Villeroy & Boch

1748

ANNUAL REPORT 2010

THE GROUP AT A GLANCE

		2010	2009	2008	2007	2006
Sales	*in Euro million*	714.2	715.3	840.9	848.6	815.0
Sales – Germany	*in Euro million*	179.5	197.6	185.6	176.6	189.8
Sales – Abroad	*in Euro million*	534.7	517.7	655.3	672.0	625.2
EBITDA (before special expenditures*)	*in Euro million*	56.3	33.2	62.9	84.8	73.0
EBITDA	*in Euro million*	–16.7	–28.7	62.9	84.8	73.0
EBIT (before special expenditures*)	*in Euro million*	23.6	–1.7	24.1	38.8	34.4
EBIT	*in Euro million*	–49.4	–85.7	24.1	38.8	34.4
EBT (before special expenditures*)	*in Euro million*	13.2	–12.6	16.0	29.4	24.5
EBT	*in Euro million*	–59.8	–96.5	16.0	29.4	24.5
Group results for the year	*in Euro million*	–62.8	–96.5	11.0	23.8	18.2
NOPAT (before special expenditures*)	*in Euro million*	26.4	5.5	20.6	42.6	38.9
NOPAT	*in Euro million*	26.4	–63.1	20.6	42.6	38.9
Balance sheet total	*in Euro million*	598.3	673.6	772.3	804.9	789.4
Cash flow from operating activities (before EU)	*in Euro million*	30.9	50.5	17.5	59.4	22.7
Cash flow from operating activities	*in Euro million*	–42.1	50.5	17.5	59.4	22.7
Capital Expenditure	*in Euro million*	24.2	20.7	26.7	28.4	35.9
Depreciation	*in Euro million*	30.1	34.9	37.8	38.2	38.4
Impairment losses (incl. reversals)	*in Euro million*	2.6	22.1	1.0	7.8	0.2
Employees (annual average)	*number*	8,729	9,440	10,193	9,221	9,235
Net operating margin (before special expenditures*)	*in percent*	3.3	–0.2	2.9	4.6	4.2
Return on equity (ROE) (before special expenditures*)	*in percent*	5.9	–5.4	3.3	6.9	5.2
Cash flow sales profitability (before EU)	*in percent*	4.3	7.1	2.1	7.0	2.8
Equity ratio (incl. minority interests)	*in percent*	28.9	34.4	42.8	42.8	44.4
Earnings per ordinary share	*in Euro*	–2.40	–3.68	0.40	0.88	0.66
Earnings per preference share	*in Euro*	–2.35	–3.63	0.45	0.93	0.71
Dividend per ordinary share	*in Euro*	0.15	–	0.32	0.37	0.37
Dividend per preference share	*in Euro*	0.33	–	0.37	0.42	0.42

*The special expenditures 2010 include the EU fine

DIVISIONS

Bathroom and Wellness						
Sales	*in Euro million*	446.6	426.7	521.1	522.2	489.2
EBIT (before special expenditures**)	*in Euro million*	19.0	–3.7	15.4	21.1	28.3
EBIT	*in Euro million*	19.0	–65.1	15.4	21.1	28.3
Tableware						
Sales	*in Euro million*	267.6	288.6	319.8	326.4	325.8
EBIT (before special expenditures**)	*in Euro million*	4.6	2.0	8.7	17.7	6.1
EBIT	*in Euro million*	4.6	–20.6	8.7	17.7	6.1

**The special expenditures from the EU fine 2010 are not assigned to a segment

Due to rounding differences, there may be slight discrepancies in the totals and percentages contained in this report.

"We turn your place into a quality living space"

Villeroy & Boch worldwide

Sales Companies

America
Aurora
Monroe
San Diego

Asia/Pacific
Bangkok
Hong Kong
Mumbai
Shanghai
Sydney
Tokyo

Europe
Barcelona
Brussels
Gustavsberg
Helsinki
Hódmezövásárhely
Copenhagen
Lenzburg
London
Luxembourg
Milan
Mettlach
Moscow
Oslo
Paris
Prague
Salzburg
Utrecht
Wadgassen
Warsaw
Vienna

Production Sites

America
Lerma
Ramos
Saltillo

Asia/Pacific
Saraburi

Europe
Gustavsberg
Hódmezövásárhely
Lugoj
Merzig
Mettlach
Mondsee
Roden
Roeselare
Valence d'Agen
Vargada
Torgau
Treuchtlingen

DEAR SHAREHOLDERS,
LADIES AND GENTLEMEN,

Villeroy & Boch achieved a turnaround in 2010. We got well through the crisis year of 2009 and have returned the Company to operational profitability over the past twelve months.

Following the massive downturn in demand as a result of the global financial and economic crisis, our primary aim in the past financial year was to stabilise our revenue. We succeeded in this task: at Euro 714.2 million, we nearly repeated the revenue level recorded in the previous year, and we comfortably exceeded our earnings target of an operating result of more than Euro 10 million in 2010. The operating result (EBIT before special expenditures) for the 2010 financial year amounted to Euro 23.6 million, an increase of 25.3 million compared with the previous year.

There is one main reason for this impressive earnings growth in an 2010 economic environment that remained difficult for our industry: the cost reduction and efficiency programmes that we initiated at an early stage of the crisis. Within just two years, we have managed to improve our gross profit margin by 2.4% and reduce structural costs by almost Euro 36 million. These successes are not least due to the excellent performance of our employees and managers worldwide, who provided positive support for a range of measures and implemented them in a short period of time. I would like to take this opportunity to expressly mention the reduction in working hours that we were able to rescind at the end of the third quarter of 2010 thanks to our positive operational business development. On behalf of the Management Board, I would like to express my gratitude to all of our employees for their exemplary commitment and impressive endurance.

In achieving this, we did not allow ourselves to be distracted by the fine of Euro 71.5 million imposed by the European Commission. We have at any time refuted the allegations of price-fixing in the period from 1994 to 2004. We are still expressly rejecting any such claims and have filed an appeal against the decision with the General Court of the European Union. Despite this, we have been forced to make a preliminary payment of the full amount of the fine. Including legal defence costs, we are therefore reporting a non-recurring expense of Euro 73 million.

At this point, I believe it is important to note that an effective compliance system covering all parts of the Company has been in place for a number of years. This serves to ensure strict compliance with our internal guidelines and external legal conditions alike. Compliance is a core element of our operational activities.

I am extremely glad to be able to say that our operating business was not impacted by the EU fine. Irrespective of the preliminary cash outflow, we continued to refocus our activities on our growth path in the year under review. We ensured high-quality appointments to key positions in Germany and abroad, expanded our sales structures in our growth markets and – last but by no means least – planned and approved the second stage of the capacity expansion of our sanitary ware plant in Thailand as a key component of our Asia strategy.

In light of the stiff competition in our core European markets, our prominent brand awareness is a huge competitive advantage that we must make the most of. As such, we have revised our brand appearance in order to recharge the fascination of the Villeroy & Boch brand. Implementation began in the past year, with all communication tools being successively adjusted, while our website has benefited from a fresh new design since the start of the year.

In addition to communicative elements, the new products we are launching in 2011 are clearly aimed at the varied requirements of our customers. Picking up on the trend for authenticity, we presented the Tableware Division's new "Farmhouse Touch" range at the Ambiente trade fair in spring: a typical country collection that actively recalls the traditional art of ceramics in its shapes and colours. Our new high-quality gift articles are also extremely authentic, particularly the "Authentic Avantgarde Collection", whose shape and decoration are a retelling of the story of traditional Mettlach tiles.
In the Bathroom and Wellness Division, we presented an entirely new concept for international project at the ISH trade fair in March – "360° Projects". With this concept, we are offering tailored solutions for projects of every dimension, from football stadiums to luxury hotels, with highly professional service and support.

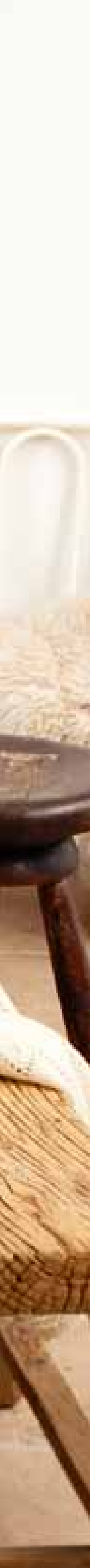
In order to ensure that the Villeroy & Boch Group is systematically oriented towards the changed competitive environment, we pressed ahead with the functional refocusing of the organisational structure that began in 2009. In this context, we established project teams at top management level with an initial focus on processes with a high degree of customer and market orientation. The aim is to identify and implement potential improvements in order to establish highly efficient internal workflows with short decision-making paths.

Last but not least, we launched a junior management programme for university graduates in October. Among other things, this represents Villeroy & Boch's commitment to counteracting the situation that is developing on the employment market – a shortage of skilled labour – by creating the conditions for making in-house appointments to key positions to an even greater extent in future.
As you can see, Ladies and Gentlemen, we have laid the foundations for future profitable growth in many respects. We have started the new financial year with great determination and have every reason to look to the future with confidence. A successful restructuring, a strong competitive position and the emerging economic upturn that will also benefit our industry give us grounds for optimism.

It is our desire that you, our shareholders, also participate in our positive operational development over the past financial year. As such, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders in May 2011 the payment of a dividend of Euro 0.15 per ordinary share and Euro 0.33 per preference share (including Euro 0.13 for the outstanding minimum dividend from 2009). I would like to thank you for the confidence you have placed in us and would be delighted, if you continue to favourably accompany us on our path in future.

Yours

Frank Göring
Chairman of the Management Board
Mettlach, March 2011



MEMBERS OF THE MANAGEMENT BOARD

Frank Göring and **Manfred Finger**

Frank Göring

Chairman of the Management Board (CEO)

b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary

Manfred Finger

Finance and Human Resources (CFO)

b) V&B Fliesen GmbH, Merzig

Volker Pruschke (until 31 August 2010)

Corporate Development (CSO)

MEMBERS OF THE SUPERVISORY BOARD

Luitwin Gisbert von Boch-Galhau

Honorary member of the Supervisory Board
b) Banque CIC Est S.A., Strasbourg/France
(Member of the Administrative Board)
within the Group: Villeroy & Boch Magyarország Kft.,
Hódmezövásárhely/Hungary
(Chairman of the Supervisory Board)

Wendelin von Boch-Galhau

Chairman of the Supervisory Board
Managing Director of country life von Boch-Galhau Verwaltungs-Gesellschaft mbH
b) V&B Fliesen GmbH, Merzig/Germany

Ralf Runge*

First Vice Chairman of the Supervisory Board
Chairman of the Faiencerie and Cristallerie Works Council
Chairman of the Villeroy & Boch Euro Works Council

Peter Prinz Wittgenstein

Second Vice Chairman of the Supervisory Board
Management Consultant

Jürgen Beining*

Head of Sales, Bathroom and Wellness

Eugen von Boch (until 31 January 2010)

Entrepreneur
a) Volksbank Untere Saar eG, Losheim/Germany

Dr. Alexander von Boch-Galhau

Management Consultant
b) Union Stiftung, Saarbrücken/Germany

Dietmar Geuskens*

District Manager of IG Bergbau, Chemie, Energie, Saarbrücken/Germany
a) RAG Deutsche Steinkohle AG, Herne/Germany
Evonik Power Saar GmbH, Saarbrücken/Germany

Werner Jäger*

IT Administrator
Chairman of the Head Office Works Council

Dr. Jürgen Friedrich Kammer

Management Consultant
a) Lanxess AG, Leverkusen/Germany (until 28 May 2010)
b) Wittelsbacher Ausgleichsfonds, Munich/Germany

Charles Krombach

Former Managing Director of Landewyck Group S.à r.l., Luxembourg (until 31 December 2009)
Former Managing Director of Heintz van Landewyck S.à r.l., Luxembourg (until 31 December 2009)

Dietmar Langenfeld*

Chairman of the Villeroy & Boch AG Central Works Council
Chairman of the Sanitärfabrik Works Council

Ralf Sikorski*

Trade Union Secretary
District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz/Germany
a) BASF SE, Ludwigshafen
Evonik Power Saar GmbH, Saarbrücken/Germany
(Vice Chairman)
b) V&B Fliesen GmbH, Merzig/Germany
Evonik New Energies GmbH, Saarbrücken/Germany
(Vice Chairman)

Francois Villeroy de Galhau (since 1 February 2010)

Member of the Executive Committee of the major French bank BNP Paribas S.A.
(Head of French Retail Banking)
b) BNP Paribas Assurances S.A., Paris/France
(Member of the Supervisory Board)
Bayard Presse S.A., Montrouge/France
(Member of the Supervisory Board)

---

*Employee representative
a) Memberships of other statutory supervisory boards within the meaning of section 125 of the German Stock Corporation Act (AktG)
b) Memberships of comparable domestic and foreign controlling bodies of commercial enterprises within the meaning of section 125 of the German Stock Corporation Act (AktG)

REPORT OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board performed the duties prescribed to it by law and the Articles of Association in full. It monitored the course of business and advised the Management Board in managing the Company. The Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and the individual divisions, including the risk situation and risk management, comprehensively, continuously and in a timely manner in both written and oral reports. The Supervisory Board was also directly involved in all decisions of material importance to the Company, allowing it to intensively discuss and advise on the relevant matters at its meetings.

KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met four times in the 2010 financial year. No member of the Supervisory Board attended fewer than half of these meetings. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times. The Supervisory Board was also informed about particularly important developments, such as the EU bathroom case, in written and oral reports outside of the regular meetings.

Key topics discussed in the past financial year:

The **balance sheet meeting** in spring 2010 focused on discussing the single-entity and consolidated financial statements for 2009 and their approval and adoption by the Supervisory Board. The further procedure for adjusting the remuneration structure of the Management Board in accordance with the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the German Corporate Governance Code was also discussed. The results of the efficiency review of the Supervisory Board were presented and discussed.

Topics addressed at the **May meeting**, which was held on the day of the General Meeting of Shareholders, included amongst others the first discussion of a potential IT cooperation with Rödl & Partner.

The **autumn meeting** focused on the comprehensive report on the action filed by the affected Villeroy & Boch companies against the fine imposed in the EU bathroom case. The outsourcing of IT operations to Rödl & Partner and the formation of a joint venture for IT consulting were also approved unanimously.

The **December meeting** adopted the planning for 2011 and presented topics relating to risk management and corporate governance, particularly the status and work of the compliance organisation. The declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) was also updated and adopted.

Wendelin von Boch-Galhau, Chairman of the Supervisory Board

Members of the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee for individual discussions of current issues.

In the year under review, there were no conflicts of interest in accordance with section 5.5.3 of the German Corporate Governance Code.

REPORT ON THE COMMITTEES

To ensure that the work of the Supervisory Board is performed efficiently, it is conducted to a large extent by the four committees it has formed:

The **Audit Committee** held one preparatory discussion and two ordinary meetings in the year under review. At the March meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the annual financial statements for 2009 and it was agreed that Ernst & Young GmbH Wirtschaftprüfungsgesellschaft would be recommended to the Supervisory Board for election as the auditor of the single-entity and consolidated financial statements for the 2010 financial year. Discussions at the December meeting focused on the status of the preliminary audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, risk management, the report on the activities of the compliance organisation and the report by Internal Audit.

The meeting of the **Investment Committee** in December involved the preparation of corporate and investment planning for 2011 for resolution by the Supervisory Board.

The members of the **Human Resources Committee** met in March to address management structure and staffing. They also discussed issues relating to Management Board remuneration and objectives and prepared them for discussion by the Supervisory Board.

The **Conciliation Committee** formed in accordance with section 27 (3) of the German Codetermination Act (MitbestG) did not meet in the year under review.

The Supervisory Board was regularly informed about the work of the committees.

PERSONNEL CHANGES

Eugen von Boch stepped down from the Supervisory Board with effect from 31 January 2010. The Supervisory Board would like to thank Mr. von Boch for his personal commitment and support. Francois Villeroy de Galhau was appointed by court as his successor from 1 February 2010 until the next General Meeting of Shareholders and was unanimously elected by the latter as a member of the Supervisory Board. Mr. Villeroy de Galhau, who is a member of the Executive Committee of the major French bank BNP Paribas S.A., will increase the expertise and international orientation of the Supervisory Board thanks to his international experience in the financial sector.

Volker Pruschke, the Management Board member responsible for Corporate Development, left the Company with effect from 31 August 2010 to pursue new career challenges. The Supervisory Board would like to thank Mr. Pruschke for his commitment with respect to restructuring and the development of the Group's international focus in particular. The Supervisory Board resolved that a new appointment would not be made to Mr. Pruschke's position and that his responsibilities would instead be allocated to Mr. Göring and Mr. Finger.

AUDIT OF THE SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS

The single-entity financial statements, the IFRS consolidated financial statements and the combined Management Report of Villeroy & Boch AG for the 2010 financial year were audited by the auditor elected by the General Meeting of Shareholders, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and issued with an unqualified audit opinion. These documents and the reports by the auditor were made available to all members of the Audit Committee and the Supervisory Board in good time before the balance sheet meeting. They were discussed intensively at the meeting of the Audit Committee and the balance sheet meeting of the Supervisory Board in March 2011.

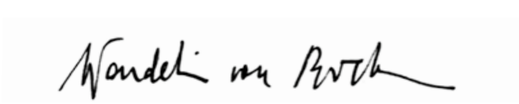
At both meetings, the auditor reported on the audit as a whole and the individual focal points and key findings of the audit and answered all of the Supervisory Board's questions in detail. In particular, the auditor expressed an opinion as to whether there were any material deficiencies in the internal control and risk management system with regard to the financial reporting process and did not express any objections in this respect. The auditor stated that there were no circumstances that could give rise to grounds for concern as to its impartiality and provided the Supervisory Board with information on the services performed in addition to the audit of the annual financial statements. The Supervisory Board concurred with the audit report and the findings of the audit.

The Supervisory Board examined the single-entity and consolidated financial statements and the combined Management Report for the 2010 financial year, taking into account the report by the auditor, and the proposal by the Management Board on the appropriation of retained earnings. Following its own examination, the Supervisory Board approved the single-entity financial statements prepared by the Management Board at its balance sheet meeting in March 2011 in accordance with the recommendation by the Audit Committee. The single-entity financial statements have therefore been adopted in accordance with section 172 of the AktG. The Supervisory Board also approved the consolidated financial statements and the combined Management Report. The Supervisory Board concurred with the proposal by the Management Board on the appropriation of retained earnings.

The Supervisory Board would like to thank the active members of the Supervisory Board and the Management Board for their continued good cooperation in a spirit of mutual trust. The members of the Supervisory Board would also like to welcome Francois Villeroy de Galhau as a new member.

In particular, the Supervisory Board would like to express its gratitude to the employees of the Villeroy & Boch Group for their permanently high level of motivation and performance in the 2010 financial year.

For the Supervisory Board



Wendelin von Boch-Galhau, Chairman
Mettlach, March 2011

CORPORATE GOVERNANCE REPORT

In accordance with section 3.10 of the German Corporate Governance Code, the Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance at Villeroy & Boch in the following report. This report contains the declaration on corporate governance in accordance with section 289a (1) HGB and the remuneration report pursuant to sections 4.2.5 and 5.4.6 of the German Corporate Governance Code on the remuneration paid to the Management Board and Supervisory Board.

Good corporate governance aimed at creating sustainable value through responsible corporate management is traditionally of fundamental importance for Villeroy & Boch. It serves as the foundation for promoting the trust of investors, customers, employees and the public. Accordingly, the recommendations and suggestions of the Government Commission of the German Corporate Governance Code constitute the basis for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

DECLARATION ON CORPORATE GOVERNANCE

Responsible management

Under the dual management system prescribed by law for a German public limited company, the Management Board of Villeroy & Boch AG is responsible, as the governing body, for managing the Company with the aim of creating short-term and long-term value. The workings of the Management Board are determined by corresponding Rules of Procedure. Resolutions are adopted at meetings of the Management Board, which take place at least twice a month. In filling management positions at the Company, the Management Board seeks to take regard of diversity and, in particular, to take appropriate account of women.

The Supervisory Board appoints, advises and monitors the Management Board. Its workings are established in corresponding Rules of Procedure. Ordinary meetings of the Supervisory Board are held at least four times a year. On the basis of continuous, rapid and transparent information – both written and verbal – provided by the Management Board, the Supervisory Board is directly involved in all decisions of material importance to the Company. In appointing members of the Management Board, the Supervisory Board takes regard of diversity and will seek to ensure appropriate participation by women in future.

Composition of the Supervisory Board

The Supervisory Board of Villeroy & Boch AG is composed of twelve members, six of whom are elected by the General Meeting of Shareholders (shareholder representatives) and six of whom are elected by the Company's employees in accordance with the provisions of the German Codetermination Act (employee representatives). The term of office of members of the Supervisory Board is normally five years.

The Supervisory Board takes its role of monitoring a globally operating company seriously. It is of the opinion that its composition is an important factor in successfully performing its diverse tasks to the optimal benefit of the Company. It therefore welcomes the recommendation by the German Corporate Governance Code to set specific targets for its composition.

In accordance with section 5.4.1 of the German Corporate Governance Code, the Supervisory Board adopted the following targets for its composition in its meeting on 10 March 2011.

"The composition of the Supervisory Board of Villeroy & Boch AG should be such that the Management Board will be subject to informed monitoring by and receive expert advice from the Supervisory Board at all times.

The candidates proposed for election to the Supervisory Board should be in a position thanks to their knowledge, skills and professional experience to perform the tasks of a Supervisory Board member in an internationally active company and to safeguard the reputation of the Villeroy & Boch Group with the public. In the process, attention should be paid to the personality, integrity, commitment, professionalism and independence of the persons proposed for election.

The individual knowledge, skills and experience of the individual members of the Supervisory Board should complement each other in such a way that there is sufficient professional expertise available for the work of the Supervisory Board as such and for the business activities of each division at all times to guarantee that the Management Board is monitored professionally and efficiently and provided with advice on a continuous basis.

In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience.

In proposing members for election, the Supervisory Board shall also seek to ensure appropriate participation by women. Highly qualified women should be included in the selection process when examining potential candidates as new members or filling vacant positions on the Supervisory Board and should be taken into account to an appropriate extent in the members proposed for election. The Supervisory Board will strive to have at least one female member in future.

The Supervisory Board should have a sufficient number of independent members. Significant conflicts of interest that are not merely temporary should be avoided.

The Supervisory Board members should also have sufficient time to perform their functions such that they can do so with the requisite regularity and diligence.
The regulation on the age limit laid down by the Supervisory Board in the Rules of Procedure will be taken into account. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board."

The Supervisory Board is of the opinion that, on the whole, its current members have the necessary knowledge, professional experience and skills to perform their tasks properly.

The precise composition of the Supervisory Board is shown in the list on page 11. Personnel changes in the year under review are presented in the Report of the Supervisory Board.

Composition of the Management Board

The Management Board of Villeroy & Boch AG consists of two members at present. The members of the Management Board are appointed by the Supervisory Board in accordance with the provisions of the German Codetermination Act. In appointing members to the Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates. With respect to the overall composition of the Management Board, it seeks to ensure diversity and to have appropriate participation by women. When examining potential candidates to fill vacant positions on the Management Board, highly qualified women are included in the selection process and are taken into account to an appropriate extent.

The precise composition of the Management Board is shown in the list on page 10. Personnel changes in the year under review are presented in the Report of the Supervisory Board.

Trust-based cooperation between the Management Board and the Supervisory Board

The cooperation between the Management Board and Supervisory Board was again characterised by open, trust-based communication to the benefit of the Company in 2010. This was seen in the meetings of the Supervisory Board and in the discussions between individual members of the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. In the past financial year, the reports by the Management Board to the Supervisory Board focused specifically on the direction and implementation of corporate strategy, the Company's business development, the Group's position, the EU bathroom case and questions relating to the risk situation, risk management and compliance.

The Supervisory Board's right to withhold approval in certain cases is laid down in the Rules of Procedure for the Supervisory Board and the Management Board. This applies to significant transactions or measures affecting the net assets, financial position and results of operation of Villeroy & Boch AG.

Supervisory Board committees

To allow it to perform its tasks efficiently and deal with complex issues more intensively, the Supervisory Board has formed three expert committees, each consisting of three members, in addition to the Conciliation Committee prescribed by section 27 (3) of the German Codetermination Act. The activities of the committees are governed by the Rules of Procedure for the Supervisory Board and the respective committees.

By law, the Conciliation Committee prescribed by section 27 (3) of the German Codetermination Act must be established in order to perform the task set out in section 31 (2) sentence 1 of the German Codetermination Act. It submits proposals for the appointment or the revocation of the appointment of Management Board members to the Supervisory Board if the requisite majority of two-thirds of the votes of Supervisory Board members is not reached in the first ballot. It consists of the Chairman and First Vice Chairman of the Supervisory Board, one shareholder representative and one employee representative. The current members are Wendelin von Boch-Galhau (Chairman), Ralf Runge (First Vice Chairman), Peter Prinz Wittgenstein and Ralf Sikorski.

The Human Resources Committee primarily deals with the conclusion as well as the amendment and termination of the employment contracts of Management Board members and long-term succession planning. It prepares the appointment and dismissal of members of the Management Board, the remuneration system for the Management Board and the total remuneration for the individual members of the Management Board, including contractual bonus provisions, pension provisions and other contractual benefits, for resolution by the full Supervisory Board. It is chaired by the Chairman of the Supervisory Board and also includes one employee representative and one shareholder representative. The current members are Wendelin von Boch-Galhau (Chairman), Ralf Sikorski and Dr. Jürgen Friedrich Kammer.

The tasks of the Investment Committee include advising on corporate and investment planning in advance and preparing investment decisions. The Investment Committee is chaired by the Chairman of the Supervisory Board and also includes one employee representative and one shareholder representative. The current members are Wendelin von Boch-Galhau (Chairman), Dietmar Langenfeld and Peter Prinz Wittgenstein (Vice Chairman).

The Audit Committee discusses the topics of accounting, risk management, the internal control and audit system, compliance, and issues relating to the audit of the annual financial statements. It is composed of two shareholder representatives and one employee representative. The current members are Charles Krombach (Chairman), Peter Prinz Wittgenstein and Werner Jäger (Vice Chairman). The Chairman of the Audit Committee is independent and has extensive expertise in the areas of accounting and auditing as a result of his long-standing position as managing partner of Landewyck Group S.à r.l. and Heintz van Landewyck S.à r.l.

No separate Nomination Committee has been formed to propose suitable candidates for election to the Supervisory Board. Proposals for election have been and will continue to be prepared at shareholder representatives' meetings.

The chairmen of the committees report to the full Supervisory Board on the work of the committees. Information on the key contents of the committee meetings in the past financial year can be found in the Report of the Supervisory Board.

Prevention of conflicts of interest

The members of the Management Board and the Supervisory Board have a duty to uphold the interests of the Company and not to pursue any personal interests that could clash with those of the Company in fulfilling their duties. All members of the Management Board and the Supervisory Board are obliged to disclose any potential conflicts of interest to the Supervisory Board. Roles in other statutory supervisory boards and comparable domestic and foreign controlling bodies of commercial enterprises held by members of the Management Board and the Supervisory Board can be found on pages 10 and 11. Links with related parties are shown in the notes to the consolidated financial statements on page 109.

Efficiency review

The Supervisory Board of Villeroy & Boch AG again performed a regular efficiency review in 2010. This is a self-assessment of the workings of the Board and is carried out by its members. The efficient work of the Supervisory Board is driven in particular by the work of the committees, which meet as required and prepare the resolutions to be passed by the full Supervisory Board.

Directors' dealings

In accordance with section 15a of the German Securities Trading Act, disclosures on transactions in shares of Villeroy & Boch AG requiring notification are published immediately on the Company's website; this was the case for transactions by a member of the Management Board in the 2010 financial year.

At the end of the year under review, the members of the Supervisory Board held directly and indirectly (in the sense of sections 15a, 22 WpHG) 7.36% (2,066,230 shares) of all the shares issued by the Company. Thereof apply 4.36% (1,223,530 shares) to Wendelin von Boch-Galhau and 2.77 % (778,980 shares) to Alexander von Boch-Galhau, while the members of the Management Board cumulatively held 0.15 % (41,625 shares) of the shares in circulation.

Compliance at the Villeroy & Boch Group

The establishment of an effective compliance organisation is a vital element of good corporate governance with a view to ensuring compliance with statutory provisions, internal guidelines and corporate values. In the 2008 financial year, a compliance organisation going above and beyond the existing measures was created as part of the risk management system.

- Our compliance organisation is directly linked to the Management Board of Villeroy & Boch AG: the Chief Financial and Human Resources Officer is the Chief Compliance Officer. The Group's compliance organisation reports to him. He is supported by the Compliance Officer at Villeroy & Boch AG.

- To ensure that compliance is present within all departments, the Compliance Officer is supported by the Compliance Advisory Board (CAB). The Compliance Advisory Board includes the senior managers of the central Legal, Treasury, Human Resources, Controlling, Internal Audit, Purchasing and Information Technology functions as well as the environment and occupational health and safety managers and the senior controllers of the "Bathroom and Wellness" and "Tableware" Divisions.

- Compliance officers are also appointed for each company at the subsidiaries' management level to ensure that the issue of compliance is actively pursued throughout the Group. They report directly to the Chief Compliance Officer.

In the year under review, an internal whistleblower platform allowing all employees to report breaches of compliance regulations anonymously if desired was installed at the level of Villeroy & Boch AG. As in recent years, training sessions on anti-trust and competition law issues have also been carried out internally and by external consultants.

The compliance organisation is based on corporate guidelines, ethical principles and a general Code of Conduct. These principles and guidelines apply directly to all employees throughout the world. General guidelines and guidelines on the various areas of activity are also in place; these describe the Group's general Code of Conduct in greater detail and provide employees with specific instructions on how to behave in individual cases. These guidelines are obligatory for all employees in their respective local and professional area of application. All principles and guidelines can be viewed by all employees on the Intranet.

The corporate guidelines, ethical principles and the general Code of Conduct can also be accessed in the Investor Relations / Corporate Governance section of the Company's website at *www.villeroy-boch.com*.

The next measures will be to develop our compliance organisation further, particularly at the subsidiaries, to offer our employees more detailed training and to constantly analyse and improve our compliance.

Details of the controlling and risk management system can be found in the Risk Report in the Management Report.

Comprehensive information creates transparency and trust

Villeroy & Boch AG seeks to inform all target groups of the Company's position equally and in good time and to ensure optimal transparency with regard to its management and controlling mechanisms by way of comprehensive reporting.

This includes the annual publication of the consolidated financial statements and quarterly reports, which are prepared in accordance with the International Financial Reporting Standards (IFRS). The 90-day period for the publication of the consolidated financial statements set out in section 7.1.2 of the German Corporate Governance Code was again observed this year. The single-entity financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website *www.villeroy-boch.com* also contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports by Villeroy & Boch AG are also available to download in German and English from the Investor Relations section.

The publications comply with the transparency requirements set out in the German Securities Trading Act. The annual document in accordance with section 10 of the German Securities Prospectus Act compiles all publications relating to Villeroy & Boch AG in the 2010 financial year.

To allow us to maintain a dialogue with analysts and shareholders, the financials and analysts' press conference is held once a year and the General Meeting of Shareholders is convened at least once a year giving details of the agenda.

Publication dates and recurring events are published in the financial calendar on our website, in this annual report and also in our interim reports.

Ernst & Young confirmed as auditors

The Supervisory Board of Villeroy & Boch AG again commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the single-entity and consolidated financial statements for the 2010 financial year as the auditor appointed by the General Meeting of Shareholders. The Audit Committee and the Supervisory Board had previously satisfied themselves as to the independence of the auditor.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman of the Audit Committee would be informed immediately of any potential grounds for disqualification or partiality and any facts and events of importance for the proper performance of the tasks of the Supervisory Board arising during the performance of the audit.

If the audit gives rise to facts that show a misstatement in the declaration of conformity issued by the Management Board and the Supervisory Board in accordance with section 161 of the German Stock Corporation Act, the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board are obliged to issue a Declaration of Conformity regarding the adoption of the recommendations of the German Corporate Governance Code once a year in accordance with section 161 of the German Stock Corporation Act. Following intensive discussions at the meeting of the Supervisory Board in December, the Management Board and the Supervisory Board issued the following declaration of conformity, which stated that the Company had complied with and continued to comply with all of the recommendations of the Government Commission of the German Corporate Governance Code with five exceptions.

"The Management Board and the Supervisory Board examined the Company's compliance with the German Corporate Governance Code on 13 December 2010.

In accordance with section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of Villeroy & Boch AG hereby declare that, since the publication of the last declaration of conformity on 16 December 2009, the Company has complied with and continues to comply with the recommendations of the Government Commission of the

German Corporate Governance Code (the "Code") in the version dated 18 June 2009 up until the announcement of the new version of the Code in the official section of the electronic Bundesanzeiger (Federal Gazette) on 2 July 2010 and, since this date, in the version dated 26 May 2010 with the exception of the small number of recommendations described below:

Section 3.8 (2) of the Code:

The existing D&O (directors' and officers' liability insurance) policy does not prescribe a deductible for the members of the Supervisory Board. Villeroy & Boch AG is of the opinion that a deductible is not a suitable means of influencing the level of motivation and responsibility with which the members of the Supervisory Board perform their activities.

Section 4.2.3 (2) of the Code:

In the existing employment contracts with the members of the Management Board, the variable remuneration elements take into account both positive and negative developments within the agreed assessment period insofar as a higher or lower level of variable remuneration or no remuneration is paid. When determining Management Board remuneration in future, the Supervisory Board will observe the criteria on variable remuneration set out in the German Act on the Appropriateness of Management Board Remuneration.

Section 4.2.3 (4) and (5) of the Code:

The existing employment contracts, which were concluded before the corresponding amendments to the Code, contain provisions on severance payment caps with regard to both the reason for termination and the amount of severance pay. In the small number of points where these provisions do not fully comply with the recommendations of the Code, the Supervisory Board will endeavour to ensure that a compliant agreement is concluded to the extent that this makes economic sense and is possible under employment law.

Section 5.3.3 of the Code:

The Supervisory Board has not formed a separate Nomination Committee to propose suitable candidates for election to the Supervisory Board. Proposals for election have been and will continue to be prepared at shareholder representatives' meetings. As the Supervisory Board only has six shareholder representatives and the current practice of preparing proposals for election at shareholder meetings has proven to be efficient, the Supervisory Board does not see the need to institutionalise this practice by forming an additional Nomination Committee.

Section 5.4.1 (2) of the Code:

The Supervisory Board has still not announced any specific targets for its composition in 2010. It had previously set an age limit for its members and taken this into consideration when proposing members for election. The Supervisory Board will also set specific targets for its composition by mid-March, which, with due regard for the Company-specific situation, will take account of the Company's international operations, potential conflicts of interest, an age limit for members of the Supervisory Board and diversity and, in particular, provide for appropriate participation by women."

SUPERVISORY BOARD AND MANAGEMENT BOARD REMUNERATION

Basic features of the remuneration system

The remuneration system established for members of the Management Board is performance-oriented, with the fixed remuneration of the Management Board members being supplemented by a performance-based variable component. The value of the variable component is dependent on the extent to which targets laid out in the annual objectives are met. The objectives comprise individual targets as well as financial Company targets. The target parameters for the variable remuneration component for the 2010 financial year were preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car for private usage is offered to members of the Management Board. The existing contracts of the acting members of the Management Board provide for defined benefit pension commitments. Based on the assessment of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the financial situation of the Company.

A reassessment of the Management Board remuneration has not been made since the entry into force of the German Act on the Appropriateness of Management Board Remuneration on 31 July 2009. The existing contracts of the members of the Management Board were also unchanged in the 2010 financial year. The Supervisory Board commissioned an independent remuneration consultant for the review of its remuneration system.

Supervisory Board remuneration is also composed of a fixed and a variable component. The performance-based variable component is based on the dividend paid to shareholders.

Supervisory Board remuneration

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive fixed basic remuneration and a variable remuneration component.

The fixed annual basic remuneration is Euro 20,000. The Chairman receives an additional Euro 45,000, while the Deputy Chairman receives an additional Euro 13,500. Members of the Supervisory Board receive a meeting fee of Euro 1,250 for each meeting of the full Supervisory Board.
The Chairman of the Investment Committee, the Human Resources Committee and the Audit Committee each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the respective committees each receive an additional Euro 2,500 p.a.

The variable remuneration amounts to Euro 195.00 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share (calculated as the average of the dividends paid for one preference share and one ordinary share).

The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.

The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration in the financial year:

in Euro thousand	Fixed remuneration	Meeting fees	Variable remuneration for 2009	Total	Previous
Wendelin von Boch-Galhau 2*), 3*)	73	4	–	77	66
Ralf Runge	34	5	–	39	45
Peter Prinz Wittgenstein 1), 2)	39	5	–	44	68
Dr. Alexander von Boch-Galhau	20	5	–	25	29
Francois Villeroy de Galhau	18	5	–	23	–
Jürgen Beining	20	5	–	25	29
Werner Jäger 1)	23	5	–	28	34
Dr. Jürgen Friedrich Kammer 3)	23	5	–	28	33
Charles Krombach 1*)	24	5	–	29	35
Dietmar Langenfeld 2)	23	5	–	28	34
Ralf Sikorski 3)	23	5	–	28	32
Dietmar Geuskens	20	5	–	25	13
Members who left in 2010	2	–	–	2	29
Members who left in 2009	–	–	–	–	22
Members who left in 2008	–	–	–	–	8
Rounding differences	–3	–	–	–3	–12
	339	**59**	**–**	**398**	**465**

*1) Audit Committee, 2) Investment Committee, 3) Human Resources Committee, * = Chairman of the respective committee*

A total expense of Euro 459 thousand was reported in the consolidated result for the 2010 financial year (previous year: Euro 400 thousand). Besides the fixed remuneration paid and the meeting fees 2010, the expense further includes Euro 25 thousand for the provision for variable remuneration as well as other reimbursements of expenses.

Management Board remuneration

An expense of Euro 1,968 thousand (previous year: Euro 1,756 thousand) is reported in the income statement for the 2010 financial year. This figure is composed of fixed (Euro 1,144 thousand; previous year: Euro 954 thousand) and variable salary components (Euro 824 thousand; previous year: Euro 802 thousand). In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 2 thousand (previous year: Euro 4 thousand). The members of the Management Board received remuneration in kind totalling Euro 43 thousand (previous year: Euro 50 thousand).
The above-mentioned payments also include remuneration paid to a member who has left the Management Board.

The pension entitlements of Management Board members in the amount of Euro 2,752 thousand (previous year: Euro 2,451 thousand) are included in provisions for pensions. Provisions for pensions for former members of the Management Board amount to Euro 13,174 thousand (previous year: Euro 13,220 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,135 thousand (previous year: Euro 1,363 thousand).

The provisions of section 314 (2) sentence 2 in conjunction with section 286 (5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2010 financial year.

VILLEROY & BOCH'S SHARES – 2010 STOCK MARKET YEAR

RECOVERY ON THE STOCK MARKETS

Following an encouraging stock market year in 2009, investors hoped that developments in 2010 would be similarly positive. However, the main barometer of the German stock market, the Deutscher Aktienindex (DAX Performance Index), fell steadily from mid-January to early February to record a low for the year of 5,434 points, having closed 2009 by exceeding 6,000 points for the first time since September 2008. Despite continued concerns about public debt in Europe, particularly in Greece, Spain and Portugal, investor sentiment picked up and the DAX returned to above 7,000 points for the first time in early December to close the year at around 6,900 points, a year-on-year growth of 16%.

In addition to Germany, the stock market winners in 2010 again included the emerging economies of Russia (+22%), India (+31%) and China (+17%) in particular. These booming economies are interesting markets for Villeroy & Boch in which we also pressed ahead with our internationalisation process in 2010.

VILLEROY & BOCH'S PREFERENCE SHARES

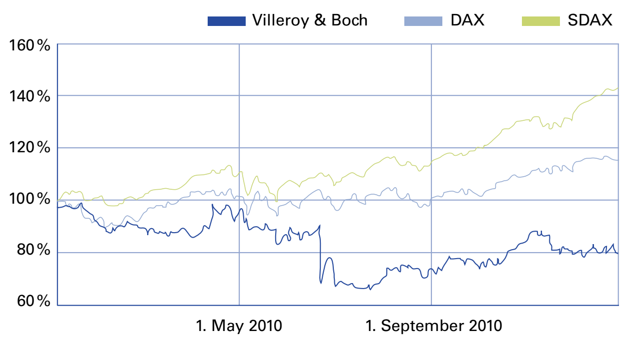
Villeroy & Boch's preference shares opened the year at Euro 5.65, their high for 2010. The Company's share price fluctuated between Euro 5.65 and Euro 4.73 in the first half of the year; however, the announcement of the EU anti-trust fine on 23 June meant that it fell by around 24% to Euro 3.88. The shares made up some ground over the following weeks but hit their low for the year of Euro 3.74 in late July. The shares failed to breach the value of Euro 5.00 in the second half of the year but did exceed the Euro 4.50 mark in late October, reaching as high as Euro 4.99 in mid-November. Villeroy & Boch's preference shares closed the year at Euro 4.55, down around 19% on the start of the year.

A significant reduction in the liquidity of Villeroy & Boch's preference shares as against 2009 and a reduction in market capitalisation compared with other companies meant that the shares left the SDAX index on 21 June.

CAPITAL MARKET COMMUNICATIONS

On the occasion of the traditional spring analyst conference in Frankfurt/Main, CEO Frank Göring and CFO Manfred Finger presented the consolidated financial statements, provided information on the Company's development and answered the analysts' questions in detail. Further the General Meeting of Shareholders took place in May and individual teleconferences

Villeroy & Boch's preference shares 2010*



WKN	765723
ISIN	DE0007657231
Securities exchange symbol	VIB3
Shareholder structure	88 % Free-Float
Yearly high	Euro 5.65[1]
Yearly low	Euro 3.74[2]
Closing price	Euro 4.55[3]
Market capitalisation	Euro 63.9 mill.[4]
Earnings per share	Euro –2.35

with analysts were held during the fiscal year. In addition, the Investor Relations section of the Company's website at *www.villeroy-boch.com* provides comprehensive information for analysts and shareholders.

PROPOSED DIVIDEND

Due to the positive business development, with the operating result (EBIT) improving from Euro -1.7 million in 2009 to Euro 23.6 million in 2010, the Supervisory Board and the Management Board propose to the General Meeting of Shareholders the payment of a dividend of Euro 0.33 per preference share (including Euro 0.13 for the outstanding minimum dividend from 2009) and Euro 0.15 per ordinary share. Adjusted for the effect of the EU fine, this would represent a Group-distribution ratio of around 61% excluding treasury shares. As we are currently involved in legal proceedings against the fine imposed by the EU, the dividend is calculated on the basis of earnings excluding the EU fine.

OUTLOOK 2011

The economic forecasts for 2011 are ambivalent. Some experts are talking about global economic growth and a significant recovery following the financial and economic crisis, while others are warning of high risks and excessive euphoria. For the stock markets, and especially the German stock market, the second half of the year in particular is expected to see a return to the positive territory of 2007. This would also mean Villeroy & Boch's preference shares enjoying substantial price growth. This assessment is supported by the latest analyst reports, which focus on Villeroy & Boch's strong competitive position and successful restructuring as well as the general economic upturn.

*Common shares not traded publicly, [1]as of 04/01/2010, [2]as of 20/07/2010, [3]as of 30/12/2010, [4]as of 30/12/2010

OUR EMPLOYEES

In the past 2010 financial year, Villeroy & Boch was able to end the reduced working hours for waged and salaried employees in Germany that had been introduced during the previous year in response to the repercussions of the financial and economic crisis as well as the Group-wide recruitment freeze. In light of demographic change in particular, Villeroy & Boch is now focusing its human resources policy on acquiring well-qualified employees, promoting and developing them and retaining them within the Company for the long term.

To implement this, on the one hand, Villeroy & Boch offers young people various options for joining the Company, from vocational training to the international junior management programme and on the other hand, extensive training and education programmes for existing staff are provided. Villeroy & Boch also offers a company health plan and promotes work-life balance to make itself more attractive as an employer.

TRAINING AT VILLEROY & BOCH

Despite the difficult economic conditions, Villeroy & Boch employed 79 trainees in 11 skilled trades in 2010. A total of 92 trainees were employed in the past financial year, including 12 people studying at the Akademie der Saarwirtschaft. This meant that the high level of training places offered in previous years was maintained. Through its continuous education policy, Villeroy & Boch not only meets its social responsibility by offering qualified training programmes and future prospects to motivated young people, but also safeguards its succession planning for technical and management positions.

One highlight in 2010 was the opening ceremony for the new training workshop in Mettlach, the relocation and redesign of which was largely accomplished by the trainees and their trainers on their own initiative. The substantially extended training rooms contain state-of-the-art technology and allow comprehensive training in metals and electronics.

A positive result for the quality of training at Villeroy & Boch: trainee Christian Degen completed his degree in Business IT at the Akademie der Saarwirtschaft as the top student in his year.

Villeroy & Boch also supports its international focus through its training activities. Three trainees from the training workshop and head office IT were employed at the Romanian plant in Lugoj as part of projects.

On the left: Tableware-production employee at the Merzig site, the global competence centre for the production process of isostatic pressing and decoration.

THE JUNIOR MANAGEMENT PROGRAMME AT VILLEROY & BOCH

In October 2010, the three-year junior management programme started at Villeroy & Boch. Eleven graduates began their professional training in the areas of marketing, supply chain management, human resources and controlling/finance. These junior managers had previously distinguished themselves among more than 400 internal and external applicants and demonstrated their potential in interviews, psychological tests and assessment centres.

The aim of this comprehensive junior management programme is to offer new graduates an excellent, high-quality professional training programme at Villeroy & Boch and to achieve a high level of commitment from these future managers. In detail, the systematic training offered by this on-the-job programme provides for numerous seminars, events and projects, which will expand the knowledge and skills of young graduates and focus them on the world of work. In principle, this also includes periods spent abroad at Villeroy & Boch's plants or branches, while the participants will ideally work in both of the Company's divisions so as to gain the broadest possible perspective. Professional training will be carried out by both internal and external trainers.

Particular importance is attached to the support provided for young trainees at work, with mentors assisting their development. Following a successful launch in 2010, the junior management programme is to be continued on a regular basis and expanded in subsequent years.

EMPLOYEE EDUCATION AND PROMOTION

To advance employees personally and professionally, their needs are identified with the help of tools such as the appraisal interview, an annual feedback session between employees and their managers. Following the widespread qualification campaign launched in 2009 during the reduced working hours period, in 2010, Villeroy & Boch devised individual education programmes for its employees as part of the "Global Academy".

The principal focus in production was the "Factory 2011" project, in which staff have actively supported changes in production. For its salaried workers, Villeroy & Boch has rolled out a new concept for learning foreign languages, which will support the Group's increasing internationalisation. This programme offers the opportunity to combine e-learning, online personal instruction or business conversation depending on the level of prior knowledge. In total, Villeroy & Boch spent more than Euro 2 million for training and development of its employees in the past financial year.

Top right: Villeroy & Boch **trainees** at the new training workshop at the day of inauguration.
Down right: **2010 Junior managers** together with Luitwin Gisbert von Boch-Galhau as well as the responsible HR managers.

BOOSTING OUR ATTRACTIVENESS AS AN EMPLOYER

The issue of health is becoming increasingly relevant, not least as a result of demographic change. This shift in the age structure of our employees demands that we look more closely at the issue of promoting health in the workplace. Villeroy & Boch does not wish to satisfy itself with merely complying with statutory or workplace regulations, but is also seeking to increase its involvement in the area of promoting health in the workplace in future. Villeroy & Boch makes an active contribution towards its employees' health in a manner that is tailored to the needs of waged and salaried workers. The findings from workflow analysis are included in production planning on a regular basis. This leads to the need for adjustments such as the purchase of lifting aids or the establishment of other ergonomic measures, as a result of which less strain will be put on employees' health and time off will be reduced. Healthy living days were held for employees at the Saarland sites for the first time in autumn 2010 (a detailed report can be found on page 35).

The work-life balance is becoming ever more important. To take account of this trend, Villeroy & Boch provides places in the Mettlach day nursery exclusively for employees' children. As a result, Villeroy & Boch is meeting the growing need for day care facilities for children under the age of three. This allows parents to have their children looked after near to their place of work. The available places are all full and we are currently examining an increase in capacity, including at another site.

At the end of 2010, Villeroy & Boch also joined the "Fair Company" initiative run by Handelsblatt, which is directed at the unfair treatment of interns.

WORKING TOGETHER TO SUCCEED

The constructive cooperation between Villeroy & Boch employees, which plays a critical role in securing the Company's long-term success, is characterised by fairness and a sense of partnership. Villeroy & Boch also exemplifies and promotes diversity and internationality in cooperation with the employee representatives. In this area, the successful trust-based cooperation with the German Works Councils was just as important as the consultation processes established more than ten years ago as part of the Euro Forum. The Management Board and Works Councils from France, the Netherlands, Sweden, Austria, Hungary, Romania and Germany discuss the Group's economic situation and all of the projects affecting the workforce at its European sites at least once a year.

The first "healthy living days" at Villeroy & Boch

A great deal of attention is paid to health as a key factor in people's well-being in their personal and professional lives at Villeroy & Boch. During the first "healthy living days", which ran from 4 to 6 October 2010, the Company addressed the issue of healthy living in a holistic, informative, motivational and entertaining manner. All production and administrative employees were invited to take part in tests and demonstrations and receive personal advice from experts.

The aim was to increase awareness of healthy living and to provide practical methods for remaining fit and healthy. The comprehensive range on offer – from medical checks to massages, back screening, workstation ergonomics, advice on healthy eating and first aid measures through to a driving simulator – attracted more than 500 employees to the "Alte Abtei" seminar rooms, which had been completely transformed for the purpose. For the Company, this event also offered the opportunity to identify the main needs of its employees in a closing evaluation.

Particularly popular:
back training, one of the stations at the **healthy living days**

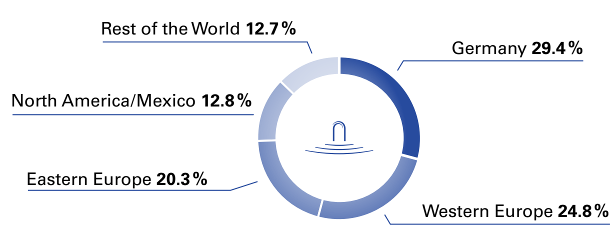
Riding for a good cause as part of the healthy living days

A sprint on a bicycle ergometer provided employees with information on their physical fitness. But this station also had another purpose. The Company gave a donation reflecting the fastest time to the children's farm in Saarlouis, Germany.

Trend and number of employees within the Group
(average for the year 2010)

	2010	2009	09/10
Bathroom and Wellness	5,811	6,274	–463
Tableware	2,518	2,755	–237
Other	400	411	–11
Group as a whole	**8,729**	**9,440**	**–711**

Personnel by regions



BATHROOM AND WELLNESS DIVISION

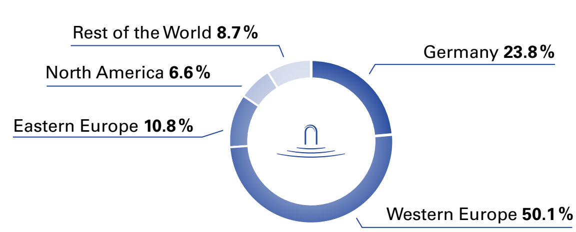
Andreas Pfeiffer, Head of Bathroom and Wellness Division

The new surprisingly different entrance segment:
The integrated bathroom solution ***O.novo*** with ovalness as a recurring design element and the smart furniture programme ***Frame to Frame***.

Key Data

in Euro million	**2010**	**2009**
Sales	446.6	426.7
EBIT – operating	19.0	–3.7
Capital expenditures	12.4	15.4
Depreciation	21.1	22.5

Sales by regions



AN INTERVIEW WITH ANDREAS PFEIFFER, HEAD OF DIVISION

Mr Pfeiffer, what sort of year was the 2010 financial year for your Division?

Early 2010 was characterised by a great deal of uncertainty. Following the turbulence in 2009, we were not certain which direction our sector would take. However, the situation evolved far more positively over the course of 2010 than many had forecast, meaning that although development was not consistently positive over the year as a whole, it was positive in the relevant markets in the fourth quarter in particular.

… can you cite a few examples?

In particular, I would point to the developments in our core markets, such as Germany, in which we not only managed to stabilise the situation but were able to report single-digit growth once more.

In terms of products, an update of *Subway* with the launch of *Subway 2.0* made a particularly strong contribution to this performance. In the area of bathtubs and shower tubs, we were able to further expand our position in the market with the Villeroy & Boch brand, and we are systematically pursuing this course with the introduction of *Futurion* – a new Quaryl shower solution.

Nevertheless, the situation in the sector remains finely balanced: some sales markets, such as the Netherlands and markets in Eastern Europe such as Hungary and Romania, have yet to overcome the crisis and all the signs are that this situation will continue. All in all, however, 2010 developed more positively for the Bathroom and Wellness Division than we had expected, meaning that we posted growth in sales compared with 2009 of 5% to Euro 446.6 million and operating earnings (EBIT) of Euro 19.0 million. The success we have enjoyed in the past year was not down to the performance of individuals but was achieved by the entire "Bathroom and Wellness"-team, who have stuck together particularly strongly during the past two difficult financial years and the associated austerity measures and have heralded the turnaround with passion and commitment. Once again, I would like to express my heartfelt thanks to them!

Which regions were and are particularly attractive and challenging?

Asia and, above all, China must be highlighted as a particularly promising yet equally challenging region. We generated double-digit growth rates here in 2010 and are confident of being able to achieve strong growth in future too. Russia is another market that offers significant potential for Bathroom and Wellness, returning to its previous strength last year after a rather depressing year in 2009.

The third region that gave us a great deal of joy in 2010 was the Scandinavian countries. With the renewal of our ceramic product range *Nautic* under the Gustavsberg brand and our fittings business, we were able to recapture sales and market share in the region. As I have mentioned already, our good performance in Germany, most notably due to project business, is and will remain a factor in our division‘s success.

What precisely is meant by the term "project business"? Can you cite a few examples from the past financial year?

Project business, or the fitting out of hotels, apartments and public facilities, is in itself nothing new for Bathroom and Wellness and has been part of our business for some time. However, we focused on this area in 2010 and adopted a new organisational approach. We have established our own team specialising in dealing with the target groups of architects, designers and developers, both nationally and internationally. This new direction bore fruit in 2010. In Germany, for example, we fitted out the '*Atlantik Kempinski*' in Hamburg, while internationally, we fitted out the '*Ritz-Carlton*' in China, the '*Taj Mahal Palace*' in India and the '*Land Mark Tower*' in Abu Dhabi, to name just a few.

The International Sanitary and Heating trade fair (ISH) took place in March this year. What new products were presented to visitors from the industry?

We presented a new design with *My Nature*, which, as the name indicates, is based on "nature". An integrated bathroom concept in a highly sophisticated and elaborate design. Attention is also increasingly focusing on "guest bathrooms". To satisfy this trend and, in particular, to offer solutions for small bathrooms in cities, we presented some promising guest bathroom solutions in the mainstream segment with *Subway 2.0* and in the high-end segment with the introduction of *Memento*. To strengthen our project business further, we also presented a completely new marketing concept called '360° Projects' at the ISH, with which we are seeking to appeal specifically to architects, planners and interior designers with the aim of offering the correct products and services for each project.
We provided impressive proof of this claim with the introduction of *O.novo*, with which we are focusing on project and wholesale business in particular.

What are you expecting for the Division and what targets have you defined for 2011?

The omens for 2011 are promising: building permits and completions are increasing in many countries. We assume that the positive trend in the second half of 2010 will continue into 2011. Accordingly, our sales planning is forecasting growth of around 5% in 2011, which will lead to a further increase in earnings. We intend to continue on the course we have adopted with passion and retain our wholesale and end customers with convincing product, marketing and service concepts.

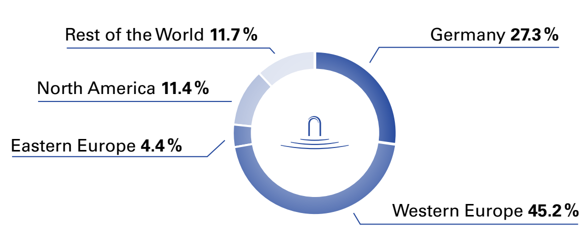
TABLEWARE DIVISION

Nicolas-Luc Villeroy, Head of Tableware Division at the Villeroy & Boch stand at the Ambiente trade fair 2011

Key Data

in Euro million	2010	2009
Sales	267.6	288.6
EBIT – operating	4.6	2.0
Capital expenditures	11.8	5.3
Depreciation	9.0	12.4

Sales by regions



AN INTERVIEW WITH NICOLAS-LUC VILLEROY, HEAD OF DIVISION

Mr Villeroy, looking back, what is your assessment of the 2010 financial year as far as your division is concerned?

We have had a challenging year! The strain of coping with these challenges, namely keeping an eye on costs and generating a profit despite the continuing difficult economic situation while also looking forward and investing in future markets, was tangible throughout the Company.

… can you cite a few examples?

For example, as part of the implementation of the package of measures to increase competitiveness in 2009, we had to close our long-established plant in Luxembourg in mid-2010 for reasons of profitability. However, we have expanded our outlet at the Luxembourg site and made it more attractive to customers and visitors by opening a restaurant and an area where they can see our products being manufactured. We were able to press ahead with the development of our competence centres at the Merzig and Torgau sites, in which we are investing some Euro 13 million in total, and will complete this process this year. We have also made the entire organisation of the Tableware Division more functional in its focus and increased the number of staff in our marketing department. After all, to be successful as a lifestyle company, we must offer more than 'just' products. In saturated markets in particular, we must be in a position to identify different target groups, develop suitable concepts and market them successfully. We are aiming to achieve the latter with our new innovative brand appearance in particular.

What were the highlights of 2010 for the Tableware Division?

The first highlight of the year was our redesigned stand at the 'Ambiente' trade fair in Frankfurt in February. We succeeded in creating a perfect stage for the placement of our products, which also served as the launch of our new brand appearance as mentioned earlier. We were also able to report some highlights in our sales activities in particular: we inaugurated our flagship store on the Rue Royale in Paris with a new premium design; in London, we renovated our 250m² sales area in Harrods; we initiated a new shop floor concept with the opening of the shop in Mühlheim; and, last but not least, we opened a new store in Gothenburg. One particular and constant highlight was our employees, who have faced the challenges of the past year with a great deal of passion and personal commitment despite reduced working hours, reorganisation and pressure on costs. I would like to express my thanks to them once again!

Which Tableware products were particularly successful?

We can define two key product groups for 2010: firstly, premium bone porcelain dinner services and crockery such as *Modern Grace*, and secondly, concepts such as *Caffè Club*, where the different cup sizes fit under all standard coffee machines and can be mixed and matched in terms of colour and design. We have also developed traditional dinner services such as *White Lace* and *Samarkand* and pursued our target group-focused approach with the various concepts and our highly successful Christmas range. We also achieved good results in the glassware sector with our whisky theme in 2010.

…and what new products can we look forward to in 2011?

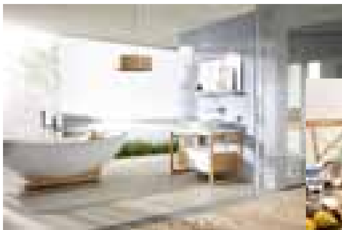
In connection with the targets we have set ourselves for 2011, we are seeking to reinforce the premium approach of our brand. In other words, we want to optimise our efforts in positioning ourselves as a high-end brand when it comes to the way in which our products are marketed at the point of sale. Specifically, this will mean renovating our shops continuously in the same way as we have renovated the space at '*Harrods*' and on the '*Rue Royale*' in Paris. In terms of products, we were able to show that we remain loyal to our brand DNA at the leading trade fair, 'Ambiente', in February this year. In the country segment, we presented a wholly new product in premium porcelain which is both traditional and, at the same time, very modern: "Farmhouse Touch". In the area of gift articles, we have browsed through our archives and, drawing on the success enjoyed by Mettlach tiles at the end of the 19th century, created a collection of espresso cups that includes these very old tile patterns on the crockery in a new, modern form. Apart from that, we are expanding our successful 2010 series *Samarkand* with a line extension and have developed a mini-product range called *Amazonia* for the successful *Modern Grace* form, which reflects the diversity of the jungle on ultra-white premium bone porcelain.

Which regions are growth markets and which activities are you using to address them?

We distinguish two regions: firstly, the very mature European and American markets, which are often difficult to address because of their saturation; we continue to achieve the lion's share of our sales here. Secondly, we are trying to advance in the emerging markets and newly industrialised countries of Asia, the Pacific, the Middle East and Russia with our own points of sale and through project business in hotels in particular. There are some good examples of this: in Abu Dhabi, we fitted out the 'Emirates Palace', in Moscow it was the '*Radisson Royal*', in Hong Kong '*The Hong Kong Club*', and in India the '*Westin Gurgaon*', to name just a few of the successes we achieved in 2010.

What are your expectations of 2011 and what targets has the Tableware Division set itself?

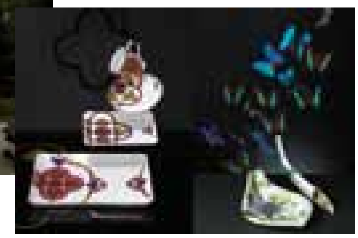
Overall, we aim to press ahead with positioning our brand – our most important asset – as a premium brand in the tableware sector with appropriate concepts. The continuous honing of our core and growth markets and the optimisation of our production processes and services should provide long-term support for this target. We aim to achieve sales growth of some 10% in the current 2011 financial year, including a major order in the tens of millions range. In terms of results, the savings arising from the package adopted in 2009 should have an impact, meaning that we are forecasting further profitable growth.



2 and 3

4 and 5

6 and 7



8 and 9

Page 2 and 3

With its use of natural materials and subtle colours, the *My Nature* collection represents a contemporary country style. Vividly grained, indigenous chestnut complements the high-quality ceramics in organic shapes. A variable system of cupboard fronts and accessories offers scope for individual self-expression in the bathroom.

Page 4 and 5

Left: The cornflower as a simple natural motif evokes associations with country living of the kind that people yearn for today. This flower is depicted in true-to-life drawings or stylized forms on a white background in the new *Farmhouse Touch Blue Flowers* collection.

Right: *Touch* is meant literally here, since the relief pattern on the undecorated pieces, which feels hand-made, is particularly striking. These uncomplicated products for the kitchen, living room, dining room and garden fit in perfectly in a setting in which sociability plays an important role.

Page 6 and 7

The premium collection *Memento* offers a distinctly up-market look in 2011. A new furniture surface, Bright Oak, combined with striking structures accentuates its minimalist shape. Combined with matt star white as the ceramic colour, this provides an exclusive degree of comfort.

Page 8 and 9

Left: The *Authentic Avantgarde Collection* combines the Company's long-standing traditions and modern interior design in an extraordinary manner. Carefully selected decorations from the 'Mettlach tiles' created in the 19th century are used in a new, dramatic arrangement on the products in this fascinating collection.

Right: Inspired by the fantastic world of the Amazon, the high-quality *Amazonia* series of gift articles features beautifully coloured hummingbirds, butterflies, luminous passionflowers and orchids. The motifs are applied in the smallest detail to finest premium bone porcelain.

Page 39

The shower tub series *Futurion Flat* constructed from high quality Quaryl is the response to the growing demand for ultra-flat shower solutions. It is available in various formats and can be installed in a number of different ways, creating elegance and a modern sense of lightness and space in the bathroom.

Page 43

With new variations in its globally successful *NewWave* design, Villeroy & Boch is meeting the needs of the modern hospitality trade as well as people's domestic requirements. The variety of ways in which the products can be used is characteristic of the range: the espresso saucer is perfect for amuse-bouches, for example. An invitation to experiment and put on a show!

GROUP MANAGEMENT REPORT 2010

REVENUE IN LINE WITH THE PREVIOUS YEAR'S LEVEL AT EURO 714.2 MILLION

AN IMPROVEMENT IN THE OPERATING BUSINESS (EBIT BEFORE SPECIAL EXPENDITURES) OF AROUND EURO 25 MILLION TO EURO 23.6 MILLION

RESULT FOR THE YEAR IMPACTED BY SPECIAL EXPENDITURES TOTALLING EURO 73 MILLION OWING TO THE IMPOSITION OF AN EU ANTITRUST FINE

General economic conditions

While 2009 was marked by the strongest recession for decades, the world economy experienced a surprisingly rapid and healthy recovery in 2010. Overall, it is likely that the world economy grew by around 5%, driven mainly by the Asian markets that had already resumed their booming upward trend. Germany, too, enjoyed a rapid and sound recovery, delivering economic growth of close to 4%. An upsurge in exports, in particular to China, Russia and markets in the Arab world, was a key contributory factor in this regard. The main beneficiaries from this upturn were the chemical, mechanical engineering and automobile industries, while the demand for bathroom and tableware products progressed at a more moderate pace.

EU antitrust proceedings

On 23 June 2010, the EU Commission imposed a fine on the Villeroy & Boch Group totalling Euro 71.5 million for alleged violations of antitrust law between 1994 and 2004. The ruling as a whole relates to 17 manufacturers of fittings, shower partitions and ceramic sanitary ware.

Villeroy & Boch has already filed an appeal against this ruling at the General Court of the European Union. In spite of filing this action, a provision covering appropriate legal defence costs of Euro 73 million had already been recognised as a precaution in the half-year financial statements as at 30 June 2010. As the appeal has no suspensive effect on the payment obligation under EU law, a provisional payment of Euro 71.5 million was paid to the EU on schedule at the end of September.

Villeroy & Boch Consolidated Income Statement

» See Table L1 page 47

The antitrust fine imposed by the EU in June 2010 is shown as a separate line item due to its non-recurring character. The same applies to expenses arising from the 2009 restructuring programme and from impairment of goodwill. The information on the results of the divisions is based on divisional EBIT before special expenditures.

Revenue and Result

Consolidated revenue at the same level as the previous year

In the 2010 financial year, the Villeroy & Boch Group generated revenue of Euro 714.2 million, down slightly by Euro 1.1 million or 0.2% on the figure of Euro 715.3 million recorded in the previous year.

L1 Structure of the consolidated income statement (IFRS)

in Euro million	2010	% of revenue	2009	% of revenue
Revenue	714.2	100.0	715.3	100.0
Cost of sales	–419.2	–58.7	–439.6	–61.5
Gross profit	**295.0**	**41.3**	**275.7**	**38.5**
Selling, marketing and development costs	–225.7	–31.6	–226.0	–31.6
General and administrative expenses	–40.6	–5.7	–44.2	–6.2
Other expenses/income	–5.1	–0.7	–7.2	–1.0
EBIT (before special expenditures)	**23.6**	**3.3**	**–1.7**	**–0.3**
Special expenditures from:				
EU anti trust proceedings (previous year: restructuring programme)	–73.0	–10.2	–74.0	–10.3
Impairment of goodwill	–	–	–10.0	–1.4
EBIT (incl. special expenditures)	**–49.4**	**–6.9**	**–85.7**	**–12.0**
Net finance expense	–10.4	–1.5	–10.8	–1.5
Earnings before taxes (EBT)	**–59.8**	**–8.4**	**–96.5**	**–13.5**
Income taxes	–3.0	–0.4	–	–
Group result	**–62.8**	**–8.8**	**–96.5**	**–13.5**

L2 Villeroy & Boch Group revenue by country

in Euro million	Revenue	Share
Germany	**179.5**	**25.1 %**
Abroad	**534.7**	**74.9 %**
Scandinavia	103.7	14.5 %
Rest of the World	76.1	10.7 %
France	70.8	9.9 %
Eastern Europe	59.9	8.4 %
BeNeLux	59.0	8.3 %
USA	32.0	4.4 %
United Kingdom	30.7	4.3 %
Italy	28.7	4.0 %
Mexico	22.3	3.1 %
Switzerland	17.9	2.5 %
Austria	16.9	2.4 %
Spain	12.1	1.7 %
Rest of Western Europe	4.7	0.7 %

Consolidated revenue 2010

» See Table L2 page 47

In the German market, revenue of Euro 179.5 million was generated, a decline of roughly 9.2%. However, last year's figures include non-recurring, special transactions amounting to Euro 29.1 million. Adjusted for these contracts, in 2010 revenue in Germany was 1.1% higher year-on-year. International revenue overseas grew by around 3.3% to Euro 534.7 million. This rise in revenues is attributable mainly to the Scandinavian, Asian and Russian markets.

Group results impacted by the EU antitrust fine

The operating result (EBIT) before special expenditures increased in the financial year 2010 by Euro 25.3 million to Euro 23.6 million. This rise was facilitated primarily by a decline in production costs and by ongoing cost efficiencies in the remaining areas of activity. Of particular relevance here is the reduction in ongoing personnel expenses in both the production and structural areas of around Euro 12 million, equating to a roughly 4,5% reduction against previous year's levels.

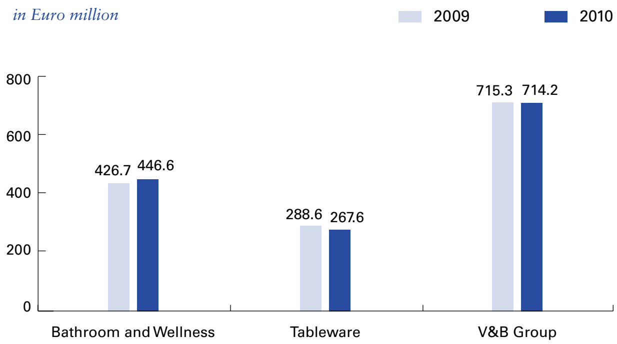
The results for 2010 were negatively impacted by a non-recurring special expenditure of Euro 73.0 million resulting from the EU fine.

The financial result of the Group recovered slightly to Euro -10.4 million, primarily on the back of falling interest expense on pensions owing to a lower discount rate.

Tax expenses for financial year 2010 amount to Euro 3 million (previous year: Euro 0), as the antitrust fine imposed by the EU is not tax deductible.

Revenue and earnings by Division (Group)

L3 **Consolidated revenue 2009/2010**
Distribution by Division



in Euro million

Division	2009	2010	Change	
Bathroom and Wellness	426.7	446.6	19.9	4.7 %
Tableware	288.6	267.6	–21.0	–7.3 %
	715.3	**714.2**	**–1.1**	**–0.2 %**

Business development in the Divisions

The **Bathroom and Wellness Division** generated revenue totalling Euro 446.6 million for financial year 2010 (up 4.7% on the previous year). Revenues from both the domestic (up 2.5%) and international markets (up 5.4%) contributed to this growth. In addition, changes in exchange rates – in particular, in relation to the US dollar, the Mexican peso as well as the Swedish krona and Norwegian kroner – impacted positively.

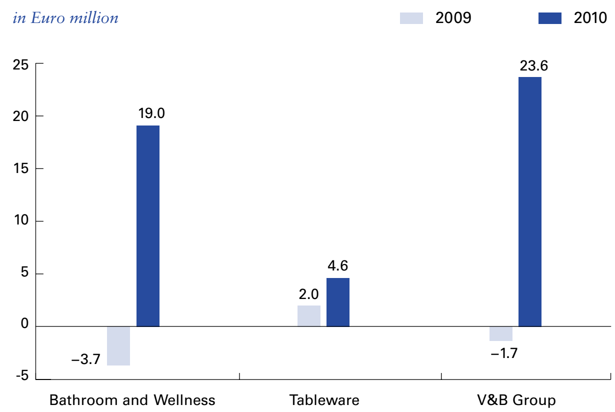
All product ranges in this Division delivered positive growth. Bathroom furniture, fittings and technical accessories recorded the highest rates of growth. The Wellness Division contracted slightly as a result of the disposal of its Italian and Czech subsidiaries.

At regional level, Russia (+22%), Asia (+24%) and the Scandinavian countries (+15%) demonstrated particular strength. Revenues on the American continent were stabilised.

The operating result (EBIT) improved against the previous year by Euro 22.7 million to Euro 19.0 million. Key factors here were the revenues upturn and the savings program initiated in 2008. These resulted in a considerable reduction of the cost stucture in production and adminstration.

The **Tableware Division** generated revenue of Euro 267.6 million in 2010, down 7.3% on 2009. Adjusted for special transactions in 2009, the Division delivered an increase in revenue of Euro 8.3 million, or 3.2%. Sound Christmas business and ongoing positive development in our own retails business contributed in this respect. Online sales rose by approximately 20%. At the regional level, the Middle East (+64%) and Scandinavia (+28%) developed particularly well. Similarly, in Eastern Europe and the Far East revenues improved significantly.
The operating result (EBIT) increased in financial year 2010 to Euro 4.6 million, against Euro 2.0 million in the previous year. The discontinuation of contribution margins from the special transactions in 2009 were more than offset by cost efficiencies in the areas of production and administration.

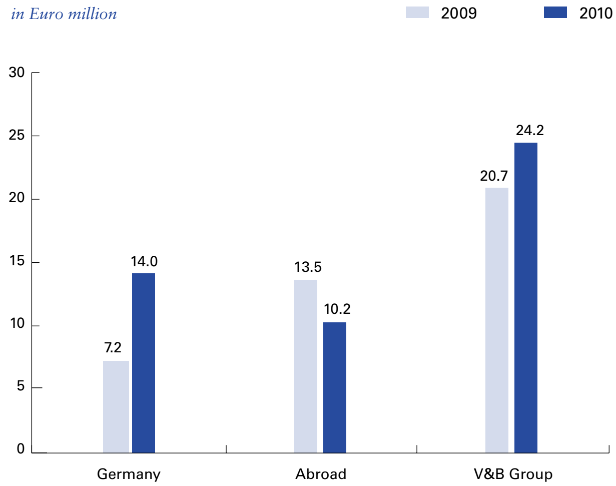
L4 **Consolidated EBIT 2009/2010**
(before special expenditure)



in Euro million	Bathroom and Wellness	Tableware	V&B Group
2009	−3.7	2.0	−1.7
2010	19.0	4.6	23.6

Capital expenditure

L5 **Investments in intangible assets and property, plant and equipment in 2009/2010**



in Euro million	Germany	Abroad	V&B Group
2009	7.2	13.5	20.7
2010	14.0	10.2	24.2

Investment volume at the Villeroy & Boch Group

Investments in intangible assets and property, plant and equipment in financial year 2010 totalled Euro 24.2 million (against Euro 20.7 million in the previous year), of which 58.0% related to Germany.

Capital expenditure was distributed almost equally between the two divisions. 51% related to the **Bathroom and Wellness Division** (previous year: 71%) Investments made outside Germany totalled Euro 8.4 million. Of this total, 49% related to Western Europe, 30% to Eastern Europe and 21% to locations across the rest of the world. Investments focused primarily on production technology at the locations in Sweden and Hungary. In Germany further investments were made in optimising production workflows.
Investments in the **Tableware Division** amounted to Euro 11.8 million. 84.9% of this related to Germany. Investments were primarily directed towards further optimising production workflows at the Torgau and Merzig sites.

Financing

L6 Villeroy & Boch Group – Condensed cash flow statement

in Euro million	2010	2009
Consolidated result before special expenditures	10.2	–12.5
Serial depreciation and amortization on non-current assets including reversals	32.8	35.3
Change in non-current provisions	–13.6	–9.5
Net gain/loss on asset disposals	–1.8	–0.5
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	– 8.0	29.9
Other non-cash income/expenses	11.3	7.8
Net cash flow from operating activities (before EU fine)	**30.9**	**50.5**
EU anti trust proceedings	–73.0	–
Total net cash flow from operating activities	**–42.1**	**50.5**
Net cash flow from investing activities	**4.6**	**4.4**
Net cash flow from financing activities	**–1.9**	**–34.7**
Change in cash and cash equivalents	**–39.4**	**20.2**
Change in cash and cash equivalents due to exchange rate effects	**–0.5**	**–0.4**
Total change in cash and cash equivalents	**–39.9**	**19.8**
Cash and cash equivalents on 1 January	**78.8**	**59.0**
Total change in cash and cash equivalents	–39.9	19.8
Change in basis of consolidation	–1.9	–
Cash and cash equivalents on 31 December	**37.0**	**78.8**

Net cash from ongoing operating activities amounted to Euro 30.9 million and was negatively impacted by payments totalling over Euro 20 million made in connection with the 2009 restructuring programme, for which provisions were made in the balance sheet of the previous year. As reported in the previous year, a key feature of 2009 was a marked reduction in working capital, which was maintained in 2010.

Net cash from financing activities improved against the previous year from Euro –34.7 million to Euro –1.9 million. In the previous year, the impact from the decrease in financial liabilities was Euro 25.6 million and from dividend payment was Euro 9.1 million.

Net liquidity

Net liquidity on the balance sheet date stood at Euro –14.4 million, down Euro 61.8 million on the previous year. This is primarily attributable to the payment of the EU antitrust fine of Euro 71.5 million plus legal costs.

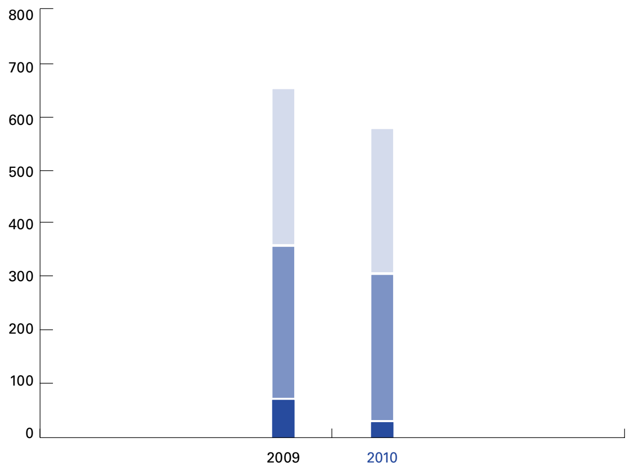
Cash and cash equivalents, current financial assets and current and non-current financial liabilities have been combined in the analysis of net liquidity.

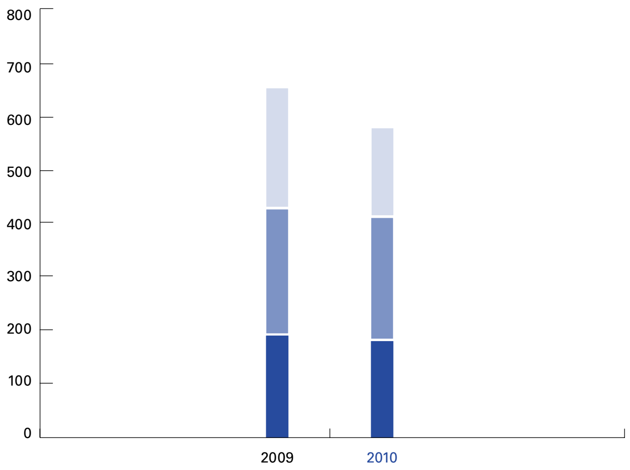
Balance sheet structure in 2010

Total assets declined significantly against the previous year by approximately Euro 75.3 million, falling from Euro 673.6 million to Euro 598.3 million.
The balance sheet structure was as follows:

L7 **Consolidated balance sheet structure in 2009/2010**

in Euro million





Assets

in Euro million	2009	2010
Non-current assets	300.7	279.0
Current assets	294.1	282.3
Cash and cash equivalents	78.8	37.0
Total assets	**673.6**	**598.3**

Equity and liabilities

in Euro million	2009	2010
Equity	232.0	173.2
Non-current liabilities	242.3	236.2
Current liabilities	199.3	188.9
Total equity and liabilities	**673.6**	**598.3**

The net loss of Euro –62.8 million led to equity declining to Euro 173.8 million. The equity ratio fell from 34.4% in the previous year to 29.0%.
Non-current assets declined by Euro 21.7 million. In total non-current assets measured at approximately Euro 10.3 million were reclassified as assets held for sale. The latter relates to property in Dänischburg (Euro 5.2 million) as well as a 24% stake in V&B Fliesen GmbH (Euro 5.1 million), for which controlling shareholders in 2010 declared they would exercise the call option granted in 2007 and which came into legal effect on 28 January 2011. Moreover, non-current assets also decreased because investments were Euro 8 million lower than depreciation and amortisation for the financial year.

Thus non-current assets accounted for 39.0% of total assets (previous year: 37.5%).

Current assets including cash and cash equivalents declined by Euro 53.6 million as against the previous year to Euro 319.3 million.This was demonstrated by the declines in current financial assets as well as cash and cash equivalents of Euro 20.6 million and Euro 41.8 million respectively. Both of these observations resulted from the payment of the EU antitrust fine.

Non-current liabilities fell by Euro 6 million, as reflected primarily in the decline in the provisions for pensions. Current liabilities fell by Euro 10.4 million in total, to Euro 188.9 million. At the same time, trade payables rose by Euro 10.1 million, yet, by contrast, claims on the restructuring provisions totalled around Euro 25.3 million.

Employees

As of 31 December 2010 Villeroy & Boch employed a total of 8,688 employees, of which 30% in Germany. Compared with 2009 figures, this represents a contraction in personnel of 508. Of the employees, 5,835 belong to the Bathroom and Wellness Division and 2,460 to the Tableware Division, with central functions accounting for the remaining 393.
Taking an average for the year as a whole, the number of employees at the Villeroy & Boch Group decreased from 9,440 in the previous year to 8,729.

Procurement

As a result of the surprisingly strong recovery in the world economy, market prices for the most important procurement items soared over the course of financial year 2010. Oil, precious metals, synthetics and packaging materials serve as illustrations in this regard. Thanks to the successful implementation of the savings programme initiated in the previous year, these market-driven price rises were more than offset on balance.

Research and development

In 2010 spending on research and development by the Villeroy & Boch Group ,including the development of designs, totalled Euro 11.5 million . Of this total, Bathroom and Wellness accounted for Euro 7.9 million and Tableware for Euro 3.6 million.

An encompassing innovation culture in relation to intensive research and development activities has always helped Villeroy & Boch to bolster its international competitiveness. It is for this reason that the company still continued to invest in research projects during the crisis, as with, for example, its research into the recovery of energy from air, an initiative successfully concluded at the beginning of year 2011.
The improvements in production efficiency sought will stem from significant economies of resources and are therefore of particular relevance from an ecological perspective.

This is also the motivation behind the focal project of 2010, “Dry Control”. This is being carried out in the Mettlach Sanitärfabrik with the aim of pursuing a notable reduction in raw material and energy consumption in the ceramic production process. The research is being conducted by a partnership of four reputed companies and two Fraunhofer institutes. Its central objective is to develop a resource-efficient drying technology for ceramic products so as to avoid the formation of cracks, thereby reducing the number of defective goods. Moreover, further ecological gains are to be made with this project from a 1,550 t reduction in the usage of ceramic raw materials, a saving of 15,000 MWh of energy and a 2,200 t drop in CO_2 emissions, as well as from a 29,000 m^3 decrease in wastewater volumes (when applied throughout the Mettlach production site).
Through this research project, Villeroy & Boch, as a company with a long tradition, provides fresh evidence of its production know-how, its innovative strength and the way in which it is optimising processes while being guided by the principle of ecological sustainability.

Opportunities

Villeroy & Boch has emerged from the recent world economic crisis stronger. As a result of the structural adjustments initiated in 2008 and 2009, the breakeven point fell by around Euro 100 million. In addition to the structural adjustments implemented, which led to a marked rise in the competitiveness of Villeroy & Boch, there is considerable earnings potential (of over Euro 50 million) in the development and marketing of property not required for operating purposes, such as that in Lübeck-Dänischburg or Luxembourg.

In terms of markets, recent aquisitions in Mexico and Thailand have reinforced the potential for expansion in the growth regions of Asia, the Pacific and America. Even in the troubling times of the crisis, a high level of activity in the areas of marketing and product development was maintained, thus ensuring that the Group can continue to offer its consumers innovative, modern product ranges that meet their needs and that, at the international level, a market-oriented selection is on offer. In the Bathroom and Wellness Division, we presented at the 2010 ISH trade fair with an entirely new concept for the international project business, in the form of "360° Projects". We have revised our brand appearance in order to recharge the fascination of the Villeroy & Boch brand. Last but not least, we launched a management trainee programme for university graduates in October. Overall, we have, in many respects, laid the foundations for future profitable growth.

Risks

Risk management at the Villeroy & Boch Group

The management of the company is committed to the long-term survival of Villeroy & Boch and the maintainence of its independence. It is thus important that the company and its long-term enterprise value grow sustainably. We need to retain our shareholders on a long-term basis.

In terms of the day-to-day business, aside from the general economic and industry-specific risks, the Villeroy & Boch Group is exposed to the usual financial and economic risks.

Such business risks that are known to Villeroy & Boch are minimised and avoided where possible. Risks are only consciously taken when the prospects for success are suitably attractive. The risks in question must also be calculable and manageable in terms of their size, as well as having a low probability of occurrence.

General market risk

We monitor and analyse the macroeconomic data and economic and industrial developments having particular relevance to our business on a continuous basis. From these observations, the operating divisions define, prepare and then implement the adjustments and measures that are necessary both in order to avert potential risks and, more importantly, to exploit opportunities that present themselves. The specific risks that could arise from the overall economic environment or the industry are presented in the economic outlook.

Financial and economic risks

As an international Group, Villeroy & Boch is exposed to a number of financial risks. In particular, these are:

- Risks associated with inventories, defaults and creditworthiness
- Liquidity risks
- Interest and exchange rate risks

For tangible fixed assets and inventories the necessary insurance cover is in place to protect against the various risks of their actual loss. A detailed reporting system is in place on the size, structure, potential usage and changes to individual items. This ensures against the risk of a loss in value owing to limited usability of inventories. The risk of customer default is minimised via credit insurance, a limit system and risk-oriented measurement using suitable criteria, as well as the constant monitoring of the receivables portfolio and quantitative and qualitative changes therein. In order to ensure that Villeroy & Boch is able to meet its obligations and remains financially flexible at all times, a sufficient liquidity reserve is maintained in the form of credit facilities and cash. The risk of volatile interest markets is managed by way of fixed-interest agreements. Currency risk is limited by concluding currency hedges for the next financial year.

Global financial management

Global financial management is organised centrally by the Group's Treasury department. Its Group-wide principles regulate all relevant issues, such as banking policy, financing agreements and global liquidity management.
The management procedures implemented for the aforementioned financial risks are described in note 56 to the consolidated financial statements.

Legal risks

During EU antitrust proceedings (COMP/E-1/39.092 - PO/Bathroom Fittings and Fixtures), the EU Commission imposed a fine totalling Euro 71.5 million on the Villeroy & Boch Group on 23 June 2010 for alleged violation of antitrust law.

Villeroy & Boch has already filed an appeal against this ruling at the General Court of the European Union. Written preliminary proceedings are currently under way in relation to the case. A decision in the first instance is not expected before 2013.

Tax risks

As all other commerical enterprises, Villeroy & Boch is subject to ongoing examination by the German fiscal authorities. In quantitative terms, the largest share of the Group's business volume relates to Villeroy & Boch AG. In relation to this company, the external tax audit for the years 2002 to 2004 is expected to be concluded on the basis of an official notification. The focus of the audit was the appropriateness of business relations with affiliated companies. According to concluding talks that have taken place up until this point, it would appear as though the results of this external tax audit fall broadly within the parameters of the write-downs and liabilities already recognised in the consolidated balance sheet, meaning that the impact on the Group's earnings situation is negligible.

Procurement and sales market risks

The recovery in the global economy that began in the first half of 2010 lifted prices of basic commodities, particularly oil prices. Currently, we expect an overall average rise in market prices in the region of 4%.

The savings projects initiated in the two previous years were continued and intensified. In 2011 we anticipate further positive effects, meaning that from today's perspective the actual increase in our procurement prices will be closer to 2% on average.

Internal control system

As Villeroy & Boch AG is a publicly traded corporation within the meaning of section 264d of the German Commercial Code, it is required to describe the key characteristics of its internal control and risk management system with respect to the consolidated financial reporting process, including the financial reporting processes of the companies included in consolidation, in accordance with section 315 (2) no. 5 of the German Commercial Code.

The risk management system encompasses all organisational provisions and measures aimed at identifying and dealing with business risks. Accordingly, an internal control system is defined as those principles, processes and measures introduced by a company's management with a view to the organisational implementation of management decisions:

- » to ensure the effectiveness and efficiency of the company's business activities, including the protection of assets and the prevention and coverage of asset losses,
- » to ensure the correctness and reliability of internal and external financial reporting
- » to ensure compliance with the statutory provisions that are relevant to the company.

The additional disclosures on the structures introduced at Villeroy & Boch and the key characteristics of the internal control and risk management system, particularly those that could have a significant influence on consolidated financial reporting, are based on this definition.

The Management Board of Villeroy & Boch AG bears overall responsibility for the internal control and risk management system with respect to the consolidated financial reporting process. This encompasses all of the companies and strategic divisions included in consolidation via a clearly defined management and reporting organisation.

The principles, organisational structure, workflows and processes of the internal control and risk management system with respect to consolidated financial reporting are set out in the relevant specialised Group-wide guidelines that are continuously adjusted to reflect external and internal developments. The provisions contained in these guidelines are based on mandatory legal standards as well as company standards that are defined on a voluntary basis. At an organisational level, this is also reflected in a degree of centralisation that varies from area to area depending on usefulness and materiality considerations and the respective cost/benefit ratio. While the operational functions are oriented as close to the market as possible, services in the areas of financial accounting, IT, finance, the procurement of raw materials and energy capacities primarily used in production, and legal and tax advisory services are, to a large extent, provided on a Group-wide basis.
In particular, the key characteristics of the internal control

and risk management system that could have a significant influence on consolidated financial reporting are as follows:

- The Villeroy & Boch Group is characterised by a clear organisational, corporate, controlling and monitoring structure.
- Planning, reporting, controlling and early warning systems and processes have been agreed and reconciled on a Group-wide basis for the comprehensive analysis and management of risk factors affecting the Group's earnings and risks that could endanger the continued existence of the Group.
- Functions in all areas of the financial reporting process (e.g. financial accounting, controlling and internal audit) are clearly allocated.
- The completeness and correctness of financial reporting data is examined regularly on the basis of spot checks and plausibility checks, as well as manual controlling and using the software employed. A risk-, process- and content-oriented layer of controlling is installed at a segment level.
- Key processes of relevance to financial reporting are analysed on a regular basis.
- The principle of dual control is applied for all key processes of relevance to financial reporting.
- The following measures are implemented in order to ensure the proper IT-based processing of transactions and data relating to consolidated financial reporting
  a) Data processing is organised as a central service provider that supplies IT systems for the Group companies and ensures the quality of data processing by defining and monitoring guidelines to be applied throughout the Group. The same applies even after the establishment of a cooperative partnership in the area of IT with Rödl & Partner, following on from which the global IT infrastructure of the Villeroy & Boch Group was transferred to a subsidiary of Rödl & Partner.
  b) The aim of employing a uniform standard software system to process all data of relevance to financial accounting at all Group companies has largely been realised.
  c) Suitable processes and process reviews have been implemented in order to manage and control the adjustment of IT systems that are relevant to financial accounting.
  d) Suitable workflows and measures have been established in order to strictly and systematically regulate logical access to the IT systems.
  e) Recognised standards for security in data processing (IT General Controls) are observed on the basis of the recommendations of the German Federal Office for Information Security (BSI IT Baseline Protection Catalogue).

- Internal audit forms part of the internal monitoring and opportunity/risk management system and has a corresponding Group-wide mandate delegated by the Management Board. Using a systematic target- and risk-oriented approach, the functionality and effectiveness of the internal control and risk management system and other aspects are examined and assessed primarily on a test basis. Where weaknesses are identified, proposals for improvement are developed and agreed in conjunction with the units under review and their implementation is regularly monitored on the basis of an established follow-up process.
  To the extent prescribed by law, the Audit Committee of the Supervisory Board continues to monitor the effectiveness of the internal control, risk management and internal audit system with regard to consolidated financial reporting, among other things, in accordance with section 107 (3) sentence 2 of the German Stock Corporation Act.
  The suitability of the risk management system is also regularly examined by the external auditors of Villeroy & Boch AG as part of their statutory audit of the single-entity and consolidated financial statements and the (Group) management report.

With regard to the consolidated financial reporting process, the points described above serve to ensure that business transactions and events are identified and processed correctly and in full and financially assessed. The appropriate human resources, the use of adequate software and clear statutory and internal provisions form the basis for the proper, uniform and continuous financial reporting process. The clear demarcation between areas of responsibility and various control and review mechanisms serve to ensure correct and responsible financial reporting. In the process, the control system relating to financial reporting, irrespective of the degree of care with which it is set up and operated, is able to provide appropriate, but not absolute certainty that all errors will be avoided or all wrong assessments identified in a timely manner.

In view of the continual and complex changes in the regulatory environment, the effectiveness of the internal control system is reviewed on a regular basis.

Events of particular importance after the end of the 2010 financial year (Villeroy & Boch Group)

On 28 January 2011, a 24% stake in V&B Fliesen GmbH was transferred to the controlling shareholders against payment of the purchase price of Euro 5.1 million. In order to do so, buyers in 2010 exercised on schedule a call option granted in 2007.
On 3 February 2011, the Bundeskartellamt (German Cartel Office) launched investigations due to suspicions of collusion in the tableware field at a number of the Villeroy & Boch's competitors as well as the German Association of the Ceramic Industry. Villeroy & Boch is supporting the German Cartel Office in their investigations as part of the ongoing process. Villeroy & Boch does not expect the imposition of a fine by the German Cartel Office.

There are no other significant events to report.

Basic features of the remuneration system

The remuneration system established for members of the Management Board is performance-oriented, where the fixed remuneration of the Management Board members is supplemented with a performance-based variable component. The value of the variable component is dependent on the extent to which targets laid out in the annual objectives are met. The objectives comprise individual targets as well as financial company targets. The target parameters for the variable remuneration component for financial year 2010 were prelimarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board, before being approved by the full Supervisory Board. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car for private usage is offered to members of the Management Board. The existing contracts of the acting members of the Management Board provide for defined benefit pension commitments. In accordance with the assessment of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the financial situation of the company.

A reassessment of the Management Board remuneration has not been made since the entry into force of the German Act on the Appropriateness of Management Board Remuneration on 31 July 2009. The existing contracts of the members of the Management Board were also unchanged in financial year 2010. The Supervisory Board commissioned an independent remuneration consultant for the review of its remuneration system.

Supervisory Board remuneration is also composed of a fixed and a variable component. The performance-based variable component is based on the dividend paid to shareholders.

Declaration in accordance with section 315 (4) HGB

With respect to the Declaration in accordance with section 315 (4) HGB it is referred to note 18 (issued capital) and note 26 (voting right notifications) of the notes to the consolidated financial statements. The required declaration in accordance with section 315 (4) n° 6 HGB is carried out in accordance with section 84 AktG (management appointment and dismissal) as well as with sections 179 ff. AktG (amendments to the articles of association).

Declaration by the Management Board

For the declaration by the Management Report prescribed by section 289a of the German Commercial Code (new version), please refer to the statement on the Company's website at *www.villeroy-boch.com/corporate-governance*

Group outlook

The Management Board expects the recent revival in global activity to continue in financial year 2011, before weakening somewhat in 2012, with the Asian markets likely to remain the key drivers of the world economy. For Germany, as well as for various central and northern European countries, the economic upturn is expected to continue, albeit at a less vigorous pace. However, this broadly positive assessment remains subject to a significant degree of uncertainty. The ongoing high volume of high-risk receivables held on bank balance sheets as well as the repecussions of the critical levels of public debt witnessed across the globe continue to present a serious threat. Another relevant risk is uncertainty about the future development of the US economy. As such, the possibility remains that the trend towards economic recovery could be interrupted by repeated setbacks over the years to come.

Revenue, earnings and investments at the Group

In the context of the overall economic environment outlined above, Villeroy & Boch anticipated inceasing revenue from current business activities by 5% over the next few years on average, meaning that Group revenue of over Euro 750 million is expected for 2011.

The restructuring measures initiated in 2008/2009 as well as other Group-wide savings projects initiated with a view to ensuring the earnings and liquidity situation were implemented according to plan in 2010 and will begin to take full effect in 2011/2012, at least in part. Together with the revenue upturn and the ensuing improved capacity utilisation, in 2011 and 2012 this should lead to a steady upturn in the operating result (EBIT) to over Euro 35 million by 2012.

At around Euro 35 million, investments in property, plant and equipment over the next two years will be in line with the level of depreciation. In 2011, a further key aspect will be the conclusion of important elements of the industrial restructuring that was initiated in 2009. Around 70% of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 30%.

Proposal relating to dividends

At the next General Meeting of Shareholders on 13 May 2011, the Supervisory Board and the Management Board, will propose that the retained earnings totalling Euro 6.7 million of Villeroy & Boch AG be used for the purpose of a dividend payment of:

Euro 0.33	for preference shares including Euro 0.13 for the outstanding minimum dividend of 2009) and
Euro 0.15	for ordinary shares.

The stated amount will change by the share of dividends related to Treasury holdings of preference stock at the time of the payment.

Consolidated Income Statement as of December 31st 2010

in Euro thousand	Note	2010 01/01–31/12	2009 01/01–31/12
Revenue	35	**714,193**	**715,310**
Costs of sales	36	–419,166	–495,232
Gross profit		**295,027**	**220,078**
Selling, marketing and development costs	37	–225,703	–236,466
General and administrative expenses	38	–40,596	–46,674
Other operating income	39	27,503	26,606
Expenses from EU anti trust proceedings	40	–73,000	–
Other operating expenses	40	–33,024	–49,653
Result of associates accounted for using the equity method	41	384	374
Operating result (EBIT)		**–49,409**	**–85,735**
(Operating result before special expenditures)		(+23,591)	(–1,764)
Interest income	42	1,815	3,553
Other finance income	42	299	5
Interest expenses	43	–12,527	–14,366
Financial result		**–10,413**	**–10,808**
Earnings before taxes		**–59,822**	**–96,543**
Income taxes	44	–2,976	–
Group result		**–62,798**	**–96,543**
Thereof attributable to			
Minority interests	45	13	–104
Villeroy & Boch AG shareholders		–62,811	–96,439
		–62,798	–96,543
Earnings per share			
Earnings per ordinary share in Euro	46	–2.40	–3.68
Earnings per preference share in Euro	46	–2.35	–3.63

During the reporting period there was no dilutive potential.

Consolidated Balance Sheet as of December 31st 2010

Assets

in Euro thousand	Note	31/12/2010	31/12/2009
Non-current assets			
Intangible assets	5	38,711	39,128
Property, plant and equipment	6	162,106	170,378
Investment property	7	16,295	19,809
Investment accounted for using the equity method	8	1,101	1,087
Other financial assets	9	15,006	22,316
		233,219	**252,718**
Other non-current assets	14	198	758
Deferred tax assets	10	45,574	47,194
		278,991	**300,670**
Current assets			
Inventories	11	140,673	143,102
Trade receivables	12	107,397	106,299
Financial assets	13	–	20,600
Other current assets	14	21,415	21,538
Current tax assets	15	2,548	2,620
Cash and cash equivalents	16	37,013	78,783
		309,046	**372,942**
Non-current assets held for sale	17	**10,286**	**–**
Total Assets		**598,323**	**673,612**

Shareholders' Equity and Liabilities

in Euro thousand	Note	31/12/2010	31/12/2009
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	18	71,909	71,909
Capital surplus	19	193,587	193,587
Treasury shares	20	–14,985	–14,985
Retained earnings	21	–82,382	–17,137
Valuation surplus	22	4,972	–2,024
		173,101	**231,350**
Equity attributable to minority interests	23	**107**	**665**
Total equity		**173,208**	**232,015**
Non-current liabilities			
Provisions for pensions	27	144,558	148,912
Non-current provisions for personnel	28	17,598	18,379
Other non-current provisions	29	5,857	5,877
Non-current financial liabilities	30	50,000	50,000
Other non-current financial liabilities	31	3,939	4,236
Deferred tax liabilities	10	14,275	14,867
		236,227	**242,271**
Current liabilities			
Current provisions for personnel	28	10,726	10,695
Other current provisions	29	39,156	62,146
Current financial liabilities	30	1,428	1,967
Other current liabilities	31	78,265	73,368
Trade payables	32	55,200	45,092
Income tax liabilities	33	4,113	3,874
		188,888	**197,142**
Liabilities dedicated assets classified as held for sale	34	**–**	**2.184**
Total liabilities		**425,115**	**441,597**
Total equity and liabilities		**598,323**	**673,612**

Consolidated Statement of Equity as of December 31st 2010

	Equity attributable to Villeroy & Boch AG shareholders							
in Euro thousand	Issued capital	Capital surplus	Treasury shares	Retained earnings	Valuation surplus	**Total**	**Equity attributable to minority interests**	**Total equity**
Note	18	19	20	21	22		23	
As at 01/01/2009	**71,909**	**193,587**	**–14,985**	**87,805**	**–7,866**	**330,450**	**487**	**330,937**
Group result				–96,439		–96,439	–104	–96,543
Other comprehensive income				565	5,842	6,407	282	6,689
Total comprehensive income net of tax				**–95,874**	**5,842**	**–90,032**	**178**	**–89,854**
Dividends				–9,068		–9,068		–9,068
As at 31/12/2009	**71,909**	**193,587**	**–14,985**	**–17,137**	**–2,024**	**231,350**	**665**	**232,015**
As at 01/01/2010	**71,909**	**193,587**	**–14,985**	**–17,137**	**–2,024**	**231,350**	**665**	**232,015**
Group result				–62,811		–62,811	13	–62,798
Other comprehensive income				–1,629	6,996	5,367	15	5,382
Total comprehensive income net of tax				**–64,440**	**6,996**	**–57,444**	**28**	**–57,416**
Acquisition of non-controlling interests				–805		–805	–586	–1,391
As at 31/12/2010	**71,909**	**193,587**	**–14,985**	**–82,382**	**4,972**	**173,101**	**107**	**173,208**

Consolidated Statement of Comprehensive Income as of December 31st 2010

in Euro thousand	**2010**		**2009**	
Group result		**–62,798**		**–96,543**
Gains or losses on cash flow hedges (cp note 22c)				
On the valuation surplus recorded, unrealised movements	2,028		3,855	
Realised movements, transfer from the valuation surplus into the retained earnings	–272		1,428	
		1,756		**5,283**
Gains or losses arising from translating the financial statements of foreign operation				
On the retained earnings recorded, unrealised exchange differences on translation (cp. note 21)	–1,609		611	
On the valuation surplus recorded, unrealised exchange differences on translation (cp. note 22a)	3,458		303	
		1,849		**914**
Gains or losses arising from translating the net investment in a foreign business operation (cp note 22b)		**1,763**		**304**
Directly on the equity recorded, unrealised other comprehensive income		**–20**		**235**
Directly on the valuation surplus recorded, unrealised income taxes (cp note 22d)		**34**		**–47**
Other comprehensive income		**5,382**		**6,689**
Total comprehensive income net of tax		**–57,416**		**–89,854**
Thereof attributable to				
Villeroy & Boch AG shareholders		–57,444		–90,032
Minority interests		28		178
		–57,416		–89,854

Consolidated Cash Flow Statement as of December 31st 2010

in Euro thousand	Note	2010	2009
Group result		–62,798	–96,543
Depreciation of non-current assets	47	32,726	57,198
Change in non-current provisions		–13,590	–9,543
Profit from disposal of fixed assets		–1,841	–481
Change in inventories, receivables and other assets		1,449	63,463
Change in liabilities, current provisions and other liabilities		20,571	–12,860
Change in current provisions for restructuring		–25,301	46,349
Taxes paid/received in financial year		–974	–1,360
Interest paid in financial year		–4,823	–5,869
Interest received in financial year		1,190	2,274
Other non-cash income/expenses	51	11,311	7,834
Cash Flow from operating activities	51	**–42,080**	**50,462**
Purchase of intangible assets, property, plant and equipment		–23,182	–19,551
Investment in non-current financial assets		–55	–5
Cash receipts for debt instruments		20,000	20,787
Cash receipts for sold companies	2	1,053	–
Cash receipts from disposals of fixed assets		6,748	3,190
Cash Flow from investing activities	52	**4,564**	**4,421**
Change in financial liabilities	30	–540	–25,630
Change in ownership interests	23	–1,391	–
Dividends	24	–	–9,068
Cash Flow from financing activities	53	**–1,931**	**–34,698**
Sum of cash flows		**–39,447**	**20,185**
Changes due to exchange rates		***–473***	***–380***
Net increase in cash and cash equivalents		**–39,920**	**19,805**
Balance of cash and cash equivalents as of 01/01		78,783	58,978
Change in consolidated companies		–1,850	–
Net increase in cash and cash equivalents		–39,920	19,805
Balance of cash and cash equivalents as of 31/12	17 + 54	37,013	78,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF VILLEROY & BOCH AG, METTLACH FOR THE 2010 FINANCIAL YEAR

General Information

Villeroy & Boch AG is domiciled at Saaruferstrasse 1-3, Mettlach. It is a listed public limited company under German law and acts as the parent company to the Villeroy & Boch Group. The Villeroy & Boch Group is an internationally established Group whose activities as a leading lifestyle provider are focused on the Bathroom and Wellness and Tableware segments. Villeroy & Boch AG is listed in the Prime Standard and, until 21 June 2010, the SDAX operated by Deutsche Börse AG.

In line with section 315a of the German Commercial Code (HGB), the consolidated financial statements as of 31 December 2010 were prepared in accordance with the current provisions of the International Accounting Standards Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All accounting policies endorsed by the European Commission effective for the financial year beginning on 1 January 2010 were applied. The consolidated financial statements are supplemented by additional explanatory notes in accordance with section 315a HGB.

The financial year is the calendar year. The consolidated financial statements were prepared in Euro. Unless stated otherwise, all amounts are disclosed in thousands of euro (Euro thousand).

The annual financial statements of Villeroy & Boch AG and the consolidated financial statements of Villeroy & Boch AG are published in the electronic Bundesanzeiger (Federal Gazette).

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 2 March 2011. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

The following section describes the main IFRS accounting policies as adopted by Villeroy & Boch in accordance with the relevant provisions.

1. Accounting principles

Intangible assets

Acquired intangible assets are capitalised at the cost necessary to bring the asset to its working condition. Internally generated intangible assets are only capitalised in the year of their creation if they meet the requirements of IAS 38. Initial measurement is at cost including attributable overheads. Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general and administrative expenses.

Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price (asset value) and the value in use (capitalised earnings value) of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with the situation in the final year of the planning period applied for years beyond the planning horizon. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account.

Annual impairment testing for capitalised goodwill is performed at divisional level.

Any impairment losses identified are recognised in profit or loss. If the reason for the recognition of an impairment loss ceases to exist in a future period, the impairment loss is reversed accordingly. The reversal of impairment losses on capitalised goodwill is prohibited.

Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation in accordance with the useful life. Cost includes all net costs necessary to bring the asset to its working condition. Cost is determined on the basis of the directly attributable costs of the asset plus the pro rata materials and manufacturing overheads including depreciation. Maintenance and repair costs for property, plant and equipment are recognised in profit and loss.

If an asset consists of several components with significantly different useful lives, the individual elements are depreciated in accordance with their individual service potential.

Property, plant and equipment is depreciated on a straight-line basis over the useful life of the respective assets. The following useful lives are applied throughout the Group:

Asset class	**Useful life (in years)**
Buildings (predominantly 20 years)	20–50
Operating facilities	10–20
Kilns	5–10
Technical equipment and machinery	6–12
Vehicles	4–8
IT equipment	3–6
Other operating and office equipment	3–10

The estimated useful lives are reviewed regularly.

In addition to extraordinary depreciation, impairment losses are recognised on property, plant and equipment if the value in use or the net realisable value of the respective asset concerned has fallen below the depreciated cost. If the reasons for the recognition of an impairment loss cease to exist in a future period, the impairment loss is reversed accordingly.

Property, plant and equipment under construction are carried at cost. Finance costs that arise directly during the creation of a qualifying asset are capitalised. Depreciation on assets under construction only begins when the assets are completed and used in operations.

Leases

If assets are leased and the lessor bears substantially all the risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised directly as expenses in the income statement.
If beneficial ownership remains with the Villeroy & Boch Group (finance lease), the leased asset is capitalised at its fair value or the lower present value of the lease instalments. Depreciation is allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability is recognised for the corresponding payment obligations arising from future lease instalments.

Government grants

Grants are only recognised when it is certain that the Group has met the respective conditions and the grants have been provided. Grants and subsidies received for the acquisition or construction of property, plant and equipment and intangible assets reduce their cost insofar as they can be allocated to the individual assets; otherwise, they are recognised as deferred income and subsequently reversed depending on the degree of fulfilment.

Investment property

Land and buildings held to earn regular rental income (investment properties) are reported separately from assets used in operations. Mixed-use property is classified proportionately as a financial investment if the leased portion of the building could be sold separately. If this criterion is not met, the entire property is classified as investment property if the owner-occupied portion is insignificant. Investment property is carried at amortised cost. Depreciation is performed in the same way as for property, plant and equipment used in operations. Market values are generally determined on the basis of the official land value maps, taking into account appropriate premiums or discounts for the respective property.

Investments accounted for using the equity method

Investments in associates are accounted for using the equity method, under which the cost at the acquisition date is adjusted to reflect the proportionate future results of the respective associate. Changes in equity are reported in the operating result in the income statement.

Financial instruments

Financial instruments arise from contracts which lead to a financial asset or financial liability or an equity instrument. They are recognised in the balance sheet as soon as the Villeroy & Boch Group concludes a contract to this effect. Under IAS 39, each financial instrument is allocated to one of four categories in accordance with the classification described in note 56 and, depending on the category chosen, measured either at amortised cost or fair value. Financial instruments are derecognised when the claim for settlement expires.

Inventories

Inventories are carried at the lower of cost or net realisable value. The cost of inventories includes the directly allocable direct costs (e.g. material and labour costs allocable to construction) and overheads incurred in the production process. For the majority of raw materials, supplies and merchandise, cost is determined using the moving average method and contains all expenses incurred in order to bring such inventory items to their present location and condition. Write-downs are recognised to an appropriate extent for inventory risks arising from the storage period and/or impaired realisability. Net realisable value is defined as the proceeds that are expected to be realised less any costs incurred prior to the sale. In the event of an increase in the net realisable value of inventories written down in prior periods, a reversal is recognised through profit and loss as a reduction of the cost of goods sold in the income statement.

Receivables

Trade receivables and other current receivables are recognised at cost on acquisition. Impairment losses are recognised if the carrying amount of the receivable is higher than the present value of the future cash inflow. Impairment is used to adequately reflect the default risk, while concrete cases of default result in the derecognition of the respective asset.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and time deposits with an original term of up to three months. Cash is carried at its nominal amount. In the case of cash equivalents, interest income is recognised in income on a pro rata basis.

Pension obligations

Provisions equal to the defined benefit obligations (DBO) already earned are recognised for obligations under defined benefit pension plans. The expected future increase in salaries and pensions is also taken into account. If pension obligations are covered in full or in part by fund assets, the market value of these assets is offset against the DBO if these assets are classified as trust assets and administered by third parties. Actuarial gains and losses, which may result from a change in the discount factor or the difference between expected and actual income from the fund assets, exceeding 10% of the total obligation are calculated at the start of the financial year and allocated to income over the average remaining working life of the respective employees (corridor method). Past service cost is reported in personnel expenses. Interest cost is reported in net other finance expense.

Payments for defined contribution plans are reported in personnel expenses in the period in which the employees perform the services providing the entitlement to the respective contributions.

Other provisions

Provisions are recognised for legal or constructive obligations to third parties arising from past events where an outflow of resources is likely to be required to settle the obligation and the amount of this outflow can be reliably estimated. Provisions are carried at the future settlement amount based on a best estimate. Provisions are discounted as necessary.

Liabilities

Financial liabilities and other non-current liabilities are recognised at fair value. Current liabilities are carried at their repayment amount.

Contingent liabilities

Contingent liabilities are possible obligations, predominantly arising from guarantees and liabilities on bills, which were established in the past but whose actual existence is dependent on the occurrence of a future event and where recourse is not likely as of the balance sheet date. Contingent liabilities are not recognised on the face of the balance sheet.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or due less any rebates or other discounts. Revenue, commission income and other operating income are recognised when the respective goods have been provided or the services rendered and substantially all the risks and rewards of ownership have been transferred to the customer. Usage fees are recognised on a straight-line basis over the agreed period. Dividend income is recognised when a legal claim for payment arises. Interest income is deferred on the basis of the nominal amount and the agreed interest method. Rental income from investment property is recognised on a straight-line basis over the term of the relevant lease. Revenue from intragroup transactions is only realised when the assets ultimately leave the Group. Operating expenses are recognised in income as incurred economically.

Research and development costs

Research costs arise as a result of original and planned investigation undertaken in order to gain new scientific or technical knowledge or understanding. In accordance with IAS 38, they are expensed as incurred. Development costs are expenses for the technical and commercial implementation of existing theoretical knowledge. Development ends with the start of commercial production or utilisation. Costs incurred during development are capitalised if the conditions for recognition as an intangible asset are met. Due to the risks existing until market launch, the majority of these conditions are not met in full.

Taxes

Income tax expense represents the total of current and deferred taxes. Both current and deferred taxes are recognised in income unless they are associated with items taken directly to equity, in which case the corresponding taxes are also recognised directly in equity.
Current tax expense is determined on the basis of the taxable income for the financial year. Taxable income differs from the result for the year reported in the income statement, as it excludes those income and expense items that are only taxable or tax-deductible in prior/subsequent periods or not at all. The current tax liabilities of the Villeroy & Boch Group are recognised on the basis of the applicable tax rates.

Deferred taxes are recognised for temporary differences between the consolidated balance sheet and the tax base, as well as for tax reduction claims arising from the expected future utilisation of existing tax loss carryforwards. Deferred taxes are calculated on the basis of the tax rates that are expected to apply when the temporary differences between the financial statements and the tax base are reversed. In accordance with IAS 1, deferred tax assets and deferred tax liabilities are generally classified as non-current on the face of the balance sheet.

Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and/or estimates are required to a certain extent. These may affect impairment testing for the assets recognised on the face of the balance sheet, the Group-wide determination of economic lives, the timing of the settlement of receivables, the evaluation of the utilisation of tax loss carryforwards and the recognition of provisions, among other things. The main sources of estimate uncertainty are future measurement factors such as interest rates, assumptions of future financial performance and assumptions on the risk situation and interest rate development. The underlying assumptions and estimates are based on the information available when these consolidated financial statements were prepared. In individual cases, actual values may deviate from the projected amounts. Changes are recognised as soon as better information becomes available. The carrying amounts of the affected items are presented separately in the respective notes.

Modifications due to the adoption of accounting principles

With the exception of the IASC publications mandatory for the first time in the financial year, the accounting policies applied are the same as those applied in the previous year. The following are examples of changes of relevance to Villeroy & Boch: As a result of the amendment to IAS 27 Consolidated and Separate Financial Statements, share transactions involving companies that are already fully consolidated must be accounted for as a change in equity. This is why the acquisition of non-controlling interests in Nahm Sanitaryware was recognised in equity in 2010 (see note 21 and note 23). For future acquisitions, the revised IFRS 3 Business Combinations must be applied. Among other things, this prohibits the capitalisation of certain costs as incidental costs of acquisition. These include, for example, fees for consultancy, legal, valuation and other services. In future, these are to be expensed in the income statement as incurred. The regulations effective for the first time in the 2010 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.
Information on new developments within the IASB Framework can be found in note 66.

2. Basis of consolidation

In addition to Villeroy & Boch AG, the consolidated financial statements include all 15 (previous year: 15) German and 44 (previous year: 46) foreign subsidiaries in which Villeroy & Boch AG directly or indirectly holds a majority of voting rights. The simplification options provided by section 264 (3) HGB for the audit and publication of financial statements were exercised for Sanipa Badmöbel Treuchtlingen GmbH. Shareholdings in accordance with section 313 (2) HGB are shown in note 65.

The changes within the Villeroy & Boch Group were as follows:

Villeroy & Boch AG and consolidated companies:	Germany	Abroad	Total
As of 1 January 2010	**16**	**46**	**62**
Additions due to start-up companies (a)	–	1	1
Disposals due to sales (b)	–	–3	–3
As of 31 December 2010	**16**	**44**	**60**

(a) Additions due to start-up companies:
Villeroy & Boch ooo, domiciled in Moscow, was founded on 23 December 2010. The company conducts sales activities for the Bathroom & Wellness Division in Russia.

(b) Disposals due to sales
All shares in the following companies were sold from the Bathroom and Wellness Division as part of the restructuring programme:

» See table 3 page below

The buyers intend to continue operations at the production sites with the acquired workforce. The carrying amounts of the facilities and liabilities surrendered as at the deconsolidation date were as follows:

Assets	*in Euro thousand*
Property, plant and equipment	2,945
Cash and cash equivalents	1,850
Inventories	401
Trade receivables	297
Other assets	140
Total assets	**5,633**
Liabilities	
Provisions	1,299
Trade payables	157
Other liabilities	940
Liabilities dedicated assets classified as held for sale	2,184
Total liabilities	**4,580**
Net assets sold	**1,053**

The purchase prices have already been realised.

The companies generated revenue of Euro 901 thousand (2009: Euro 7,444 thousand) up until their sale. Their contribution to earnings before interest and taxes amounted to Euro –701 thousand in the period under review (2009: current earnings of Euro –4,004 thousand).

3 **Overview of deconsolidated companies**

Name	Registered office	Sold as at	Interest
Vitaviva Italia S.r.L.	Castelraimondo, Italy	1 April 2010	100 %
Vagnerplast spol. s r.o.	Unhošt, Czech Republic	1 May 2010	100 %
Vagnerplast Slovensko s. r.o.	Partizánske, Slovakia	1 May 2010	100 %

3. Principles of consolidation

The annual financial statements of the companies included in the Villeroy & Boch Group's consolidated financial statements are prepared in accordance with uniform Group accounting policies and consolidated in accordance with IAS 27. The balance sheet date of the consolidated companies is that of the parent company.

The consolidated financial statements include the transactions of those companies in which the Villeroy & Boch Group holds a majority of the voting rights, either directly or indirectly, or over which it exercises economic control to the extent that the majority of the risks and rewards arising from the activities of the company can be allocated to the Group. This is generally the case for equity interests in excess of 50%. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.

As part of capital consolidation, the carrying amounts of the subsidiaries at the acquisition date are offset against the remeasured equity interest attributable to them with any resulting differences recognised as goodwill. Differences resulting from increasing the ownership interest in subsidiaries that are already consolidated are offset directly against retained earnings. Any hidden reserves and liabilities identified as a result are carried at amortised cost in subsequent consolidation in the same way as the corresponding assets and liabilities.

With respect to the elimination of intercompany balances, the reconciled receivables and liabilities of the companies included in consolidation are offset against each other.

Revenue, income and expenses between the consolidated companies are eliminated, as are intercompany profits and losses from non-current assets and inventories. The results of subsidiaries acquired or sold in the course of the year are included in the consolidated income statement from the actual acquisition date or until the actual disposal date accordingly.

If any differences in tax expenses are expected to reverse in later financial years, deferred taxes are recognised for consolidation measures recognised in profit and loss.

When including an associated company in consolidation for the first time, the differences arising from initial consolidation are treated in accordance with the principles of full consolidation. Intercompany profits and losses for such companies were insignificant in the years under review.

The consolidation and accounting principles applied in the previous year were retained.

4. Currency translation

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. Measurement at the respective balance sheet date is performed at the current exchange rate. The single-entity balance sheets of consolidated companies are translated into Euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate on the balance sheet date, while all income statement items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are taken directly to equity (see note 22). Currency effects arising from net investments in foreign Group companies are also reported in the valuation surplus (see note 22). When consolidated companies leave the consolidated group, any translation differences previously taken directly to equity are reversed to profit or loss.

The euro exchange rates of key currencies changed as follows during the past financial year:

Currency		Exchange rate at balance sheet date		Average exchange rate	
1 Euro =		2010	2009	2010	2009
Mexican peso	MXN	16.5475	18.9223	16.8861	18.9723
Swedish krona	SEK	8.9655	10.2520	9.6439	10.6606
US dollar	USD	1.3362	1.4406	1.3296	1.3966
Hungarian forint	HUF	277.9500	270.4200	275.9450	279.7642

NOTES TO BALANCE SHEET

5. Intangible Assets

Intangible assets developed as follows:

in Euro thousand	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As of 1 January 2009	**24,133**	**45,040**	**69,173**
Currency adjustments	–24	249	225
Additions	1,515	–	1,515
Disposals	–836	–	–836
Reclassifications	–1,438	–	–1,438
As of 1 January 2010	**23,350**	**45,289**	**68,639**
Currency adjustments	245	587	832
Changes in consolidated group	–242	–5,955	–6,197
Additions	1,413	–	1,413
Disposals	–4,591	–	–4,591
Reclassifications	13	–	13
As of 31 December 2010	**20,188**	**39,921**	**60,109**
Accumulative amortisation and impairment			
As of 1 January 2009	**14,539**	**–**	**14,539**
Currency adjustments	0	–	0
Amortisation	1,668	–	1,668
Impairment losses	147	14,735	14,882
Disposals	–26	–	–26
Reclassifications	–1,552	–	–1,552
As of 1 January 2010	**14,776**	**14,735**	**29,511**
Currency adjustments	110	–	110
Changes in consolidated group	–242	–5,955	–6,197
Amortisation	1,420	–	1,420
Disposals	–3,446	–	–3,446
As of 31 December 2010	**12,618**	**8,780**	**21,398**
Residual carrying amounts			
As of 31 December 2010	**7,570**	**31,141**	**38,711**
As of 31 December 2009	8,574	30,554	39,128

Concessions, patents, licences and similar rights with a residual carrying amount of Euro 7,570 thousand (previous year: Euro 8,574 thousand) mainly include capitalised software licences in French subsidiaries, capitalised key money and emission allowances.

In Germany, the Group has software licences amounting to Euro 2,147 thousand (previous year: Euro 3,442 thousand). New licences with a value of Euro 297 thousand were acquired in the past financial year (previous year: Euro 294 thousand). Software licences with a carrying amount of Euro 464 thousand were sold to Rödl IT Operation GmbH. In the financial year, software amortisation amounted to Euro 1,127 thousand (previous year: Euro 1,256 thousand). As in the previous year, impairment testing did not give rise to any indication of impairment with regard to the capitalised key money with a carrying amount of Euro 3,009 thousand (previous year: Euro 3,009 thousand).
The CO_2 allowances of Euro 1,313 thousand (previous year: Euro 961 thousand) were carried at their market value on the balance sheet date. Due to the free of charge distribution of those emission allowances, deferred income was recognised and will be reversed after the allowances are utilised. A corresponding provision is recognised in return. In the 2010 financial year, this provision amounted to Euro 722 thousand (previous year: Euro 617 thousand).

In the previous year, intangible assets of the Bathroom and Wellness segment were written down by Euro 147 thousand as part of the restructuring programme. Assets previously written down in full were also reclassified as "non-current assets classified as held for sale".

Goodwill in the amount of Euro 31,141 thousand (previous year: Euro 30,554 thousand) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 55.

Capitalised goodwill was tested for impairment as of the balance sheet date. To this end, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2014 were discounted using an interest rate before income tax of 9.4% p.a. (previous year: 10.8% p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 8.8% p.a. (previous year: 10.0% p.a.). The present value calculated in this way was greater than the net assets of the Division, meaning that no impairment loss was required to be recognised on the balance sheet item. In the previous year, an impairment loss of Euro 10 million was recognised.

6. Property, plant and equipment

Property plant and equipment used in operations developed as follows in the year under review:

» See table 7 page 73

The Villeroy & Boch Group acquired property, plant and equipment in the amount of Euro 22,574 thousand (previous year: Euro 19,063 thousand), mainly as part of replacement and rationalisation activities. Acquisitions focused on isostatic pressing equipment in Merzig and die casting in Torgau as well as expanding capacity in Thailand and modernisation in Sweden.

Property, plant and equipment with a residual carrying amount of Euro 4,057 thousand (previous year: Euro 4,454 thousand) was reclassified to investment property (see note 7). Assets of Euro 2,945 thousand were sold as part of corporate divestments (see note 2). IT infrastructure with a carrying amount of Euro 1,598 thousand was sold to the Rödl Group in the financial year.

Impairment losses recognised on property, plant and equipment in previous years in the amount of Euro 233 thousand were reversed in the 2009 financial year, as the reasons for their recognition no longer applied. The gain on reversal was reported under other operating income from the Bathroom and Wellness segment.

In the financial year under review, as in the previous year, no government grants were offset against the cost of property, plant and equipment. Prepaid expenses (see note 31) include government grants in the amount of Euro 929 thousand as of the balance sheet date (previous year: Euro 1,127 thousand). Euro 78 thousand of this (previous year: Euro 78 thousand) was reversed to income. Grants of Euro 120 thousand were transferred to the buyer in connection with the sale of an Italian business.

7 **Development of property, plant and equipment**

in Euro thousand	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Property, plant and equipment under construction	Total
Accumulative cost					
As of 1 January 2009	**257,493**	**361,498**	**120,865**	**5,580**	**745,436**
Currency adjustments	870	2,212	812	9	3,903
Additions	373	6,243	3,655	8,792	19,063
Disposals	–2,857	–9,827	–11,074	–13	–23,771
Reclassifications	–14,894	467	436	–6,473	–20,464
As of 1 January 2010	**240,985**	**360,593**	**114,694**	**7,895**	**724,167**
Currency adjustments	4,927	8,418	2,193	504	16,042
Changes in consolidated group	–6,442	–1,574	–1,601	–26	–9,643
Additions	1,819	7,981	5,184	7,590	22,574
Disposals	–1,683	–18,864	–21,507	–5	–42,059
Reclassifications	–14,874	413	1,224	–3,953	–17,190
As of 31 December 2010	**224,732**	**356,967**	**100,187**	**12,005**	**693,891**
Accumulative amortisation and impairment					
As of 1 January 2009	**154,186**	**294,108**	**101,840**	**–**	**550,134**
Currency adjustments	264	1,779	572	–	2,615
Amortisation	6,343	19,180	6,896	–	32,419
Impairment losses	3,978	2,597	839	–	7,414
Reversals of impairment losses	–210	–23	–	–	–233
Disposals	–2,099	–9,750	–10,817	–	–22,666
Reclassifications	–11,120	–4,665	–109	–	–15,894
As of 1 January 2010	**151,342**	**303,226**	**99,221**	**–**	**553,789**
Currency adjustments	1,629	6,386	1,749	–	9,764
Changes in consolidated group	–3,393	–1,648	–1,657	–	6,698
Amortisation	5,825	15,751	6,002	–	27,578
Impairment losses	68	97	78	–	243
Disposals	–1,338	–18,690	–19,743	–	–39,771
Reclassifications	–11,932	–2.191	1,003	–	–13,120
As of 31 December 2010	**142,201**	**302,931**	**86,653**	**–**	**531,785**
Residual carrying amounts					
As of 31 December 2010	**82,531**	**54,036**	**13,534**	**12,005**	**162,106**
As of 31 December 2009	89,643	57,367	15,473	7,895	170,378

Operating leases

In the 2010 financial year, rental expenses under operating leases amounted to Euro 33,085 thousand (previous year: Euro 34,243 thousand). The Group leases sales premises, warehouses, office space and other facilities and movable assets. The leases have basic terms of between six months and 32 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions.

Income of Euro 316 thousand was generated from subletting unused properties with current leases (previous year: Euro 319 thousand). Any ancillary costs and other obligations are borne by the sublessors. The subleases shall end no later than the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

in Euro thousand	Less than 1 year	1 to 5 years	More than 5 years
Future lease payments			
As of 31 December 2010	17,353	27,270	1,142
As of 31 December 2009	19,106	31,638	1,799
Future sublease income			
As of 31 December 2010	234	391	8
As of 31 December 2009	348	534	112

7. Investment property

Investment property developed as follows:

» See table 9 page 75

The disposals line contains subsequent incidental costs of acquisition.
The reclassification of two investment properties in Luxembourg and in Castelraimondo/Italy was recognised as a transfer from property, plant and equipment.

The reclassifications in the 2010 financial year with a net amount of Euro 5,168 thousand are attributable to the item "Non-current assets held for sale" (see note 17) and relate to the former plant site in Lübeck-Dänischburg, for which a sale agreement was concluded with a buyer. Transfer of title is scheduled to take place towards the end of 2011 once all the outstanding requirements of construction legislation have been addressed.

The disposals in 2010 relate to demolitions. The impairment losses relate to a building in Italy (see below).

According to appraisals and current land value tables, the market value of properties capitalised as at 31 December 2010 totals Euro 52.7 million (previous year: Euro 55.6 million).

The Group generated the following amounts from its investment properties:

in Euro thousand	31/12/2010	31/12/2009
Rental income	344	296
Property management and similar expenses	–63	–76

Rental income is expected to develop as follows:

in Euro thousand	Less than 1 year	1 to 5 years	More than 5 years
As of 31 December 2010	368	1,576	6,405
As of 31 December 2009	296	1,186	6,670

Income mainly relates to properties in Saarland and in Castelraimondo/Italy. On the Saar, a long-term lease was concluded for the Fliesenwerke Saar plant buildings in connection with the sale of the majority interest in V&B Fliesen GmbH in 2007. The basic monthly rent of Euro 25 thousand will rise in line with the trend in the consumer price index. All maintenance expenses are borne by the tenant. No competitors to the "Villeroy & Boch" series may be manufactured in these properties.

The factory building was previously transferred to another Group company in connection with the sale of the stake in the former Group company Wellness Italy and was consequently retained within the Group. A lease was concluded with the buyer of the company for part of the space. The current lease term amounts to six years. The current monthly rent of Euro 6 thousand will rise to Euro 8 thousand after two years; further increases will depend on the trend in the Italian consumer price index. As a matter of principle, all maintenance expenses are borne by the tenant.

8. Investment accounted for using the equity method

As in the previous year, one unlisted company domiciled in Germany is accounted for using the equity method. The Group has a 50% interest in its voting rights. The carrying amount of the investment, which is not allocated to any of the operating segments, developed as follows in the period under review:

in Euro thousand	2010	2009
Accumulative cost		
As of 1 January	**1,087**	**1,212**
Additions	614	375
Payments/dividends	–600	–500
As of 31 December	**1,101**	**1,087**
Residual carrying amounts		
As of 31 December	**1,101**	**1,087**

9 **Development of investment property**

in Euro thousand	Land	Buildings	Investment property 2010	Investment property 2009
Accumulative cost				
As of 1 January	**3,454**	**84,459**	**87,913**	**73,184**
Additions	24	189	213	168
Transfer from property, plant and equipment	661	16,516	17,177	15,372
Reclassifications	–2,917	–12,877	–15,794	–
Disposals	–	–515	–515	–811
As of 31 December	**1,222**	**87,772**	**88,994**	**87,913**
Accumulative amortisation and impairment				
As of 1 January	**–**	**68,104**	**68,104**	**57,189**
Amortisation	–	1,080	1,080	803
Impairment losses	–	1,500	1,500	–
Transfer from property, plant and equipment	–	13,120	13,120	10,918
Reclassifications	–	–10,608	–10,608	–
Disposals	–	–497	–497	–806
As of 31 December	**–**	**72,699**	**72,699**	**68,104**
Residual carrying amounts				
As of 31 December	**1,222**	**15,073**	**16,295**	**19,809**

9. Other financial assets

Other financial assets include:

Measurement category* *in Euro thousand*	31/12/ 2010	31/12/ 2009
Available-for-sale financial assets		
Investments (a)	6,329	12,280
Loans carried at amortised cost		
Loans to related parties (b)	7,146	8,337
Loans to third parties (c)	1,531	1,699
Other financial assets	**15,006**	**22,316**

* The measurement categories are described in note 56.

(a) Of this figure, Euro 6,250 thousand (previous year: Euro 12,250 thousand) relates to the shares held in V&B Fliesen GmbH, Merzig. In mid-2010, the majority shareholder in V&B Fliesen GmbH exercised its call option for a further 24% of the shares granted when the majority stake was sold in 2007. The transfer subsequently took place on schedule on 28 January 2011. In accordance with the contractual provision agreed in 2007, the purchase price for this tranche equals the original basic valuation including a variable component, which is based on V&B Fliesen GmbH's result for the year in 2009. This resulted in a discount of Euro 900 thousand on the previous carrying amount, which was recognised in the balance sheet as at 31 December 2010 through an impairment loss in this amount. The carrying amount of these shares, totalling Euro 5,100 thousand, was reclassified to "Non-current assets held for sale" (see note 17).

(b) This item contains a loan receivable to Fliesen GmbH, Merzig, which was established in connection with the sale of the majority stake in the company in 2007. The scheduled repayment of Euro 1,191 thousand was made in the financial year. The remaining term of the loan is six years. A guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.

(c) Loans to third parties essentially include mandatory government loans and start-up finance for franchisees. They mature as follows:

in Euro thousand	2010	2009
Gross carrying amount as of 31 December	**1,546**	**1,719**
Thereof:		
Not impaired or overdue as of the balance sheet date	1,531	1,699
Loan due within one year	68	104
Loan due in two to five years	46	103
Loan with indefinite maturity	1,417	1,492
Thereof:		
Impaired but not overdue as of the balance sheet date	2	7
Loan due in two to five years	2	7
Thereof:		
Impaired and overdue as of the balance sheet date	13	13
Overdue by one year or less	13	13
Overdue by between two and five years	–	–

The change in impairment losses can be broken down as follows:

in Euro thousand	2010	2009
As of 1 January	**20**	**146**
Utilisation	–	–120
Reversals to income	–5	–18
Additions recognised in income	–	12
As of 31 December	**15**	**20**

17 **Deferred taxes from temporary differences attributable to balance sheet positions**

		Deferred tax assets		Deferred tax liabilities	
in Euro thousand	Note	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Intangible assets	5	1,454	3,215	1,435	921
Property, plant and equipment	6	10,031	3,558	4,500	4,627
Investment property	7	–	–	262	255
Financial assets	9	180	210	48	92
Inventories	11	3,246	5,012	5	12
Other assets	14	455	325	1,024	872
Special tax-items		–	–	6,173	7,192
Provisions for pensions	27	8,582	7,845	322	117
Other provisions	29	2,315	3,751	–	14
Liabilities	31	1,400	1,329	506	765
Deferred taxes from temporary differences		**27,663**	**25,245**	**14,275**	**14,867**

10. Deferred taxes (assets and liabilities)

Deferred taxes are reported in the following balance sheet items:

in Euro thousand	31/12/2010	31/1272009
Deferred tax assets from temporary differences	27,663	25,245
Deferred tax assets from tax loss carryforwards	17,911	21,949
Deferred tax assets	**45,574**	**47,194**
Deferred tax liabilities	**14,275**	**14,867**

Deferred taxes from temporary differences are attributable to different carrying amounts in the consolidated balance sheet and the tax base in the following items:

» See table 17 page above

Deferred tax assets on tax loss carryforwards are composed as follows:

in Euro thousand	31/12/2010	31/12/2009
Deferred taxes on German loss carryforwards		
from corporate income tax and solidarity surcharge	7,861	8,092
from trade tax	7,795	7,914
Total	**15,656**	**16,006**
Deferred taxes on foreign loss carryforwards	28,465	41,557
Total	**44,121**	**57,563**
Value adjustment	–26,210	–35.614
Deferred taxes on tax loss carryforwards	**17,911**	**21,949**

Whereas German loss carryforwards can be carried forward indefinitely subject to minimum taxation requirements, country-specific time limits apply to foreign loss carryforwards. Deferred tax assets from tax loss carryforwards were written down in the amount of Euro 26,210 thousand (previous year: Euro 35,614 thousand) as the result of an impairment test, as the tax loss carryforwards are unlikely to be utilised in the foreseeable future. The Group's medium-term tax planning for the period 2011-2015 was used as a basis here.

The factors contributing to the reduction in deferred taxes on tax loss carryforwards included, most notably, the deconsolidation of the subsidiaries sold in Italy and the Czech Republic (totalling over Euro 6 million), the reversal of a fiscal surplus in Luxembourg (over Euro 5 million) and the reduction in the tax rate in Hungary (some Euro 1 million). The deconsolidations and the change to the tax rate in Hungary also led to a reduction in the write-downs of the same amount.

11. Inventories

Inventories were composed as follows at the balance sheet date:

in Euro thousand	31/12/2010	31/12/2009
Raw materials, supplies and merchandise	21,861	21,954
Work in progress	21,133	19,386
Finished goods and goods for resale	97,656	101,679
Advance payments	23	83
	140,673	**143,102**

Inventories are broken down between the individual divisions as follows:

in Euro thousand	31/12/2010	31/12/2009
Bathroom and Wellness	82,088	88,642
Tableware	58,585	54,460
	140,673	**143.102**

The write-downs on inventories decreased by Euro 4,774 thousand in the year under review, from Euro 25,633 thousand to Euro 20,859 thousand, due to the improvements in the inventory structure; this effect was recognised in income.

12. Trade receivables

Country- and industry-specific payment terms are granted for the sale of goods and merchandise. The geographical allocation of the Group's trade receivables is as follows:

in Euro thousand – based on the customer's domicile	31/12/2010	31/12/2009
Germany	16,649	19,501
Euro zone excl. Germany	31,589	37,185
Other international destinations	63,020	56,067
Gross carrying amount	**111,258**	**112,753**
Value adjustment	–3,861	–6,454
Carrying amount	**107,397**	**106,299**

Of the trade receivables reported on the balance sheet date, Euro 31,351 thousand (previous year: Euro 35,759 thousand) are attributable to the Tableware Division and Euro 76,046 thousand (previous year: Euro 70,540 thousand) to the Bathroom and Wellness Division.

On the balance sheet date, receivables were composed as follows:

» See table 22 page 79

With respect to receivables that are neither impaired nor overdue, there was no evidence of potential default at the balance sheet date. Valuation allowances are generally recognised for receivables from debtors who are more than 90 days in default. The corresponding allowance rates are based on past experience. All changes in creditworthiness since granting the payment terms are taken into consideration. There is no significant concentration of default risks within the Group, as such risks are distributed across a large number of customers.

Of the value adjustments, a total of Euro 2.9 million are attributable to the impaired and overdue category and Euro 1.0 million to the impaired but not overdue category.

Valuation allowances developed as follows:

» See table 23 page 79

22 **Analysis of trade receivables**

in Euro thousand	2010	2009
Items not impaired nor overdue	**85,561**	**78,846**
Not impaired but overdue	**8,454**	**14,504**
Customer in default for 90 days or less	7,557	13,332
Customer in default for between 91 and 360 days	783	1,172
Customer in default for 361 days or more	114	–
Impaired but not overdue [1]	**13,723**	**15,340**
Receivables due in 90 days or less	13,292	15,137
Receivables due between 91 and 360 days	417	203
Receivables due in 361 days or more	14	–
Impaired and overdue	**3,520**	**4,063**
Customer in default for 90 days or less	575	840
Customer in default for between 90 and 360 days	1,886	2,457
Customer in default for 361 days or more	1,059	766
Total gross amount	**111,258**	**112,753**
Value adjustment	**–3,861**	**–6,454**
Net carrying amount	**107,397**	**106,299**

1) Receivables not covered by credit insurance

23 **Development of valuation allowences on trade receivables**

	2010			2009		
in Euro thousand	Specific	Global	Total	Specific	Global	Total
As of 1 January	**5,459**	**995**	**6,454**	**4,245**	**999**	**5,244**
Additions	1,313	388	1,701	3,506	421	3,927
Change in basis of consolidation	–297	–14	–311	–	–	–
Exchange rate differences	12	35	47	–19	5	–14
Utilisation	–2,071	–353	–2,424	–1,792	–301	–2,093
Reversals	–1,581	–25	–1,606	–481	–129	–610
As of 31 December	**2,835**	**1,026**	**3,861**	**5,459**	**995**	**6,454**

The specific valuation allowances of Euro 213 thousand (previous year: Euro 817 thousand) relate to debtors involved in insolvency proceedings.

During the financial year, trade receivables in the amount of Euro 260 thousand (previous year: Euro 295 thousand) were transferred to an insurance company. In the previous year, Euro 2 thousand was received from the realisation of other collateral. The Group received the following collateral to cover existing risks:

	Fair values	
in Euro thousand	31/12/2010	31/12/2009
Retention of ownership	27,721	22,341
Guarantees	11,166	9,527
Received customer bill of exchange	10,414	4,863
Mortgage loans on record	1,600	1,745
	50,901	**38,476**

In the case of retention of ownership, the transfer of the goods is subject to the delayed transfer of legal title to the buyer. This expires automatically as soon as the debt is paid. The guarantees and other collateral received are administered by the customer credit management department and are not returned until the debt is settled in full.

13. Current financial assets

The note receivable reported on 31 December 2009 was collected in the year under review.

14. Other non-current and current assets

Other assets are composed as follows:

» See table 25 page below

"Miscellaneous other assets" include advance payments, security deposits, receivables from employees, receivables from the initial provision of equipment to franchisers, creditors with debit balances and a number of individual items. All in all, this item contains advance payments in the amount of Euro 1,410 thousand (previous year: Euro 1,373 thousand). The Group has recognised security deposits in the amount of Euro 998 thousand (previous year: Euro 1,035 thousand) that were provided to the respective lessors in cash. The fair value of these deposits corresponds to their capitalised carrying amounts.

As of the balance sheet date, Euro 1,828 thousand (previous year: Euro 754 thousand) from the fair value measurement of currency forwards and Euro 1,677 thousand (previous year: Euro 1,534 thousand) from the fair value measurement of commodity futures was capitalised in equity under current other assets. There is a valuation surplus in the same amount in equity (see note 22c).

25 Composition of non-current and current assets

	Carrying amount	Remaining term		Carrying amount	Remaining term	
in Euro thousand	31/12/2010	Less than 1 year	More than 1 year	31/12/2009	Less than 1 year	More than 1 year
Receivables from associates	–	–	–	232	232	–
Miscellaneous other assets	12,014	12,006	8	14,428	14,400	28
Market values of cash flow hedges	3,505	3,315	190	2,288	1,558	730
Tax claims	6,094	6,094	–	5,348	5,348	–
	21,613	**21,415**	**198**	**22,296**	**21,538**	**758**

Tax claims primarily relate to value added tax claims of Euro 5,283 thousand (previous year: Euro 4,440 thousand); Euro 1,502 thousand relates to German Group companies (previous year: Euro 2,035 thousand).
In order to reflect risk to an adequate extent, valuation adjustments were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no overdue receivables as of 31 December 2010. There is no significant concentration of default risks within the Group, as such risks are distributed across a large number of contractual partners.

15. Current tax assets

Current tax assets of Euro 2,548 thousand (previous year: Euro 2,620 thousand) primarily contain outstanding corporate income tax assets. Of this figure, Euro 1,438 thousand (previous year: Euro 1,948 thousand) relates to foreign Group companies.

16. Cash and cash equivalents

Cash and cash equivalents were composed as follows at the balance sheet date:

in Euro thousand	**31/12/2010**	**31/12/2009**
Cash on hand incl. cheques	840	770
Current bank balances	51	30
Cash equivalents	36,121	77,983
	37,013	**78,783**

Cash and cash equivalents are subject to minimal default risk, as they are held at highly creditworthy banks and are generally covered by a deposit guarantee system (see note 56).

17. Non-current assets held for sale

These assets are accounted for at the lower of amortised cost or fair value less the anticipated costs of disposal. In the financial year, the following assets were reclassified to this balance sheet item:

in Euro thousand	**2010**
Property (see note 7 – investment property)	5,186
Investment (see note 9 – other financial assets)	5,100
Total	**10,286**

18. Issued capital

The issued capital of Villeroy & Boch AG as of the balance sheet date was unchanged at Euro 71,909,376.00 and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital.

The holders of non-voting preference shares receive a dividend from annual retained earnings that is Euro 0.05 per share higher than the dividend paid to holders of ordinary shares, and in any case a minimum preferred dividend of Euro 0.13 per preference share. If the retained earnings in a given financial year are insufficient to cover the payment of this preferred dividend, any amount still outstanding shall be paid from the retained earnings of subsequent financial years, with priority given to the oldest amounts outstanding. The preference dividend for the current financial year shall only be paid when all amounts outstanding are satisfied. This right to subsequent payment forms part of the profit entitlement for the respective financial year from which the outstanding dividend on preference shares is granted.
Each ordinary share grants one vote.

The numbers of different shares outstanding were as follows:

Number of shares	2010	2009
Ordinary shares		
Ordinary shares in circulation – unchanged –	**14,044,800**	**14,044,800**
Preference shares		
Preference shares issued – unchanged –	14,044,800	14,044,800
Treasury shares, as of 31 December – unchanged –	1,683,029	1,683,029
Preference shares in circulation	**12,361,771**	**12,361,771**

A resolution of the General Meeting of Shareholders on 12 May 2010 authorised the Management Board of Villeroy & Boch AG to acquire preference treasury shares with a notional interest in the share capital of up to Euro 7,190,937 until 14 November 2015. The Villeroy & Boch Group may hold a maximum of 10% of the share capital in no-par value preference shares (2,808,960 shares). At the discretion of the Management Board, shares can be acquired on the stock exchange or on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell.
If acquired on the stock exchange, the consideration paid per share by the company (not including additional costs of acquisition) must be within 10% of the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the acquisition date.

If the shares are acquired by public tender:

- in the event of a public purchase offer to all preference shareholders, the purchase price offered per share (not including additional costs of acquisition), or

- in the event of a public invitation to all shareholders to submit offers to sell, the thresholds of the price range stipulated by the company (not including additional costs of acquisition)

must be within 10% of the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the day on which the public purchase offer or the public invitation to submit offers to sell is publicly announced.
If the authoritative share price deviates substantially following the publication of a public purchase offer for all preference shareholders or the public invitation to all preference shareholders to submit offers to sell, the purchase offer or the invitation to submit offers to sell can be adjusted. In the event of this, the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the announcement of the adjustment is taken as a basis. The volume of a public tender may be limited. If, in the case of a public purchase offer or a public invitation to submit offers to sell, the volume of the preference shares tendered exceeds the planned buyback volume, the acquisition may be conducted in the ratio of the issued or offered preference shares; the right of preference shareholders to tender their preference shares in proportion to their ownership interests is excluded in this respect. Preferential treatment of smaller amounts of up to 100 shares per preference shareholder can be provided for. The public invitation to all preference shareholders can provide for further conditions. The acquisition cannot be for the purpose of trading in treasury shares.
The Management Board was also authorised to use the acquired preference shares for all legally permitted purposes.
The authorisation to acquire shares resolved by the General Meeting of Shareholders on 15 May 2009, which was limited to 14 November 2010, was rescinded with this authorisation.

19. Capital surplus

The capital surplus remains unchanged at Euro 193,587 thousand.

20. Treasury shares

As in the previous year, the cost of sales for the 1,683,029 preference treasury shares was Euro 14,985 thousand. Under IAS 32.33, the total cost of these shares reduces equity. All transactions were effected on the stock market on the basis of effective resolutions of the General Meeting of Shareholders and with the approval of the Supervisory Board. There were no share transactions with related parties. V&B's treasury shares are not entitled to participate in dividends. The utilisation of the preference shares held is restricted by way of the resolutions adopted.

21. Retained earnings

The retained earnings of the Villeroy & Boch Group in the amount of Euro 82,382 thousand (previous year: Euro –17,137 thousand) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

in Euro thousand	2010	2009
As of 1 January	**–17,137**	**87,805**
Net loss for the year	–62,811	–96,439
Dividends	–	–9,068
Currency adjustments	–1,609	611
Acquisition of minority interests	–805	–
Other changes	–20	–46
As of 31 December	**–82,382**	**–17,137**

22. Valuation surplus

The valuation surplus includes components of "other comprehensive income":

» See table 30 page 84

(a) Gains on the translation of financial statements of foreign operations

Group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). This resulted in a change in net equity in the financial year of Euro 3,443 thousand (previous year: Euro 301 thousand). In addition, minority interests accounted for Euro 15 thousand (previous year: Euro 2 thousand).

(b) Gains or losses arising from translating long-term loans classified as net investments in a foreign business operation

The exchange-rate related changes to non-current, equity-like loans classified as net investments in foreign operations have developed as follows:

in Euro thousand	2010	2009
As of 1 January	**–5,542**	**–5,846**
Changes due to currency appreciation	–	–248
Changes due to currency depreciation	1,763	552
As of 31 December	**–3,779**	**–5,542**

The net change in equity amounts to Euro 1,763 thousand (previous year: Euro 304 thousand).

(c) Fair value changes of cash flow hedges

This item arises from the recognition in equity of fluctuations in fair value of cash flow hedges (see note 56).

This item developed as follows in the reporting period:

» See table 32 page 84

The total amount of the cash flow hedge surplus broke down as follows:

in Euro thousand	31/12/2010	31/12/2009
Positive fair value changes (see note 14)	3,505	2,288
Negative fair value changes (see note 31)	–1,750	–1,629
Payment for due forwards (aa)	–44	–978
Recognition of expenses (bb)	–	279
Minority interests	–2	–7
Carrying amount	**1,709**	**–47**

30 Composition of valuation surplus

in Euro thousand	2010	2009	Change
Gains on the translation of financial statements of foreign operations (a)	7,074	3,631	3,443
Gains or losses arising from translating long-term loans classified as net investments in a foreign business operation (b)	–3,779	–5,542	1,763
Fair value changes of cash flow hedges (c)	1,709	–47	1,756
Surplus for deferred taxes (d)	–32	–66	34
	4,972	**–2,024**	**6,996**

32 Development of the "Fair value changes of cash flow hedges"

	Currency forwards		Commodity futures		Interest-rate swaps		Total cash flow hedges	
in Euro thousand	2010	2009	2010	2009	2010	2009	2010	2009
As of 1 January	**–142**	**888**	**154**	**–6.042**	**–59**	**–176**	**–47**	**–5,330**
Changes in equity								
Currency adjustments	*55*	*–2*	*220*	*–93*	–	–	*275*	*–95*
Additions	*78*	*–135*	*1,677*	*4,092*	–	–	*1,755*	*3,957*
Minority interests	*–2*	*–7*	–	–	–	–	*–2*	*–7*
Total	*131*	*–144*	*1,897*	*3,999*	–	–	*2,028*	*3,855*
Reversals to income	87	–886	–418	2,197	59	117	–272	1,428
As of 31 December	**76**	**–142**	**1,633**	**154**	**0**	**–59**	**1,709**	**–47**

35 Dividend payments

in Euro thousand	17 May 2010		18 May 2009	
Eligible share class	Dividend per share	Total dividend	Dividend per share	Total dividend
Ordinary shares	–	–	0.32	4,494,336.00
Preference shares	–	–	0.37	4,573,855.27
		–		**9,068,191.27**

(aa) In the financial year, the Villeroy & Boch Group paid Euro –44 thousand (previous year: Euro –978 thousand) for due forwards for which delivery did not take place until after 31 December 2010. This amount is recognised in the valuation surplus and recognised in income on delivery.

(bb) No expense had to be recognised on the balance sheet date, since the only hedges in place were fully matched with the transactions to be hedged (hedged items). In the previous year, an expense of Euro 279 thousand was recognised, consisting of Euro 203 thousand for deferred interest and from insufficient or surplus cover of hedged items (see note 56).

Remeasurement gains on interest rate swaps recognised in income during the reporting period are offset in net finance costs. The reversal of the surplus for the measurement of currency and commodity forwards is included in the net operating result.

(d) Surplus for deferred taxes

The surplus for deferred taxes developed as follows:

in Euro thousand	**2010**	**2009**
As of 1 January	**–66**	**–20**
Currency adjustments	–55	8
Additions	406	397
Disposals	–317	–450
Minority interests	0	–1
As of 31 December	**–32**	**–66**

In the reporting year the surplus for deterred taxes was primarily influenced by the change of effects on the surplus for fair value fluctuations on cash flow hedges for currencies of Euro 34 thousand (previous year: Euro –47 thousand).

23. Equity attributable to minority interests

Minority interests amounted to Euro 107 thousand after Euro 665 thousand in the previous year. Minority interests exist at two Group companies (previous year: three) in Romania and Hungary. As of 30 April 2010, the remaining shares (7.7%) held by third parties in the Thai subsidiary Nahm Sanitaryware Co. Ltd. were acquired for a purchase price of Euro 1,391 thousand.

24. Distributable amounts and dividends

The information presented here relates to the appropriation of the retained earnings of Villeroy & Boch AG calculated in with German commercial law.

The net loss for 2010 of Villeroy & Boch AG amounted to Euro –14,351 thousand. In accordance with a joint resolution by the Supervisory Board and the Management Board, Euro 52,484 thousand was withdrawn from retained earnings. This served to offset the loss carryforward of Euro –31,391 and also led to retained earnings of Euro 6,742 thousand.

At the next General Meeting of Shareholders on 13 May 2011, the Supervisory Board and the Management Board of Villeroy & Boch AG will propose that the retained earnings be used for the purpose of a dividend payment, which will be broken down as follows:

Euro 0.13	for preference shares from the outstanding minimum dividend of 2009
Euro 0.20	for preference shares from 2010
Euro 0.33	**for preference shares (total)**
Euro 0.15	**for ordinary shares**

The dividend shown in the following table was paid to the bearers of Villeroy & Boch shares in previous years:

» See table 35 page 84

25. Capital management

Villeroy & Boch's capital management primarily focuses on achieving a sustainable increase in enterprise value, securing liquidity as well as guaranteeing the creditworthiness of the Group. In this regard, the Group seeks to ensure a solid equity ratio.

The Villeroy & Boch Group's non-current sources of finance consist of:

in Euro thousand	**31/12/2010**	**31/12/2009**
Equity	173,208	232,015
Provisions for pensions	144,558	148,912
Financial liabilities	51,428	51,967
	369,194	**432,894**

In 2010, equity fell by Euro 58,807 thousand to Euro 173,208 thousand due to the high net loss for the year. The equity ratio amounts to 29.0% compared with 34.4% in the previous year.

26. Voting right notifications

In accordance with section 160 (1) no. 8 of the German Stock Corporation Act (AktG), the published content of disclosures on holdings in Villeroy & Boch AG reported in accordance with section 20 (1) or (4) AktG or in accordance with section 21 (1) or (1a) of the German Securities Trading Act (WpHG) must be disclosed.

The content of disclosures in accordance with **section 21 (1) WpHG** is presented below.

1) On 22 March 2010, the liquidator of Schor-Invest S.A. (liquidated) notified us in accordance with section 21 (1) WpHG, that the share of the voting rights in our company fell below the threshold(s) of 5% and 3% on 26 July 2007 and has amounted to 0.00% (0 voting rights) since this date.
1) On 20 May 2010, Dr. Alexander von Boch-Galhau notified us in accordance with section 21 (1) WpHG, that his share of the voting rights in Villeroy & Boch AG fell below the threshold of 5% on 18 May 2010 and has amounted to 4.13% (580,250 voting rights) since this date. Of this figure, 1.42% (200,000 voting rights) are attributable to him in accordance with section 22 (1) sentence 1 no. 4 WpHG.
2) On 14 February 2011, Mr Luitwin-Gisbert von Boch-Galhau, Germany, notified us in accordance with section 21 (1) WpHG, that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 15% on 17 November 2010 and amounted to 17.74% (2,491,132 voting rights) as of this date. Of this figure, 13.94% (1,957,696 voting rights) are attributable to him in accordance with section 22 (1) sentence 1 no. 4 WpHG, of which 1.10% (154,000 voting rights) also in accordance with section 22 (1) sentence 1 no. 6 WpHG. A further 3.37% (472,726 voting rights) is attributable to him in accordance with section 22 (1) sentence 1 no. 6 WpHG. Of the following shareholders, 3% or more of the voting rights are attributable him in each case:
   - Luitwin Michel von Boch-Galhau
   - Siegfried von Boch-Galhau

The shareholders listed below notified us in accordance with **section 41 (2) WpHG** that their shares of the voting rights in our company were as follows as of the dates stated below:

1) 18.42% of voting rights are attributable to Mr. Luitwin Michel von Boch-Galhau, Mettlach, as of 1 April 2002; 1.55% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 1 WpHG.
2) 7.41% of voting rights are attributable to Mr. Wendelin von Boch-Galhau, Losheim-Britten, as of 1 April 2002; 6.80% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 4 WpHG.
3) 7.14% of voting rights are attributable to Mr. Franziskus von Boch-Galhau, Losheim-Britten, as of 1 April 2002; 0.34% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 1 WpHG.
4) 5.51% of voting rights are attributable to Baron Antoine de Schorlemer, Luxembourg, as of 1 April 2002; of which 5.14% are attributable to him in accordance with section 22 (1) sentence 1 no. 1 WpHG.

27. Provisions for pensions

There are various defined benefit pension plans within the Villeroy & Boch Group. The regional distribution of the provisions recognised for these pensions is as follows:

in Euro thousand	31/12/2010	31/12/2009
Germany	135,645	139,045
Euro zone excl. Germany	8,088	8,875
Other international destinations	825	992
Provisions for pensions	**144,558**	**148,912**

The pension plans are presented below in summary because, as in the previous year, the majority of these provisions relate to German companies.

Provisions for pensions were measured using the following company-specific parameters:

» See table 38 page 88

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country specific discount rates range from 3.6% in Norway to 7.5% in Mexico. In Germany, a discount rate of 5.1% (previous year: 5.4%) is applied. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. Measurement is based on country-specific mortality tables and plant-specific fluctuation rates. The figure for the expected return on plan assets is based on the specific structure of these assets. For each plan, the expected return is obtained from the weighted average of expected returns for each of the investment classes held.

The present value of pension obligations developed as follows:

in Euro thousand	2010	2009
As of 1 January	**162,982**	**168,561**
Current service cost	1,575	1,798
Interest cost	8,911	9,374
Actuarial gains and losses	4	–192
Currency changes arising from non-euro-denominated plans	1,885	228
Benefits paid	–13,384	–12,883
Plan reclassification	–	–4,365
Settlements	–654	461
Plan transfer due to transfer of operations	–275	–
As of 31 December	**161,044**	**162,982**

There were the following changes to plan assets:

in Euro thousand	2010	2009
As of 1 January	**14,070**	**17,312**
Return on plan assets	701	622
Actuarial gains and losses	–	–89
Currency changes arising from non-euro-denominated plans	1,871	138
Employer contributions	1,373	1,091
Benefits paid	–1,529	–639
Plan reclassification	–	–4,365
As of 31 December	**16,486**	**14,070**

The originally expected return of Euro 701 thousand (previous year: Euro 622 thousand) for the 2010 financial year was recognised. Income actually amounted to Euro 563 thousand (previous year: Euro 1,206 thousand). The difference was included in the unrecognised corridor (see next page). A return of Euro 842 thousand is forecast for the 2011 financial year.

38 **Provision for pensions – specific parameters**

in percent	2010 Ø	2010 range	2009 Ø	2009 range
Discount rate	5.0	3.6 bis 7.5	5.3	4.5 bis 8.8
Expected long-term wage and salary trend	2.6	2.0 bis 5.6	2.6	2.0 bis 6.0
Expected long-term pension trend	1.6	0.9 bis 6.7	1.5	1.4 bis 6.7
Expected long-term country-specific inflation	1.8	1.5 bis 8.7	1.7	1.5 bis 2.9
Expected country-specific fluctuation	4.8	1.9 bis 5.0	4.8	3.0 bis 5.0
Expected return on plan assets	5.0	4.6 bis 7.5	5.0	5.0 bis 5.6

41 **Portfolio structure of plan assets**

	31/12/2010 *in Euro thousand*	31/12/2010 *in percent*	31/12/2009 *in Euro thousand*	31/12/2009 *in percent*
Annuities/annuity funds	9,837	60	9,049	64
Equities/equity funds	4,863	30	3,580	25
Property	1,532	9	1,003	8
Cash and cash equivalents	192	1	151	1
Other items	62	0	287	2
Plan assets	**16,486**	**100**	**14,070**	**100**

43 **Provision for pension – 5-year overview**

in Euro thousand	2006	2007	2008	2009	2010
Obligations for which there are no plan assets	168,423	153,499	150,718	147,988	143,993
Obligations for which there are plan assets	22,626	22,002	17,843	14,994	17,051
Obligations recognised in liabilities	191,049	175,501	168,561	162,982	161,044
Plan assets	–19,406	–21,175	–17,312	–14,070	–16,486
Amount recognised in liabilities, net	**171,643**	**154,326**	**151,249**	**148,912**	**144,558**

The portfolio structure of plan assets is as follows:

» See table 41 page 88

Provisions for pensions reported in the balance sheet are derived from pension obligations, plan assets and actuarial gains and losses (corridor) as follows:

in Euro thousand	2010	2009
Present value of the defined benefit obligation according to expert opinions, in total	173,989	173,488
Portion not accounted for (corridor)	–12,945	–10,506
Present value of pension obligations	161,044	162,982
Less cover from plan assets	–16,486	–14,070
Provisions for pensions as of 31 December, net	**144,558**	**148,912**

Including the parts not accounted for (corridor), the actual total obligation following deduction of the cover assets amounts to Euro 157,503 thousand (previous year: Euro 159,418 thousand).

The following table provides a five-year overview of changes in the provisions for pensions reported in the balance sheet:

» See table 43 page 88

In the past financial year, the following amounts were recognised in income for defined benefit plans:

in Euro thousand	31/12/2010	31/12/2009
Current service cost	–1,575	–1,798
Interest cost	–8,911	–9,374
Recognised return on plan assets	701	622
Amortised actuarial gains and losses (Reversal of the corridor affecting net income)	–4	103
Net expense	**–9,789**	**–10,447**

The pension expenses presented are contained in the cost of sales, selling costs and general and administrative expenses. Interest expense and the recognised return on plan assets are reported in net financial expense.

28. Non-current and current provisions for personnel

Provisions for personnel at the Villeroy & Boch Group are based on the legal, tax and economic circumstances of the respective country. In the period under review, these provisions changed as follows:

» See table 45 page 90

Subject to certain personal requirements, employees in Germany and Austria may reduce their working hours during a statutory period prior to entering retirement. The lower level of compensation paid to such employees due to the reduction in their working hours is offset by the government.

Current provisions for personnel mainly include provisions for bonuses in the amount of Euro 10,418 thousand (previous year: Euro 9,858 thousand).

The measurement of current and non-current provisions for personnel is based on external expert opinions, available past data and government provisions.

29. Other non-current and current provisions

Other non-current and current provisions developed as follows in the period under review:

» See table 46 page 90

Non-current provisions consist of the provision for the expected financial burden arising from the recultivation of landfill sites, the elimination of environmental impact at existing production facilities, from certified carbon dioxide emissions and similar measures. As of the reporting date, a provision of Euro 4,788 thousand (previous year: Euro 5,050 thousand) was recognised for recultivation projects.

The provision for warranties is measured on the basis of company-specific past data. In addition, current information on any new risks in connection with new materials, changes in production processes or other factors influencing quality are also taken into account in measurement.

45 Non-current and current provisions for personnel

in Euro thousand	Non-current provisions for: Partial retirement	Restructuring programme 2009	Anniversary bonuses	Severance pay	Total	Current provisions	Total-amount
As of 1 January 2009	**9,381**	**–**	**5,188**	**3,848**	**18,417**	**8,415**	**26,832**
Currency adjustments	–	–	5	74	79	41	120
Utilisation	–3,566	–	–492	–829	–4,887	–6,855	–11,742
Reversals	–	–	–	–2	–2	–863	–865
Additions	2,856	348	615	1,208	5,027	9,998	15,025
Reclassifications	–	–	–	–255	–255	–41	–296
As of 1 January 2010	**8,671**	**348**	**5,316**	**4,044**	**18,379**	**10,695**	**29,074**
Currency adjustments	–	–	40	263	303	267	569
Utilisation	–3,432	–	–417	–238	–4,087	–9,283	–13,370
Reversals	–	–	–17	–362	–381	–645	–1,026
Additions	2,611	–	429	348	3,387	9,868	13,256
Reclassifications	–	–	–	–	–	–176	–176
Utilisation due to changes in consolidated group	–	–	–	–3	–3	–	–3
As of 31 December 2010	**7,850**	**348**	**5,351**	**4,050**	**17,598**	**10,726**	**28,324**

46 Other non-current and current provisions

in Euro thousand	Non-current provisions	Current provisions for: Warranties	Restructuring programme 2009	Other taxes	Miscellaneous	Total	Total-amount
As of 1 January 2009	**4,052**	**8,995**	**–**	**857**	**9,736**	**19,588**	**23,640**
Currency adjustments	109	58	93	7	5	163	272
Utilisation	–237	–2,336	–	–101	–7,161	–9,598	–9,835
Reversals	0	–353	–	0	–551	–904	–904
Additions	1,953	1,230	46,001	102	6,980	54,314	56,267
Reclassifications	0	–269	–273	–654	–221	–1,417	–1,417
As of 1 January 2010	**5,877**	**7,325**	**45,821**	**211**	**8,789**	**62,146**	**68,023**
Currency adjustments	381	181	538	14	124	857	1,238
Utilisation	–1,320	–835	–24,147*	–155	–4,235	–29,372	–30,692
Reversals	0	–137	–	–4	–1,008	–1,149	–1,149
Additions	919	2,374	–	687	4,707	7,768	8,687
Reclassifications	–	–959	–	–	1,161	202	202
Utilisation due to changes in consolidated group	–	–90	–1,154*	–	–52	–1,296	–1,296
As of 31 December 2010	**5,857**	**7,861**	**21,058**	**753**	**9,486**	**39,156**	**45,013**

* Utilisation restructuring Euro 25,301 thousand

The provision for restructuring in 2009 contains the proportion of expenses from the restructuring programme drawn up in 2009 which have not yet been paid out. In the 2010 financial year, this provision was utilised in the amount of Euro 24,147 thousand through payments and Euro 1,154 thousand through the sale of 3 Group companies.

Miscellaneous other provisions primarily reflect provisions for commissions, audit costs, license fees as well as litigation costs.

30. Non-current and current financial liabilities

Financing was obtained from banks in the following regions:

» See table 47 page below

Receivables from and liabilities to banks were offset in the amount of Euro 8,308 thousand (previous year: Euro 4,941 thousand), as the offsetting conditions have been met and the company intends to settle the respective positions on a net basis.

31. Other non-current and current liabilities

Other non-current and current liabilities are composed as follows:

» See table 48 page 92

The rise in bonus liabilities mainly relates to Germany and Sweden and is due to the rise in sales by customer segments covered by bonus programmes.

Other tax liabilities primarily contain payroll and church tax in the amount of Euro 3,661 thousand (previous year: Euro 4,290 thousand) and value added tax in the amount of Euro 4,412 thousand (previous year: Euro 4,469 thousand).

The remeasurement of hedging instruments (see note 56) led to an increase in negative fair values in equity to Euro 1,750 thousand (previous year: Euro 1,629 thousand). As of the balance sheet date, there are only currency hedges in the amount of Euro 1,750 thousand (previous year: Euro 934 thousand). In the previous year, there were also commodity hedges amounting to Euro 433 thousand and interest rate hedges of Euro 262 thousand.

Miscellaneous other liabilities include lease liabilities, debtors with credit balances and a number of individual items.

Deferred income essentially relates to government grants for property, plant and equipment (see note 6) and from the free of charge distribution of emission allowances (see note 5).

47 **Non-current and current financial liabilities**

in Euro thousand	31/12/2010	Thereof non-current	31/12/2009	Thereof non-current
Germany	25,722	25,000	26,265	25,000
Euro zone excl. Germany	25,706	25,000	25,702	25,000
Carrying amount	**51,428**	**50,000**	**51,967**	**50,000**

48 **Other non-current and current liabilities**

in Euro thousand	Carrying amount 31/12/2010	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount 31/12/2009	Remaining term Less than 1 year	Remaining term More than 1 year
Advance payments received on account of orders	**2,390**	2,390	–	**1,999**	1,999	–
Personnel liabilities	**23,455**	21,821	1,634	**24,180**	22,327	1,853
Bonus liabilities	**36,154**	36,154	–	**31,162**	31,162	–
Other tax liabilities	**9,137**	9,137	–	**10,484**	10,484	–
Fair value changes of cash flow hedges	**1,750**	1,750	–	**1,629**	1,629	–
Miscellaneous other liabilities	**7,684**	6,230	1,454	**6,745**	5,291	1,454
Deferred income	**1,634**	783	851	**1,405**	476	929
	82,204	**78,265**	**3,939**	**77,604**	**73,368**	**4,236**

32. Trade payables

Based on the domicile of the respective Group company, trade payables relate to:

in Euro thousand	2010	2009
Germany	31,148	23,848
Euro zone excl. Germany	8,504	8,415
Other international destinations	15,548	12,829
Carrying amount as of 31 December	**55,200**	**45,092**

33. Income tax liabilities

Income tax liabilities are composed as follows:

in Euro thousand	2010	2009
Liabilities	153	239
Provisions	3,960	3,635
Carrying amount as of 31 December	**4,113**	**3,874**

The vast majority of the liabilities of Euro 153 thousand (previous year: Euro 239 thousand) are attributable to foreign companies. Of the provisions, an amount of Euro 2,783 thousand at the balance sheet date relates to companies in Germany (previous year: Euro 2,741 thousand). Both the liabilities and the provisions are current in character.

34. Liabilities dedicated assets classified as held for sale

The foreign location earmarked for sale in the previous year was sold on 1 April 2010. The buyer is continuing production at the properties leased by Villeroy & Boch. The prior-year amount primarily comprised personnel provisions and trade payables. Further details on corporate divestments can be found in note 2.

NOTES TO THE INCOME STATEMENT

35. Revenue

The Villeroy & Boch Group realises revenue exclusively from the sale of goods and merchandise. Revenue development is presented as part of segment reporting.

36. Cost of sales

Cost of sales comprises the cost of the products and merchandise sold. In accordance with IAS 2, this includes not only directly allocable costs such as the cost of materials, personnel expenses and energy costs, but also overheads and allocable depreciation of production facilities.

The cost of sales adjusted for the costs of the restructuring programme (Euro 55,683 thousand) allocated to this line in the previous year have fallen disproportionately to the revenue trend, from 61.5% to 58.7%.

37. Selling, marketing and development costs

This item contains the costs of marketing and distribution, the field sales force and advertising and logistics, license costs and research and development expenses.

The individual divisions invested in research and technical development as follows:

in Euro thousand	2010	2009
Bathroom and Wellness	–6,516	–7,008
Tableware	–2,340	–2,386
	–8,856	**–9,394**

38. General and administrative expenses

General and administrative expenses comprise personnel expenses and non-personnel operating expenses incurred in management and administrative functions.

39. Other operating income

Other operating income is composed as follows:

in Euro thousand	2010	2009
Exchange rate gains	14,995	14,931
License income	2,577	2,102
Book profits on the disposal of non-current assets	2,041	970
Reversal of valuation allowances on receivables	1,612	515
Reversal of provisions *	1,351	1,069
Reimbursement for damages	522	2,009
Miscellaneous other operating income	4,405	5,010
Total	**27,503**	**26,606**

* excluding dues in other income statement items

Exchange rate gains primarily arise from hedges where the transaction is accounted for at the daily exchange rate. The difference to the hedging rate is presented separately as the trading result.

Miscellaneous other operating income includes a number of individual items.

40. Other operating expenses

a) Service expenses from EU anti trust proceedings

On 23 June 2010, the European Commission imposed a fine on the Villeroy & Boch Group totalling Euro 71,531 thousand for alleged violations of anti-trust law between 1994 and 2004. The ruling as a whole relates to 17 manufacturers of fittings, shower partitions and ceramic sanitary ware.

Villeroy & Boch has already filed an appeal against this ruling at the General Court of the European Union. In spite of filing this action, a provision covering appropriate legal defence costs of Euro 73,000 thousand had already been recognised as a precaution in the half-yearly financial statements as at 30 June 2010. As the appeal has no suspensive effect on the payment obligation under EU law, a provisional payment of Euro 71,531 thousand was made to the EU on schedule at the end of September.

b) Miscellaneous other operating expenses

Miscellaneous other operating expenses are composed as follows:

in Euro thousand	2010	2009
Exchange rate losses (see note 39)	–16,084	–17,776
Consulting services	–2,718	–1,915
Addition to valuation allowances on receivables	–1,773	–4,031
Impairment losses on investment property	–1,500	–
Impairment losses on financial assets	–905	–
Impairment losses on goodwill	–	–14,735
Miscellaneous other operating income	–10,044	–11,196
Total	**–33,024**	**–49,653**

The additions to valuation allowances on receivables relate to trade receivables (see note 12) and other receivables. Miscellaneous other operating expenses include expenses for the disposal of non-current assets, maintenance costs and insurance premiums, among other things.

41. Result of associates accounted for using the equity method

This item contains the pro rata result from investments in an associated company in the amount of Euro 384 thousand (previous year: Euro 374 thousand).

42. Interest income and other finance income

Finance income consists of:

in Euro thousand	2010	2009
Interest income from		
Cash and cash equivalents	846	1,404
Loans and receivables	210	460
Held-to-maturity investments	612	1,615
Other investments	147	74
Total interest income	**1,815**	**3,553**
Other finance income	299	5
Total finance income	**2,114**	**3,558**

Finance income declined by Euro 1,444 thousand in the reporting year to Euro 2,114 thousand. This is essentially due to the significantly lower average investment volume as against the previous year.

43. Interest expense

Finance expense developed as follows in the year under review:

in Euro thousand	2010	2009
Finance expense from		
Overdraft facilities	–790	–1,497
Long-term borrowing interest	–3,251	–3,763
Other borrowing	–3	–6
Total interest expense	**–4,044**	**–5,266**
Other finance expense	–19	–88
Total external finance expense	**–4,063**	**–5,354**
Interest expense on provisions	–8,464	–9,012
Total finance expense	**–12,527**	**–14,366**

Interest expenses declined by Euro 1,839 thousand in the reporting year to Euro 12,527 thousand, mainly as a result of lower interest rates on short-term borrowing and loan repayments.

44. Income taxes

Income taxes include the taxes on income paid or due in the individual countries and deferred taxes. Villeroy & Boch Group companies in Germany are subject to an average trade tax rate of 13.67%. The corporate income tax rate is 15% plus a solidarity surcharge of 5.5%.

Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These largely comply with the legislation in force or substantially enacted as of the balance sheet date. The tax rate used for deferred taxes in Germany is 29.5%. Rates vary between 10.0% and 42.9% for the other countries.

in Euro thousand	2010	2009
Taxes paid or due in Germany	11	–1.940
Taxes paid or due outside Germany	–1,924	–202
	–1,913	**–2,142**
Deferred taxes (assets and liability)	–1,063	+2,142
Income taxes	**–2,976**	**0**

The difference between this and the German income tax rate, which remained at 29.5% as in the previous year, is reconciled as follows:

in Euro thousand	2010	2009
Earnings before taxes (EBT)	–59,822	–96,543
Retroactive accounting of the cost of the EU fine	71,531	–
Earnings before taxes and EU fine	**11,709**	**–96,543**
Expected income tax (EBT x tax rate of 29.5%)	–3,454	28,480
Differences arising from foreign tax rates	1,313	398
Tax effects arising from:		
Non-deductible expenses	–602	–1,448
Write-downs on deferred taxes	1,514	–20,335
Tax free write-down on Goodwill	–	–4,347
Other tax deferments	–1,746	–2,748
Actual income tax expense	**–2,976**	**0**
Actual tax rate in %	**25,41**	**0**

The reconciliation of the deferred tax assets and liabilities recognised on the face of the balance sheet with the deferred taxes recognised in the income statement is as follows:

in Euro thousand	2010	2009
Change in deferred tax assets	–1,620	2,323
Change in deferred tax liabilities	592	–227
Netted off in equity (note 22d)	–35	46
Deferred taxes recognised in the income statement	**–1,063**	**2,142**

45. Group result attributable to minority interests

Minority interests in the Group result amount to Euro 13 thousand (previous year: Euro -104 thousand).

46. Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year by the weighted number of shares outstanding:

Ordinary shares	31/12/2010	31/12/2009
Number of shares in circulation	14,044,800	14,044,800
Proportionate consolidated net income (Euro thousand)	–33,736	–51,622
Earnings per share (Euro)	–2.40	–3.68

Preference shares	31/12/2010	31/12/2009
Number of shares in circulation	12,361,771	12,361,771
Proportionate consolidated net income (Euro thousand)	–29,075	–44,817
Earnings per share (Euro)	–2.35	–3.63

The distribution of consolidated net income is performed in accordance with the allocation of profit set out in the Articles of Association (see note 18). The weighted average number of ordinary shares in circulation includes purchases and sales by the Group on a pro rata basis. The development of treasury shares is described in note 18.

47. Depreciation and amortisation

Depreciation and amortisation in the financial year was composed as follows:

in Euro thousand	2010	2009
Amortisation of intangible assets	–1,420	–1,668
Impairment losses of intangible assets	–	–147
Goodwill impairment	–	–14,735
Depreciation of property, plant and equipment	–27,578	–32,419
Impairment losses on property, plant and equipment	–243	–7,414
Depreciation of investment property	–1,080	–803
Impairment losses on investment property	–1,500	–
Impairment losses on financial assets	–905	–12
Total depreciation and amortisation	**–32,726**	**–57,198**

Impairment losses in the current financial year total Euro 2,648 thousand. Of this figure, Euro 243 thousand is attributable to property, plant and equipment, Euro 1,500 thousand to investment property (see note 9) and Euro 900 thousand to the investment in V&B Fliesen GmbH reported in financial assets (see note 9 a).
In the previous year, impairment losses were recognised under the restructuring programme in the amount of Euro 147 thousand on intangible assets, Euro 14,735 thousand on goodwill (see note 5 for both) and Euro 7,414 thousand on property, plant and equipment (see note 6).

48. Cost of materials

The cost of materials comprises the following:

in Euro thousand	2010	2009
Cost of materials, supplies and merchandise (including primary products)	–106,230	–103,502
Cost of purchased goods	–79,063	–87,363
	–185,293	**–190,865**
Cost of purchased services	–40,716	–43,930
Total cost of materials	**–226,009**	**–234,795**

Outside of production, the cost of materials primarily related to research and development.

In the previous year, the cost of raw materials and supplies included Euro 1,832 thousand in write-downs for supplies that can no longer be used owing to the restructuring process.

49. Personnel expenses

Personnel expenses are composed as follows:

in Euro thousand	2010	2009
Wages and salaries	–201,914	–210,183
Benefits following termination of the employment relationship:		
Defined benefit plans (see note 27)	–9,789	–10,447
Defined contribution plans	–17,881	–17,083
Termination benefits	–2,003	–46,382
Other benefits	–23,681	–27,788
Total personnel expenses	**–255,268**	**–311,883**

The cost of defined contribution pension plans essentially relates to employer contributions to statutory pension schemes.
Other benefits include employer contributions to health insurance, trade association dues and similar expenses.
Personnel expenses in the previous year included Euro 44,845 thousand for resettlements caused by the restructuring.

Average headcount:

Number of employees	2010	2009
Wage earners	5,197	5,690
Salaried employees	3,532	3,750
	8,729	**9,440**

Of the workforce as a whole, a total of 2,565 people are employed in Germany (previous year: 2,834), with the remaining 6,165 employed outside Germany (previous year: 6,606).

Number of employees	2010	2009
Bathroom and Wellness	5,811	6,274
Tableware	2,518	2,755
Other	400	411
	8,729	**9,440**

The decline in headcount is mainly due to the implementation of the restructuring programme.

50. Other taxes

Other taxes amounted to Euro 3,494 thousand (previous year: Euro 4,361 thousand) and are composed as follows:

	2010		2009	
in Euro thousand	Germany	Abroad	Germany	Abroad
Wealth tax	–	–189	–	–223
Vehicle tax	–67	–64	–173	–99
Real estate tax	–675	–965	–633	–942
Miscellaneous other taxes	–71	–1,463	–113	–2,178
Total other taxes	**–813**	**–2,681**	**–919**	**–3,442**

As in the previous year, miscellaneous other taxes primarily relate to the French “taxe professionelle”.

51. Cash flow from operating activities

Cash flow from operating activities is calculated using the indirect method. In the process, the Group result after tax is adjusted for non-cash income and expenses, such as depreciation and amortisation, and changes in operating assets affecting cash are taken into account.

In the year under review, cash flow from operating activities fell by Euro 92,542 thousand year-on-year to Euro –42,080 thousand. This substantial change is mainly the result of the cash reduction in the restructuring provision of Euro 25,301 thousand and payments in connection with the EU fine of Euro 72,079 thousand.
Of the change in liabilities and current provisions of Euro 20,576 thousand, Euro 15,565 thousand is attributable to the increase in trade payables and other liabilities.

The “Other non-cash income and expenses” item includes:

in Euro thousand	**2010**	**2009**
Interest arising from the provision for pensions and similar obligations	8,435	8,993
Expenses for tax provisions	2,399	1,306
Expenses/income for deferred taxes	846	–2,096
Other non-cash items	–369	–369
	11,311	**7,834**

52. Cash flow from investing activities

Cash flow from investing activities mainly results from the outflow of funds for investments in non-current assets and the inflow of funds from disposals of fixed assets and a note receivable. Net cash used in investing activities totalled Euro 4,564 thousand in the year under review (previous year: Euro 4,421 thousand).
The “cash receipts from medium-term investments” item contains the reversal of a note receivable from a financial institution in 2010 and a fixed investment in 2009. In the 2010 financial year, the Villeroy & Boch Group invested Euro 23,182 thousand in intangible assets and property, plant and equipment (previous year: Euro 19,551 thousand). At Euro 6,748 thousand, cash receipts from the disposal of fixed assets exceeded the previous year by Euro 3,558 thousand. The inflow of funds from the disposal of subsidiaries relates to the sale of the Czech subsidiaries.

53. Cash flow from financing activities

In 2010, cash flow from financing activities amounted to Euro –1,931 thousand. The outflow of funds is essentially due to the payment of the purchase price for the remaining shares in the Thai subsidiary Nahm Sanitaryware. The substantial figure for the previous year (Euro –34,698 thousand) was primarily due to the reduction in non-current financial liabilities and the payment of the dividend in 2009.

54. Cash and cash equivalents

Cash and cash equivalents totalled Euro 37,013 thousand at the balance sheet date (previous year: Euro 78,783 thousand). The substantial reduction in cash and cash equivalents is solely attributable to the payment of the EU antitrust fine of Euro 72.1 million. This was partly offset by positive operating earnings. Foreign currency translation effects amounted to Euro –473 thousand in the year under review (previous year: Euro –380 thousand).

55. Group segment report

The Villeroy & Boch Group reports in two business segments internally:

The **Bathroom and Wellness segment** manufactures ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, bathtubs and shower tubs, whirlpools, shower partitions, shower and steam cubicles, fittings and accessories. The product range is rounded off by sauna and spa facilities, kitchen fittings and accessories purchased from third parties, among other things.

The **Tableware segment** covers the complete assortment of tableware, crystal and cutlery, rounded off by accessories, kitchen and tableware textiles as well as a selection of gift articles.

The operating result of the business units is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the units' earnings power. Group finance and income taxes are managed on a Group-wide basis and are not allocated to the individual business segments. Pricing for inter-segment transfers is based on standard market conditions.

The segments of the Villeroy & Boch Group generated the following revenue:

» See table 68 page 100

The operating result of the two business units is calculated as operating segment earnings (EBIT):

in Euro thousand	31/12/2010	31/12/2009
Bathroom and Wellness	18,963	–65,098
Thereof from special expenditures	–	(–61,298)
Tableware	4,628	–20,637
Thereof from special expenditures	–	(–22,674)
EU anti trust proceedings	–73,000	–
Total operating result	**–49,409**	**–85,735**
Net finance expense (see notes 42 and 43)	–10,413	–10,808
Earnings before taxes	**–59,822**	**–96,543**
Income taxes (see note 44)	–2,976	0
Group result	**–62,798**	**–96,543**

The following assets and liabilities are assigned to the segments:

» See table 70 page 100

Segment assets include intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities include provisions, trade payables and other liabilities. Reconciliation primarily includes financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities. The provision for restructuring is also allocated there.

Other segment information:

» See table 71 page 100

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual segments. Additional write-downs and impairment losses in the amount of Euro 97 thousand (previous year: Euro 6,328 thousand) were recognised in income in the Bathroom and Wellness product segment. The Tableware segment reported impairment losses of Euro 146 thousand (previous year: Euro 1,233 thousand). A description of these impairment losses can be found in note 5 for intangible assets and note 6 for property, plant and equipment.

68 **Business segments – revenue**

in Euro thousand	Revenue from external customers 2010	Revenue from external customers 2009	Intersegment revenue 2010	Intersegment revenue 2009	Total 2010	Total 2009
Bathroom and Wellness	446,598	426,715	828	608	447,426	427,323
Tableware	267,595	288,595	14	15	267,609	288,610
Total segment revenue	714,193	715,310	842	623	715,035	715,933
Eliminations	–	–	–842	–623	–842	–623
Consolidated revenue	**714,193**	**715,310**	**0**	**0**	**714,193**	**715,310**

70 **Business segments – assets and liabilities**

in Euro thousand	Assets 31/12/2010	Assets 31/12/2009	Liabilities 31/12/2010	Liabilities 31/12/2009
Bathroom and Wellness	318,047	327,993	120,491	108,090
Tableware	135,052	135,028	45,176	43,699
Reconciliation	145,224	210,591	259,449	289,808
Total	**598,323**	**673,612**	**425,116**	**441,597**

71 **Business segments – other information**

in Euro thousand	Additions of intangible assets and property, plant and equipment 31/12/2010	Additions of intangible assets and property, plant and equipment 31/12/2009	Depreciation and amortisation 31/12/2010	Depreciation and amortisation 31/12/2009
Bathroom and Wellness	12,354	15,466	–21,070	–22,536
Tableware	11,846	5,279	–9,008	–12,354
Total	**24,200**	**20,745**	**–30,078**	**–34,890**

72 **Business segments – geographical distribution**

in Euro thousand / **Company head office**	External revenue 31/12/2010	External revenue 31/12/2009	Non-current assets* 31/12/2010	Non-current assets* 31/12/2009
German companies	339,437	355,733	74,980	80,659
Euro zone excl. Germany	155,133	155,883	31,038	36,891
Rest of the world	219,623	203,694	111,292	112,523
Total	**714,193**	**715,310**	**217,310**	**230,073**

* in accordance with IFRS 8.33 (b)

The following table shows the geographical distribution of revenue, based on the head office of the respective national companies, from external customers and non-current assets:

» See table 72 page 100

The Villeroy & Boch Group generates revenue from a large number of customers.

56. Financial instruments

The recognition of primary and derivative financial instruments is based on their allocation to the measurement categories defined in IAS 39:

- The **"assets or liabilities at fair value through profit or loss"** category includes financial instruments held for trading in particular. As in the previous year, this category is not currently used since the Villeroy & Boch Group has no trading portfolio.

- The **"held-to-maturity investments"** category is for assets with fixed or determinable payments and fixed maturity that the Villeroy & Boch Group has the positive intention and ability to hold to maturity. This category includes demand deposits, for instance, which are recognised at amortised cost using the effective interest method as applicable.

- **"Loans and receivables"** or **"liabilities"** are carried at amortised cost. This category only contains primary financial instruments such as trade receivables or trade payables.

- The **"available-for-sale financial assets"** category contains investments in third-party companies, which are measured at amortised cost.

- In the **"hedging transactions"** category, the Villeroy & Boch Group uses financial derivatives exclusively to reduce the risks of planned operating transactions (**cash flow hedge**). These are recognised on the balance sheet at their fair value. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge. Changes in fair value that prove effective in accordance with IAS 39 are reported in equity. Effectiveness means that any change in the market value of the hedged transaction will be offset by an opposing change in the fair value of the hedging instrument. The cumulative changes in value taken to equity are later reported in profit or loss in the period in which the hedged item is recognised in the income statement. Ineffective portions of the change in fair value are taken directly to profit or loss when they arise.

Financial instruments as of Dec. 2010

» See table 73 page 102

a) Balance sheet items not recognised under IAS 39 include, for example, tax receivables or personnel liabilities.
b) Assets classified as held for sale will almost certainly be sold to third parties in the near future (see note 17).
c) Other assets include intangible assets, property, plant and equipment and deferred tax assets.
d) Equity and deferred tax liabilities are reported under other equity and liabilities.

The following financial instruments were included in the balance sheet in the previous year:

» See table 74 page 103

Owing to the short maturities of cash and cash equivalents, trade receivables, other receivables, trade payables and other liabilities, it is assumed that the fair values are the carrying amounts. The fair values of other receivables and held-to-maturity investments are calculated as the present values of future expected payments. Standard, matched maturity interest rates are used for discounting. The fair values of currency forwards and foreign currency positions are determined using market prices as of the balance sheet date.

Fair value hierarchy

As in the previous year, the fair values of the financial instruments are recognised entirely on the basis of market prices for similar transactions.

73 Financial instruments as of December 2010

in Euro thousand Measurement: / Measurement category: / Balance sheet item/class	Nominal value: Cash reserve	Amortised cost: Loans and receivables	Amortised cost: Available-for-sale	Amortised cost: Held-to-maturity	Fair value: Cash flow hedge	Carrying amount as of 31/12/2010	Fair value as of 31/12/2010
Cash and cash equivalents	37,013	–	–	–	––	37,013	37,013
Trade receivables	–	107,397	–	–	–	107,397	107,397
Other receivables	–	9,661	–	–	–	9,661	9,661
Loans to related and third parties	–	7,146	–	–	–	7,146	7,146
Other financial assets	–	1,531	6,329	–	3,505	11,365	11,365
	37,013	**125,735**	**6,329**	**–**	**3,505**	**172,582**	**172,582**
Financial assets not recognised under IAS 39 (a)						12,097	–
Assets classified as held for sale (b)						10,286	–
Other assets (c)						403,358	–
Total assets						**598,323**	–

in Euro thousand Measurement: / Measurement category: / Balance sheet item/class	Amortised cost: Verbindlichkeiten	Fair value: Cash-Flow-Hedge	Carrying amount as of 31/12/2010	Fair value as of 31/12/2010
Trade payables	55,200	–	55,200	55,200
Non-current and current financial liabilities	51,428	–	51,428	51,428
Other liabilities	46,229	1,750	47,979	47,858
	152,857	**1,750**	**154,607**	**154,607**
Financial liabilities not recognised under IAS 39 (a)			256,234	–
Other equity and liabilities (d)			187,482	–
Total equity and liabilities			**598,323**	**–**

(a) Balance sheet items not recognised under IAS 39 include, for example, tax receivables or personnel liabilities.

(b) Assets classified as held for sale will almost certainly be sold to third parties in the near future (see note 17).

(c) Other assets include intangible assets, property, plant and equipment and deferred tax assets.

(d) Equity and deferred tax liabilities are reported under other equity and liabilities.

74 **Financial instruments as of December 2009**

in Euro thousand Measurement: / Measurement category: / Balance sheet item/class	Nominal value Cash reserve	Amortised cost Loans and receivables	 Available-for-sale	 Held-to-maturity	Fair value Cash flow hedge	Carrying amount as of 31/12/2009	Fair value as of 31/12/2009
Cash and cash equivalents	78,783	–	–	–	—	78,783	78,783
Trade receivables	–	106,299	–	–	–	106,299	106,299
Other receivables	–	12,213	–	–	–	12,213	12,213
Loans to related and third parties	–	8,337	–	–	–	8,337	8,337
Other financial assets	–	1,698	12,280	20,600	2,289	36,867	36,867
	78,783	**128,547**	**12,280**	**20,600**	**2,289**	**242,499**	**242,499**

in Euro thousand Measurement: / Measurement category: / Balance sheet item/class	Amortised cost Liabilities	Fair value Cash flow hedge	Carrying amount as of 31/12/2009	Fair value as of 31/12/2009
Trade payables	45,092	–	45,092	45,092
Non-current and current financial liabilities	51,967	–	51,967	51,967
Other liabilities	39,907	1,629	41,536	41,536
	136,966	**1,629**	**138,595**	**138,595**

Management of financial instruments

A common feature of all primary and derivative financial instruments is a future claim to cash. Accordingly, the Villeroy & Boch Group is subject in particular to risks of volatility in exchange rates, interest rates and market prices. To limit these risks, the Villeroy & Boch Group has a functional and effective risk management system with a clear functional organisation.

Risk management system

V&B's risk management system encompasses all areas of the company and allocates clear responsibilities and duties to all organisational units.

In this system, the Management Board defines the principles of *risk policy* together with the general principles of corporate strategy and their implementation and ensures that they are monitored. The Group-wide Code of Conduct limiting the risks of possible breaches of the law and regulations is a further component of this system.

Various coordinated risk management, planning and control systems have been put in place in implementing the system as a whole with aim of recognising developments that could jeopardise the company's continued existence in good time and taking appropriate and effective countermeasures.

Operational *risk management* covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks and, together with the necessary countermeasures, is primarily the responsibility of process management, i.e. decentrally at divisional level. The allocation of risk management to the respective process responsibilities ensures that all areas of the Group are involved. *Risk Controlling* identifies, measures and evaluates all risks. In particular, the involvement of the controlling team for the respective division serves to ensure that risk management is integrated into the existing Group-wide decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.

At the same time, *Group Internal Audit* is responsible for identifying, independently evaluating and assessing risks (identification and evaluation function) and presenting recommendations for improvement (advisory function) and implementing them.

The Audit Committee of the *Supervisory Board* is also integrated in this system. As part of its activities, it monitors the effectiveness of the internal risk management, control and audit system and, in particular, the financial reporting process. In this connection, it also exercises a control function with regard to the measures to limit the principal risks.

Management of exchange rate risks

In the course of its global business activities, the Group is exposed to exchange rate risk arising from transactions in foreign currencies. Currency futures securitised with first-class banks are employed as hedging transactions. The Villeroy & Boch Group hedges exchange rate risk over a period of twelve months. The required hedging volume is first determined by netting receivables and liabilities throughout

75 **Currency forwards**

	Assets on the balance sheet date		Liabilities on the balance sheet date	
in Euro thousand	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
within the next 3 months	12,661	374	10,552	821
in 3 to 6 months	13,481	444	7,796	434
in 6 to 12 months	27,821	1,010	11,893	495
	53,963	**1,828**	**30,241**	**1,750**

the Group for each currency. The remaining exchange rate risk is initially hedged at a level of 70% on the basis of past experience. There were no changes in the nature or extent of these risks or the risk management and measurement methods applied in the past financial year.
From the conclusion of the contract, it is demonstrated periodically that possible currency fluctuations in the planned hedged item are offset by the opposing effects of the hedge throughout the term of the contract.
The volume identity of planned and recognised foreign currency revenues is also demonstrated for transactions already settled at each balance sheet date.

The Group's currency futures are contracted as follows in 2011:

» See table 75 page 104

As of the balance sheet date, 30% of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the following foreign currencies: HUF 2,693,669 thousand, RON 20,361 thousand and NOK 32,089 thousand. In the event of a change in the respective exchange rates of +/–10% and assuming that all other variables remained constant, the carrying amounts at 31 December 2010 would have been Euro 1,069 thousand higher/lower (previous year: Euro 227 thousand). As in the previous years, these two scenarios would have had no effect on the income statement in 2010.

Management of market price risks

Market price risks result from changes in the price of purchased commodities used in the Villeroy & Boch Group's value chain, such as raw materials and supplies. As part of its risk management activities, the Group identifies the volume of risk with the aim of eliminating this by concluding hedges. Accordingly, the procurement prices for brass are hedged by means of a commodity swap with a first-class bank. The requirement for the coming year as per production planning is initially hedged at a level of 70% for the following year and 30% for the subsequent year on the basis of past experience. There was no further modification in the management of brass price risks in the financial year. On conclusion of the contract, the volume cover is checked between the hedge and the actual requirements for the duration of the hedge. Changes in the prices in the contract and the underlying price change in the hedged commodity are compared as of each balance sheet date. Changes were covered in full each month in 2010.

The following table presents the cash flows:

» See table 76 page below

Due to the current market situation, all contracts are currently reported in financial assets (see note 14).

As of the balance sheet date and on the basis of production planning for the financial years 2011 and 2012, there is an unhedged brass position of 1,680 tonnes in total (previous year: 1,380 tonnes). In the event of a change in quoted brass prices of +/–10% and assuming that all other variables remained constant, the carrying amounts at 31 Decem-

76 Brass futures

	Transaction volume on the balance sheet date		Fair value changes on the balance sheet date in Euro thousand
	in tonnes	*in Euro thousand*	*in Euro thousand*
within the next 3 months	210	677	371
in 3 to 6 months	210	677	372
in 6 to 12 months	420	1,355	743
in more than 12 months	180	697	189
	1,020	**3,406**	**1,675**

ber 2010 would have been Euro 850 thousand higher/lower (previous year: Euro 472 thousand). As in the previous years, these two scenarios would have had no effect on the income statement in 2010.

There are no more natural gas swaps, as a fixed price for the 2011 gas requirements was agreed with a gas supplier in the year under review.

Further information on general procurement market risks can be found in the management report.

Management of interest rate risks

Interest rate risk occurs as a result of interest rate fluctuations on the market when funds are invested or borrowed at fixed and variable interest rates. The earnings risk arising from interest rate changes is determined on the basis of sensitivity analyses and controlled by Group Treasury, which maintains an appropriate relationship between fixed- and variable-interest borrowings. There were no changes in interest risk exposures or the risk management and measurement methods applied in the past financial year.

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. According to a sensitivity analysis before tax effects, in the event of a theoretical change in interest rates in the 2010 financial year of +/– 50 bp and assuming all other variables remained constant, the net finance expense would have been Euro 286 thousand higher/lower (previous year: +/– Euro 333 thousand).

Management of credit/default risks

Credit or default risks describe the risk that a contractual party will not meet its obligations, such as customers for trade receivables or banks for cash investments. In order to minimise these risks, the guidelines for the Villeroy & Boch Group state that business relationships are only entered into with creditworthy business partners and, if necessary, subject to the provision of collateral.

The main receivables from customers are protected by trade credit insurance. The default risk for the remaining uninsured receivables is controlled by way of reporting and a limit system. Compliance with limits is monitored centrally. Villeroy & Boch counters potential default risk by receiving collateral deposited by customers (mortgages, guarantees, etc.) and through prompt collection measures. For default risks that occur despite this, specific valuation allowances are recognised in particular in the event of significant financial difficulties on the part of the debtor and impending bankruptcy.

For banks, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established based on the ratings issued by international rating agencies and the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible, as the respective contractual parties have a rating of at least A–/A3 as issued by international rating agencies. External security may also be provided for the respective instrument, e.g. through deposit guarantee systems.

Management of liquidity risks

In order to ensure the permanent solvency and financial flexibility of Villeroy & Boch, the Group controls short, medium and long-term liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and through a medium and short-term liquidity projection.

The financial instruments used are short-term cash and cash equivalents (see note 16), medium-term investments (see note 13) and borrowings (see note 30). The financing requirements of Group companies are generally covered in full by internal lending. This allows the cost-effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. Villeroy & Boch utilises international cash pooling systems in order to reduce external finance volumes and optimise its financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit this in exceptional cases.

The following payments are expected on the basis of the contractual terms of financial liabilities:

» See table 77 page 107

77 **Expected payments on the basis of the contractual terms of financial liabilities**

in Euro thousand	Carrying amount as of 31/12/	Cash outflow expected in the following time bands: Gross	Within three months	From the 4th month to one year	Between one and five years
Trade payables	45,092	45,092	45,092	–	–
Non-current and current financial liabilities (a)	51.967	62,560	4,941	3,695	53,924
Other liabilities	39,907	39,953	36,343	2,125	1,485
Cash flow hedge liabilities (b)	1,629	35,946	13,748	22,198	–
Total as of 31 December 2009	**138,595**	**183,551**	**100,124**	**28,018**	**55,409**
Trade payables	55,200	55,200	55,200	–	–
Non-current and current financial liabilities (a)	51,428	68,598	8,308	4,079	56,211
Other liabilities	46,229	46,265	42,290	2,501	1,474
Cash flow hedge liabilities (b)	1,750	30,241	10,552	19,689	–
Total as of 31 December 2010	**154,607**	**200,303**	**116,350**	**26,269**	**57,685**

78 **Net result of financial instruments**

in Euro thousand	Net interest result	Gain or loss on measurement: Fair value	Currency	Write-down	Reversal [1]	Total
Cash and cash equivalents	–93	–	–	–	–	–93
Loans and receivables/other liabilities	–3,303	–	14	–515	2,841	–5,335
Held-to-maturity investments	1,615	–	–	–	–	1,615
Cash flow hedge	–	–1,577	95	–	–3,801	–5,283
Derivatives from ineffective cash flow hedges	–	–	–	–	–66	–66
Net result for the 2009 financial year	**–1,781**	**–1,577**	**109**	**–515**	**–1,026**	**–9,162**
Cash and cash equivalents	56	–	–	–	–	56
Loans and receivables/other liabilities	–3,041	–	–47	–1,612	4,448	–252
Held-to-maturity investments	612	–	–	–	–	612
Available for sale financial assets	–	–	–	–900	233	–667
Cash flow hedge	–	–1,755	–275	–	274	–1,756
Net result for the 2010 financial year	**–2,373**	**–1,755**	**–322**	**–2,512**	**4,955**	**–2,007**

1) Reversal to income

In liquidity planning, recognised liabilities are carried at their payment amount on maturity. This takes into account future interest not shown on the face of the balance sheet as of the reporting date as it is not incurred until later financial years.

(a) The cash flow from current and non-current financial liabilities includes future interest payments of Euro 8,863 thousand (previous year: Euro 5,652 thousand) that will not be incurred until after 31 December 2010. A bank loan was prematurely extended until 2014 in the past financial year. Accordingly, the interest payments payable up to 2014 increased by Euro 3,593 thousand. It also includes the outflow of cash from bank settlement (see note 30).

(b) The transaction volume of cash flow hedge liabilities in the amount of Euro 30,241 thousand (previous year: Euro 35,956 thousand) is offset by the opposing effects of the respective hedged items. As of the balance sheet date, a net effect of Euro 1,750 thousand (previous year: Euro 1,629 thousand) is forecast, equal to the balance sheet item. Euro 821 thousand of this will be settled in the next three months (previous year: Euro 894 thousand).

There is no significant concentration of liquidity risks within the Villeroy & Boch Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods applied in the past financial year.

Net result of financial instruments

In the reporting year, the Villeroy & Boch Group generated the following net result from the use of primary and derivate financial instruments:

» See table 78 page 107

The repayment of a note receivable (see note 13) was used to repay a bank loan in the financial year. At the same time, interest expense decreased as a result of lower interest rates. The development of cash flow hedges is described in note 22c. The change in valuation allowances on trade receivables (see note 12) and the valuation allowance on the shares held in V&B Fliesen GmbH (see note 9a) had an impact on valuation allowances.

57. Contingent liabilities and commitments

in Euro thousand	31/12/2010	31/12/2009
Guarantees	111	92
Trustee obligations	280	259
Other contingencies	18	16

Trustee obligations relate to default obligations of the development fund. Bank guarantees were primarily provided to the Thai National Energy Supplier and the Thai Customs Department.

58. Other financial obligations

in Euro thousand	31/12/2010	31/12/2009
Obligations arising from orders placed		
for investments in intangible assets	23	30
for investments in property, plant and equipment	8,747	6,218

59. Related party disclosures

Disclosures on related companies

In the course of our operating activities, we purchase materials, inventories and services from a large number of business partners around the world. These include business partners in which the Villeroy & Boch Group holds equity interests and companies that are connected to companies or members of executive bodies of Villeroy & Boch AG. All transactions are conducted at arm's length conditions. From the perspective of the Villeroy & Boch Group, the corresponding revenue volume is insignificant.

Villeroy & Boch AG, Germany, is the ultimate controlling entity of the Villeroy & Boch Group. Transactions between Villeroy & Boch AG and its subsidiaries and between subsidiaries primarily relate to the exchange of work in process, finished goods and merchandise and services. These transactions were eliminated in accordance with the consolidation principles and are not discussed in this section.

No goods or services were provided to or by the company accounted for using the equity method (see note 8). From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to this company was insignificant.

In the course of the financial year, the Villeroy & Boch Group conducted the following transactions with V&B Fliesen GmbH:

in Euro thousand	Realised in the 2010 financial year	Recognised on 31 December 2010 as a receivable	liability
Revenues (a)	145	24	–
Financial income	148	65	–
Service income (b)	8,335	2,321	–
Rental income incl. ancillary costs (c)	857	163	–
Service expenses (d)	–845	–	–164
Total	**8,892**	**2,573**	**–164**

The following transactions were conducted with V&B Fliesen GmbH in the previous year:

in Euro thousand	Realised in the 2009 financial year	Recognised on 31 December 2009 as a receivable	liability
Revenues (a)	163	27	–
Financial income	363	84	–
Service income (b)	6,891	2,421	–
Rental income incl. ancillary costs (c)	879	88	–
Service expenses (d)	–676	–	–60
Total	**7,648**	**2,620**	**–60**

a) V&B Fliesen GmbH acquired tableware products worth Euro 140 thousand (previous year: Euro 156 thousand) in the financial year. The other revenues are attributable to products from the Bathroom and Wellness Division.
b) Service income contains income from advertising, licences and IT services and a number of individual items.
c) Rental income relates to the letting of the production and office building (see note 7).
d) Expenses for services purchased relate to a number of individual items.

Disclosures on related persons

Information on the remuneration of the Supervisory Board and Management Board can be found in note 60.

Family members of the related persons mentioned here employed within the Villeroy & Boch Group receive compensation based on their position and/or function that is paid independently of the identity of the holder of the position.

With the sales contract as of 18 December 2009, a disposal site that had been rented and used for operating purposes for many years was purchased from a vendor group with a close connection to a shareholder in order to secure its long-term usage. The selling price amounting to Euro 748 thousand was calculated under consideration of alternative rental expenditures and paid in February 2010.
A heritable building right of Villeroy & Boch AG in the land held by a shareholder ended in the first quarter of 2010. The notarised termination agreement was concluded with the involvement of the Supervisory Board. The compensation for termination in the amount of Euro 235 thousand was calculated by an independent expert and effected in February 2010.

No further significant transactions were concluded with related parties in the period under review. All transactions are conducted at arm's length conditions.

60. Management Board and Supervisory Board remuneration

Supervisory Board remuneration

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive fixed basic remuneration and a variable remuneration component.

The fixed annual basic remuneration is Euro 20,000. The Chairman receives an additional Euro 45,000, while the Deputy Chairman receives an additional Euro 13,500. Members of the Supervisory Board receive a meeting fee of Euro 1,250 for each meeting of the full Supervisory Board. The Chairman of the Investment Committee, the Human Resources Committee and the Audit Committee each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the respective committees each receive an additional Euro 2,500 p.a.

The variable remuneration amounts to Euro 195.00 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share (calculated as the average of the dividends paid for one preference share and one ordinary share).

The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.

The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration in the financial year:

» See table 83 page 111

A total expense of Euro 459 thousand was reported in the consolidated result for the 2010 financial year (previous year: Euro 400 thousand). In addition to the fixed component and the meeting fees for 2010, expenses also include Euro 25 thousand for the provision recognised for variable remuneration and other reimbursement of expenses.

Management Board remuneration

An expense of Euro 1,968 thousand (previous year: Euro 1,756 thousand) is reported in the income statement for the 2010 financial year. This figure is composed of fixed (Euro 1,144 thousand (previous year: Euro 954 thousand) and variable salary components Euro 824 thousand (previous year: Euro 802 thousand). In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 2 thousand (previous year: Euro 4 thousand). The members of the Management Board received remuneration in kind totalling Euro 43 thousand (previous year: Euro 50 thousand).
The above-mentioned payments also include remuneration paid to a member who has left the Management Board.

The pension entitlements of Management Board members in the amount of Euro 2,752 thousand (previous year:

Euro 2,451 thousand) are included in provisions for pensions. Provisions for pensions for former members of the Management Board amount to Euro 13,174 thousand (previous year: Euro 13,220 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,135 thousand (previous year: Euro 1,363 thousand).

The provisions of section 314 (2) sentence 2 in conjunction with section 286 (5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2010 financial year.

61. Auditors' fees and services

The fees for the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft are broken down as follows:

in Euro thousand	2010	2009
Audits of financial statements	364	289
Other assurance or valuation services	–	–
Tax advisory services	–	–
Other benefits	20	27

62. Off-balance sheet transactions

There are leases and guarantees benefiting Group companies within the Villeroy & Boch Group. Villeroy & Boch AG granted guarantees worth Euro 11,012 thousand (previous year: Euro 8,315 thousand) to Group companies. All intercompany transactions were eliminated in line with consolidation principles (see note 3).

83 **Supervisory Board remuneration**

in Euro thousand	Fixed remuneration	Meeting fees	Variable remuneration for 2009	Total	Previous year
Wendelin von Boch-Galhau [2*), 3*)]	73	4	–	**77**	66
Ralf Runge	34	5	–	**39**	45
Peter Prinz Wittgenstein [1), 2)]	39	5	–	**44**	68
Dr. Alexander von Boch-Galhau	20	5	–	**25**	29
Francois Villeroy de Galhau	18	5	–	**23**	–
Jürgen Beining	20	5	–	**25**	29
Werner Jäger [1)]	23	5	–	**28**	34
Dr. Jürgen Friedrich Kammer [3)]	23	5	–	**28**	33
Charles Krombach [1*)]	24	5	–	**29**	35
Dietmar Langenfeld [2)]	23	5	–	**28**	34
Ralf Sikorski [3)]	23	5	–	**28**	32
Dietmar Geuskens	20	5	–	**25**	13
Members who left in 2010	2	–	–	**2**	29
Members who left in 2009	–	–	–	**–**	22
Members who left in 2008	–	–	–	**–**	8
Rounding differences	–3	–	–	**–3**	–12
	339	59	–	**398**	465

[1)] Audit Committee, [2)] Investment Committee, [3)] Human Resources Committee, * = Chairman of the respective committee

63. Declaration of conformity with the German Corporate Governance Code in accordance with section 161 AktG

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG for the 2010 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 13 December 2010. The declaration is permanently available to shareholders on the Internet.

64. Events after the balance sheet date

On 28 January 2011, a 24% stake in V&B Fliesen GmbH was transferred to the controlling shareholders against payment of the purchase price of Euro 5.1 million. To effect this, buyers exercised a call option granted in 2007 on schedule in 2010.

On 3 February 2011, the Bundeskartellamt (German Cartel Office) launched investigations due to suspicions of collusion in the tableware field at a number of the Villeroy & Boch's competitors as well as the German Association of the Ceramic Industry. Villeroy & Boch is supporting the German Cartel Office in their investigations as part of the ongoing process. Villeroy & Boch does not expect the imposition of a fine by the German Cartel Office.

There are no other significant events to report.

65. List of shareholdings

The shareholdings of Villeroy & Boch Group in accordance with section 313 (2) HGB * are described below:

GERMANY

in percent		Villeroy & Boch AG investment direct	indirect	total
1.	Dritte V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00
2.	Erste V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00
3.	Fliesen-Bollmann Beteiligungsgesellschaft mbH, Lübeck	100.00	0.00	100.00
4.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach	100.00	0.00	100.00
5.	Heinrich Porzellan GmbH, Selb	100.00	0.00	100.00
6.	INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach	100.00	0.00	100.00
7.	Keraco GmbH, Wadgassen	100.00	0.00	100.00
8.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen	100.00	0.00	100.00
9.	V & B International GmbH, Mettlach	100.00	0.00	100.00
10.	VilboCeram GmbH, Mettlach	100.00	0.00	100.00
11.	Villeroy & Boch asset management Geschäftsführungsges. mbH, Mettlach	100.00	0.00	100.00
12.	Villeroy & Boch asset management Holding GmbH & Co. KG, Mettlach	100.00	0.00	100.00
13.	Villeroy & Boch Creation GmbH, Mettlach	100.00	0.00	100.00
14.	Villeroy & Boch K-Shop GmbH, Mettlach	100.00	0.00	100.00
15.	Zweite V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00

ABROAD

in percent		Villeroy & Boch AG investment direct	indirect	total
16.	Alföldi Kerámia Kft., Hódmezövásárhely (Hungary)	0.00	100.00	100.00
17.	Bowic B.V., Roden (Netherlands)	0.00	100.00	100.00
18.	Delfi Asset S.A., Luxemburg (Luxembourg)	0.00	100.00	100.00
19.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100.00	0.00	100.00
20.	Hissnabben Växjö AB, Växjö (Sweden)	0.00	100.00	100.00
21.	International Materials LLC, Delaware (USA)	0.00	100.00	100.00
22.	Kiinteistö Oy, Helsinki (Finland)	0.00	100.00	100.00
23.	Nahm Sanitaryware Co. Ltd., Bangkok (Thailand)	0.00	100.00	100.00
24.	Oy Gustavsberg Ab, Helsinki (Finland)	0.00	100.00	100.00
25.	Proiberian S.l., Barcelona (Spain)	70.00	30.00	100.00
26.	Rollingergrund Premium Properties SA, Luxembourg (Luxembourg)	0.00	100.00	100.00
27.	S. C. Mondial S.A., Lugoj (Romania)	99.24	0.00	99.24

* Section 313 II No. 4 and section 313 II HGB are applied to two German investments.

ABROAD

in percent		Villeroy & Boch AG investment direct	indirect	total
28.	St. Thomas Creation Inc., San Diego (USA)	0.00	100.00	100.00
29.	St. Thomas Creation S.A. de C. V., Saltillo (Mexico)	0.00	100.00	100.00
30.	Ucosan B. V., Roden (Netherlands)	0.00	100.00	100.00
31.	Ucosan Holding B.V., Roden (Netherlands)	100.00	0.00	100.00
32.	Vilbomex S.A. de C.V., Saltillo (Mexico)	88.32	11.68	100.00
33.	Villeroy & Boch (U.K.) Ltd., London (England)	0.00	100.00	100.00
34.	Villeroy & Boch Arti della Tavola S.r.l., Milano (Italy)	0.20	99.80	100.00
35.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	0.00	100.00	100.00
36.	Villeroy & Boch Austria G.m.b.H., Mondsee (Austria)	100.00	0.00	100.00
37.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99.99	0.01	100.00
38.	Villeroy & Boch CreaTable AG, Lenzburg (Switzerland)	0.00	100.00	100.00
39.	Villeroy & Boch Czech s.r.o., Velké Pritocno (Czech Republic)	100.00	0.00	100.00
40.	Villeroy & Boch Danmark A/S, Brondby (Denmark)	0.00	100.00	100.00
41.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100.00	0.00	100.00
42.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44.00	56.00	100.00
43.	Villeroy & Boch Immobilier S.a.r.L, Paris (France)	0.00	100.00	100.00
44.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	99.99	0.00	99.99
45.	Villeroy & Boch Norge AS, Lorenskog (Norway)	0.00	100.00	100.00
46.	Villeroy & Boch Polska Sp.z o.o., Warszawa (Poland)	0.00	100.00	100.00
47.	Villeroy & Boch Russia ooo, Moskau (Russia)	100.00	0.00	100.00
48.	Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxembourg)	100.00	0.00	100.00
49.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	100.00	0.00	100.00
50.	Villeroy & Boch Sociéte Générale de Carrelage S.A.S., Paris (France)	0.00	100.00	100.00
51.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	0.00	100.00	100.00
52.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100.00	0.00	100.00
53.	Villeroy & Boch Tableware Japan K.K., Tokyo (Japan)	0.00	100.00	100.00
54.	Villeroy & Boch Tableware Ltd., Aurora (Canada)	0.00	100.00	100.00
55.	Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China)	100.00	0.00	100.00
56.	Villeroy & Boch USA Inc., New York (USA)	0.00	100.00	100.00
57.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	100.00	0.00	100.00
58.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	0.00	100.00	100.00
59.	Villeroy et Boch S.A.S., Paris (France)	100.00	0.00	100.00

SHAREHOLDINGS

in percent		Villeroy & Boch AG investment direct	indirect	total
60.	V&B Fliesen GmbH, Merzig (Germany)	49.00	0.00	49.00

* Section 313 II No. 4 and section 313 II HGB are applied to two German investments.

66. Developments in the IASB

The following IASB publications were adopted by the EU and are required to be applied for financial years beginning after 31 December 2009:

Standard		Name
IAS	27	Revised IAS 27 Consolidated and Separate Financial Statements
IAS	39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRS	1	First-time Adoption of International Financial Reporting Standards
IFRS	1	Amendments to IFRS 1 Additional Exemptions for First-time Adopters
IFRS	2	Amendment to IFRS 2 Share-based Payment
IFRS	3	Revised IFRS 3 Business Combinations
IFRIC	12	IFRIC – Interpretation 12 Service Concession Arrangements
IFRIC	15	IFRIC – Interpretation 15 Agreements for the Construction of Real Estate
IFRIC	16	IFRIC – Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IFRIC	17	IFRIC – Interpretation 17 Distributions of Non-cash Assets to Owners
IFRIC	18	IFRIC – Interpretation 18 Transfers of Assets from Customers
Various		Improvements to the International Financial Reporting Standards (published by the IASB in April 2009)
Various		Improvements to the International Financial Reporting Standards (published in May 2008)

The following IASB regulations were endorsed by the EU but are not yet effective for the current financial year:

Standard		Name
IAS	24	Revised IAS 24 Related Party Disclosures; effective for financial years beginning after 31 December 2010
IAS	32	Amendment to IAS 32 Financial Instruments: Presentation; effective for financial years beginning after 31 January 2010
IFRS	1	Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards; effective for financial years beginning after 30 June 2010
IFRS	1	Amendment to IFRS 1 Limited Exemption of First-time Adopters from Comparable Disclosures in accordance with IFRS 7; effective for financial years beginning after 30 June 2010
IFRS	7	Amendment to IFRS 7 Financial Instruments: Disclosures; effective for financial years beginning after 30 June 2010
IFRS	8	Amendment to IFRS 8 Business Segments; effective for financial years beginning after 31 December 2010
IFRIC	14	Amendment to IFRIC – Interpretation 14 Prepayments in the context of Minimum Funding Requirements; effective for financial years beginning after 31 December 2010
IFRIC	19	Amendment to IFRIC – Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments; effective for financial years beginning after 30 June 2010
Various		Improvements to the International Financial Reporting Standards (published by the IASB in May 2010); effective in part for financial years beginning after 30 June 2010 and for financial years beginning after 31 December 2010

The Villeroy & Boch Group will adopt these regulations from the financial year in which they become effective within the EU.

The EU has not yet adopted the following IASB publications:

Standard		Name
IFRS	9	Financial Instruments: Amortised Cost and Impairment (Issued 12 November 2009)
IAS	12	Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets
IFRS	1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
IFRS	7	Amendments to IFRS 7 – Financial Instruments: Disclosures (issued 7 October 2010)

The above standards and interpretations will be applied when they become effective within the European Union. Recognition by the EU serves to implement IASB publications in European law. Due to the absence of such recognition, early application is not possible. According to the information available at present, the Villeroy & Boch Group will only be affected by the changes described above to a minor extent.

67. Combined responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Mettlach, 2 March 2011

Frank Göring **Manfred Finger**

AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the Villeroy & Boch AG, Mettlach, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [”Handelsgesetzbuch“: ”German Commercial Code“] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.“

Mannheim, March 4, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle	**Waldner**
German Public Auditor	German Public Auditor

Cash flow
Describes the internal financing potential of the company and is the result of inflows and outflows of cash. In the cash flow statement, these cash flows are broken down into operating, investing and financing activities.

Cash flow from operating activities
Cash flow from operations, such as sales of goods or purchases of materials and services or wages and salaries.

Cash flow from investing activities
Cash flow in connection with the acquisition or disposal of financial assets and property, plant and equipment.

Cash flow from financing activities
Cash flow resulting from changes in financial liabilities, proceeds from sales of or payments for acquisitions of treasury shares and dividend payments.

Cash flow sales profitability
The “cash flow sales” profitability shows the relationship of cash generated by and used in operating activities to consolidated sales and is expressed as a percentage.

CEO
The Chief Executive Officer (CEO) is the sole managing director or chairman of a company or the chairman of management or the management board.

CFO
Chief Financial Officer.

Corporate Governance
The sound, responsible management and control of a company geared towards long-term value added.

DAX®
The DAX® is the selection index of Deutsche Börse AG that comprises the 30 biggest German stock corporations listed on the German stock exchange.

DAX® Performance Index
This is calculated by Deutsche Börse AG and measures the relative change of the equities in the DAX®.

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EBT
Earnings before taxes.

Equity ratio
Ratio of equity to total capital.

Return On Equity (ROE)
Ratio of consolidated earnings to equity including non-controlling interests.

Earnings per share
The "earnings per share" ratio indicates the proportionate consolidated earnings per share outstanding.

Goodwill
The difference by which the purchase price paid to acquire an enterprise exceeds the carrying amount of the net assets acquired.

Net operating margin
Ratio of EBIT (earnings before interest and tax) to sales.

NOPAT (net operating profit after tax)
Net total of gross profit, selling, marketing and development costs, general administrative expenses and taxes on income.

Prime Standard
The Prime Standard comprises the companies that are traded on the German stock exchange and that satisfy particularly high transparency standards at the same time. Deutsche Börse collates its selection indices, such as the DAX® or SDAX®, from these equities.

SDAX®
The SDAX® is the selection index of Deutsche Börse AG for smaller companies in conventional industries, also referred to as "small caps". It includes 50 equities that are traded in the Prime Standard® of the official market or the regulated market.

Villeroy & Boch
1748

COMPANY CALENDAR 2011

28 April 2011
Report on the first three months 2011

13 May 2011
Annual Meeting of Shareholders, Townhall Merzig

28 July 2011
Report on the first half of 2011

27 October 2011
Report on the first nine months 2011

CONTACT

Investor Relations:
Phone +49 6864 81-2715
Fax +49 6864 81-2692
investor-relations@villeroy-boch.com

Public Relations:
Phone +49 6864 81-1331
Fax +49 6864 81-2692
presse.r@villeroy-boch.com

Recruiting Services:
www.villeroy-boch.com/career

Information on Villeroy & Boch can also be found here:

http://www.facebook.com/VilleroyandBoch
http://www.twitter.com/VilleroyundBoch
http://www.youtube.com/VilleroyundBoch

IMPRINT

Address:
Villeroy & Boch AG
Saaruferstraße
66693 Mettlach/Germany

Design:
FDESiGN, Saarbrücken/Germany
www.fdesign4u.de

Printing:
SDV Saarländische Druckerei & Verlag GmbH
www.sdv-saar.de

FSC www.fsc.org MIX Paper from responsible sources FSC® C013038

This Annual Report is available in English and German. This English version is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation. Due to rounding differences, there may be slight discrepancies in the totals and percentages contained in this report. Both versions as well as further information can be downloaded at *www.villeroy-boch.com*.

Villeroy & Boch
1748