a side length of 60 cm in order to better satisfy the growing demand for large-size wall tiles.

Investments in environmental protection

Deutsche Steinzeug is continuously striving to improve environmental protection, among other things by utilizing environmentally favourable processes. Thus, at the Witterschlick site, e.g. 0.8 million € were invested in a new flue gas purification plant with heat exchanger, which enables the utilization of the flue gas's exhaust heat in other processes, which in turn reduces the natural gas and CO_2 emissions significantly. Moreover, the investments performed have resulted in a higher degree of production flexibility and the improved capacity utilization of the kilns associated with this, reducing the energy consumption per square metre ceramics produced, which in turn reduces the CO_2 emission, thus contributing considerably to enhanced environmental compatibility.

Research and development

Our R&D activities focused essentially on the further development of the procedures applied and on our products, and amounted – as in the past few years – to approx. 3.4 % of the turnover. Other priorities were the improvement of production processes and development of future-oriented designs and sizes.

At the Schwarzenfeld factory, new KeraTwin facade systems were developed and the range of special pieces complemented in a sensible fashion. Another development was extruded, unglazed porcelain stoneware with integrally coloured tile body. This new technology is used for large-size tile series in the sector of representative projects and facades alike.

A new 1 x 1 cm micro-mosaic was developed for the Jasba brand. This is intended to give special emphasis to our competence in ceramic small mosaics. Here, it becomes apparent that our special glazing technique satisfies the most exacting mosaic production requirements, and that the brilliant play of colours of the glazed surfaces accentuates almost 7,000 stones per square metres of small mosaic, yet still achieving an excellent edge design.

The wall tile assortments were promoted especially in the large-size segment (up to 30 x 60 cm), which features strong growth figures, by developing new surface structures, glazing effects and modular systems combining various sizes. Thus, the series Concrete with the newly developed modularity of various wall tile sizes plus matching porcelain stoneware floor tiles, offers the customer completely new creative potential in up-to-date design.

Besides, every year, we develop innovations regarding shapes and colours of tiles and decorations as well as customized series for all product segments.

Employees

At the effective date of 31.12.2006, Deutsche Steinzeug Cremer & Breuer AG had a total headcount of 1,645 persons, whereas 1,628 persons had been working in the Company at the same time in the previous year. The increase of 17 members of staff is especially due to a good order flow and the accompanying temporary employment of production staff. Due to the above-mentioned moderate increase in staff numbers and the fact that for the first time, after years of declining wages and salaries, a fixed year-end bonus had been paid to the staff, personnel expenses at Group level increased from 67.5 million € (AG: 53.8 million €) in the fiscal year 2005 to 68.6 million € (AG: 55.1 million €) in the past fiscal year 2006.

Investment measure as a declaration of loyalty towards the production location Germany

During the reporting year, Deutsche Steinzeug continued consistently to pursue its goal to offer more varied working-time models and workflows. This enables our Company to respond better to seasonal fluctuations in demand. While the change-over from throughput to storage production at the Sinzig site gave rise to modified working time models, product diversity requirements called for completely changed working time models and corresponding fluctuations in workflows at the other sites. There, the working time models were reviewed and the utilization of time accounts extended and rendered more flexible. This, and a number of further measures which are to be continued in the calendar year 2007, will enhance the competitiveness of our factories and consequently of the production location Germany.

"Company Alliance for Jobs" extended

Due to the market situation which is still characterized by excess capacities and rising energy and raw material costs, the Board of Management has concluded with the Works Council a new "Company Alliance for Jobs" valid till 31 December 2008 in order to stabilize the results achieved so far. The agreement includes a reduction in remuneration components or an extension of the weekly working hours without compensation in wages or salaries. As recompense, we – the employers – waive further reduction of staff numbers in the scope of operational dismissals, unless the staff cuts are a consequence of investments for rationalization purposes or are effected with the express consent of the bodies provided by the Works Constitution Act. Moreover, the Works Council and the Management have agreed to permit a greater staff participation in the success of the Company in future, which has also been implemented by appropriate arrangements to enhance the flexibility of special payments in line with the collective agreement.

Training and transfer of trainees into the Company's workforce

In the reporting year, the previous year's number of trainees (26) was again exceeded with 28 approved and announced new recruitments in technical and commercial jobs requiring training, so that at present, we are employing 62 trainees. The chances for a successful transfer into permanent employment are extraordinarily high due to the approaching alternation of the generations.

Co-operation with "Alanus Hochschule"

Before the backdrop of the demand for specialists and executives in the years to come, Deutsche Steinzeug has concluded a co-operation agreement with "Alanus Hochschule für Kunst und Gesellschaft" [Alanus University for Arts and Social Sciences], which, like our headquarters is located in Alfter near Bonn, and which has opened a new, internationally recognized course of economic studies. The course of studies offered combines both contents from business economics and art and aims at increasing creativity while looking for new approaches to rudimentary thinking on the part of future candidates, and at training the artistic perception, which is becoming increasingly important given the growing relevance of an attractive design for our tiles – especially as regards Residential Ceramics and Jasba Mosaic. This refers especially to the areas of product development and sales, marketing and design.

Thanks to our staff

The improved revenue situation in the 2006 fiscal year results – despite the difficult market environment – last, but not least from the high degree of commitment and the qualification of our employees. We would like to thank all of them for their work and their overproportional commitment. Our thanks include the members of the bodies provided by the Works Constitution Act who have accompanied us in a constructive and trusting fashion.

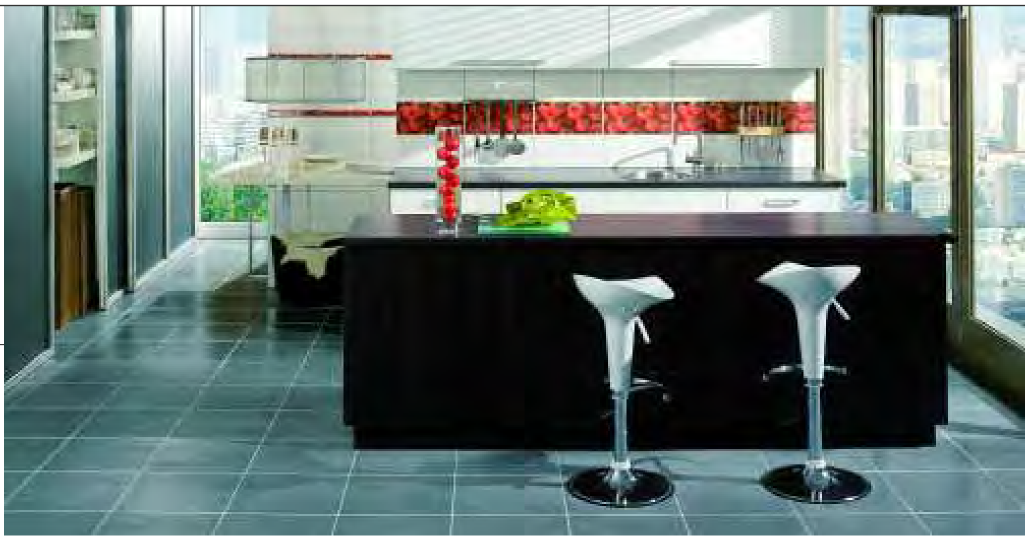
Falcon Wharf, London, Great Britain

Extraordinary events 2006/2007

In 2006, the process of searching for investors was brought to a successful close. In this context, an Extraordinary General Meeting was convened on 11 May 2006 which passed resolutions with a large majority (over 95%) about the recapitalization measures to be conducted over the summer. Due to the successful restructuring of the Company, we have succeeded in attracting internationally renowned financiers like Deutsche Bank, Goldman Sachs and Lonestar.

The target of recapitalization was also to implement the urgently required investments after the annual investment amounts of the past few years – last but not least before the backdrop of the reorganization measures – had been considerably lower than the volume of depreciations. To that extent, we regard the current year 2007 as a year of consolidation in which the urgently required investments are being essentially implemented.

Lavita series, Jasba



Canvas series, Meissen Ceramics

While the high energy and raw material prices are burdening the costs and consequently the revenue margins, the market sentiment in the construction industry – our sector – has clearly improved for the first time within the past ten years. This was also reflected by the biennial trade fair BAU in Munich, which took place in January 2007. At this internationally acknowledged fair, Deutsche Steinzeug was represented with an impressive stand as the leader of the domestic market in the Ceramic Covering Materials sector.

Recapitalization of Deutsche Steinzeug results in a future-capable balance sheet structure of the Company

Thanks to the recapitalization, Deutsche Steinzeug again has a competitive balance sheet equipped to face the future. Given a Group equity capital of almost 59.0 million € as of 31.12.2006 (AG: 52.3 million €), the equity capital stock of 29.8 percentage points (AG: 30.2 percentage points) is clearly more positive versus the previous year and is in line with the trade's average figure. With an approximately equivalent equity capital to bank liability ratio and with a financing secured mid-term, Deutsche Steinzeug now has a solid financial structure. The details regarding the recapitalization measures are described under "Profit and assets situation" in the Annual Report.

Strategic investment program started

Immediately after recapitalization, the implementation of a strategic investment program was commenced which is mainly centered around introducing flexibility and extending the porcelain stoneware capacities at the Sinzig works. This requires comprehensive rebuilding and extension measures which should be completed in September 2007 to such an extent that production can be started, meaning that the production of porcelain stoneware is already expected to increase by 300,000 square metres in the current year. After the entire investment measure is completed in the company holidays 2008, the works will be capable of producing state-of-the-art, high-quality porcelain

Geologistics,
Düsseldorf/Germany

Private pool, Dörveden/Germany

stoneware at internationally competitive manufacturing costs. To this effect, with a production output increased by 1 million square metres as of 2008, essential improvements in sales and efficiency will result.

Further investments are envisaged for the subsequent years to enhance the degree of flexibility of the other sites while improving quality standards. The planning services required to this effect are still outstanding.

Deutsche Steinzeug lives up to its reputation as leader on the German market by its presentation at the BAU fair

The BAU 2007 in Munich confirmed in an impressive fashion its standing as world-wide leading fair for the construction trade with a record attendance of just under 210,000 visitors from 145 countries. Especially pleasing: the proportion of visitors from the specialist trade – architects, construction engineers and planning offices – increased by almost one third to just below 35,000 visitors. These clients are the most important target group for our company as regards marketing of our Project Ceramics including facades and swimming pools.

Our company presented itself at the fair with a stand which attracted a great deal of attention by its visitors. As in previous years, we focused specifically on the priorities of our sales areas. With Residential Ceramics presenting products with clear shapes and attractive surface design in terms of a gallery, Project Ceramics demonstrated wall/floor combinations and especially focused on facade, slip resistance, fluorescent safety tiles, etc.

As at all the previous fairs, Hydrotect played a very important part. The conspicuous presentation of the Easy-Cleaning-Effect of tiles with Hydrotect coating was an attraction for most of our visitors to the fair. With the DIY sector presenting itself via a very fashionable display-style approach showing wall/floor combinations, the Jasba sales area

Lavita series, Jasba

distinguished itself in a specifically stylish and emotional manner. The new 1 x 1 cm mosaic was presented for the first time, among other things, with an individual concept taking our high expectations regarding design, colour and emotions into account. Further highlights were the design options demonstrated for kitchen, shower and wellness area. On the whole, our presentation at the fair proved to be a complete success. The increasing number of foreign visitors and the talks with planners and architects convinced us in an impressive way to attend the BAU in Munich as leading fair at two-year intervals.

Collina series – *Onda*, Agrob Buchtal Residential Ceramics

Fair BAU 2007, Munich, Germany

Convincing emotional presentation.

With a first-class presentation at the international trade fair BAU, Munich, Deutsche Steinzeug had an extremely successful start into the year 2007. All expert visitors were impressed by the presentation which underlined the leading role of the Group and its brands in a highly emotional manner. This time, the crowd-puller was the remarkably realistic design of an underground station with ceramic orientation aid for the blind.

Deutsche Steinzeug shares

University clinic, Marburg/Germany

After the DAX had developed very positively already in 2005, it continued this trend in 2006, increasing by approx. 22%. On 28 December 2006, the DAX reached its YTD high of 6,629 points. This is essentially due to the increasing profits of the large German companies and the generally positive sentiment, along with an economic growth of approx. 2.3%. Independently from the general stock market environment, the price development of the Deutsche Steinzeug share in 2006 was characterized significantly by the successful recapitalization.

Macroeconomic boundary conditions

Along with the positive economic development and the cost-cutting measures implemented, the expectations of the DAX companies regarding earnings increased in leaps and bounds in 2006. This was reflected in a correspondingly positive development of the DAX. In contrast, the Ceramic Covering Materials industry in Germany remained on a downward trend. Moreover, the high dependence of the tile production on energy costs – especially on gas – burdened the margins considerably, as many manufacturers all over Europe had not been able to foresee the excessive rise in gas prices as it occurred.

Successfully completed recapitalization

The recapitalization resolved at the Extraordinary General Meeting of 11 May 2006 was implemented successfully last summer. First, following the close of trading on 19 July 2006, the required capital reduction with regard to the 27,064,998 shares was performed in terms of six to one shares. On that day, the old shares with the security identification number WKN 552800 were traded for the last time with a closing price of € 0.77. On the following day, 20 July 2006, the closing price of the new merged shares – in total 4,510,833 with the WKN A0JQ42 – amounted to € 2.42. In August 2006, the resolved capital increases were implemented – the increase of non-cash capital (contribution in kind) in the amount of € 12,255,000 by issuing 12,255,000 new shares at a nominal value of € 1.00 per share and a cash capital increase of € 10,849,785 against the issue of an identical number of shares, also at a nominal value of € 1.00. Consequently, the share capital of Deutsche Steinzeug Cremer & Breuer AG after recapitalization consists of 27,615,618 shares. After coordination with the stock exchange and the banks involved, the 23,104,785 new shares issued in total from the capital increase, with the security identification number A0JQ43, were made available for OTC transactions at the Düsseldorf stock exchange and were listed for the first time on 18 October 2006

Indoor swimming pool, Dessau/Germany

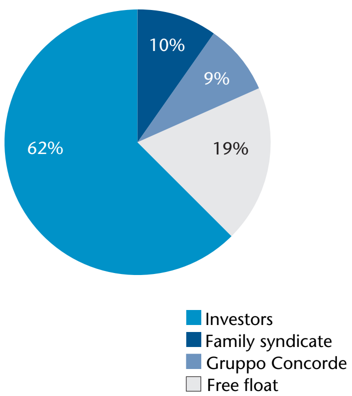
Mega series, Agrob Buchtal Architectural Ceramics

with an opening price of € 2.35. At the end of the year 2006, the prices of the two new share groups were declining slightly, picked up, however, considerably in the 1st quarter of 2007 (30 March), reaching € 2.65 (A0JQ42) and € 2.70 (A0JQ43). The shares not yet listed for regular stock exchange transactions are to be admitted within the time limits provided by law.

Shareholder structure

Along with the capital reduction of 6:1 and the capital increases described in another section of this Report, the shareholder structure of Deutsche Steinzeug changed fundamentally in 2006 versus the previous year. 62.5% of the shares are held by financial investors who already had credit exposures with Deutsche Steinzeug before the recapitalization measure. These are, according to the publications, investment companies of Deutsche Bank, Goldman Sachs, Lonestar and BNP. The family consortium, previously holding a majority of just under 51% of the shares, now holds slightly less than 10.0% due to the fact that it agreed to waive the exercising of the subscription right. The shareholding of the Italian Gruppo Concorde declined in the scope of the capital measures from 14.8% to 8.6%. Otherwise, the company does not have any information according to which any shareholders hold over 5% of the voting rights in Deutsche Steinzeug Cremer & Breuer AG.

Shareholders structure



The Board of Management is not aware of circumstances requiring a report of dependency pursuant to § 311 et seq. AktG.

Result per share (weighted mean)

The essential part of the Group's profit for the year, 35.8 million €, consists in the capitalization profits specified in detail in another section. Without the reorganization and special effects, the profit for the year 2006 amounts to 5.4 million €. The Group profit per share with capitalization profits amounts in 2006 to € 1.32, and without capitalization effects, to € 0.20.

Competence boosts innovations.

With its decidedly independent presentation, the Jasba brand underlines its unique profile. Among the numerous demanding novelties, the 1 x 1 cm micro-mosaic - here with luxurious decoration of precious Swarovski inserts - is primarily in focus. A highly developed glazing technique enhances the brilliant play of colours of the glazes, even with almost 7,000 mosaics per square metres.

Lavita series, Jasba (mosaic 1 x 1 cm, stress group 2: floor coverings in areas walked on with shoes with soft soles or with normal footwear, subject only to occasional or slightly scratching soiling, if any, e.g. living rooms, bathrooms)

Lavita series, Jasba

Amar series, Jasba

Amar series, Jasba

Facade Gavra, Geel/Belgium

Business development 2007 and outlook

After the decline in tile volumes sold continued in the 1st half year 2006, the ceramic industry was able to follow the general growth trend in the recovering building sector in the 2nd half of 2006. Especially the months September to December 2006 developed positively, with this trend continuing in 2007 as seen at the present time and according to the industry specialists' conviction. Even if the VAT increase announced previously only caused advance projects in the tile sector to a limited extent, we nevertheless expect growth to decelerate slightly in the first few months of this year. In the export sector, growth rates are expected to exceed the German and European average, albeit not in the order of magnitude of the past two or three years. Before this background, we assume for Deutsche Steinzeug in 2007 an approximately constant sales volume for the Group and the AG, expecting a moderate growth in Group turnover of approx. 3% due to the modification of the product mix and the sale of higher-value products and the consequent improvement of the average revenue.

German market

Most of the growth expectations for the German market rely – in the view of the industry's experts – on industrial building construction (approx. 3.5%), whereas further – albeit clearly lower impulses – are expected from public building activities (growth approx. 2%), whereas construction of residential buildings will settle at past year's level, last, but not least, due to the development in the new German federal states. For the renovation market – important for our upmarket range of Residential Ceramics – we do not expect a shortening of renovation cycles. Due to the tax incentives for investments in owner-occupier homes, we anticipate at least a stabilization at the present low level. The VAT increase will also have a certain negative effect – at least in the first few months. Independent of the economic development, ceramic covering materials are still subject to increased import pressure. Moreover, the capacity extensions of some competitors at their German porcelain stoneware production sites must be taken into account. In addition, the concentration of the European tile industry continues to be in progress. We see national mergers in Germany as well as takeovers of medium-sized German manufacturers by foreign companies. By opening thus direct access to the German market, this results in a continued aggravation of competitive pressure on our important domestic market. Despite the increasing competitive intensity, Deutsche Steinzeug, thanks to its strategy as provider of a full range of products, especially for

Amar series, Jasba

the upmarket sector of Ceramic Covering Materials, considers itself to be well positioned to hold its leading position on the German market with a turnover-related market share of approx. 14% and to increase turnover accordingly to a moderate extent. In this context, the fact that we have maintained our separate distribution channels for the various customer groups despite the difficult reorganization of the Company's past is crucial. Moreover, with the Hydrotect surface coating, Deutsche Steinzeug has a USP regarding the Project sector and the upmarket Residential Ceramics sector including Jasba Mosaic, which distinguishes our Company from its competitors.

Export market

Even if decelerating growth is expected world-wide, an economic growth of approx. 4% in total can still be expected. The markets especially relevant for Deutsche Steinzeug are the export markets of China and Russia, where we excel with our high-quality niche products in the Project and in the upmarket Residential Ceramics sector – plus Jasba Mosaic which is sold on selective markets. Our USP Hydrotect proves especially

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.

Porschezentrum Lennetal,
Hohenlimburg/Germany

Lavita series, Jasba

valuable in the export market. In this context, our orders on hand have developed extremely positively until the end of the first quarter of 2007. To this extent, we are confident that we will be able to continue to increase our export share in the current year 2007 as well.

A good start to the year 2007

In the first three months of 2007, Deutsche Steinzeug developed approximately in line with the scheduled turnover and profit. The average revenues remain at an unchanged high level. However, in the first few months, we must still take the very high purchase costs for energy into account, as due to the structure of the supply contracts, the high price level from 2006 is still effective and pressure will not be relieved until the 2nd quarter of 2007. At the same time, the cost increases and the collective agreement concluded over a total rise of just under 3.0% must be taken into account for the period up to mid-2008, which already commenced as of March 2007. The extraordinary expenses resulting from our presentation at the BAU fair in January of this year add to this situation.

Outlook to the results of 2007/2008

On the whole, we are confident regarding the business performance for 2007 due to the general economic situation, the good order flow and the efficiency increases taking effect in the 2nd half-year of 2007 due to the planned investment measures, which also involve an additional volume output of approx. 300,000 square metres at our porcelain stoneware works in Sinzig. However, all the optimism for the initiated investment measures cannot conceal that the prompt supply of our customers cannot be guaranteed in all areas, especially at the Schwarzenfeld site, before the backdrop of the reluctant investment policy over the past five years' reorganization phase. This is a situation where efficiency can still be enhanced in future, which can be achieved by appropriate investments. Moreover, the insourcing of products to our Ötzingen site appears to be paying off to utilize the capacity of this site even better and to achieve a favourable cost structure, so that the site has good capacity utilization despite the sales volumes in the Jasba Mosaic sector remaining static at present.

The other sites also feature good capacity utilization, even if we have continuously reduced our offer in the low-priced ranges in the scope of our consolidation of the sales efforts. This is mainly due to the fact that for many years we have covered demand for supplementary products outside of our Project Ceramics and Jasba Mosaic sectors by flexible purchases under our brand portfolio. As a consequence, we can utilize our five production sites in Germany practically at 100% capacity, even in the view of relatively conservative sales volumes.

For the current year, we expect a further increase in turnover in the Group. Moreover, we expect higher depreciations and increasing interest costs due to the fact that the reorganization interest rate will no longer be available. Positive effects for the year 2008 are expected from our investments in 2007, especially the capacity extension of our porcelain stoneware site in Sinzig, which will not take full effect, however, until 2008.

Innopoli II, Espoo/Finland

Details of 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 financial analysis.

Deutsche Steinzeug Group income statement without special effects

	2006 €'000	2005 €'000	Change €'000
Sales	238,192	230,523	+7,669
Changes in finished goods and work-in-progress	687	-2,471	+3,158
Own production capitalized	276	173	+103
Total turnover and operating result	**239,155**	**228,225**	**+10,930**
Cost of materials	110,790	101,371	+9,419
Gross trading profit	**128,365**	**126,854**	**+1,511**
Personnel expenses	68,172	67,129	+1,043
Other operating expenses / income	39,740	41,354	-1,614
EBITDA before special effects	**20,453**	**18,371**	**+2,082**
Depreciation	7,529	11,827	-4,298
EBIT before special effects	**12,924**	**6,544**	**+6,380**
Income from investments	72	75	-3
Net interest income	-7,399	-8,043	+644
EGT (net operating income/loss) before special effects	**5,597**	**-1,424**	**+7,021**
Special effects (on EBITDA/EBIT level)	38,517	-3,966	+42,483
Special effects (depreciations of financial assets)	2,061	884	+1,177
Income taxes	-164	213	-377
Deferred taxes	-6,138	1,535	
Annual net profit/loss	**35,752**	**-4,526**	**+40,278**
Annual net profit/loss before special effects	**5,433**	**-1,212**	**+10,611**
DVFA/SG adjustments	-32,188	98	-32,286
DVFA/SG result	**3,564**	**-4,428**	**+7,992**
DVFA/SG net result	**3,564**	**-4,428**	**+7,992**
DVFA/SG net result before special effects	**5,433**	**-1,180**	**+7,992**

Marino series, Agrob Buchtal Architectural Ceramics

Amar series, Jasba

Swimming pool, Piestany/Slovakia

Deutsche Steinzeug Group Cash Flow Statement

	2006 €'000	2005 €'000
Group net profit/loss	35,752	-4,526
Depreciations/write-ups on fixed assets	7,560	12,710
Change in the reserves for pensions	-5,365	-2,812
Other expenditure and revenues without effect on payment and earnings of essential importance	-30,873	2,472
Profits/losses arising from the disposal of fixed assets	-1,010	-109
Cash flow from the result (1)	**6,064**	**7,735**
Change in the inventories	-2,416	-51
Change in the other reserves	2,309	547
Change in the accounts receivable and other assets	-4,585	-431
Change in other liabilities	2,655	-363
Cash flow arising from current business operations (2)	**4,027**	**7,437**
Investments in intangible assets	-66	-388
Investments in property, plant and equipment	-8,306	-6,267
Investments in financial assets	-857	-51
Inpayments from disinvestments	1,991	254
Cash flow arising from investment activity (3)	**-7,238**	**-6,452**
Change in the share capital	10,850	0
Payment to AGROB AG for the assumption of pension obligations	-1,700	0
Change in liabilities due to banks	-1,465	-2,875
Cash flow arising from financing activity	**7,685**	**-2,875**
Changes in the companies consolidated and currency-related changes (4)	**158**	**-181**
Changes in liquid funds/securities (1-4)	**4,632**	**-2,071**
Liquid funds/securities by 1 January	2,732	4,803
Liquid funds/securities by 31 December	7,364	2,732

Result in accordance with DVFA/SG

	2006 €'000	2005 €'000
Group net profit	**35,752**	**-4,526**
Release of debt Jasba	1,700	
Reorganization profit	**-38,574**	
Results of non-consolidated subsidiaries	0	158
Disposal losses – investments	0	0
Book losses from land disposal	0	0
Expenditure in connection with "discounting operations"	0	0
Tax adaptations/deferred taxes	4,686	-60
Adapted Group result	**3,564**	**-4,428**
DVFA/SG result	**3,564**	**-4,428**
Third-party shares of result	0	0
DVFA/SG net result	3,564	-4,428
Number of dividend-bearing shares adj.	27,615,618	27,065,000
DVFA/SG net result per share (€)	**0.13**	**-0.16**

Optimal return on investment.

At the design of exclusive shopping malls and representative entrance zones, large-size architectural ceramics of Agrob Buchtal proves its superiority. Conclusive comprehensive solutions create a generous ambience and underline the Corporate Style of the business enterprise in a sympathetic way. In addition, maximum resistance to wear and a minimum of cleaning efforts increase the return on investment.

Galeria Kaufhof, Berlin/Germany

Douglas branch, Ratingen/Germany

St. Vincenz-Krankenhaus (hospital), Paderborn/Germany

Mercedes Benz Center, Stuttgart/Germany

Consolidated Balance Sheet as of 31.12.2006
Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2006 €'000	31.12.2005 €'000
Long-term fixed assets			
Intangible assets	1	15,242	15,419
Property, plant and equipment	2	75,737	75,103
Real estate held as financial investment	3	8,745	8,683
Other financial assets	4	8,345	8,291
		108,069	**107,496**
Other long-term assets	5	2,860	4,171
Deferred taxes	6	1,195	1,299
Total long-term fixed assets		**112,124**	**112,966**
Short-term assets			
Inventories	7	52,195	49,779
Accounts receivable, trade	8	19,439	19,440
Accounts due from affiliated companies	9	4	4
Other accounts receivable and assets	10	7,074	2,669
Other securities	10	0	300
Liquid funds	11	7,364	2,732
Total short-term assets		**86,076**	**74,924**
Total assets		**198,200**	**187,890**

Liabilities and shareholders’ equity	Note number	31.12.2006 €’000	31.12.2005 €’000
Shareholders’ equity			
Subscribed capital	12	27,616	27,065
Capital reserves	13	0	2,707
Earnings reserves	14	-4,330	-24,809
Group net income (prev. year’s net loss)	15	35,752	-4,526
Total equity capital		**59,038**	**437**
Long-term liabilities			
Accruals for pensions and similar obligations	17	19,666	65,635
Other long-term accruals	18	1,379	1,795
Banks loans and overdrafts	19	52,746	10,904
Accounts payable, trade	20	919	819
Other long-term liabilities	21	8,069	509
Deferred taxes	6	6,212	107
		88,991	**79,769**
Short-term liabilities			
Other short-term accruals	18	14,952	12,227
Banks loans and overdrafts	19	2,546	66,278
Accounts payable, trade	20	14,447	12,519
Other short-term liabilities	21	18,226	16,660
		50,171	**107,684**
Total liabilities		**139,162**	**187,453**
Total shareholders’ equity and liabilities		**198,200**	**187,890**

Consolidated Profit and Loss Statement as of 31.12.2006
Deutsche Steinzeug Cremer & Breuer AG

	Note number	2006 €'000	2005 €'000
Sales	22	238,192	230,523
Change in finished goods and work-in-progress		687	-2,471
Other own work capitalized		276	173
Total operating performance		**239,155**	**228,225**
Other operating income	23	51,771	10,172
Cost of materials	24	110,790	101,371
Personnel expenses	25	68,560	67,498
Depreciations	26	7,529	11,827
Other operating expenses	27	52,606	55,123
		187,714	**225,647**
Earnings before interest and taxes (EBIT)		**51,441**	**2,578**
Financial results	**28**	**-9,387**	**-8,852**
Net operating income (prev. year's loss)		**42,054**	**-6,274**
Taxes	**29**	**6,302**	**-1,748**
Net profit (prev. year's net loss)		**35,752**	**-4,526**

Group Notes 2006
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 31.12.2006 has been prepared 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). The accounting principles have been taken into account which are binding in the European Union for the fiscal year beginning on 1 January 2006. 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.

New or changed standards

Standard	Interpretation	Duty of application	Adoption by EU Commission*	Consequences
IFRS 6	Exploration and evaluation of mineral resources	01.01.2006	YES	none
IAS 21	Consequences of changes in the exchange rates – net investment in a foreign business establishment	01.01.2006	YES	none
IAS 39	Financial instruments: reporting and valuation and IFRS 4 contracts of insurance – financial guarantees	01.01.2006	YES	none
IAS 39	Financial instruments: reporting and valuation: cash flow Hedge Accounting and Fair Value Option	01.01.2006	YES	none
IFRIC 4	Determination whether an agreement includes a leasing relation	01.01.2006	YES	no fundamental ones
IFRIC 5	Rights to shares in funds for waste disposal, restoration and environmental redevelopment	01.01.2006	YES	none
IFRIC 6	Liabilities resulting from a participation in a specific market – old electrical and electronic appliances	01.01.2006	YES	none

*as of 31.12.2006

New or changed standards not applied

Standard	Interpretation	Duty of application	Adoption by EU Commission*	expected consequences
IFRS 7	Financial instruments: details	01.01.2007	YES	Details in the notes
IFRS 8	Operative segments	01.01.2009	NO	Segment reporting
IAS 1	Representation of the financial statement – details concerning the capital	01.01.2007	YES	Details in the notes
IFRIC 7	Application of the adjustment reporting under IAS 29 Accounting in highly inflationary countries	01.03.2006	YES	none
IFRIC 8	Scope of application of IFRS 2	01.05.2006	YES	none
IFRIC 9	Assessment of embedded derivates	01.06.2006	YES	none
IFRIC 10	Interim reporting and impairment of value	01.11.2006	NO	not foreseeable
IFRIC 11	Intragroup basic transactions and transactions with own shares according to IFRS 2	01.03.2007	NO	none
IFRIC 12	Service franchise agreements	01.01.2008	NO	none

*as of 31.12.2006

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.

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. 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.

Accruals and accrued liabilities

Accruals for pensions

According to IAS 19, accruals for pensions have to be formed for obligations arising from current pensions, expectancies and obligations similar to pensions as well as their safeguarding. The accruals 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. An excess actuarial profit is recorded in the other operating income. 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 accruals and accrued liabilities

According to IAS 37, other accruals 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 accruals 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 issued 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 period of depreciation, the value adjustments on inventories and accounts receivable, the parameters for the valuation of the pension accrual and the other accruals.

Consolidated companies

Apart from Deutsche Steinzeug Cremer & Breuer AG, only 8 domestic and 4 foreign subsidiary companies are included in the consolidated financial statement of Deutsche Steinzeug in contrast to the previous year. The reason for this is the fact that Hürner Lufttechnik GmbH was merged with Geluna Vermögensverwaltung GmbH and Deutsche Steinzeug Nederland B.V. was deconsolidated because of discontinuance of business activity. 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. 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, Meissen Keramik Vertriebs GmbH as well as Meissen Keramik GmbH.

The following fully consolidated affiliated German companies in the legal form of a corporation have met the conditions of § 264 (3) and § 264b of the Commercial Code (HGB) respectively and make use of the exemption regulation:

- Deutsche Steinzeug Keramik GmbH, Alfter-Witterschlick
- Meissen Keramik Vertriebs GmbH, Dortmund

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.

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**	
		2006	2005	**2006**	2005
US-Dollar	USD	**1.3170**	1.1797	**1.2556**	1.2441
Swiss Franc	SFR	**1.6069**	1.5551	**1.5729**	1.5483

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 receivable. 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 2006 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 €'000	Goodwill €'000	Advance payments €'000	Total €'000
Accumulated historical costs				
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**
Status as of 01.01.2006	**2,817**	**19,041**	**0**	**21,858**
Currency changes	0	0	0	0
Additions 2006	66	0	0	66
Disposals 2006	69	0	0	69
Transfers	0	0	0	0
Status as of 31.12.2006	**2,814**	**19,041**	**0**	**21,855**
Accumulated depreciations				
Status as of 01.01.2005	**2,063**	**0**	**0**	**2,063**
Currency changes	0	0	0	0
Additions 2006	224	4,174	0	4,398
Disposals 2006	22	0	0	22
Transfers	0	0	0	0
Status as of 31.12.2005	**2,265**	**4,174**	**0**	**6,439**
Status as of 01.01.2006	**2,265**	**4,174**	**0**	**6,439**
Currency changes	0	0	0	0
Additions 2005	241	0	0	241
Disposals 2006	67	0	0	67
Transfers	0	0	0	0
Status as of 31.12.2006	**2,439**	**4,174**	**0**	**6,613**
Remaining book values				
Status as of 31.12.2006	**375**	**14,867**	**0**	**15,242**
Status as of 31.12.2005	**552**	**14,867**	**0**	**15,419**

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. Several technically out-dated software packages with a remaining book value of € 2,000 have 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. At the check of the value (Impairment-Test) of the capitalized goodwill, no depreciation requirements have resulted in 2006.

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 recorded in the item "Real estate held as financial investment" according to IAS 40. More detailed information about these assets is provided in number 3. Of the liabilities due to banks, € 8,451,000 are secured by mortgages on land and buildings. The liability due to Pensions-sicherungsverein is secured by first land charges in the amount of € 8,142,000.

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 2006, the rental and leasing expenses amounted to € 3,176,000 (prev. year: € 3,004,000).

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

	up to 1 year	1 to 5 years	over 5 years
	€'000	€'000	€'000
Operating-Lease			
Payment obligations	**1,509**	**2,267**	**0**

The fixed assets used for operating purposes developed as follows:

	Land and buildings €'000	Technical equip., plant and machinery €'000	Other equipment, operational and office equipment €'000	Advance payments and construction in progress €'000	Total €'000
Accumulated historical costs					
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**
Status as of 01.01.2006	**97,736**	**207,062**	**22,950**	**486**	**328,234**
Currency changes	-3	0	-65	0	-68
Change in consolidated companies	0	0	-181	0	-181
Additions 2006	60	2,384	807	5,054	8,305
Disposals 2006	134	213	538	9	894
Transfers	15	322	97	-434	0
Status as of 31.12.2006	**97,674**	**209,555**	**23,070**	**5,097**	**335,396**
Accumulated depreciations					
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**
Status as of 01.01.2006	**62,787**	**170,055**	**20,289**	**0**	**253,131**
Currency changes	-2	0	-49	0	-51
Change in consolidated companies	0	0	-69	0	-69
Additions 2006	1,847	4,562	878	0	7,287
Disposals 2006	0	179	431	0	610
Transfers	-29	0	0	0	-29
Status as of 31.12.2006	**64,603**	**174,438**	**20,618**	**0**	**259,659**
Remaining book values					
Status as of 31.12.2006	**33,071**	**35,117**	**2,452**	**5,097**	**75,737**
Status as of 31.12.2005	**34,949**	**37,007**	**2,661**	**486**	**75,103**

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 7.0 million € (previous year: 6.9 million €). The current market value, however, is 9.7 million €. Due to the further development in the current fiscal year, a value of 0.9 million € was capitalized in addition for a plot of land; the sale or partial sale of three plots of land has the contrary effect with 0.8 million €. 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. In the fiscal year, a rental income of 11,000 € (previous year: 60,000 €) was realized. The revenues realizable in connection with these plots of land have to be primarily used for the most part for the amortization of the liability due to Pensionssicherungsverein.

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 0.2 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.

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 2.7 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. In the fiscal year, a rental income of 42,000 € (previous year: 11,000 €) was realized.

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

The additional revenues in the total amount of about 1.0 million € realized in the fiscal year 2006 due to the sales are entered in the profit and loss statement with effect on the result in the item "Additional revenue from the sale of fixed assets".

4 Other financial assets

The addition in the shares in affiliated companies results from the deconsolidation of Deutsche Steinzeug Nederland B.V.; because of this occurrence, the investment is reported in the financial assets of the Group again. The investment amount reported of this company as well as of a company in liquidation had to be adjusted in the amount of about € 60,000. The downward value adjustment is reported under the position "Other depreciations of financial assets". The investment in Unifront B.V. held by Deutsche Steinzeug Nederland B.V. was depreciated in the company; this, however, has no effect on the result in the Group due to the deconsolidation.

All investments are classified as held 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 historical costs					
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**
Status as of 01.01.2006	**8,268**	**57**	**10,900**	**0**	**19,225**
Currency changes	0	0	0	0	0
Change in consolidated companies	137	-23	0	0	114
Additions 2006	0	0	857	0	857
Disposals 2006	0	0	795	0	795
Transfers	0	0	0	0	0
Status as of 31.12.2006	**8,405**	**34**	**10,962**	**0**	**19,401**
Accumulated depreciations					
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**
Status as of 01.01.2006	**0**	**34**	**2,217**	**0**	**2,251**
Currency changes	0	0	0	0	0
Change in consolidated companies	0	0	0	0	0
Additions 2006	60	0	0	0	60
Disposals 2006	0	0	0	0	0
Transfers	0	0	0	0	0
Status as of 31.12.2006	**60**	**34**	**2,217**	**0**	**2,311**
Remaining book values					
Status as of 31.12.2006	**8,345**	**0**	**8,745**	**0**	**17,090**
Status as of 31.12.2005	**8,268**	**23**	**8,683**	**0**	**16,974**

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

The other long-term assets and accounts due from affiliated companies in the total amount of € 2,860,000 (previous year: € 4,171,000) are explained in numbers 9 and 10.

6 Deferred taxes

The deferred tax assets in the amount of € 1,195,000 (previous year: € 1,299,000) and the deferred tax liabilities in the amount of € 6,212,000 (previous year: € 107,000) 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	
	number	31.12.2006	31.12.2005	31.12.2006	31.12.2005
		€'000	€'000	€'000	€'000
Intangible assets	1	0	0	405	123
Fixed assets	2	0	8	9,498	9,891
Financial assets	4	0	752	0	0
Inventories	7	87	1,093	0	0
Other assets	8 / 9 / 10	2,105	1,975	31	144
Pension accruals	17	1,719	8,193	0	0
Other accruals	18	478	1,485	154	110
Liabilities	20 / 21	47	12	2,364	2,362
Losses carried forward		2,999	304	0	0
Balancing		**-6,240**	**-12,523**	**-6,240**	**-12,523**
Balance sheet item		**1,195**	**1,299**	**6,212**	**107**

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.

The probability that taxable income will be realized in following years for which the tax loss carryforwards can be used has significantly increased in the fiscal year 2006. In the amount of the entire reorganization profit as well as to a small extent also for current taxable income, the tax loss carryforwards have already been used in 2006 to a considerable extent. On the basis of the planned taxable income of the following three years, the discounted advantage resulting from the continued use of the tax loss carryforwards was capitalized for the first time as of 31.12.2006.

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

	31.12.2006 €'000	31.12.2005 €'000
Raw materials and supplies	7,938	6,741
Work in process	4,508	3,356
Finished goods and merchandise	39,749	39,682
	52,195	**49,779**

The inventories are pledged in the amount of € 48,986,000 (previous year: € 45,922,000) as security for 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 2006:

	31.12.2006 €'000	31.12.2005 €'000
Accounts receivable, trade	19,439	19,440

The accounts receivable, trade are balanced at their nominal value. For recognizable non-payment risks, value adjustments in the amount of € 1,261,000 (previous year: € 1,597,000) have been assessed as of 31.12.2006. 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 31.12.2006	Accounts due from affiliated companies as of 31.12.2005
	€'000	€'000
with a remaining term of		
up to 1 year	4	4
more than 1 year	1,570	2,923
Total	**1,574**	**2,927**

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.
Concerning the account due from Jasba Ofenkachel Vermögensverwaltung GmbH in the amount of € 3,270,000, a waiver of claims outstanding in the amount of € 1,700,000 was pronounced. This waiver was capitalized in the amount of € 300,000 as addition to the investment valuation; also see number 10 "Other accounts receivable and assets".

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 deferred charges. That is why they are allocated to the other assets.

The values developed as follows:

	Value on 31.12.2006	with a remaining term of up to 1 year	over 1 year	Value on 31.12.2005	with a remaining term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Other accounts receivable and assets	7,570	6,280	1,290	3,697	2,449	1,248
Deferred charges	794	794	0	220	220	0
	8,364	**7,074**	**1,290**	**3,917**	**2,669**	**1,248**
Securities	0	0	0	300	300	0
	8,364	**7,074**	**1,290**	**4,217**	**2,969**	**1,248**

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. The increase in the other accounts receivable in the fiscal year results from a claim for refund due from Pensionssicherungsverein in the amount of € 2,164,000 and from claims for tax refund by about € 1,387,000 higher than in the previous year. The amount of € 300,000 reported under the securities in the previous year for the company Jasba Ofenkachel Vermögensverwaltung GmbH intended for sale has been fully adjusted in value in the current year by € 2,000,000 to a pro memoria figure of € 1 after the additional capitalization of € 1,700,000 as a result of a waiver of claims outstanding. About this, also see number 28 "Financial result".

11 Liquid funds

	31.12.2006	31.12.2005
	€'000	€'000
Checks and cash on hand	74	168
Cash in bank	7,290	2,564
	7,364	**2,732**

The cash on hand and the cash in bank are balanced at nominal amount; cash equivalents are not held. The day-to-day cash in bank is essentially pledged as security for guarantees received and import documentary letters of credit.

Shareholders' equity

The equity capital of Deutsche Steinzeug Group includes:

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

In the fiscal year 2006, the equity capital structure of Deutsche Steinzeug Group was considerably improved by an extensive restructuring programme. The Extraordinary General Meeting of Deutsche Steinzeug Cremer & Breuer AG held on 11.05.2006 had resolved, after collecting 2 individual share certificates to the value of € 2.--, to carry out a capital reduction in the ratio of 1:6. The capital reduction in the amount of € 22,554,165.-- as well as the resolved retransfer of the capital reserves in the amount of € 2,706,500.-- were used for the compensation for impairments of value and for the covering of losses carried forward.

The cash capital increases in the total amount of € 10,849,785.-- as well as an increase of non-cash capital in the amount of € 12,255,000.-- carried out according to the shareholders' resolution and due to decisions of the Board of Management resulted in a new share capital in the amount of now € 27,615,618.--.

In the individual annual financial statement of Deutsche Steinzeug Cremer & Breuer AG, a statutory reserve in the amount of € 1,232,564.20 was formed according to § 150 (2) of the German Stock Corporation Law (AktG).

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

12 Subscribed capital

The subscribed capital of Deutsche Steinzeug Cremer & Breuer AG is € 27,615,618,-- (previous year: € 27,065,000,--) and is divided up into 27,615,618 (previous year: 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

According to the shareholders' resolution adopted in the Extraordinary General Meeting on 11.05.2006, the capital reserves in the amount of € 2,706,500.-- have been retransferred for the compensation for impairments of value and for the covering of losses carried forward.

14 Earnings reserves

The reserves for own shares of the Group in the amount of € -4,330,000 (previous year: € -24,809,000) 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 and the newly formed statutory reserve of Deutsche Steinzeug Cremer & Breuer AG are included in this item.

15 Group result

This position includes the Group net profit for the fiscal year 2006 after the formation of the statutory reserve.

Transitional statement of equity capital

	Subscribed capital	Capital reserves	Earnings reserves shares	Group result	Own shares	Total shareholders' equity
	€'000	€'000	€'000	€'000	€'000	€'000
Status as of 01.01.2005	**27,065**	**2,707**	**-15,584**	**-9,763**	**-137**	**4,288**
Reclassification of Group result of previous year	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**
Status as of 01.01.2006	**27,065**	**2,707**	**-24,809**	**-4,526**	**0**	**437**
Reclassification of Group result of previous year	0	0	-4,526	4,526	0	0
Capital reduction	-22,554	0	22,554	0	0	0
Capital increase	23,105	0	0	0	0	23,105
Retransfer of the capital reserves	0	-2,707	2,707	0	0	0
Allocation to the statutory reserve	0	0	0	0	0	0
Group result	0	0	0	35,752	0	35,752
Currency change	0	0	-256	0	0	-256
Change in own shares	0	0	0	0	0	0
Status as of 31.12.2006	**27,616**	**0**	**-4,330**	**35,752**	**0**	**59,038**

Long-term liabilities

17 Accruals for pensions

The accruals 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 accruals for pensions are calculated according to IAS 19 on the basis of actuarial assumptions. With regard to the life expectancy, Klaus Heubeck's 2005G Actuarial Tables were used for the fiscal years 2005 and 2006. 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. Within the scope of the restructuring measures, Deutsche Steinzeug Cremer & Breuer AG could conclude a comparative agreement with Pensionssicherungsverein, Cologne, as well as a release agreement with AGROB AG, Ismaning, concerning the assumption of pension obligations. Accordingly, Pensionssicherungsverein has assumed pension obligations in the amount of € 34,213,503.-- and AGROB AG has assumed pension obligations in the amount of € 5,617,527.--.

In return for this, the company has undertaken to make compensating payments to Pensionssicherungsverein and AGROB AG in the amount of € 8,500,000.-- and € 1,700,000.-- respectively. Furthermore, former executive employees of the company have waived pension obligations in the amount of € 772,594.--. The amount of the pension obligations assumed in the amount of € 30,403,624.-- exceeding the compensating payments was recorded with effect on the result in the "Other operating income".

For the calculations, the following parameters were used:

	31.12.2006	31.12.2005
	%	%
Assumed rate of interest	4.50	4.25
Expected yield on scheduled assets	4.50	4.00
Salary trend	2.00	2.00
Pension trend	1.75	1.75

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

	Stand 01.01.2006	Veränderung 2006	Stand 31.12.2006	Stand 01.01.2005	Veränderung 2005	Stand 31.12.2005
	€'000	€'000	€'000	€'000	€'000	€'000
Accrual for pensions	65,635	-45,969	19,666	68,447	-2,812	65,635
Current service cost			192			108
Interest expense			1,669			3,075

The pension expenses are included in the personnel expenditure - the interest expense is reported pro ratio in the financial result. The actuarial profit was recorded under the "Other operating income".

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

	31.12.2006	31.12.2005
	€'000	€'000
Pension obligation (DBO) by 01.01.	68,347	70,813
Current service cost	192	108
Interest expense	1,669	3,075
Pension payments	-2,259	-4,870
Actuarial profits (-)/losses	-4,519	-779
Transfer of pension obligations	-40,604	0
Pension obligation (DBO) by 31.12.	**22,826**	**68,347**

Scheduled assets by 01.01.	2,712	2,366
Revenue from scheduled assets	48	105
Employers' contributions	400	241
Scheduled assets by 31.12.	**3,160**	**2,712**

Pension obligation (DBO) by 31.12.	22,826	68,347
minus scheduled assets by 31.12.	3,160	2,712
Pension reserve acc. to balance sheet as of 31.12.	**19,666**	**65,635**

18 Long- and short-term other accruals

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

	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 accruals	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**

	Status 01.01.2006	Currency changes	Transfer 2006	Utilization 2006	Retransfer 2006	Reposting	Status 31.12.2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Long-term accruals	1,795	0	49	312	153	0	1,379
Taxes	767	0	633	16	0	0	1,384
Personnel	2,107	-2	2,910	1,897	77	0	3,041
Guarantees and other remunerations	4,165	0	4,245	2,989	411	0	5,010
Others	5,188	-10	4,796	4,384	73	0	5,517
	14,022	**-12**	**12,633**	**9,598**	**714**	**0**	**16,331**

The long-term accruals include obligations concerning the recultivation of areas as well as the reserve to be formed for the preservation of business records as required by law.

In the current fiscal year, the reserve for the future contributions to Pensionssicherungsverein was used for the formation of a liability (€ 293,000) due to the change of the financing method. The excess amount (€ 153,000) was retransferred.

The tax accruals 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. Due to the tax audit for the years 1999 to 2004 and for the current fiscal year, a total amount of € 633,000 was transferred to the reserve for taxes. In addition, smaller individual risks are carried as liability in this position.

The accruals 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.

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

In the other accruals, the accruals 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 31.12.2006	with a remaining term of up to 1year	over 1 year	Value by 31.12.2005	with a remaining term of up to 1year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Long-term liabilities due to banks	52,746	0	52,746	10,904	0	10,904
Short-term liabilities due to banks	2,546	2,546	0	66,278	66,278	0
	55,292	**2,546**	**52,746**	**77,182**	**66,278**	**10,904**

Of the liabilities due to banks, € 8,450,000 (previous year: € 58,772,000) are secured by mortgages and € 44,072,000 (previous year: € 16,166,000) by blanket assignment of trade receivables, by transfer of inventories as security as well as by pledging of the shares in a subsidiary company. Liabilities due to banks with a remaining term of more than 5 years do not exist.

20 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 31.12.2006	with a remain. term of up to 1 year	over 1 year	Value by 31.12.2005	with a remain. term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts payable, trade	15,366	14,447	919	13,338	12,519	819
- of which bills of exchange payable	158	58	100	85	85	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. Accounts payable, trade with a remaining term of more than 5 years do not exist.

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 deferred income in the balance sheet.

	Value by 31.12.2006	with a remain. term of up to 1 year	over 1 year	Value by 31.12.2005	with a remain. term of up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts due to affiliated companies	9,292	9,292	0	8,784	8,784	0
	9,292	**9,292**	**0**	**8,784**	**8,784**	**0**
Liabilities from taxes	624	624	0	705	705	0
Liabilities in the scope of social security	792	551	241	2,081	2,081	0
Other liabilities	15,566	7,738	7,828	5,569	5,060	509
Deferred income	21	21	0	30	30	0
	17,003	**8,934**	**8,069**	**8,385**	**7,876**	**509**
	26,295	**18,226**	**8,069**	**17,169**	**16,660**	**509**

The liabilities from taxes essentially include the liabilities resulting from wage and church tax as well as solidarity surcharge on income tax. Liabilities from taxes with a remaining term of more than 5 years do not exist.
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. In addition, the liability from the change of the financing method due to Pensionssicherungsverein mentioned under number 18 "Long- and short-term other reserves" is included here. Of the liabilities in the scope of social security, an amount of € 153,000 has a remaining term of more than 5 years.
The other liabilities include the compensating payment to Pensionssicherungsverein already mentioned under number 17 "Reserves for pensions". Furthermore, liabilities due to employees in the amount of € 535,000 (previous year: € 182,000) are included in this position. Of the other liabilities, an amount of € 484,000 has a remaining term of more than 5 years.

Explanations of the consolidated profit and loss statement

22 Sales

The sales are divided up as follows:

	2006 €'000	2005 €'000
Germany	152,718	151,963
Other countries	85,474	78,560
	238,192	**230,523**

Referred to the external sales, domestic sales in the amount of € 147,985,000 (prev. year: € 146,879,000) and international sales in the amount of € 90,207,000 (prev. year: € 83,644,000) result.

23 Other operating income

The other operating income includes the following:

	2006 €'000	2005 €'000
Income from the assumption of pension obligations	30,404	0
Income from the increase of non-cash capital	8,170	0
Income from the refund of mineral oil and electricity tax	3,643	3,386
Income from the retransfer of reserves	1,409	1,835
Income from payments of damages	74	535
Actuarial profit from the pension reserves	4,519	779
Other operating income	3,552	3,637
	51,771	**10,172**

The other operating income includes out-of-period income in the amount of € 3,512,000 (previous year: € 4,131,000).

24 Cost of materials

Cost of materials is subdivided as follows:

	2006 €'000	2005 €'000
Cost of raw materials and supplies	45,367	39,911
Cost of merchandise	34,668	36,206
Cost of purchased services	30,755	25,254
	110,790	**101,371**

Unlike in the previous year, the cost of electricity and gas supplies is reported under the cost of purchased services. The previous year's amounts have been correspondingly adjusted for comparability. That is why the cost of raw materials and supplies as well as of purchased goods in the previous year were reduced by € 18,494,000 and the cost of purchased services in the previous year was increased accordingly.

25 Personnel expenses

The personnel expenses includes the following:

	2006	2005
	€'000	**€'000**
Wages and salaries	55,615	53,851
Social security	11,866	11,706
Cost of pensions	1,079	1,941
	68,560	**67,498**

The cost of 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.

In the fiscal year 2006 and 2005 respectively, the average number of employees in the Group was:

	2006	2005
	€'000	**€'000**
Wage earners	1,158	1,138
Salaried employees	495	490
	1,653	**1,628**

26 Depreciations

The depreciations are divided up as follows:

	2006	2005
	€'000	**€'000**
Depreciations of intangible assets	242	4.398
Depreciations of property, plant and equipment	7,287	7,429
	7,529	**11,827**

27 Other operating expenses

The other operating expenses 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 € 941,000 (previous year: € 451,000). Furthermore, out-of-period expenditures in the amount of € 1,372,000 (previous year: € 252,000) are included in this item.

28 Financial result

The financial result includes the following:

	2006 €'000	2005 €'000
Income from investments	**73**	**75**
Depreciation of an investment recorded under the other assets	**-2,061**	**-883**
Other interest and similar income	250	105
Interest and similar expenses	-7,649	-8,149
Net interest income	**-7,399**	**-8,044**
Financial result	**-9,387**	**-8,852**

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

With regard to the depreciations of an investment recorded under the other assets in the amount of € 2,061,000, we refer you to the numbers 4 and 10 "Other financial assets" and "Other accounts receivable and assets". These are depreciations of investment valuations.

In the net interest income, an interest expense on pension reserves in the amount of € 1,669,000 (previous year: € 3,075,000) 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:

	2006 €'000	2005 €'000
Current taxes in Germany	126	-35
Current taxes abroad	38	-178
Current taxes	**164**	**-213**
Deferred taxes in Germany	6.187	-804
Deferred taxes abroad	-49	-731
Deferred taxes	**6,138**	**-1,535**
Income taxes	**6,302**	**-1,748**

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:

	2006 €'000	2005 €'000
Result before taxes	42,055	-5,823
Tax rate of Deutsche Steinzeug Group	38%	38%
Fictitious expenditure for income taxes	**15,981**	**-2,213**
100% setting off of the reorganization profit against the tax loss carryforward	-14,658	0
Setting off of the current profit against the tax loss carryforward	-466	0
Deviating tax rates	20	-28
Capitalization of tax loss carryforward	-2,695	0
Valuation corrections of deferred taxes	8,120	493
Total amount transferred	**-9,679**	**465**
Income tax expenditure	**6,302**	**-1,748**

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 issued during the period.

The net earnings per share developed as follows:

	2006	2005
Number of individual share certificates	27,027,470	26,833,743
Group result in €	35,752,500	-4,526,160
Net earnings per share in € (weighted)	1,32	-0,17

Cash flow statement

31 Explanations of the cash flow statement

Following IAS 7, the cash 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 2006, the cash flow arising from current business operations decreased by 3.4 million € to 4.0 million €. The main reasons for this are that, on the one hand, a stock of inventory by 2.4 million € higher than in the previous year was built up and, on the other hand, the amount of accounts receivable and other assets is by 4.6 million € higher than in the previous year. This effect is reduced by the stronger increase in liabilities and other reserves.

The outflow of funds for investments amounts to 7.2 million € (previous year: 6.5 million €) in the fiscal year. The reason for the change compared to the previous year is an investment activity by 2.5 million € higher. The payment received as a result of the sale or partial sale of three plots of land has a contrary effect.

The cash flow arising from financing activity shows a flow of funds of 7.7 million € (previous year: -2.9 million €) for the year 2006. In this, cash capital increases in the amount of 10.9 million € are included, which were used for the repayment of liabilities due to banks in the amount of 1.5 million € and for effecting the compensating payment to AGROB AG in the amount of 1.7 million €.

Apart from that, we point to the following accountable events which are not included in the cash flow statement because of non-effected payment, but have considerably influenced the financial situation of the company.

Through the increase of non-cash capital, liabilities due to banks in the amount of € 20,425,000 have been transformed into € 12,255,000 share capital; an extraordinary income in the amount of € 8,170,000 has resulted.

The liabilities due to banks in the total amount of € 55,292,000 (previous year: € 77,182,000) decreased accordingly by € 20,425,000 as well as in sum total by € 1,465,000 in addition as shown in the cash flow statement. Apart from this, the previous lenders were replaced by new lenders in 2006 who have taken over the existing loans and with whom new conditions have been agreed.

As compensation for the pension obligations assumed by PSVaG, the company pays € 8,500,000 which because of non-effected payment in 2006 are not included in the cash flow statement.

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 abroad, 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 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 respective regions. They are mainly marketing companies, one of them operating as dealer and the others on the basis of commissions. 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

	31.12.2006 €'000	31.12.2005 €'000
Rental and leasing obligations	3,776	3,606
Guarantees	1,293	1,916
Order of securities for external liabilities	307	822
Warranties	352	365
Notes discounted	791	346
Order commitment for greater investments	1,847	0
	8,366	**7,055**

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 € 169,000 (previous year: € 155,000) in 2006.

The total remuneration of the Board of Management amounted to € 1,751,513 (previous year: € 839,000) in the year under review. The total remuneration for Dieter Schäfer amounted to € 1,088,736 (previous year: € 839,000) and is divided up as follows: fixed component of € 436,875, variable component of € 637,500 and benefits in money's worth of € 14,361. The total remuneration for Eckehard Forberich amounted to € 662,777 (previous year: € 0) and is divided up as follows: fixed component of € 264,000, variable component of € 390,000 and benefits in money's worth of € 8,777. In addition, contributions according to IFRS in the amount of € 167,311 (previous year: € 427,000) were transferred to the pension reserve, which concern the reserve for Dieter Schäfer with € 78,679 and the reserve for Eckehard Forberich with € 88,632. For pension obligations in respect of former members of the Board of Management and their surviving dependants, a total of € 3,714,000 (previous year: € 11,477,000) has been allocated to pension reserves; the current remuneration for these persons was € 747,000 (previous year: 1,566,000).

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

The new syndicated loan agreement between the company and Deutsche Bank AG, London, Goldman Sachs International Bank, London, MHB-Bank AG, Frankfurt on the Main and Banca Nazionale del Lavoro International S.A., Luxembourg was signed until the preparation of the notes. Apart from this, no events worth mentioning occurred until 30.03.2007.

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

The Board of Management and the Supervisory Board suggest to allocate an amount of € 1,528,997.60 from the net profit for the year of Deutsche Steinzeug Cremer & Breuer AG in the amount of € 23,418,719.72 to the statutory reserve in order to comply with the transfer to reserves according to § 150 (2) of the German Stock Corporation Law (AktG) of 10%. The remaining amount of € 21,889,722.12 is to be carried forward.

38 Corporate Governance Kodex

For the first time in December 2002 and last in December 2006, 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. According to this statement, the requirements of the Code are met in principle. In six 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 € 382,000 are included, which are divided up into € 185,000 for the audit and Group audit of the company, € 58,000 for the audit of the consolidated companies and € 139,000 for tax consultation.

Frechen, March 30, 2007

Deutsche Steinzeug Cremer & Breuer AG
The Board of Management

D. Schäfer E. Forbeich

Dieter Schäfer Eckehard Forberich

Consolidated companies and balance sheet date

Name	Headquarters	Currency	Subscribed capital 31.12.2006	Share in the capital %
Parent company:				
Deutsche Steinzeug Cremer & Breuer AG	Frechen	€	27,615,618.00	
Included Group companies:				
Germany				
Deutsche Steinzeug Keramik GmbH	Alfter-Witterschlick	€	12,326,000.00	100.0
Meissen Keramik Vertriebs GmbH	Dortmund	€	500,000.00	100.0
Meissen Keramik Verwaltungs GmbH	Alfter-Witterschlick	€	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
Geluna Vermögensverwaltung GmbH	Frankfurt/Main	€	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 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 Kapital 31.12.2006	Share in the capital %
Affiliated companies not included				
Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	€	20,000.00	100.0
Segerkegelgesellschaft Dr. Gottfried Cremer OHG i. L.	Frechen		-	70.0
Vereinigte Steinzeugwerke GmbH i. L.	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.

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.

Development of fixed assets

	Total procurement and manufacturing costs						
I. Intangible assets	**Status 01.01.2006 €'000**	**Currency changes €'000**	**Changes in consolidated companies €'000**	**Additions 2006 €'000**	**Disposals 2006 €'000**	**Transfers 2006 €'000**	**Status 31.12.2006 €'000**
1. Trademarks and similar rights as well as licenses to such rights	2,817	0	0	66	69	0	2,814
2. Goodwill	19,041	0	0	0	0	0	19,041
	21,858	**0**	**0**	**66**	**69**	**0**	**21,855**
II. Fixed assets							
1. Land, leasehold, rights and buildings	97,736	-3	0	60	134	15	97,674
2. Technical equipment, plant and machinery	207,062	0	0	2,384	213	322	209,555
3. Other equipment, operational and office equipment	22,950	-65	-181	807	538	97	23,070
4. Advance payments and construction in progress	486	0	0	5,054	9	-434	5,097
	328,234	**-68**	**-181**	**8,305**	**894**	**0**	**335,396**
III. Other financial assets							
1. Shares in affiliated companies	8,268	0	137	0	0	0	8,405
2. Other investments	57	0	-23	0	0	0	34
3. Real estate held as financial investment	10,900	0	0	857	795	0	10,962
	19,225	**0**	**114**	**857**	**795**	**0**	**19,401**
	369,317	**-68**	**-67**	**9,228**	**1,758**	**0**	**376,652**

	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	778	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**

	Accumulated depreciations							Book values	
	Status 01.01.2006 €'000	Currency changes €'000	Changes in consolidated companies €'000	Additions 2006 €'000	Disposals 2006 €'000	Write-ups 2006 €'000	Status 31.12.2006 €'000	Status 31.12.2006 €'000	Status 31.12.2005 €'000
	2,265	0	0	241	67	0	2,439	375	552
	4,174	0	0	0	0	0	4,174	14,867	14,867
	6,439	**0**	**0**	**241**	**67**	**0**	**6,613**	**15,242**	**15,419**
	62,787	-2	0	1,847	0	29	64,603	33,071	34,949
	170,055	0	0	4,562	179	0	174,438	35,117	37,007
	20,289	-49	-69	878	431	0	20,618	2,452	2,661
	0	0	0	0	0	0	0	5,097	486
	253,131	**-51**	**-69**	**7,287**	**610**	**29**	**259,659**	**75,737**	**75,103**
	0	0	0	60	0	0	60	8,345	8,268
	34	0	0	0	0	0	34	0	23
	2,217	0	0	0	0	0	2,217	8,745	8,683
	2,251	**0**	**0**	**60**	**0**	**0**	**2,311**	**17,090**	**16,974**
	261,822	**-51**	**-69**	**7,588**	**677**	**29**	**268,583**	**108,069**	**107,496**

	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**

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

	2006 €'000	2005 €'000
Group net profit/net loss	35,752	-4,526
Depreciations/write-ups on fixed assets	7,560	12,710
Change in the accruals for pensions	-5,365	-2,812
Change in the other accruals	2,309	547
Other expenditure/revenues without effect on payments and earnings	-30,873	2,472
Profits/losses from the disposal of fixed assets	-1,010	-109
Change in the inventories	-2,416	-51
Change in the accounts receivable	-4,585	-431
Change in liabilities (without due to banks)	2,655	-363
Cash flow arising from current business operations	**4,027**	**7,437**
Inpayments from fixed asset disposals	1,991	254
Outpayments for investments in		
- intangible assets	-66	-388
- property, plant and equipment	-8,306	-6,267
- financial assets	-857	-51
Cash flow arising from investment activity	**-7,238**	**-6,452**
Cash capital increases	10,850	0
Payment to AGROB AG for the assumption of pension obligations	-1,700	0
Change in the liabilities due to banks	-1,465	-2,875
Cash inflow arising from financing activity	**7,685**	**-2,875**
Changes in the companies consolidated and currency-related changes	**158**	**-181**
Changes in liquid funds and securities	**4,632**	**-2,071**
Liquid funds/securities on 01.01.	**2,732**	**4,803**
Liquid funds/securities on 31.12.	**7,364**	**2,732**

Segment Reporting
to number 32 in the Group notes

Primary Segments - Regions

	Germany		Rest of EMU		Rest of world		Deutsche Steinzeug Group	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
External sales	147,985	146,879	39,489	37,462	50,718	46,182	238,192	230,523
Comprehensive internal sales between the segments	4,733	5,084	0	0	-4,733	-5,084	0	0
Total sales	**152,718**	**151,963**	**39,489**	**37,462**	**45,985**	**41,098**	**238,192**	**230,523**
EBITDA	51,020	11,436	3,567	550	4,383	2,419	58,970	14,405
Depreciations	7,412	9,948	19	28	98	1,851	7,529	11,827
- of which non-scheduled	0	2,514	0	0	0	1,760	0	4,274
EBIT	**43,608**	**1,488**	**3,548**	**522**	**4,285**	**568**	**51,441**	**2,578**
Financial result	**-9,368**	**-8,844**	**-1**	**-1**	**-18**	**-7**	**-9,387**	**-8,852**
Investments	**9,022**	**6,628**	**6**	**19**	**200**	**60**	**9,228**	**6,707**
Operative assets	191,996	181,513	430	678	5,774	5,699	198,200	187,890
Operative debt	137,760	186,069	617	755	785	629	139,162	187,453
Operative net assets	**54,236**	**-4,556**	**-187**	**-77**	**4,989**	**5,070**	**59,038**	**437**
Employees (annual average)	**1,612**	**1,590**	**12**	**14**	**29**	**34**	**1,653**	**1,638**

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 31.12.2006. 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, 12 April 2007

Dr. Glade, König und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Dr. Hans-Joachim Glade)
Wirtschaftsprüfer

Balance Sheet as of 31.12.2006
Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2006 €'000	31.12.2005 €'000
Fixed assets			
Intangible assets		10,392	11,953
Property, plant and equipment		52,521	51,440
Financial assets		33,548	31,575
	3	**96,461**	**94,968**
Current assets			
Inventories	**4**	48,986	45,922
Accounts receivable and other assets	**5**	18,145	18,856
Shares in associated companies	**6**	2,292	2,592
Liquid assets		6,707	1,032
		76,130	**68,402**
Deferred charges and prepaid expenses	**7**	**293**	**380**
		172,884	**163,750**

Liabilities and shareholders' equity	Note number	31.12.2006 €'000	31.12.2005 €'000
Shareholders' equity			
Subscribed capital		27,616	27,065
Capital reserve		0	2,706
Earnings reserves		1,233	0
Balance sheet profit (loss)		23,418	-25,278
	8	**52,267**	**4,493**
Accruals and accrued liabilities	**11**	**23,351**	**50,818**
Liabilities	**12**	**97,266**	**108,438**
Deferred income		**0**	**1**
		172,884	**163,750**

Profit and Loss Statement for 2006
Deutsche Steinzeug Cremer & Breuer AG

	Note number	2006 €'000	2005 €'000
Sales	**15**	190,453	180,628
Change in finished goods and work-in-progress		443	-3,359
Other own work capitalized		276	172
Other operating income	**16**	11,304	12,414
		202,476	**189,855**
Cost of materials	**17**	109,358	99,798
Personnel expenses	**18**	55,077	53,843
Depreciation on intangible assets, plant and equipment	**19**	7,747	9,959
Other operating expenses	**20**	22,180	21,114
		194,362	**184,714**
		8,114	**5,141**
Financial results	**21**	**-5,423**	**-9,737**
Net operating income (prev. year's loss)		**2,691**	**-4,596**
Extraordinary result	**22**	**22,744**	**-10,146**
Taxes	**23**	766	302
Net profit (loss)		**24,669**	**-15,044**
Retained earnings brought forward from the previous year		-25,278	-10,371
Allocation to statutory reserve		-1,233	0
Yield from the capital reduction		22,554	0
Withdrawal from the capital reserves		2,706	0
Withdrawal from the reserve for own shares		0	137
Balance sheet profit (loss)		**23,418**	**-25,278**

Notes 2006
Deutsche Steinzeug Cremer & Breuer AG

1 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. In the year under review, the balance sheet and the profit and loss statement are essentially influenced by the capital and financial restructuring measures implemented.

2 Accounting and valuation principles

Intangible assets and property, plant and equipment always 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 are fully depreciated in the year of acquisition and recorded in the analysis of fixed assets as disposal. The financial assets are assessed at cost of acquisition minus depreciations at the lower attributable value. 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. In the year under review, no non-scheduled depreciations of intangible assets and property, plant and equipment were made.

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 merchandise 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 delt with as long-term assets. 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 accruals 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 accruals 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 relating to balance sheet

3 Fixed assets

The itemization of the asset positions and their development in the year 2006 are presented as appendix 1 to these notes (Analysis of fixed assets).

4 Inventories

This item includes:

	31.12.2006	31.12.2005
	€'000	€'000
Raw materials and supplies	7,870	6,666
Work in progress	4,508	3,356
Finished goods and merchandise	36,608	35,900
	48,986	**45,922**

5 Accounts receivable and other assets

	31.12.2006	31.12.2005
	€'000	€'000
Accounts receivable, trade	680	396
- of which with a remaining term of more than one year	0	0
Accounts due from affiliated companies	6,869	11,972
- of which with a remaining term of more than one year	1,570	2,923
Other assets	10,596	6,488
- of which accounts receivable with a remaining term of more than one year	3,901	3,414
Total	**18,145**	**18,856**
- of which with a remaining term of more than one year	5,471	6,337

Other assets include reinsurances of € 3,763,000 (previous year: € 3,270,000). Of the accounts due from affiliated companies, € 2,070,000 (previous year: € 2,943,000) are allotted to those from accounts receivable, trade; € 4,799,000 (previous year: € 9,029,000) are allotted to other assets.

6 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 the investments Geluna Vermögensverwaltung GmbH and Jasba Ofenkachel Vermögensverwaltung GmbH to the pro memoria figure were made, cf. number 22.

7 Deferred charges and prepaid expenses

Discounts in accordance with § 250 (3) of the Commercial Code (HGB) amount to € 0 (previous year: € 306,000) on the reporting date.

8 Shareholders' equity/balance sheet profit

	31.12.2006 €'000	31.12.2005 €'000
Subscribed capital	27,616	27,065
Capital reserves	0	2,706
Earnings reserves - statutory reserve -	1,233	0
Balance sheet profit (loss)	23,418	-25,278
Equity capital	**52,267**	**4,493**

Development of the equity capital in the fiscal year

	Subscribed capital €'000	Capital reserves €'000	Earned surplus €'000	Balance sheet profit €'000	Equity capital €'000
Status 01.01.2006	27,065	2,706	0	-25,278	4,493
Withdrawal from capital reserves	0	-2,706	0	2,706	0
Capital reduction	-22,554	0	0	22,554	0
Cash capital increases	10,850	0	0	0	10,850
Increase in non-cash capital	12,255	0	0	0	12,255
Allocation to statutory reserve	0	0	1,233	-1,233	0
Net profit	0	0	0	24,669	24,669
	27,616	**0**	**1,233**	**23,418**	**52,267**

Balance sheet profit

	2006	2005
	€'000	€'000
Net profit (loss)	24,669	-15,044
Retained earnings brought forward from the previous year	-25,278	-10,371
Allocation to statutory reserve	-1,233	0
Yield from the capital reduction	22,554	0
Withdrawal from capital reserves	2,706	0
Withdrawal from the reserve for own shares	0	137
Balance sheet profit (loss)	**23,418**	**-25,278**

According to the resolution adopted at the Extraordinary General Meeting on 11 May 2006, the capital reduction was effected in the amount of € 11,604,480.-- in order to compensate for impairments of value and in the amount of € 10,949,685.-- for covering other losses.

9 Subscribed capital

The subscribed capital of Deutsche Steinzeug Cremer & Breuer AG amounts to € 27,615,618.-- and is divided up into € 27,615,618 individual share certificates with an accounting par value of € 1.--. The shares are in the name of the owners.

10 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 share capital 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. In the fiscal year, € 1,828,119.-- of the approved capital were used for cash capital increases according to the decisions of the Board of Management from 09.08. and 23.08.2006, so that the approved capital amounts to € 25,236,881.-- on the balance sheet date 31.12.2006 (31.12.2005: € 27,065,000.--).

11 Accruals and accrued liabilities

Accruals 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 accruals essentially include amounts for restructuring costs, expenditures on personnel, warranties and recultivation obligations as well as for outstanding invoices.

Composition

	31.12.2006 €'000	31.12.2005 €'000
Pension accruals	10,641	39,612
Tax accruals	1,157	732
Other accruals and accrued liabilities	11,553	10,474
	23,351	**50,818**

Structure of other accruals and accrued liabilities

	31.12.2006 €'000	31.12.2005 €'000
Accruals for personnel	2,368	2,123
Outstanding invoices	1,870	596
Warranties	2,839	1,900
Recultivation obligations	1,449	1,431
Restructuring expenditures	863	2,900
Other obligations	2,164	1,524
	11,553	**10,474**

12 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		2,377	50,146	0	52,523
	prev. year	63,727	11,211	0	74,938
Accounts payable, trade		12,219	268	0	12,487
	prev. year	9,462	819	0	10,281
Accounts due to affiliated companies		15,187	6,000	0	21,187
	prev. year	14,211	6,000	0	20,211
Other liabilities		3,015	7,426	628	11,069
	prev. year	2,499	158	351	3,008
		32,798	**63,840**	**628**	**97,266**
	prev. year	89,899	18,188	351	108,438

On the balance sheet date, of the liabilities due to banks, € 8,451,000 (prev. year: € 58,772,000) are secured by mortgages and € 44,072,000 (prev. year: € 16,166,000) by blanket assignment of trade receivables and pledging of inventories as well as of the shares in a subsidiary company. Of the other liabilities, € 6,000,000 (prev. year: € 0) are secured by mortgages. Like in the previous year, the accounts due to affiliated companies have the character of other liabilities.

13 Other liabilities

The other liabilities include:

	31.12.2006 €'000	31.12.2005 €'000
Liabilities from taxes	284	428
Liabilities from social security	654	1,716
	938	**2,144**

14 Contingent liabilities and commitments

	31.12.2006 €'000	31.12.2005 €'000
Contingent liabilities		
Liabilities from guarantees and similar commitments	3,893	1,916
Liability arising from the order of securities for external liabilities	3,321	822
Liability from indemnity agreements	352	365
"Piercing the corporate veil" for relief fund obligations	660	5,489
	8,226	**8,592**
Commitments		
Leasing and rental obligations	2,163	1,200
Order commitment for greater investments	1,847	0
	4,010	1,200
	12,236	**9,792**

Explanations of the profit and loss statement

15 Sales

	2006	2005
	€'000	€'000
Germany	183,823*	176,380*
Other countries	6,630	4,248
	190,453	**180,628**

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

16 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. The out-of-period income included in this item is € 2,899,000 (prev. year: € 3,296,000).

17 Cost of materials

	2006	2005
	€'000	€'000
Cost of raw materials, supplies and merchandise and for purchased goods	78,628	74,563
Cost of purchased services	30,730	25,235
	109,358	**99,798**

Unlike in the previous year, the cost of electricity and gas supplies is reported under the cost of purchased services. The previous year's amounts have been correspondingly adjusted for comparability. That is why the cost of raw materials, supplies and merchandise as well as for purchased goods in the previous year were reduced by € 18,494,000 and the cost of purchased services in the previous year was increased accordingly.

18 Personnel expenses/employees

	2006	2005
	€'000	€'000
Wages and salaries	44,415	42,802
Social security	9,772	9,631
Cost of pensions	890	1,410
	55,077	**53,843**

Annual average number of employees:	**2006**	**2005**
Wage earners	1,140	1,119
Salaried employees	266	263
	1,406	**1,382**

19 Depreciations

Of the depreciations, € 1,438,000 (prev. year: € 1,546,000) are accounted for by goodwill which is written off over 15 years pursuant to § 7 section 1 clause 3 of the Income Tax Law (EstG).

20 Other operating expenses

The position of other operating expenses 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 € 1,362,000 (prev. year: € 142,000).

21 Details of financial results

	2006	2005
	€'000	**€'000**
Income from investments	0	1,114
- of which from affiliated companies	0	1,114
Income from profit transfer agreements	2,021	512
Depreciations from financial assets	554	4,205
Expenses from loss absorption	1	0
Result from investments	**1,466**	**-2,579**
Income from loans of the financial assets	**0**	**0**
Other interest and similar income	180	212
- of which from affiliated companies	6	188
Interest and similar expenditures	7,069	7,370
- of which to affiliated companies	783	474
Net interest income	**-6,889**	**-7,158**
- of which from affiliated companies	-777	-286
Financial result	**-5,423**	**-9,737**

The interest burden of the existing pension obligations is included with € 1,008,000 (prev. year: € 2,463,000).

22 Extraordinary result

The extraordinary result includes:

	2006 €'000	2005 €'000
Extraordinary income		
Income from increase of non-cash capital	8,170	0
Disposal of pension obligations	17,335	0
Waivers of entitlements to pension	738	0
	26,243	**0**

	2006 €'000	2005 €'000
Extraordinary expenditure		
Decreases in value of shares in affiliated companies in the current assets/foregone receivables	2,820	7,246
Transfer to restructuring reserve	679	2,900
	3,499	**10,146**
Extraordinary result	**22,744**	**10,146**

23 Taxes

	2006 €'000	2005 €'000
Income taxes	183	0
Other taxes	583	302
	766	**302**

In the year under review, out-of-period tax expenditures accrued at the income taxes in the amount of € 38,000 (prev. year: € 0), at the other taxes, basically due to a tax audit, in the amount of € 296,000 (prev. year: € 0). The income tax expenditures of the company have been allotted to the result from ordinary operations.

24 Other information

24.1 Remuneration of members of company organs

The total remuneration for the members of the Supervisory Board in 2006 was € 169,000 (prev. year: € 155,000). A total of € 2,626,000 (prev. year: € 11,477,000) 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 € 747,000 (prev. year: € 1,566,000).

The total remuneration of the Board of Management amounted to € 1,752,000 (previous year: € 839,000) in the year under review. The total remuneration for Mr. Dieter Schäfer amounted to € 1,089,000 (previous year: € 839,000) and is divided up as follows: fixed component of € 437,000, variable component of € 638,000 and benefits in money's worth of € 14,000. The total remuneration for Mr. Eckehard Forberich amounted to € 663,000 (previous year: € 0) and is divided up as follows: fixed component of € 264,000, variable component of € 390,000 and benefits in money's worth of € 9,000. In addition, contributions pursuant to § 6 a of the Income Tax Law (EStG) in the amount of € 220,000 (previous year: € 216,000) were transferred to the pension reserve, which concern the reserve for Mr. Dieter Schäfer in the amount of € 178,000 and the reserve for Mr. Eckehard Forberich in the amount of € 42,000.

24.2 Information on ownership of shares

The information required in § 285 no. 11 and § 313 section 2 of the Commercial Code (HGB) has been compiled separately in accordance with § 287 and § 313 section 4 of the Commercial Code (HGB).

24.3 Appropriation of the retained earnings

The Board of Management and the Supervisory Board suggest to allocate an amount of € 1,528,997.60 from the balance sheet profit in the amount of € 23,418,719.72 to the statutory reserve in order to comply with the transfer to reserves according to § 150 section 2 of the Stock Corporation Law (AktG). The remaining amount of € 21,889,722.12 is to be carried forward.

24.4 Statement concerning the Corporate Governance Code

For the first time in December 2002 and last in December 2006, 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. According to this statement, the requirements of the Code are met in principle. In six 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.

24.5 Auditor's fees

In the expense of the fiscal year, auditor's fees in the amount of € 294,000 (prev. year: € 340,000) are included, which are divided up into € 185,000 (prev. year: € 267,000) for the audit and Group audit, € 109,000 (prev. year: € 54,000) for tax consultation and € 0 (prev. year: € 19,000) for other services.

24.6 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.

24.7 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, Meissen Keramik GmbH, Meißen and Meissen Keramik Vertriebs GmbH, Dortmund.

24.8 Information about notifications pursuant to § 160 sect. 1 no. 8 AktG (German Stock Corporation Law)

In the fiscal year, we received the following notifications on the existence of a participation pursuant to § 21 sect. 1 WpHG (German Securities Trading Law), which were all published in accordance with § 25 sect. 1 WpHG:

Publication on 13 May 2006

1. On 3 May 2006, Gruppo Concorde S.p.A., Spezzano di Fiorano (Modena), Italy, informed us pursuant to § 21 sect. 1 WpHG that its voting share in our company exceeded the threshold of 25% on 7 April 2006 and now is 64.93%. Of that, 64.93% of the voting rights are attributable to Gruppo Concorde S.p.A. pursuant to § 22 sect. 2 WpHG, of this 14.84% also pursuant to § 22 sect. 1 clause 1 no. 1 WpHG. Furthermore, Gruppo Concorde S.p.A. informed us on 3 May 2006 in accordance with § 21 sect. 1 WpHG in conjunction with § 24 WpHG that the voting share of its subsidiary company Ceramiche Atlas Concorde S.p.A., Spezzano di Fiorano (Modena), Italy, in our company exceeded the threshold of 25% on 7 April 2006 and now is 64.93%. Of that, 50.09% of the voting rights are attributable to Ceramiche Atlas Concorde S.p.A. pursuant to § 22 sect. 2 WpHG.

2. On 10 May 2006, the manager of the Syndicate V of the family shareholders of Deutsche Steinzeug Cremer & Breuer AG, Mr. Franz-Egon Wirtz, informed us in the name and on behalf of the syndicate members listed in the following pursuant to § 21 sect. 1 WpHG that the voting share of the syndicate members listed in the following in our company fell below the threshold of 50% on 1 December 2005 and exceeded the 50% threshold again on 23 December 2005. At that times, the voting share of the individual syndicate members was as follows:

Name of the syndicate member	Country in which the place of residence or business is situated	Voting share as of 01.12.2005	of that attributable pursuant to § 22 sect. 2 WpHG	Voting share as of 23.12.2005	of that attributable pursuant to § 22 sect. 2 WpHG
Albrecht, Beate	France	49.50 %	49.30 %	50.09 %	49.89 %
Bochem, Jakob	Germany	49.50 %	49.49 %	50.09 %	50.08 %
Bochem, Kathi	Germany	49.50 %	49.40 %	50.09 %	49.99 %
Breuer, Hartmut	Germany	49.50 %	48.76 %	50.09 %	49.35 %
Clemens, Susanne	Germany	49.50 %	49.28 %	50.09 %	49.87 %
Cremer, Mathias	Germany	49.50 %	49.43 %	50.09 %	50.02 %
Cremer, Monika	Germany	49.50 %	43.31 %	50.09 %	43.90 %
Dannenmann, Anneliese	Germany	49.50 %	49.37 %	50.09 %	49.96 %
Daxner, Heide	Germany	49.50 %	49.30 %	50.09 %	49.89 %
Dürr, Manfried	Germany	49.50 %	49.01 %	50.09 %	49.60 %
Eckstein, Brigitte	Germany	49.50 %	49.30 %	50.09 %	49.89 %
Eggstein, Agnes	Germany	49.50 %	49.36 %	50.09 %	49.95 %
Eggstein, Brigitte	Germany	49.50 %	49.48 %	50.09 %	50.07 %
Erzbischöflicher Stuhl zu Köln	Cologne, Germany	49.50 %	42.11 %	50.09 %	42.70 %
Esters, Magali	Germany	49.50 %	48.99 %	50.09 %	49.58 %
Esters, Thomas	Germany	49.50 %	48.99 %	50.09 %	49.58 %
Esters, Till	France	49.50 %	48.99 %	50.09 %	49.58 %
Fischer, Annemarie	Germany	49.50 %	49.33 %	50.09 %	49.92 %
Fischer-Ovelhey, Christine	Germany	49.50 %	49.37 %	50.09 %	49.96 %
Fischer, Elisabeth	Germany	49.50 %	49.43 %	50.09 %	50.02 %
Foerster, Klaus-Henning	Germany	49.50 %	49.30 %	50.09 %	49.89 %
Foerster, Talitha	Germany	49.50 %	49.30 %	50.09 %	49.89 %
Gutermuth, Waltraud	Germany	49.50 %	49.46 %	50.09 %	50.05 %
Heermann, Christiane	Germany	49.50 %	48.77 %	50.09 %	49.36 %
Hirtsiefer, Constantin	Germany	49.50 %	49.20 %	50.09 %	49.80 %
Hirtsiefer, Isabel	Germany	49.50 %	49.28 %	50.09 %	49.87 %
Hirtsiefer, Mathias	Germany	49.50 %	49.20 %	50.09 %	49.80 %
Jacob, Maria	Germany	49.50 %	49.13 %	50.09 %	49.72 %
Kalteyer, Katja	Germany	49.50 %	49.43 %	50.09 %	50.02 %
Kammerscheid, Dr. Günther	Germany	49.50 %	49.50 %	50.09 %	50.09 %
Kammerscheid, Peter	Germany	49.50 %	49.49 %	50.09 %	50.08 %
Kitzig, Elke	Germany	49.50 %	49.30 %	50.09 %	49.89 %

Name of the syndicate member	Country in which the place of residence or business is situated	Voting share as of 01.12.2005	of that attributable pursuant to § 22 sect. 2 WpHG	Voting share as of 23.12.2005	of that attributable pursuant to § 22 sect. 2 WpHG
Knell, Carola	Germany	49.50 %	49.20 %	50.09 %	49.79 %
Linhoff, Elisabeth	Germany	49.50 %	49.46 %	50.09 %	50.05 %
Loevenich, Maria	Germany	49.50 %	49.47 %	50.09 %	50.06 %
Meul, Heinrich	Spain	49.50 %	49.48 %	50.09 %	50.07 %
Müller, Doris	Germany	49.50 %	49.49 %	50.09 %	50.08 %
Mundhenk, Katharina	Germany	49.50 %	47.97 %	50.09 %	48.56 %
Päffgen, Jakob	Germany	49.50 %	49.35 %	50.09 %	49.94 %
Panzer, Ferdinand	Germany	49.50 %	49.50 %	50.09 %	50.09 %
Panzer, Matthias	Germany	49.50 %	49.50 %	50.09 %	50.09 %
Pesch, Josef	Germany	49.50 %	49.49 %	50.09 %	50.08 %
Pesch, Elisabeth	Germany	49.50 %	49.48 %	50.09 %	50.07 %
Pinkner, Käthe	Germany	49.50 %	49.50 %	50.09 %	50.09 %
Ravenstein, Anita	Austria	49.50 %	49.35 %	50.09 %	49.94 %
Rütten, Beatrix	Germany	49.50 %	48.48 %	50.09 %	49.07 %
Rütten, Manfred	Germany	49.50 %	49.50 %	50.09 %	50.09 %
Rütten, Götz	Germany	49.50 %	49.13 %	50.09 %	49.72 %
Rütten, Utz	Germany	49.50 %	49.13 %	50.09 %	49.72 %
Sander, Gisela	Germany	49.50 %	48.21 %	50.09 %	48.80 %
Schliefer, Frank	Germany	49.50 %	48.39 %	50.09 %	48.98 %
Schliefer, Heinrich	Germany	49.50 %	48.73 %	50.09 %	49.32 %
Schliefer, Thomas	Germany	49.50 %	48.39 %	50.09 %	48.98 %
Schuh, Dagmar	Germany	49.50 %	49.11 %	50.09 %	49.71 %
Sievernich-Emonds, Trude	Germany	49.50 %	49.42 %	50.09 %	50.01 %
Startz de Rodriguez, Marilies	Germany	49.50 %	49.46 %	50.09 %	50.05 %
Stolpp, Katrin	Germany	49.50 %	49.45 %	50.09 %	50.04 %
Stolpp, Sebastian	Germany	49.50 %	49.45 %	50.09 %	50.04 %
Stolpp, Ulrike	Germany	49.50 %	49.33 %	50.09 %	49.92 %
Stolz, Ursula	Germany	49.50 %	48.92 %	50.09 %	49.51 %
Strack, Holger	Germany	49.50 %	49.30 %	50.09 %	49.90 %
Thamm, Dagmar	Germany	49.50 %	49.42 %	50.09 %	50.01 %
Thomer, Else	Germany	49.50 %	49.36 %	50.09 %	49.95 %
Waldecker, Katrin	Germany	49.50 %	48.83 %	50.09 %	49.42 %
Weil, Fred	Germany	49.50 %	49.43 %	50.09 %	50.02 %
Winker, Ulrich	Germany	49.50 %	49.32 %	50.09 %	49.91 %
Wirtz, Franz-Egon	Germany	49.50 %	49.34 %	50.09 %	49.93 %
Wirtz, Gertrud	Germany	49.50 %	40.30 %	50.09 %	40.89 %
Wirtz-Brauns, Bettina	Germany	49.50 %	49.26 %	50.09 %	49.85 %
Wolf, Else	Germany	49.50 %	43.64 %	50.09 %	44.23 %
Wolf, Heinrich	Germany	49.50 %	46.52 %	50.09 %	47.11 %

Frechen, May 2006

Publication on 19 May 2006

1. On 11 May 2006, Deutsche Bank AG, Frankfurt on the Main, informed us pursuant to § 21 sect. 1 WpHG that its voting share in our company exceeded the threshold of 5% on 10 May 2006 and now is 64.93%. Of that, 64.93% of the voting rights are attributable to Deutsche Bank AG pursuant to § 22 sect. 2 WpHG.

2. On 12 May 2006, The Goldman Sachs Group, Inc. (New York/USA) informed us pursuant to §§ 21 sect. 1, 24 WpHG that each of the voting shares of The Goldman Sachs Group, Inc. (New York/USA), MLQ, L.L.C. (New York/USA), MTGLQ Investors, L.P. (New York/USA) and ELQ Investors, Ltd. (London/England) in our company exceeded the threshold of 5% on 10 May 2006 and now is 64.93% for each. Of that, 64.93% of the voting rights are attributable to each of The Goldman Sachs Group, Inc., MLQ, L.L.C., MTGLQ Investors, L.P. and ELQ Investors, Ltd. pursuant to § 22 sect. 2 WpHG.

3. On 17 May 2006, Mr. John P. Grayken (Scotland) as well as Lone Star Management Co. V Ltd. (Bermuda) (Hamilton/Bermuda), Lone Star Partners V L.P. (Bermuda) (Hamilton/Bermuda), Lone Star Fund V (U.S.) L.P. (Dallas, Texas/USA), LSF Global Partners, Ltd. (Bermuda) (Hamilton/Bermuda), LSF Global Lendings, L.P. (Bermuda) (Hamilton/Bermuda), LSF Global Aggregated Irish Holdings, Ltd. (Bermuda) (Hamilton/Bermuda), Lone Star International Finance Holdings (Ireland) Ltd. (Dublin/Ireland) and Lone Star International Finance Ltd. (Dublin/Ireland) informed us pursuant to § 21 sect. 1 WpHG that each of their voting shares in our company exceeded the threshold of 5% on 10 May 2006 and now is 64.93% for each. Of that, 64.93% of the voting rights are attributable to Mr. John P. Grayken and to each of the companies mentioned above pursuant to § 22 sect. 2 WpHG.

Frechen, May 2006

Publication on 15 September 2006

BNL International Investments S.A., Luxembourg, informed us pursuant to § 21 sect. 1 WpHG that its voting share in Deutsche Steinzeug Cremer & Breuer AG exceeded the threshold of 5% on 25 August 2006 and now is 7.17%. Of that, 5.59% of the voting rights are attributable to BNL International Investments S.A. pursuant to § 22 WpHG. Furthermore, BNL International Investments S.A. informed us pursuant to § 21 sect. 1 WpHG in conjunction with § 24 WpHG that the voting share of its subsidiary company Banca Nazionale del Lavoro International S.A., Luxembourg, in Deutsche Steinzeug Cremer & Breuer AG exceeded the threshold of 5% on 25 August 2006 and now is 5.59%.

Frechen, September 2006

Publication on 4 October 2006

BNP Paribas S.A., Paris, France, informed us pursuant to § 21 sect. 1 WpHG that its voting share in Deutsche Steinzeug Cremer & Breuer AG exceeded the threshold of 5% on 25 August 2006 and now is 7.17%. Of that, 7.17% of the voting rights are attributable to BNP Paribas S.A. pursuant to § 22 sect. 1 clause 1 no. 1 WpHG. Furthermore, BNP Paribas S.A. informed us pursuant to § 21 sect. 1 WpHG in conjunction with § 24 WpHG that the voting share of its subsidiary company Banca Nazionale del Lavoro S.p.A., Rome, Italy, in Deutsche Steinzeug Cremer & Breuer AG exceeded the threshold of 5% on 25 August 2006 and now is 7.17%. Of that, 7.17% of the voting rights are attributable to Banca Nazionale del Lavoro S.p.A. pursuant to § 22 sect. 1 clause 1 no. 1 WpHG.

Frechen, October 2006

Frechen, 30 March 2007

The Board of Management

Dieter Schäfer   Eckehard Forberich

Development of fixed assets

	Total procurement and manufacturing costs				
	Status 01.01.2006	Additions 2006	Disposals 2006	Transfers 2006	Status 31.12.2006
I. Intangible assets	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
1. Trademarks and similar rights as well as licenses to such rights	2,686	66	69	0	2,683
2. Goodwill	23,469	0	0	0	23,469
	26,155	**66**	**69**	**0**	**26,152**
II. Fixed assets					
1. Land, leasehold, rights and buildings	97,313	23	826	15	96,525
2. Technical equipment, plant and machinery	195,389	2,384	213	321	197,881
3. Other equipment, operational and office equipment	18,533	609	433	97	18,806
4. Advance payments and construction in progress	486	5,054	9	-433	5,098
	311,721	**8,070**	**1,481**	**0**	**318,310**
III. Financial assets					
Shares in affiliated companies	35,790	2,528	0	0	38,318
	373,666	**10,664**	**1,550**	**0**	**382,780**

	Accumulated depreciations					Book values	
	Status 01.01.2006	Additions 2006	Disposals 2006	Write-ups 2006	Status 31.12.2006	Status 31.12.2006	Status 31.12.2005
I. Intangible assets	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
1. Trademarks and similar rights as well as licenses to such rights	2,233	188	68	0	2,353	330	453
2. Goodwill	11,969	1,438	0	0	13,407	10,062	11,500
	14,202	**1,626**	**68**	**0**	**15,760**	**10,392**	**11,953**
II. Fixed assets							
1. Land, leasehold, rights and buildings	63,320	1,560	0	29	64,851	31,674	33,993
2. Technical equipment, plant and machinery	180,185	3,913	213	0	183,885	13,996	15,204
3. Other equipment, operational and office equipment	16,776	648	370	0	17,054	1,752	1,757
4. Advance payments and construction in progress	0	0	0	0	0	5,098	486
	260,281	**6,121**	**583**	**29**	**265,790**	**52,520**	**51,440**
III. Financial assets							
Shares in affiliated companies	4,215	554	0	0	4,769	33,549	31,575
	278,698	**8,301**	**651**	**29**	**286,319**	**96,461**	**94,968**

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
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	Basler AG, Ahrensburg Hako-Werke GmbH, Bad Oldesloe (Chairman) Lloyd Fonds AG, Hamburg (Chairman)	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 consultan	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 Manager of Marktkauf Holding GmbH, Bielefeld, and Chairman of Managing Board of SPAR Handels GmbH, Schenefeld	Rudolf Bunte GmbH, Papenburg (Deputy Chairman)	Advisory Council of conAmax Management GmbH, Düsseldorf Advisory Council of Kienbaum und Partner GmbH, Gummersbach Advisory Council of Gerhard Prahm GmbH & Co. KG, Brinkum Administrative Board of Schreck-Mieves GmbH, Braunschweig (Chairman)
Heinrich Schliefer Seevetal - up to 11.05.2006 -	Graduate engineer Counsellor	VK der Norddeutschen Affinerie AG, Hamburg	PEK der Norddeutschen Affinerie AG, Hamburg
Dr. Alexander Winkels Erkrath - as of 12.05.2006 -	Management consultant	AUTANIA Aktiengesellschaft für Industriebeteiligungen, Kelkheim Schmitz Cargobull AG, Altenberge (2nd Deputy Chairman)	–

Name Place of residence	Job title Main professional activity	Membership of other Supervisory Boards	Membership of controlling body
Supervisory Board			
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 Betonsteinhand- werks VVaG, Munich	–
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* München	Caretaker Deputy Chairman of the Employees' Council of the Witterschlick plant of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick Deputy Chairman of the Central Employees' Council 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	Member of the Board of Management Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	–	–

Summary of investments of Deutsche Steinzeug Cremer & Breuer AG

	Company	Headquarters	Stake in %	National currency	Equity (in '000's national currency)	Net result 2006 (in '000's national currency)
1	Deutsche Steinzeug Keramik GmbH	Alfter-Witterschlick	100.0	€	13,057	-
2	Meissen Keramik Verwaltungs-GmbH	Alfter-Witterschlick	100.0	€	25	-2
3	Meissen Keramik Vertriebs GmbH	Dortmund	100.0	€	1,540	0
4	Deutsche Steinzeug France s.a.r.l.	Norroy le Veneur/France	90.0	€	51	-5
5	Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	100.0	€	120	-23
6	Deutsche Steinzeug Schweiz AG	Hergiswil/Switzerland	100.0	CHF	456	87
7	Deutsche Steinzeug Italia S.r.l.	Veggia/Italy	10.0	€	137	-15
8	Deutsche Steinzeug America, Inc.	Alpharetta/USA	100.0	$	4,202	12
9	Deutsche Steinzeug Immobilien Verwaltungs-GmbH	Alfter-Witterschlick	100.0	€	31	1
10	Deutsche Steinzeug Immobilien GmbH & Co KG	Alfter-Witterschlick	100.0	€	2,015	-277
11	Meissen Keramik GmbH	Meißen	100.0	€	1,037	-
12	Jasba Ofenkachel Vermögensverwaltung GmbH	Alfter-Witterschlick	100.0	€	295	-109
13	Vereinigte Steinzeugwerke GmbH	Frechen	60.0	€	11,158	317
14	Deutsche Steinzeug AG	Alfter-Witterschlick	100.0	€	49	0
15	Buchtal Baukeramik Vertriebsges. mbH	Guntramsdorf/Austria	100.0	€	1605	51
16	GELUNA Vermögensverwaltung GmbH	Alfter-Witterschlick	100.0	€	495	-54
17	BAK Sondervermögen	Frechen	69.0	€	0	0
18	Segerkegelgesellschaft Dr. Cremer OHG	Frechen	70.0	€	0	-1
19	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 31.12.2006. 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, 5 April 2007

Dr. Glade, König und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Dr. Hans-Joachim Glade)
Wirtschaftsprüfer

Financial calendar 2007/2008

04. May 2007	Publication of the 2006 Annual Report
15. May 2007	Interim report 1st quarter 2007
14. June 2007	2007 Annual General Meeting
15. August 2007	Interim report 1st half-year 2007
14. November 2007	Interim report as of 30 September 2007
09. May 2008	Publication of the 2007 Annual Report
15. May 2008	Interim report 1st quarter 2008
19. June 2008	2008 Annual General Meeting

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DEUTSCHE
STEINZEUG