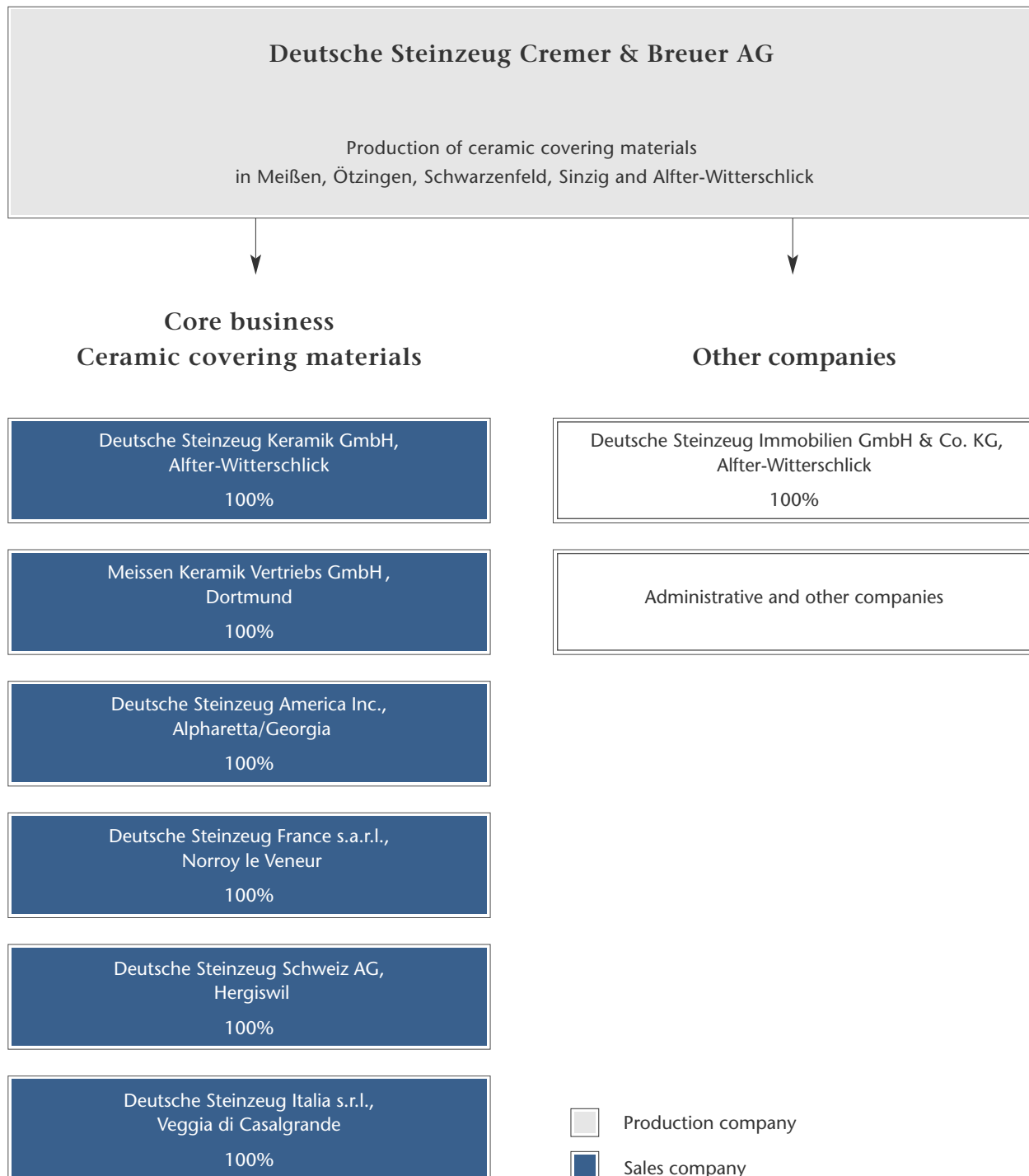




Annual Report 2007





Key indicators for the Deutsche Steinzeug Group

Fiscal year to 31 December		2007	2006	Change	
		€	€	€	%
Group sales	(mill.)	243.2	238.2	+ 5.0	+ 2.1
EBITDA (result before taxes, interest and depreciations)	(mill.)	19.5	59.0	- 39.5	- 66.9
EBITDA before special effects	(mill.)	19.7	20.5	- 0.8	- 3.9
EBIT (result before taxes and interest)	(mill.)	11.6	51.4	-39.8	- 77.4
EBIT before special effects	(mill.)	11.8	12.9	- 1.1	- 8.5
EGT (result from ordinary operations)	(mill.)	2.5	42.1	- 39.6	- 94.1
EGT before special effects	(mill.)	3.3	5.6	- 2.3	- 41.1
Group net profit	(mill.)	2.0	35.8	- 33.8	- 94.4
Group net profit before special effects	(mill.)	3.1	5.4	- 2.3	- 42.6
Investments in intangible assets and property, plant and equipment					
	(mill.)	10.7	8.4	+ 2.3	+ 27.4
Investments in financial assets	(mill.)	2.1	0.9	+ 1.2	>+100.0
Total depreciations	(mill.)	7.9	7.5	+ 0.4	+ 5.3
DVFA/SG cash flow	(mill.)	- 2.4	4.0	-6.4	<-100.0
Balance sheet total					
	(mill.)	197.8	198.2	- 0.4	- 0.2
of which long-term assets	(mill.)	105.4	112.1	- 6.7	- 6.0
of which short-term assets	(mill.)	92.4	86.1	+ 6.3	+ 7.3
of which shareholders' equity	(mill.)	60.7	59.0	+ 1.7	+ 2.9
of which long-term liabilities	(mill.)	91.7	89.0	+ 2.7	+ 3.0
of which short-term liabilities	(mill.)	45.4	50.2	- 4.8	- 9.6
Working capital	(mill.)	67.4	54.2	+ 13.2	+ 24.4
Net indebtedness to banks	(mill.)	62.8	53.0	+ 9.8	+ 18.5
Employees (number)					
	(Number)	1,678	1,653	+ 25	+ 1.5
EBITDA profit-sales ratio					
	(%)	8.03	24.76	- 16.73	- 67.6
EBITDA profit-sales ratio before special effects					
	(%)	8.08	8.59	- 0.51	- 5.9
EBIT profit-sales ratio					
	(%)	4.79	21.60	- 16.81	- 77.8
EBIT profit-sales ratio before special effects					
	(%)	4.84	5.43	- 0.59	- 10.9
EGT profit-sales ratio					
	(%)	1.04	17.66	- 16.62	- 94.1
EGT profit-sales ratio before special effects					
	(%)	1.37	2.35	- 0.98	- 41.7
DVFA/SG profit-sales ratio					
	(%)	1.01	1.50	- 0.49	- 32.7
DVFA/SG profit-sales ratio before special effects					
	(%)	1.48	2.28	- 0.80	- 35.1
DVFA/SG-ROCE					
	(%)	1.59	2.40	- 0.81	- 33.8
DVFA/SG-ROCE before special effects					
	(%)	2.32	3.66	- 1.34	- 36.6
EBIT-ROCE before special effects					
	(%)	7.61	8.72	- 1.11	- 12.7
Number of shares giving entitlement to dividend					
	(Number)	27,615,618	27,615,618	+ 0	+ 0.0
DVFA/SG net earnings per share adj.					
		0.09	0.13	- 0.04	- 30.8
DVFA/SG cash flow per share adj.					
		- 0.09	0.15	- 0.24	<-100.0
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.					
		1.49*	2.69**	- 1.20	- 44.6
Market capitalization on last day of trading					
	(mill.)	41.1	74.3	- 33.20	- 44.7

* WKN A0JQ42 (Frankfurt)

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



Series Kauri, Jasba



Series Metry, Agrob Buchtal Architectural Ceramics

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Letter from the Chairman of the Board of Management

Dear Shareholders, Business Partners
and Employees,



Dieter Schäfer,
Chairman of the Board of Management

After the building industry had achieved a growth in 2006 again for the first time after eleven years, we assumed similarly favourable boundary conditions for the year 2007. We were aware of the fact that the number of approved and completed new residential buildings would considerably decrease after the cancellation of the government grant scheme for owner-occupied homes, but that the consumers – against the background of the increasingly positive wage settlements for them, a decline in the unemployment figures by approx. 1.5 million employed persons and tax incentives for the renovation of owner-occupied homes – increasingly focused on their personal capital provisions in 2007 again, which is clearly reflected by the continued rise in the savings rate, was unforeseeable in this form for us and the other market participants.

The distortions in the US property market and the crisis at domestic and foreign investment companies and banks related to them have not yet had a decisive influence on the valuation of the real property in Germany, which certainly also results from the extremely unsatisfactory increase in value of domestic residential real property in the last years. Irrespective of that, the uncertainty of the consumers with regard to valuation adjustments possibly still required at many German and European banks has an effect on their consumption behaviour. It becomes apparent once again that, due to the lack of confidence in the economic future, renovation measures – an extremely important sales sector for Deutsche Steinzeug in Germany – are postponed in case of doubt. This behaviour noticeably reflects the causal connection between the estimation of the overall economic environment by the people, their fear of the future based on it and the renovation cycle in the case of real property.

In so far, our statement in the Annual Report 2006 according to which the domestic market had obviously bottomed out has not been confirmed. The satisfactory development in the last months of the year 2006 became inverted already by the end of the second quarter of 2007 in a noticeable drop in demand. Consequently, based on first provisional figures concerning the total tile consumption in the Federal Republic of Germany, a further decline in a magnitude of 4 to 6 million m² is to be expected, which would reduce the demand volume in 2007 to approx. 120 million m². In addition, the recession in the property and building industry in the United States has a direct effect on the German tile market in so far as the two most important European tile producing countries, i.e. Italy and Spain – both with an annual production volume ten times higher than in Germany – make losses in their principal export market USA and therefore

increasingly focus on Europe as sales market again. The situation is further aggravated by the fact that the tile market in Spain, which has been booming for more than ten years – with a more than fivefold annual per capita consumption in the past compared to the other European countries – is also declining as a result of the massive setback in the Spanish building market.

Retrospectively, we can realize once again that our decision made some years ago to increase our export activities was right – despite the restructuring measures required at that time and temporary liquidity problems as well as the necessary implementation of recapitalization measures. We can now increasingly reap the benefits of our intensive market analysis. In spite of the aforementioned difficulties in the domestic market and the restrained renovation activity, together with the decline in sales volume and turnover in this segment, we managed to increase our total turnover by 5.0 million €. This shows that our measures for increasing the export share – above all in Eastern Europe and Asia – are beginning to take effect more and more. Here, it is certainly an advantage for us that we dispose of a product portfolio with our high-quality range of goods offered for Architectural and Residential Ceramics inclusive of Jasba Mosaic as well as with our unique Hydrotect surface coating and also the increasingly demanded ceramic facade systems which despite comparatively high freight charges is especially suitable for the export business with ceramic wall and floor tiles.

Especially in the facade sector, a boom in demand has occurred during the last twelve months which we have been able to satisfy only to a limited extent up to now due to special requirements concerning shaping, drying and firing method in the special manufacturing facilities necessary for this. This is certainly also a negative consequence of our reluctance to invest which was inevitable in the last years. Although a planning period of twelve to fifteen months is not unusual for architects and building owners in the case of facade claddings, they are mostly not willing to accept a period of delivery of 4 to 5 months, which we sometimes had to specify, when ordering the products. We have reacted to this by increasing our capacity for facade ceramics with short-term, economically and financially justifiable investments. In addition, the Supervisory Board has approved an investment project by which we can make available almost twice the quantity of

Karloveske, Bratislava/Slovakia



facade ceramics to our customers long-term. These measures which we have started in the current year 2008 are indispensable, as all indicators suggest that the demand for ceramic facade systems – above all in the Asian markets – will continue to grow significantly at least in the next 6 to 8 years. Despite our high production and logistics costs compared to Asian manufacturers, we are more than competitive – thanks to our excellent production know-how with regard to size variety, special pieces and fastening systems and especially our Hydrotect surface coating – at facade projects where not only the price is decisive but importance is attached to aesthetics, functionality, easy cleaning and care as well as durability.

In total, our export share in the turnover in Architectural Ceramics rose to 53% in 2007. Above all the aforementioned growth in the facade sector decisively contributed to this, as there more than 90% of the turnover were generated in foreign markets. Referred to all product sectors, our export share amounts to 39% now.

The tile industry is thus in particular affected by the fact that the economic upswing, which started in Germany at the end of 2006, lasted only a few months for its segment. Our Company was burdened in addition because – after the implementation of the recapitalization measures – we were able to redetermine and realize our investment budget again only in the second half-year of 2006. Here we focused on the Sinzig site against the background of the market requirements and the efficiency potentials. By the increase in our silo capacities concerning coloured masses for porcelain stoneware as well as the installation of an additional roller-type kiln, we have extended the Sinzig factory into a very modern production site for porcelain stoneware in the course of the year 2007. We had decided to carry out the works related to this during the on-going production in order to maintain our supply capability of high-quality porcelain stoneware of our brand Agrob Buchtal and also to be able to satisfy the customer wishes in the sector of supermarket tiles, regarding the Plural series and many other things. This approach was particularly challenging in so far as we had to completely reorganize the processes in this factory. Last but not least due to special requirements concerning the manufacture of Architectural Ceramics, we have completely changed our plants at Sinzig previously designed for continuous production over to storage production in which the tile is transported between the individual stages of manufacture via almost fully automatic laser-controlled systems. For this, we had completely renewed the subsoil of the hall and newly positioned plant sections inclusive of sorting and packaging units. Despite the negative effects of the works to be carried out on the output quantity and the cost of production, the implementation alternative chosen by us during on-going

Medicenter, Kaufbeuren/Germany





Series New York, Meissen Keramik

production was right, as an interruption of the supply to our customers, above all regarding our supermarket tiles, would have been irresponsible. The fact that we were confronted with a considerable drop in demand right after finishing the measures was certainly counter-productive.

This had an influence on our capital tie-up, which has a temporary effect also on the inventories at present. Irrespective of that, our investment decision was right, as we have achieved a considerable improvement of our efficiency and competitiveness not only concerning quality but above all with regard to the diversity of the product range as well as the product surfaces. Moreover, we will be able in future – independent of a domestic market possibly continuing to be difficult – to use these products increasingly for the expansion of our export markets for which until now sufficient own porcelain stoneware capacities were not available.

At the Schwarzenfeld site – still our most important factory for the production of Project Ceramics – we also made considerable investments at the same time. The temporary quality problems and short-term supply shortages resulting from this could be gradually eliminated by us only as of the third quarter of 2007. Consequently, we had to cope with additional burdens in terms of production cost due to these two measures in the first half-year of 2007, but our current production cost and the improved quality output show that we would have jeopardized our position as efficient market leader in the Project Ceramics sector medium-term without these investments against the background of rising energy and raw material costs.

Due to the industry-wide misjudgement of the general economic conditions for the tile industry, our domestic competitors have also increased capacities which, due to the distortions in the USA and Spain described above, further intensify the competitive pressure in the domestic market already difficult enough. Moreover, only a few of the German competitors have sufficient resources for a qualified supply to the export markets. That is why considerable drops in prices have occurred in the domestic market as of the second half-year of 2007 and especially also in the first months of 2008. We are not willing to participate in this development. At our Sinzig porcelain stoneware factory, we can evade the quantity pressure by more Project and less OEM business. In the Residential Ceramics sector, we are consistently trying to realize the further orientation towards large sizes, the coating of the tiles with Hydrotect and the reduction of the small sizes which are not adequate with regard to the margin.



Eifeltherme Zikkurat,
Mechernich/Germany



Series Tendence, Agrob Buchtal Residential Ceramics



Series Kauri, Jasba

The extreme rise in energy costs and freight charges as well as significant adjustments concerning standard wages and salaries made an increase in selling prices inevitable in the year under review in order to largely exclude turnover at pricings which are not cost-covering. These were also some of the reasons why we had to adjust the capacity in the mosaic sector at our Ötzingen factory site in the first months of 2008. The concentration of the production in the mosaic sector of all our brands at the Ötzingen site has been largely finished. We have now concentrated the manufacture of all mosaic formats – from the size of 1 x 1 cm up to 10 x 10 cm – exclusively on this factory in order to have optimal conditions for offering our customers the desired quality and design variety. Due to the competitive situation described above and the considerable rise in energy costs mainly in the last two years, only the high-quality products still justify the production cost in Germany from the economic point of view. That is why we have limited the manufacture of our Jasba Mosaic at Ötzingen to three kilns. In conjunction with this capacity adjustment, further rationalization measures have been taken which in the end involve a reduction in personnel by approx. 80 employees at this factory. By the implementation of these measures, we are not only ensuring the quality and product variety in the sector of small mosaics, but are capable of further optimizing the share of high-quality mosaics within the Group as well as the value added of these ranges in order to thus evade the pricing pressure in the market to a greater extent. As a logical consequence, we are also planning to reintegrate outsourced production stages like, for example, sorting and glueing again to be able to guarantee the high quality standard of our mosaic programme also in future.

Despite the relatively mild winter in Germany, we had a weak start to the year 2008. In addition, as explained and budgeted, we are increasingly focusing on export markets where in contrast to Germany – above all in Eastern Europe – severe frost was predominant in the first months of this year. Nevertheless, we are expecting a further turnover growth in total for the Group for the current year against the background of rising exports.

However, it must not be left out of consideration that our customers are in a state of uncertainty in addition because of the current M&A process which we announced by an ad hoc publication on 21 February 2008. Especially in the Project sector where planners and architects carry out long-term preparatory works, but also regarding our high-quality

Residential Ceramics and Jasba Mosaic product range requiring a qualified inventory control, and also at our key customers in the DIY superstore sector, a partnership between manufacturer and wholesale trade or project planner for the long term is of immense importance. Although we had already pointed out at the Annual General Meeting 2006 that our financial investors intend only a temporary commitment in our Company, the understanding of a forthcoming change of a principal shareholder of a listed stock corporation is less developed at our customers above all because they are worried that the corporate policy might be impaired by this. At present, we are trying with all our strength in the talks with our partners in the market to draw their attention to the fact that the members of the Board of Management are also involved in such a process to a high degree and the change of a principal shareholder is not synonymous with a change of the corporate policy. The Board of Management will spare no effort to make sure that our current financial investors select partners when placing the block of shares which will develop an efficient "buy and build strategy" together with us for the long term. Such an operating procedure presents itself, as the concentration on the part of the producers and the traders will continue to increase and we will have to take up these challenges with our positioning in the market, with our brands, but above all with the envisaged rising export figures in the sectors of high-quality Residential and Architectural Ceramics.

As it would be advantageous for Deutsche Steinzeug to find majority shareholders which are able and willing to actively accompany it in the long term, this process may also offer a chance for our Company to be even better prepared for the changes of the market described above.

Ladies and Gentlemen, the year 2008 will certainly be particularly challenging for us once again. Besides the implementation of our investments in production and marketing, we also have to withstand the weaknesses of the domestic market and to intensify – despite the urgent necessity of cost reductions and a strict restraint in expenditure – our sales efforts in Germany and abroad. This means that great personal commitment will certainly be demanded from our employees also in this year again. Last but not least, I would like to thank all members of the Supervisory Board and the bodies provided by the Works Constitution Act for their tireless support and the constructive cooperation. I repeat my thanks for the commitment of our employees and their work performed, knowing that a high degree of readiness to perform and motivation will be demanded from them also in future.

Frechen, 31 March 2008



Dieter Schäfer

Board of Management and Supervisory Board

Members of the Board of Management and the Supervisory Board



Ekehard Forberich and Dieter Schäfer

Board of Management

Dieter Schäfer

CEO

Swisttal-Miel

Businessman, 59 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
- Appointed until 31.12.2012

Ekehard Forberich

Oberursel

Business school graduate, graduate physicist, 41 years old

Main fields of activity:

- Finance
- Controlling
- Informatics
- Strategic purchasing
- General administration
- Other investments
- Appointed until 31.12.2011

Shares held by the organ members:

Board of Management: 16.097 shares

Supervisory Board: 5.700 shares (after 14.06.2007: 1.200 shares)

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

Georg Federer *

Schwandorf
- up to 14.06.2007 -
Industrial clerk,
Deutsche Steinzeug Cremer & Breuer AG,
plant Schwarzenfeld

Peter Baron von le Fort

Hamburg
- up to 14.06.2007 -
Qualified auditor / tax consultant

Rainer Kloft *

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

Christian Knell

Amorbach
- up to 14.06.2007 -
Director Business Development
Central Europe of HeidelbergCement AG,
Heidelberg

Professor Dr. Eckart Kottkamp

Großhandorf
Chairman of Supervisory Board
of Lloyd Fonds AG, Hamburg

Dr. Hermann Rappe

Sarstedt
- up to 14.06.2007 -
Pensioner

Manfred Rauser

Lindau
- up to 14.06.2007 -
Management consultant

Dr. Stephan Schelo

Meerbusch
Chief Executive of Marktkauf Holding GmbH,
Bielefeld, and Chairman of Managing Board
of SPAR Handels AG, Schenefeld and
Chief Executive of Lunar GmbH, Bielefeld

Dieter Vianden *

Munich
- up to 14.06.2007 -
Deputy chairman of the Employees'
Council of the Witterschlick plant
of Deutsche Steinzeug Cremer & Breuer AG,
Alfter-Witterschlick

Dr. Alexander Winkels

Erkrath
Management consultant

* Employees' representative



Risengabad, Asker/Norway



Gaversbad, Geraarsbergen/Belgium



Cabrio, Senden/Germany



Internationally leading competence.

In the field of sports and leisure pools, Agrob Buchtal maintains its position as one of the leading ceramics suppliers world-wide. Planners and architects appreciate above all the practically unlimited colour spectrum, the variety of sizes ideal for combination thanks to a modular system and the wide range of technically sophisticated special pieces. One of the particularly demanded competences of the company is the development of project-specific special solutions.

Stadspark, Turnhout/Belgium

Report of the Supervisory Board



Wilfried Delker,
Chairman of the Supervisory Board

In the fiscal year 2007, 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 and continuously informed itself about the economic situation of Deutsche Steinzeug Cremer & Breuer AG as well as its future orientation.

The Supervisory Board duly fulfilled its obligations pursuant to the law and the Articles of Incorporation in the fiscal year 2007. In five meetings, the Supervisory Board was informed comprehensively about the economic and financial situation of the Company. Very detailed information was provided about the implementation of the large-scale investments, the continued efficiency measures as well as the market development. Besides the negotiations concerning the syndicated loan agreement concluded on 30 March 2007, questions regarding the prospectus were also intensively discussed. On 20 July 2007, the total of 23,104,785 individual share certificates from capital measures in the year 2006, which up to this date had been traded over the counter at the Düsseldorf Stock Exchange, were admitted for the first time to the official trading at the Frankfurt Stock Exchange.

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 extensive works for the syndicated loan agreement as well as for the admission of the newly issued shares to listing 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 2007 in order to provide advice and support.

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 the product- and sales-related market positioning in Germany and abroad.

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 three times in the reporting year. It dealt intensively with the extension of the employment contracts of the two members of the Board of Management as well as their remuneration, in particular with regard to the structuring of the variable remuneration components.

The Supervisory Board continually monitored the compliance with and further development of the standards of the German Corporate Governance Code by Deutsche Steinzeug Cremer & Breuer AG. Last in December 2007, the Board of Management and the Supervisory Board made a statement concerning the compliance with the Code according to § 161 of the Stock Corporation Law (AktG) and made it permanently accessible to the shareholders on the website of the Company. With only a few exceptions, Deutsche Steinzeug Cremer & Breuer AG complies with the recommendations of the German Corporate Governance Code.

In May 2007, the Supervisory Board carried out an efficiency check according to the specifications of the German Corporate Governance Code. In this connection, further possibilities of making the work of the Supervisory Board even more efficient were intensively discussed.



Series Geo,
Agrob Buchtal Architectural Ceramics



Private house, Zagreb/Croatia



Naubad, Bitterfeld/Germany

The consolidated annual financial statement and the annual financial statement as of 31.12.2007, 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 financial statement. According to the final result of the examination by the Supervisory Board, there are 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.

Series Kauri, Jasba





Series Kasai – *Jasmin*, Agrob Buchtal Residential Ceramics

Following the recommendations of the Government committee German Corporate Governance Code and the suggestions made on the part of the shareholders both on the occasion of the Extraordinary and the Annual General Meeting 2006 that small bodies can carry out their tasks faster and more efficiently and thus the discussion partnership between Board of Management and Supervisory Board is further improved, the reduction of the Supervisory Board from twelve to six persons was resolved in the General Meeting on 14 June 2007. 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 still composed following the one-third parity scheme as provided by law and consists of four members elected by the shareholders and two members elected by the employees. This reduction became possible, as four members elected by the shareholders and two members elected by the employees of the Supervisory Board acting until then had resigned from their positions by the end of the Annual General Meeting 2007.

Finally, I would like to express my thanks on behalf of the entire Supervisory Board to the Board of Management, all employees and the members of the bodies provided by the Works Constitution Act for their performance in the interest of Deutsche Steinzeug. As it must be assumed that the general conditions in the construction industry will also remain challenging in the future, I would like to ask all of you to maintain your great commitment in order to succeed together in realizing our demanding goals for the current year.

Frechen, 29 April 2008

Wilfried Delker
Chairman of the Supervisory Board

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



Administration Service Center,
Handan/China

Business trend 2007, overall economic environment

In the fiscal year gone by, the turnover could be increased by approx. 2% to 243.2 million € compared to the previous year, which was essentially achieved by a growth in the foreign markets. The construction volume which continued to grow in Germany by approx. 1.9% in 2007 is to be considered separately for the branch of ceramic covering materials. There, above all the considerable decline in completed homes of approx. 10% as a result of the value-added tax increase and the cancellation of the government grant scheme for owner-occupied homes as well as a sustained reluctance to renovate must be mentioned.

While the economic upswing has already become noticeable by a considerable reduction of the unemployment rate and a rise in wages and salaries, an increased risk awareness is to be noted above all due to the persistent uncertainty of the financial markets, which is reflected by an increase in the savings rate and does not lead to a pickup in consumption in the Ceramic Covering Materials industry – for example by a rise in renovation activity. In total, the tile market in Germany declined by about 5% to approx. 120 million m², and a recovery is not to be expected at present. As a result of the market development described, in particular the sales organizations for Residential Ceramics and Jasba had to take declines in sales in Germany in the fiscal year gone by, which,

System Plural plus, Agrob Buchtal Architectural Ceramics





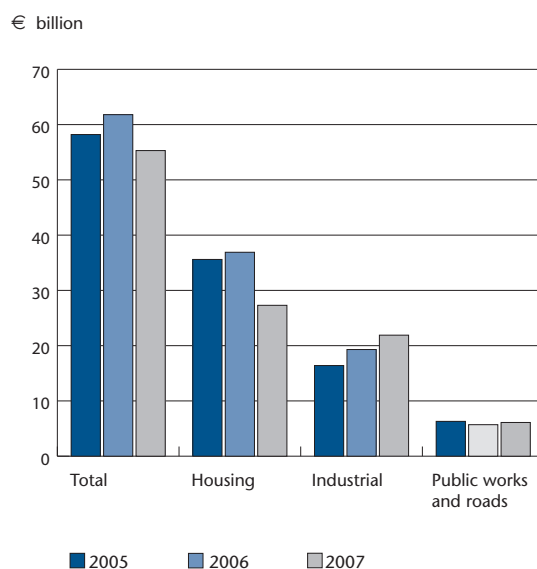
De Waterperels, Lier/Belgium

however, could be overcompensated by the export of Architectural Ceramics and the DIY superstore sales sector. All in all, that is why we are confident that we will achieve an increase in volume sales even more significant than in the previous year also in 2008 by investments in the sales organizations in our principal export markets as well as in our product novelties and further developments.

Architectural Ceramics

In the Architectural Ceramics sector, Deutsche Steinzeug benefited in the year 2007 above all from the growth in demand for its facade products of which approx. 90% were exported in the fiscal year gone by. This development underlines how important it is for us, on the one hand, to extend the foreign sales organizations and, on the other hand, to maintain our image as German manufacturer of "Made in Germany" products under the brand AGROB Buchtal which is well-established at architects and planners. Especially in the Asian markets including Russia, Deutsche Steinzeug was able to build up an excellent reputation as supplier of high-quality tiles and ceramic solutions in the year gone by. Thus, it was possible in 2007 to increase the export volume in the Architectural Ceramics sector by approx. 8% in total compared to the previous year. For the current

Approved building permits in Germany (2005-2007)





Series Aramis – Grace, Agrob Buchtal Residential Ceramics

year 2008, we are expecting a considerable increase in the export share again. Moreover, our investment in the extension of our Sinzig porcelain stoneware location will pay off, which will enable us to satisfy the constantly growing demand for high-quality porcelain stoneware floor tiles even better. Furthermore, we have completely renewed the colour system "Plural plus" for wall, floor and mosaic tiles to meet the current needs and trends, which receives a very positive response from the architects and planners. Even though we can not completely evade the still existing pricing pressure, our competitiveness is underlined in addition by the fact that the price in the case of our product range specially orientated towards the demand of the Project and architectural sector has increasingly become only one of many deciding factors, and our Hydrotec coating makes an essential contribution to this.

Residential Ceramics

Despite the tax incentives for the renovation of owner-occupied homes as well as the sustained picking up of the economy, the Residential Ceramics sector in Germany has to contend with a persistent reluctance to consume. This is also reflected by the fact that the renovation cycle of bathrooms is still more than 20 years. Another possible reason is that the South European competitors – due to the weakness of the Dollar – increasingly focus on Germany and Western Europe. Because of that, the pricings get under considerable pressure, so that the average sales revenues compared to the previous year could not be further increased. After we succeeded in considerably raising the export share in the Residential Ceramics sector, which has been mainly orientated towards the domestic market until now, already in 2007 to more than 20% and will continue this trend also in the current year, we are trying to evade the competitive pressures in Germany to a certain extent by focusing even more intensively than in the past on large sizes in the wall tile sector and Hydrotec as well as porcelain stoneware. Furthermore, we will again improve the quality of our product range by attractive formats and colours inclusive of the Hydrotec surface coating. In accordance with the market requirements, we extended the capacity of large-size products in our wall tile works also in 2007, while reducing capacity for small sizes. As this trend is continuing, we will further extend the large-size production facilities with the appropriate decoration and shaping units by means of additional investments in order to be able to stabilize the sales level in Germany with this complete package of measures.



Series Senja, Jasba

Jasba

While Jasba managed to realize further growth as regards exports in 2007 and this is also expected for the current year, a slightly declining development is to be expected in Germany for the year 2008 – just as in the year gone by. To counteract this trend concerning the result, we already started in 2007 to enhance the presentation of the brand Jasba and to position it on an even higher and more exclusive level with regard to the product philosophy. The micro-mosaic in the size of 1 x 1 cm with its excellent market acceptance for decorative and representative surfaces makes an essential contribution to this. It is true that Jasba still holds the position of the market leader in the mosaic sector in Germany, but increasing competitive pressures by Southern European and Asian producers become noticeable. Against this background, we have adapted the production capacities in the current year 2008 to the consistent orientation towards high-quality products. Furthermore, we will interlink the Jasba marketing especially in the foreign markets more closely with the Architectural Ceramics marketing, as combined effects can be increasingly realized in this field thanks to the customer structures and the design possibilities with mosaics, so that we expect, all in all, a stable development for Jasba.

Do-it-yourself superstores

Due to the still existing excess capacities in sales areas of the DIY chains, the serious price competition in the DIY superstore sector continues. But it increasingly turns out that the DIY superstores are more and more interested in offering – in addition to the aggressive-price products – higher-value tiles in the scope of matched wall/floor combinations. This confirms our strategy taken in the past of offering a product spectrum going beyond the standard range. Besides that, our optimized services regarding logistics and electronic interfacing by which the system idea is taken into account have also contributed to the improvement of the customer loyalty. It is particularly satisfactory for us that we have also succeeded in increasingly supplying our products to the foreign markets of our DIY superstore customers, so that, in total, the DIY sales sector could increase its turnover within the two-digit percentage range. For 2008, a similar development is expected with regard to the turnover growth in Germany and abroad.

Series Scratch, Meissen Keramik



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 still expected to grow only slightly – Deutsche Steinzeug is striving to increase the export share to the sales level of the German market. Medium-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 Eastern Europe. Independent of that, we could also realize a very satisfactory growth with regard to turnover and result in the “Other EMU” segment in 2007.

Germany

Compared to the previous year, the sales and turnover volumes have remained approximately on a constant level. Against the background of a declining domestic market, this results in a slightly increased market share. In terms of value, we still expect a market share of approx. 14% for our Company. For the current year 2008, we are expecting, in total, a constant turnover development in Germany for our Company, as positive impulses of the market can hardly be expected for the tile industry. Because of the weak development of the residential building permits in 2007, a further decline of approx. 10% is to be expected for the sector of new residential construction in 2008. Even though Deutsche Steinzeug – on the one hand, thanks to its orientation towards the renovation market and, on the other hand, its strong position as supplier of a full range of products – also benefits from the picking up in building construction, the overall market development in the sector of new residential construction will after all result in a more severe price competition, which makes it more difficult to completely pass on the increases in the energy, raw materials and personnel areas to the market. Medium-term, however, we assume that the bottom in new residential construction will be reached in 2009 and that in the entire building construction sector as a whole an approximately constant or slightly growing market development can be expected.





Rozadol, Bratislava/Slovakia

Other EMU

This segment with the important countries Austria, Switzerland, Italy, France and the Netherlands could realize a very satisfactory turnover growth of 13.0% to 45.2 million € in 2007. Deutsche Steinzeug still benefits from the many years of systematic market cultivation, for example in the case of commercial applications with the respective architects and project managers. Furthermore, our product range in these countries focuses on high-quality articles, which, for the most part, are provided with our USP of the Hydrotect surface coating, like, for example, our increasingly demanded facade ceramics and the premium product Jasba Mosaic. Medium-term, a further turnover growth in these countries is expected thanks to additional, new products for the floor tile sector from our Sinzig works. Moreover, we also see good possibilities of increasing our exports to neighbouring countries due to the considerably growing number of our DIY superstore customers abroad - as far as the increased freight charges permit this.

Other world

While we could realize very satisfactory increases in turnover in important growth markets like Russia and the Far East, the turnover in individual countries and regions like, for example, Scandinavia and the USA was declining, partly also due to large projects in the previous year. Especially in the USA, we did not succeed in realizing a turnover growth due to the weakness of the Dollar and the declining real property sector. For 2008, we expect in this segment – in particular as regards the regions of Asia, Eastern Europe and Russia – that we will appropriately participate in the market growth and our high-quality products will be increasingly demanded in these markets for commercial and private applications in conjunction with “Hydrotect” and “Made in Germany”. To ensure the further growth in these regions, we will continue to invest in these markets also in future by the targeted expansion of our sales teams and an increased presence in showrooms.

Outlook

While the year 2008 is expected to show a continued, moderate picking up of the economy in Germany, which is supposed to be also reflected by a slight growth of approx. 1% for the construction industry, the general world-wide economy continues to show hints of declining rates of growth. Nevertheless, we see good chances for further considerable growth in the segments “Other EMU” and “Other World” also in 2008 with our high-quality product range. Thus, with an approximately constant development of domestic sales, we expect, in total, a turnover growth for the Group exceeding previous year’s level. With regard to our cost structure, we expect a further rise in energy and raw materials prices. Due to the great uncertainty of the financial markets, a substantial and lasting recovery of the cost prices is not expected in 2008. In the human resources sector, against the background of the significant claims of the trade unions with regard to standard wage increases, it will be difficult to return to a moderate wage development like at the time two to three years ago. We counteract these developments both as regards turnover by our increases in exports and also by a rigorous utilization of efficiency-increasing potentials in the administration and in our factories as a result of the investment measures already finished and those which still have to be implemented.



Top design and quality.

Since generally accepted trends have retreated, individual concepts are increasingly demanded in Residential Ceramics. With its varied range, which offers flexible solutions for most diverse lifestyles, Agrob Buchtal is excellently prepared for this situation. The company underlines its leading position by exemplary design and first-class quality made in Germany.



Series Kasai – Mali,
Agrob Buchtal Residential Ceramics



Series Ascara,
Agrob Buchtal Residential Ceramics



Series Silk,
Agrob Buchtal Residential Ceramics

Series Tendence – Flowers, Agrob Buchtal Residential Ceramics



Series Aramis – Grace,
Agrob Buchtal Residential Ceramics



Series Kauri, Jasba

Profit and assets situation

In the fiscal year 2007, Deutsche Steinzeug realized a consolidated turnover of 243.2 million € (AG: 191.7 million €) with 1,678 employees on average (AG: 1,435), which corresponds to a growth in Group turnover of approx. 2%. The foreign share in the Group turnover was increased by approx. 6% to 95.2 million €. This corresponds to a percentage foreign share in the total turnover of 39.2 points. After the considerable increase in average revenue per m² already in the previous year, which was above all due to the higher-quality product mix, a moderate increase by approx. 1% was achieved in 2007. At the same time, however, the sales volume was also increased by approx. 1% compared to the previous year. As a result of the significant rise in energy, raw materials and personnel costs, the operative result before interest, taxes, depreciation and amortization (EBITDA) in the year 2007 slightly decreased by approx. 4% as expected. Against the background of a domestic market considerably declining above all in the second half-year compared to the previous year and an increased production expenditure due to inevitable interruptions of manufacture in the scope of the large-scale investments implemented in our factories in 2007 as planned, the slight decrease in the EBITDA result could not be avoided. The Group EBITDA amounted – without special effects – to 19.7 million € (AG: 14.2 million €) versus 20.5 million € (before special effects) in 2006 (AG: 15.9 million €). In 2007, the profit for the year amounted for the Group to 2.0 million € (AG: 0.03 million €).

Despite the decline in the domestic market, which is still very important for Deutsche Steinzeug, by approx. 5% from approx. 127 million m² to approx. 120 million m², Deutsche Steinzeug succeeded in increasing both the sales volume and the average revenue per square metre in the Group by approx. 1%. In spite of a repeated increase of the foreign share in the total turnover versus the previous year to 39% now, Deutsche Steinzeug can evade the developments in the domestic market only to a certain extent. This development became apparent especially in the second half-year of 2007, and, compared to the previous year, the anticipatory effects in 2006 due to the value-added tax increase planned at that time and the cancellation of the government grant

scheme for owner-occupied homes further aggravate the situation. The more satisfactory is the turnover growth in 2007 by 5.0 million € (AG: 1.2 million €) to 243.2 million € (AG: 191.7 million €) compared to the previous year due to the export success. It also is to be assumed that the domestic market share concerning Ceramic Covering Materials – against the background of a declining overall market development – could even be slightly increased with approx. 14%.

As regards the change in finished goods and work-in-progress by the end of 2007 in the amount of 8.1 million € (AG: 7.7 million €), approximately half of it is due to operative necessities resulting from a number of future-oriented measures. In this context, above all the successful introduction of a new colour range for the “Plural plus” project series primarily used by architects and planners must be mentioned, as for this the production had to be started already early and parallel to the previous colour range to ensure the availability. Almost the same applies to a number of new products from the Sinzig factory at which the installed additional capacity is to be utilized by product novelties and an improved availability compared to the past. In addition to that, however, delays in delivery or unexpected cancellations of orders by customers also contributed to the increased change in finished goods and work-in-progress in 2007 compared to the previous year. It has increasingly turned out that above all the premium brand Jasba is affected by the market wise reluctance to invest. Another fact is that in the sector of small mosaics, in which we are market leader, the competition from Eastern Europe and Asia has become very severe due to plagiarisms and aggressive-price offers. In conjunction with the turnover growth, the total operating performance within the Group could thus be increased by approx. 5.2% (AG: 4.8%) to 251.7 million € (AG: 199.7 million €).

The costs for material usage and purchased services, especially due to the increased expenses for energy and raw materials as well as merchandise and outside services, rose by more than 8% to 119.9 million € within the Group (AG: 118.3 million €) in 2007. As regards the increased outside services, it must be mentioned that we had considerable expenses for external calibration, but by the installation of an additional rectification plant in Sinzig in the current year 2008, an easing is to be expected. The rise in the cost

Series Plural plus, Agrob Buchtal Architectural Ceramics





Anglia Ruskin University, Chelmsford/Great Britain

of materials for merchandise can be explained by the temporary increase in our OEM business for ensuring our supply capability during the rebuilding phase of our factories as well as the positioning of our DUIT brand.

The substantial part of the rise in personnel expenses within the Group by 3.2% to 70.8 million € (AG: 56.9 million €) is due to the increase of union wage rates by 3.5%, which means that the wage self-restraint of the last years has come to an end, so that a further increase must be assumed also for the current year 2008. Without the "Company Alliance for Jobs" still in force – which, among other things, means a 40-hours week without pay compensation for the employees – the cost burden by personnel expenses would have been even higher.

Compared to the previous year, the total of the other operating income and expenses without special effects rose by approx. 1.8 million € to 41.5 million € (AG: 10.4 million €).

As a result of the developments described above, the EBITDA in 2007 at Group level amounts to 19.5 million € (AG: 14.1 million €). Adjusted by special effects on the same basis as in the fiscal year 2006, an only slightly modified EBITDA at Group level of 19.7 million € results, which is comparable to the previous year's figure of 20.5 million €.



Grammar school, Dörpen/Germany

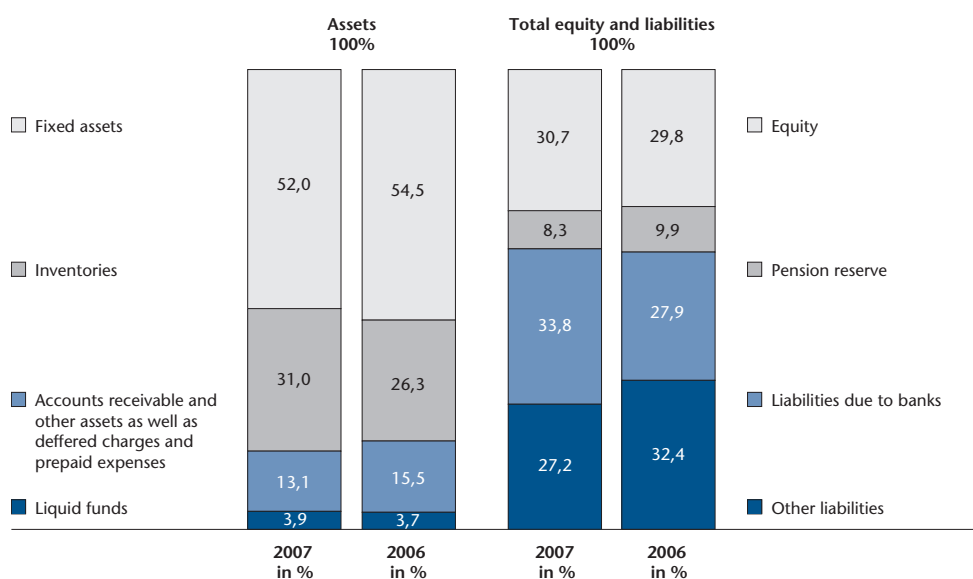


Badhuis, Menen/Belgium

Within the Group, the fixed-asset depreciations amount to approx. 7.9 million € (AG: 7.8 million €) and are thus at previous year's level (before exceptional items). As most of the investments were completed only towards the end of the second half-year of 2007, the depreciations, taking into account the typical period of depreciation, did not significantly increase despite the large-scale investments. As a result of the increased utilization of the credits especially in the scope of the large-scale investments and the further development costs for our real estate property in Frechen as well as the discontinuation of the restructuring interest rate still valid until the middle of 2006, the interest costs rose by approx. 1.2 million €.

In 2007, the profit for the year within the Group amounts to 2.0 million € (AG: 0.03 million €), which corresponds to a profit-turnover ratio of approx. 1%. In this connection, however, the currently still valid, comparatively high interest rate on credit liabilities agreed in the scope of the recapitalization should be taken into account. Assuming a current interest rate comparable for the branch of industry, the profit-turnover ratio after taxes within the Group would at least double in 2007.

Balance sheet structure



Corporate Governance



Sir John Lyon House, London/Great Britain

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 recommendations 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 2007 is published under the address www.deutsche-steinzeug.de (Investor Relations).

Co-operation of Board of Management and Supervisory Board: Coordination talks were conducted on a regular basis between the Supervisory Board, especially its Chairman, and the Board of Management. The future strategic orientation of the Company, the implementation of the large-scale investments in Sinzig and Schwarzenfeld as well as the market development were discussed particularly intensively. 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 reduction of the Supervisory Board from 12 to 6 members resolved on the occasion of the General Meeting on 14 June 2007 follows the desired increase in efficiency at the coordination between Board of Management and Supervisory Board as well as between the members of the Supervisory Board.

Against the background of the weak domestic demand unexpected to that extent by all market participants in the second half-year, and especially in the last quarter of 2007, an intensive coordination with regard to necessary changes in production and personnel measures resulting from that as well as further cost reductions has also taken place since the turn of the year 2007/2008.

Conflicts of interest: In the fiscal year 2007, 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 at www.deutsche-steinzeug.de (Investor Relations) at the same time as the publication of this Annual Report.

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.

By resolution of the General Meeting on 14 June 2007, the remuneration of the members of the Supervisory Board was redefined. The members of the Supervisory Board receive a fixed remuneration of 25,000 € p.a. plus the turnover tax to be allotted to this amount. In addition to the fixed remuneration, the members of the Supervisory Board receive an annual variable remuneration in the amount of 10,000 € plus the statutory turnover tax to be allotted to this amount if the result planned for the respective year before interest and depreciations (EBITDA) is achieved. If the planned EBITDA is exceeded by more than 10%, the variable remuneration increases by 5,000 € up to a maximum of 15,000 €. If the result falls below the planned EBITDA by more than 5%, the variable remuneration decreases by 5,000 € to 5,000 €. If the result falls below the planned EBITDA by more than 10%, no variable remuneration is paid. The Chairman of the Supervisory Board receives one and a half times, the Deputy Chairman one and a quarter times the amount of the total remuneration. In addition, the necessary expenses of the members of the Supervisory Board are refunded.

Private house, Einbeck/Germany





EMM, Bratislava/Slovakia



Railway station Lübeck/Germany

Compliance statement pursuant to § 161 AktG (German Stock Corporation Law):

In the cases listed in the following, the Company deviates from the recommendations of the German Corporate Governance Code for justified reasons:

- The Company has concluded a D&O insurance to the necessary extent. As the amount of the annual insurance premium is the same also if a retention is agreed, a formal retention of the Board of Management and the Supervisory Board was waived with regard to the employees' representatives on the Supervisory Board.
- For members of the Board of Management, no age limit is provided in order to have maximum freedom with regard to the appointment of members of the Board of Management and above all to give priority to the aptitude of a member of the Board of Management.
- Moreover, the Supervisory Board did not establish a nomination committee, and the proposed candidates for the chairmanship of the Supervisory Board are not announced to the shareholders.
- The remuneration of the members of the Supervisory Board comprises a fixed and a variable component, but does not take into account the membership in committees. Individual details about the remuneration of the members of the Supervisory Board are given in the AG-Notes.
- The consolidated financial statement is published by the Company approximately 30 days after the time limit specified in the Code. On principle, however, we strive for coming closer to the time limit provided by the Code.

Director's dealings: In the fiscal year 2007, the Board of Management did not buy or sell any shares.



Wave-action pool, Reutlingen/Germany

Compliance: Deutsche Steinzeug runs its business responsibly and in compliance with the legal regulations and official provisions in the countries in which we are operating. In the scope of the works for the prospectus, this was separately documented again in particular for the fields of environmental protection and on-the-job safety. Moreover, we have done justice to our pretension with regard to correct behaviour patterns for our employees by appointing a lawyer of confidence who is available to all employees, customers and suppliers as confidential person to contact in the case of suspicion of corruption.

Information pursuant to §§ 289 sect. 4 HGB, 315 sect. 4 HGB and explanatory report:

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. The shares have been fully paid in and issued in the form of bearer shares. Each share entitles to one vote.

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.



Sports school, Hennef/Germany

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 by act of the parties known to the Company's Board of Management which concern the votes or the transferability of the shares. In the cases of the §§ 136, 142 sect. 1 clauses 2 and 3 AktG (German Stock Corporation Law), the voting right is excluded by law.

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

According to the German Securities Trading Law, every investor which attains, exceeds or falls below certain shares of the Company's votes by acquisition, disposal or in any other way, must notify the Company and the German Federal Financial Supervisory Authority of this. The lowest threshold value for this duty to notify was 5 % until 20 January 2007; since then, it has been 3 %. Direct or indirect participations in the capital of Deutsche Steinzeug Cremer & Breuer AG which attain or exceed 10 % of the votes have been announced to us as follows:

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]



Series Life, Agrob Buchtal Residential Ceramics

The information presented in the above table regarding the allocation of participations pursuant to § 22 sect. 2 WpHG is exclusively based on the appropriate publications of the owners of the participations in the year 2006. The Company is not aware of any coordination truly still to be effected 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 according to the legal regulations and the Articles of Incorporation.

6. §§ 289 sect. 4 no. 6 HGB, 315 sect. 4 no. 6 HGB

According to the German Stock Corporation Law (§ 84 AktG) and the Articles of Incorporation of Deutsche Steinzeug Cremer & Breuer AG (§ 6 of the Articles of Incorporation), the members of the Board of Management are appointed by the Supervisory Board. The number of members of the Board of Management is determined by the Supervisory Board; according to the Articles of Incorporation, the Board of Management consists of at least one person. The Supervisory Board can appoint a member of the Board of Management as Chairman of the Board of Management. If a required member of the Board of Management is not available, the competent local court must appoint the member at the request of a person involved in urgent cases.

Each amendment of the Articles of Incorporation requires a resolution of the General Meeting (§ 179 AktG). The authority to make amendments to the Articles of Incorporation which only concern the wording, like, for example, changes in the share capital as a result of the utilization of approved capital, has been assigned to the Supervisory Board in the Articles of Incorporation of Deutsche Steinzeug Cremer & Breuer AG (§ 15 of the Articles of Incorporation).



Series Rodeo, Agrob Buchtal Architectural Ceramics

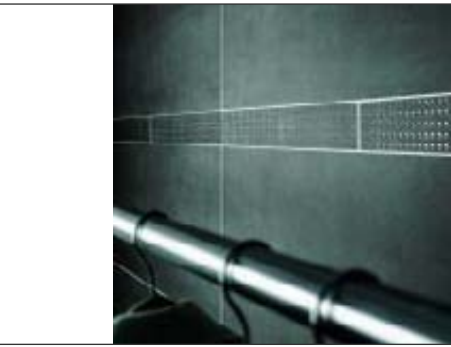
According to the Articles of Incorporation, the resolutions of the General Meeting are adopted by simple majority of votes and, as far as an equity majority is required in addition, by the simple majority of the share capital represented at the adoption of such resolutions unless otherwise compellingly stipulated by law or the Articles of Incorporation. Amendments to the Articles of Incorporation come into effect by the entry in the Commercial Register (§ 181 sect. 3 AktG).

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.



Series Avorio,
Agrob Buchtal Architectural Ceramics

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.

Series Senja, Jasba





University for applied science,
Detmold/Germany

Risk report



Residential building, Sevilla/Spain

Like in the previous year, 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 strengthen 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. Further details regarding this are provided in the report on the development of business 2008 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: The liquidity management constitutes an integral part of the internal control and monitoring system of Deutsche Steinzeug. The Company plans, prepares and monitors a liquidity forecast at weekly as well as monthly intervals for the respective periods of time. Moreover, a rolling twelve-month liquidity planning always taking into account the latest information available is prepared. A twenty-four month forecast is prepared always in the middle of the year.

Interest risks: Like in the previous year, the interest situation did not require any special precautions to be taken in 2007, as a fixed interest rate had been agreed with the banks, which was valid for the entire year and is fully valid also for 2008. In 2009, the existing liabilities due to banks will be refinanced. This may result in interest chances or risks.

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



Series Kauri, Jasba

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 good practice to come to an agreement on the continuation of the loans in the scope of a so-called waiver.

Exchange rate risks: The major part of the foreign currency transactions of Deutsche Steinzeug is performed in US \$. In 2007, the receipts in US \$ and the expenses in US \$ approximately balanced each other, so that the Company was only exposed to minor currency risks which were 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 costs. 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 2007, Deutsche Steinzeug started the structured purchase of electrical power, so that a portfolio effect is achieved by purchasing successive energy packages always for certain periods of time in advance in order to enhance planning security. In the gas sector, the liberalization and the development of a trade market from the point of view of Deutsche Steinzeug have not yet been sufficiently realized for starting the structured portfolio purchase like in the case of electrical power. However, the structured purchase of energy cannot prevent the cost prices for electrical power and gas from rising long-term. On principle, we assume that in this scenario all tile manufacturers will have to scale up their sales prices at least 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 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 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 also in 2007, 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 taken out a D&O insurance for members of the Group's bodies.



Hotel Reval, Riga/Latvia



DSF, Ismaning/Germany



Autohaus (car salon), Bratislava/Slovakia



Court building, Abakan/Russia



Modern colours, innovative design.

With their unique range of colours, sizes and surfaces, the ceramic facade systems of Agrob Buchtal open new horizons for contemporary architecture. Modern colours in wood look and innovative design surfaces make the proven systems KerAion and KeraTwin even more versatile now. The new large sizes of 120 x 35 cm and 120 x 40 cm set standards in aesthetically demanding facade design.



Investments, environment, research and development



Series Kauri, Jasba



After 9.2 million € in 2006, the investment program commenced in the previous year for the extension and modernization of our Sinzig and Schwarzenfeld Project Ceramics sites was continued in 2007 with investments in the amount of 12.8 million € (AG: 10.6 million €). Thus, Deutsche Steinzeug disposes of a very modern porcelain stoneware site at Sinzig with an annual capacity of between 4 and 5 million m², depending on size and tile thickness, in order to be able to meet the increasing demand for high-quality floor tiles above all for Project Ceramics by a great variety of products. The second substantial investment of the year 2007 was implemented at our Schwarzenfeld site where – in the scope of necessary replacement investments in the drier and final processing areas – an increase in production flexibility and efficiency was achieved at the same time. In the fiscal year gone by, research and development focused above all on the development of new sizes and tiles both for facade ceramics and for porcelain stoneware floor tiles, which are produced at our Sinzig factory. The total investments in 2007 include an amount of approx. 2 million € for the development of our real estate property in Frechen.

Essential investment projects

At the Sinzig site, the large-scale investment announced and started already in the previous year has been largely finished with an investment volume of 6.5 million €. With the implementation of these measures, the capacity for high-quality large-size porcelain stoneware has been significantly increased by the commissioning of an additional roller-type kiln, and a reduction of the cost of production has been achieved by an extensive reorganization of the factory, which will considerably further reinforce the competitiveness of the site. This enables us at the Sinzig site to offer top-quality colour and size variants with integrally coloured porcelain stoneware in a wide spectrum of application at competitive prices. On the other hand, the new sophisticated production possibilities round off our increasingly demanded Project Ceramics range in this product sector.

As essential investment measure at the Schwarzenfeld factory in 2007, a double-tunnel roller-type drier was installed which, thanks to its modern drying technique, permits a considerable increase in performance and thus a significant improvement of quality at reduced cost of production despite the rise in energy costs – in particular for the pro-



duction of increasingly demanded large-size tiles in the Project sector. In addition, as a logical consequence, the decoration facilities for large sizes were also expanded, so that in total approx. 1.6 million € were invested at the Schwarzenfeld site in 2007.

At the Ötzingen site, above all investments in the cost-intensive sorting technique of mosaics were made with a total budget of approx. 0.7 million €. In this connection, especially the investment in a sorting plant for small mosaics must be emphasized by which the conditions for the reintegration of the outsourced small mosaic were created. Thanks to shorter times from receipt of order till dispatch and optimized logistics, the costs for the postprocessing of the small mosaic, which required a large number of staff in the past, could thus be significantly reduced, so that a production in Germany in conjunction with improved logistics and a higher quality standard became possible.

At the Witterschlick and Meißen factories, besides investments in environmental protection, mainly necessary replacement measures were implemented with a total budget of approx. 1.8 million €.

Investments in environmental protection

The eco-friendly and efficient utilization of raw materials and energy sources plays an important role for Deutsche Steinzeug. In this context, approx. 0.7 million € were invested in a central flue gas purification plant at the Meißen factory, which makes it possible to fall below the strict emission limits even more significantly.

At the Witterschlick site, 0.2 million € were invested in the modification of the burner system at the spray tower. By this measure, the utilization of the waste heat resulting from the burner operation could be further improved again.

In addition, the current expenditure for environmental protection measures such as the prevention of air and water pollution as well as waste disposal amounted to approx. 0.3 million € in 2007. All expenses and investments in the scope of environmental protection together amounted to approx. 1.4 million € in 2007.

Research and development 2007

In 2007, approx. 5.3 million € were spent for research and development. In this context, the enlargement of the facade program inclusive of the corresponding completion by matching special pieces must be emphasized in particular. Furthermore, porcelain stoneware tiles in the new large sizes of 45 x 90 cm and 60 x 90 cm were developed for the high-quality Project Ceramics sector at the Sinzig site. But also in the field of wall tiles, numerous new large-size products were developed, which are increasingly demanded by the end consumers. In general, the trend towards large-size wall and floor tiles with new surfaces has continued in the Residential Ceramics and DIY sectors. In addition, as regards porcelain stoneware processing, a technique for the surface treatment after the firing of the tile is also increasingly being used by which very soft and silky-glossy surfaces can be produced, while the slip resistance is guaranteed at the same time.

For the brand Jasba, the range of the 1 x 1 cm micro-mosaic introduced in the previous year has been completed by superior surfaces, as this mosaic format is increasingly demanded as decorative design element both in the Residential and the Project sector. To round off the product range, new large formats in the size of 45 x 45 cm matched to the modular dimensions of Jasba were also developed.



Employees

At the effective date of 31.12.2007, Deutsche Steinzeug Cremer & Breuer AG had a total headcount of 1,676 persons, whereas 1,645 persons had been working in the Company at the same time in the previous year. The increase of 31 members of staff is due to the temporary employment of production staff, mainly at the Sinzig and Schwarzenfeld factories.

Due to the above-mentioned moderate temporary increase in staff numbers, the payment of a fixed year-end bonus to the staff and in consideration of the increases of standard wages resulting from the 2007 round of wage negotiations, the personnel expenses within the Group rose from 68.6 million € (AG: 55.1 million €) in the fiscal year 2006 to 70.8 million € (AG: 56.9 million €) in the year 2007 under review. In the scope of the wage settlement for the Ceramic Industry (West), a collective agreement on the employer funded old-age provision (BAV) was also concluded in order to ensure an important contribution to the employees' personal provision for retirement.

Capacity adjustment at the Ötzingen factory site

Against the background of the severe competitive situation, focusing on higher-value product segments became necessary at the Ötzingen site. That is why Deutsche Steinzeug together with its bodies provided by the Works Constitution Act has made an adjustment of the overall capacity at the Ötzingen site immediately after the end of the period under review at the beginning of the fiscal year 2008. The production in Ötzingen was concentrated on three kilns. In conjunction with this capacity adjustment and further rationalization measures, 80 employees were made redundant as a result of these measures. In favour of the employees concerned and to ensure a maximum of social acceptability, a so-called transfer company with the advantage of extended periods of notice was set



up for the employees, which advises and qualifies the employees at best and helps them to find permanent jobs in the primary labour market again or supports their efforts at setting up new business. Deutsche Steinzeug's offer to join the transfer company was accepted by most of the employees concerned.

Partial relocation of the sales organization of the brand Jasba

In the year under review, we have also started to move individual parts of the sales organization of the brand Jasba (Germany and export) from Ötzingen to Witterschlick in order to strengthen the competitiveness of the brand Jasba. The move of the rest of the sales organization as well as the relocation of the exhibition premises are planned for the current year. The reliable sales philosophy, which has proved itself in the market, as well as an own sales force team for the brand Jasba are also ensured in the new Witterschlick sales location and are of great importance for the future. For the employees concerned by the move, socially acceptable solutions in line with their individual needs have been developed.

Training and transfer of trainees into the Company's workforce

In the reporting year, the previous year's number of trainees (28) was kept on a constant high level with 28 approved and announced new recruitments in technical and commercial jobs requiring training. Thus, Deutsche Steinzeug Group continues to fulfil its social obligations by sometimes employing a number of trainees exceeding own requirements, but the chances for a successful transfer into permanent employment within the Group are still high also due to the approaching alternation of the generations.

Thanks to our staff

The stable revenue situation in the 2007 fiscal year results 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. The cooperation with them in the course of the year was characterized by mutual efforts for constructive solutions and the joint responsibility for safeguarding the Group's future.





Series Senja, Jasba

Extraordinary events 2007/2008

From the operational point of view, the year 2007 was mainly determined by the implementation of the large-scale investments in Schwarzenfeld and Sinzig as well as the special sales efforts above all in the second half-year. The aforementioned investments were successfully implemented during on-going production, but resulted in the fact that the output of first choice products was not optimal during the rebuilding measures in some factories. After this period, however, the quality parameters especially of the last months have shown that the start-up difficulties have now been overcome.

Increase in capacity for the demanded high-quality porcelain stoneware at the Sinzig site

After initial start-up difficulties, the extensive modernization of the Sinzig factory was largely finished by the completion of the calibration line in January 2008. Thus, based on benchmark comparisons, the factory has achieved a standard comparable to that of the South European manufacturers of high-quality porcelain stoneware. Above all the enormous variety of product and size variants which can be produced at the site must be emphasized in particular. In this way, we are capable of reacting with great flexibility to Project wishes and market changes. Besides extra thick floor tiles for warehouse chains, for example, high-quality large sizes for sophisticated, exclusive living areas can also be produced.

Production at the Ötzingen site focusing on high-quality mosaics

The market development in the recent past and especially in 2007 has shown that – due to the competitive situation and the considerable rise in energy costs in Germany – primarily only the high-quality mosaic products can still be economically produced. Against this background, the production at the Ötzingen site has been focused on three kilns since March 2008. In conjunction with this capacity adjustment and further rationalization measures, approximately 80 employees in continuous shift operation have been dismissed. Thanks to these measures, the site with its great production flexibility regarding high-quality mosaics is well-prepared for the future and thus will strengthen the competitiveness of the entire Group.



As a result of these measures, the production of all mosaic formats in the sizes from 1 x 1 cm up to 10 x 10 cm has been concentrated on this factory again. Consequently, the current production volume of this factory is reduced by approx. 20% to 1.2 million m². This enables us, on the one hand, to ensure the quality and product variety of our high-quality small mosaics and, on the other hand, to increase the value added of our extensive product range within the Group by this concentration on the segment of high-quality mosaics. At the same time, we will consistently reintegrate outsourced production stages in order to ensure the high quality standard of our mosaic program also in future.

Awards for products of Deutsche Steinzeug



International design and architecture prizes show the first-class quality of Architectural Ceramics of Agrob Buchtal. So, for example, our first participation in the world-wide renowned design competition "red dot design award" was successful straight away: the large-size tile novelty Bosco received the coveted design prize in the category Architecture & Interior Design. The series Geo with its photoluminescent glass indicators was honoured by the jury with an "honourable mention". Agrob Buchtal was also honoured for the first time by the renowned material library "Material ConneXion" (with offices in New York, Bangkok, Cologne and Milan) for excellent product developments. There, the photoluminescent indicators of the series Geo were also convincing, and in addition, the ceramic orientation aid for the blind, products of the series Construct as well as the Designs Onda A and Onda B from the series Cronos. Finally, we are pleased with top assessments of the leading German architecture journal AIT for two of our products: once again for the photoluminescent indicators as well as for the surface "honeycomb structure" of the series Plural plus 2.



Series Bosco, Agrob Buchtal Architectural Ceramics



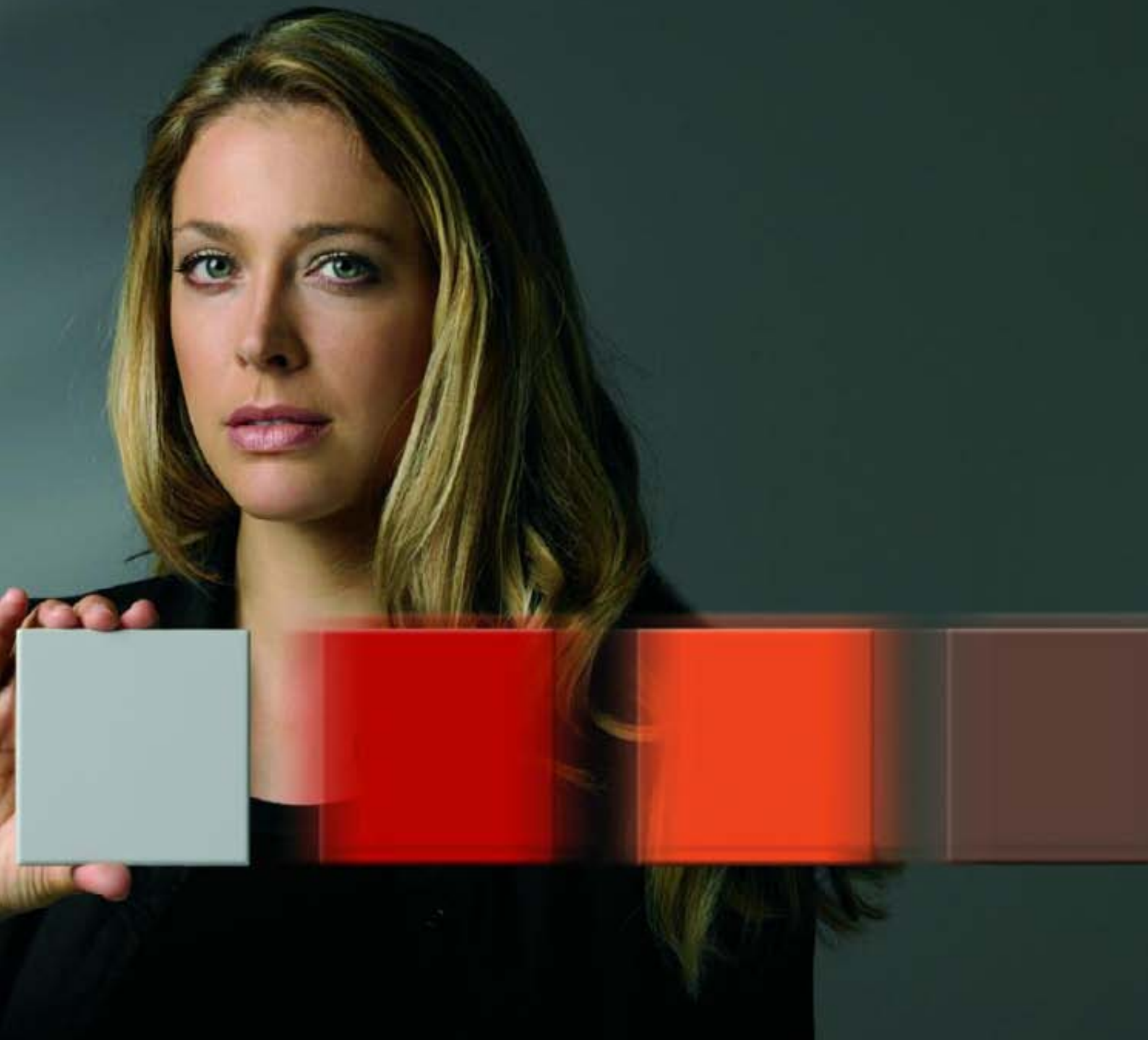
Series Geo, ceramic tiles with photoluminescent indicators, Agrob Buchtal Architectural Ceramics

The new System Plural plus **1** **2** **3**

Surfaces, sizes, colours: creativity³

New sensory impressions.

A classic ready for the future: the successful System Plural has now been carefully but extensively further developed. Plural plus is convincing thanks to its new, modern colour range, the intelligently enlarged modular system of sizes and innovative surface structures which convey new sensory impressions also from the haptic point of view. Its launch was supported by an extensive marketing package, which reaches from events for architects up to innovative presentation furniture.



System Plural plus, Agrob Buchtal Architectural Ceramics



Series Plural plus 2, Agrob Buchtal Architectural Ceramics



Series Plural plus 3, Agrob Buchtal Architectural Ceramics



Series Kauri, Jasba

Deutsche Steinzeug shares

In 2007, the DAX exceeded the level of 8,000 points for the first time since 2000 and closed at 8,067 points despite the uncertain effects of the Subprime crisis in the USA on the economy. In the first months of the year 2008, however, the DAX could not hold its high level above all due to a more pessimistic estimation of the effect of the Subprime crisis on the world economy. In the middle of 2007, the price of the Deutsche Steinzeug share was considerably burdened by an increased selling pressure of diverse shareholders first and in the further development 2007/2008 by economic revaluations in the scope of the financial market crisis.

Macroeconomic boundary conditions

While building shares and shares of related branches of industry still were in great demand in spring 2007 due to the generally positive economic development, these securities also increasingly came under pressure as a result of the US Subprime crisis in the second half-year of 2007. Furthermore, it gradually turned out in the course of the year that the anticipatory effect in 2006 – in particular also in the renovation market very important to Deutsche Steinzeug due to the value-added tax increase and the cancellation of the government grant scheme for owner-occupied homes – was far more significant than expected by most of the market participants. Along with this market development and in view of generally reduced economic expectations, the Deutsche Steinzeug share came under pressure in the second half-year of 2007, which still lasts at present.

Admission of the shares newly created in the scope of the recapitalization in 2006 to official trading at the Frankfurt Stock Exchange in July 2007

The 23,104,785 new shares in total having resulted from the capital increases in 2006 were admitted to trading at the Frankfurt Stock Exchange within the time limit provided by law on 20 July 2007 for the first time. On 01 August 2007, the share was listed in the continuous market at the German Xetra Stock Exchange. The consequence of this was that the Deutsche Steinzeug share was subject to heavy selling pressure for a longer period of time. From the Company's point of view, the decline in price is also due to the effected admission of the newly issued shares to official trading by which – for the first time after the capital increases in 2006 – more than 80% of the total share volume could be traded in the official market (General Standard) at the Frankfurt Stock



Series Aramis – Jewel, Agrob Buchtal Residential Ceramics

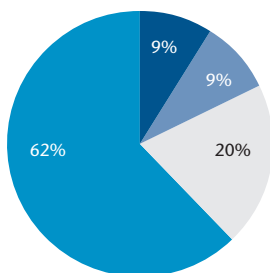
Exchange in addition. As a result of this, above all the shareholders which had acquired their shares by exercising the oversubscription right more than a year ago at par, i.e. at the issue price of one Euro, and whose shares could be traded only in the less fungible OTC market at the Düsseldorf Stock Exchange in the past, could sell these shares via the stock exchange profitably without paying speculation tax. This considerably influenced the price performance.

On 21 February 2008, the Company announced in an ad hoc publication that the financial investors which hold 62.5% of the shares in Deutsche Steinzeug have charged the investment bank BNP Paribas S.A. with the organization of a selling process. Until now, the Company does not have any further information with respect to disclosure requirements.

Designated Sponsoring

Parallel to the admission of the new shares from the recapitalization, which until 19 July 2007 only could be traded in the OTC market, to official trading at the Frankfurt Stock Exchange, Deutsche Steinzeug engaged a Designated Sponsor. The target is to increase the liquidity in the share and to reduce price variations. Nevertheless, the average quantity of shares traded daily is relatively low, so that transactions involving a comparatively very low number of shares may result in substantial price variations.

Shareholders structure



- Investors
- Family syndicate
- Gruppo Concorde
- Free float

Shareholder structure

Deutsche Steinzeug is not aware of any information – e.g. notifications according to WpHG (German Securities Trading Law) – which indicates a change in the Company's shareholder structure in the fiscal year gone by. 62.5% of the shares are still held by the financial investors Deutsche Bank, Goldman Sachs, Lonestar and BNP. Gruppo Concorde continues to hold 8.6% of the shares, the family consortium almost 8.6%.

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 Group profit per share amounts in 2007 to 0.07 €.



Series Senja, Jasba



Series Kauri, Jasba



Series Senja, Jasba



Nature as source of inspiration.

With top-class novelties, which interpret the inspiring wealth of colours and forms of nature in an aesthetically convincing manner, Jasba underlines its distinctive brand profile. So, for example, the series Senja plays with suggested wood structures, while Kauri conveys the mysterious colour magic of the underwater world. The enormous variety of sizes - from the micro-mosaic up to the representative large format - is also typical of Jasba.

Series Kauri, Jasba

Business development 2008 and outlook



Drehnte-Park, The Hague/Netherlands

After the first half-year of 2007 was still characterized by optimism throughout the ceramic industry, it became apparent in the further course of the year 2007 that the general economic upswing has not yet become noticeable in the tile sector. The anticipatory effects in 2006 due to the value-added tax increase and the cancellation of the government grant scheme for owner-occupied homes in the first half-year of 2007 have rather been underestimated. In addition, the propensity to consume in the sector of Residential Ceramics has obviously slackened world-wide along with the US property and financial market crisis. After an estimated decline in the domestic sales market in 2007 of approx. 5%, most of the experts assume a decline of approx. 3-4% for 2008 again. Due to the expected trend towards higher-value products with increased average revenues, Deutsche Steinzeug expects the market volume in Germany to remain approximately the same by value in the fiscal year 2008 despite the decline in sales volume. The situation in the export sector, however, is far more positive. Regarding this, a considerable increase compared to the previous year is expected in 2008 again for all sales organizations.

German market

In general, the economic boundary conditions for the current year 2008 are estimated rather positively on the whole. Even though it is expected that the upswing of the two last years will slow down, falling in a downturn phase is considered to be unlikely. For 2008, the building materials industry expects a real increase in the gross domestic product of 1.8% and for 2009 of 1.5%.

While it is estimated that the entire volume of construction output rose in 2007 by approx. 1.9% compared to 2006, a considerable decline in the number of completed homes is expected, so that a decrease of approx. 1.0% is to be noted for the total volume of residential construction. For 2008, a similar development is expected. A recovery in the residential construction market is expected again only as of 2009. In the renovation sector, a decrease in volume is also expected for 2008 first, until in 2009 an increase can be expected again as a result of a further growing number of households and rising quality requirements as well as the – even though weaker – upswing of the whole

industry. In the sectors of public building activities and industrial building construction, on the other hand, a slight picking up is also already expected, like for 2007, for the current year 2008.

The declining market development for Ceramic Covering Materials expected for 2008 is taken into account by Deutsche Steinzeug in so far as rising average revenues per m² due to a further increase in value of our product mix and thus a constant turnover are expected for 2008 on the whole. Consequently, an additional turnover growth for Deutsche Steinzeug is solely expected in the export markets, which is also reflected by the continuous investments in foreign sales organizations especially in Eastern Europe and Asia.

Export market

Even if decelerating growth is expected world-wide, an economic growth of approx. 3.0% to 4.0% in total can still be expected. The markets still especially relevant for Deutsche Steinzeug are the considerably growing export markets of China, Eastern Europe and Russia, where our high-quality products both in the Project sector and in the upmarket Residential Ceramics niche sector as well as the Jasba Mosaic sold on selective markets are of particular importance. Our market position as supplier of high-quality products is especially supported by our USP Hydrotect. The advantages of Hydrotect-coated tiles as regards the elimination of unwelcome odours and the permanent easy (self-)cleaning meet with particularly great acceptance in the export markets. Therefore, we are expecting a further increase in our exports for the entire year 2008, both absolute and also in relation to the previous year, in order to achieve our overall growth within the Group in this way.

Development at the beginning of 2008 as planned

In the first three months of 2008, Deutsche Steinzeug developed approximately in line with the planned total operating performance and profit. Against the background of the reluctance to consume in Germany and the low number of workdays, among other things because of an early Easter, the planning for the first quarter of 2008 was rather conservative. However, as the volume of orders continued to develop very positively towards the end of the first quarter of 2008, we are still confident that the growth targets especially in the export sector will be achieved over the entire year.



Series Canvas, Medea Ceramica



Risengabad, Oslo/Norway



Modular sizes of the System Plural plus, Agrob Buchtal Architectural Ceramics

The capacity decrease which had become necessary as a result of the increased orientation towards high-quality mosaics at the Ötzingen site has been implemented successfully and socially acceptable, so that a net cost cutting can be expected already in this year. Like in the previous year, however, we must still take the very high procurement costs for energy and raw materials into account, but the countermeasures introduced in all factories are supposed to have a positive effect as of the second quarter of 2008.

Outlook to the result of 2008

After in the fiscal year 2007, as reported, the production process at the Schwarzenfeld and especially the Sinzig factories was burdened to an unexpectedly great extent during the rebuilding phase along with the investment implementations, the factories had a very good start to the year 2008 as regards quality and performance. Thus, the foundations for the growth above all in the increasingly demanded porcelain stoneware and facade sectors have been laid.

Even though the demand situation in Germany was unsatisfactory in the first months as expected, first signs of a revival of demand are noticeable in the renovation market which is important for Deutsche Steinzeug. In addition, we are also pleased to realize a great interest of architects and planners in our colour and format system Plural for commercial applications, which was completely revised at the end of 2007. Moreover, the top-quality product novelties which now are possible in the porcelain stoneware sector at the Sinzig site are very well accepted by the customers.

Despite the planned turnover growth and the measures taken to improve efficiency, we do not expect to succeed in significantly increasing the achieved result on EBITDA level compared to 2007. The main causes for this are the substantial price increases in the energy sector and of individual raw materials as well as wage and salary increases which will continue also in future.



Series Achat, Agrob Buchtal Residential Ceramics

The depreciations of fixed assets and long-term investments will slightly increase due to the investments finished in 2007, and the interest will be approximately at previous year's level.

In the next one to two years, however, we are expecting an absolute increase in the EBITDA by more than 10% due to the measures we have taken to improve efficiency, but with slightly rising turnovers – mainly resulting from exports, especially in the facade sector – we are also confident that we will succeed in compensating the inevitable increases in factor cost in the fields of energy and personnel by innovative product developments and an improvement of the value of our product range.

Frechen, 31 March 2008

Dieter Schäfer

Eckehard Forberich



Our USP:

**Hydrotect –
tiles with integrated cleanliness**

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

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

Details of 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

	2007 T€	2006 T€	Abw. T€
Sales	243,246	238,192	+5,054
Changes in finished goods and work-in-progress	8,065	687	+7,378
Own production capitalized	344	276	+68
Total turnover and operating result	251,655	239,155	+12,500
Cost of materials	119,881	110,790	+9,091
Gross trading profit	131,774	128,365	+3,409
Personnel expenses	70,576	68,172	+2,404
Other operating expenses / income	41,535	39,740	+1,795
EBITDA before special effects	19,663	20,453	-790
Depreciation	7,887	7,529	+358
EBIT before special effects	11,776	12,924	-1,148
Income from investments	113	72	+41
Net interest income	-8,552	-7,399	-1,153
EBT (net operating income/loss) before special effects	3,337	5,597	-2,260
Special effects (on EBITDA/EBIT level)	-128	38,517	-38,645
Special effects (depreciations of financial assets)	688	2,061	-1,373
Income taxes	-197	-164	-33
Deferred taxes	-315	-6,138	+5,823
Annual net profit/loss	2,009	35,752	-33,743
DVFA/SG adjustments	451	-32,188	+32,639
DVFA/SG result	2,460	3,564	-1,104
DVFA/SG net result	2,460	3,564	-1,104



Mercedes Benz, Stuttgart/Germany



Series Scratch/series Metropolitan, Medea Ceramica



Palatul Parlamentului, Bukarest/Romania

Deutsche Steinzeug Group Cash Flow Statement

	2007 T€	2006 T€
Group net profit/loss	2,009	35,752
Depreciations/write-ups on fixed assets	7,974	7,560
Change in the reserves for pensions	-3,229	-5,365
Other expenditure and revenues without effect on payment and earnings of essential importance	971	-30,873
Profits/losses arising from the disposal of fixed assets	-224	-1,010
Cash flow from the result (1)	7,501	6,064
Change in the inventories	-9,053	-2,416
Change in the other reserves	-3,166	2,309
Change in the accounts receivable and other assets	3,585	-4,585
Change in other liabilities	-1,288	2,655
Cash flow arising from current business operations (2)	-2,421	4,027
Investments in intangible assets	-5	-66
Investments in property, plant and equipment	-10,731	-8,306
Investments in financial assets	-2,083	-857
Inpayments from disinvestments	4,571	1,991
Cash flow arising from investment activity (3)	-8,248	-7,238
Change in the share capital	0	10,850
Payment to AGROB AG for the assumption of pension obligations	0	-1,700
Change in liabilities due to banks	11,483	-1,465
Cash flow arising from financing activity	11,483	7,685
Changes in the companies consolidated and currency-related changes (4)	-390	158
Changes in liquid funds/securities (1-4)	424	4,632
Liquid funds/securities by 1 January	7,364	2,732
Liquid funds/securities by 31 December	7,788	7,364

Result in accordance with DVFA/SG

	2007 T€	2006 T€
Group net profit	2,009	35,752
Release of debt affiliated companies	600	1,700
Reorganization profit	0	-38,574
Results of non-consolidated subsidiaries	-213	0
Disposal losses – investments	0	0
Book losses from land disposal	0	0
Expenditure in connection with “discounting operations”	0	0
Tax adaptations/deferred taxes	64	4,686
Adapted Group result	2,460	3,564
DVFA/SG result	2,460	3,564
Third-party shares of result	0	0
DVFA/SG net result	2,460	3,564
Number of dividend-bearing shares adj.	27,615,618	27,615,618
DVFA/SG net result per share (€)	0.09	0.13



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Consolidated Balance Sheet as of 31.12.2007 Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2007 €'000	31.12.2006 €'000
Long-term fixed assets			
Intangible assets	1	15,034	15,242
Property, plant and equipment	2	78,769	75,737
Real estate held as financial investment	3	6,466	8,745
Other financial assets	4	2,544	8,345
		102,813	108,069
Other long-term assets	5	1,862	2,860
Deferred taxes	6	757	1,195
Total long-term fixed assets		105,432	112,124
Short-term assets			
Inventories	7	61,248	52,195
Accounts receivable, trade	8	20,593	19,439
Accounts due from affiliated companies	9	0	4
Other accounts receivable and assets	10	2,737	7,074
Liquid funds	11	7,788	7,364
Total short-term assets		92,366	86,076
Total assets		197,798	198,200

Liabilities and shareholders' equity	Note number	31.12.2007 €'000	31.12.2006 €'000
Shareholders' equity			
Subscribed capital	12	27,616	27,616
Earnings reserves	13	31,079	-4,330
Group result	14	2,009	35,752
Total equity capital		60,704	59,038
Long-term liabilities			
Accruals for pensions and similar obligations	15	16,437	19,666
Other long-term accruals	16	1,311	1,379
Banks loans and overdrafts	17	60,341	52,746
Accounts payable, trade	18	1,792	919
Other long-term liabilities	19	5,650	8,069
Deferred taxes	6	6,145	6,212
		91,676	88,991
Short-term liabilities			
Other short-term accruals	16	11,853	14,952
Banks loans and overdrafts	17	6,434	2,546
Accounts payable, trade	18	17,394	14,447
Other short-term liabilities	19	9,737	18,226
		45,418	50,171
Total liabilities		137,094	139,162
Total shareholders' equity and liabilities		197,798	198,200

Consolidated Profit and Loss Statement as of 31.12.2007
Deutsche Steinzeug Cremer & Breuer AG

	Note number	2007 €'000	2006 €'000
Sales	20	243,246	238,192
Change in finished goods and work-in-progress		8,065	687
Other own work capitalized		344	276
Total operating performance		251,655	239,155
Other operating income	21	11,832	51,771
Cost of materials	22	119,881	110,790
Personnel expenses	23	70,778	68,560
Depreciations	24	7,887	7,529
Other operating expenses	25	53,293	52,606
		240,007	187,714
Earnings before interest and taxes (EBIT)		11,648	51,441
Financial results	26	-9,127	-9,387
Net operating income		2,521	42,054
Taxes	27	512	6,302
Net profit		2,009	35,752

Group Notes 2007

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 31.12.2007 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 2007. 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 7	Financial instruments: details	01.01.2007	YES	Details in the notes
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 derivatives	01.06.2006	YES	none
IFRIC 10	Interim reporting and impairment of value	01.11.2006	YES	none

*as of 31.12.2007

New or changed standards not applied

Standard	Interpretation	Duty of application	Adoption by EU Commission*	Expected consequences
IFRS 8	Operative segments	01.01.2009	YES	Segment reporting
IAS 1	Representation of the financial statement	01.01.2009	NO	Restructuring of financial statements
IAS 23	Borrowing costs	01.01.2009	NO	Increase in the balance sheet item of qualifying assets
IFRIC 11	Intragroup basic transactions and transactions with own shares according to IFRS 2	01.03.2007	YES	none
IFRIC 12	Service franchise agreements	01.01.2008	NO	none
IFRIC 13	Customer loyalty programmes	01.07.2008	NO	none
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction	01.01.2008	NO	no fundamental ones

*as of 31.12.2007

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

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

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

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.

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.

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 30%. 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 funds

The liquid funds 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 31.

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 periods 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, 8 domestic and 4 foreign subsidiary companies are included in the consolidated financial statement of Deutsche Steinzeug like in the previous year. A further 7 companies which belong to the consolidated companies, each in itself and jointly, are of subordinate significance for the obligation of presenting an image of the asset, financial and earnings position of the Group in correspondence with the actual situation. 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 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.

companies, the functional currency is the respective national currency, because all companies operate their business independently in financial, economic and organizational respect.

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

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	
		2007	2006	2007	2006
US-Dollar	USD	1.4721	1.3170	1.3705	1.2556
Swiss Franc	SFR	1.6547	1.6069	1.6427	1.5729

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 2007 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	Total €'000
Accumulated historical costs			
Status as of 01.01.2006	2,817	19,041	21,858
Currency changes	0	0	0
Additions 2006	66	0	66
Disposals 2006	69	0	69
Transfers	0	0	0
Status as of 31.12.2006	2,814	19,041	21,855
Status as of 01.01.2007	2,814	19,041	21,855
Currency changes	0	0	0
Additions 2007	5	0	5
Disposals 2007	0	0	0
Transfers	0	0	0
Status as of 31.12.2007	2,819	19,041	21,860
Accumulated depreciations			
Status as of 01.01.2006	2,265	4,174	6,439
Currency changes	0	0	0
Additions 2006	241	0	241
Disposals 2006	67	0	67
Transfers	0	0	0
Status as of 31.12.2006	2,439	4,174	6,613
Status as of 01.01.2007	2,439	4,174	6,613
Currency changes	0	0	0
Additions 2007	213	0	213
Disposals 2007	0	0	0
Transfers	0	0	0
Status as of 31.12.2007	2,652	4,174	6,826
Remaining book values			
Status as of 31.12.2007	167	14,867	15,034
Status as of 31.12.2006	375	14,867	15,242

In the item "Trademarks and licenses", 3 software packages were capitalized as additions. The software packages are regularly depreciated over a period of usefulness of 3 years.

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 2007.

Like in the previous year, no assets are included in the intangible assets which are subject to a limited property right.

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.

The liabilities due to banks in the amount of € 18,364,000 are secured by mortgages on land and buildings. In addition, there is a first land charge in favour of Pensionssicherungsverein, Cologne, in the amount of € 6,000,000 (prev. year: € 6,000,000) – on the balance sheet date, the liability to be secured amounts to € 4,714,000.

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 2007, the rental and leasing expenses amounted to € 3,523,000 (prev. year: € 3,176,000).

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

	up to 1 year €'000	1 to 5 years €'000	over 5 years €'000
Operating Leasing			
Payment obligations	2,017	2,088	0

The fixed assets used for operating purposes developed as follows:

	Land and buildings	Technical equip., plant and machinery	Other equipment, operational and office equipment	Advance payments and construction in progress	Total
	€'000	€'000	€'000	€'000	€'000
Accumulated historical costs					
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
Status as of 01.01.2007	97,674	209,555	23,070	5,097	335,396
Currency changes	-6	0	-64	0	-70
Change in consolidated companies	0	0	0	0	0
Additions 2007	519	9,318	706	188	10,731
Disposals 2007	72	144	419	0	635
Transfers	46	4,892	59	-4,997	0
Status as of 31.12.2007	98,161	223,621	23,352	288	345,422
Accumulated depreciations					
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
Status as of 01.01.2007	64,603	174,438	20,618	0	259,659
Currency changes	-2	0	-49	0	-51
Change in consolidated companies	0	0	0	0	0
Additions 2007	1,824	4,897	886	0	7,607
Disposals 2007	72	132	358	0	562
Transfers	0	0	0	0	0
Status as of 31.12.2007	66,353	179,203	21,097	0	266,653
Remaining book values					
Status as of 31.12.2007	31,808	44,418	2,255	288	78,769
Status as of 31.12.2006	33,071	35,117	2,452	5,097	75,737

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 4.7 million € (prev. year: 7.0 million €). The current market value, however, is 8.4 million €. Due to the further development in the current fiscal year, a value of 2.1 million € was capitalized in addition for a plot of land; the sale or partial sale of two plots of land has the contrary effect with 4.3 million €. A non-scheduled depreciation in the amount of 0.1 million € was made on one plot of land. The book values correspond to the depreciated cost of acquisition. The difference compared to the book values in the individual financial statements of the Group companies 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 5,000 € (prev. year: 11,000 €) 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 Pensions-sicherungsverein.

4 Other financial assets

The disposal in the shares in affiliated companies results from the liquidation or discontinuance of two

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 approx. 0.2 million € like in the previous year; the current market values, however, amount to about 0.9 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 still is 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 19,000 € (prev. year: 42,000 €) 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 150,000 € realized in the fiscal year 2007 due to the sales are entered in the profit and loss statement with effect on the result in the item "Other operating income".

companies. A company with a pro memoria figure of 1.-- € reported under the investments was closed out.

The other financial assets developed as follows:

	Shares in affiliated companies	Other investments	Real estate held as financial investment	Total
	€'000	€'000	€'000	€'000
Accumulated historical costs				
Status as of 01.01.2006	8,268	57	10,900	19,225
Currency changes	0	0	0	0
Change in consolidated companies	137	-23	0	114
Additions 2006	0	0	857	857
Disposals 2006	0	0	795	795
Transfers	0	0	0	0
Status as of 31.12.2006	8,405	34	10,962	19,401
Status as of 01.01.2007	8,405	34	10,962	19,401
Currency changes	0	0	0	0
Change in consolidated companies	0	0	0	0
Additions 2007	0	0	2,083	2,083
Disposals 2007	5,844	34	5,529	11,407
Transfers	0	0	0	0
Status as of 31.12.2007	2,561	0	7,516	10,077
Accumulated depreciations				
Status as of 01.01.2006	0	34	2,217	2,251
Currency changes	0	0	0	0
Change in consolidated companies	0	0	0	0
Additions 2006	60	0	0	60
Disposals 2006	0	0	0	0
Transfers	0	0	0	0
Status as of 31.12.2006	60	34	2,217	2,311
Status as of 01.01.2007	60	34	2,217	2,311
Currency changes	0	0	0	0
Change in consolidated companies	0	0	0	0
Additions 2007	0	0	88	88
Disposals 2007	43	34	1,255	1,332
Transfers	0	0	0	0
Status as of 31.12.2007	17	0	1,050	1,067
Remaining book values				
Status as of 31.12.2007	2,544	0	6,466	9,010
Status as of 31.12.2006	8,345	0	8,745	17,090

5 Other long-term assets

The other long-term assets and accounts due from affiliated companies in the total amount of

€ 1,862,000 (prev. year: € 2,860,000) are explained in numbers 9 and 10.

6 Deferred taxes

The deferred tax assets in the amount of € 757,000 (prev. year: € 1,195,000) and the deferred tax liabilities in the amount of € 6,145,000 (prev. year: € 6,212,000) 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:

	number	Deferred tax assets		Deferred tax liabilities	
		31.12.2007 €'000	31.12.2006 €'000	31.12.2007 €'000	31.12.2006 €'000
Intangible assets	1	0	0	1,107	405
Fixed assets	2	0	0	7,061	9,498
Financial assets	3 / 4	0	0	0	0
Inventories	7	120	87	45	0
Other assets	5 / 8 / 9 / 10	1,786	2,105	2	31
Pension accruals	15	281	1,719	1	0
Other accruals	16	51	478	44	154
Liabilities	18 / 19	73	47	1,865	2,364
Losses carried forward		2,426	2,999	0	0
Balancing		-3,980	-6,240	-3,980	-6,240
Balance sheet item		757	1,195	6,145	6,212

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.

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 as of 31.12.2007. The lower amount reported compared to the previous year results from the reduction of the consolidated tax rate from 38% to 30%.

The individual balance sheet positions are explained under the stated number; for further details on the deferred taxes, see number 27 "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

	31.12.2007	31.12.2006
	€'000	€'000
Raw materials and supplies	7,240	7,938
Work in process	5,350	4,508
Finished goods and merchandise	48,658	39,749
	61,248	52,195

The inventories are pledged in the amount of € 61,241,000 (previous year: € 48,986,000) 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 2007:

	31.12.2007	31.12.2006
	€'000	€'000
Accounts receivable, trade	20,593	19,439

The accounts receivable, trade are balanced at their nominal value. For recognizable non-payment risks, value adjustments in the amount of € 1,117,000 (previous year: € 1,261,000) have been assessed as of 31.12.2007.

The accounts receivable, trade are pledged by blanket assignment as security 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 31.12.2007	Accounts due from affiliated companies as of 31.12.2006
	€'000	€'000
with a remaining term of		
up to 1 year	0	4
more than 1 year	1,569	1,570
Total	1,569	1,574

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

10 Other accounts receivable and assets

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

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

The values developed as follows:

	Value on 31.12.2007	with a remaining term of		Value on 31.12.2006	with a remaining term of	
	€'000	up to 1 year €'000	over 1 year €'000	€'000	up to 1 year €'000	over 1 year €'000
Other accounts receivable and assets	2,394	2,101	293	7,570	6,280	1,290
Deferred charges	636	636	0	794	794	0
	3,030	2,737	293	8,364	7,074	1,290

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 company Jasba Ofenkachel Vermögensverwaltung GmbH adjusted to a pro memoria figure of € 1.--

and intended for sale in the previous year has been fully adjusted in value again down to the pro memoria figure of € 1.-- in the current year after the additional capitalization of € 600,000 as a result of a further waiver of claims outstanding. About this, also see number 26 "Financial result".

11 Liquid funds

	31.12.2007	31.12.2006
	€'000	€'000
Checks and cash on hand	220	74
Cash in bank	7,568	7,290
	7,788	7,364

The cash on hand and the cash in bank are balanced at nominal amount; cash equivalents are not held. Approximately half of the day-to-day cash in bank is

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 reserve provided for by the Articles of Incorporation of Deutsche Steinzeug Italia s.r.l.,

- the reserves for own shares of the consolidated companies since belonging to the Group and
- the effects of the consolidation measures.

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: € 27,615,618.--) and is divided up into

27,615,618 (previous year: 27,615,618) individual share certificates with an accounting par value of € 1.--. The shares are in the name of the owners.

13 Earnings reserves

The reserves for own shares of the Group in the amount of € 31,079,000 (previous year: € -4,330,000) 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 statutory reserve of Deutsche Steinzeug Cremer & Breuer AG are included in this item.

14 Group result

This position includes the Group net profit for the fiscal year 2007 in the amount of € 2,009,000.

Transitional statement of equity capital

	Subscribed capital	Capital reserves	Earnings reserves shares	Group result	Total shareholders' equity
	€'000	€'000	€'000	€'000	€'000
Status as of 01.01.2006	27,065	2,707	-24,809	-4,526	437
Reclassification of Group result of previous year	0	0	-4,526	4,526	
Capital reduction	-22,554	0	22,554	0	0
Capital increase	23,105	0	0	0	23,105
Retransfer of the capital reserves	0	-2,707	2,707	0	0
Group result	0	0	0	35,752	35,752
Currency change	0	0	-256	0	-256
Status as of 31.12.2006	27,616	0	-4,330	35,752	59,038
Status as of 01.01.2007	27,616	0	-4,330	35,752	59,038
Reclassification of Group result of previous year	0	0	35,752	-35,752	0
Group result	0	0	0	2,009	2,009
Currency change	0	0	-343	0	-343
Status as of 31.12.2007	27,616	0	31,079	2,009	60,704

Long-term liabilities

15 Accruals for pensions and similar obligations

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. A fluctuation was not taken into account, as the company pension systems had been closed in 1984/1996. The actuarial profits/losses are recorded with effect on the result in the profit and loss statement. The Defined Benefit Obligation (DBO) is carried as liability, taking into account scheduled assets. Reinsurances serve as scheduled assets.

For the calculations, the following parameters were used:

	31.12.2007	31.12.2006
	%	%
Assumed rate of interest	5.60	4.50
Expected yield on scheduled assets	4.50	4.50
Salary trend	up to 1.75	2.00
Pension trend	1.75	1.75

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

	Status 01.01.2007	Change 2007	Status 31.12.2007	Status 01.01.2006	Change 2006	Status 31.12.2006
	€'000	€'000	€'000	€'000	€'000	€'000
Accrual for pensions	19,666	-3,229	16,437	65,635	-45,969	19,666
Current service cost			201			192
Interest expense			1,017			1,669

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

profit after setting off against the pension expenses was recorded under the "Other operating income".

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

	31.12.2007	31.12.2006
	€'000	€'000
Pension obligation (DBO) by 01.01.	22,826	68,347
Current service cost	201	192
Interest expense	1,017	1,669
Pension payments	-756	-2,259
Actuarial profits (-)/losses	-3,416	-4,519
Transfer of pension obligations	395	-40,604
Pension obligation (DBO) by 31.12.	20,267	22,826
Scheduled assets by 01.01.	3,160	2,712
Revenue from scheduled assets	95	48
Employers' contributions	575	400
Scheduled assets by 31.12.	3,830	3,160
Pension obligation (DBO) by 31.12.	20,267	22,826
minus scheduled assets by 31.12.	3,830	3,160
Pension reserve acc. to balance sheet as of 31.12.	16,437	19,666

16 Long- and short-term other accruals

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

	Status 01.01.2006	Currency changes	Transfer 2006	Utilization 2006	Retransfer 2006	Status 31.12.2006
	€'000	€'000	€'000	€'000	€'000	€'000
Long-term accruals	1,795	0	49	312	153	1,379
Taxes	767	0	633	16	0	1,384
Personnel	2,107	-2	2,910	1,897	77	3,041
Guarantees and other remunerations	4,165	0	4,245	2,989	411	5,010
Others	5,188	-10	4,796	4,384	73	5,517
	14,022	-12	12,633	9,598	714	16,331
	Status 01.01.2007	Currency changes	Transfer 2007	Utilization 2007	Retransfer 2007	Status 31.12.2007
	€'000	€'000	€'000	€'000	€'000	€'000
Long-term accruals	1,379	0	96	64	100	1,311
Taxes	1,384	8	175	438	131	998
Personnel	3,041	-2	2,321	2,729	194	2,437
Guarantees and other remunerations	5,010	-2	4,032	3,038	618	5,384
Others	5,517	-21	2,574	4,750	286	3,034
	16,331	-17	9,198	11,019	1,329	13,164

The long-term accruals include obligations concerning the recultivation of areas as well as the reserve for the preservation of business records.

The tax accruals include a reserve for corporate income 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. For the fiscal year 2007, a reserve for trade tax in the amount of € 170,000 was formed. 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.

17 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 31.12.2007	Value by 31.12.2006
	€'000	€'000
Long-term liabilities due to banks	60,341	52,746
Short-term liabilities due to banks	6,434	2,546
	66,775	55,292

Of the liabilities due to banks, € 66,638,000 are secured by mortgages in the amount of € 18,364,000 (previous year: € 8,450,000) and the rest by blanket assignment of trade receivables, by pledging of the inventories and the non-real-estate fixed assets as well as the shares in four subsidiary companies. In addition, all present and future brands, patents, rights of use, copyrights and all present and future

cash in bank are pledged. These securities are provided by the companies Deutsche Steinzeug Cremer & Breuer AG, Deutsche Steinzeug Keramik GmbH, Meissen Keramik Vertriebs GmbH as well as Deutsche Steinzeug Immobilien GmbH & Co. KG.

Liabilities due to banks with a remaining term of more than 5 years do not exist.

18 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	with a remain. term of		Value by	with a remain. term of	
	31.12.2007	up to 1 year	over 1 year	31.12.2006	up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts payable, trade	19,186	17,394	1,792	15,366	14,447	919
- of which bills of exchange payable	89	58	31	158	58	100

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.

19 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	with a remain. term of		Value by	with a remain. term of	
	31.12.2007	up to 1 year	over 1 year	31.12.2006	up to 1 year	over 1 year
	€'000	€'000	€'000	€'000	€'000	€'000
Accounts due to affiliated companies	3,373	3,373	0	9,292	9,292	0
	3,373	3,373	0	9,292	9,292	0
Liabilities from taxes	489	489	0	624	624	0
Liabilities in the scope of social security	788	558	230	792	551	241
Other liabilities	10,699	5,279	5,420	15,566	7,738	7,828
Deferred income	38	38	0	21	21	0
	12,014	6,364	5,650	17,003	8,934	8,069
	15,387	9,737	5,650	26,295	18,226	8,069

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 the trade association, which have not yet been paid. In addition, the liability from the change of the financing method due to Pensionsversicherungsverein

is included here. Of the liabilities in the scope of social security, an amount of € 141,000 has a remaining term of more than 5 years.

The other liabilities include the compensating payment to Pensionsversicherungsverein. Furthermore, liabilities due to employees in the amount of € 363,000 (previous year: € 535,000) are included in this position. Of the other liabilities, an amount of € 399,000 has a remaining term of more than 5 years.

Explanations of the consolidated profit and loss statement

20 Sales

The sales are divided up as follows:

	2007	2006
	€'000	€'000
Germany	152,323	152,718
Other countries	90,923	85,474
	243,246	238,192

Referred to the external sales, domestic sales in the amount of € 148,012,000 (prev. year:

€ 147,985,000) and international sales in the amount of € 95,234,000 (prev. year: € 90,207,000) result.

21 Other operating income

The other operating income includes the following:

	2007	2006
	€'000	€'000
Income from the assumption of pension obligations	0	30,404
Income from the increase of non-cash capital	0	8,170
Income from the refund of mineral oil and electricity tax	4,028	3,643
Income from the retransfer of reserves	1,197	1,409
Income from payments of damages	179	74
Actuarial profit from the pension reserves	2,922	4,519
Other operating income	3,506	3,552
	11,832	51,771

The other operating income includes out-of-period income in the amount of € 2,950,000 (previous year: € 3,512,000).

22 Cost of materials

Cost of materials is subdivided as follows:

	2007	2006
	€'000	€'000
Cost of raw materials and supplies	47,499	45,367
Cost of merchandise	38,465	34,668
Cost of purchased services	33,917	30,755
	119,881	110,790

23 Personnel expenses

The personnel expenses includes the following:

	2007	2006
	€'000	€'000
Wages and salaries	58,296	55,615
Social security	12,167	11,866
Cost of pensions	315	1,079
	70,778	68,560

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 2007 and 2006 respectively, the average number of employees in the Group was:

	2007	2006
	€'000	€'000
Wage earners	1,176	1,158
Salaried employees	502	495
	1,678	1,653

24 Depreciations

The depreciations are divided up as follows:

	2007	2006
	€'000	€'000
Depreciations of intangible assets	213	242
Depreciations of property, plant and equipment	7,607	7,287
Depreciations of current assets	67	0
	7,887	7,529

25 Other operating expenses

The other operating expenses mainly include freight charges, commissions, maintenance expenses, advertising expenses as well as rentals paid. The other operating expenses also include costs for research and development in the amount of

€ 5,328,000 (previous year: € 8,098,000) as well as the other taxes in the amount of € 382,000 (previous year: € 941,000). Furthermore, out-of-period expenditures in the amount of € 50,000 (previous year: € 1,372,000) are included in this item.

26 Financial results

The financial results include the following:

	2007	2006
	€'000	€'000
Income from investments	113	73
Depreciation of an investment recorded under the other assets	-600	-2,061
Depreciation of a real estate held as financial investment	-88	0
Other interest and similar income	247	250
Interest and similar expenses	-8,799	-7,649
Net interest income	-8,552	-7,399
Financial results	-9,127	-9,387

The income from investments represents the profit claims against the non-consolidated subsidiary companies.

With regard to the depreciations of an investment recorded under the other assets in the amount of € 600,000, we refer you to number 10 "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 € 1,017,000 (previous year: € 1,669,000) is included. In the fiscal year 2007, out-of-period interest expenses in the amount of € 57,000 (previous year: € 0,000) and out-of-period interest income in the amount of € 16,000 (previous year: € 0,000) accumulated.

27 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.

In the fiscal year 2007, the corporate tax rate was adjusted from 38% to 30% due to the changes in the German tax law.

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

	2007	2006
	€'000	€'000
Current taxes in Germany	130	126
Current taxes abroad	67	38
Current taxes	197	164
Deferred taxes in Germany	284	6,187
Deferred taxes abroad	31	-49
Deferred taxes	315	6,138
Income taxes	512	6,302

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 30% had been applied to the IFRS Group result before taxes as follows:

	2007	2006
	€'000	€'000
Result before taxes	2,521	42,055
Tax rate of Deutsche Steinzeug Group	30%	38%
Fictitious expenditure for income taxes	756	15,981
100% setting off of the reorganization profit against the tax loss carryforward	0	-14,658
Setting off of the current profit against the tax loss carryforward	-483	-466
Tax refunds from previous years	39	0
Deviating tax rates	-2	20
Capitalization of tax loss carryforward	573	-2,695
Valuation corrections of deferred taxes	-371	8,120
Total amount transferred	-244	-9,679
Income tax expenditure	512	6,302

28 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.

Das Ergebnis je Aktie entwickelte sich wie folgt:

	2007	2006
Number of individual share certificates	27,615,618	27,027,470
Group result in €	2,009,283	35,752,500
Net earnings per share in 2 (weighted)	0.07	1.32

Cash flow statement

29 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 2007, the cash flow arising from current business operations decreased by 6.4 million € to -2.4 million €. The main reasons for this are that, on the one hand, a stock of inventory by approx.

9.1 million € higher than in the previous year was built up and the liabilities have increased by 1.3 million €. This effect is reduced by a reduction of the accounts receivable in the amount of 3.6 million €.

The outflow of funds for investments amounts to 8.2 million € (previous year: 7.2 million €) in the fiscal year. The reason for the change compared to

the previous year is an investment activity by 3.6 million € higher. The payment received as a result of the sale or partial sale of two plots of land has a contrary effect.

The cash flow arising from financing activity shows a flow of funds of 11.5 million € (previous year: -7.7 million €) for the year 2007.

Segment reporting

30 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

31 Contingent liabilities and commitments

	31.12.2007	31.12.2006
	€'000	€'000
Rental and leasing obligations	7,503	6,789
Guarantees	723	1,293
Order of securities for external liabilities	0	307
Warranties	389	352
Notes discounted	453	791
Order commitment for greater investments	1,759	1,847
	10,827	11,379

32 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 Incorporation. By resolution of the General Meeting on 14 June 2007, the company's Articles of Incorporation were amended with regard to the number of members, the composition and the remuneration of the Supervisory Board. The total remuneration of the members of the Supervisory Board amounted to € 217,000 (previous year: € 169,000) in 2007.

The total remuneration of the Board of Management amounted to € 1,233,345 (previous year: € 1,752,000) in the year under review. The total remuneration for Dieter Schäfer amounted to € 802,116 (previous year: € 1,089,000) and is divided up as follows: fixed component of € 450,000, variable component of € 337,500

and benefits in money's worth of € 14,616. The total remuneration for Eckehard Forberich amounted to € 431,229 (previous year: € 663,000) and is divided up as follows: fixed component of € 240,000, variable component of € 180,000 and benefits in money's worth of € 11,229. The pension reserve according to IFRS decreased by € 525,823 (previous year: transfer of € 167,000) due to the current interest rate. Of this, a decrease in the amount of € 572,768 is allocated to the reserve for Mr. Dieter Schäfer and a transfer to the reserve for Mr. Eckehard Forberich in the amount of € 46,945. For pension obligations in respect of former members of the Board of Management and their surviving dependants, a total of € 3,211,000 (previous year: € 3,714,000) has been allocated to pension reserves; the current remuneration for these persons was € 218,000 (previous year: € 747,000).

33 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.

34 Events after the balance sheet date

In a press release from 18 February 2008, the de-commissioning of a kiln at the Ötzingen site as well as the reduction in personnel by 70-80 employees resulting from this were announced.

the financial investors which joined the company in 2006 have initiated a process for the sale of the shares held by them. This selling process is organized by the investment bank BNP Paribas.

On 21 February 2008, the company's Board of Management announced in an ad hoc publication that

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

The Board of Management and the Supervisory Board suggest to carry forward the net profit for the year in the amount of € 25,712.54 as well as

the profit carried forward from the previous year in the amount of € 21,889,722.12, thus € 21,915,434.66 in total.

36 Corporate Governance Code

For the first time in December 2002 and last in December 2007, 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.

37 Auditor's fees

In the expense of the fiscal year, auditor's fees in the amount of € 370,000 are included, which are divided up into € 170,000 for the audit and

Group audit of the company, € 98,000 for the audit of the consolidated companies and € 102,000 for tax consultation and other services.

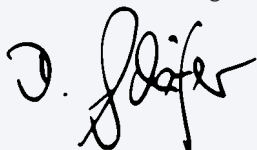
38 Assurance of the legal representatives

We assure to the best of our knowledge that, in accordance with the accounting principles to be applied, the consolidated financial statement conveys an accurate picture of the asset, financial and earnings situation of Deutsche Steinzeug Cremer & Breuer AG and that the Combined Management

Report presents the business trend inclusive of the operating result and the situation of the company in such a way that an accurate picture is conveyed and the essential chances and risks of the company's expected development are described.

Frechen, March 31, 2008

Deutsche Steinzeug Cremer & Breuer AG
The Board of Management



Dieter Schäfer



Eckehard Forberich

Consolidated companies and balance sheet date

Name	Headquarters	Currency	Subscribed capital 31.12.2007	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 capital 31.12.2007	Share in the capital %
Affiliated companies not included				
Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	€	20,000.00	100.0
Vereinigte Steinzeugwerke GmbH* *Gesellschaft ist am 10.03.2008 erloschen	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
Deutsche Steinzeug AG	Alfter-Witterschlick	€	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					
	Status 01.01.2007	Currency changes	Additions 2007	Disposals 2007	Transfers 2007	Status 31.12.2007
	€'000	€'000	€'000	€'000	€'000	€'000
I. Intangible assets						
1. Trademarks and similar rights as well as licenses to such rights	2,814	0	5	0	0	2,819
2. Goodwill	19,041	0	0	0	0	19,041
	21,855	0	5	0	0	21,860
II. Fixed assets						
1. Land, leasehold, rights and buildings	97,674	-6	519	72	46	98,161
2. Technical equipment, plant and machinery	209,555	0	9,318	144	4,892	223,621
3. Other equipment, operational and office equipment	23,070	-64	706	419	59	23,352
4. Advance payments and construction in progress	5,097	0	188	0	-4,997	288
	335,396	-70	10,731	635	0	345,422
III. Other financial assets						
1. Shares in affiliated companies	8,405	0	0	5,844	0	2,561
2. Other investments	34	0	0	34	0	0
3. Real estate held as financial investment	10,962	0	2,083	5,529	0	7,516
	19,401	0	2,083	11,407	0	10,077
	376,652	-70	12,819	12,042	0	377,359

	Total procurement and manufacturing costs						
	Status 01.01.2006	Currency changes	Changes in consolidated companies	Additions 2006	Disposals 2006	Transfers 2006	Status 31.12.2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
I. Intangible assets							
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

Accumulated depreciations					Book values	
Status 01.01.2007	Currency changes	Additions 2007	Disposals 2007	Status 31.12.2007	Status 31.12.2007	Status 31.12.2006
€'000	€'000	€'000	€'000	€'000	€'000	€'000
2,439	0	213	0	2,652	167	375
4,174	0	0	0	4,174	14,867	14,867
6,613	0	213	0	6,826	15,034	15,242
64,603	-2	1,824	72	66,353	31,808	33,071
174,438	0	4,897	132	179,203	44,418	35,117
20,618	-49	886	358	21,097	2,255	2,452
0	0	0	0	0	288	5,097
259,659	-51	7,607	562	266,653	78,769	75,737
60	0	0	43	17	2,544	8,345
34	0	0	34	0	0	0
2,217	0	88	1,255	1,050	6,466	8,745
2,311	0	88	1,332	1,067	9,010	17,090
268,583	-51	7,908	1,894	274,546	102,813	108,069

Accumulated depreciations							Book values	
Status 01.01.2006	Currency changes	Changes in consolidated companies	Additions 2006	Disposals 2006	Write-ups 2006	Status 31.12.2006	Status 31.12.2006	Status 31.12.2005
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'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

Deutsche Steinzeug Group Cash Flow Statement to number 29 in the Group notes

	2007	2006
	€'000	€'000
Group net profit	2,009	35,752
Depreciations/write-ups on fixed assets	7,974	7,560
Change in the accruals for pensions	-3,229	-5,365
Change in the other accruals	-3,166	2,309
Other expenditure/revenues without effect on payments and earnings	971	-30,873
Profits/losses from the disposal of fixed assets	-224	-1,010
Change in the inventories	-9,053	-2,416
Change in the accounts receivable	3,585	-4,585
Change in liabilities (without due to banks)	-1,288	2,655
Cash flow arising from current business operations	-2,421	4,027
Inpayments from fixed asset disposals	4,571	1,991
Outpayments for investments in		
- intangible assets	-5	-66
- property, plant and equipment	-10,731	-8,306
- financial assets	-2,083	-857
Cash flow arising from investment activity	-8,248	-7,238
Cash capital increases	0	10,850
Payment to AGROB AG for the assumption of pension obligations	0	-1,700
Change in the liabilities due to banks	11,483	-1,465
Cash inflow arising from financing activity	11,483	7,685
Changes in the companies consolidated and currency-related changes	-390	158
Changes in liquid funds and securities	424	4,632
Liquid funds/securities on 01.01.	7,364	2,732
Liquid funds/securities on 31.12.	7,788	7,364

Segment Reporting to number 30 in the Group notes

Primary Segments – Regions

	Germany		Rest of EMU		Rest of world		Deutsche Steinzeug Group	
	2007	2006	2007	2006	2007	2006	2007	2006
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External sales	148,012	147,985	45,209	39,489	50,025	50,718	243,246	238,192
Comprehensive internal sales between the segments	4,311	4,733	0	0	-4,311	-4,733	0	0
Total sales	152,323	152,718	45,209	39,489	45,714	45,985	243,246	238,192
EBITDA	9,773	51,020	4,556	3,567	5,206	4,383	19,535	58,970
Depreciations	7,778	7,412	15	19	94	98	7,887	7,529
- of which non-scheduled	0	0	0	0	0	0	0	0
EBIT	1,995	43,608	4,541	3,548	5,112	4,285	11,648	51,441
Financial result	-9,103	-9,368	0	-1	-24	-18	-9,127	-9,387
Investments	12,725	9,022	10	6	84	200	12,819	9,228
Operative assets	192,354	191,996	425	430	5,019	5,774	197,798	198,200
Operative debt	135,559	137,760	887	617	648	785	137,094	139,162
Operative net assets	56,795	54,236	-462	-187	4,371	4,989	60,704	59,038
Employees (annual average)	1,637	1,612	13	12	28	29	1,678	1,653

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 31.12.2007. 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 consoli-

dated 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, April 14, 2008

Dr. Glade, König und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Dr. Hans-Joachim Glade)
Wirtschaftsprüfer

Balance Sheet as of 31.12.2007

Deutsche Steinzeug Cremer & Breuer AG

Assets	Note number	31.12.2007 €'000	31.12.2006 €'000
Fixed assets			
Intangible assets		8,792	10,392
Property, plant and equipment		57,007	52,521
Financial assets		27,748	33,548
	3	93,547	96,461
Current assets			
Inventories	4	58,190	48,986
Accounts receivable and other assets	5	16,522	18,145
Shares in associated companies	6	2,292	2,292
Liquid funds		6,896	6,707
		83,900	76,130
Deferred charges and prepaid expenses	7	456	293
		177,903	172,884
Liabilities and shareholders' equity			
	Note number	31.12.2007 €'000	31.12.2006 €'000
Shareholders' equity			
Subscribed capital		27,616	27,616
Earnings reserves		2,762	1,233
Balance sheet profit		21,915	23,418
	8	52,293	52,267
Accruals and accrued liabilities	11	20,303	23,351
Liabilities	12	105,307	97,266
		177,903	172,884

Profit and Loss Statement for 2007

Deutsche Steinzeug Cremer & Breuer AG

	Note number	2007 €'000	2006 €'000
Sales	15	191,682	190,453
Change in finished goods and work-in-progress		7,702	443
Other own work capitalized		344	276
Other operating income	16	10,434	11,304
		210,162	202,476
Cost of materials	17	118,334	109,358
Personnel expenses	18	56,926	55,077
Depreciation on intangible assets, plant and equipment	19	7,773	7,747
Other operating expenses	20	20,797	22,180
		203,830	194,362
		6,332	8,114
Financial results	21	-5,944	-5,423
Net operating income		388	2,691
Extraordinary result	22	0	22,744
Taxes	23	362	766
Net profit		26	24,669
Retained earnings brought forward from the previous year		21,889	-25,278
Allocation to statutory reserve		0	-1,233
Yield from the capital reduction		0	22,554
Withdrawal from the capital reserves		0	2,706
Balance sheet profit		21,915	23,418

Notes 2007

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.

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, one non-scheduled depreciation in the amount of € 87,665.08 was made on a plot of land.

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 prepayments and accrued income include a discount in the amount of € 184,000.

The pension accruals have been determined using the component-based procedure on the basis of actuarial principles and the 2005 G Actuarial Tables of Klaus Heubeck, taking as a basis an assumed rate of interest of 6%.

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 actuarial 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 2007 are presented as appendix 1 to these notes (Analysis of fixed assets).

4 Inventories

This item includes:

	31.12.2007	31.12.2006
	€'000	€'000
Raw materials and supplies	7,199	7,870
Work in progress	5,350	4,508
Finished goods and merchandise	45,641	36,608
	58,190	48,986

5 Accounts receivable and other assets

	31.12.2007	31.12.2006
	€'000	€'000
Accounts receivable, trade	589	680
- of which with a remaining term of more than one year	0	0
Accounts due from affiliated companies	8,887	6,869
- of which with a remaining term of more than one year	1,569	1,570
Other assets	7,046	10,596
- of which accounts receivable with a remaining term of more than one year	4,585	3,901
Total	16,522	18,145
- of which with a remaining term of more than one year	6,154	5,471

Other assets include reinsurances of € 4,450,000 (previous year: € 3,763,000). Of the accounts due from affiliated companies, € 1,694,000 (previous

year: € 2,070,000) are allotted to those from accounts receivable, trade; € 7,193,000 (previous year: € 4,799,000) 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. A writedown of the investment Jasba Ofenkachel Vermögensverwaltung

GmbH to the pro memoria figure of € 1.-- was made after the additional capitalization of a waiver of claims outstanding in the amount of € 600,000 (previous year: € 1,700,000), cf. number 21.

7 Deferred charges and prepaid expenses

Discounts in accordance with § 250 sect. 3 of the Commercial Code (HGB) amount to € 184,000 (previous year: € 0,000) on the reporting date.

8 Shareholders' equity/balance sheet profit

	31.12.2007	31.12.2006
	€'000	€'000
Subscribed capital	27,616	27,616
Earnings reserves – statutory reserve –	2,762	1,233
Balance sheet profit	21,915	23,418
Equity	52,293	52,267

Development of the equity capital in the fiscal year

	Subscribed capital	Earned surplus	Balance sheet profit	Equity capital
	€'000	€'000	€'000	€'000
Status 01.01.2007	27,616	1,233	23,418	52,267
Allocation to statutory reserve	0	1,529	-1,529	0
Net profit	0	0	26	26
Status 31.12.2007	27,616	2,762	21,915	52,293

Balance sheet profit

	2007	2006
	€'000	€'000
Net profit	26	24,669
Retained earnings brought forward from the previous year	21,889	-25,278
Allocation to statutory reserve	0	-1,233
Yield from the capital reduction	0	22,554
Withdrawal from capital reserves	0	2,706
Balance sheet profit	21,915	23,418

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 Board of Management is authorized to increase the share capital by issuing new shares against cash or in kind, once or several times, to a maximum total of € 25,236,881.-- by 18.06.2008. The Board of

Management decides on a possible exclusion of subscription rights with the approval of the Supervisory Board. The approved capital thus amounts to € 25,236,881.-- on the balance sheet date 31.12.2007 like in the previous year.

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 expenditures on personnel, warranties and recultivation obligations as well as for outstanding invoices. Of the tax accruals, € 732,000 plus accrued interest are secured by mortgages in the amount of € 1,200,000 (previous year: € 1,200,000).

Composition

	31.12.2007	31.12.2006
	€'000	€'000
Pension accruals	11,088	10,641
Tax accruals	972	1,157
Other accruals and accrued liabilities	8,243	11,553
	20,303	23,351

Structure of other accruals and accrued liabilities

	31.12.2007	31.12.2006
	€'000	€'000
Accruals for personnel	1,803	2,368
Outstanding invoices	1,142	1,870
Warranties	2,772	2,839
Recultivation obligations	1,334	1,449
Restructuring expenditures	0	863
Other obligations	1,192	2,164
	8,243	11,553

12 Liabilities

Type of liabilities	Remaining term			Total
	of up to one year	of 2 to 5 Jahre	of more than 5 years	
	€'000	€'000	€'000	€'000
Liabilities due to banks	6,297	60,341	0	66,638
prev. year	2,377	50,146	0	52,523
Accounts payable, trade	14,255	1,760	0	16,015
prev. year	12,219	268	0	12,487
Accounts due to affiliated companies	11,008	4,500	0	15,508
prev. year	15,187	6,000	0	21,187
Other liabilities	1,488	5,053	605	7,146
prev. year	3,015	7,426	628	11,069
	33,048	71,654	605	105,307
prev. year	32,798	63,840	628	97,266

The liabilities due to banks in the amount of € 66,638,000 are secured by mortgages on own real property as well as on real property of a subsidiary company in the amount of € 18,364,000 (prev. year: € 8,451,000) and the rest by blanket assignment of trade receivables, by pledging of inventories and the non-real-estate fixed assets as well as of the shares in four subsidiary companies. Furthermore, all present and future brands, patents, rights of use, copyrights

and all present and future cash in bank are pledged. In addition, there is a first land charge in favour of Pensionsversicherungsverein, Cologne, in the amount of € 6,000,000 (prev. year: € 6,000,000); on the balance sheet date, the liability to be secured amounts to € 4,714,000. Like in the previous year, the accounts due to affiliated companies have the character of other liabilities.

13 Other liabilities

The other liabilities include:

	31.12.2007	31.12.2006
	€'000	€'000
Liabilities from taxes	262	284
Liabilities from social security	641	654
	903	938

14 Contingent liabilities and commitments

	31.12.2007	31.12.2006
	€'000	€'000
Contingent liabilities		
Liabilities from guarantees and similar commitments	723	3,893
Liability arising from the order of securities for external liabilities	3,014	3,321
Liability from indemnity agreements	338	352
"Piercing the corporate veil" for relief fund obligations	997	660
	5,072	8,226
Commitments		
Leasing and rental obligations	4,851	4,095
Order commitment for greater investments	1,759	1,847
	6,610	5,942
	11,682	14,168

Explanations of the profit and loss statement

15 Sales

	2007	2006
	€'000	€'000
Germany	185,895*	183,823*
Other countries	5,787	6,630
	191,682	190,453

* 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 € 1,530,000 (prev. year: € 2,899,000).

17 Cost of materials

	2007	2006
	€'000	€'000
Cost of raw materials, supplies and merchandise and for purchased goods	84,530	78,628
Cost of purchased services	33,804	30,730
	118,334	109,358

18 Personnel expenses/employees

	2007	2006
	€'000	€'000
Wages and salaries	46,523	44,415
Social security	10,038	9,772
Cost of pensions	365	890
	56,926	55,077

Annual average number of employees:	2007	2006
Wage earners	1,159	1,140
Salaried employees	276	266
	1,435	1,406

19 Depreciations

Of the depreciations, € 1,437,000 (prev. year: € 1,437,000) are accounted for by goodwill which is written off over 15 years pursuant to § 255 sect. 4

clause 3 of the German Commercial Code (HGB) in conjunction with § 7 sect. 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 € 3,000 (prev. year: € 1,362,000).

21 Details of financial results

	2007	2006
	€'000	€'000
Income from investments	0	0
- of which from affiliated companies	0	0
Income from profit transfer agreements	3,007	2,021
Depreciations from financial assets	600	554
Expenses from loss absorption	0	1
Result from investments	2,407	1,466
Other interest and similar income	670	180
- of which from affiliated companies	464	6
Interest and similar expenditures	9,021	7,069
- of which to affiliated companies	949	783
Net interest income	-8,351	-6,889
- of which from affiliated companies	-485	-777
Financial result	-5,944	-5,423

The depreciations from financial assets in the amount of € 600,000 (prev. year: € 554,000) concern the writedown to the pro memoria figure of € 1.-- at Jasba Ofenkachel Vermögensverwaltung GmbH, cf. number 6. The interest burden of the existing

pension obligations is included with € 652,000 (prev. year: € 1,008,000). Out-of-period interest expenses in the amount of € 16,000 (prev. year: € 0) accumulated in the fiscal year.

22 Extraordinary result

The extraordinary result includes:

	2007	2006
	€'000	€'000
Extraordinary income		
Income from increase of non-cash capital	0	8,170
Disposal of pension obligations	0	17,335
Waivers of entitlements to pension	0	738
	0	26,243
Extraordinary expenditure		
Decreases in value of shares in affiliated companies in the current assets/foregone receivables	0	2,820
Transfer to restructuring reserve	0	679
	0	3,499
Extraordinary result	0	22,744

23 Taxes

	2007	2006
	€'000	€'000
Income taxes	130	183
Other taxes	232	583
	362	766

In the year under review, out-of-period tax expenditures accrued at the income taxes in the amount of € 36,000 (prev. year: € 38,000). In the year under review, out-of-period tax proceeds accrued at the other taxes as well as the income taxes in the total

amount of € 130,000 (prev. year: € 0). At the other taxes, no out-of-period tax expenditures accrued (prev. year: € 296,000). 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 of the Board of Management amounted to € 1,233,000 (previous year: € 1,752,000) in the year under review. The total remuneration for Mr. Dieter Schäfer amounted to € 802,000 (previous year: € 1,089,000) and is divided up as follows: fixed component of € 450,000, variable component of € 337,000 and benefits in money's worth of € 15,000. The total remuneration for Mr. Eckehard Forberich amounted to € 431,000 (previous year: € 663,000) and is divided up as follows: fixed component of € 240,000, variable component of € 180,000 and benefits in money's worth of € 11,000. In addition, contributions pursuant to § 6 a of the Income Tax Law (EStG) in the amount of € 72,000 (previous year: € 220,000) were transferred to the pension reserve, which concern the reserve for Mr. Dieter Schäfer in the amount of € 16,000 and the reserve for Mr. Eckehard Forberich in the amount of € 56,000.

A total of € 2,591,000 (prev. year: € 2,626,000) 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 € 218,000 (prev. year: € 747,000).

The remuneration of the Supervisory Board of Deutsche Steinzeug Cremer & Breuer AG is laid down in the company's Articles of Incorporation. By resolution of the General Meeting on 14 June 2007, the company's Articles of Incorporation were amended with regard to the number of members, the composition and the remuneration of the Supervisory Board. The total remuneration of the members of the Supervisory Board amounted to € 217,000 (previous year: € 169,000) for the fiscal year 2007 and is subdivided as follows:

Members of the Supervisory Board	Membership in 2007	Remuneration in €			Total
		Fixed	Variable	Meeting attendance fee	
Delker, Wilfried	full year	31,770.83	8,125.00	1,250.00	41,145.83
Schloßarek, Gerd	full year	25,520.83	6,770.82	1,250.00	33,541.65
Kloft, Rainer	full year	19,270.83	5,416.67	1,250.00	25,937.50
Prof. Dr. Kottkamp, Eckart	full year	19,270.83	5,416.67	1,250.00	25,937.50
Dr. Schelo, Stephan	full year	19,270.83	5,416.67	1,250.00	25,937.50
Dr. Winkels, Alexander	full year	19,270.83	5,416.67	1,250.00	25,937.50
Federer, Georg	until 14.06.2007	5,729.17	0.00	750.00	6,479.17
Dr. Rappe, Hermann	until 14.06.2007	5,729.17	0.00	750.00	6,479.17
Vianden, Dieter	until 14.06.2007	5,729.17	0.00	750.00	6,479.17
Baron von le Fort, Peter	until 14.06.2007	5,729.17	0.00	750.00	6,479.17
Knell, Christian	until 14.06.2007	5,729.17	0.00	750.00	6,479.17
Rausser, Manfred	until 14.06.2007	5,729.17	0.00	500.00	6,229.17
		168,750.00	36,562.50	11,750.00	217,062.50

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 carry forward the net profit for the year in the amount of € 25,712.54 as well as the profit carried

forward from the previous year in the amount of € 21,889,722.12, thus € 21,915,434.66 in total.

24.4 Statement concerning the Corporate Governance Code

For the first time in December 2002 and last in December 2007, 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 € 248,000 (prev. year: € 294,000) are included, which are divided up into € 170,000

(prev. year: € 185,000) for the audit itself, € 78,000 (prev. year: € 109,000) for tax consultation and € 0 (prev. year: € 0) 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 no relevant notifications.

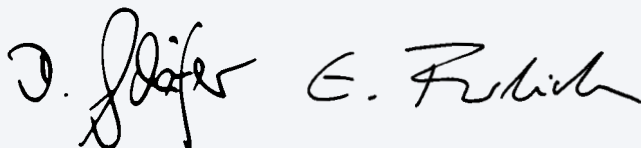
25 Assurance of the legal representatives

We assure to the best of our knowledge that, in accordance with the accounting principles to be applied, the annual financial statement conveys an accurate picture of the asset, financial and earnings situation of Deutsche Steinzeug Cremer & Breuer AG and that the Consolidated Management Report

presents the business trend inclusive of the operating result and the situation of the company in such a way that an accurate picture is conveyed and the essential chances and risks of the company's expected development are described.

Frechen, March 31, 2008

The Board of Management



Dieter Schäfer

Eckehard Forberich

Development of fixed assets

	Total procurement and manufacturing costs				Status 31.12.2007 €'000
	Status 01.01.2007 €'000	Additions 2007 €'000	Disposals 2007 €'000	Transfers 2007 €'000	
I. Intangible assets					
1. Trademarks and similar rights as well as licenses to such rights	2,683	5	0	0	2,688
2. Goodwill	23,469	0	0	0	23,469
	26,152	5	0	0	26,157
II. Fixed assets					
1. Land, leasehold, rights and buildings	96,525	518	0	46	97,089
2. Technical equipment, plant and machinery	197,881	9,318	144	4,892	211,947
3. Other equipment, operational and office equipment	18,806	602	353	58	19,113
4. Advance payments and construction in progress	5,098	187	0	-4,996	289
	318,310	10,625	497	0	328,438
III. Financial assets					
Shares in affiliated companies	38,318	0	5,844	0	32,474
	382,780	10,630	6,341	0	387,069

	Accumulated depreciations				Book values	
	Status 01.01.2007 €'000	Additions 2007 €'000	Disposals 2007 €'000	Write-ups 2007 €'000	Status 31.12.2007 €'000	Status 31.12.2006 €'000
I. Intangible assets						
1. Trademarks and similar rights as well as licenses to such rights	2,353	168	0	0	2,521	330
2. Goodwill	13,407	1,437	0	0	14,844	10,062
	15,760	1,605	0	0	17,365	10,392
II. Fixed assets						
1. Land, leasehold, rights and buildings	64,851	1,625	0	0	66,476	31,674
2. Technical equipment, plant and machinery	183,885	3,872	144	0	187,613	13,996
3. Other equipment, operational and office equipment	17,054	603	315	0	17,342	1,752
4. Advance payments and construction in progress	0	0	0	0	0	5,098
	265,790	6,100	459	0	271,431	52,520
III. Financial assets						
Shares in affiliated companies	4,769	0	43	0	4,726	33,549
	286,319	7,705	502	0	293,522	96,461

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 i.R. der 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) Berufsgenossenschaftliches Universitäts- klinikum Bergmannsheil GmbH, Bochum	BG Keramik und Glas, Würzburg (Chairman) BAD, Bonn
Peter Baron von le Fort Hamburg - as of 14.06.2007 -	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 14.06.2007 -	Graduate engineer Director Business Development Central Europe der HeidelbergCement AG, Heidelberg	–	–
Professor Dr. Eckart Kottkamp Großhandorf	Chairman of Supervisory Board of Lloyd Fonds AG, Hamburg (Chairman)	Basler AG, Ahrensburg Hako-Werke GmbH, Bad Oldesloe Hamburg (Chairman) Lloyd Fonds AG, Hamburg (Chairman)	Advisory Council of C. Mackprang GmbH & Co. KG,
Dr. Hermann Rappe Sarstedt - as of 14.06.2007 -	Pensioner	–	–
Manfred Rauser Lindau - as of 14.06.2007 -	Management consultant	Hans R. Schmid Holding AG, Offenburg	–
Dr. Stephan Schelo Meerbusch	Graduate engineer, graduate business engineer Manager of Marktkauf Holding GmbH, Bielefeld, Chairman of Managing Board of Spar Handels GmbH, Schenefeld, and Chairman of Managing Board of Lunar GmbH, Bielefeld	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)
Dr. Alexander Winkels Erkrath	Management consultant	AUTANIA Aktiengesellschaft für Industriebeteiligungen, Kelkheim (Deputy Chairman) 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
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Supervisory Board

Georg Federer* Schwandorf - as of 14.06.2007 -	Industrial clerk	-	-
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Rainer Kloft* Hahn	Industrial fitter Chairman of the Central Employees' Council of Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	-	-
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Dieter Vianden* Munich - as of 14.06.2007 -	Caretaker and chauffeur 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 der Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick	-	-
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* Employees' representative

Board of Management

Dieter Schäfer Swisttal-Miel	Chairman of the Board of Management Deutsche Steinzeug Cremer & Breuer AG Alfter-Witterschlick	-	-
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Eckehard Forberich Oberursel	Member of the Board of Management Deutsche Steinzeug Cremer & Breuer AG Alfter-Witterschlick	-	-
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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	0
2 Meissen Keramik Verwaltungs-GmbH	Alfter-Witterschlick	100.0	€	24	-1
3 Meissen Keramik Vertriebs GmbH	Dortmund	100.0	€	1,540	0
4 Deutsche Steinzeug France s.a.r.l.*	Norroy le Veneur/France	100.0	€	77	26
5 Deutsche Steinzeug Nederland B.V.	Ulft/Netherlands	100.0	€	113	-7
6 Deutsche Steinzeug Schweiz AG	Hergiswil/Switzerland	100.0	CHF	498	41
7 Deutsche Steinzeug Italia s.r.l.**	Veggia/Italy	100.0	€	127	-10
8 Deutsche Steinzeug America, Inc.	Alpharetta/USA	100.0	\$	4,186	-15
9 Deutsche Steinzeug Immobilien Verwaltungs-GmbH	Alfter-Witterschlick	100.0	€	31	-1
10 Deutsche Steinzeug Immobilien GmbH & Co KG	Alfter-Witterschlick	100.0	€	1,391	-624
11 Meissen Keramik GmbH	Meißen	100.0	€	1,037	0
12 Jasba Ofenkachel Vermögensverwaltung GmbH	Alfter-Witterschlick	100.0	€	37	-258
13 Vereinigte Steinzeugwerke GmbH***	Frechen	60.0	€	11,158	0
14 Deutsche Steinzeug AG	Alfter-Witterschlick	100.0	€	52	3
15 Buchtal Baukeramik Vertriebsges. mbH	Guntramsdorf/Austria	100.0	€	1,654	49
16 GELUNA Vermögensverwaltungs GmbH	Alfter-Witterschlick	100.0	€	323	-172
17 BAK Sondervermögen	Frechen	69.0	€	0	0
18 Unterstützungskasse AGROB GmbH	Munich	100.0	€	26	0
19 Staloton Klinker Vertriebs GmbH****	Schwarzenfeld	100.0	€	25	0

* 10% via Deutsche Steinzeug Keramik GmbH

** 90% via Deutsche Steinzeug Keramik GmbH

*** Preliminary information/company has been liquidated on 10.03.2008

**** Via Deutsche Steinzeug Keramik GmbH

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 31.12.2007. 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, April 07, 2008

Dr. Glade, König und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Dr. Hans-Joachim Glade)
Wirtschaftsprüfer

Financial calendar 2008/2009

30. April 2008	Publication of the 2007 Annual Report
09. May 2008	Dispatch of the 2007 Annual Report
15. May 2008	Interim report 1 st quarter 2008
18. June 2008	2008 Annual General Meeting
14. August 2008	Interim report 1 st half-year 2008
14. November 2008	Interim report as of 30 September 2008
30. April 2009	Publication of the 2008 Annual Report
08. May 2009	Dispatch of the 2008 Annual Report
15. May 2009	Interim report 1 st quarter 2009
18. June 2009	2009 Annual General Meeting

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