Villeroy & Boch

1748

# Annual Report 2009

# Group Overview

| | | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Sales | *in Euro million* | 715.3 | 840.9 | 848.6 | 815.0 |
| Sales - Germany | *in Euro million* | 197.6 | 185.6 | 176.6 | 189.8 |
| Sales - Abroad | *in Euro million* | 517.7 | 655.3 | 672.0 | 625.2 |
| | | | | | |
| EBITDA (before special expenditures*) | *in Euro million* | 33.2 | 62.9 | 84.8 | 73.0 |
| EBITDA | *in Euro million* | -28.7 | 62.9 | 84.8 | 73.0 |
| EBIT (before special expenditures*) | *in Euro million* | -1.7 | 24.1 | 38.8 | 34.4 |
| EBIT | *in Euro million* | -85.7 | 24.1 | 38.8 | 34.4 |
| EBT (before special expenditures*) | *in Euro million* | -12.6 | 16.0 | 29.4 | 24.5 |
| EBT | *in Euro million* | -96.5 | 16.0 | 29.4 | 24.5 |
| Group result for the year | *in Euro million* | -96.5 | 11.0 | 23.8 | 18.2 |
| NOPAT (before special expenditures*) | *in Euro million* | 5.5 | 20.6 | 42.6 | 38.9 |
| NOPAT | *in Euro million* | -63.1 | 20.6 | 42.6 | 38.9 |
| Balance sheet total | *in Euro million* | 673.6 | 772.3 | 804.9 | 789.4 |
| Cash flow from operating activities | *in Euro million* | 50.5 | 17.5 | 59.4 | 22.7 |
| Capital expenditure | *in Euro million* | 20.7 | 26.7 | 28.4 | 35.9 |
| Depreciation | *in Euro million* | 34.9 | 37.8 | 38.2 | 38.4 |
| Impairment losses | *in Euro million* | 22.1 | 1.0 | 7.8 | 0.2 |
| Employees (annual average) | *number* | 9,440 | 10,193 | 9,221 | 9,235 |
| Personnel expenses (before special expenditures*) | *in Euro million* | 267.0 | 296.5 | 288.9 | 293.3 |
| Payroll ratio (before special expenditures*) | *in percent* | 37.3 | 35.3 | 34.0 | 36.0 |
| Personnel expenses | *in Euro million* | 311.9 | 296.5 | 288.9 | 293.3 |
| Payroll ratio | *in percent* | 43.6 | 35.3 | 34.0 | 36.0 |
| | | | | | |
| Net operating margin | *in percent* | -13.5 | 1.3 | 2.8 | 2.2 |
| Equity ratio (incl. minority interest) | *in percent* | 34.4 | 42.8 | 42.8 | 44.4 |
| Return on equity (ROE) | *in percent* | -41.6 | 3.3 | 6.9 | 5.2 |
| Cash flow profitability | *in percent* | 7.1 | 2.1 | 7.0 | 2.8 |
| | | | | | |
| Earnings per ordinary share | *in Euro* | -3.68 | 0.40 | 0.88 | 0.66 |
| Earnings per preference share | *in Euro* | -3.63 | 0.45 | 0.93 | 0.71 |
| Dividend per ordinary share | *in Euro* | - | 0.32 | 0.37 | 0.37 |
| Dividend per preference share | *in Euro* | - | 0.37 | 0.42 | 0.42 |

## Divisions

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

* Special expenditures 2009 include the one time liability of the restructuring programme as well as the special write-down from impairment

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## Villeroy & Boch Group



## Consolidated Financial Statements



## Notes



Annotation: Explanations to our product pictures can be found on page 102 at our Table of Pictures.

Company Calendar 2010, Contact and Company information can be found on page 103.


KRUPS

# Dear shareholders, Ladies and Gentlemen,

The crisis that began in the US real estate sector in 2007 developed into a financial crisis and, ultimately, the most severe global recession in recent history. Unfortunately, Villeroy & Boch was unable to escape the effects of this development, with the downward revenue trend that started in 2008 reaching its peak in the first half of 2009. Despite the tangible slowdown in the second half of the year, we are reporting a downturn in revenue of just under 15% for the year under review, from Euro 840 million in the previous year to Euro 715 million.

A crisis of this nature requires companies to take drastic action. We responded at an early stage, resolving a number of measures in 2008 that we systematically pursued in the year under review. This led to significant improvements, such as in our liquidity situation, where current assets fell more than Euro 60 million as a result of the reduction in inventories and strict receivables management. Our savings measures, some of which we expanded again in the course of the year, led to substantial improvements across all cost items. Staff costs were reduced by over Euro 30 million year-on-year, while non-personnel costs were cut by more than Euro 25 million. All in all, these savings helped us to close the 2009 financial year with a slightly negative operating result (EBIT before special expenditures) of Euro - 1.7 million despite the downturn in revenue of Euro 125 million.

Out of all of these measures, it is those which will also result in future savings that are particularly important to me. The sustainable effects realized in the 2009 financial year are primarily attributable to workforce adjustments in administrative functions. These planned adjustments aimed at achieving a permanent reduction in structural costs form part of the package of measures that we resolved last March in order to improve our competitiveness. This package, which led to a non-recurring earnings charge of Euro 74 million in 2009, also includes drastic adjustments to the production network of both Divisions, the overriding aim of which is to significantly reduce our manufacturing costs. Establishing competence centres and increasing the specialisation and automation of our production locations will improve the competitiveness of our position in an environment of growing price pressure and make us more resistant to future economic fluctuations.
We will continue to do everything in our power to implement the planned measures rapidly and decisively in order to sustainably reduce our cost base – together with the cost reductions we have already achieved – by more than Euro 50 million by 2012. Thanks to the successive implementation of this plan, we will return to profitability more quickly than before: with revenue expected to stabilise in the current financial year, we will report an operating profit once again in 2010.

As soon as the economy picks up again, our more efficient structures and our sustained high equity ratio of 34% will help us to focus on the growth and yield targets that we set ourselves before the onset of the crisis. Although the signs of an economic recovery are increasing, there remains some uncertainty with regard to future economic development. At present, the momentum in our key markets does not yet constitute a self-supporting recovery. Strict cost management and working to ensure our solid liquidity structure will remain our highest priorities until further notice.

At the same time as optimising our production and cost structures, we have intensified activities in our sales markets:

- We still believe that the greatest growth potential is available outside Western Europe. We have further expanded our presence in the relevant growth regions, particularly Asia, and will continue on this path. A further key pillar of our internationalisation strategy is project business, with a focus on high-end residential complexes and hotels. In this area, we have successfully established a project team with specific responsibility for these global activities. This team will be strengthened further in 2010 in order to increase our proximity to the key project decision-makers in London, New York and Hong Kong.
- In the saturated European markets, our priority will be to find suitable solutions for demographic development and the substantial shift in consumer behaviour at an early stage. Accordingly, we have strengthened the marketing teams in both of our Divisions and will continue to press ahead with the development of target groupspecific product and service ranges. This includes innovations such as for instance *GreenGain*, a WC that flushes using only 3.5 litres of water (a saving of 40%), with which we again set new standards in terms of the environment and sustainability in the past year.

The extensive changes affecting our Company, both internally and externally, demand a great deal of strength from all of us. In difficult circumstances, our employees around the world have made a remarkable contribution to significantly improving Villeroy & Boch's earnings and liquidity position. I would like to take this opportunity to thank them personally and on behalf of my colleagues on the Management Board. The speed with which we were able to adjust our organisation to reflect the changed economic conditions gives me great confidence for the future.

We believe it is important to retain shareholders on a long-term basis, which is why we have pursued a continuity-based dividend policy for a number of years. Given the current situation, however, the Management Board and the Supervisory Board do not consider a dividend for the past financial year to be justifiable.
The rise in our share price over the past year, which was briefly also driven by the positive news of its admission to the SDAX, was unexpected in light of the considerable burden on our earnings. I consider this to be a sign of the confidence there is in our measures, our Company and our brand. We have laid the foundations that will allow us to operate Villeroy & Boch as a sustainably healthy and profitable company.

Yours

**Frank Göring**
Chairman of the Management Board (CEO)
Mettlach, March 2010

# Management Board

**Manfred Finger**
**Finance and Human Resources (CFO)**

*b)* V&B Fliesen GmbH,
Merzig, Germany

**Frank Göring**
**Chairman of the Management Board (CEO)**
**(since 15 May 2009)**
**previously Spokesman of the Management Board (CEO)**

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

**Volker Pruschke**
**Corporate Development (CSO)**

# Members of the Supervisory Board

### Luitwin Gisbert von Boch-Galhau

**Honorary member**

*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** (since 16 May 2009)
**previously Second Vice Chairman of the Supervisory Board**
**Managing Director of country life von Boch-Galhau Verwaltungs-Gesellschaft mbH**

*b)* V&B Fliesen GmbH, Merzig, Germany
Nici GmbH, Altenkunstadt, Germany (until 8 April 2009)

### 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**
(since March 2009)

*b)* Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH, Merzig, Germany (until June 2009)
Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH & Co. KG, Merzig, Germany (until June 2009)

### Peter Prinz Wittgenstein

**Second Vice Chairman of the Supervisory Board** (since 16 May 2009)
**previously Chairman of the Supervisory Board**
**Management Consultant**

### Jürgen Beining*

**Head of Sales, Bathroom and Wellness**

### Eugen von Boch (until 31 January 2010)

**Entrepreneur**

*b)* Volksbank Untere Saar eG, Losheim, Germany

### Dr. Alexander von Boch-Galhau

**Management Consultant**

*b)* Union Stiftung, Saarbrücken, Germany

### Hannsgeorg Edinger* (until 31 May 2009)

**Trade Union Secretary of IG Bergbau, Chemie, Energie, Hanover, Germany**

*a)* Schott AG, Mainz

### Dietmar Geuskens* (since 22 June 2009)

**District Manager of IG Bergbau, Chemie, Energie, Saarbrücken, Germany**

*a)* RAG Deutsche Steinkohle AG, Herne, Germany
*b)* Evonik Power Saar GmbH, Saarbrücken, Germany

### Werner Jäger*

**IT Administrator**
**Chairman of the Head Office Works Council**

### Dr. Jürgen Friedrich Kammer

**Former Management Board Chairman and subsequently Supervisory Board Chairman of Süd-Chemie AG, Munich, Germany**

*a)* Lanxess AG, Leverkusen, Germany
*b)* Wittelsbacher Ausgleichsfonds, Munich, Germany
Hörmann GmbH & Co. KG, Kirchseeon, Germany

### Charles Krombach

**Managing Director of Landewyck Group S.à r.l., Luxembourg**
**Managing Director of Heintz van Landewyck S.à r.l., Luxembourg**

### 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, Germany

*b)* V&B Fliesen GmbH, Merzig, Germany

Evonik Power Saar 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)* Fortis Banque France S.A. (Chairman of the Supervisory Board)
Bayard Presse S.A. (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
*b)* Memberships of comparable domestic and foreign controlling bodies of commercial enterprises within the meaning of section 125 of the German Stock Corporation Act

# Report of the Supervisory Board

The sustained global economic and financial crisis during the 2009 financial year significantly impacted the sales and revenue situation in the ceramics industry. In March of the past financial year, the Supervisory Board and the Management Board resolved a comprehensive package of measures for the Villeroy & Boch Group with the aim of counteracting this negative trend at an early stage and sustainably strengthening the Group's competitive position.

One of the focal points of the Supervisory Board's work in the year under review was advising and supervising the Management Board in implementing this package of measures.

In the course of the year, the Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and of the individual divisions, including risk situation and risk management, as well as the implementation and effectiveness of the package of measures in a continuous, comprehensive and timely manner in both written and oral reports, thereby enabling the Supervisory Board to regularly and intensively discuss and advise on how best to overcome the impact of the crisis in particular.

The Management Board comprehensively presented and explained any discrepancies between the planning and the actual course of business to the Supervisory Board both orally and in writing in order to allow steps for intervention to be discussed. The Supervisory Board was involved in all decisions of material importance to the Company.

## Additional focal points of the Supervisory Board meetings

The Supervisory Board held four ordinary meetings in the year under review, in each of which the detailed consultation on the Villeroy & Boch Group's position and development has been a key issue. No member of the Supervisory Board attended fewer than half of the Supervisory Board meetings in the year under review.

Further focal points were:

The **spring meeting** primarily focused on the approval of the annual financial statements and, in particular, on the extensive discussion and detailed consultation on a package of measures in order to improve the competitiveness , as a reaction to the impacts of the global economic crisis on the Villeroy & Boch Group. Due to the extensive scope of the resolution, the Supervisory Board and the Management Board had agreed to extend this meeting to two days.

The personnel decisions presented separately below were resolved at the meeting held on the same day as the General Meeting of Shareholders.

At the **autumn meeting**, the Management Board informed the Supervisory Board about the progress of the follow-up projects initiated on the basis of the 2008 employee survey. Discussions also focused on an overview of the qualification measures implemented to date in conjunction with the reduction in working hours for waged and salaried employees at the German locations.

**Wendelin von Boch-Galhau**, Chairman of the Supervisory Board

At the **December meeting**, the Supervisory Board and the Management Board discussed planning for 2010 as well as Corporate Governance issues, risk management and compliance and adopted the declaration of conformity in accordance with section 161 of the German Stock Corporation Act. In particular, the Supervisory Board reviewed the remuneration system for the members of the Management Board in light of the German Act on the Appropriateness of Management Board Remuneration, which came into force in August 2009, and the new recommendations of the German Corporate Governance Code and resolved to ensure the development of a revised remuneration system. In addition, the results of the 2009 employee survey in Hungary and Romania were presented, annual planning for 2010 was adopted and property sales and the acquisition of a property were approved at this meeting.

The Chairman of the Supervisory Board abstained from the resolutions on two property transactions affecting him or in which he was involved. The Supervisory Board examined the appropriateness of the agreed conditions and issued its unanimous approval.

During the course of the financial year, the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee for individual discussions on current issues.

## Personnel changes in the Management Board and the Supervisory Board

With effect from the end of the General Meeting of Shareholders, Peter Prinz Wittgenstein stepped down as Chairman of the Supervisory Board after 15 years of term of office. The preceding Supervisory Board meeting unanimously elected Wendelin von Boch-Galhau as the new Chairman of the Supervisory Board. The Supervisory Board would like to take this opportunity to thank Peter Prinz Wittgenstein, who had acted as Chairman of the Supervisory Board since 11 July 1994, making a number of major decisions on the future of Villeroy & Boch AG and managing the Supervisory Board in an exemplary manner during his term of office. Peter Prinz Wittgenstein will continue to contribute his extensive experience to the Supervisory Board meetings in future as Second Vice Chairman of the Supervisory Board.

As a result of the election of the new Chairman of the Supervisory Board, there were changes in the committees affecting Wendelin von Boch-Galhau and Peter Prinz Wittgenstein.

As a special sign of confidence, the Supervisory Board unanimously approved the proposal by the Human Resources Committee that Frank Göring, the Spokesman of the Management Board, be appointed as Chairman of the Management Board.

At the end of May, Hannsgeorg Edinger (IG Bergbau, Chemie, Energie–IGBCE) stepped down as an employee representative on the Supervisory Board of Villeroy & Boch AG at his own request. Dietmar Geuskens (IGBCE) took up this position in June.

Eugen von Boch stepped down from the Supervisory Board with effect from 31 January 2010. On 1 February 2010, Francois Villeroy de Galhau was appointed as his successor by court order until the next General Meeting of Shareholders. The Management Board and the Supervisory Board will propose to the General Meeting of Shareholders that Mr. Villeroy de Galhau be appointed as a member of the Supervisory Board.

## Work of the Committees

The **Audit Committee** met twice in the year under review. The March meeting focused on the report by KPMG AG Wirtschaftsprüfungsgesellschaft on the 2008 annual financial statements. Further the proposal for a changeover to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the auditor for the 2009 financial year has been discussed. The December meeting focused on the impact of the German Accounting Law Modernisation Act as well as risk management, the work of Internal Audit and the status of the internal compliance organisation.

The **Human Resources Committee** met once, in May, to discuss personnel topics as well as the agreed objectives and the remuneration of the Management Board.

The **Investment Committee** met in December to discuss corporate and investment planning for 2010.

The **Conciliation Committee** did not meet in the year under review

## 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 2009 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 2010.

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.

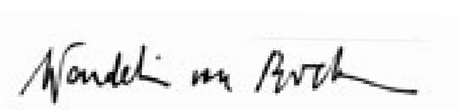
The Supervisory Board then examined the single-entity and consolidated financial statements and the combined Management Report for the 2009 financial year, taking into account the report by the auditor.

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 2010 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 German Stock Corporation Act. The Supervisory Board also approved the consolidated financial statements and the combined Management Report.

The Supervisory Board would like to thank the members of the Supervisory Board who stepped down in 2009, Hannsgeorg Edinger and Eugen von Boch, and the active members of the Supervisory Board and the Management Board for their constructive cooperation in a spirit of trust during the year under review.

The Supervisory Board also wishes to express its gratitude to the employees of the Villeroy & Boch Group, who faced the challenges in the 2009 financial year with a high level of commitment and motivation and were largely appreciative of the need for the measures implemented.

For the Supervisory Board



**Wendelin von Boch-Galhau,** Chairman
Mettlach, March 2010

# Corporate Governance Report

In this declaration, the Management Board – on behalf of the Supervisory Board – reports on corporate governance at Villeroy & Boch AG in accordance with section 289a (1) of the German Commercial Code and section 3.10 of the German Corporate Governance Code.

The sustainable creation of value through responsible company management forms the basis for good corporate governance and has always been of key importance to the Company. It serves as the foundation for gaining the trust of investors, customers, employees and the public. Accordingly, the recommendations and suggestions of the Government Commission of the German Corporate Governance Code serve as a guideline for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

## Declaration of conformity

The Management Board and the Supervisory Board examined the recommendations of the German Corporate Governance Code within the frame of their meeting in December 2009 and issued the annual declaration of conformity in accordance with section 161 of the German Stock Corporation Act, which stated that Villeroy & Boch had complied with and continued to comply with all of the recommendations of the Government Commission of the German Corporate Governance Code with four exceptions. The wording of the latest declaration of conformity is as follows:

The Management Board and the Supervisory Board examined the Company's compliance with the German Corporate Governance Code on 16 December 2009.

In accordance with section 161 of the German Corporate Governance Code, 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 2008, 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 6 June 2008 up until the announcement of the new version of the Code in the official section of the electronic Bundesanzeiger (Federal Gazette) on 5 August 2009 and, since this date, in the version dated 18 June 2009 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 Management Board and 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 Management Board and the Supervisory Board perform their activities. Villeroy & Boch AG will comply with the obligation to agree a deductible for the members of the Management Board in accordance with section 93 (2) sentence 3 of the German Stock Corporation Act that has been introduced on the basis of the German Act on the Appropriateness of Management Board Remuneration within the statutory period of implementation. However, no deductible will be agreed for the D&O insurance policy for the members of the Supervisory Board in future due to the reasons outlined above.

**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 German Corporate Governance 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 German Corporate Governance 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.

## Dual management system

The Management Board of Villeroy & Boch AG consists of three members. 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 concrete composition of the Management Board and the Supervisory Board is shown in the list on page 14 and 15. Personnel changes are presented in the Report of the Supervisory Board.

Under the dual management system prescribed by law, the Management Board of Villeroy & Boch AG is responsible for managing the Company with the aim of generating a sustainable increase in enterprise value. The Supervisory Board advises and monitors the Company's management on the basis of continuous, timely and transparent information.

## Intensive cooperation between the Management Board and the Supervisory Board

In the 2009 financial year, the cooperation between the Management Board and the Supervisory Board was again characterised by open communication in a spirit of mutual trust at the meetings of the Supervisory Board and in the individual discussions between the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. The reports by the Management

Board to the Supervisory Board focused on strategic development, business development, the Group's position, compliance issues and the risk situation.

The Rules of Procedure of the Management Board and the Supervisory Board grant the Supervisory Board the right to withhold its approval for significant measures and transactions affecting the net assets, financial position and results of operation of Villeroy & Boch AG.

## Supervisory Board committees

In addition to the Conciliation Committee prescribed by section 27 (3) of the German Codetermination Act, the Supervisory Board must form three expert committees, each consisting of three members appointed from the members of the Supervisory Board, in order to improve the efficiency of the work of the Supervisory Board and enable a more in-depth treatment of complex issues. 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 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, amendment and termination of the employment contracts of Management Board members. It prepares 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), Werner Jäger (Vice Chairman) and Peter Prinz Wittgenstein. The Chairman of the Audit Committee is independent and has extensive expertise in the areas of accounting and auditing as a result of his 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. The specific contents of the committee meetings in the past fiscal year are discussed 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.

## Efficiency of the Supervisory Board

The Supervisory Board of Villeroy & Boch AG again performed a regular efficiency review in 2009. This takes the form of a self-assessment of the body's working methods 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.

## Management Board and Supervisory Board remuneration

The principles of the remuneration system for the Management Board and the Supervisory Board of Villeroy & Boch AG are presented in the Management Report. A list of the remuneration is also provided in the notes to the consolidated financial statements.

## Directors' dealings

Disclosures on transactions in shares of Villeroy & Boch AG that are required to be reported in accordance with section 15a of the German Securities Trading Act are published immediately on the Company's website. In the year under review, transactions were reported by one member of the Supervisory Board, two members of the Management Board and one manager from management level 3.

At the end of the year under review, the members of the Supervisory Board held 10.34% of the shares issued by the Company, while the members of the Management Board cumulatively held 0.11% 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 was created as part of the risk management system.

Based on this, the Compliance Advisory Board, consisting of the Chief Compliance Officer, the Corporate Compliance Manager, the senior managers of the central Legal, Treasury, Human Resources, Controlling, Internal Audit and Information Technology functions and the senior controllers of the "Bathroom and Wellness" and "Tableware" Divisions, redefined the ethical principles and adopted a Group-wide Code of Conduct in the 2009 financial year. Among other things, the Code of Conduct sets out the key principles of proper behaviour that are required to be observed by all employees, including executives and the Management Board, with regard to internal cooperation as well as when dealing with customers, suppliers, business partners and competitors. In addition, existing internal guidelines were analysed and revised in order to create transparency and provide employees with security in their actions. The Code of Conduct can be viewed in section Investor Relations under Corporate Governance of the Company's website at *www.villeroy-boch.com*.

At the end of 2009, compliance officers were nominated at the subsidiaries. These officers report directly to the Corporate Compliance Manager. The next steps will be to provide all employees with advice on compliance issues and to establish an internal whistleblower platform that allows all employees to report breaches of compliance regulations anonymously if desired.

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

## Comprehensive reporting creates transparency and trust

As part of good corporate governance, Villeroy & Boch AG seeks to provide current information on the Company's position to all parties equally and to ensure optimal transparency with regard to its management and controlling mechanisms by way of comprehensive reporting to all stakeholders, and shareholders and analysts in particular.

The consolidated financial statements and quarterly reports of Villeroy & Boch AG are prepared in accordance with the International Financial Reporting Standards (IFRS). The single-entity financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB). 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 reports in German and English can be viewed in the Investor Relations section of the Company's website at *www.villeroy-boch.com*.

The website also contains the latest news in the form of press releases, ad hoc disclosures and other publications.

These 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 2009 financial year.

In addition, the financials and analysts' press conference and the General Meeting of Shareholders are held once a year.

### Audit by Ernst & Young

For the first time, the Supervisory Board of Villeroy & Boch AG commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the single-entity and consolidated financial statements for the 2009 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. The financial statements were examined and approved by the Supervisory Board.

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 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, the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

## Responsibility statement

Responsibility statement by the legal representatives of the Villeroy & Boch Group:

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, March 5, 2010

Frank Göring Manfred Finger Volker Pruschke

# Our Employees

## Qualification Campaign

Villeroy & Boch used the reduction in working hours that was implemented at its German locations in April 2009 as an opportunity to focus on the extensive qualification of its waged and salaried employees. A target group-oriented training programme was developed, meeting with positive feedback from the Bathroom and Wellness and Tableware Divisions as well as the administrative departments at head office. The aim of the qualification measures was to shape and utilise the reduced working hours effectively in order to ensure that our workforce is even better prepared to deal with current and future demands.

In production functions, the reduced working hours and the related training sessions were performed on a block basis. The content of the training programmes was determined in close cooperation with the Saarland Ministry of the Economy, the employment agencies and the Chamber of Industry and Commerce (IHK), with which the Company developed additional certified further education courses.

These further education sessions in Mettlach, Merzig and Torgau for around 700 waged staff were supplemented by a broad-based training programme for salaried employees, with two of the four days of short-time work per month being used for qualification purposes. Around 300 training sessions focused on the areas of controlling, marketing, human resources management, service management, supply chain management and financial accounting. The response from the more than 500 salaried employees who participated in the further training was extremely positive. This was mainly due to the use of internal experts supporting the team of trainers.

## Villeroy & Boch listens to its employees

Villeroy & Boch is successively implementing the constructive suggestions from its employees resulting from the 2008 employee survey on employee development, processes, quality and customer orientation and communications in a number of projects.

The “Challenge and Encourage” project is focused on the more intensive implementation of target agreement and appraisal interviews, while the “Processes, Quality and Customer Orientation” project seeks to achieve a sustainable, qualitative improvement in internal and external workflows.

The “Communications” project aims to establish measures for the more rapid and effective exchange of internal information between employees and the Management Board, among other things.

Towards the end of the 2009 financial year, a new employee survey was conducted at our locations in Romania and Hungary in the same way as the previous year’s survey in Germany. The above-average participation rate of over 80% serves to validate the feedback provided. The following results and other feedback were communicated locally: Our employees in Romania and Hungary feel an encouragingly high level of identification with Villeroy & Boch and the respective national companies. The information policy via the local management was also given a positive assessment.

## Future-oriented training

As the conditions on the employment market will become increasingly difficult due to demographic factors, our policy of continuous training is aimed at ensuring the succession of skilled staff and managers, as well as meeting our social responsibility by offering qualified training programmes and future prospects to motivated young people.

Despite the difficult economic environment in 2009, we appointed 28 new trainees in eight skilled trades, meaning that we employed a total of 88 trainees in the past financial year.

With regard to its waged staff, Villeroy & Boch invested, among other things, in the relocation and renovation of the training workshop that has operated successfully for a number of years in order to bring it closer to the competence centres at our production locations.

One piece of excellent news was the success of Edwin Milles, trained at our subsidiary Sanipa Badmöbel in Treuchtlingen, who won a national award in the category of "Technical Drawing: Wood Technology". Meanwhile, Lukas Altmeyer, a trainee chef at our Schloss Saareck guesthouse, took second place in IHK Saarland's summer examinations.

## Employee representatives

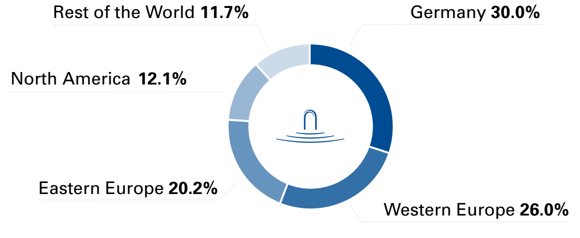
As previously, cooperation with our employee representatives was conducted in a spirit of openness and lasting trust even in a difficult year like 2009. The employee representatives made constructive suggestions, confirming their role as responsible partners in our Company's continued development.

They also provided critical and constructive feedback on the necessary workforce reduction measures in Germany and abroad that were set out in the extensive restructuring programme that was adopted in March 2009.

We were able to successfully counteract the challenges facing us in the 2009 financial year thanks to the readiness of the vast majority of our workforce to adopt a positive approach to difficult measures such as reduced working hours and extensive savings and cost reduction programmes. With this in mind, the Management Board would like to express its gratitude and appreciation to all of the Company's employees.

**Personnel within the Group**
(Average of the year 2009/2008)

| *Divisions* | **2009** | **2008** | **09/08** |
|---|---|---|---|
| Bathroom and Wellness | 6,274 | 6,879 | -605 |
| Tableware | 2,755 | 2,894 | -139 |
| Other | 411 | 420 | -9 |
| **Group as a whole** | **9,440** | **10,193** | **-753** |




I liked the idea of using internal experts as trainers.
The inter-departmental cooperation is supported by the training programmes.
Good balancing between theoretical and practical issues combination of teaching methods.
I got a number of hints for my practical work!
Teamwork was a key issue of the training sessions.
to discuss open questions.
programme to my colleagues.

# Villeroy & Boch's Shares – the 2009 Stock Market Year

## Markets

Following the dramatic share price losses in the previous year, the stock markets recovered significantly over the course of 2009. However, the first two months of the year saw a further sharp downturn. After starting the year at around 5,000 points, the DAX index lost some 26% of its value, falling to a low for the year of 3,666 points in early March. Prices then bounced back once it became clear that the economy would be supported by government fiscal policy measures. Even the financial difficulties in the Emirate of Dubai in November had only a limited impact on global indices.

After the low in March, the DAX therefore rose by approximately 62% in the face of the most severe global economic crisis of the past 80 years. Shortly before the end of the year, it briefly exceeded the 6,000-point barrier. However, it was unable to maintain this level on the last trading day, instead closing the year at 5,957.43 points. In spite of the losses in the first two months, this represents an increase of around 20% over the year as a whole.

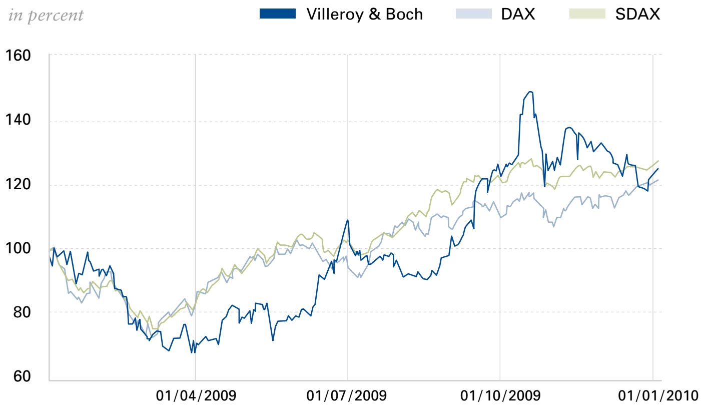
In other parts of the world, share prices rose even more sharply. The growing economic power and attractiveness of the major emerging economies was clearly reflected in their stock market performance in 2009: India and Brazil recorded growth of around 80% and 81% respectively, while the figure for China was as high as 114%. These markets will continue to become increasingly important from an economic perspective over the coming years, and therefore constitute a core element of Villeroy & Boch's internationalisation strategy.

## Villeroy & Boch's shares

Villeroy & Boch's preference shares opened the year at Euro 4.50, declining to Euro 3.10 by early April in line with the overall market development. The preference shares then rose steadily, reaching a high for the year of Euro 6.70 in late October. The shares lost some ground again towards the end of 2009, closing the year at Euro 5.47. This represents an increase of around 22% over the year as a whole.


On the left: **Frank Göring** (CEO) and **Manfred Finger** (CFO), Analyst Conference in Frankfurt, March 2009
On the right: **Luitwin-Gisbert von Boch-Galhau** (Honorary Member of the Supervisory Board) compliments **Wendelin von Boch-Galhau** for taking over the position of the Chairman of the Supervisory Board, Annual Meeting of Shareholders in Mettlach, May 2009

**Villeroy & Boch's preference shares 2009***




| | |
|---|---|
| WKN | 765723 |
| ISIN | DE0007657231 |
| Securities exchange symbol | VIB3 |
| Shareholder structure | 88% Free-Float |
| Yearly high | 6.70 Euro [1] |
| Yearly low | 3.10 Euro [2] |
| Closing price | 5.47 Euro [3] |
| Market capitalisation [4] | 67.6 Mio. Euro |
| Profit per share | -3.63 Euro |
| PET high/low | -1.85/-0.85 |

The liquidity of Villeroy & Boch's shares also increased significantly. On average, the Company's shares were traded 2.5 times more than in 2008. This higher level of liquidity and the corresponding market capitalisation meant that the shares returned to the SDAX in late November and remained in the index following the regular quarterly review of its composition in early December. The Company's re-entry to the SDAX will further increase the interest of investors and analysts in the preference shares.

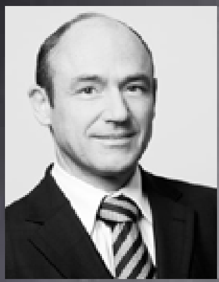
## Dividend

With the restructuring measures initiated at the start of the year, Villeroy & Boch will significantly increase its competitiveness over the coming years. The positive impact on earnings will be felt successively until the end of 2012 and will lead to a substantial improvement in the Company's operating result. However, the considerable extraordinary restructuring expenses incurred in the year under review resulted in a high net loss for the period. The net loss of Villeroy & Boch AG will be offset by a withdrawal from retained earnings. A dividend will not be distributed for the 2009 financial year.

## Outlook

As the global economy is expected to see a moderate overall recovery in 2010, the stock markets may also continue to rise over the coming year, although the high growth rates recorded in 2009 are unlikely to be repeated. For Villeroy & Boch's preference shares, further gains are also a possibility in 2010, with the economic recovery and, in particular, the re-entry to the SDAX serving to stimulate the Company's share price performance. Although this was not yet the case in December, the index listing will almost inevitably improve the Company's visibility in the financial world and the level of interest in its shares, thereby having a positive impact on price development.

*Common shares not traded publicly, [1]as of 19/10/2009, [2]as of 01/04/2009, [3]as of 30/12/2009, [4]as of 30/12/2009



„Strong product innovations, strict cost management and dedicated employees will help us to navigate through and arise stronger from the crisis.“

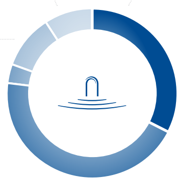
**Nicolas-Luc Villeroy**, Head of Tableware Division

# Tableware Division

### Key Data

| *in Euro million* | 2009 | 2008 |
|---|---|---|
| Sales | 288.6 | 319.8 |
| EBIT before special expenditures | 2.0 | 8.7 |
| Capital expenditures | 5.3 | 6.9 |
| Depreciation | 12.4 | 14.3 |

### Sales by regions




In the 2009 financial year, development in the Tableware Division was largely dominated by the global financial and economic crisis, which led to a dramatic downturn in revenue and cases of insolvency among manufacturers of porcelain. Although the Division was unable to escape the effects of the crisis, with revenue declining by 9.8%, it succeeded in reinforcing its position in this turbulent market environment. The operating result (EBIT before special expenditures) declined to Euro 2.0 million in 2009 (previous year: Euro 8.7 million). This was primarily due to the lower level of revenue, although this was offset to an extent by strict cost management.

## Markets 2009

Villeroy & Boch generated significant revenue growth of 18.1% in the important German market, which is subject to substantial price pressure due to Asian imports, among other things. This development was attributable in part to the extraordinary business with a retail chain.

The Company recorded a moderate downturn on the French (-7.1%) and Italian markets (-3.6%). However, it was the countries particularly hard hit by the crisis that saw large falls in revenue, such as Spain (-63.4%), the UK (-17.5%) and the USA (-14.6%). The sales markets of Eastern Europe and the Middle East, in which Villeroy & Boch had enjoyed double-digit revenue growth in previous years, were also impacted by the macroeconomic situation in 2009.

## Successful multi-channel sales

The Tableware Division continues to focus on a broad-based, balanced distribution structure that allows lower levels of revenue in individual sales channels to be offset. In light of the changes in consumer behaviour, multi-channel sales is also becoming a tool for reaching new and, in particular, younger target groups, such as via e-commerce. A key pillar in the Company's international business is its own retail trade based on the *House of Villeroy & Boch* concept, which Villeroy & Boch continued to expand in 2009 with representative stores in the Netherlands and Germany, for example. The concession shop model – in which Villeroy & Boch has its own sales areas inside department stores – also allowed the Company to buck the industry trend and expand its presence with additional locations.

By contrast, project business saw a significant fall in revenue. Hotel projects were particularly hard hit, with planned projects being postponed or discontinued as a result of the financial crisis. Replacement demand in the hotel and catering sector also declined. However, the Tableware Division did succeed in implementing a number of major projects in the year under review. For example, Villeroy & Boch equipped the VIP areas at the BayArena in Leverkusen with more than 30,000 pieces of porcelain, cutlery and glassware.

## Successful product strategy even in a difficult financial year

Despite the lower level of global consumption in 2009, the new country products *New Cottage* and *Green Garland* and the corresponding glassware and cutlery series in particular continued the impressive success of the *Urban Nature* series that was launched in the previous year. *Urban Nature* itself developed into a global best-seller, while the premium *Samarah* range that was launched in 2008 also recorded significant year-on-year revenue growth. The *Christmas Toys* and *Christmas Bakery* campaigns implemented during the festive season exceeded expectations and proved to be a key revenue driver in Christmas business in 2009.

## Package of measures to improve competitiveness

In the 2009 financial year, Villeroy & Boch responded to the downturn in revenue due to the crisis at an early stage by resolving a package of measures aimed at strengthening its competitiveness. This included extensive cost reduction measures, the concentration of locations, the creation of competence centres and workforce adjustments in Germany and abroad. For the Tableware Division, this resulted in the creation of two competence centres: in Saarland, tableware production was bundled at the Merzig site, making it the global competence centre for the production processes of isostatic pressing and decoration. Meanwhile, Torgau was established as the competence centre for die casting. The aim is to achieve a highly functional organisation with a strong process orientation, and hence even more efficient cost management.

## Outlook

2010 started positively with the first trade fairs. In particular, Villeroy & Boch set out its stall for the future at the Ambiente consumer goods fair in Frankfurt with a completely new exhibition stand and a number of new products. With a modern interpretation of natural motives, the *Althea Nova* series serves to expand Villeroy & Boch's traditional country segment, while *Modern Grace* breaks new ground with its purism of design, providing innovative options for presenting and serving meals. Additional highlights included the new *Caffè Club* coffee range, which offers cup sizes that are optimally designed for modern coffee machines, and supplementary products for tea and relaxation in the best-selling *Urban Nature* collection. The Tableware Division still expects the new markets in Asia, particularly China and India, to offer significant growth opportunities and therefore intends to press ahead with its internationalisation strategy in 2010. Investments in expanding these markets, and local distribution structures in particular, will be continued systematically. At the same time, another important target for 2010 is to stabilise the sales regions of Europe and the USA, where only a moderate recovery is forecast, and to gain additional market share.

„With customer-oriented bathroom concepts and motivated employees, we will further expand consistently our market position.“

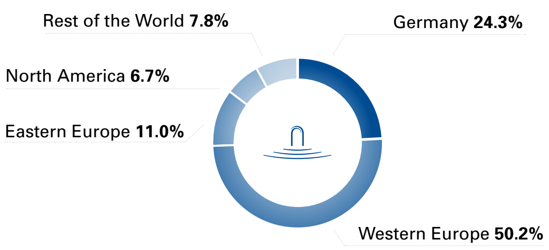
**Andreas Pfeiffer**, Head of Bathroom and Wellness Division

# Bathroom and Wellness Division

**Key Data**

| *in Euro million* | 2009 | 2008 |
|---|---|---|
| Sales | 426.7 | 521.1 |
| EBIT before special expenditures | -3.7 | 15.4 |
| Capital expenditures | 15.4 | 19.8 |
| Depreciation | 22.5 | 23.5 |

**Sales by regions**




In the 2009 financial year, the Bathroom and Wellness Division was unable to escape the impact of the global recession. Following negative development in the previous year, the construction industry continued to contract in the year under review, meaning that the Division's revenue fell by 18.1% to Euro 426.7 million. The operating result (EBIT before special expenditures) declined by Euro 19.1 million to Euro -3.7 million; however, this change can be described as moderate compared with the sharp downturn in revenue of Euro 94.4 million. Thanks to the savings measures that were initiated at an early stage in 2008 and expanded in 2009, cost items in production and administrative functions were reduced considerably.

## Markets 2009

The Division saw a substantial fall in revenue in almost all of its core regions around the world. The year-on-year decrease was most pronounced in Eastern Europe (-39.5%) and the USA/Mexico (-31.7%). The market in which the Division generates the most revenue – Germany – provided some encouragement thanks to its relatively stable development, with revenue falling by only 2.3%.

The economic crisis left its mark on our global project business in particular, although there were some success stories. In China, for example, the Division won the tender to furnish the prestigious *Phoenix Island* project, an exclusive holiday and residential complex that is currently being constructed on a man-made island. In the first phase of construction, the Division will provide around 2,000 apartments with ceramic and wellness products from the *Aveo*, *Pure Stone*, *Loop* and *Memento* collections. This order in particular allowed the Division to increase its revenue in China compared with the previous year.

## New products and innovations

With its innovative *Omnia GreenGain* product, Villeroy & Boch again set new standards in water consumption in 2009: the wall-mounted WC flushes using only 3.5 litres of water, a saving of 40%. This makes *GreenGain* a highly attractive solution for project planners in particular. Deutsche Bank has become one of the first major customers: as part of the *Greentowers* project, its office buildings in Frankfurt are currently being renovated and will be fitted with GreenGain WCs throughout.

A further innovation is the *Suprafix* fastening system, for which a patent application has been filed. The system has met with an extremely positive response among handymen and plumbers in particular. As well as quick and easy assembly, it sets new standards in terms of design and ease of care, as it does not have the usual side mounting holes.

All of the other new products presented at the ISH 2009 trade fair, such as the *La Belle* premium collection, the *Squaro* wellness series and the *2morrow* furniture system from the repositioned *Sanipa* brand, were placed in customer displays in the course of the year as planned and succeeded in generating the forecast share of total revenue in a difficult market environment.

## Package of measures to improve competitiveness

In addition to the operational savings programmes that were initiated at an early stage, Villeroy & Boch resolved a comprehensive package of measures aimed at improving its competitiveness in March 2009. In the Bathroom and Wellness Division, these measures are focused in particular on the reorganisation of the European production network. Manufacturing costs are expected to fall by around 20% as a result of the reduction in the number of locations and the establishment of competence centres.

As such, the measures resolved are not only merely a short-term response to the downturn in demand and the resulting under-utilisation, but instead are aimed at sustainably reinforcing the Group's competitive strength in an environment of rising price pressure.

## Outlook

Although the 2009 financial year was characterised by sharply falling revenue in its foreign markets, the Bathroom and Wellness Division remains committed to the growth and expansion of its international market position with a focus on countries such as India and China. Global project business is another key pillar of the Division's internationalisation. The requirements of the relevant target groups in this area, particularly planners and architects, will be addressed to a greater extent through the creation of an international project team, a more pronounced focus on the Villeroy & Boch brand and specific supplementary products.

In 2010, the Division expects to again generate revenue growth, especially in its overseas markets. In the highly competitive markets of Europe, where development is likely to stagnate, the aim is to stabilise sales figures and increase market share in light of the comparatively muted economic outlook in particular.

# Management Report 2009

- **Revenue down 14.9% year-on-year to Euro 715.3 million**
- **EBIT before special expenditures Euro -1.7 million (previous year: Euro 24.1 million)**
- **Net income impacted by extraordinary expenses of Euro 84.0 million**
- **Group result therefore totals Euro -96.5 million**

## General economic conditions

2009 was dominated by the most severe global recession for several decades. Industrial production and gross national product decreased significantly in the major industrialised countries. In Germany, economic output declined by 5% year-on-year, while exports were around 15% lower than in 2008. Although private consumption in Germany proved to be encouragingly resistant, it was down slightly on the previous year. These macroeconomic developments also had an adverse effect on demand for construction and tableware products, a situation that was exacerbated by the cautious warehouse management policy on the part of retailers. On a regional basis, the markets of North America, the Middle East, Eastern Europe, the United Kingdom and Spain were especially hard hit, with project business in particular seeing a pronounced reluctance on the part of investors and decisionmakers.

## Villeroy & Boch Consolidated Income Statement

» See table L1 page 41

The expenses arising from the restructuring programme announced in March 2009 and other special expenditures for the impairment of goodwill are shown as a separate line item on account of their non-recurring character. The information on the results of the divisions is based on EBIT before special expenditures.

## Revenue and result

### Consolidated revenue down on previous year due to recession

In the 2009 financial year, the Villeroy & Boch Group generated revenue of Euro 715.3 million, down Euro 125.6 million or 14.9% on the figure of Euro 840.9 million recorded in the previous year. Adjusted for exchange rate effects, the year-on-year change was -13.6%.

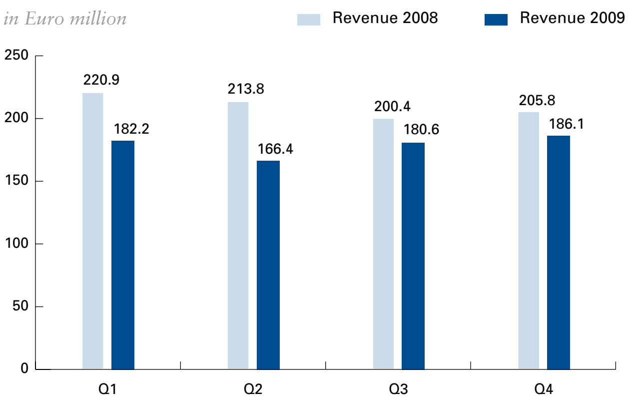
## Consolidated revenue 2009

**Revenue of the Villeroy & Boch Group by countries**

| *in Euro million* | Revenue | Share |
|---|---|---|
| **Germany** | **197.6** | **27.6 %** |
| **Abroad (total)** | **517.7** | **72.4 %** |
| Scandinavia | 88.1 | 12.3 % |
| France | 71.4 | 10.0 % |
| Rest of the World | 63.0 | 8.8 % |
| BeNeLux | 62.7 | 8.8 % |
| Eastern Europe | 57.2 | 8.0 % |
| Italy | 41.2 | 5.7 % |
| USA | 33.8 | 4.7 % |
| United Kingdom | 30.0 | 4.2 % |
| Mexico | 20.9 | 2.9 % |
| Austria | 16.4 | 2.3 % |
| Switzerland | 16.1 | 2.3 % |
| Spain | 12.0 | 1.7 % |
| Other Western Europe | 4.9 | 0.7 % |

Revenue in the German market increased by more than 6% to Euro 197.6 million, due in part to project business in the Tableware Division. By contrast, international revenue fell by around 21% to Euro 517.7 million. This development was attributable in particular to the markets of North America, Eastern Europe, Spain and the United Kingdom.

### Quarter Revenues 2008 / 2009




While revenue declined significantly in the first and second quarters (-17.5% and -22.2% respectively), the downward trend slowed considerably in the second half of the year, with revenue in the third and fourth quarters around 10% lower than in the corresponding period of the previous year.

## Group result impacted by recession and special expenditures

In the 2009 financial year, the operating result (EBIT) before special expenditures fell by Euro 25.8 million year-on-year to Euro -1.7 million, largely as a result of the lower level of revenue.

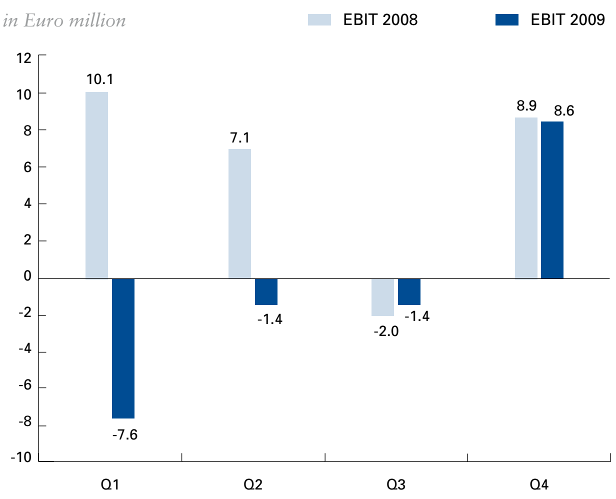
The cost reduction measures and structural adjustments initiated in the course of the year helped to absorb the operating loss to a significant extent: whereas EBIT was still clearly negative in the first quarter, it returned to the positive territory of the previous year with a figure of Euro 8.7 million in the fourth quarter thanks to the measures implemented.

### L1 Structure of the Consolidated Income Statement (IFRS)

| *in Euro million* | 2009 | % of revenue | 2008 | % of revenue |
|---|---|---|---|---|
| Revenue | 715.3 | 100.0 | 840.9 | 100.0 |
| Cost of sales | -439.6 | -61.5 | -513.0 | -61.0 |
| **Gross profit** | **275.7** | **38.5** | **327.9** | **39.0** |
| Selling, marketing and development costs | -226.0 | -31.6 | -252.8 | -30.0 |
| General and administrative expenses | -44.2 | -6.2 | -49.5 | -5.9 |
| Other expenses/income | -7.2 | -1.0 | -1.5 | -0.2 |
| **EBIT (before special expenditures)** | **-1.7** | **-0.3** | **24.1** | **2.9** |
| **Special expenditures from:** | | | | |
| **- restructuring programme** | **-74.0** | **-10.3** | **-** | **-** |
| **- impairment of goodwill** | **-10.0** | **-1.4** | **-** | **-** |
| **EBIT (incl. special expenditures)** | **-85.7** | **-12.0** | **24.1** | **2.9** |
| Net finance expense | -10.8 | -1.5 | -8.1 | -1.0 |
| **Earnings before taxes (EBT)** | **-96.5** | **-13.5** | **16.0** | **1.9** |
| Income taxes | 0.0 | 0.0 | -5.0 | -0.6 |
| **Group result** | **-96.5** | **-13.5** | **11.0** | **1.3** |

Adjusted for non-recurring payments relating to workforce adjustment measures, staff costs fell by Euro 31.5 million or 10.6%. This was due in part to the reduced working hours at the Company's German locations, which resulted in savings of Euro 7.4 million. Strict cost management, e.g. in the areas of travel expenses, consulting fees and marketing expenses, also led to significant cost reductions.

**Development of EBIT 2008 / 2009**




Total earnings were impacted by special expenditures for restructuring measures and goodwill impairment totalling Euro 84.0 million.

The Group initiated an extensive package of industrial measures in the first quarter with the aim of improving its competitive strength. These measures focused in particular on the specialisation of plants and the establishment of competence centres, as well as the further automation of workflows. At Euro 60.4 million, restructuring expenses remain in line with forecasts. Additional adjustments were implemented or initiated in sales and administrative functions. As a result, restructuring expenses of Euro 74.0 million were recognised in earnings as an special expenditures. This includes all planned adjustment measures. In addition, the impairment tests prescribed by the International Financial Reporting Standards resulted in impairment losses of Euro 10.0 million in the Bathroom and Wellness Division.

The Group's net financial result deteriorated by Euro 2.7 million, from Euro -8.1 million in the previous year to Euro -10.8 million.

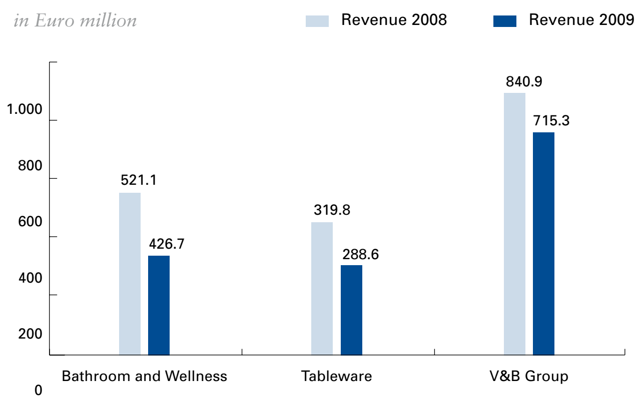
This was due to the substantially lower interest rate for short-term investments, which was offset by longer-term, fixed-interest borrowings.

The Group result after taxes amounted to Euro -96.5 million compared with a consolidated net profit of Euro 11.0 million in the previous year. No income tax expense was reported in the 2009 financial year.

The income from deferred taxes due to tax loss carryforwards was largely offset by the increase in write-downs.

## Revenue and earnings by Division

**Consolidated revenue 2008 / 2009**
Distribution by Division




*in Euro million*

| Division | 2008 | 2009 | Changes | |
|---|---|---|---|---|
| Bathroom und Wellness | 521.1 | 426.7 | -94.4 | -18.1% |
| Tableware | 319.8 | 288.6 | -31.2 | -9.8% |
| | **840.9** | **715.3** | **-125.6** | **-14.9%** |

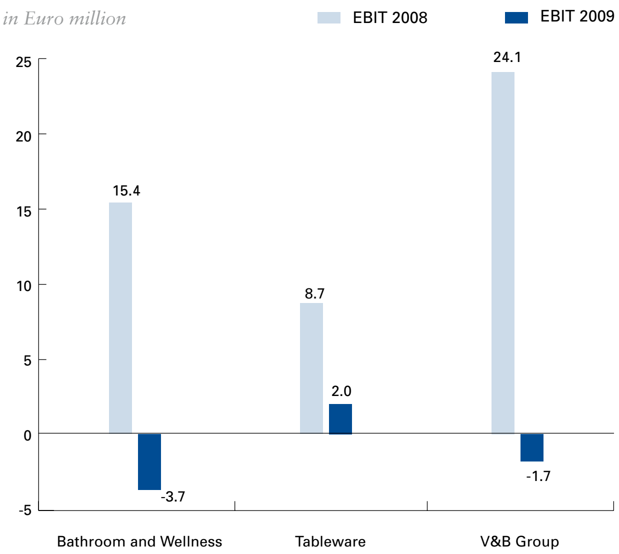
### Business development in the Divisions

In the 2009 financial year, the **Bathroom and Wellness Division** generated revenue of Euro 426.7 million, down 18.1% on the previous year.
While business in Germany was relatively stable, revenue in the Division's international markets decreased significantly by -22.2%.

Exchange rate developments in Northern Europe, the USA and Mexico in particular had a negative effect of around Euro 11 million.
The operating result (EBIT before special expenditures) in the **Bathroom and Wellness Division** was down Euro 19.1 million on the previous year at Euro -3.7 million. The impact of the lower level of revenue was only partially offset by the extensive savings programmes in the areas of production and administration.

In 2009, revenue in the **Tableware Division** amounted to Euro 288.6 million, down 9.8% on the previous year. The German market saw year-on-year revenue growth of 18% as a result of project business. In the Division's foreign markets, declining revenue had a particularly pronounced effect in the USA, Spain and the United Kingdom. Hotel business declined dramatically compared with the previous year, whereas the individual retail shops enjoyed satisfactory development in light of the prevailing conditions.
The operating result (EBIT before special expenditures) declined from Euro 8.7 million in the previous year to Euro 2.0 million, primarily as a result of the revenue situation. However, strict cost management helped to largely offset the impact of the downturn in revenue.

**Group EBIT 2008/2009** (before special expenditures)
Distribution by Division



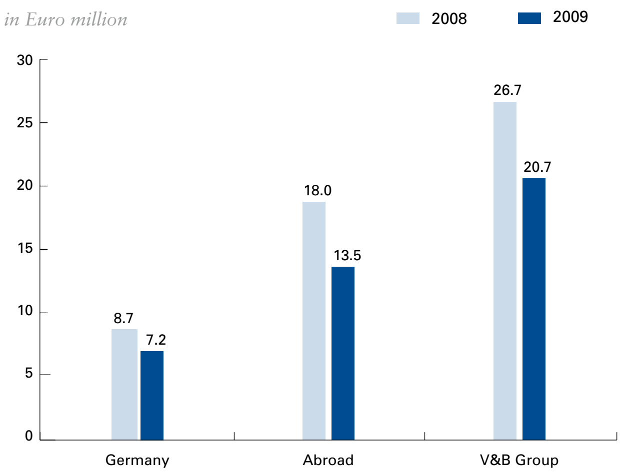

| *in Euro million* | Bathroom and Wellness | Tableware | V&B Group |
|---|---|---|---|
| 2008 | 15.4 | 8.7 | 24.1 |
| 2009 | -3.7 | 2.0 | -1.7 |

## Investments

### Investment volume at the Villeroy & Boch Group

In the 2009 financial year, investments in property, plant and equipment and in intangible assets amounted to Euro 20.7 million after Euro 26.7 million in the previous year. 34.6% of total investment spending related to Germany. Depreciation and amortisation expense in 2009 amounted to Euro 57.2 million (including goodwill impairment of Euro 14.7 million) compared with Euro 38.7 million in the previous year.
At 75% (previous year: 71%), investments primarily focused on the **Bathroom and Wellness Division**, and in particular on production technology at the locations in Thailand, Romania and Sweden. In Germany, investments centred on the further optimisation of production workflows.

**Investments in property, plant and equipment and in intangible assets 2008/2009**




| *in Euro million* | Germany | Abroad | V&B Group |
|---|---|---|---|
| 2008 | 8.7 | 18.0 | 26.7 |
| 2009 | 7.2 | 13.5 | 20.7 |

Of the investments in the Tableware Division in the amount of Euro 5.3 million, 75.7% related to Germany. Investments were made at the Torgau and Merzig sites in conjunction with the creation of competence centres and the corresponding optimisation of production processes. Outside Germany, investment activity primarily focused on the further expansion of the sales network.

## Financing

» See table L8 page 44

Cash Flow from operating activities increased by Euro 33.0 year-on-year to Euro 50.5 million.
The high net loss had a minimal impact on the operating cash flow in the year under review, as material components of this loss were either non-cash in nature, such as the write-downs included in restructuring expenses and the impairment losses, or at least only resulted in provisions that will not be recognised in income until after 31 December 2009. In particular, cash flow

### L8 Villeroy & Boch Group – Abridged cash flow statement

| *in Euro million* | 2009 | 2008 |
|---|---|---|
| Group result | -96.5 | 11.0 |
| Depreciation, amortisation and write-downs of non-current assets incl. reversals of write-downs | 57.2 | 38.7 |
| Change in non-current provisions | -9.5 | -13.8 |
| Net gain/loss on asset disposals | -0.5 | -0.3 |
| Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities | 92.0 | -30.1 |
| Other non-cash income/expense | 7.8 | 12.0 |
| **Cash Flow from operating activities** | **50.5** | **17.5** |
| **Cash Flow from investing activities** | **4.4** | **-22.3** |
| **Cash Flow from financing activities** | **-34.7** | **-12.2** |
| **Change in cash and cash equivalents** | **20.2** | **-17.0** |
| **Change in cash and cash equivalents due to exchange rate effects** | **-0.4** | **0.8** |
| **Net change in cash and cash equivalents** | **19.8** | **-16.2** |
| **Cash and cash equivalents on 1 January** | 59.0 | 75.1 |
| Change in basis of consolidation | 0.0 | 0.1 |
| **Cash and cash equivalents on 31 December** | **78.8** | **59.0** |

from operating activities was positively impacted by the intensified reduction in inventories of Euro 36.4 million and the decrease in trade receivables of Euro 20.3 million, which was primarily attributable to the revenue situation.

Cash Flow from investing activities amounted to Euro 4.4 million. This positive development was due in particular to the repayment of a time deposit investment in the amount of Euro 20.8 million. Investments in intangible assets and property, plant and equipment decreased by around Euro 6.0 million year-on-year to Euro 20.7 million.

Cash Flow from financing activities increased by Euro 22.5 million, from Euro -12.2 million to Euro -34.7 million. This was primarily due to the reduction in financial liabilities of Euro 25.6 million.

## Net liquidity

Net liquidity amounted to Euro 47.4 million at the reporting date, Euro 24.5 million higher than the figure recorded in the previous year (Euro 22.9 million). The reasons for this development are described under Cash Flow from operating activities above.

Cash and cash equivalents, current financial assets, the promissory note loan (payable on 28 June 2010) and current and non-current financial liabilities have been combined in the analysis of net liquidity.

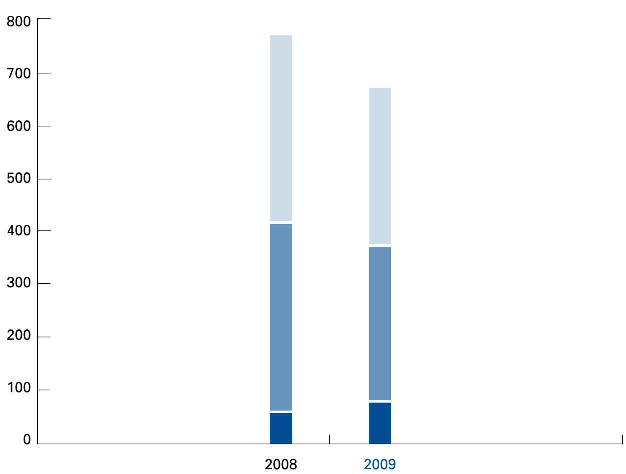
## Balance sheet structure in 2009

Total assets decreased by Euro 98.7 million year-on-year, from Euro 772.3 million to Euro 673.6 million. The balance sheet structure was as follows:

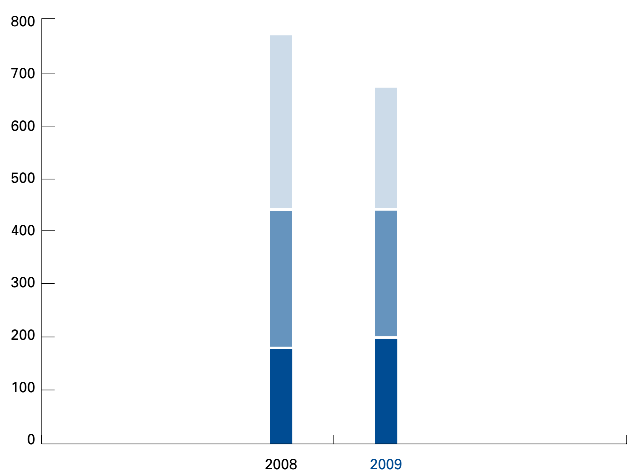
» See table L9 page 45

### L9 Group Balance sheet structure 2008 / 2009

*in Euro million*




*in Euro million*




**Assets**

| *in Euro million* | 2008 | 2009 |
|---|---|---|
| Non-current assets | 355.7 | 300.7 |
| Current assets | 357.6 | 294.1 |
| Cash and cash equivalents | 59.0 | 78.8 |
| **Total assets** | **772.3** | **673.6** |

**Equity and liabilities**

| *in Euro million* | 2008 | 2009 |
|---|---|---|
| Equity | 330.9 | 232.0 |
| Non-current liabilities | 261.7 | 242.3 |
| Current-liabilities | 179.7 | 199.3 |
| **Total equity and liabilities** | **772.3** | **673.6** |

The net loss for 2009 led to a reduction in equity to Euro 232.0 million. Accordingly, the equity ratio fell from 42.8% in the previous year to 34.4%.
Non-current assets declined by a total of Euro 55.0 million. This was largely attributable to the reduction in property, plant and equipment due to the increased level of depreciation and write-downs resulting from the restructuring programme. Intangible assets also contained goodwill impairment in the amount of Euro 14.7 million (Euro 4.7 million of which related to the restructuring). In addition, an investment in a promissory note loan in the amount of Euro 20.0 million was reclassified from non-current to current assets on account of its due date. Non-current assets accounted for 37.5% of total assets (previous year: 40.2%).
Current assets (including cash and cash equivalents) declined by Euro 43.7 million as against the previous year to Euro 372.9 million. This was primarily attributable to the reduction in inventories of Euro 36.4 million and the decline in trade receivables of Euro 20.3 million as a result of the revenue situation. These developments were offset by cash and cash equivalents, which increased from Euro 59.0 million to Euro 78.8 million.

## Employees

Villeroy & Boch had a total of 9,196 employees as of 31 December 2009, a decrease of 780 compared with the previous year. Around 30% of the Group's employees were located in Germany, with the remaining 70% outside Germany. The Bathroom and Wellness and Tableware Divisions accounted for 6,094 and 2,693 employees respectively, with central functions accounting for the remaining 409.
Taken as an average for the year as a whole, the number of employees at the Villeroy & Boch Group decreased from 10,193 in the previous year to 9,440.

## Procurement

During the past financial year, successful negotiations led to price reductions for the majority of the most important items. The development of the market as a whole supported these results, with oil prices declining by more than 30% on average and the market prices of major industrial metals, such as copper and aluminium, falling sharply compared with the previous year. However, electricity market prices had increased previously, meaning that some of our locations were faced with higher electricity costs. These prices declined significantly once again over the course of 2009, meaning that it was possible to cover electricity requirements for future years at a lower price.

## Research and development

The Villeroy & Boch Group spent a total of Euro 9.4 million on research and development, of which Euro 7.0 million related to the Bathroom and Wellness Division and Euro 2.4 million to the Tableware Division.

Research and development activities continued with a focus on the improved utilisation of resources, i.e. lower energy and water consumption. A further new focal point was applied research for entirely new processes that can be directly implemented in production following the successful completion of the respective project.
For example, the aim of one ambitious project is the recovery of waste heat energy. The excess warm air from the cooling air outlet of a tunnel kiln for sanitary ware can be used to generate up to 1,000 MWh of electricity a year. The ecological aspect, with $CO_2$ savings of several hundred tonnes, also shows that environmental and production processes that were previously separate are now becoming intertwined to an increasing extent, combining both economic and ecological interests.

The most important initiative in the area of research was the "*Komplett*" project promoted by the German Federal Ministry of Education and Research. In a joint project, a new approach for the closure of water and material cycles was developed with the participation of various industries and institutes of higher education.
One of the aims of the "*Komplett*" project is to enable the local separation of grey water (e.g. from showers) and

black water (WC). Both water flows are cleaned using a newly developed process.

The high degree of innovation involved in this project is based on two factors: firstly, all "recyclable" material is reused from the perspective of an end-to-end economic view. Secondly, the "*Komplett*" system is largely independent of the supply and waste disposal infrastructure, making it an alternative to centralised water supply and waste water disposal in dry areas of the world where access is difficult.

This system includes water saving systems and special ceramic sanitary ware, such as the "Green Gain" WC, which was developed by a research group at Villeroy & Boch.

## Opportunities

Villeroy & Boch remains confident that it will emerge from the current economic crisis even stronger than before.

The acquisitions in Mexico and Thailand in recent years have reinforced the potential for expansion in the corresponding regions. The foundations for participating in the expected development in the future growth regions of Asia, the Pacific and South America have been laid. By maintaining a high level of activity in the areas of marketing and product development, the Group has ensured that it can continue to offer consumers innovative and modern product ranges that meet their needs in future. On the cost side, the restructuring initiated in 2009 will also allow improved pricing.

## Risks

### Risk management at the Villeroy & Boch Group

In addition to financial and economic risks, Villeroy & Boch is exposed to general and specific market risks.

Such business risks that are known to Villeroy & Boch are minimised and avoided where possible. Risks are only consciously entered into when the prospects for success are suitably attractive. The risks in question must also be calculable and have a low probability of occurrence

### Financial and economic risks

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

- credit/default risk
- liquidity risk
- interest and exchange rate risk

The risk of default on assets and receivables is minimised through limit management and risk-oriented measurement using suitable criteria. 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 interest rate swaps. 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 55 to the consolidated financial statements and note 17 to the single-entity financial statements of Villeroy & Boch AG.

### General market risk

The risks that could arise from the overall economic environment or the industry are presented in the economic outlook.

### Legal risks

The points raised in the objection to the current antitrust proceedings (COMP/E-1/39.092 - PO/Bathroom Fittings and Fixtures) were rejected by Villeroy & Boch. Additional requests for information have since been submitted. The antitrust authorities have yet to complete their review of the case. A decision is expected in the next few months.

### Tax risks

Like all business enterprises, Villeroy & Boch is subject to the ongoing examination of its declared and withheld taxes by the German fiscal authorities. In quantitative terms, the largest share of the Group's business volume relates to Villeroy & Boch AG, which is currently undergoing an external tax audit for the financial years 2002 to 2004 with a focus on the evidence of appropriateness of its business relations with affiliated companies. The audit activities of the fiscal authorities have progressed further but are not yet complete. Villeroy & Boch expects the results of this external tax audit to broadly fall 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 will be negligible.

### Procurement and sales market risks

The uncertainty with regard to the future development of the global economy also affected the assessment of expected price movements for basic raw materials, particularly crude oil. On the whole, we currently expect prices to stagnate.
The savings projects initiated in the previous year were continued and intensified. The 2009 financial year saw a number of successes that contributed towards the reduction in total costs.
In addition to the current global impact of the financial crisis, the constant rise in imports, particularly from the Far East, continues to have a negative influence on the European ceramics industry. Villeroy & Boch is pursuing a strategy of countering these factors by gradually specialising its product ranges, further increasing the level of production automation in Western Europe and allocating a balanced production volume to its locations in low-wage countries.

### 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 and 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 various 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 materiality considerations and the respective cost/benefit ratio. 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 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 shared service centre that provides the IT systems for the Group companies as a central service provider and ensures the quality of data processing by defining and monitoring guidelines to be applied throughout the Group.
  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 (change management).
  d) Suitable workflows and measures have been implemented in order to strictly and systematically regulate logical access to the IT systems.
  e) Recognised standards for security in data processing are observed (IT general controls) 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 continuously monitored on the basis of an established follow-up process.

To the extent prescribed by law, the Audit Committee of the Supervisory Board monitors 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. The audit for the 2008 financial year did not give rise to any objections and an unqualified audit opinion was issued.

With regard to the consolidated financial reporting process, the points described above serve to ensure that business transactions and events are identified, processed and assessed correctly and in full and are included in external financial reporting accordingly. 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.

## Events of particular importance after the end of the 2009 financial year (Villeroy & Boch Group)

To date, there have been no events of particular importance after the end of the 2009 financial year.

## Basic features of the remuneration system

The system of remuneration established for members of the Management Board consists of fixed remuneration and a performance-based variable bonus of around 50% that is awarded for the achievement of targets.
To date, the Human Resources Committee of the Supervisory Board has agreed the target parameters for the variable component, consisting of the financial targets for the company as well as individual targets, with the individual members of the Management Board. Performance targets and remuneration parameters cannot be amended subsequently. In accordance with the German Act on the Appropriateness of Management Board Remuneration, decisions on remuneration will be taken by the full Supervisory Board in future.
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 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

All in all, the 2010 financial year is expected to see a stabilisation in the global economy. The positive developments that can be observed in the Asian growth regions will hopefully have a sustained effect and provide support to the other economies. A cautious recovery at a low level is forecast for Germany and the rest of Western Europe. However, this forecast remains subject to a significant degree of uncertainty. The sustained high volume of high-risk receivables on the balance sheets of banks and the extremely strained financing situation at a number of industrial companies means that there is considerable potential for disruption on the financial and capital markets, the consequences of which are not foreseeable at present. In addition, it is not yet possible to accurately assess the impact of the substantial increase in government debt around the world. As such, the trend towards economic recovery is likely to be interrupted by regular setbacks.

### Revenue, earnings and investments at the Group

In light of the macroeconomic environment, demand for ceramic products is likely to stabilise in 2010. Villeroy & Boch expects the downturn in revenue to continue to bottom out over the coming months, with a gradual return to growth towards the end of the year. All in all, for 2010, a Group revenue on the basis of the previous year is expected.

The restructuring measures initiated in 2009 will continue as planned, with the first tangible cost reductions emerging in 2010. The other savings implemented on a Group-wide basis with a view to ensuring the earnings and liquidity situation will, according to the expectations of the Management Board, also continue and are expected to contribute to a positive operating result (EBIT) for the current financial year.
At Euro 30 million, investments in property, plant and equipment in the coming year will be slightly lower than the level of depreciation. A further key aspect will be the projects relating to the industrial restructuring. Around 60% of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 40%.

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## Consolidated Financial Statements



## Notes

# Consolidated Income Statement as of December 31st 2009

| *in Euro thousand* | Note | 2009<br>01/01–31/12 | 2008<br>01/01–31/12 |
|---|---|---|---|
| **Revenue** | 34 | **715,310** | **840,884** |
| Costs of sales | 35 | -495,232 | -513,005 |
| **Gross profit** | | **220,078** | **327,879** |
| Selling, marketing and development costs | 36 | -236,466 | -252,806 |
| General and administrative expenses | 37 | -46,674 | -49,504 |
| Other operating income | 38 | 26,606 | 30,120 |
| Other operating expenses | 39 | -49,653 | -31,698 |
| Result of associates accounted for using the equity method | 40 | 374 | 120 |
| **Operating result (EBIT)** | | **-85,735** | **24,111** |
| (Operating result before special expenditures) | | (-1,764) | (24,111) |
| Finance income | 41 | 3,558 | 7,608 |
| Finance expenses | 42 | -14,366 | -15,678 |
| **Financial result** | | **-10,808** | **-8,070** |
| **Earnings before taxes** | | **-96,543** | **16,041** |
| Income taxes | 43 | 0 | -4,999 |
| **Group result** | | **-96,543** | **11,042** |
| Thereof attributable to | | | |
| minority interests | 44 | -104 | -10 |
| Villeroy & Boch AG shareholders | | -96,439 | 11,052 |
| | | **-96,543** | **11,042** |
| **Earnings per share in Euros** | | | |
| Earnings per ordinary share | 45 | -3.68 | 0.40 |
| Earnings per preference share | 45 | -3.63 | 0.45 |

During the reporting period there was no dilutive potential.

# Consolidated Balance Sheet as of December 31st 2009

## Assets

| *in Euro thousand* | Note | 31/12/2009 | 31/12/2008 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 5 | 39,128 | 54,634 |
| Property, plant and equipment | 6 | 170,378 | 195,302 |
| Investment properties | 7 | 19,809 | 15,995 |
| Investment accounted for using the equity method | 8 | 1,087 | 1,212 |
| Other financial assets | 9 | 22,316 | 43,653 |
| | | **252,718** | **310,796** |
| Other non-current assets | 14 | 758 | 43 |
| Deferred tax assets | 10 | 47,194 | 44,870 |
| | | **300,670** | **355,709** |
| **Current assets** | | | |
| Inventories | 11 | 143,102 | 179,537 |
| Trade receivables | 12 | 106,299 | 126,580 |
| Financial assets | 13 | 20,600 | 21,392 |
| Other current assets | 14 | 21,538 | 26,412 |
| Current tax assets | 15 | 2,620 | 3,702 |
| Cash and cash equivalents | 16 | 78,783 | 58,978 |
| | | **372,942** | **416,601** |
| **Total assets** | | **673,612** | **772,310** |

## Shareholders' Equity and Liabilities

| *in Euro thousand* | Note | 31/12/2009 | 31/12 2008 |
|---|---|---|---|
| **Equity attributable to Villeroy & Boch AG shareholders** | | | |
| Issued capital | 17 | 71,909 | 71,909 |
| Capital surplus | 18 | 193,587 | 193,587 |
| Treasury shares | 19 | -14,985 | -14,985 |
| Retained earnings | 20 | -17,137 | 87,805 |
| Valuation surplus | 21 | -2,024 | -7,866 |
| | | **231,350** | **330,450** |
| **Equity attributable to minority interests** | 22 | **665** | **487** |
| **Total equity** | | **232,015** | **330,937** |
| **Non-current liabilities** | | | |
| Provisions for pensions | 26 | 148,912 | 151,249 |
| Non-current provisions for personnel | 27 | 18,379 | 18,417 |
| Other non-current provisions | 28 | 5,877 | 4,052 |
| Non-current financial liabilities | 29 | 50,000 | 70,000 |
| Other non-current financial liabilities | 30 | 4,236 | 3,293 |
| Deferred tax liabilities | 10 | 14,867 | 14,640 |
| | | **242,271** | **261,651** |
| **Current liabilities** | | | |
| Current provisions for personnel | 27 | 10,695 | 8,415 |
| Other current provisions | 28 | 62,146 | 19,588 |
| Current financial liabilities | 29 | 1,967 | 7,490 |
| Other current liabilities | 30 | 73,368 | 84,098 |
| Trade payables | 31 | 45,092 | 56,636 |
| Income tax liabilities | 32 | 3,874 | 3,495 |
| | | **197,142** | **179,722** |
| Liabilities dedicated assets classified as held for sale | 33 | 2,184 | - |
| **Total liabilities** | | **441,597** | **441,373** |
| **Total equity and liabilities** | | **673,612** | **772,310** |

# Consolidated Statement of Equity as of December 31st 2009

| *in Euro thousand* | Equity attributable to Villeroy & Boch AG shareholders: Issued capital | Capital surplus | Treasury shares | Retained earnings | Valuation surplus | Total | Equity attributable to minority interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| Notes | 17 | 18 | 19 | 20 | 21 | | 22 | |
| **As of 01/01/2008** | **71,909** | **193,587** | **-14,985** | **96,776** | **-2,897** | **344,390** | **184** | **344,574** |
| Group result | | | | 11,052 | | 11,052 | -10 | 11,042 |
| Other comprehensive income | | | | -9,634 | -4,969 | -14,603 | 3 | -14,600 |
| **Total comprehensive income net of tax** | | | | **1,418** | **-4,969** | **-3,551** | **-7** | **-3,558** |
| Dividends | | | | -10,389 | | -10,389 | -6 | -10,395 |
| Acquisition of non-controlling interests | | | | | | 0 | 316 | 316 |
| **As of 31/12/2008** | **71,909** | **193,587** | **-14,985** | **87,805** | **-7,866** | **330,450** | **487** | **330,937** |
| **As of 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 of 31/12/2009** | **71,909** | **193,587** | **-14,985** | **-17,137** | **-2,024** | **231,350** | **665** | **232,015** |

# Consolidated Statement of Comprehensive Income as of December 31st 2009

| *in Euro thousand* | **2009** | **2008** |
|---|---|---|
| **Group result** | **-96,543** | **11,042** |
| **On the retained earnings recorded realised other comprehensive income** | | |
| Gains or losses arising from translating the retained earnings of foreign operation | -617 | -7,898 |
| Gains or losses arising from net movement on cash flow hedges | 1,435 | -1,921 |
| Other changes | 29 | 185 |
| | **847** | **-9,634** |
| **Directly on the valuation surplus recorded unrealised other comprehensive income** | | |
| Gains or losses on hedging instruments in a cash flow hedge | 5,283 | -7,083 |
| Gains or losses arising from translating the net investment in a foreign business operation | 304 | -1,505 |
| Gains or losses arising from translating the financial statements of foreign operation | 301 | 3,244 |
| Gains or losses arising from deferred taxes | -46 | 378 |
| | **5,842** | **-4,966** |
| **Other comprehensive income** | **6,689** | **-14,600** |
| **Total comprehensive income net of tax** | **-89,854** | **-3,558** |
| Thereof attributable to | | |
| minority interests | -90,032 | -3,551 |
| Villeroy & Boch AG shareholders | 178 | -7 |
| | -89,854 | -3,558 |

# Consolidated Cash Flow Statement as of December 31st 2009

| *in Euro thousand* | Note | 2009 | 2008 |
|---|---|---|---|
| Group result | | -96,543 | 11,042 |
| Depreciation of non-current assets | 46 | 57,198 | 38,749 |
| Change in non-current provisions | | -9,543 | -13,820 |
| Profit from disposal of fixed assets | | -481 | -261 |
| Change in inventories, receivables and other assets | | 63,463 | 52 |
| Change in liabilities, current provisions and other liabilities | | 33,489 | -22,549 |
| Taxes paid/received in financial year | | -1,360 | -6,803 |
| Interest paid in financial year | | -5,869 | -7,822 |
| Interest received in financial year | | 2,274 | 6,925 |
| Other non-cash income/expenses | 50 | 7,834 | 11,966 |
| **Cash Flow from operating activities** | 50 | **50,462** | **17,479** |
| | | | |
| Purchase of intangible assets, property, plant and equipment | | -19,551 | -26,664 |
| Investment in non-current financial assets and cash payments for the acquisition of consolidated companies | | -5 | -9,493 |
| Cash receipts for debt instruments | | 20,787 | 45,231 |
| Investment in debt instruments | | 0 | -40,643 |
| Cash receipts for discontinued operations | | 0 | 7,857 |
| Cash receipts from disposals of fixed assets | | 3,190 | 1,418 |
| **Cash Flow from investing activities** | 51 | **4,421** | **-22,294** |
| | | | |
| Change in financial liabilities | | -25,630 | -1,780 |
| Dividends | | -9,068 | -10,389 |
| **Cash Flow from financing activities** | 52 | **-34,698** | **-12,169** |
| **Sum of cash flows** | | **20,185** | **-16,984** |
| ***Changes due to exchange rates*** | | ***-380*** | ***797*** |
| **Net increase in cash and cash equivalents** | | **19,805** | **-16,187** |
| Balance of cash and cash equivalents as of 01/01 | | 58,978 | 75,091 |
| Change in consolidated companies | | 0 | 74 |
| Net increase in cash and cash equivalents | | 19,805 | -16,187 |
| Balance of cash and cash equivalents as of 31/12 | 16+53 | 78,783 | 58,978 |

# Notes to the Consolidated Financial Statements of Villeroy & Boch AG, Mettlach for the 2009 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, since 20 November 2009, the SDAX operated by Deutsche Börse AG.

In line with section 315 of the German Commercial Code (HGB), the consolidated financial statements as of 31 December 2009 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 2009 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 (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 4 March 2010. 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 and the value in use 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 basis for determining the value in use is the current three-year plan prepared by management plus the premise that year four and subsequent years are the same as the third. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account. The value in use is calculated by discounting the projected cash flows 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 planning projections. 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 are 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 are depreciated on a straight-line basis over their useful life. 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 property) 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 describe economic transactions based on a contract that includes an entitlement to receive cash. Financial instruments are generally recognised as soon as the Villeroy & Boch Group becomes a party to a contract for a financial instrument. Under IAS 39, each financial instrument is allocated to one of four categories. Depending on the category choosen, instruments are measured either at amortised cost or fair value. Classifications are described in note 55. At the Villeroy & Boch Group, all spot transactions are recognised at the settlement date and all derivatives are recognised at the trading date.

Financial instruments are derecognised when the claim for settlement expires. When a financial instrument is transferred, the disposal rules set out in IAS 39 are examined in order to determine whether derecognition is required.

## 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, the resulting reversal is recognised as a reduction of the cost of goods sold.

### Receivables

Trade receivables and other current receivables are recognised at cost on acquisition using the effective interest method as appropriate. 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 expected default risk, while concrete cases of default result in the derecognition of the respective asset. In the case of specific valuation allowances, items are grouped on the basis of similar default risk characteristics and jointly tested for impairment, with valuation allowances recognised as appropriate. Valuation allowances on trade receivables are generally recognised using allowance accounts. In the case of other receivables, the person responsible for the portfolio decides whether the default risk should be recognised using an allowance account or a direct valuation allowance depending on the respective situation.

### 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 for defined benefit pension plans are recognised using the projected unit credit method on the basis of actuarial appraisals. This method also takes expected future increases in salaries and pensions into account. Actuarial gains and losses exceeding ten percent 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. The interest portion is reported in net other finance expense. If pension obligations are covered in full or in part by special assets, the amount of the provision is reduced by the fair value of plan assets if these assets are classified as trust assets and administered by third parties. At the start of the year, the expected monthly income from plan assets is recognised in income. The difference between expected and actual income is recognised in actuarial gains/losses.

Payments for defined contribution plans are reported in personnel expenses if the employees have performed the service providing the entitlement to the 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 using the effective interest method. Trade payables are generally measured at amortised cost using the effective interest method. Current liabilities are carried at their repayment amount.

### Contingent liabilities

Contingent liabilities are potential or existing obligations based on past events for which an outflow of resources is not likely. Contingent liabilities are not recognised on the face of the balance sheet. The obligations disclosed correspond to the liability volume on the respective balance sheet date.

### 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.

### 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 this period are capitalised if the conditions for recognition as an intangible asset are met. Due to the risks existing until market launch, these conditions are not usually met in full.

### Taxes

Income tax expense represents the total of current and deferred taxes. Current and deferred taxes are recognised in income unless they are associated with items taken directly to equity. In these cases, 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 effect 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.

For example, directly attributable finance costs on qualifying assets must be capitalised on account of the amendment of IAS 23 “Borrowing Costs”. This was not an issue in the Villeroy & Boch Group in the current financial year. IFRIC 13 “Customer Loyalty Programmes”, which was effective for the first time, led to the recognition of a provision for the obligation resulting from the credit points acquired on account of the launch of the “Privilege” customer loyalty card. Furthermore, in these notes on account of the addition to IAS 1 “Presentation of Financial Statements”, a Consolidated Statement of Comprehensive Income was presented for the first time and the Consolidated Statement of Equity including the description of the Equity was adjusted.

The regulations effective for the first time in the 2009 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 64.

## 2. Basis of consolidation

In addition to Villeroy & Boch AG, the consolidated financial statements include all 15 (previous year: 16) German and 46 (previous year: 44) 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 Villeroy & Boch Creation GmbH and Sanipa Badmöbel Treuchtlingen GmbH. Shareholdings in accordance with section 313 (2) HGB occur separately in application of 313 (4) and will be published according to 325 HGB in the Electronic Federal Gazette (Bundesanzeiger).

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

| Villeroy & Boch AG and consolidated companies: | Germany | Abroad | Total |
|---|---|---|---|
| **As of 1 January 2009** | **17** | **44** | **61** |
| Additions due to new companies (a) | - | 2 | 2 |
| Disposals due to liquidation (b) | -1 | - | -1 |
| **As of 31 December 2009** | **16** | **46** | **62** |

(a) Additions due to new companies:

Villeroy & Boch Czech s.r.o., domiciled in Velké Prítocno, was founded on 20 August 2009. The company conducts sales activities for the Bathroom & Wellness Division in the Czech Republic.

Delfi Asset S.A. was founded in Luxembourg on 15 December 2009 as a property management company.

(b) Disposals due to liquidation

The inactive company Fliesen Bollmann GmbH & Co. KG, Lübeck, Germany, was liquidated on 1 January 2009.

## 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 the resulting differences recognised as goodwill. 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 21). Currency effects arising from net investments in foreign Group companies are also reported in the valuation surplus (see note 21). 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:

| | | Exchange rate at balance sheet date | | Average exchange rate | |
|---|---|---|---|---|---|
| *Currency 1 Euro =* | | **2009** | **2008** | **2009** | **2008** |
| Mexican peso | MXN | 18.9223 | 19.3500 | 18.9723 | 16.1682 |
| Swedish krona | SEK | 10.2520 | 10.9150 | 10.6606 | 9.5454 |
| US dollar | USD | 1.4406 | 1.3977 | 1.3966 | 1.4853 |
| Hungarian forint | HUF | 270.4200 | 264.5050 | 279.7642 | 250.0683 |

# Notes to the Consolidated Balance Sheet

## 5. Intangible assets

Intangible assets developed as follows:

» See table 04 page 64

Concessions, patents, licences and similar rights include $CO_2$ emission allowances of Euro 961 thousand (previous year: Euro 578 thousand). These items were carried at their market value at the balance sheet date. Due to the free of charge distribution of those emission allowances, a deferred income was recognized and will be terminated after consumption. In return, the creation of a provision occurs. For the past financial year it amounted to Euro 617 thousand (previous year: eur 497 thousand).

Assets previously written down in full with a historical cost of Euro 1,552 thousand were regrouped to non-current assets classified as held for sale.
As part of the restructuring programme, certain intangible assets of the Bathroom and Wellness segment were written down by Euro 147 thousand to their net realisable value. This expense is included in net other expenses.

In Germany, the The Villeroy & Boch Group has capitalised software licences with a carrying amount of Euro 3,442 thousand (previous year: Euro 4,394 thousand). New licences with a value of Euro 294 thousand were acquired in the past financial year (previous year: Euro 2,348 thousand). Amortisation amounted to Euro 1,256 thousand (previous year: Euro 922 thousand). In France, the Group has key money with a carrying amount of Euro 3,009 thousand (previous year: Euro 3,009 thousand). As in the previous year, impairment testing did not give rise to any indications of impairment.

Goodwill in the amount of Euro 30,554 thousand (previous year: Euro 45,040 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 54.
As production is to be shut down at two foreign locations, the goodwill attributable to these locations was tested for impairment in the fourth quarter. This analysis identified impairment losses of Euro 4,735 thousand, which have been reported under other operating expenses.
Capitalised goodwill was tested for impairment as of the balance sheet date. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2013 were discounted using an interest rate before income tax of 10.8% p.a. and later cash flows with an interest rate before income tax of 10.0%. Discounting in the previous year had been performed at 6.0% p.a. after income tax. At around Euro 220 million calculated in this way, the present value was some Euro 10 million less than the division's net assets of Euro 230 million. This led to an impairment loss on the balance sheet item that has been reported under other operating expenses in the income statement. No impairment losses were required in the previous year.

## 6. Property, plant and equipment

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

» See table 05 page 65

Various facilities were taken out of commission in connection with the industrial restructuring programme and the relevant carrying amounts were reduced to their recoverable net realisable values. Of these write-downs amounting to a total of Euro 7,414 thousand (previous year: Euro 987 thousand), Euro 6,181 thousand related to the Bathroom and Wellness segment (previous year: Euro 987 thousand) and Euro 1,233 thousand to the Tableware segment (previous year: Euro -thousand). The impairment losses are reported in net other expenses.

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 is reported under other operating income from the Bathroom and Wellness segment.

Land and buildings with a residual carrying amount of Euro 4,454 thousand (previous year: Euro 234 thousand) were reclassified to investment property in the year under review (see note 7). Technical equipment and machinery previously written down in full was regrouped to non-current assets classified as held for sale.
Furthermore, no government grants were offset against cost in the financial year (previous year: Euro 218 thousand). Prepaid expenses (see note 30) include government grants in the amount of Euro 1,127 thousand as of the balance sheet date (previous year: Euro 1,205 thousand). Euro 78 thousand of this (previous year: Euro 78 thousand) was reversed to income.

## 04 Intangible assets

| *in Euro thousand* | Concessions patents, licences and similar rights | Goodwill | Total |
|---|---|---|---|
| ***Accumulative cost*** | | | |
| **As of 1 January 2008** | **20,575** | **40,918** | **61,493** |
| Currency adjustments | 84 | -605 | -521 |
| Changes in consolidated group | 451 | 4,727 | 5,178 |
| Additions | 3,380 | 0 | 3,380 |
| Disposals | -444 | 0 | -444 |
| Reclassifications | 87 | 0 | 87 |
| **As of 1 January 2009** | **24,133** | **45,040** | **69,173** |
| Currency adjustments | -24 | 249 | 225 |
| Additions | 1,515 | 0 | 1,515 |
| Disposals | -836 | 0 | -836 |
| Reclassifications | -1,438 | 0 | -1,438 |
| **As of 31 December 2009** | **23,350** | **45,289** | **68,639** |
| ***Accumulative amortisation and impairment*** | | | |
| **As of 1 January 2008** | **13,330** | **0** | **13,330** |
| Currency adjustments | -29 | 0 | -29 |
| Changes in consolidated group | 178 | 0 | 178 |
| Amortisation | 1,503 | 0 | 1,503 |
| Disposals | -443 | 0 | -443 |
| **As of 1 January 2009** | **14,539** | **0** | **14,539** |
| Currency adjustments | 0 | 0 | 0 |
| Amortisation | 1,668 | 0 | 1,668 |
| Impairment losses | 147 | 14,735 | 14,882 |
| Disposals | -26 | 0 | -26 |
| Reclassifications | -1,552 | 0 | -1,552 |
| **As of 31 December 2009** | **14,776** | **14,735** | **29,511** |
| ***Residual carrying amounts*** | | | |
| **As of 31 December 2009** | **8,574** | **30,554** | **39,128** |
| As of 31 December 2008 | 9,594 | 45,040 | 54,634 |

## 05 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 2008** | **254,334** | **348,939** | **121,869** | **8,015** | **733,157** |
| Currency adjustments | -3,994 | -7,036 | -2,283 | -86 | -13,399 |
| Changes in consolidated group | 11,002 | 10,669 | 1,393 | 101 | 23,165 |
| Additions | 3,678 | 6,907 | 6,730 | 5,969 | 23,284 |
| Disposals | -1,981 | -4,767 | -7,387 | -100 | -14,235 |
| Reclassifications | -5,546 | 6,786 | 543 | -8,319 | -6,536 |
| **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 31 December 2009** | **240,985** | **360,593** | **114,694** | **7,895** | **724,167** |
| ***Accumulative depreciation and impairment*** | | | | | |
| **As of 1 January 2008** | **153,749** | **272,330** | **101,572** | **0** | **527,651** |
| Currency adjustments | -895 | -5,471 | -1,274 | 0 | -7,640 |
| Changes in consolidated group | 2,519 | 10,229 | 560 | 0 | 13,308 |
| Depreciation | 6,192 | 21,178 | 8,079 | 0 | 35,449 |
| Impairment losses | 210 | 755 | 22 | 0 | 987 |
| Disposals | -1,644 | -4,604 | -7,160 | 0 | -13,408 |
| Reclassifications | -5,945 | -309 | 41 | 0 | -6,213 |
| **As of 1 January 2009** | **154,186** | **294,108** | **101,840** | **0** | **550,134** |
| Currency adjustments | 264 | 1,779 | 572 | 0 | 2,615 |
| Depreciation | 6,343 | 19,180 | 6,896 | 0 | 32,419 |
| Impairment losses | 3,978 | 2,597 | 839 | 0 | 7,414 |
| Reversals of impairment losses | -210 | -23 | 0 | 0 | -233 |
| Disposals | -2,099 | -9,750 | -10,817 | 0 | -22,666 |
| Reclassifications | -11,120 | -4,665 | -109 | 0 | -15,894 |
| **As of 31 December 2009** | **151,342** | **303,226** | **99,221** | **0** | **553,789** |
| ***Residual carrying amounts*** | | | | | |
| **As of 31 December 2009** | **89,643** | **57,367** | **15,473** | **7,895** | **170,378** |
| As of 31 December 2008 | 103,307 | 67,390 | 19,025 | 5,580 | 195,302 |

### Operating leases

In the 2009 financial year, rental expenses under operating leases amounted to Euro 34,243 thousand (previous year: Euro 34,545 thousand). The Group rents 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.

The Villeroy & Boch Group generated additional income of Euro 319 thousand from subletting unused properties with current leases (previous year: Euro 214 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* | Up to 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| Future lease payments | | | |
| As of 31 December 2009 | 19,106 | 31,638 | 1,799 |
| As of 31 December 2008 | 14,910 | 30,855 | 9,205 |
| Future sublease income | | | |
| As of 31 December 2009 | 348 | 534 | 112 |
| As of 31 December 2008 | 320 | 461 | 154 |

## 7. Investment property

Investment property developed as follows:

» See table 07 page 67

Properties with a value of Euro 4,454 thousand (previous year: Euro 234 thousand) were reclassified from property, plant and equipment as part of the restructuring programme as they will no longer be used in operations in future.

In the reporting period, items capitalised as investment property mainly related to renovation work in the amount of Euro 168 thousand (previous year: euro-thousand). For example, a modern security system was installed and an additional warehouse built.

The market value of the properties capitalised as of 31 December 2009 rose year-on-year from Euro 41.2 million to Euro 55.6 million as a result of the first-time inclusion of properties reclassified in the financial year. Market values were calculated on the basis of current appraisals and land value tables.

In the past financial year, the Group recorded:

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Rental income | 296 | 296 |
| Property management and similar expenses | -76 | -190 |

Villeroy & Boch AG rents the properties required for tile production under an **operating lease**. The monthly rent for the 30-year lease term is around Euro 25 thousand. Future rents are based on changes 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 following payments are expected from leases with third parties:

| *in Euro thousand* | Up to 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| As of 31 December 2009 | 296 | 1,186 | 6,670 |
| As of 31 December 2008 | 296 | 1,186 | 6,966 |

## 8. Investments 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* | 2009 | 2008 |
|---|---|---|
| ***Accumulative cost*** | | |
| **As of 1 January** | **1,212** | **1,092** |
| Additions | 375 | 120 |
| Payments / dividends | -500 | 0 |
| **As of 31 December** | **1,087** | **1,212** |
| ***Accumulative impairment*** | | |
| **As of 31 December – unchanged** | **0** | **0** |
| ***Residual carrying amounts*** | | |
| **As of 31 December** | **1,087** | **1,212** |

### 07 Investment property

| *in Euro thousand* | Land | Buildings | Investment property | |
|---|---|---|---|---|
| | | | 2009 | 2008 |
| ***Accumulative cost*** | | | | |
| **As of 1 January** | **1,610** | **71,574** | **73,184** | **67,852** |
| Additions | 0 | 168 | 168 | 0 |
| Transfer from property, plant and equipment | 1,844 | 13,528 | 15,372 | 6,447 |
| Disposals | 0 | -811 | -811 | -1,115 |
| **As of 31 December** | **3,454** | **84,459** | **87,913** | **73,184** |
| ***Accumulative depreciation and impairment*** | | | | |
| **As of 1 January** | **0** | **57,189** | **57,189** | **51,281** |
| Depreciation | 0 | 803 | 803 | 810 |
| Transfer from property, plant and equipment | 0 | 10,918 | 10,918 | 6,213 |
| Disposals | 0 | -806 | -806 | -1,115 |
| **As of 31 December** | **0** | **68,104** | **68,104** | **57,189** |
| ***Residual carrying amounts*** | | | | |
| **As of 31 December** | **3,454** | **16,355** | **19,809** | **15,995** |

## 9. Other financial assets

Other financial assets include:

| Measurement category* *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| **Available for sale financial assets** | | |
| Investments (a) | 12,280 | 12,280 |
| **Held-to-maturity investments** | | |
| Uncallable bonds (b) | 0 | 20,000 |
| **Loans carried at amortised cost** | | |
| Loans to related parties (c) | 8,337 | 9,528 |
| Loans to third parties (d) | 1,699 | 1,845 |
| **Other financial assets** | **22,316** | **43,653** |

* The measurement categories are described in note 55.

(a) Euro 12,250 thousand of this figure relates to the shares held in V & B Fliesen GmbH, Merzig. As in the previous year, investments were tested for impairment. No impairment losses were required.
(b) The bond maturing on 27 June 2010 was reclassified to current financial assets (see note 13).
(c) V&B Fliesen GmbH, Merzig, made its scheduled repayment of Euro 1,191 thousand in the financial year. The remaining term of this loan is seven years. A guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.
(d) Loans to third parties essentially include mandatory government loans and start-up finance for franchisees.

They mature as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| **Gross carrying amount as of 31 December** | **1,719** | **1,991** |
| Thereof: | | |
| Not impaired or overdue as of the balance sheet date | **1,699** | **1,845** |
| Loan due within one year | 104 | 129 |
| Loan due in two to five years | 103 | 184 |
| Loan with indefinite maturity | 1,492 | 1,532 |
| Thereof: | | |
| Impaired but not overdue as of the balance sheet date | **7** | **26** |
| Loan due in two to five years | 7 | 26 |
| Thereof: | | |
| Impaired and overdue as of the balance sheet date | **13** | **120** |
| Overdue by one year or less | 13 | - |
| Overdue by between two and five years | - | 120 |

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

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| **As of 1 January** | **146** | **200** |
| Utilisation | -120 | -43 |
| Reversals to income | -18 | -11 |
| Additions recognised in income | 12 | - |
| **As of 31 December** | **20** | **146** |

### 15 Deferred tax assets and liabilities - temporary composition per balance sheet items

| *in Euro thousand* | Note | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|---|
| | | 31 Dec. 2009 | 31 Dec. 2008 | 31 Dec. 2009 | 31 Dec. 2008 |
| Intangible assets | 5 | 3,215 | 4,112 | 921 | 647 |
| Property, plant and equipment | 6 | 3,558 | 4,151 | 4,627 | 3,098 |
| Investment property | 7 | - | - | 255 | 251 |
| Financial assets | 9 | 210 | 292 | 92 | 99 |
| Inventories | 11 | 5,012 | 4,436 | 12 | 34 |
| Other assets | 14 | 325 | 124 | 872 | 2,374 |
| Special tax-items | | - | - | 7,192 | 7,491 |
| Provisions for pensions | 26 | 7,845 | 7,281 | 117 | 35 |
| Other provisions | 28 | 3,751 | 2,112 | 14 | 243 |
| Liabilities | 30 | 1,329 | 1,666 | 765 | 368 |
| **Deferred taxes from temporary differences** | | **25,245** | **24,174** | **14,867** | **14,640** |

## 10. Deferred taxes (assets and liability)

Deferred taxes are reported in the following balance sheet items:

| *in Euro thousands* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Deferred tax assets from temporary differences | 25,245 | 24,174 |
| Deferred tax assets from tax loss carry-forwards | 21,949 | 20,696 |
| **Deferred tax assets** | **47,194** | **44,870** |
| **Deferred tax liabilities** | **14,867** | **14,640** |

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 15 page 68**

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Deferred taxes from German tax loss carryforwards | | |
| from corporate income tax and solidarity surcharge | 8,092 | 3,579 |
| from trade tax | 7,914 | 4,247 |
| Total deferred taxes on German loss carryforwards | 16,006 | 7,826 |
| Deferred taxes on foreign loss carryforwards | 41,557 | 27,854 |
| Total deferred taxes on German and foreign loss carryforwards | 57,563 | 35,680 |
| Write-downs on deferred taxes on loss carryforwards | -35,614 | -14,984 |
| **Deferred taxes on tax loss carryforwards** | **21,949** | **20,696** |

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 €35,614 thousand (previous year: €14,984 thousand) in the past financial year, as the tax loss carryforwards are unlikely to be utilised based on the Group's medium-term tax planning. The use of existing deferred tax assets on loss carryforwards is predominantly planned for the years 2011 to 2014. Appropriate write-downs were taken into account on the recognition of deferred tax assets for companies with negative earnings trends.

## 11. Inventories

Inventories consisted of the following as of the balance sheet date:

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Raw materials, supplies and merchan-dise | 21,954 | 28,887 |
| Work in progress | 19,386 | 23,736 |
| Finished goods and goods for resale | 101,679 | 126,511 |
| Advance payments | 83 | 403 |
| | **143,102** | **179,537** |

Inventories are broken down between the individual divisions as follows:

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Bathroom and Wellness | 88,642 | 106,147 |
| Tableware | 54,460 | 73,390 |
| | **143,102** | **179,537** |

In connection with the reduction in inventories in the 2009 financial year, impairment losses on inventories reduced assets by Euro 2,213 thousand in income in the financial year, from Euro 27,845 thousand to Euro 25,633 thousand.

## 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* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Germany | 64,735 | 77,195 |
| Eurozone excl. Germany | 7,522 | 12,283 |
| Other international destinations | 34,042 | 37,102 |
| **Carrying amount** | **106,299** | **126,580** |

As of the balance sheet date, the Tableware Division had trade receivables of Euro 35,759 thousand (previous year: Euro 45,288 thousand). The Bathroom and Wellness Division had trade receivables of Euro 70,540 thousand (previous year: Euro 80,426 thousand).

Trade receivables are composed as follows:

» See table 20 page 71

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 recognized 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.

Valuation allowances developed as follows:

» See table 21 page 71

The specific valuation allowances of Euro 5,459 thousand (previous year: Euro 4,245 thousand) include write-downs of Euro 817 thousand (previous year: Euro 1,457 thousand) as the debtor is involved in insolvency proceedings.

During the financial year, trade receivables in the amount of Euro 295 thousand (previous year: Euro 280 thousand) were transferred to an insurance company. The Group received Euro 2 thousand from the realisation of other collateral (previous year: Euro 21 thousand). The Group received the following collateral to cover existing risks:

| | Fair value | |
|---|---|---|
| *in Euro thousand* | **31 Dec. 2009** | **31 Dec. 2008** |
| Retention of ownership | 22,341 | 15,046 |
| Guarantees | 9,527 | 8,911 |
| Received customer bill of exchange | 4,863 | 1,680 |
| Mortgage loans on record | 1,745 | 1,615 |
| | **38,476** | **27,252** |

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 settlement of the debt in full.

## 13. Current financial assets

This item contains financial assets at banks classified as held-to-maturity in the amount of Euro 20,600 thousand (previous year: Euro 21,392 thousand). The relevant banks, whose creditworthiness has been certified by international rating agencies (see note 55), are located in the following regions:

| *in Euro thousand* | **31 Dec. 2009** | **31 Dec. 2008** |
|---|---|---|
| Germany | 20,600 | 605 |
| Euro zone excl. Germany | - | 20,787 |
| **Carrying amount** | **20,600** | **21,392** |

All financial assets are fully hedged against debtor default.

## 14. Other non-current and current assets

Other assets are composed as follows:

» See table 24 page 71

“Miscellaneous other assets” include reimbursement claims in connection with reduced working hours implemented in Germany, security deposits, receivables from the initial provision of equipment to franchisers, creditors with debit balances, receivables from employees and a number of individual items. All in all, this item contains transactions with the characteristics of advance payments in the amount of Euro 1,373 thousand (previous year: Euro 986 thousand). The Group has recognised security deposits in the amount of Euro 1,035 thousand (previous year: Euro 1,081 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 754 thousand (previous year: Euro 4,776 thousand) from the fair value measurement of currency forwards and Euro 1,534 thousand (previous year: euro-thousand) from the fair value measurement of commodity futures were capitalised in equity under current other assets. There is a valuation surplus in the same amount in equity (see note 21).

Tax claims primarily relate to value added tax claims Euro 4,440 thousand (previous year: Euro 7,281 thousand); Euro 2,035 thousand relates to the German Group companies (previous year: Euro 4,815 thousand).

### 20 Trade receivables - status analysis

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| **(Net-) Carrying amount as of 31 December** | **106,299** | **126,580** |
| Value adjustment | 6,454 | 5,244 |
| **Gross carrying amount as of 31 December** | **112,753** | **131,824** |
| Thereof: | | |
| Not impaired or overdue as of the balance sheet date | 72,392 | 85,661 |
| Receivables due in 90 days or less | 64,020 | 78,481 |
| Receivables due between 91 and 180 days | 8,287 | 8,012 |
| Receivables due between 181 and 360 days | 53 | 132 |
| Receivables due in 361 days or more | 32 | 36 |
| Thereof: | | |
| Not impaired but overdue at the balance sheet date | 14,504 | 16,360 |
| Customer in default for 90 days or less | 13,332 | 15,612 |
| Customer in default for between 91 and 180 days | 451 | 573 |
| Customer in default for between 181 and 360 days | 721 | 175 |
| Thereof: | | |
| Impaired but not overdue as of the balance sheet date [1] | 15,340 | 24,917 |
| Receivables due in 90 days or less | 15,137 | 24,788 |
| Receivables due between 91 and 180 days | 173 | 122 |
| Receivables due between 180 and 360 days | 30 | 7 |
| Thereof: | | |
| Impaired and overdue as of the balance sheet date | 4,063 | 4,886 |
| Customer in default for 90 days or less | 840 | 912 |
| Customer in default for between 90 and 180 days | 1,014 | 336 |
| Customer in default for between 180 and 360 days | 1,443 | 806 |
| Customer in default for 361 days or more | 766 | 2,832 |

[1] receivables not covered by credit insurance

### 21 Trade receivables - development of valuation allowances

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| *in Euro thousand* | Specific | Global | Total | Specific | Global | Total |
| As of 1 January | 4,245 | 999 | 5,244 | 4,429 | 961 | 5,390 |
| Additions | 3,506 | 421 | 3,927 | 1,450 | 440 | 1,890 |
| Exchange rate differences | -19 | 5 | -14 | -665 | 64 | -601 |
| Utilisation | -1,792 | -301 | -2,093 | -449 | -231 | -680 |
| Reversals | -481 | -129 | -610 | -520 | -235 | -755 |
| **As of 31 December** | **5,459** | **995** | **6,454** | **4,245** | **999** | **5,244** |

### 24 Composition of other non-current and current assets

| *in Euro thousand* | Carrying amount | Remaining term | | Carrying amount | Remaining term | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2009 | Up to 1 year | More than 1 year | 31 Dec. 2008 | Up to 1 year | More than 1 year |
| Receivables from associates | **232** | 232 | 0 | **232** | 232 | 0 |
| Miscellaneous other assets | **14,428** | 14,400 | 28 | **12,847** | 12,804 | 43 |
| Fair value changes of cash flow hedges | **2,288** | 1,558 | 730 | **4,776** | 4,776 | 0 |
| Tax claims | **5,348** | 5,348 | 0 | **8,600** | 8,600 | 0 |
| | **22,296** | **21,538** | **758** | **26,455** | **26,412** | **43** |

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 2009. 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

Income tax receivables totalling Euro 2,620 thousand (previous year: Euro 3,702 thousand) largely consist of outstanding corporate income tax assets, which are primarily attributable to foreign Group companies in the amount of Euro 1,948 thousand (previous year: Euro 3,152 thousand).

## 16. Cash and cash equivalents

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Cash on hand incl. cheques | 770 | 343 |
| Current bank balances | 30 | 3,430 |
| Cash equivalents | 77,983 | 55,205 |
| | 78,783 | 58,978 |

Cash and cash equivalents are subject to minimal default risk, as they are held at banks with strong credit ratings according to international rating agencies (see note 55).

## 17. Issued capital

The issued capital of Villeroy & Boch AG as of the reporting 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:

» See table 26 page 73

A resolution of the General Meeting of Shareholders on 15 May 2009 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 2010. Villeroy & Boch AG 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. If a purchase offer addressed to all preference shareholders is oversubscribed it can only be accepted proportionately. If, in the event of a public offer to all preference shareholders to submit offers to sell, there are several equal offers that cannot all be accepted, they can only be accepted proportionately. 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.

## 18. Capital surplus

The capital surplus in the amount of Euro 193,587 thousand contains the remaining premium from the IPO in 1990.

## 19. 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. The utilisation of the preference shares held is restricted by way of the resolutions adopted.

## 20. Retained earnings

The retained earnings of the Villeroy & Boch Group in the amount of Euro -17,137 thousand (previous year: Euro 87,805 thousand) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group. Owing to the amendment of IAS 1 "Presentation of Financial Statements", this item no longer includes the measurement effects of "Net other expenses" or the surplus for treasury shares. In future, the consolidated result will be reported as an integral component of retained earnings. The previous year's figures were restated as follows:

| | *in Euro thousand* |
|---|---|
| Retained earnings for the 2008 financial year –as reported– | 53,902 |
| Consolidated result for the 2008 financial year –as reported– | 11,052 |
| Recognition of separate balance sheet items for: | |
| Treasury shares (see note 19) | 14,985 |
| Valuation surplus (see note 21) | 7,866 |
| as of 31/12/2008 / 01/01/2009 | 87,805 |
| Group result (without minority interest) | -96,439 |
| Dividends | -9,068 |
| Other comprehensive income (see Consolidated Statement of Equity) | 565 |
| **Retained earnings as of 31/12/2009** | **-17,137** |

### 26 Composition of issued capital

| *Number of shares* | **2009** | **2008** |
|---|---|---|
| **Ordinary shares** | | |
| Ordinary shares in circulation - unchanged - | 14,044,800 | 14,044,800 |
| **Preference shares** | | |
| Preference shares issued | 14,044,800 | 14,044,800 |
| Shares held by the Villeroy & Boch Group | | |
| As of 31 December - unchanged - | 1,683,029 | 1,683,029 |
| **Preference shares in circulation** | **12,361,771** | **12,361,771** |

## 21. Valuation surplus

"Valuation surplus" bundles items that cannot be recognised in the result for the period under IFRSs. These were reported under retained earnings in the previous year. The figures for the previous year have been restated. The valuation surplus includes components of "other comprehensive income" under IAS 1.7:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Gains on the translation of financial statements of foreign operations (a) | 3,631 | 3,330 |
| Changes in value due to the currency translation of net investments in foreign operations (b) | -5,542 | -5,846 |
| Fair value changes of cash flow hedges (c) | -47 | -5,330 |
| Surplus for deferred taxes (d) | -66 | -20 |
| | **-2,024** | **-7,866** |

(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 net equity effect in the financial year of Euro 301 thousand (previous year: Euro -3,244 thousand). Minority interests accounted for Euro 2 thousand (previous year: Euro 2 thousand).

(b) Changes in value due to the translation of net investments in foreign operation

Within the Villeroy & Boch Group there are long-term, equity-like loans classified as net investments in foreign operations. Changes in these loans due to exchange rates developed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| As of 1 January | -5,846 | -4,341 |
| Changes due to currency appreciation | -248 | -1,694 |
| Changes due to currency depreciation | 552 | 189 |
| **As of 31 December** | **-5,542** | **-5,846** |

(c) Fair value changes of cash flow hedges

The cash flow hedge surplus arises from the recognition in equity of fluctuations in fair value (see note 55). This item developed as follows in the reporting period:

» See table 30 page 75

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Positive fair value changes (see note 14) | 2,288 | 4,776 |
| Negative fair value changes (see note 30) | -1,639 | -10,365 |
| Payment for due forwards (a) | -978 | -164 |
| Recognition of expenses (b) | 279 | 426 |
| Minority interests | -7 | -3 |
| **Carrying amount** | **-47** | **-5,330** |

(a) In the financial year, the Villeroy & Boch Group paid Euro -978 thousand (previous year: Euro -164 thousand) for due forwards for which gas was delivered after 31 December. This amount is recognised in the valuation surplus until delivery of the gas and recognised in income on delivery.

(b) An expense of Euro 279 thousand (previous year: Euro 426 thousand) was recognised in the income statement, consisting of Euro 203 thousand (previous year: Euro 351 thousand) for deferred interest and Euro 76 thousand (previous year: Euro 75 thousand) from insufficient or surplus cover of hedged items (see note 55).

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 forwards is included in the net other operating result.

(d) Surplus for deferred taxes

The surplus for deferred taxes developed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| As of 1 January | -20 | -398 |
| Currency adjustments | 8 | -5 |
| Additions | 397 | 520 |
| Disposals | -450 | -137 |
| Minority interests | -1 | 0 |
| **As of 31 December** | **-66** | **-20** |

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 and interest rates of Euro 47 thousand (previous year: Euro 275 thousand).

## 22. Equity attributable to minority interests

Minority interests amounted to Euro 665 thousand after Euro 487 thousand in the previous year. Minority interests exist at three Group companies in Thailand, Romania and Hungary.

## 23. 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 2009 of Villeroy & Boch AG amounted to Euro 50,274 thousand. Taking into account the profit carried forward of Euro 14,575 thousand, the net loss amounted to Euro 35,699 thousand. The net loss of Villeroy & Boch AG will be offset by a withdrawal from retained earnings. A dividend will not be distributed for the 2009 financial year.

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

» See table 33 page 75

## 24. Capital management

The Villeroy & Boch capital management mainly focuses on the sustainable increase in company value, securing liquidity as well as guaranteeing the credit worthiness of the Group. In this regard, a solid equity ratio is strived for.

The non-current sources of finance consist of:

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Equity | 232,015 | 330,937 |
| Provisions for pensions | 148,912 | 151,249 |
| Financial liabilities | 51,967 | 77,490 |
| | **432,894** | **559,676** |

In 2009, the equity dropped by Euro 98,922 thousand to Euro 232,015 thousand, mainly due to the net loss of the year. The equity ratio amounts to 34.4% (previous year: 42.9%).

## 25. 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) and section 41 (2) and (4a) WpHG is presented below.

### 30 Composition of valuation surplus for cash flow hedges

| *in Euro thousand* | Currency forwards | | Commodity futures | | Interest rate swaps | | Total cash flow hedges | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| As of 1 January | 888 | 2,001 | -6,042 | - | -176 | -248 | -5,330 | 1,753 |
| Currency adjustments | -2 | -11 | -93 | - | - | - | -95 | -11 |
| Additions | -135 | 891 | 4,092 | -6,042 | - | - | 3,957 | -5,151 |
| Reversal | -886 | -1,990 | 2,197 | - | 117 | 72 | 1,428 | -1,918 |
| Minority interests | -7 | -3 | - | - | - | - | -7 | -3 |
| **As of 31 December** | **-142** | **888** | **154** | **-6,042** | **-59** | **-176** | **-47** | **-5,330** |

### 33 Dividend attributable to Villeroy & Boch AG shareholders

| *in Euro* | 18 May 2009 | | 2 July 2008 | |
|---|---|---|---|---|
| Eligible share class | Dividend per share | Total dividend | Dividend per share | Total dividend |
| Ordinary shares | 0.32 | 4,494,336.00 | 0.37 | 5,196,576.00 |
| Preference shares | 0.37 | 4,573,855.27 | 0.42 | 5,191,943.82 |
| | | **9,068,191.27** | | **10,388,519.82** |

The shareholders listed below notified us in accordance with section 41 (2) or (4a) WpHG that their share of voting rights in our company were as follows as of the reporting 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) 13.96% of voting rights are attributable to Mr. Luitwin Gisbert von Boch-Galhau, Mettlach, as of 1 April 2002; 0.02% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 1 WpHG and 13.94% are attributable to him in accordance with section 22 (1) sentence 1 no. 4 WpHG.
3) 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.
4) 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.
5) 5.51% of voting rights are attributable to Baron Antoine de Schorlemer, Luxembourg, as of 1 April 2002; 5.14% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 1 WpHG.
6) 7.33% of voting rights were attributable to Schor-Invest S.A., Luxembourg as of 1 April 2002. (As far as the company knows, this holding no longer exists.)
7) 5.87% of voting rights are attributable to Dr. Alexander von Boch-Galhau, Mettlach, as of 20 January 2007; 1.74% of ordinary shares are attributable to him in accordance with section 22 (1) sentence 1 no. 6 WpHG.

## 26. Provisions for pensions

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Germany | 139,045 | 141,392 |
| Eurozone excl. Germany | 8,875 | 8,618 |
| Other international destinations | 992 | 1,239 |
| **Provision for pensions** | **148,912** | **151,249** |

These pension plans are presented below in summary as, as in the previous year, most of this provision relates to German companies.

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

» See table 36 page 76

Average values 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 are between 4.5% in Norway up to 8.8% in Mexiko. In Germany however, a discount rate of 5.4 % (previous year: 6.3%) is used. In estimating future salary and pension trends, the length of service with the company and other of employment 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 expected return is based on the portfolio structure of the plan assets. For each plan, the expected return is obtained from the weighted average of expected returns for each of the investment classes held.

### 36 Provision for pension - specific parameters

| | 2009 | | 2008 | |
|---|---|---|---|---|
| *in percent* | Average | Range | Average | Range |
| Discount rate | 5.3 | 4.5 to 8.8 | - | 6.30 |
| Expected long-term wage and salary trend | 2.6 | 2.0 to 6.0 | 2.6 | 2.0 to 5.0 |
| Expected long-term pension trend | 1.5 | 1.4 to 6.7 | 1.5 | 1.5 to 5.0 |
| Expected long-term country-specific inflation | 1.7 | 1.5 to 2.9 | 2.0 | 1.1 to 5.0 |
| Expected country-specific fluctuation | 4.8 | 3.0 to 5.0 | 5.0 | 1.2 to 5.0 |
| Expected return on plan assets | 5.0 | 5.0 to 5.6 | 2.1 | 1.0 to 6.3 |

The present value of pension obligations developed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| As of 1 January | 168,561 | 175,501 |
| Current service cost | 1,798 | 1,595 |
| Interest cost | 9,374 | 9,498 |
| Actuarial gains and losses | -192 | -3,382 |
| Currency changes arising from non-euro-denominated plans | 228 | -738 |
| Benefits paid | -12,883 | -13,913 |
| Reclassification to other liabilities (see note 30) | -4,365 | - |
| Settlements | 461 | - |
| **As of 31 December** | **162,982** | **168,561** |

Plan assets changed as follows in the past financial year:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| As of 1 January | 17,312 | 21,175 |
| Expected return on plan assets | 622 | 33 |
| Actuarial gains and losses | -89 | -3,309 |
| Currency changes arising from non-euro-denominated plans | 138 | -332 |
| Employer contributions | 1,091 | 323 |
| Benefits paid | -639 | -578 |
| Reclassification to other liabilities (see note 30) | -4,365 | - |
| **As of 31 December** | **14,070** | **17,312** |

A return of €701 thousand is forecast for the 2009 financial year.

The portfolio structure of plan assets is as follows:

| | 31 Dec. 2009 | | 31 Dec. 2008 | |
|---|---|---|---|---|
| | *in Euro thousand* | *%* | *in Euro thousand* | *%* |
| Annuities/annuity funds | 9,049 | 64 | 12,901 | 74 |
| Equities/equity funds | 3,580 | 25 | 3,101 | 18 |
| Property | 1,003 | 8 | - | - |
| Cash and cash equivalents | 151 | 1 | 979 | 6 |
| Other items | 287 | 2 | 331 | 2 |
| **Plan assets** | **14,070** | **100** | **17,312** | **100** |

Provisions for pensions can be derived from pension obligations, plan assets and actuarial gains and losses as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Present value of defined benefit obligation | 173,488 | 170,180 |
| Unrealised actuarial gains and losses | -10,506 | -1,619 |
| Present value of pension obligations | 162,982 | 168,561 |
| Fair value of plan assets | -14,070 | -17,312 |
| **Provisions for pensions as of 31 December** | **148,912** | **151,249** |

Taking into account unrealised actuarial gains (corridor), the obligation amounted to Euro 159,418 thousand (previous year: Euro 152,868 thousand).

The following table provides a five-year overview of changes in net pension provisions:

» See table 41 page 77

### 41 Provision for pension - 5-year overview

| *in Euro thousand* | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Present value of pension obligations for which there are no plan assets | 169,509 | 168,423 | 153,499 | 150,718 | 147,988 |
| Present value of pension obligations for which there are plan assets | 21,074 | 22,626 | 22,002 | 17,843 | 14,994 |
| Present value of pension obligations | 190,583 | 191,049 | 175,501 | 168,561 | 162,982 |
| Plan assets | -17,117 | -19,406 | -21,175 | -17,312 | -14,070 |
| Amount recognised in liabilities | 173,466 | 171,643 | 154,326 | 151,249 | 148,912 |
| Surplus from plan assets | 533 | 401 | 1 | 0 | 584 |

### 43 Non-current and current provisions for personnel

| in Euro thousand | Non-current provisions for: Partial retirement | Anniversary bonuses | Severance pay | Total | Current provisions | Total |
|---|---|---|---|---|---|---|
| **As of 1 January 2008** | **10,470** | **5,115** | **3,787** | **19,372** | **8,234** | **27,606** |
| Currency adjustments | 0 | -56 | -180 | -236 | -179 | -415 |
| Utilisation | -3,212 | -356 | -162 | -3,730 | -7,728 | -11,458 |
| Reversals | 0 | -72 | -364 | -436 | -39 | -475 |
| Additions | 2,123 | 557 | 521 | 3,201 | 7,979 | 11,180 |
| Changes in consolidated group | 0 | 0 | 246 | 246 | 148 | 394 |
| **As of 1 January 09** | **9,381** | **5,188** | **3,848** | **18,417** | **8,415** | **26,832** |
| Currency adjustments | 0 | 5 | 74 | 79 | 41 | 120 |
| Utilisation | -3,566 | -492 | -829 | -4,887 | -6,855 | -11,742 |
| Reversals | 0 | 0 | -2 | -2 | -863 | -865 |
| Additions | 3,204 | 615 | 1,208 | 5,027 | 9,998 | 15,025 |
| Reclassifications | 0 | 0 | -255 | -255 | -41 | -296 |
| Changes in consolidated group | 0 | 0 | 0 | 0 | 0 | 0 |
| **As of 31 December 2009** | **9,019** | **5,316** | **4,044** | **18,379** | **10,695** | **29,074** |

### 44 Other non-current and current provisions

| in Euro thousand | Non-current provisions | Current provisions for: Warranties | Restructuring | Other taxes | Miscellaneous | Summe | Total |
|---|---|---|---|---|---|---|---|
| **As of 1 January 2008** | **5,166** | **11,266** | **4,513** | **1,008** | **7,503** | **24,290** | **29,456** |
| Currency adjustments | -147 | -158 | 0 | -15 | -307 | -480 | -627 |
| Utilisation | -470 | -3,376 | -2,632 | -198 | -4,076 | -10,282 | -10,752 |
| Reversals | -995 | -983 | 0 | 0 | -429 | -1,412 | -2,407 |
| Additions | 497 | 1,714 | 424 | 60 | 4,432 | 6,630 | 7,127 |
| Reclassifications | 0 | -80 | 0 | 0 | 80 | 0 | 0 |
| Changes in consolidated group | 1 | 612 | 0 | 2 | 228 | 842 | 843 |
| **As of 1 January 2009** | **4,052** | **8,995** | **2,305** | **857** | **7,431** | **19,588** | **23,640** |
| Currency adjustments | 109 | 58 | 93 | 7 | 5 | 163 | 272 |
| Utilisation | -237 | -2,336 | -1,786 | -101 | -5,375 | -9,598 | -9,835 |
| Reversals | 0 | -353 | -1 | 0 | -550 | -904 | -904 |
| Additions | 1,953 | 1,230 | 46,487 | 102 | 6,495 | 54,314 | 56,267 |
| Reclassifications | 0 | -269 | -293 | -654 | -201 | -1,417 | -1,417 |
| **As of 31 December 2009** | **5,877** | **7,325** | **46,805** | **211** | **7,805** | **62,146** | **68,023** |

### 45 Non-current and current financial liabilities

| in Euro thousand | 31 Dec. 2009 | thereof non-current | 31 Dec. 2008 | thereof non-current |
|---|---|---|---|---|
| Germany | 26,265 | 25,000 | 46,265 | 45,000 |
| Eurozone excl. Germany | 25,702 | 25,000 | 25,699 | 25,000 |
| Other international destinations | - | - | 5,526 | - |
| **Carrying amount** | **51,967** | **50,000** | **77,490** | **70,000** |

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Current service cost | 1,798 | 1,595 |
| Interest cost | 9,374 | 9,498 |
| Expected return on plan assets | 622 | 33 |
| Amortised actuarial gains and losses | -103 | -73 |
| | 11,691 | 11,053 |

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

## 27. 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 43 page 78

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 9,858 thousand (previous year: Euro 7,991 thousand).

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

## 28. Other non-current and current provisions

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

» See table 44 page 78

Non-current provisions relate to precautionary measures for environmental protection and recultivation projects. The provision for environmental protection measures in the amount of Euro 5,877 thousand (previous year: Euro 4,052 thousand) covers the expected financial burden arising from the recultivation of landfill sites, the elimination of environmental impact at existing production facilities, certified carbon dioxide emissions and similar measures. As of the reporting date, a provision of Euro 2,333 thousand (previous year: Euro 2,373 thousand) was recognised for recultivation projects.

Company-specific past data was taken as a basis for the measurement of the provision for warranties. 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.

The provision for restructuring was derived on the basis of the expenses still anticipated for the restructuring programme defined for the Villeroy & Boch Group. These expenses are not assigned to operating activities. A description of the restructuring programme can be found in the management report. The restructuring is expected to be largely completed by 31 December 2010.

Other tax provisions include obligations for wealth tax of Euro 156 thousand (previous year: euro 423 thousand).

Miscellaneous other provisions primarily relate to provisions for commissions, audit costs, license fees as well as litigation costs. Concerning the risk relating to the antitrust proceedings illustrated in the Management Report, a provision building has not been considered as being necessary.

## 29. Non-current and current financial liabilities

Financing was obtained from banks in the following regions:

» See table 45 page 78

Receivables from and liabilities to banks were offset in the amount of Euro 4,941 thousand (previous year: Euro 1,448 thousand), as the offsetting conditions have been met and the company intends to settle the respective positions on a net basis.

## 30. Other non-current and current liabilities

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

» See table 46 page 81

In the change in current personnel liabilities, the reduction in flexitime credit and residual holiday entitlement almost fully offset the rise in wage obligations paid in January 2010. Non-current personnel liabilities rose mainly as a result of the reclassification from provisions for pensions (see note 26).

Other tax liabilities primarily relate to liabilities for payroll and church tax in the amount of Euro 4,290 thousand (previous year: Euro 3,551 thousand) and value added tax in the amount of Euro 4,469 thousand (previous year: Euro 2,930 thousand).

The remeasurement of hedging instruments (see note 55) led to a decline in negative fair values in equity to Euro 1,629 thousand (previous year: Euro 10,365 thousand). This includes hedges on interest rates of Euro 262 thousand (previous year: Euro 530 thousand), currencies of Euro 934 thousand (previous year: Euro 3,949 thousand) and commodities Euro 433 thousand (previous year: Euro 5,886 thousand).

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

Deferred income essentially relates to investment grants and subsidies. Government grants were primarily granted in Romania, Italy, Germany and Hungary. The subsidies served to support the acquisition of non-current assets with a long useful life. In Romania, the subsidised assets are already in use. The emission allowances granted free of charge in Hungary, Romania and Germany are recognised in the amount of Euro 344 thousand (previous year: Euro 81 thousand) (see note 5).

## 31. Trade payables

Trade payables relate to:

| *in Euro thousand* | **2009** | **2008** |
|---|---|---|
| Germany | 23,848 | 33,013 |
| Eurozone excl. Germany | 8,415 | 10,200 |
| Other international destinations | 12,829 | 13,423 |
| **Carrying amount as of 31 December** | **45,092** | **56,636** |

Liquidity management ensures the timely settlement of liabilities (see note 55).

## 32. Non-current and current income tax liabilities

Income tax liabilities are composed as follows:

| *in Euro thousand* | **2009** | **thereof non-current** | **2008** | **thereof non-current** |
|---|---|---|---|---|
| Income tax liabilities | 239 | - | 423 | - |
| Income tax provisions | 3,635 | - | 3,072 | - |
| **Carrying amount as of 31 December** | **3,874** | **-** | **3,495** | **-** |

Income tax liabilities in the amount of Euro 239 thousand (previous year: Euro 423 thousand) primarily relate to foreign companies and contain unpaid taxes on income. Concerning the income tax provisions, an amount of Euro 2,741 thousand at the balance sheet date concerns companies in Germany (previous year: Euro 2,428 thousand).

## 33. Assets classified as held for sale and dedicated liabilities

A foreign location of the Bathroom & Wellness Division is to be sold as part of the restructuring programme. The potential buyer intends to continue production in the property rented from the Villeroy & Boch Group. In doing so, it will take on assets and liabilities of the company. The liabilities of Euro 2.2 million essentially comprise personnel provisions and trade payables.

### 46 Other non-current and current liabilities

| in Euro thousand | Carrying amount 31 Dec. 2009 | Remaining term Up to 1 year | More than 1 year | Carrying amount 31 Dec. 2008 | Remaining term Up to 1 year | More than 1 year |
|---|---|---|---|---|---|---|
| Advance payments received on account of orders | **1,999** | 1,999 | 0 | **1,281** | 1,281 | 0 |
| Personnel liabilities | **24,180** | 22,327 | 1,853 | **23,420** | 22,775 | 645 |
| Bonus liabilities | **31,162** | 31,162 | 0 | **36,276** | 36,276 | 0 |
| Other tax liabilities | **10,484** | 10,484 | 0 | **8,312** | 8,312 | 0 |
| Fair value changes of cash flow hedges | **1,629** | 1,629 | 0 | **10,365** | 10,195 | 170 |
| Miscellaneous other liabilities | **6,745** | 5,291 | 1,454 | **6,202** | 4,760 | 1,442 |
| Deferred income | **1,405** | 476 | 929 | **1,535** | 499 | 1,036 |
| | **77,604** | **73,368** | **4,236** | **87,391** | **84,098** | **3,293** |

# Notes to the consolidated income statement

## 34. Revenue

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

## 35. 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 declined slightly in proportion to revenues. This is due to the direct costs for the restructuring programme, which are included in this line in the amount of Euro 55,683 thousand.

## 36. 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 development as follows:

| in Euro thousand | 2009 | 2008 |
|---|---|---|
| Bathroom and Wellness | 7,008 | 7,518 |
| Tableware | 2,386 | 2,739 |
| | **9,394** | **10,257** |

## 37. General and administrative expenses

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

## 38. Other operating income

Other operating income is composed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Exchange rate gains | 14,931 | 14,668 |
| License income | 2,102 | 4,680 |
| Reimbursement for damages | 2,009 | 867 |
| Reversal of provisions | 1,069 | 2,616 |
| Book profits on the disposal of non-current assets | 970 | 515 |
| Reversal of valuation allowances on receivables | 515 | 737 |
| Miscellaneous other operating income | 5,009 | 6,037 |
| **Total** | **26,605** | **30,120** |

Exchange rate gains mostly arise from hedging, where the transaction is accounted for at the daily exchange rate. The difference to the hedging rate is then illustrated separately as trading result. The net negative trading result (see note 39) results from the relatively strong Euro exchange rate within the reporting period compared with the hedging in the previous year.

Miscellaneous other operating income includes a number of individual items.

## 39. Other operating expenses

Other operating expenses are composed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Exchange rate losses | 17,776 | 15,791 |
| Impairment losses on goodwill | 14,735 | - |
| Addition to valuation allowances on receivables | 4,031 | 2,102 |
| Consulting services | 1,915 | 2,856 |
| Miscellaneous other operating income | 11,196 | 10,949 |
| **Total** | **49,653** | **31,698** |

The additions to valuation allowances on trade receivables (see note 12) are mainly included in the cost of additions to valuation allowances on receivables.

Miscellaneous other operating expenses include expenses for the disposal of non-current assets, maintenance costs and insurance premiums, among other things.

## 40. Result from investments accounted for using the equity method

The result from companies accounted for using the equity method contains income from investments in an associated company in the amount of Euro 374 thousand (previous year: Euro 120 thousand).

## 41. Finance income

Finance income consists of:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Interest income from | | |
| Cash and cash equivalents | 1,404 | 5,060 |
| Loans and receivables | 460 | 790 |
| Held-to-maturity investments | 1,615 | 1,260 |
| Other investments | 74 | 474 |
| **Total interest income** | **3,553** | **7,584** |
| Other finance income | 5 | 24 |
| **Total finance income** | **3,558** | **7,608** |

Finance income declined by Euro 4,050 thousand in the reporting year to Euro 3,558 thousand. This is essentially due to a much lower interest rate level for short-term investments as against the previous year. The Villeroy & Boch Group generated interest income of Euro 1,615 thousand (previous year: Euro 1,260 thousand) on medium-term investments that were largely concluded in 2008.

## 42. Finance expense

Finance expense developed as follows in the year under review:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Finance expense from | | |
| Overdraft facilities | -1,497 | -2,932 |
| Long-term borrowing interest | -3,763 | -3,998 |
| Other borrowing | -6 | -8 |
| **Total interest expense** | **-5,266** | **-6,938** |
| Other finance expense | -88 | -1 |
| **Total external finance expense** | **-5,354** | **-6,939** |
| Interest expense on provisions | -9,012 | -8,739 |
| **Total finance expense** | **-14,366** | **-15,678** |

Interest expenses declined by Euro 1,672 thousand in the reporting year to Euro 5,266 thousand, mainly as a result of lower interest rates on short-term borrowing.

## 43. 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 are generally based on 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%. Foreign income tax is calculated on the basis of the applicable statutory provisions and ordinances in the respective countries. Rates vary between 19.0% and 34.0%.

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Taxes paid or due in Germany | -1,940 | -2,323 |
| Taxes paid or due outside Germany | -202 | -1,486 |
| | -2,142 | -3,809 |
| Deferred taxes | +2,142 | -1,190 |
| **Income taxes** | **0** | **-4,999** |

The effective tax rate is 0% (previous year: 31.16%).

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

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Result before income taxes | -96,543 | 16,041 |
| Expected income tax (EBT x tax rate of 29.5%) | +28,480 | -4,732 |
| Differences arising from foreign tax rates | 398 | 338 |
| Tax effects arising from: | | |
| Non-deductible expenses | -1,448 | -1,426 |
| Write-downs on deferred taxes | -20,335 | 530 |
| Effect of tax free write-down | -4,347 | - |
| Other tax deferments | -2,748 | 291 |
| Actual income tax expense | 0 | -4,999 |
| Actual tax rate in % | 0 | 31.16% |

The sharp rise in losses in the reporting year led to high income from the recognition of deferred tax assets on loss carryforwards. This was offset by relatively low current tax expenses for the current year. The high losses of the 2009 financial year led to a surge in the range of tax loss carryforwards. As a result, write-downs on deferred taxes were increased considerably. This led to a neutral tax result.

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* | 2009 | 2008 |
|---|---|---|
| Change in deferred tax assets | 2,323 | -1,603 |
| Change in deferred tax liabilities | -227 | 791 |
| Change in deferred tax assets and liabilities taken directly to equity | +46 | -378 |
| **Deferred taxes recognised in the income statement** | **2,142** | **-1,190** |

## 44. Result after tax attributable to minority interests

Minority interests accounted for Euro -104 thousand of the result after tax (previous year: Euro -10 thousand).

## 45. 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 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Number of shares in circulation | 14,044,800 | 14,044,800 |
| Proportionate consolidated net income (Euro thousand) | -51,622 | 5,549 |
| Earnings per share (Euro) | -3.68 | 0.40 |

| **Preference shares** | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Number of shares in circulation | 12,361,771 | 12,361,771 |
| Proportionate consolidated net income (Euro thousand) | -44,817 | 5,503 |
| Earnings per share (Euro) | -3.63 | 0.45 |

The distribution of consolidated net income is performed in accordance with the allocation of profit set out in the Articles of Association (see note 17). 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 17.

## 46. Depreciation and amortisation

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

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Amortisation of intangible assets | 1,668 | 1,503 |
| Impairment losses of intangible assets | 147 | - |
| Goodwill impairment | 14,735 | - |
| Depreciation of property, plant and equipment | 32,419 | 35,449 |
| Impairment losses of property, plant and equipment | 7,414 | 987 |
| Depreciation of investment property | 803 | 810 |
| Write-downs of financial assets | 12 | - |
| **Total depreciation and amortisation** | **57,198** | **38,749** |

Impairment losses on property, plant and equipment recognized in previous financial years of Euro 233 thousand was reversed in the reporting year (see note 6) as the reason for the original impairment no longer applied. Impairment losses were recognised under the restructuring programme in the amount of Euro 147 thousand on intangible assets, Euro 4,735 thousand on goodwill (see note 5 for both) and Euro 7,414 thousand on property, plant and equipment (see note 6).

## 47. Cost of materials

The cost of materials comprises the following:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Cost of raw materials and supplies (including primary products) | 103,502 | 144,736 |
| Cost of purchased goods | 87,363 | 96,125 |
| | **190,865** | **240,861** |
| Cost of purchased services | 43,930 | 46,793 |
| **Total cost of materials** | **234,795** | **287,654** |

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

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

## 48. Personnel expenses

Personnel expenses are composed as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Wages and salaries | 210,183 | 232,934 |
| Post-employment benefit costs | | |
| Defined benefit plans (see note 26) | 11,691 | 11,053 |
| Defined contribution plans | 17,083 | 17,531 |
| Termination benefits | 46,382 | 3,190 |
| Other benefits | 26,544 | 31,790 |
| **Total personnel expenses** | **311,883** | **296,498** |

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 include Euro 44,845 thousand for settlements relating to the implementation of the restructuring programme:

| **Number of employees** | 2009 | 2008 |
|---|---|---|
| Wage earners | 5,690 | 6,255 |
| Salaried employees | 3,750 | 3,938 |
| | **9,440** | **10,193** |

Of the workforce as a whole, a total of 2,834 people are employed in Germany (previous year: 3,001), with the remaining 6,606 employed outside Germany (previous year: 7,192).

| **Number of employees** | 2009 | 2008 |
|---|---|---|
| Bathroom and Wellness | 6,274 | 6,879 |
| Tableware | 2,755 | 2,894 |
| Other | 411 | 420 |
| | **9,440** | **10,193** |

The decline in headcount is mainly due to the downsizing in connection with the restructuring programme.

## 49. Other taxes

Other taxes amounted to Euro 4,361 thousand (previous year: Euro 3,741 thousand) and are composed as follows:

| *in Euro thousand* | 2009 | | 2008 | |
|---|---|---|---|---|
| | Germany | Abroad | Germany | Abroad |
| Wealth tax | 0 | 223 | 0 | 223 |
| Vehicle tax | 173 | 99 | 16 | 95 |
| Real estate tax | 633 | 942 | 445 | 1,036 |
| Miscellaneous other taxes | 113 | 2,178 | 25 | 1,901 |
| **Total other taxes** | **919** | **3,442** | **486** | **3,255** |

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

## 50. Cash flow from operating activities

Cash flow from operating activities is determined indirectly by adjusting the consolidated result after tax for non-cash income and expenses, such as depreciation and amortisation, and changes in operating assets affecting cash.

In the year under review, cash flow from operating activities climbed by Euro 32,983 thousand year-on-year to Euro 50,462 thousand. This change is mainly due to the reduction in inventories of Euro 36,116 thousand. The reduction in trade receivables and other assets was offset by the decline in trade payables and other liabilities of roughly the same amount.

The high negative result for the year had only a limited effect on operating cash flow. The main elements of this loss are either non-cash – such as impairment losses or the write-downs on non-current assets due to restructuring – or only led to provisions in the financial year. Cash utilisation will therefore not occur until after 31 December 2009.

The line "Other non-cash income and expenses" includes:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Interest arising from the change in provisions for pensions and similar obligations | 8,993 | 8,673 |
| Income/expenses for tax provisions | 1,306 | 2,619 |
| Income/expenses for deferred taxes | -2,096 | 809 |
| Other non-cash items | -369 | -135 |
| | **7,834** | **11,966** |

## 51. Cash flow from investing activities

Cash flow from investing activities primarily results from the outflow of funds for investments in non-current assets and the inflow of funds from disposals of non-current assets and the inflow from fixed-term deposits. Net cash used in investing activities totalled Euro 4,421 thousand in the year under review (previous year: Euro 22,294 thousand).

In the 2009 financial year, the Villeroy & Boch Group invested Euro 19,551 thousand in intangible assets and property, plant and equipment (previous year: Euro 26,664 thousand). In the previous year there was also an additional Euro 9,493 thousand mainly in payments for the acquisition of consolidated companies. This change of Cash flow in investing activities compared to the previous year amounts to Euro 26,715 thousand is mainly due to the cash flow from a time deposit of Euro 20,787 thousand. In addition, the previous year's figure was influenced in the amount of Euro 7,857 thousand by residual payments in connection with the disposal of tile activities.

## 52. Cash flow from financing activities

Cash flow from financing activities in 2009 was largely influenced by the change in non-current financial liabilities (see note 29) and the payment of the dividend. The total cash outflow from financing activities in the year under review was Euro 34,698 thousand (previous year: cash inflow of Euro 12,169 thousand).

## 53. Cash and cash equivalents

Cash and cash equivalents totalled Euro 78,783 thousand at the balance sheet date (previous year: Euro 58,978 thousand). Foreign currency translation effects amounted to Euro - 380 thousand in the year under review (previous year: Euro 797 thousand).

### 66 Business segments - revenue

| in Euro thousand | Revenue from external customers | | Intersegment revenue | | Total | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Bathroom and Wellness | 426,715 | 521,081 | 608 | 743 | 427,323 | 521,824 |
| Tableware | 288,595 | 319,803 | 15 | 14 | 288,610 | 319,817 |
| Total segment revenue | 715,310 | 840,884 | 623 | 757 | 715,933 | 841,641 |
| Eliminations | 0 | 0 | -623 | -757 | -623 | -757 |
| **Consolidated revenue** | **715,310** | **840,884** | **0** | **0** | **715,310** | **840,884** |

### 68 Business segments - assets and liabilities

| in Euro thousand | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31 Dec. 2009 | 31 Dec. 2008 | 31 Dec. 2009 | 31 Dec. 2008 |
| Bathroom and Wellness | 327,993 | 378,848 | 108,090 | 116,472 |
| Tableware | 135,028 | 173,891 | 43,699 | 50,242 |
| Reconciliation | 210,591 | 219,571 | 289,808 | 274,659 |
| **Total** | **673,612** | **772,310** | **441,597** | **441,373** |

### 69 Business segments - other information

| in Euro thousand | Additions of intangible assets and property, plant and equipment | | Depreciation and amortisation | |
|---|---|---|---|---|
| | 31 Dec. 2009 | 31 Dec. 2008 | 31 Dec. 2009 | 31 Dec. 2008 |
| Bathroom and Wellness | 15,466 | 19,750 | 22,536 | 23,476 |
| Tableware | 5,279 | 6,914 | 12,354 | 14,286 |
| **Total** | **20,745** | **26,664** | **34,890** | **37,762** |

### 70 Business segments - geographical distribution

| in Euro thousand | External revenue | | Non-current assets* | |
|---|---|---|---|---|
| **company head office** | 31 Dec. 2009 | 31 Dec. 2008 | 31 Dec. 2009 | 31 Dec. 2008 |
| German companies | 355,733 | 405,721 | 80,659 | 89,064 |
| Eurozone excl. Germany | 155,883 | 185,166 | 36,891 | 53,007 |
| Other international destinations | 203,694 | 249,997 | 112,523 | 123,903 |
| **Total** | **715,310** | **840,884** | **230,073** | **265,974** |

* in accordance with IFRS 8.33 (b)

## 54. Group segment report

The Villeroy & Boch Group organises its internal management according to product groups and reports internally in two business segments:

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** reporting 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 66 page 86

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

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Bathroom and Wellness | -65,098 | 15,431 |
| Thereof from special expenditures | (-61,298) | - |
| Tableware | -20,637 | 8,680 |
| Thereof from special expenditures | (-22,674) | - |
| **Total operating result** | **-85,735** | **24,111** |
| Net finance expense (see notes 41 and 42) | -10,808 | -8,070 |
| **Earnings before taxes** | **-96,543** | **16,041** |
| Income taxes (see note 43) | 0 | -4,999 |
| **Group result** | **-96,543** | **11,042** |

The following assets and liabilities are assigned to the segments:

» See table 68 page 86

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.

Other segment information:

» See table 69 page 86

In the previous year, the Bathroom and Wellness segment of the Villeroy & Boch Group acquired intangible assets and property, plant and equipment of Euro 10,130 thousand through acquisitions of companies in addition to the above investments.

**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 6,328 thousand (previous year: Euro 987 thousand) were recognised in income in the Bathroom and Wellness product segment. The Tableware segment reported impairment losses of Euro 1,233 thousand (previous year: euro-thousand). A description of these impairment losses can be found in note 5 for intangible assets and note 6 for property, plant and equipment.

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 70 page 86

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

## 55. Financial instruments

In addition to primary financial instruments, such as trade payables, the Villeroy & Boch Group also recognises derivative financial instruments. These are standardised finance products with values derived from an underlying that does not itself have to be traded; the main example of these in the Villeroy & Boch Group is forward exchange transactions. All financial instruments are assigned to one of the measurement categories of IAS 39 on addition. The following categories are available:

- **Assets or liabilities at fair value through profit or loss:** This category is for financial instruments held for trading or irrevocably assigned to this category. As in the previous year, the Group does not utilise this fair value option. 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. It includes, for example, time deposits and bonds. These are recognised at amortised cost using the effective interest method.

- **Loans and receivables** or **liabilities** are carried at amortised cost. These are exclusively primary financial instruments such as trade receivables.

- **Available-for-sale financial assets** are a residual category containing all of the financial instruments measured in accordance with IAS 39 that cannot be allocated to any of the first three categories. This category currently only includes investments in third-party companies.

The Villeroy & Boch Group uses financial derivatives exclusively as hedges to reduce the risks of planned transactions (**cash flow hedge**). These are recognised on the balance sheet at fair values. 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. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge.

**» See table 71 page 90**

(a) Balance sheet items not recognised under IAS 39 include, for example, investments or personnel liabilities accounted for using the equity method.

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

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

(d) Liabilities assigned to disposal groups are described in note 33.

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

**» See table 72 page 91**

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

The fair values of the financial instruments of the Villeroy & Boch Group are recognized entirely on the basis of market prices for similar transactions (= second level). As in the previous year, there were no reclassifications between stages in the 2009 financial year.

### 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

Clear responsibilities are assigned to the individual organisational units involved in the risk management process:

The risk management process begins in the *Management Board*, which defines the general principles of corporate strategy as well as the principles relating to risk policy and the corresponding reporting obligations.

*Risk Management* covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks. Actual risk management in the sense of "risk response" is 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 coordinated centrally in order to guarantee a seamless workflow.

Among other things, *Group Internal Audit* is responsible for identifying, independently evaluating and assessing risks (identification and evaluation function) and presenting recommendations for improvement (advisory function).

The Audit Committee of the *Supervisory Board* exercises a control function with respect to all risk limitation and control measures at the Villeroy & Boch Group.

The Treasury department of the Villeroy & Boch Group is responsible for the effective management of financial risks.

### Management of interest rate risks

Interest rate risk occurs as a result of interest rate fluctuations on the market when Group companies invest or borrow funds 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 using instruments such as interest rate swaps depending on the market situation. Intercompany financing and refinancing are generally structured with matching maturities. The Group recognised the following interest rate swap at the balance sheet date:

» See table 73 page 91

Fixed and variable interest was last settled as of 30 March 2010. The future interest payment is deferred in net finance costs. There were no changes in interest risk exposures or the risk management and measurement methods in the past financial year.

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. In the event of a theoretical change in interest rates in the 2009 financial year of +/- 50 bp and assuming all other variables remained constant, the net finance expense would have been Euro 333 thousand higher/lower (previous year: +/- Euro 287 thousand). Net income for the year would have been affected to the same extent. The sensitivity analysis was performed on the basis of the average interest rate risk exposure of derivative and primary financial instruments as of 31 December, taking into account the major interest rate currencies at the appropriate local interest level.

### 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 the Group for each currency. The remaining exchange rate risk is initially hedged at a level of 70% (previous year: 95%) on the basis of past experience. There was no further modification in the management of exchange rate risks.

On conclusion of the contract it is demonstrated that possible currency fluctuations in the planned hedged item are virtually offset by the opposing effects of the hedge throughout the term of the contract. To do this, the closing prices are calculated with changes of +/-10% to then calculate the respective deviation. The same calculation is repeated at each reporting date on the basis of current market prices. Any gap in cover in the pending contracts within a corridor of 80% to 125% is recognised in the income statement. These amounted to Euro 44 thousand in the financial year (previous year: Euro 64 thousand). If changes go beyond this corridor, the hedge is terminated and all changes in fair value are recognised in full in the income statement.

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:

» See table 74 page 91

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: GBP 3,616 thousand, CHF 5,820 thousand, HUF 2,239 thousand and RON 12,156 thousand. In the event of a change in the respective share prices of +/-10% and assuming that all other variables remained constant, the carrying amounts as of 31 December 2009 would have been Euro 227 thousand higher/lower, while the income statement would not have been affected. There were no material unhedged currency positions in the previous year.

### 71 Financial instruments as of Dec. 2009

*in Euro thousand*

| Measurement: | Nominal amount | Amortised cost | | | Fair value | Carrying amount as of 31 Dec. 2009 | Fair value as of 31 Dec. 2009 |
|---|---|---|---|---|---|---|---|
| **Measurement category:** / **Balance sheet item/ class:** | **Cash reserve** | **Loans and receivables** | **Available for sale** | **Held to maturity** | **Cash flow hedge** | | |
| 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** |
| **Financial assets not recognised under IAS 39 (a)** | | | | | | 11,502 | - |
| **Other assets (b)** | | | | | | 419,611 | - |
| **Total assets** | | | | | | **673,612** | **-** |

*in Euro thousand*

| Measurement: | Amortised cost | Fair value | Carrying amount as of 31 Dec. 2009 | Fair Value as of 31 Dec. 2009 |
|---|---|---|---|---|
| **Measurement category:** / **Balance sheet item/ class:** | **Liabilities** | **Cash flow hedge** | | |
| 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** |
| **Financial liabilities not recognised under IAS 39 (a)** | | | 285,951 | - |
| **Liabilities assigned to disposal groups (IFRS 5) (d)** | | | 2,184 | |
| **Other equity and liabilities (c)** | | | 246,882 | - |
| **Total equity and liabilities** | | | **673,612** | **-** |

(a) Balance sheet items not recognised under IAS 39 include, for example, investments or personnel liabilities accounted for using the equity method.

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

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

(d) Liabilities assigned to disposal groups are described in note 33.

## 72 Financial instruments as of Dec. 2008

| *in Euro thousand* Measurement: | Nominal amount | Amortised cost | | | Fair value | Carrying amount as of 31 Dec. 2008 | Fair value as of 31 Dec. 2008 |
|---|---|---|---|---|---|---|---|
| **Measurement category:** / **Balance sheet item/ class:** | **Cash reserve** | **Loans and receivables** | **Available for sale** | **Held to maturity** | **Cash flow hedge** | | |
| Cash and cash equivalents | 58,978 | - | - | - | - | 58,978 | 58,978 |
| Trade receivables | - | 126,580 | - | - | - | 126,580 | 126,580 |
| Other receivables | - | 11,064 | 0 | 0 | - | 11,064 | 11,064 |
| Loans to related and third parties | - | 11,373 | 0 | 0 | - | 11,373 | 11,373 |
| Other financial assets | - | 0 | 12,280 | 41,392 | 4,776 | 58,448 | 58,448 |
| | **58,978** | **149,017** | **12,280** | **41,392** | **4,776** | **266,443** | **266,443** |

| *in Euro thousand* Measurement: | Amortised cost | Fair value | Carrying amount as of 31 Dec. 2008 | Fair Value as of 31 Dec. 2008 |
|---|---|---|---|---|
| **Measurement category:** / **Balance sheet item/ class:** | **Liabilities** | **Cash flow hedge** | | |
| Trade payables | 56,636 | - | 56,636 | 56,636 |
| Non-current and current financial liabilities | 77,490 | - | 77,490 | 77,490 |
| Other liabilities | 43,759 | 10,366 | 54,125 | 54,125 |
| | **177,885** | **10,366** | **188,251** | **188,251** |

## 73 Interest-rate swap

| Final maturity | Currency | Transaction volume | Change in fair value in Euro thousand | Fixed interest | Reference interest |
|---|---|---|---|---|---|
| 30/03/2010 | EUR | 5,000,000 | 262 | 5.76% | 6-month Euribor |

## 74 Currency future

| | Assets | | Liabilities | |
|---|---|---|---|---|
| *in Euro thousand* | **Transaction volume** | **Changes in fair value** | **Transaction volume** | **Changes in fair value** |
| within the next 3 months | 4,900 | 90 | 11,085 | 317 |
| in 3 to 6 months | 12,122 | 273 | 11,062 | 311 |
| in 6 to 12 months | 15,014 | 391 | 10,234 | 306 |
| | **32,036** | **754** | **32,381** | **934** |

## Management of market price risks

Market price risk results 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 reducing this by concluding hedges. Accordingly, the procurement prices for natural gas and brass are hedged. There were no changes in the type or extent of these risks or the risk management and measurement methods in the past financial year.

The purchase price for natural gas, which is used to fire production kilns, is linked to quoted oil prices in Luxembourg and Germany. Price fluctuations are eliminated by concluding oil swaps with planned future gas consumption at the Group's sites as the designated underlying. Swaps entered into for hedging purposes are only concluded with first-class banks. On conclusion of contracts it is confirmed that possible price fluctuations in the planned hedged items are virtually offset by the opposing effects of the hedges. A price fluctuation of +/-10% is considered. The cumulative absolute change in the fair value of the commodity swap is compared against the cumulative absolute change in the fair value of commodity procurement as of each balance sheet date to calculate the corresponding cover. The effect of a swap agreement with a fair value of Euro 35 thousand was reclassified from the valuation surplus (see note 21) to the income statement on the balance sheet date as the cover of 125% was exceeded. There was also a shortfall in cover of Euro 32 thousand (previous year: Euro 11 thousand) on 31 December 2009.

The Group's gas price hedges are contracted as follows:

» See table 75 page 93

Due to the current market situation, all contracts are currently reported in financial liabilities (see note 30).

At the balance sheet date, the Group had an unhedged gas position of around 425 metric tonnes (previous year: 6,724 tonnes). In the event of a change in quoted crude oil prices of +/-10% and assuming that all other variables remained constant, the carrying amounts at 31 December 2009 would have been Euro 13 thousand higher/lower (previous year: Euro 109 thousand). The ineffective portion would have had an effect of +/- Euro 0 thousand (previous year: Euro 3 thousand) on the income statement.

The Group hedges the price risk of a brass alloy for high-quality sanitary fittings by commodity swaps with a first-class bank. Monthly requirements are calculated on the basis of production planning. On account of the favourable price in February 2009, Villeroy & Boch opted to extend the hedge period from one to two years as of 31 December 2011. There was no further modification in the management of brass price risks. 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.

The following table presents the cash flows:

» See table 76 page 93

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 2010 and 2011, there is an unhedged brass position of 1,380 tonnes (previous year: 150 tonnes for the 2009 financial year). 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 December 2009 would have been Euro 472 thousand higher/lower (previous year: Euro 23 thousand). As in the previous years, these two scenarios would have had no effect on the income statements.

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

## Management of credit/default risks

Credit or default risks exist as long as there is a doubt as to whether a contractual party will meet its obligations, such as a bank for cash investments or customers for trade receivables. In order to minimise these risks, the guidelines of the Villeroy & Boch Group state that business relationships may only be entered into with creditworthy business partners and, if necessary, subject to the provision of collateral.

For banks, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established on the basis of predefined categories derived from the ratings issued by international rating agencies or internal examinations of creditworthiness. Default risk is regularly monitored insofar as compliance with the established limits for banks is ensured on an ongoing basis and limits are adjusted to reflect changes in market conditions as appropriate. 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 investment, e.g. by the Deposit Protection Fund of the Association of German Banks, the joint liability scheme of the Sparkassen-Finanzgruppe or the protection scheme of the German Cooperative Banking Group.

The main receivables from customers are protected by trade credit insurance. The default risk for uninsured customers 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 from customers (mortgages, guarantees, etc.), through prompt collection measures and the early recognition of specific valuation allowances. Specific valuation allowances are recognised in particular in the event of significant financial difficulties on the part of the debtor and impending bankruptcy. The carrying amount of trade receivables (see note 12) represents the maximum theoretical risk of default.

### 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 performing a twelve-month liquidity projection supplemented by short-term liquidity forecasts.

The financial instruments used for this purpose are money market products (see note 16), medium-term investments (see note 12) and borrowings (see note 29). The financing requirements of Group companies are generally covered in full by internal lending. To the extent that legal, tax or other circumstances do not permit this, external loans are provided for the Group companies involved. 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.

Central Treasury receives information from all Group companies in order to allow it to prepare a liquidity profile. The twelve-month liquidity projection is used to monitor forecast and actual cash flows on an ongoing basis. The maturity profiles of financial assets and liabilities are also compared. In addition to a cash flow statement and the three general liquidity classes, the Villeroy & Boch Group uses key figures such as the dynamic debt/equity ratio, debt coefficients and working capital to control its liquidity risk.

The remaining contractual terms of financial liabilities measured under IAS 39 are included in liquidity planning as follows:

» See table 77 page 94

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

#### 75 Gas futures

| | Transaction volume | | Changes in fair value |
|---|---|---|---|
| | *in Tons* | *in Euro thousand* | *in Euro thousand* |
| within the next 3 months | 6,018 | 2,401 | 315 |
| in 3 to 6 months | 1,340 | 528 | 73 |
| in 6 to 12 months | 950 | 374 | 45 |
| | **8,308** | **3,303** | **433** |

#### 76 Brass futures

| | Transaction volume | | Changes in fair value |
|---|---|---|---|
| | *in Tons* | *in Euro thousand* | *in Euro thousand* |
| within the next 3 months | 180 | 478 | 196 |
| in 3 to 6 months | 180 | 478 | 201 |
| in 6 to 12 months | 360 | 956 | 407 |
| in more than 12 months | 600 | 1,554 | 730 |
| | **1,320** | **3,466** | **1,534** |

years. (a) The cash flow from current and non-current financial liabilities includes future interest payments of Euro 5,652 thousand (previous year: Euro 13,051 thousand) that will not be incurred until after 31 December 2009. It also includes the outflow of cash from bank settlement (see note 29). (b) The transaction volume of Euro 35,956 thousand (previous year: Euro 48,620 thousand) of cash flow hedge liabilities is offset by the opposing effects of the respective hedged items. As of the balance sheet date, a net effect of Euro 1,629 thousand (previous year: Euro 10,365 thousand) is forecast, equal to the balance sheet item. Euro 894 thousand of this will be settled in the next three months (previous year: Euro 2,607 thousand).

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

## Net income from financial instruments

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

**» See table 78 page 95**

Interest income costs amounted to Euro - 1,782 thousand after Euro 180 thousand in the previous year. This change is essentially due to significantly lower interest on investments as against the previous year. The development of cash flow hedges is described in note 21. The net income from write-downs is essentially based on changes in write-downs on trade receivables (see note 12).

### 77 Liquidity planning

| | | Cash outflow expected in the following time bands | | | | |
|---|---|---|---|---|---|---|
| *in Euro thousand* | Carrying amount as of 31 Dec. | Gross | Within 3 months | Between 3 months and 1 year | Between 1 and 5 years | More than 5 years |
| Trade payables | 56,636 | 56,636 | 56,636 | - | - | - |
| Non-current and current financial liabilities (a) | 77,490 | 88,440 | 1,448 | 9,373 | 77,619 | - |
| Other liabilities | 43,759 | 43,841 | 31,344 | 10,983 | 1,514 | - |
| Cash flow hedges liabilities (b) | 10,365 | 48,620 | 11,062 | 33,053 | 4,505 | - |
| **Totals as of 31 December 2008** | **188,250** | **237,537** | **100,490** | **53,409** | **83,638** | **-** |
| 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 hedges liabilities (b) | 1,629 | 35,946 | 13,748 | 22,198 | - | - |
| **Totals as of 31 December 2009** | **138,595** | **183,551** | **100,124** | **28,018** | **55,409** | **-** |

## 56. Contingent liabilities and commitments

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Guarantees | 92 | 84 |
| Trustee obligations | 259 | 259 |
| Other contingencies | 16 | 15 |

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

## 57. Other financial obligations

| *in Euro thousand* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Obligations arising from orders placed | | |
| for investments in intangible assets | 30 | 66 |
| for investments in property, plant and equipment | 6,218 | 1,884 |

## 58. Related party disclosures

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 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

**78 Net result of financial instruments**

| | | Gain or loss on measurement | | | | |
|---|---|---|---|---|---|---|
| *in Euro thousand* | interest income | Fair value | Currency | Write-down | Reversal [1] | Total |
| **Net result for the 2008 financial year** | | | | | | |
| Cash and cash equivalents | 2,128 | - | - | - | - | 2,128 |
| Loans and receivables/ liabilities | -3,208 | - | 601 | -3,253 | 723 | -5,137 |
| Held-to-maturity investments | 1,260 | - | - | - | - | 1,260 |
| Cash flow hedges | - | -5,153 | -11 | 0 | -1,918 | -7,082 |
| Fair value hedges | - | 0 | 0 | 0 | 684 | 684 |
| **Net result 2008** | **180** | **-5,153** | **590** | **-3,253** | **-511** | **-8,147** |
| **Net result for the 2009 financial year** | | | | | | |
| Cash and cash equivalents | -93 | - | - | - | - | -93 |
| Loans and receivables/ liabilities | -3,304 | - | 14 | -4,887 | 2,841 | -5,336 |
| Held-to-maturity investments | 1,615 | - | - | - | - | 1,615 |
| Cash flow hedges | - | -1,577 | 95 | - | -3,801 | -5,283 |
| Derivatives from ineffective cash flow hedges | - | - | - | - | -66 | -66 |
| **Net result 2009** | **-1,782** | **-1,577** | **109** | **-4,887** | **-1,026** | **-9,163** |

[1] Reversal affecting net income

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* | 31 Dec. 2009 | 31 Dec. 2008 |
|---|---|---|
| Revenue | 163 | 131 |
| Other income and expenses | 7,485 | 7,919 |
| Receivables | 2,620 | 2,760 |
| Liabilities | 60 | 8 |

Other income and expenses primarily relate to interests in the allocation of service, advertising and rental expenses.

A long-term loan granted to V & B Fliesen GmbH is discussed in note 9(c).

With the sales contract as of 18 December 2009, a disposal site that was rented already before, had been purchased from a company-close vendor group. Thereby, the long-term usage shall be secured. The selling price amounting to Euro 748 thousand has been calculated under consideration of alternative rental expenditures.

Related persons or their family members 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.

## 59. 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.

By way of resolution of the General Meeting of Shareholders on 30 May 2008, the fixed annual basic remuneration is Euro 20,000, plus the Chairman receives Euro 45,000, his deputy Euro 13,500. Members of the Supervisory Board have received a meeting fee of Euro 1,250 for each meeting of the full Supervisory Board.

The Chairman of the Investment Committee and the Human Resource Committee respectively and the Chairman of the Audit Committee each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the relative committees each receive Euro 2,500 p.a. in addition to their basic remuneration.

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 preferential 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 82 page 97**

A total expense of Euro 400 thousand was reported in the consolidated result for the 2009 financial year (previous year: Euro 518 thousand). In addition to the fixed component and the meeting fees for 2009, expenses also include the reversal of provisions recognised in the previous year for variable remuneration and for fees not yet paid plus the reimbursement of expenses and the remuneration owed to members of foreign controlling bodies.

### Management Board remuneration

In 2009, an expense in in the amount of Euro 1,756 thousand (previous year: Euro 1,740 thousand) is included in the Consolidated Income Statement, where a reversal of provision in the amount of Euro 258 thousand is charged. The expenditure is composed of fixed (Euro 954 thousand; previous year: Euro 898 thousand) and variable salary components (Euro 802 thousand; previous year: Euro 842 thousand).

In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 4 thousand (previous year: Euro 2 thousand). The members of the Management Board received remuneration in kind totalling Euro 50 thousand (previous year: Euro 51 thousand).

The pension entitlements of Management Board members in the amount of Euro 2,451 thousand (previous year: Euro 1,707 thousand) are included in provisions for pensions.

Provisions for pensions for former members of the Management Board amount to Euro 13,220 thousand (previous year: Euro 13,363 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,363 thousand (previous year: Euro 1,742 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.

### 82 Supervisory Board earnings

| in Euro thousand | Fixed remuneration | Meeting fees 2008 | Meeting fees 2009 | Variable remuneration for 2008 | Total | Previous year |
|---|---|---|---|---|---|---|
| Wendelin von Boch-Galhau [2*), 3*)] | 55 | 1 | 5 | 5 | 66 | 32 |
| Ralf Runge | 34 | 1 | 5 | 5 | 45 | 35 |
| Peter Prinz Wittgenstein [1), 2)] | 57 | 1 | 5 | 5 | 68 | 73 |
| Dr. Alexander von Boch-Galhau | 20 | 1 | 5 | 3 | 29 | 15 |
| Eugen von Boch | 20 | 1 | 5 | 3 | 29 | 15 |
| Jürgen Beining | 20 | 1 | 5 | 3 | 29 | 15 |
| Werner Jäger [1)] | 23 | 1 | 5 | 5 | 34 | 24 |
| Dr. Jürgen Friedrich Kammer [3)] | 23 | 1 | 4 | 5 | 33 | 27 |
| Charles Krombach [1*)] | 24 | 1 | 5 | 5 | 35 | 30 |
| Dietmar Langenfeld [2)] | 23 | 1 | 5 | 5 | 34 | 28 |
| Ralf Sikorski [3)] | 23 | 1 | 5 | 3 | 32 | 16 |
| Dietmar Geuskens | 10 | - | 3 | - | 13 | - |
| Members that left in 2009 | 13 | 1 | 3 | 5 | 22 | 26 |
| Members that left in 2008 | - | - | - | 8 | 8 | 47 |
| Members that left in 2007 | - | - | - | - | - | 8 |
| Rounding differences | -7 | - | -1 | -4 | -12 | -9 |
| | **338** | **12** | **59** | **56** | **465** | **382** |

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

### 84 IASB/IFRIC regulations required to be applied since 1 January

| Standard | Name |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 23 | Borrowing Costs |
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| Amendments to | IAS 32 and IAS 1 – Puttable Instruments and Obligations Arising on Liquidation |
| Amendments to | IFRS 2 – Vesting Conditions and Cancellations |
| Amendments to | IFRS 1 and IAS 27 - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| Amendments to | IAS 39 and IFRS 7- Reclassification of Financial Assets |
| Amendments to | IAS 39 and IFRIC 9 – Reassessment of Embedded Derivatives |
| Amendments to | IFRS 7 and IFRS 4 – Improvement in Disclosures |
| various | Improvements to the International Financial Reporting Standards 2008 (with the exception of the amendment of IFRS 5) |

### 85 IASB/IFRIC regulations to be applied in the future

| Standard | Name |
|---|---|
| IAS 27 | Consolidated and Separate Financial Statements; effective for annual periods beginning from 30 June 2009 |
| IAS 32 | Financial Instruments: Presentation; effective for annual periods beginning from 1 January 2010 |
| IAS 39 | Eligible Hedged Items – amendment to IAS 39; effective for annual periods beginning from 30 June 2009 |
| IFRS 3 | Business Combinations; effective for annual periods beginning from 30 June 2009 |
| IFRIC 12 | Service Concession Arrangements; effective for annual periods beginning from 26 March 2009 |
| IFRIC 15 | Agreements for the Construction of Real Estate; effective for annual periods beginning from 31 January 2010 |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation; effective for annual periods beginning from 7 June 2009 |
| IFRIC 17 | Distributions of Non-cash Assets to Owners; effective for annual periods beginning from 31 October 2009 |
| IFRIC 18 | Transfers of Assets from Customers; effective for annual periods beginning from 1 December 2009 |
| Amendments | Changes in IAS 32 – financial instruments: Presentation; effective for annual periods beginning from 31 January 2010 |
| various | Improvements to the International Financial Reporting Standards 2008 – amendments to IFRS 5; effective for annual periods beginning from 1 July 2009 |

### 86 IASB/IFRIC regulations not yet endorsed

| Standard | Name |
|---|---|
| IAS 24 | Related party disclosures (rev. 2009) |
| IFRS 1 | First Time Adoption of IFRS |
| IFRS 9 | Financial Instruments: Amortised Cost and Impairment |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |
| Amendments to | IFRS 1 – Additional Exemptions for First-time Adopters |
| Amendments to | IFRS 2 – Group Cash-settled Share-based Payment Transactions |
| Diverse | Improvements to IFRSs (Issued 16 April 2009) |

## 60. Auditors' fees and services

The fees for the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (previous year: KPMG AG, Wirtschaftsprüfungsgesellschaft) break down as follows:

| *in Euro thousand* | 2009 | 2008 |
|---|---|---|
| Audits of financial statements | 289 | 348 |
| Other assurance or valuation services | - | 5 |
| Tax advisory services | - | 55 |
| Other benefits | 27 | 17 |

In the previous year, these fees also included remuneration paid to other KPMG companies classified as subsidiaries of KPMG AG Wirtschaftsprüfungsgesellschaft as defined by section 271 (2) HGB.

## 61. Off-balance sheet transactions

There are leases and guarantees benefiting Group companies within the Villeroy & Boch Group. Villeroy & Boch AG granted guarantees worth Euro 8,315 thousand (previous year: Euro 10,842 thousand) to Group companies. All intercompany transactions were eliminated in line with consolidation principles (see note 3).

## 62. 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 2009 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 14 December 2009. The declaration is permanently available to shareholders on the Internet.

## 63. Events after the balance sheet date

There are no significant events to report.

## 64. 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 2008:

» See table 84 page 98

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

» See table 85 page 98

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

The EU has not yet adopted the following IASB publications:

» See table 86 page 98

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 marginal extent.

Mettlach, March 4, 2010

Frank Göring Manfred Finger Volker Pruschke

For reasons of clarity the combined management report of the Villeroy & Boch AG and Group was shortened in the annual report 2009 by those texts coherent with the annual financial statements of the Villeroy & Boch AG. The auditor has issued the unqualified audit option for the complete consolidated financials statements of the Group, comprising the balance sheet, income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements as well as the unabridged combined management report of the Group and the Company. The complete text of the combined management report will be published with the German elektronischer Bundesanzeiger.

# Auditor's 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, 2009. 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 5, 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Ketterle | Waldner |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

Villeroy & Boch

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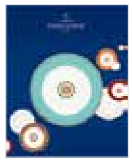
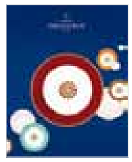
# Table of Pictures



**Cover**
The grand oasis city of *Samarkand*, which lies on the Silk Road, was the inspiration behind the name of this tableware. The tableware is decorated with a distinctly subtle interpretation of the geometric patterns found in oriental art. This is contrasted with the vivid colours of the service plates, which form an ensemble of their own.

**Page 4 and 5**
Featured here with the *New Cottage* glass design, the harmonious *Althea Nova* table decoration offers a distinctly seasonal flavour. With its intense herb motifs, some of which are highlighted with shadows, this series is a new and delicate interpretation of the current vogue for designs inspired by nature.

**Page 6 and 7**
The comprehensive *Subway* collection is a puristic, ingenious and highly functional solution that adds variety to your bathroom in a way that suits your precise requirements. With its numerous details and broad range of colours, the bespoke furniture helps give that personal touch to bathroom planning.

**Page 8 and 9**
At the heart of today's vogue for coffee are pad and hitech coffee machines as well. Offering five different cup sizes, the new *Caffè Club* basic collection, which has been specially designed for modern coffee machines, is a practical and cleverly decorated mini product range that perfectly complements your daily coffee drinking experience.

**Page 10 and 11**
*Timeline*: a timeless, minimalist and elegant built-in ceramic sink. It is extremely convenient to use thanks also to its generously sized basin and smooth-finish draining board, which is gently inclined towards the basin.

**Page 32**
With its discreetly retro design, the *Modern Grace* series combines sophisticated chic with urban purism. Made from particularly thin bone china, this ultra-delicate porcelain is highly polished and so light it almost feels as if it is floating. The innovative design also offers new ways of presenting and serving your food.

**Page 35**
With its delicate and graceful decorative flourishes, the *Samarkand* tableware collection draws on elements of oriental folklore. The colour scheme, with its warm nuances of white, ivory and sand, accentuated with gold, underlines its timeless elegance.

**Page 36**
The minimalist, rectangular shapes that characterise the *Memento* bath interiors collection are inspired by the timeless designs of the Bauhaus movement. The extravagant washbasin solution is the perfect combination of functionality and emotionality.

**Page 39**
Clear, geometric designs are the inspiration behind the unique character of the "Loop" washbasin unit series. The silhouettes of circles, squares, rectangles and ellipses provide the ideal environment for individual bathroom configurations. Combining this with the *Shape* furniture range helps create a distinctly homelike atmosphere.

# Company Calendar 2010

## 29 April 2010
Report on the first three months 2010

## 12 May 2010
Annual Meeting of Shareholders, Townhall Merzig

## 29 July 2010
Report on the first half of 2010

## 28 October 2010
Report on the first nine months 2010

# Contact and company information

This annual report is available in English and German. Both versions as well as further information can be downloaded at *www.villeroy-boch.com*.

The English version of this annual report is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.
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