Villeroy & Boch
1748

ANNUAL REPORT 2005

The Group at a Glance

		2005	2004	2003	2002	2001
Sales	*Euro million*	893.2	959.9	948.6	977.5	975.2
EBITDA	*Euro million*	68.9	86.5	53.0	87.9	86.9
EBIT	*Euro million*	24.3	33.8	- 17.7	27.0	27.0
EBT	*Euro million*	16.1	23.6	- 30.8	13.6	15.2
Group results for the year	*Euro million*	13.2	16.7	- 25.4	10.3	9.6
NOPAT	*Euro million*	12.8	31.5	15.0	31.4	33.9
Balance sheet total	*Euro million*	770.1	785.1	842.7	880.3	880.9
Cash flow from operating activities*	*Euro million*	56.9	63.1	52.3	71.0	40.0
Capital expenditure	*Euro million*	35.4	51.9	59.4	66.1	54.3
Depreciation	*Euro million*	44.6	52.7	70.6	60.9	59.9
Employees (annual average)	*Number*	9,521	9,633	10,812	11,010	10,833
Percentage return on sales	*Percent*	1.5	1.7	- 2.7	1.1	1.0
Equity ratio (incl. minority interests)	*Percent*	44.8	44.0	39.8	42.7	43.3
Return on equity (ROE)	*Percent*	3.8	4.8	- 7.6	2.7	2.5
Cash flow profitability	*Percent*	6.4	6.6	5.5	7.3	4.1
Net earnings per ordinary share	*Euro*	0.47	0.58	- 0.99	0.35	0.32
Net earnings per preference share	*Euro*	0.52	0.63	- 0.94	0.40	0.37
Dividend per ordinary share	*Euro*	0.32	0.37	0.25	0.50	0.50
Dividend per preference share	*Euro*	0.37	0.42	0.30	0.55	0.55

*) Computational formula for cash flow statement converted from 2004

List of Contents

Management Board

The Management Board of Villeroy & Boch AG: Manfred Finger, Frank Göring, Wendelin von Boch-Galhau and Peter von der Lippe

Interview with Wendelin von Boch

In the following interview Wendelin von Boch, Management Board Chairman of Villeroy & Boch AG, explains the major decisions and directions set for the Group, as well as the opportunities for the brand in selected global growth markets.

Important strategic decisions were made in 2005. What triggered them off and what objectives are you pursuing with them?

Wendelin von Boch: The spin off of the Tile Division to create an independent company certainly represents a new direction. With this move we aim to strengthen autonomy, so that we're able to react to market requirements with more flexibility, and ultimately move in the direction of a strategic partnership. Great importance is, therefore, attached to the cost-cutting scheme introduced in autumn 2005, which should lead the tile sector out of the red. But cost-cutting schemes alone are not sufficient to safeguard the company's future existence. For this reason we are also focussing our attention on improving performance, both with regard to our range and service.

By combining the Bathroom and Kitchen Division with that of Wellness we intend above all to make better use of synergies in the sales area. In addition, the transfer of the Wellness Business Segment's management from Utrecht to Mettlach should lead to improved co-ordination of the two Business Segments. Implementation of the sanitary ware master plan is on schedule. This will secure the economic future of production locations in the West and improve our competitive position, particularly as a result of automation at the Merzig factory. In addition, further development will be carried out at the cost-effective production locations in Hungary and above all, Romania.

You have invested a considerable amount in modernisation, interlinking processes and optimising production sequences in the Tableware Division. Have these measures now been concluded?

Wendelin von Boch: This process will be continued in 2006. In view of the tougher competitive environment where tableware is concerned, it is essential to achieve a further significant increase in productivity. This will be effected for the most part by specialisation of the factories in Luxembourg, Mettlach and Torgau in terms of decoration, body preparation and logistics. Our aim is to improve the utilisation of factory capacity at these three production locations, so as to provide more security for their economic future, even if these measures are linked with a painful reduction in the number of employees.

Germany and Western Europe are becoming increasingly inundated with cheap imports from Asia. How does Villeroy & Boch propose to react to this development?

Wendelin von Boch: Since China became a member of the WTO and the restrictions on Chinese imports were lifted, the quantity of the latter in the European Union has increased 180 %, and their value, 150 %.

Already, every second porcelain service sold in Germany comes from China. We're suffering considerable problems as a result of the marked counterfeiting of our successful product collections. At the Canton trade fair in autumn we saw copies of our "NewWave Caffè" design on 22 stands. It costs several hundred thousand euros each year to ward off copies of this kind, and even then, we can't talk of a resounding success.

In future we shall continue to respond to cheap imports from China with concerted product and innovation campaigns. At the same time we shall continue to consistently rationalise our European locations and strengthen the position of the Villeroy & Boch brand on the world market. The international marketing structure is also to be developed and consolidated in this connection.

Internationalisation is one of the Group's major strategies. How important are the American and Asian markets for Villeroy & Boch? Do you see potential for company growth here?

Wendelin von Boch: The European markets are stuck in a demographic trap because the consumer behaviour of a society with a disproportionate number of old people restricts sales prospects. Added to this, there is a change in the values of many consumers towards cheaper, mass-produced goods. In recent years this has led to stagnation and even recession in places.

Even if we still see certain growth potential by increasing our market share in Europe, we shall nevertheless devote even more of our attention in coming years to growing markets in America and Asia. Given this background, the acquisition of the sanitary-ware business of the Mexican industrial group "Grupo Industrial Saltillo" (GIS) is of great strategic significance for Villeroy & Boch's presence in the markets of North and Central America.

As Mexico is party to the North American Free Trade Agreement (NAFTA), it is possible to manufacture sanitary ware there which can be marketed in the USA with a good price-to-performance ratio. Central and Southern America are also growing markets with good potential and can be supplied excellently from Mexico.

Last year 2.1 million items of sanitary ware were manufactured and sales of roughly US$ 60 million achieved by the 950 persons employed at the three factories we have taken over in Saltillo & Ramos Arizpe, Estado de Mexiko in the north of Mexico, and the small Lerma manufactory close to Mexico City. A total of 45 % of these sales were marketed in the United States under the brand names "St. Thomas" and "Eclipse", 55 % primarily in Mexico under the brand name "Vitromex". By investing only a reasonable amount here, it's possible to increase output to 3 million pieces. This leaves us leeway, in particular to develop the United States market more quickly in the medium-quality segment with the Villeroy & Boch brand, and to use this broader basis to market even more Villeroy & Boch imports from Europe.

What vision do you have in view of the social change which is taking place throughout the world?

Wendelin von Boch: Villeroy & Boch is one of the world's major brands in the tableware and sanitary-ware sectors. With the attribute "European lifestyle brand", our integral ranges, "the single-source bathroom" and the "completely-laid table" trigger a high degree of desirability in the global markets. Investment in future will, therefore, concentrate on both of these areas, as well as on strengthening our presence in selected global growth markets. A trend-setting step has already been taken in this direction with the investment made in Mexico.

In 2005 we set up a marketing company in China for the Bathroom and Wellness Division. This company is now actively involved in China's booming commercial sector. In addition, we shall work together with a Chinese producer to equip innumerable newly built hotels with hotel tableware in the run-up to the Olympic Games and the World Exhibition. Once the master plans and restructuring programmes at our Central European locations have been concluded, and our Eastern locations developed, a considerable improvement will be seen in our company's ability to compete effectively.

Besides a high degree of personal commitment by our employees, these measures to increase internationalisation require great financial expenditure. This is, however, an essential investment in the future, one which will provide long-term, sustained security for our company.

Supervisory and Management Board Members

SUPERVISORY BOARD MEMBERS

KARL GUSTAF RATJEN, Königstein
Honorary member

PETER PRINZ WITTGENSTEIN, Nidda
Chairman
Management Consultant
a) Mannesmann-Röhrenwerke AG, Mülheim a.d. Ruhr (until 30.06.2005)
Gottfried Schultz GmbH & Co. Düsseldorf (Chairman of the Administrative Board)

JOSEF BALLE*, Merzig
1st Vice-Chairman
Chairman of the Fliesenwerke Saar Works Council

LUITWIN GISBERT VON BOCH-GALHAU, Mettlach
2nd Vice-Chairman
Entrepreneur
b) CIC Banque CIAL, Strasbourg/France (Member of the Administrative Board)
within the Group: Villeroy & Boch Magyarország Rt., Hódmezövásárhely/Hungary (Chairman)

HANNSGEORG EDINGER*, Bad Münder (from 01.10.2005)
Trade Union Secretary of the IG Bergbau, Chemie, Energie, Hanover
a) Schott AG, Mainz

GISELA HANNACK*, Hanover (until 30.09.2005)
Trade Union Secretary of the IG Bergbau, Chemie, Energie, Hanover

DR. JÜRGEN FRIEDRICH KAMMER, Munich
Supervisory Board Chairman of Süd-Chemie AG, Munich
a) Lanxess AG, Leverkusen
b) Wittelsbacher Ausgleichsfonds, Munich

CHARLES KROMBACH, Luxembourg
Director of Heintz van Landewyck – Manufacture de Tabacs – S.à r.l., Luxembourg

ULRICH KÜPPERS*, Ludwigshafen
Land District Head of the Industrial Union, Bergbau, Chemie, Energie, for the Länder Rhineland-Palatinate /Saarland, in Mainz
a) BASF AG, Ludwigshafen
STEAG Saarenergie AG, Saarbrücken (Deputy Chairman)
Technische Werke Ludwigshafen AG, Ludwigshafen (Deputy Chairman)
b) Klinikum Ludwigshafen, Ludwigshafen (Deputy Chairman)
Verkehrsbetriebe Ludwigshafen GmbH, Ludwigshafen (Deputy Chairman)

INA RAULS*, Merzig-Weiler
Deputy Chairwoman of the Sanitärfabrik Mettlach Works Council

RALF RUNGE*, Merzig
Chairman of the Faiencerie and Cristallerie Works Council
b) Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH & Co. KG, Merzig
Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH

BERTHOLD SCHOLTES*, Merzig
Head of Production

KILIAN VON DER TANN, Tann/Rhön
Lawyer
b) R. Oldenbourg GmbH & Co. KG, Munich
Chairman of the Administrative Board (until 18.04.2005)

EMMANUEL VILLEROY DE GALHAU, Paris
Entrepreneur

* Statutory employees' representative

MANAGEMENT BOARD MEMBERS

WENDELIN VON BOCH-GALHAU, Losheim-Britten
Chairman
Tableware Division
a) Gerling-Konzern Allgemeine Versicherungs-AG, Cologne
b) Messe Frankfurt GmbH, Frankfurt (until 21.07.2005)

MANFRED FINGER, Rehlingen
Finance and Personnel

FRANK GÖRING, Saarlouis
Bathroom and Kitchen Division (until 30.04.2005)
Bathroom and Wellness Division (from 01.05.2005)
b) within the Group: Villeroy & Boch Magyarország Rt., Hódmezövásárhely/Hungary (from 13.04.2005)

PETER VON DER LIPPE, Petite-Rosselle/France
Tile Division
b) within the Group: Villeroy & Boch Magyarország Rt., Hódmezövásárhely/Hungary (until 12.04.2005)

DR. BERNARD WIENTJES, Ommen/Netherlands
Wellness Division (until 30.04.2005)
b) Wientjes Kunststoffen Holding bv, Roden/Netherlands (until 30.04.2005)

a) membership in other supervisory boards to be legally formed in terms of § 125 AktG
b) membership of comparable domestic and foreign business enterprise control councils in terms of § 125 AktG

Supervisory Board Annual Report

During the four meetings held in the 2005 business year, the Supervisory Board dealt intensively with the company's economic and financial development, its major business transactions, its further strategic progress and its Business Segments, in particular spinning off tile business to form a subsidiary. In addition, numerous current topics of individual interest were discussed with the Management Board, which also constantly involved the Supervisory Board Chairman in all major developments and matters awaiting decision.

CORPORATE GOVERNANCE

In its December meeting, the Supervisory Board dealt with the modified version of the German Corporate Governance Code from June 2nd 2005. In joint meetings with the Management Board discussion took place on the subject of updating corporate policies, whereby a new declaration of conformity for the business year 2006 was adopted, which differs only minimally from the rules laid down in the German Corporate Governance Code. These differences are published on the Villeroy & Boch website under the heading "Investor Relations".

SUPERVISORY BOARD COMMITTEES

The Staff Committee convened twice in the 2005 business year. In addition to approving the contract extension of one Management Board member, it dealt with agreements on operational targets and bonus payments to the Management Board.
During its only meeting, the Investment Committee concentrated on planning capital expenditure and operating result for 2006.
The Audit Committee convened three times in 2005, on which occasions discussion concentrated in particular on establishing the audit's main areas of focus, awarding the audit assignment to the auditor, complying with regulations on preparing the consolidated balance sheet in accordance with IFRS, the progress report from the Group's auditing department and on the organisation of the risk management system. A meeting of the Conference Committee was not necessary in the 2005 business year.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

In September 2005 the Supervisory Board's Audit Committee awarded its audit assignment to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft – the auditing company elected at the Shareholders' General Meeting. The Villeroy & Boch AG annual financial statements, the consolidated financial statements of December 31st 2005 and also the Management Report have been audited by the statutory auditor and issued with an unqualified audit certificate. The financial statements were discussed thoroughly in the presence of the auditor at the Supervisory Board Meeting in April 2006. Based on the final result of our own audits, no grounds were found for objection, with the effect that we endorse the auditor's result. The annual financial statements of December 31st 2005 have, therefore, been approved. The Supervisory Board endorses the Management Board's proposal regarding the appropriation of retained earnings.

Peter Prinz Wittgenstein

"The Supervisory Board closely followed Villeroy & Boch's strategic alignment measures. These focused on strengthening company presence in North and Central America by purchasing sanitary-ware factories in Mexico, and initiating tile-sector profitability by spinning off business into an independent company."

CHANGES IN PERSONNEL

Having worked for over five years on the Board at Villeroy & Boch, Dr. Bernard Wientjes retired from the Management Board of his own choice with effect from April 30th 2005 to pursue his appointment to the post of President of the Dutch Employers' Union. The Wellness Business Segment was integrated into the Bathroom and Wellness Division from May 2005. On the employee side, Ms Gisela Hannack retired from the Supervisory Board on September 30th 2005. Mr Hannsgeorg Edinger has been appointed to take her place. The Supervisory Board would like to express its thanks to the two retired Board members for the work they performed and wish them every success for the future.
The Supervisory Board would furthermore like to express its thanks to the employees, statutory employees' representatives and the Management Board for the services they have rendered and the great commitment they have shown in the 2005 business year.

Mettlach. April 2006

The Supervisory Board
Peter Prinz Wittgenstein
Chairman

Villeroy & Boch
1748

PRINCIPLE OF

CORPORATE GOVERNANCE

Corporate Governance stands for sound and responsible corporate management and supervision aimed at long-term real net output. It essentially includes protection of shareholder interests, the system of the decision–making, management and supervision mechanisms, as well as transparency and openness in corporate communication.

Corporate Governance Report

From the Management and Supervisory Boards to the Villeroy & Boch Aktiengesellschaft Annual Report for the 2005 business year.

Corporate Governance is rated highly at Villeroy & Boch Aktiengesellschaft. It forms the basis of efficient and responsible corporate management and is the foundation for the trust placed in us by our shareholders, customers, employees and the general public.

For this reason, Villeroy & Boch Aktiengesellschaft has welcomed the German Corporate Governance Codex presented by the government commission and most recently updated in June 2005 and has adopted the majority of the recommendations proposed.

Initially, the Management and Supervisory Boards had passed a resolution in 2002 to adopt corporate governance principles particular to Villeroy & Boch Aktiengesellschaft, which defined more precisely the rules laid down in the German Corporate Governance Codex and which were adjusted to meet the specific requirements of Villeroy & Boch Aktiengesellschaft. Since the 2004 business year the Management and Supervisory Boards have come to the conviction that, with the exception of a few minor differences, the Villeroy & Boch Aktiengesellschaft management complies with the German Corporate Governance principles. In this regard, some of the internally-produced corporate principles seemed invalidated, with the result that, as from the 2004 business year, reference has been made exclusively to the German Corporate Governance Codex.
In accordance with § 161 AktG (German Public Limited Company Law), on December 15th 2005 the Management and Supervisory Boards once again made their annual declaration of conformity, which is published on the company website. Villeroy & Boch Aktiengesellschaft has complied and continues to comply with the recommendations of the Codex with the exceptions also stated in this report and expressly welcomes the possibility granted by the German Corporate Governance Codex to deviate from the recommendations on individual points, taking into account the requirements of small and medium-sized companies such as ours.

CLOSE COOPERATION BETWEEN MANAGEMENT AND SUPERVISORY BOARDS

Efficient and value-oriented corporate management is based on intensive, ongoing discourse between the Management and Supervisory Boards.
The Management Board provides the Supervisory Board with detailed, regular up-dates on corporate planning and strategic development, on the trend of business and on the situation of the Group. Explanations and reasons are given for any divergences in the course of business from the proposed plans and targets.

Conditions allowing the Supervisory Board to reserve its approval of important business transactions, in particular decisions or measures which fundamentally alter the asset, financial and earnings situation of Villeroy & Boch Aktiengesellschaft, are laid down in the Management and Supervisory rules of procedure.
In addition to the existing Staff Committee and the Mediation Committee required by law, in order to support its work the Supervisory Board set up an Investment Committee from among its members, which takes part in preliminary discussions with the Management Board on corporate and investment planning and paves the way for decisions on investments which require the approval of the Supervisory Board as stipulated by the Management Board rules of procedure. The tasks of the Audit Committee are to assess and prepare both Villeroy & Boch Aktiengesellschaft and consolidated accounts, risk management, the independent audit by the auditor of the annual financial statements, identification of the focal points of the audit and to commission the auditor appointed with the external audit.
Both latter committees hold meetings as and when required and prepare for the adoption of resolutions by the Supervisory Board within the scope of their duties.

PROVISION TO PREVENT CONFLICTS OF INTEREST

While discharging their management duties at Villeroy & Boch Aktiengesellschaft, Management and Supervisory Board members do not pursue any interests of their own which may oppose corporate interests.
In relation to conflicts of interest, Villeroy & Boch Aktiengesellschaft fulfils the comprehensive requirements regarding transparency and licensing as stipulated in the German Corporate Governance Codex.
Consultancy agreements and any other contracts for services or work and materials concluded by a Supervisory Board member with the company require the approval of the Supervisory Board. In the 2005 business year, there were no consultancy agreements or any other contracts for services or work and materials concluded with a Supervisory Board member, nor were there any conflicts of interest caused by Management or Supervisory Board members, for which immediate notification of the Chairman of the Supervisory Board was required.

DIRECTOR DEALINGS

Villeroy & Boch Aktiengesellschaft immediately discloses on its website any trading in company shares subject to registration in accordance with § 15 a WpHG (German Securities Trading Law), which was conducted by the persons specified therein, in particular by directors and by persons with whom they are closely connected, and immediately sends the relevant documentation to the German Federal Financial Supervisory Authority.
In the year under review, one sale transaction concluded by a Supervisory Board member and several acquisition or sale transactions respectively concluded by closely connected persons in terms of § 15 a WpHG, all of which were subject to registration, were disclosed. In this case, all the information required by the WpHG has been disclosed on the company website.

IMPROVEMENT IN INVESTOR PROTECTION

In 2005, the Villeroy & Boch Aktiengesellschaft Management and Supervisory Boards conducted their annual efficiency test.
The result raised no objections. Furthermore, any organisational measures necessary to fulfil the requirements of the legislation on the improvement in investor protection were carried out.

APPROPRIATE REMUNERATION FOR MANAGEMENT AND SUPERVISORY BOARDS

In order to promote a corporate management which aims at long-term real net output the remuneration of Management Board members comprises three components:

- fixed remuneration
- variable performance-related bonus dependent on target achievement
- long-term stock option plan investment.

In addition to the profit targets for Villeroy & Boch Aktiengesellschaft and the Divisions, every year the Supervisory Board Staff Committee sets individual targets in agreement with the individual Management Board members. These strategic targets, together with achieving the return on net operating assets aimed at on the medium term and the projected net annual profit, bear equal weighting in calculating the performance-related bonus. It makes up approximately 50 % of the total remuneration of any Management Board member and is therefore a significant motivating factor. Subsequent modification of the performance-related targets and comparative parameters is excluded.
No loans or advances were granted to Management or Supervisory Board members in the 2005 business year.
In accordance with § 7 of the Memorandum and Articles of Association, Supervisory Board members receive a fixed remuneration with a significant performance-related component which is dependent on the shareholder's dividend.
In the 2005 business year, the Supervisory Board members did not receive any further remuneration or benefits for personally rendered services.

ITEMISATION OF MANAGEMENT AND SUPERVISORY BOARD REMUNERATION

In the 2005 business year Villeroy & Boch Aktiengesellschaft once again followed the recommendations put forward by the Codex with the exception of an itemised report on Management Board remuneration.
With respect to Management Board remuneration, we are of the opinion that the information of the overall remuneration as one sum emphasises the principle of the joint overall responsibility borne by all the Management Board members. Furthermore, we believe that itemised disclosure of a performance-related differentiation between Management Board members is counterproductive. In so far as companies of our size and structure are permitted by the legislation on disclosure of management board remuneration (VorstOG), which came into effect on August 11th 2005, we shall propose a resolution to be passed at the General Meeting of Shareholders held in 2006 to maintain the same form of disclosure of

this information in the following business years as previously applied and not to provide an itemised report. The itemised amounts of the Supervisory Board are listed in the report on the annual financial statements.

RISK MANAGEMENT

Villeroy & Boch Aktiengesellschaft maintains a system for the identification and management of operating and financial risks.
The different components of the risk management system are designed in such a way as to ensure early recognition and supervision of entrepreneurial risks.
The Management Board is responsible for the internal supervision and risk management system and for the assessment of its efficacy.
Principles, guidelines, processes and responsibilities are established and defined in such a way as to ensure accurate and up-to-date accounting of all business transactions, early recognition of risks and a steady flow of reliable information for both internal and external use on the financial position of the company.

TRANSPARENCY AND FINANCIAL PUBLICATIONS

Having transparent management and monitoring mechanisms is an essential prerequisite for promoting the trust, in particular of the shareholders, in the management and monitoring of Villeroy & Boch Aktiengesellschaft. It is especially important in this respect to provide shareholders and investors in the capital market with regular up-to-date information on the company.
Private investors can obtain the latest information on developments within the Group via the internet. All investors receive equal treatment with regard to information. Our publications fulfil the requirements for transparency prescribed by the WpHG. Any transactions on the acquisition or sale of Villeroy & Boch shares through Management and Supervisory Board members are regularly disclosed. In the 2005 business year the transactions registered by Villeroy & Boch Aktiengesellschaft have already been reported under **director dealings** and are also published on the internet.
Also disclosed on the internet is the Villeroy & Boch Aktiengesellschaft **stock option plan**, which is applicable to management remuneration and in particular to the remuneration of the Management Board as explained above.
Reports published by Villeroy & Boch Aktiengesellschaft over the previous 12 months are compiled in an annual document in accordance with § 10 WpPG (German Securities Prospectus Act), which is issued at the same time as this Annual Report. These can also be accessed on the company website at **http://www.villeroy-boch.com/Jaehrliches_Dokument_gemaess_10_ W.2247.0.html?C=DE&L=de**.

ACCOUNTING

The Consolidated Financial Statements and Interim Reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the Villeroy & Boch Aktiengesellschaft Annual Financial Statements are drawn up in accordance with the provisions laid down in the German Commercial Code (HGB).

As always, we endeavour to prepare the balance sheet within the term of 90 days recommended by the Codex. However, we are not as yet in a position to make any definite guarantees regarding Group structures and are therefore not in line with the recommendations made by the Codex on this matter.

AUDIT OF ANNUAL FINANCIAL STATEMENTS

The Supervisory Board commissioned KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), the auditor appointed by the General Meeting of Shareholders to audit the annual financial statements and consolidated financial statements for the 2005 business year, with the task of auditing the 2005 annual financial statements.

In the course of the auditor selection process, the Audit Committee and Supervisory Board examined the professional eligibility and independence of the auditor and established that there was no conflict of interest.

For this purpose, KPMG issued a statement on the extent to which professional, financial or other relations exist between KPMG, their directors and auditing management on the one hand, and Villeroy & Boch Aktiengesellschaft, its subsidiaries and directors on the other. The statement of independence issued was duly noted by the Audit Committee.

An agreement was reached with the auditor that the Chairman of the Audit Committee would be notified immediately of any grounds for disqualification due to partiality in the course of the audit, in so far as such grounds could not be eliminated quickly. It was also agreed with the auditor that any findings or events which are essential to the Supervisory Board in fulfilling its duties and which come to light in the course of the audit are to be reported immediately. Furthermore, the auditor undertook to notify the Supervisory Board, or respectively to make a relevant note in the audit report, of any facts uncovered in the course of the audit which reveal an inaccuracy in the declaration of conformity issued by the Management and Supervisory Boards in accordance with § 161 AktG.

There is no indication as a result of the examination that the independence of the auditor is not sufficiently guaranteed.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODEX

In 2005 KPMG examined the conformity of Villeroy & Boch Aktiengesellschaft to the corporate principles and issued the following statement in the meeting held by the Supervisory Board on April 3rd 2006:

"Within the scope of our audit we have not ascertained any inaccuracies in the declaration of conformity to the German Corporate Governance Codex which constitute a serious violation against § 161 AktG."

The text of the declaration of conformity can be accessed on our website at
http://www.villeroy-boch.com/fileadmin/user/ir/Entsprechenserklaerung20041214.pdf
and is also available in the annual financial statements.

The numerous measures taken in the Human Resources sector led to a variety of networking events, which allowed executives, managers and employees, on some occasions with outside support, to exchange information on current topics, improved systems and Division-spanning solutions.

Employees

TREND AND NUMBER OF EMPLOYEES IN THE GROUP AS OF 31.12.

Divisions	*2005*	*2004*	*Change 04/05*
Tiles	1,021	1,068	- 47
Bathroom & Wellness	4,739	4,788	- 49
Tableware	3,213	3,315	- 102
Other	485	479	+ 6
Group as a whole	**9,458**	**9,650**	**- 192**

Countries	*2005*	*2004*	*Change 04/05*
Germany	3,724	3,872	- 148
Western Europe	3,113	3,192	- 79
Eastern Europe	1,921	1,841	+ 80
Other	700	745	- 45
Group as a whole	**9,458**	**9,650**	**- 192**

DEVELOPMENT OF EXECUTIVE STAFF

Again in 2005, a great deal of the personnel department's work involved developing executive staff.
Two further modules, on the subjects of "Conflict Management" and "Turning Teams into Top-Rate Performers", continued the series of training aimed at supporting executive staff to implement the management principles newly revised in 2004. A total of 153 executives took part in the seminars, which on occasions lasted several days. The circle of participants has been consistently expanded so that numerous executives from all of the company's international locations become familiar with modern management methods. During the seminars a corporate feeling developed which extended beyond the confines of Divisions and countries.

SYSTEMATIC PERFORMANCE REVIEW

Management work at Villeroy & Boch also means being equipped with a tool box of modern management instruments. For this reason executives were provided in 2005 with a new guide for the performance review. The newly developed Villeroy & Boch performance review is based on the Villeroy & Boch competence model, which forms the basis of all diagnostic instruments for recognising potential, e.g. using Assessment Centre and Management Appraisal. The systematic performance review promotes dialogue between the executive and the employee and clarifies mutual expectations. Knowledge gained during the performance review is reflected in personnel development and the planning of successors. The launch of the systematic performance review was integrated in a new form of employee communication – "Lunch & Learn" – where employees are invited to a lunch-break snack to receive compact information. This informal type of communication met with great interest among the employees.

JUNIOR DEVELOPMENT CENTRES

The go-ahead for the second phase of "Integrated Successor Planning" was given in May. This extensive programme of personnel development was continued in 2005 by establishing a total of six Junior Development Centres. Measures here are specifically aimed at developing, promoting and binding young top performers and high-potential employees (graduates who have been employed in different company departments such as Marketing, Controlling, or Logistics, for up to two years). At one-to-one and group tutorials at the two-day courses, the 34 participants looked into practical subjects arising in everyday operations.

JOB EVALUATION

Since 2005, the strong networking and internationalisation of the HR themes has supported a job evaluation system, which was devised together with a renowned partner. This centrally controlled system enables management levels to be defined on the basis of objective criteria. It is the framework which will be used in future as a guideline for all personnel management requirements, from commensurate salaries to career management. It enables the international comparison of positions both within Villeroy & Boch AG and the respective reference market. With this scheme, Villeroy & Boch is extending the basis for benchmarking in the HR sector.

THE DEMOGRAPHIC CHALLENGE

Villeroy & Boch feels compelled to centre its HR strategies around the pending demographic trends and changes. The decline in population in Central and Western Europe has far-reaching consequences for HR work.
Villeroy & Boch AG is confronting this social and corporate challenge both actively and proactively.
In addition to the personnel development concepts initiated in recent years to promote professional qualification and also management competence, Villeroy & Boch AG is meeting its social responsibility by becoming much more actively involved than necessary in the area of training.

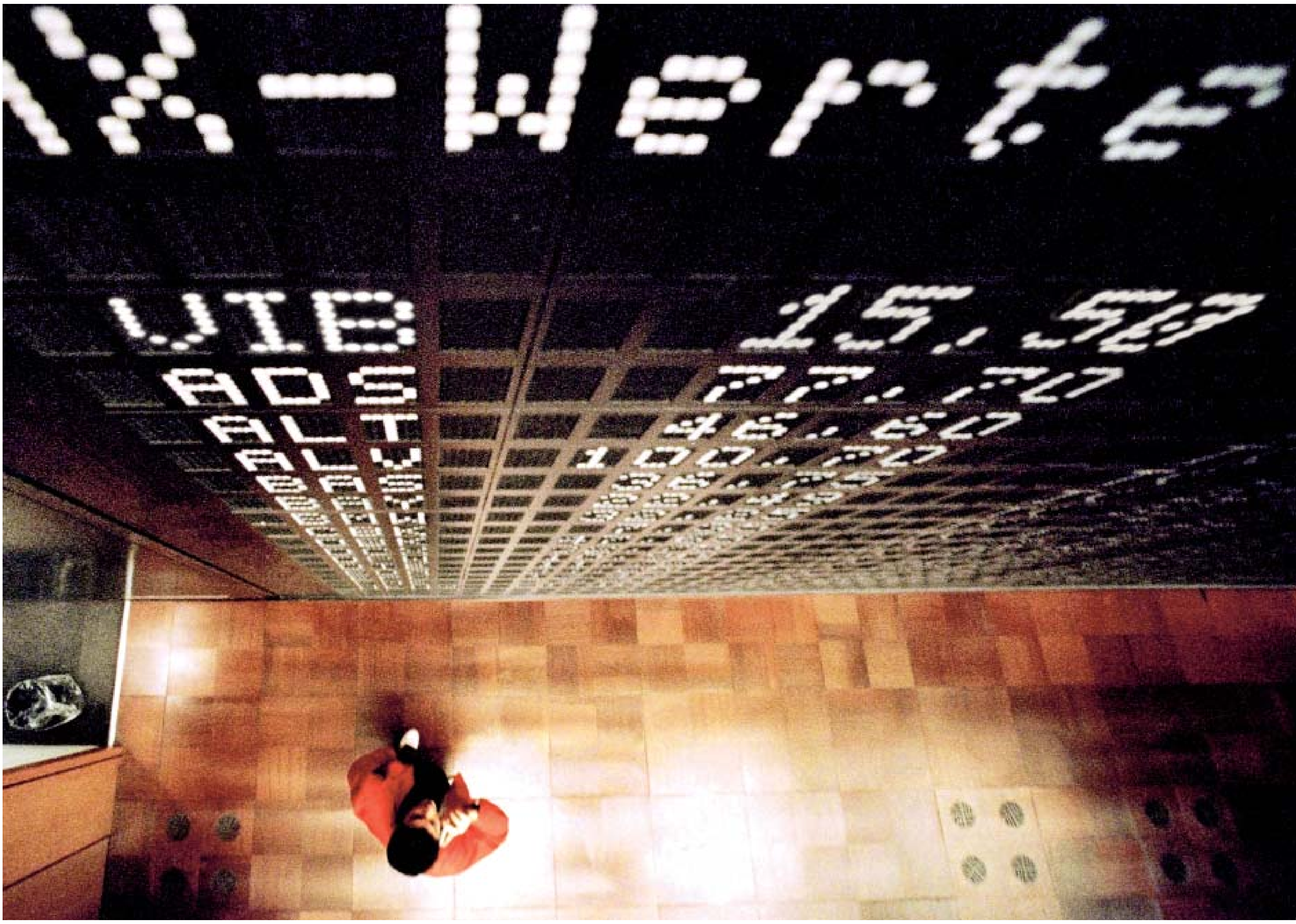
TRAINEES

Despite the generally declining numbers of employees, a total of 43 young people were thus again employed in 2005 for the purpose of receiving training in commercial and industrial occupations. In so doing we have fulfilled the requirements necessary to ensure that adequately qualified junior staff are available in future to further develop our company.
In addition, 40 students were given the opportunity in 2005 to take part in a work-experience scheme where they were able to gain an insight into the operations of an internationally oriented industrial company.

Communication extends beyond the confines of the Divisions.

EMPLOYEE REPRESENTATION

A multitude of changes had to be adopted during the course of the year in cooperation with the codetermination bodies. In the relevant discussions held, the employees' representatives proved to be critical, yet also constructive. Cooperation with them was characterised by a trusting attitude and open communication. At a European level, the statutory employees' representatives met with Management at the 14th Euroforum in Mettlach to exchange information and views. The efforts of the entire workforce, a high level of motivation and the great commitment on the part of each individual member contributed towards the fact that the Group was able to maintain its market hold in an extremely difficult economic year. The Management Board thanks all employees for their dedication.



The Villeroy & Boch AG share has sustained a continuing upturn since 2003. It recorded its highest share price at Euro 15.50 on 14 September 2005.

Share

UPWARD TREND FOR SHARE MARKETS IN 2005

In 2005 the stock exchange witnessed a clear separation of the European share markets from the USA. While Wall Street (Dow Jones Index) recorded a slight drop of 0.1 % compared to the previous year, the modestly improving economic situation in Europe and the marked revival in business profits gave wing to the share prices over the entire year of 2005. The weakening of the Euro against the US dollar also favoured the export business and encouraged the movement of share prices.

SATISFACTORY PRICE MOVEMENT OF VILLEROY & BOCH SHARE IN 2005

The Villeroy & Boch AG share has sustained a continuing upturn since the beginning of 2003. In the course of 2005 the share movement was at times clearly better than that of the DAX and SDAX indices. Having started the year at a price of Euro 9.13, the share had already reached its yearly low of Euro 8.90 by January and recorded its highest price of Euro 15.50 in September.

VILLEROY & BOCH SHARE TREND COMPARED TO DAX AND SDAX (INDEX LINKED)

Manfred Finger

"Transparency and up-to-date information, as well as personal contact with investors in the capital market and the media, have a permanent place in Villeroy & Boch corporate policy. The Management Board gave comprehensive reports on Villeroy & Boch business developments and potential at the balance-sheet press conference, at the analysts' conference and in talks held with analysts and investors."

KEY DATA ON THE VILLEROY & BOCH PREFERENCE SHARE (IN EUROS)

ISIN	DE0007657231
Class	no-par-value bearer preference shares
Shareholder structure	88.0 % free float
Quotation	official trading Frankfurt/Main (Prime Standard), XETRA and unofficial dealing in Berlin, Bremen, Düsseldorf, Hamburg, Munich and Stuttgart
Selection index	SDAX
Designated Sponsor	Landesbank Hessen-Thüringen
Yearly high/low	Euro 15.50/8.90
Closing price on 30.12.05	Euro 11.84
Market capitalisation as of 30.12.05	Euro 146.36 million (free float of preference share)
PER H/L	31/18

The share's closing price of Euro 11.84 at the end of 2005 was clearly above the price at the start of the year. On completion of the secondary consolidation phase from September to December 2005 it rose again sharply.
Although its price rise of 29.7 % could not surpass that of the SDAX Performance Index (35.6 %), after a price rise of 24.3 % in the calendar year 2004 the share once again affirmed its price potential.

PURCHASE OF TREASURY STOCK/STOCK PURCHASE WARRANTS

Based on the decisions made at the General Meetings of Shareholders on June 25th 1999, June 30th 2000, May 23rd 2003 and June 3rd 2005, the company was able to purchase no-par-value individual preference-share certificates up to 10 % of the Villeroy & Boch AG subscribed capital on the capital market. No treasury stocks were purchased in the 2005 business year, with the result that the total number of 1,683,029 treasury stocks (roughly 6 % of subscribed capital) held by Villeroy & Boch AG on December 31st 2005 remained unchanged. In 2000 Villeroy & Boch AG introduced an executive stock option programme and issued stock purchase warrants on a yearly basis from 2000 to 2003. Stock purchase warrants could not be exercised in the years 2000, 2001 and 2002 as the premises to do so remained unfulfilled. At the end of 2005 roughly 93,500 stock option warrants from the stock option programme still existed. These can be exercised in 2006 provided the requirements have been fulfilled.

DIVIDEND OF EURO 0.37 PER PREFERENCE SHARE

The Supervisory Board and Management Board will propose a slightly lower dividend than in the previous year to the General Meeting of Shareholders, namely Euro 0.37 per individual preference-share certificate and Euro 0.32 per individual ordinary-share certificate. A dividend yield of 3.0 % per individual preference-share certificate therefore results for the year under review.

- despite difficult environment, (adjusted) consolidated sales at prior-year level
- Euro 24.3 million consolidated operating result (EBIT) lower than in prior year (Euro 33.8 million)
- Villeroy & Boch AG net income higher than in prior year
- dividends at Euro 0.32 per individual ordinary-share certificate and Euro 0.37 per individual preference-share certificate
- improved economic environment expected for 2006

Management Report

UNDERLYING ECONOMIC CONDITIONS

Global economic expansion despite development of energy prices

Although slower than in 2004, global economic expansion nevertheless remained progressive in the year 2005. Even the continuous, and to some extent, drastic, increase in the cost of crude oil was overshadowed by the strongly growing Chinese economy and the private-consumption trend in the United States. The latter showed the generally recessive economic trend in the United States in 2005 in a more favourable light.
The Institute for Global Economics (IfW) at the University of Kiel anticipates a 4.1 % increase in worldwide production for 2005.

Generally restrained level of economic activity in the euro region

A generally restrained economic trend was experienced in the euro region in 2005. Lively export trading slightly strengthened economic revival, and was recognisable not only in Western Europe, but throughout the entire euro zone. In its autumn report, the Working Committee of German Economic Research Institutes forecast a 1.3 % real change in gross domestic product for the euro region. More up-to-date forecasts by leading German financial institutions suggest roughly the same. Hardly any increase was seen in the area of expenditure for private consumption.

Suppressed course of economic activity in Germany

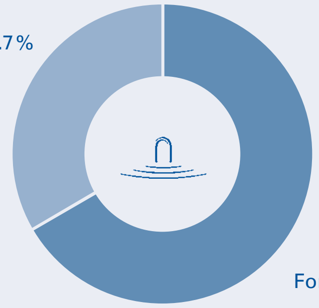
Economic recovery in Germany was extremely sluggish in the year 2005. Positive stimuli came solely from abroad, which, however, did not exert any influence on domestic demand and employment. In real terms, domestic demand has remained static for more than a year, a situation supported not least by the high costs of energy. Contrary to estimations in the third quarter, the -3.6 % trend reported in the area of capital spending on new construction meant that a slight upward adjustment was possible, though even this course remains alarming. Gross domestic product saw a real increase of 0.9 %.

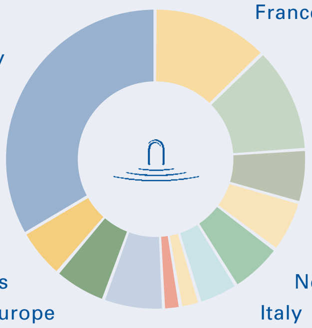
SALES AND RESULT

(Adjusted) consolidated sales at prior-year level

Despite the difficult underlying conditions the Villeroy & Boch Group was almost able to maintain its prior-year sales level, after adjustments were made to exclude divestments. Following the said adjustments, integral change of -0.9 % results. Absolute sales of Euro 893.2 million saw a 6.9 % decline, falling from their prior-year value of Euro 959.9 million. The following explanations refer to adjusted sales figures.

GROUP SALES ACCORDING TO COUNTRY





Share in %	*Country*	*Euro million*
30.7	**Germany**	**274.3**
12.4	France	111.2
11.1	Scandinavia	99.0
5.8	United States	51.8
5.6	Great Britain	50.1
4.8	Netherlands	42.8
4.4	Italy	39.5
2.1	Austria	19.2
1.7	Switzerland	15.0
7.2	Rest of Western Europe	63.9
8.4	Eastern Europe	75.0
5.8	Overseas	51.4
69.3	**Total foreign sales**	**618.9**

2005 Sales Trend

Change compared with prior year (absolute)	- 6.9%
+ adjustment for divestments	+ 6.0%
Integral change after divestments	- 0.9%
+ adjustment for exchange-rate effects	+ 0.0%
Integral change (total)	- 0.9%

Domestic sales within the Villeroy & Boch Group fell 2.7% to Euro 274.3 million, while foreign sales of Euro 618.9 million virtually reached their prior-year level, and were thus able to soften the effects of the decline in domestic sales.

The company was able to register pleasing sales increases in some countries. Sales clearly exceeding those of the previous year were recorded in the United States (+6.0%), Great Britain (+5.5%), Switzerland (+4.9%) and Eastern Europe (+4.0%), while sales declines were experienced in Villeroy & Boch's major foreign market, France (-2.2%), and also in Italy (-4.3%).

After adjustment to exclude the divestments made in 2004, the foreign share of sales increased slightly from 68.7% to 69.3%.

Slight fall in sales of Villeroy & Boch AG

In the 2005 business year Villeroy & Boch AG secured sales of Euro 555.7 million, which is 1.7% lower than prior-year sales of Euro 565.4 million.

Sales increases in the Bathroom and Wellness Division were almost able to compensate for the sales declines in both the Tile and Tableware Divisions.

STRUCTURE OF THE CONSOLIDATED PROFIT AND LOSS STATEMENT (IFRS)

(Euro million)

	2005	*% of sales*	*2004*	*% of sales*
Sales	893.2	100.0%	959.9	100.0%
Costs of goods sold	- 547.1	- 61.3%	- 581.9	- 60.6%
Gross profit from sales	346.1	38.7%	378.0	39.4%
Selling expenses, marketing and development costs	- 281.8	- 31.5%	- 286.2	- 29.8%
General and administrative costs	- 48.7	- 5.5%	- 53.4	- 5.7%
Other expense/income	8.7	1.0%	- 4.6	- 0.5%
EBIT	24.3	2.7%	33.8	3.4%
Financial results	- 8.2	- 0.9%	- 10.2	- 1.0%
Result from ordinary operations/EBT	16.1	1.8%	23.6	2.4%
Income tax	- 2.9	- 0.3%	- 6.9	- 0.7%
Results for the year	13.2	1.5%	16.7	1.7%

Lower consolidated result than in prior year

In 2005 the Villeroy & Boch Group operating result (EBIT) saw a decline of roughly Euro 9.5 million, falling from the prior-year figure of Euro 33.8 million to Euro 24.3 million. This trend was only partly compensated by the financial results, which improved by Euro 2.0 million. The Euro 16.1 million result from ordinary operations (EBT) is Euro 7.5 million lower than that of the previous year (Euro 23.6 million).

Factors which can be named for the drop in EBT are the reduction in gross operating result brought about by sales in the Wellness Business Segment, and also the cost-cutting measures initiated in the Tableware and Wellness segments, which will not have a positive effect on result until future periods.

Prior-year financial results improved from Euro -10.2 million to Euro -8.2 million in the year under review. In this case, a change of roughly Euro 1.8 million is attributable to the sale of marketable securities at the end of the year. In addition, there was a slight decline in the interest expense arising from provisions for pensions and similar obligations, which amounted to around Euro 0.1 million.

Owing to the positive earnings contributions from abroad, the 17.9 % consolidated tax quota is below the German income-tax rate.

Rise in net income of Villeroy & Boch AG

Villeroy & Boch AG reports net income of Euro 15.1 million (prior year: Euro 9.6 million) for the 2005 business year. This positive result trend is essentially due to the Euro 31.1 million result from investments (prior year: Euro 5.0 million) arising from the transfer of results from subsidiaries, which is Euro 26.1 million higher than in the previous year. A converse effect was exerted not only by diminished sales and the decline in remaining operating income, but in particular by the change in inventories. The lowering of operating expenses was not able to compensate for the points stated above.

Villeroy & Boch AG net income includes Euro 0.5 million income from income tax, which ensues from tax refunds for previous years.

Dividend proposal

The Supervisory Board and Management Board will propose to the General Meeting of Shareholders on June 9th 2006 that retained earnings, in the amount of Euro 16.2 million, be used to distribute a dividend of

Euro 0.37	per individual preference-share certificate and
Euro 0.32	per individual ordinary-share certificate.

The distribution volume, therefore, totals Euro 9.7 million. The amount named will change by the share of the dividend apportioned to the company's own holding of individual preference-share certificates at the time dividends are distributed. A total of Euro 6.5 million is, therefore, to be carried forward to a new account at Villeroy & Boch AG.

SALES AND RESULT IN THE DIVISIONS (GROUP)

Sales trend in the Divisions

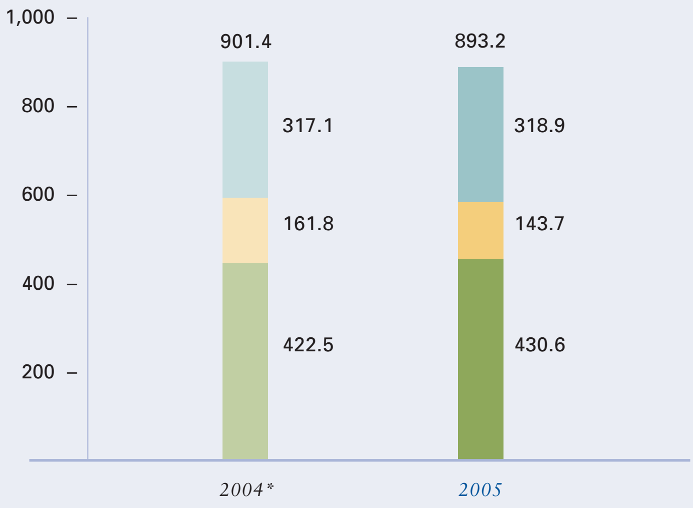
Sales in the **Bathroom and Wellness Division** increased 1.9 % in 2005, bringing the total to Euro 430.6 million. The trend in the individual Business Segments, however, was varied. An improvement was seen in the **Ceramic Sanitary Ware and Kitchen Business Segment**, where sales increased from Euro 271.7 million in 2004 to Euro 283.9 million in 2005, and in the **Furniture and Fittings Business Segment**, sales rose from their prior-year value of Euro 54.9 million to Euro 58.5 million in the year under review.
Successes booked in the Netherlands (+10.9 %), Italy (+9.7 %) and Great Britain (+7.2 %) made a considerable contribution towards sales increases in the two previously named Business Segments. But, contrary to the market trend, it was also possible to register growth in the company's strongest sales markets, France (+2.6 %) and Germany (+1.0 %). In Germany this growth also represented an increase in market share.
In contrast, sales in the **Wellness Business Segment** declined Euro 7.7 million in 2005, falling from Euro 95.9 million to Euro 88.2 million. When compared to the previous year, this represents a decline of 8 %.
While the Segment was able to clearly increase its domestic sales (+15.1 %), it nevertheless had to register a decline in major markets such as the Netherlands (-15.3 %), Italy (-21.3%) and Eastern Europe (-16.2 %).
Due to considerable divestments in the second half of 2004 (in particular, the French trade subsidiary Boch Frères), **Tile Division** sales in 2005 fell 35.2 % from Euro 221.8 million to a total of Euro 143.7 million. A decline of Euro 18.1 million, or 11.2 %, results after structural adjustment. Both the domestic and foreign trends were virtually the same, totalling -10.7 % and -11.7 % respectively.
Particularly as a result of its strong Christmas business, the **Tableware Division** was able to increase its prior-year sales to Euro 318.9 million, which corresponds to a rise of 0.6 %. This increase, however, involved a clearly higher level of expense. A large-scale order for advertising media in Spain made an essential contribution to the high level of prior-year sales. After adjustments to exclude this effect, sales rose 4.5 %. An essential contribution was made to this increase by the markets in the United States (+5.7 %), France (+3.2 %) and Italy (+6.0 %). With its focus on asymmetric tableware in 2005, the international marketing strategy proved successful, and sales of this range increased roughly 28 %.

Result trend in the Divisions

In the year under review the **Bathroom and Wellness Division** achieved an operating result (EBIT) of Euro 20.3 million and, in so doing, fell Euro 5.7 million short of the Euro 26.0 million result reported in the preceding year. A varied trend was experienced in the individual Business Segments. The Bathroom and Kitchen Segment was able to improve its result due to sales. This positive effect was, however, more than offset by the deterioration in operating result in the Wellness Business Segment. Measures undertaken in the second half of the year to reduce costs and reorganise production did not lead to any improvement in the short term, but will have positive effects in future.

CONSOLIDATED SALES

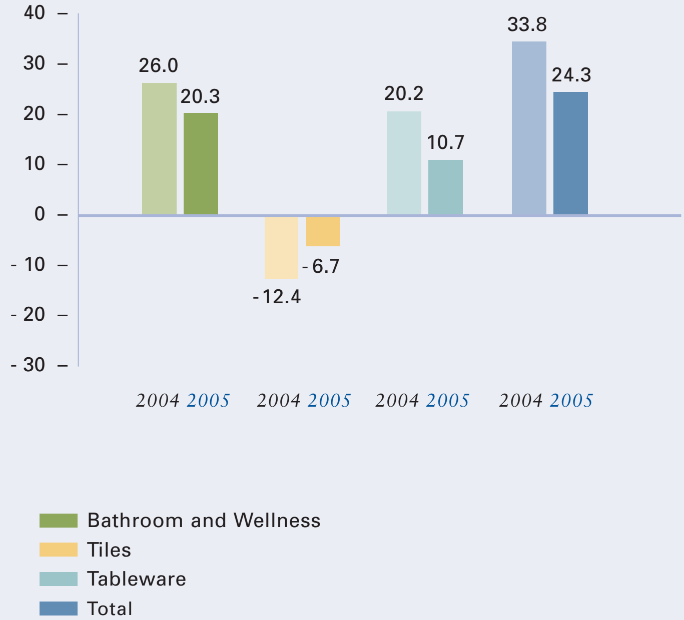
Distribution According to Division (Euro million)



**Sales adjusted to exclude divestments*

CONSOLIDATED EBIT

(Euro million)



The **Tile Division** reduced its EBIT losses by Euro 5.7 million, from Euro -12.4 million in 2004 to Euro -6.7 million in the year under review. The result takes account of substantial non-recurring expenses, including start-up losses arising from the use of new techniques in the production and logistics sector, and non-recurring valuation adjustments in current assets. These are contrasted by the reversal of provisions carried as a liability in the previous year, which had to be formed due to the risks arising in connection with Tile Division divestments at that time. Introduced in the second half of 2005 the cost-cutting programme should reduce both production costs and structural costs by more than Euro 10 million in 2006.

Totalling Euro 10.7 million, the **Tableware Division** operating result (EBIT) was clearly lower in the 2005 business year than in 2004. The decline in demand for symmetric porcelain patterns, together with the Tableware Division's efforts to reduce capital tie-up, led to cost-intensive measures to adapt employee levels at production locations in the Saar region and in Luxembourg. Additionally, although gains in market share were achieved as a result of competitively priced new products, the forced sellout of excessive stocks with correspondingly low contribution margins, and capital expended in the market (advertising campaign for asymmetric products, and the development of distribution channels in the company's own retail sector), these factors nevertheless burdened the operating result, EBIT, in the year under review.

CAPITAL EXPENDITURE

Volume of Group capital expenditure below prior-year level

In the 2005 business year the Villeroy & Boch Group invested a total of Euro 35.4 million (prior year: Euro 51.9 million) in tangible and intangible fixed assets. When compared with the previous year, this constitutes a Euro 16.5 million reduction in the volume of capital expenditure. A 37.1 % share of total capital expenditure was allocated to domestic locations. Depreciation in the year 2005 totalled Euro 44.6 million, as compared with Euro 51.9 million in the previous business year.

Capital expenditure in the **Bathroom and Wellness Division** declined from Euro 27.2 million to Euro 21.6 million.

Totalling Euro 17.1 million, capital expenditure in the **Bathroom and Kitchen Business Segment** was below the prior-year value of Euro 21.3 million. The majority – 70.5 % (prior year: 88.9 %) – was carried out abroad in the year under review, where it concentrated essentially on automation and rationalisation techniques, and environmental protection. A total of Euro 4.5 million was invested in the **Wellness Business Segment**, as compared with Euro 5.9 million in the previous year. Investment in this case was made not only in expanding production, but also in rationalisation measures at the Dutch and Czech subsidiaries.

With a total volume of capital expenditure of Euro 8.5 million (prior year: Euro 15.8 million), the **Tableware Division** concentrated investments on new, foreign, marketing locations. In Luxembourg, investment was made in achieving more organisational efficiency at the location, and also in further measures to optimise production processes. New tools were also provided for the purpose of extending the tableware range.

A 46 % share of investment was carried out in Germany.

A total of Euro 5.3 million was invested in the **Tile Division**, as compared with Euro 8.9 million in the previous year. Roughly 72.8 % of this amount was invested in Germany (prior year: 79 %), the essential part concerning measures to improve production techniques used on existing and new fine stoneware lines at the Merzig factory.

Decline in volume of Villeroy & Boch AG capital expenditure

Villeroy & Boch AG invested a total of Euro 12.4 million in 2005 (prior year: Euro 20.2 million), 41 % of which was allocated to the Bathroom and Wellness Division, 30 % to the Tile Division and 29 % to the Tableware Division.
The 38.2 % decline in capital expenditure is essentially reflected in the Tableware Division, where investment was boosted in the previous year to finance a new, fully automated production line for manufacturing items of asymmetric tableware at the Torgau factory.

FINANCING

VILLEROY & BOCH GROUP – ABRIDGED CASH FLOW STATEMENT

(Euro million)

	2005	*2004*
Results for the year	13.2	16.7
Depreciation of fixed assets incl. write-up	44.0	52.4
Change in long-term provisions	- 13.6	- 12.3
Result from disposal of fixed assets	- 2.6	- 0.5
Changes in inventories, accounts receivable, liabilities and short-term provisions, as well as other assets and liabilities	6.3	2.2
Other income/expenses without effect on liquid assets	9.6	4.6
Cash flow from operating activities	56.9	63.1
Cash flow from investing activities	- 32.8	- 9.0
Cash flow from financing	- 16.4	- 39.9
Change in balance of cash	7.7	14.2
Change in balance of cash due to exchange rates	- 0.5	0.1
Overall change in the balance of cash	7.2	14.3
Balance of cash on 01.01.	51.3	37.0
Balance of cash on 31.12.	58.5	51.3

Cash flow from operating activities (Group) falls 10.0 %; Group liquidity again improved

When compared with the previous business year, the inflow of funds from operating activities in 2005 decreased Euro 6.2 million to Euro 56.9 million. This can be attributed particularly to the decline in result after tax, in depreciation, and provisions. A counter effect was exerted, above all, by the reduction in inventories, lower tax payments and lower income from deferred taxes without effect on liquid assets.
The cash flow from investing activities fell from Euro -9.0 million to Euro -32.8 million. This was brought about essentially by the inflow of Euro 37.0 million prior-year funds from divestments carried out in the Tile Division during the 2004 business year, and also from lower deposits resulting from the disposal of fixed assets.
The change in cash flow from financing results predominantly from the further reduction in liabilities to banks, which is, however, more moderate than in the preceding year. A correspondingly strong influence was exerted here in the 2004 business year, as a result of the inflow of liquidity arising from divestments made in the Tile Division.

Drop in Villeroy & Boch AG cash flow from operating activities

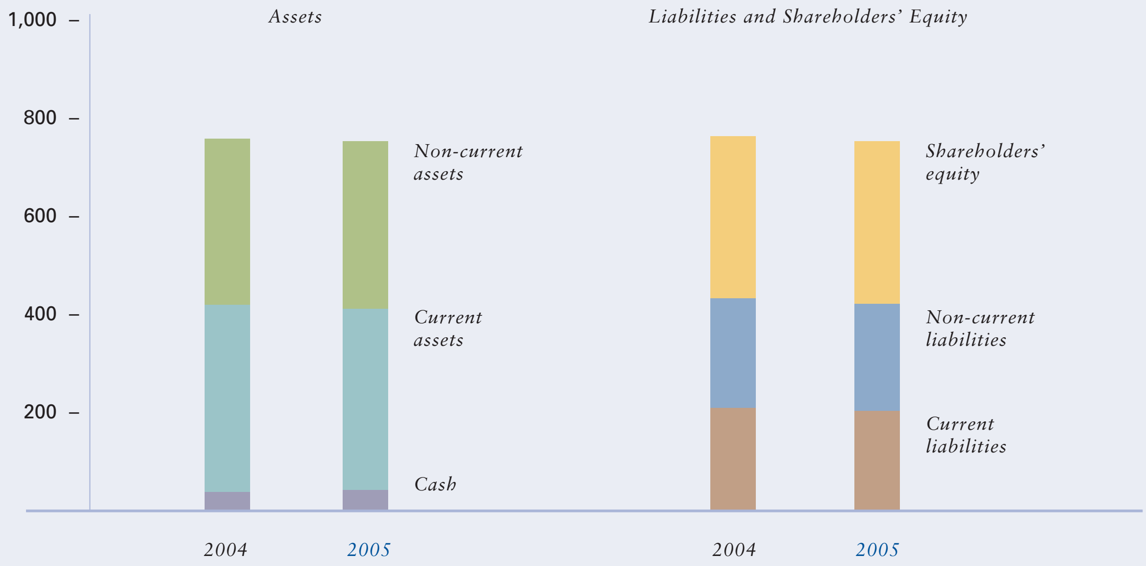
In the year under review, Villeroy & Boch AG cash flow from operating activities fell from Euro 45.0 million to Euro 29.0 million. This was caused predominantly by a reverse trend in Group liabilities compared with the previous year – a positive effect was created, however, in particular by the strong reduction in inventories in the 2005 business year. This effect is strengthened further by a prior-year increase in inventories.

RISE IN NET LIQUID ASSETS

As of December 31st 2005 liquid assets in the Villeroy & Boch Group rose Euro 7.2 million from Euro 51.3 million to Euro 58.5 million. Liabilities to banks and notes payable, including leasing liabilities, were completely repaid or prematurely redeemed during the business year. The sale of minority shares totalling roughly Euro 7.7 million, reported in the balance sheet under fixed assets, resulted in an increase in liquid assets. In contrast, an amount of Euro 10.0 million was invested in a promissory note loan with a German bank of first-class financial standing. The aforementioned loan is reported under fixed assets, and the balance of cash has been reduced by the equivalent amount. No treasury stock was repurchased in the business year, with the effect that an outflow of liquidity was not registered. All in all, net liquid assets rose from Euro 46.5 million in 2004 to Euro 58.5 million at the end of the 2005 business year.
In this approach, which combines the cash balance, short-term securities and short-term financial liabilities, Villeroy & Boch AG net liquid assets rose from Euro 74.2 million to Euro 80.4 million in the year under review.

GROUP BALANCE SHEET STRUCTURE

(Euro million)



Assets	*2004*	*2005*	*Liabilities and Shareholders' Equity*	*2004*	*2005*
Non-current assets	354.8	358.1	Shareholders' equity	345.6	344.7
Current assets	379.0	353.5	Non-current liabilities	219.7	223.0
Cash	51.3	58.5	Current liabilities	219.8	202.4
Balance-sheet total	**785.1**	**770.1**	**Balance-sheet total**	**785.1**	**770.1**

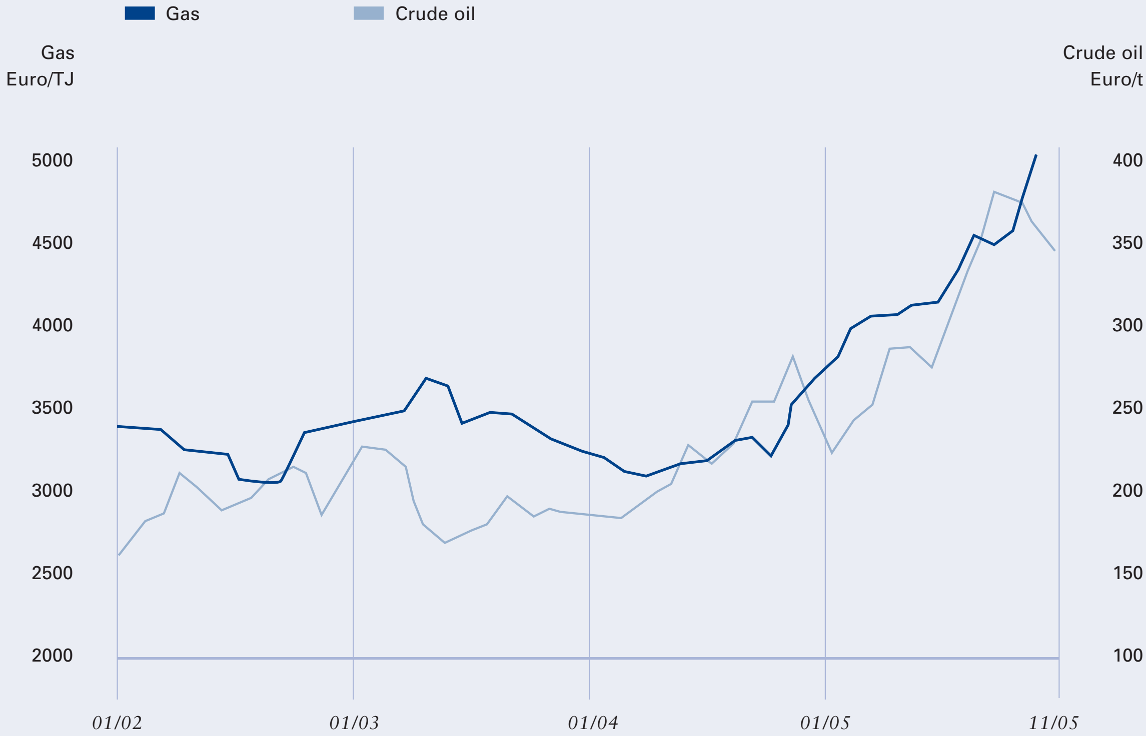
BALANCE SHEET STRUCTURE IN 2005

Compared with the previous business year, the balance-sheet total of Euro 770.1 million on December 31st 2005 decreased Euro 15.0 million, and the shareholders' equity ratio increased from 44.0 % in 2004 to 44.8 % in the year under review.
The content presented in the balance-sheet structure has been adjusted within the scope of restructuring stipulated by IAS 1.51. In this connection, the corresponding prior-year values have been revised.
Compared with prior-year figures, non-current assets as a whole saw a slight increase of 0.9 % in the year under review, while the fixed assets included in non-current assets fell Euro 6.2 million to Euro 305.4 million in the 2005 business year. The 39.7 % share of fixed assets in the balance-sheet total remained at prior-year level. In contrast, current assets (incl. cash) fell Euro 18.3 million to a total of Euro 411.9 million. An essential part was played in this case by the reduction in inventories, which it was possible to reduce by a total of Euro 18 million during the course of various projects in both the Bathroom and Wellness and Tableware Divisions. As in the previous year, non-current assets are covered almost completely by shareholders' equity.
Compared with prior-year figures, the balance-sheet total of Villeroy & Boch AG fell Euro 5.3 million. This is seen mainly in the decline in non-current assets. On the liabilities side of the balance sheet, a reduction was seen particularly in the area of provisions and Group liabilities. The equity ratio rose from 48.2 % to 49.2 % in the year under review.

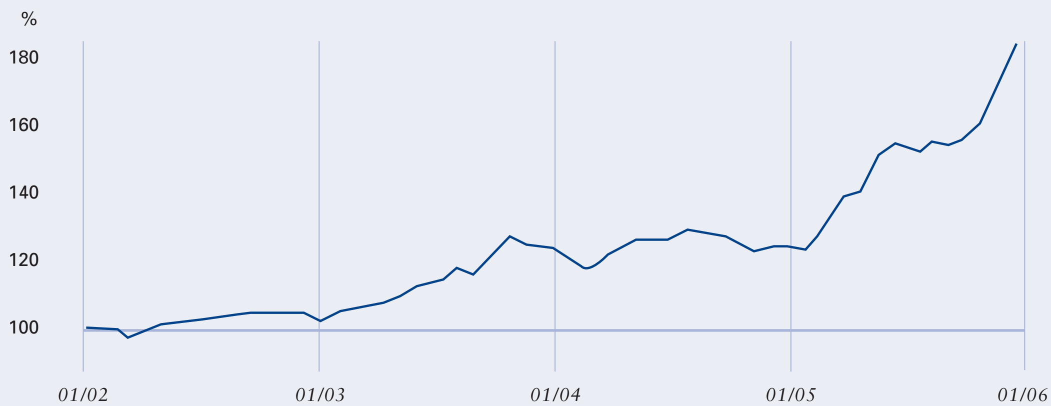
EMPLOYEES

When adjusted to exclude prior-year divestments, the average number of persons employed in the Villeroy & Boch Group decreased 1.1 % in the year under review, from 9,633 to 9,521. Following a reduction of 58 employees an average of 4,801 persons are employed in the Bathroom and Wellness Division. The number of persons employed in the Tableware Division fell by 46, bringing the current total to 3,203 employees.
Of the entire average number of persons employed, 5,711 are occupied abroad and 3,810 in Germany. Compared with the previous year, the number of persons employed abroad decreased by 61 and in Germany by 51.
Villeroy & Boch trained an average of 141 young people during the course of the year under review. This level of training is clearly higher than the company actually needs. By providing this training, the company aims to fulfil the social demands made on influential employers. With this objective in mind, young people are also given the opportunity of gathering experience nationally and internationally in practical training courses.
Personnel expenses in the Villeroy & Boch Group fell 6.4 % from Euro 346.6 million to Euro 324.7 million. Compared with prior-year figures of 36.1 %, only a slight change was seen in the personnel expenses ratio – personnel expenses to sales – which currently totals 36.3 %.
The number of persons employed by Villeroy & Boch AG fell slightly from 3,606 to 3,559 employees – which represents a 1.4 % reduction. This was contrasted by a 1.2 % rise in personnel expenses, justified essentially by the fact that there was a strong decline in the number of persons entitled to benefits in 2004.

PRICE TREND OF CRUDE OIL AND NATURAL GAS



ELECTRICITY PRICE TREND (PRICE INDEX)



PROCUREMENT

The purchase price trend in the 2005 business year was characterised by the pan-European increase in the costs of natural gas and electricity. The increasingly criticised fact that gas prices are linked to those of oil led in the Group to an average increase of roughly 16 % in the costs for natural gas.
The market price for electricity increased in the majority of European countries by a clear, double-figured percentage. In addition to the increased fuel costs, the reason for this is found particularly in the fact that the electricity-generating companies were able to completely incorporate the market value of the CO_2 emission certificate – which was made available to them without cost by the State – in their pricing. As a result, Villeroy & Boch's power supply costs rose by an average of 8 %.
Regarded generally, purchase costs for other materials remained roughly at prior-year levels. The company was able to significantly compensate for some price increases – which were frequently influenced by the rise in energy costs – by price reductions in other areas. All in all, purchase costs for energy, raw materials and consumables rose more than 4 % in the 2005 business year.

RESEARCH AND DEVELOPMENT

A total of Euro 12.4 million was spent on research and development in the Villeroy & Boch Group in 2005, as compared with Euro 10.8 million in 2004. The largest share of research and development costs – roughly 57.4 % – was expended in the Bathroom and Wellness Division, while 26.5% of the remaining costs were expended in the Tableware Division and 16.1 % in the Tile Division.
Villeroy & Boch concentrates its research and development activities particularly on the following areas: gaining market and competitive leads by using innovative production techniques, such as die-casting techniques; designing new products which are closely related to consumer needs, and constantly improving productivity with the aim of achieving further cost reductions.
Totalling 14.7 % more than in the previous year, expenses for research and development in 2005 are clear proof of the company's orientation towards innovation.
In addition to the "German Business Innovation Award", which Villeroy & Boch received in the preceding year for its tableware design "NewWave", the company was able to chalk up a further success in the 2005 business year. In the competition "365 locations in the land of ideas", which was initiated by the Home Office, Villeroy & Boch successfully convinced the jury and was nominated a "selected location of 2006". The aim of this initiative is for 365 innovative companies, institutions, museums, research centres, etc. to convey a positive image of Germany – both at home and abroad – in the World Cup year. Patron is the Federal President Mr Horst Köhler.

RISK REPORT

Risk management system in the Villeroy & Boch Group

The varied risks connected with the company's business activities are minimised and, wherever possible, eliminated in accordance with the Villeroy & Boch Group's understanding of risks. Risks are only consciously taken if they can be calculated and the probability of their occurrence is minimal.

Risks from the economic and industrial environment

Risks which can arise from the general economic environment or from the industry are expounded in the economic outlook.

Risks from the procurement and sales market

In the 2005 business year Villeroy & Boch found itself confronted with purchase-price rises averaging 4 %, and a further increase of more than 5 % is expected for the year 2006. The main reasons for this increase will be the price trends for electricity and crude oil, as well as the delayed price alignment on the gas market. Villeroy & Boch constantly attempts to improve production processes with the aim of increasing cost-cutting potential and thus achieving an optimal cost structure.
As a result of the rapidly rising quantity of imports from low-wage countries – particularly in the European porcelain industry – Villeroy & Boch is experiencing increasingly strong influences in the areas of sales and procurement. To counteract these effects and safeguard the competitive position of production locations, further specialisation and automation measures are being carried out.

Financial Risks

The central treasury department of Villeroy & Boch AG controls the financial risks of the Villeroy & Boch Group. These are in particular:

- liquidity risks
- risks from fluctuations in payment flow, and
- interest and currency risks

Liquidity risks

Villeroy & Boch AG acts as an in-house bank for the Villeroy & Boch Group companies, so that adequate cover is guaranteed locally – at the lowest possible cost and in the correct amount – for finances required for business operations and capital expenditure. The necessary information is provided by way of a Group financial plan. This financial plan with its 12-month planning horizon is complemented by an additional, short-term liquidity plan with rolling weekly horizons. By optimally employing the financial resources available in the treasury department, the collective know-how existing there is used to manage and support the Group companies in all relevant financial matters. These extend from fundamental considerations and financing investment plans, to rendering financial services. All Group companies thus participate in the credit-standing and strengths of the Villeroy & Boch Group with regard to their financing terms. Furthermore, by employing its cash-pooling systems in countries relevant for Villeroy & Boch, the Villeroy & Boch Group improves its balance-sheet structure, reduces the volume of external financing and optimises financial and capital investments with positive effects on the financial results.

Risks from fluctuations in payment flow

Fluctuations can arise in the payment flow of asset and debt items with variable interest rates, caused by a change in the future interest level. Villeroy & Boch has, therefore, secured a partial amount of the debt items with variable interest rates by using derivative financial instruments.

Interest and currency risks

Interest risks arise as a result of possible fluctuations in the value of a financial instrument owing to changes in market interest rates. One possibility of restricting these interest risks is to use interest-rate swaps.

Currency risks arise for the Villeroy & Boch Group firstly in the course of purchasing goods internationally and owing to cost, and secondly, as a result of invoicing customers in a currency other than that of the relevant country. The company pursues the goal of excluding any exchange risks related to foreign currency items by using appropriate hedging transactions. As a result, the exchange risks arising from surplus or inadequate cover following a Group-wide process of netting the foreign currencies are limited by concluding hedging transactions. Only marketable derivative financial instruments, whose correct financial and accounting representation and valuation are backed up in the treasury and accounting systems, are used for hedging purposes. For this reason, forward exchange contracts are essentially employed to limit currency risks.

Moreover, in the principles laid down in the treasury guidelines, it is stipulated for the entire Group, for example, that no speculative business dealings may be negotiated, i.e. every currency transaction must be based on an underlying transaction, so that the company's risk position is not heightened by foreign currency transactions of this kind. In so doing, Villeroy & Boch consciously accepts the fact that the possibilities of using current or anticipated currency trends to optimise results are limited.

In 2005 as in the previous year, initially roughly 70 % of the surplus or inadequate cover was hedged following a Group-wide process of netting. As a result of further hedging measures during the course of the business year, the positions in the various foreign currencies are virtually closed on December 31st 2005.

The existing hedging policy will also be maintained in 2006. As only 70 % of the planned volume remaining after netting is currently hedged, minimal residual amounts remain which require further hedging. This applies in particular for the following foreign currencies: CHF, JPY, AUD, HUF and SEK. Owing to business operations in 2006, we expect the foreign currency position in USD to be almost balanced. As in 2005, major sales in GBP were hedged at an average rate of EUR 1 = GBP 0.69.

Overall estimation of the risk situation

When regarded in relation to the previous year, no essential changes have occurred in the Villeroy & Boch risk situation. There are no recognisable risks which could be a threat to company existence, either individually or as regards total risk, or which appear capable of jeopardising the company's position with regard to assets, finance and earnings.

OCCURRENCES OF PARTICULAR SIGNIFICANCE AFTER CONCLUDING THE 2005 BUSINESS YEAR (VILLEROY & BOCH GROUP)

On January 30th 2006 an agreement was concluded to take over the sanitary ware business of the Mexican industrial group “Grupo Industrial Saltillo” (GIS). The take-over involves three sanitary-ware factories with a total capacity of 2.1 million units. In 2005, the 950 employees secured sales of roughly $ 60 million.
In addition to the aforementioned point, essential restructuring measures have been announced for February 1st 2006 in the Wellness Business Segment, and for February 22nd 2006 in the Tableware Division. In both segments the planned measures basically serve to secure the economic future of the respective locations in Roden (NL) and Luxembourg. They were triggered essentially by the rising pressure of competition and pricing from low-wage countries, which in the Tableware Division applies particularly to East Asia.
Other than the aforementioned matters, there are no events of essential importance which occurred after the end of the 2005 business year.

OCCURRENCES OF PARTICULAR SIGNIFICANCE AFTER CONCLUDING THE 2005 BUSINESS YEAR (VILLEROY & BOCH AG)

On January 1st 2006 the tile business, which was formerly recorded on the Villeroy & Boch AG books, was incorporated into V&B Fliesen GmbH, Merzig, a company set up in the 2005 business year.

OUTLOOK

Positive trend recognisable in economic forecasts for 2006

World economic growth of 4.2 % expected for the year 2006 is on prior-year level. As a result of macroeconomic stability, it is anticipated that regional differences will also tend to diminish in the euro region. Growing foreign demand should have a positive impulse on domestic demand, resulting in a positive 0.75 % contribution to growth from external economic relations.
The opinions of various economic experts and the Federal Government’s annual report have spread a positive mood. It is, therefore, expected that gross domestic product (GDP) will see an increase in real terms of between 1.25 % and 1.4 %., while private consumption will only improve 0.25%. In this connection it is pleasing to note that the “Ifo economic-climate index”, produced by the “Ifo” Institute for Economic Research in Munich, showed a reading of 103.3 points in the month of February 2006 – a level which has not been reached for the last fourteen years.

The year 2006 shows the first signs of a slight improvement in the construction industry. Reasons for this are seen in a reaction to the abolition of the home-owner supplementary allowance on January 1st 2006, a more favourable trend in the commercial-construction sector, rising investment in plant and equipment, and a rise in capital spending on new public buildings. On the whole, after price adjustments, a slight rise of roughly 0.5 % is forecast as an annual average in the area of capital spending on new construction.

SALES, RESULT AND CAPITAL EXPENDITURE IN THE GROUP

Globalisation represents a great challenge for the relatively labour-intensive ceramics industry in Western Europe. As import restrictions have now been lifted, cheap imports from East Asia are flooding the largely saturated EU markets. Our company's ability to compete internationally is to be strengthened by way of cost-intensive structural adjustment. This involves consistently automating factories in the West and developing cost-effective production locations in Eastern Europe.
In addition, Villeroy & Boch will become more strongly involved in the growing markets of Asia and America. By acquiring three sanitary-ware factories in Mexico, and concluding a cooperation agreement with a Chinese manufacturer of hotel porcelain to supply the strongly-growing needs of the catering industry in China, Villeroy & Boch has secured an indispensable global presence. Even though demand for semi-luxury products is not currently rising greatly in Europe, we nevertheless expect a slight sales increase and improved operating result in all Divisions. Announced in February 2006, the cutback in the numbers of persons employed by the Tableware Division at the Luxembourg location and by the Wellness Business Segment at Roden (NL), will give rise to non-recurring expenses, which will have a negative effect on the 2006 results for the year. The measures to cut costs and adjust structures will only partly influence 2006, and not become fully effective until 2007.
An investment volume of roughly Euro 40 million is planned for the 2006 business year. The greatest part of capital spending – 63 % – will be allocated to the Bathroom and Wellness Division, concentrating, above all, on expanding automation and, in particular, die-casting techniques both at home and abroad. The remaining, planned volume of investment will essentially be divided between two sectors, with roughly 20 % being allocated to the Tableware Division and 10 % to Fliesen GmbH.

SALES AND RESULT IN THE AG

Given a comparable structure and improved underlying economic conditions, we expect an increase in Villeroy & Boch AG sales and operating result.
Owing to the improved product-range structure and successful positioning of new products since the start of the year, tile sales – which will be accounted for in a separate subsidiary (V&B Fliesen GmbH) from January 1st 2006 – should also increase and lead to an improved tile-sector result.

Available in four different lifestyles, the new bathroom collection offers individually arranged bathroom concepts for consumers with a passion for design and comfort. With fronts of Amazaque real-wood veneer and black glass, the reduced clear styling of the minimalist "Memento" edition creates a contrast to everyday stress.

Frank Göring

"We recognise great opportunities on the entire American market. By taking over the sanitary-ware business of the "Grupo Industrial Saltillo" (GIS) in Mexico, Villeroy & Boch has created an ideal starting position from which to develop the strongly growing markets in Central and South America. Regarded purely demographically, development of these overseas markets clearly outmatches that in the stagnating markets in Europe.

The expanded marketing structure secured with the purchase of the Mexican factories is at the same time the basis on which to strengthen our presence on the North American market, where we will, in particular, be able to market higher-priced sanitary-ware products from Europe more effectively in future."

Bathroom and Wellness Division

BATHROOM AND WELLNESS DIVISION KEY DATA

		2005	2004
Sales	*Euro million*	430.6	422.5
EBIT	*Euro million*	20.3	26.0
Return on sales	*Percent*	4.7	6.2
Capital expenditure	*Euro million*	21.6	27.2
Depreciation	*Euro million*	21.5	25.4
Employees (annual average)	*Number*	4,801	4,859

CERAMIC SANITARY WARE AND KITCHEN BUSINESS SEGMENT

A positive sales and result trend was recorded in 2005 by the Ceramic Sanitary Ware and Kitchen Business Segment. One of the decisive factors for this profitable growth was the wide acceptance of the new products launched at “ISH 2005” – the international trade fair for the heating, sanitation and air-conditioning sector (SHVAC). Popularity was enjoyed in particular by the premium collections, “Pure Stone” and “Bellevue”.

Marketing of the strategic product collection “Subway”, the “Loop” line of washbasins, and the innovative “PurAir” WC was extremely successful. This odour-killing WC has opened up a new dimension in the bathroom environment. With the help of the “PurAir” television campaign, the company was not only able to successfully achieve a distinct increase in the amount of showroom traffic, but also in product demand. Both the Villeroy & Boch image and brand were additionally strengthened by the “PurAir” innovation.

A particularly outstanding series in the accessories sector is “Mobiles”, which was designed to complement all four lifestyles. Additional sales are generated with this series as a result of impulse purchasing.

Despite enormous pricing pressure, the kitchen sink sector in Germany also experienced favourable development. A positive result was recorded above all on the important French market, where ceramic kitchen sinks meet with a high level of acceptance. Distribution channels were also successfully developed on the markets in Great Britain and the United States. Our development strengths in these markets lie in our great variety of models and colours, which not only takes up the latest trends in kitchen furniture, but also follows new paths with its innovations. Forming the highlights of our range are the asymmetric “NewWave” kitchen sink, which is based on the internationally successful design in the tableware sector, and the purist design “Subway”.

Created by Rahe Design, the new "Subway" kitchen sink combines elegant design with a high degree of functionality.

FURNITURE AND FITTINGS BUSINESS SEGMENT

Success was enjoyed in particular by the Furniture and Fittings Business Segment, which plays an essential part in the "single-source-bathroom" strategy of lifestyle supplier Villeroy & Boch. A clear sales increase was secured by the bathroom-furniture segment, a development to which both the increased internationalisation and broad acceptance of the newly launched products contributed. One of the particularly outstanding new product launches in this segment was the "Private Lounge" furniture series, which offers a broad range of applications.
The cooperation with Dornbracht in the fittings segment proved extremely successful. The joint presentation of the two internationally renowned brands also had a positive effect on the quantity and quality of placings in the showrooms of international market partners.
All in all, this Business Segment was able to clearly improve its result.

POSITIVE MARKET TREND AT HOME AND ABROAD

Both Business Segments were able to build up their position in Germany and virtually all European markets. In places, growth even reached double figures. While the construction industry in Germany continued to decline and the overall market for sanitary ware products shrank, Villeroy & Boch was able to successfully increase its market share. A notable contribution was made to this positive result by consistently developing the market using methods specific to the respective country, and systematically appealing to individual market partners in the major European markets of Great Britain, Italy, Spain and Scandinavia. We lead the market with Gustavsberg in different product areas in the Scandinavian countries. On the French market, it was possible to raise the already high level of sales even further.

"NewWave" is also a bathroom classic. The baths are available with all Villeroy & Boch "Whisper" and "Fitness" systems.

The United States is already a major export market for Villeroy & Boch. Structures have been built up and refined in this relatively young market by way of consistent market development measures and a specialised product range. By optimising marketing structures and strengthening brand awareness, it has now grown even further.

Further successful development has also taken place in the Chinese market, where new classes of prosperous, brand-oriented consumers are to be found. Following the opening of the Shanghai branch, further branches in Asiatic cities are planned, so that the Division will be able to develop the growth markets in East Asia even more intensively. As a result of our extensive activities on international markets we were able to increase our share of foreign sales in 2005 to 74 %.

WELLNESS BUSINESS SEGMENT

In contrast to the other Segments, the Wellness Business Segment experienced a negative trend, which was characterised by a sales decline in its core markets, the Netherlands, Belgium, Italy and the Czech Republic. The first reason for this decline is that the Dutch market did not experience the economic recovery everyone predicted. In addition, some of our products, such as baths, shower trays and shower partitions, came under tremendous pricing pressure as a result of mass-produced goods from cut-price suppliers. An extremely positive development was experienced in the German market, where a sales increase of 15 % was achieved. In Germany, the Segment markets high-quality upper-price-category wellness products, such as whirlpool systems with the new "Whisper" and "Fitness" systems and also steam showers.

In future, the strategy in core markets will be to concentrate on products in the upper price category. Market partners will profit from the positive effects which will result from com-

"Sentique" balances modern style with timeless design, combining straight lines with a touch of motion to create a classic look.

bining the sales and marketing operations of the Bathroom and Wellness Business Segments. The complete reorganisation and joint operations using a common distribution channel will give rise to higher sales power, an improved position in the showrooms and a streamlined supply chain. The sanitary-ware sector's strong market position will also have a positive effect on the Wellness products' ability to compete internationally.

OUTLOOK

The year 2006 will continue to focus on internationalisation. By taking over the sanitary-ware business of "Grupo Industrial Saltillo" (GIS), the leading supplier in Mexico, Villeroy & Boch has created an industrial platform on which to develop both the strategically important United States market, and also the growing markets in Central and Southern America. We intend to develop our position on the Russian and Baltic markets using stylish, high-quality product lines. In Russia particularly, a financially-strong class of consumption and brand-oriented buyers has emerged which has a preference for luxury articles.

We shall step up our programme to develop the progressive markets in the Middle East and East Asia, and above all in China, where we shall press ahead, above all, with our activities in the area of commercial business. Our aim is to enjoy a share in the terrific boom taking place in the construction of four and five-star hotel and restaurants, and also of property which will be built for the forthcoming Olympic Games and the World Exhibition.

In 2006 we shall present cleverly-thought-out new products and product concepts at the international and regional trade fairs. The new bathroom collection "Sentique", with its fashionable, classic design, has been created for a broad category of buyers. This collection is characterised by a universal style which is reflected throughout the sanitary-ware products, furniture, baths and matching fittings/accessories.

Wider dimensions provide greater shower comfort: "Futurion" offers large rectangular trays and hard-glass sliding doors.

The "Memento Edition" has been created for the premium price segment. It offers washbasin concepts in a purist design for discerning end consumers. It can be perfectly combined with the Quaryl® bath series "Squaro", giving rise to a luxurious bathroom along the lines of "less is more", for lovers of exquisite taste.

Especially with the needs of planners and architects in mind, a functional, modern, design alternative, "Omnia architectura", has been added to the concept series "Omnia". In addition, the commercial sector will see the launch of a new bath series which can also be equipped with whirlpool systems.

A major activity in 2006 will be to launch the "PurAir" WC on further markets. It is already being successfully marketed in Germany, the Benelux and Austria. Attention will be focused on markets with a great renovation potential, as this product can be used particularly well for renovation purposes, without causing additional work or expense.

The Bathroom and Wellness Division expects an increase in sales and, therefore, in turn an improved performance for the 2006 business year.

The revival of the country-cottage style is characterised by an intentional restraint and a minimalist trend. Tiles in particular lend a distinctive touch to this new "Country" look. Inspired by natural stone in the mountains of the Swiss Canton Grisons, the fine stoneware series "Bernina" offers a high degree of scope for design.

Peter von der Lippe

"We shall use tiles to promote our international standing in major future markets, in particular those where there is a high degree of Villeroy & Boch brand awareness and the brand enjoys an excellent reputation. These markets include, for example, some Eastern European countries, such as Russia, Poland and the Czech Republic. In cooperation with leading international designers we shall develop further products for the upper price-segment which display the characteristic Villeroy & Boch style. In so doing we aim to emphasise our tile competence and create an even stronger international image to distinguish us from the competition."

Tile Division

TILE DIVISION KEY DATA

		2005	2004
Sales	*Euro million*	143.7	161.8
EBIT	*Euro million*	- 6.7	- 12.4
Return on sales	*Percent*	- 4.7	- 7.7
Capital expenditure	*Euro million*	5.3	8.9
Depreciation	*Euro million*	6.7	10.5
Employees (annual average)	*Number*	1,044	1,049

SALES BURDENED BY PERSISTENT RETROGRESSION IN BUILDING INDUSTRY

Given the trend of persistent decline in the European building industry, particularly in the property market, and the increase in aggressive pricing both in Germany and some international markets, Tile Division sales in 2005 fell 11.2 % to Euro 143.7 million after structural adjustment.
In Germany, the Division's major market, the industry's downward trend accelerated in the 2nd half year to a level of 10 %, with the effect that the decline in tile consumption in 2005 totalled almost 9 %. Neither was the tile trade as a whole satisfied with its result in 2005, especially as the market situation was characterised by an unchanged restraint in consumer spending where renovation was concerned.
The year 2005 was also extremely difficult in the Division's second strongest market, France, where confusion among trade partners in connection with the sale of the trade subsidiary Boch Frères at the end of 2004 exerted a negative influence on the market. This was expressed, particularly in the first half year, in the form of drastic sales declines in double figures. The situation has now been resolved with the effect that the fourth quarter saw a transition to a clearly positive trend.
In addition to the effects brought about as a result of market conditions, the deletion of almost one third of the Villeroy & Boch range in 2005 had both an extraordinary and extremely negative influence on the sales trend. Carried out to reduce complexity, this streamlining had an exceptionally strong effect on several markets, and led to above-average declines in sales, particularly in France and Eastern Europe.
Above and beyond the effects exerted by sales, the Division's business development was also characterised by delayed processes in connection with centralising logistics operations and modernising the Merzig factory. This led to considerable restrictions in the area of goods availability and supply service during the first half of 2005.
All in all the year 2005 was a year of transition, in which the measures implemented in the market, and the cost reductions made were still unable to achieve the intended turnaround.
Villeroy & Boch's existing tile range is positioned in the middle and upper price segments, as is appropriate for the brand. In addition, the lower price segment was expanded in 2005

The new fine stoneware series "Summertimes" has a warm, natural appearance, and its colours radiate a sense of lightness and tranquillity.

with the effect that the Division was represented in the aggressively priced segment. By covering this complete range of price segments, market partners now have an additional instrument for generating sales with Villeroy & Boch, with which they can assert themselves in the competitive market.

EXTREMELY GOOD RESPONSE TO NEW PRODUCT INTRODUCTIONS

As there continues to be a trend towards large-format tiles in interior design – both in the private and commercial sector – the range has been significantly extended. In addition to new, large-format floor tiles (60 x 60 cm) a collection of large-format wall tiles has been designed to coordinate with them, and will be manufactured at the La Ferté Gaucher factory in France. The new 2006 tile collection met with an extremely good response in Bologna at "Cersaie", the most important international trade fair for ceramic products. A particularly positive rating was given to the style of the entire collection, which emphasises the brand's appeal and fascination. International trading partners regard this original, exceptional style as an important tool which enables them to stand out from their competitors – especially as Villeroy & Boch is a leading international brand in the tile sector. One of the trade fair favourites was the series created by star designer Kenzo.
"Pro Architectura", the top-selling, most important tile concept in the commercial sector, was optimised and new colours were added. The discontinuation of the existing series and launch of the new one were successfully combined, which led to a clear increase in sales.

EXTENSIVE COST-CUTTING PROGRAMME INTRODUCED

Within the scope of restructuring measures carried out last year, a scheme was implemented which aims to cut costs by more than Euro 10 million. The fast implementation of these

The “Kenzo Mosaïk” tile series was created by designer Kenzo, and takes up the latest bathroom trends of highly nuanced colour.

measures will be the central task of Villeroy & Boch Fliesen GmbH, which was created by spinning off the Tile Division on January 1st 2006. A further aim of this move is to relieve the tile sector of central costs and create improved result transparency.
According to plan, initial savings were already seen in 2005 as a result of reorganising the shift system and cutting back the number of employees at the Merzig factory. The consequences of these measures, which also include those in the white-collar sector, will, however, take effect gradually during the course of 2006.
A complete revision of the new product development process took place in 2005. The Division fully achieved its objective of ensuring full availability of products and sample tile boards for the new product campaign at the start of 2006. The sales departments were able to start taking in orders for the new 2006 products as early as the fourth quarter of 2005.

OUTLOOK

In addition to stabilising the German market, Tile Division activities in 2006 will concentrate predominantly on developing international markets, in particular those where there are good chances of presenting the complete range, and there is a high degree of brand awareness. These include, for example, major Eastern European markets, such as Russia, Poland and the Czech Republic. Potential for further sales increases also exists in such Western European countries as the Benelux, Great Britain and France.
As a result of working together with renowned international designers in 2006, the Division will further strengthen both the range’s design competence and the degree of its international acceptance.

Villeroy & Boch has opened up a new dimension in modern tableware with its asymmetric "NewWave" range. The "Innova" series follows on from this idea with a new and innovative design.

Wendelin von Boch

“The “Metropolitan” tableware “NewWave” has continued its international success. In this respect, purist design has now probably reached its peak. Known to change its direction at roughly fifteen-year intervals, the trend curve prepared by Villeroy & Boch on the basis of empirical observations of international interior-design trends now indicates a comeback of luxury and the country-cottage style. We are responding to this change with new, elegant concepts for luxuriously opulent tableware, and a modern interpretation of the “Country” lifestyle.”

Tableware Division

TABLEWARE DIVISION KEY DATA

		2005	2004
Sales	*Euro million*	318.9	317.1
EBIT	*Euro million*	10.7	20.2
Return on sales	*Percent*	3.4	6.4
Capital expenditure	*Euro million*	8.5	15.8
Depreciation	*Euro million*	16.4	16.0
Employees (annual average)	*Number*	3,203	3,249

POSITIVE INTERNATIONAL SALES TREND DESPITE TOUGHER COMPETITION

The year 2005 was not easy for the Tableware Division. Competition became more intensive due to a drastic increase in imports from China. In the first half of 2005 alone, imports to the EU almost trebled after import restrictions were lifted. Although the sustained weakness in consumption caused domestic sales to fall short of prior-year figures by a narrow 1 % margin, the Division's figures are still above the trend for the domestic market as a whole. Regarded globally, Tableware Division sales of Euro 318.9 million were able to slightly exceed their prior-year level by 1 %, but only in conjunction with higher expenses than in the previous year.
On the whole a positive trend was seen in the Tableware Division's international business, particularly in the United States, France and Italy. A sales increase of roughly 6 % was reported in the United States – the company's second major market – and roughly 6 % in the consistently growing Italian market. The positive trend experienced last year in France continued in 2005, with sales rising 3 %.

TRENDSETTER

With its focus on asymmetric tableware in 2005, the global marketing strategy proved successful. Sales of the asymmetric range increased 28 %, but contribution margins remained below prior-year levels.
The reason for this was that the range was expanded to include patterned tableware with lower average margins. This measure to include modern, trend patterns was implemented to further promote both interest in, and sales of, the asymmetric tableware. Villeroy & Boch leads the market where the production techniques and design of these products are concerned. It completely adopts the prevailing market trends, whether they relate to the theme of coffee or finger food.
An extremely positive response was also achieved by the international advertising campaign for these ranges, which involved promotions and price offers.

Grace and opulence are combined in the "Aureus" series, which takes up the new trend towards classical style and luxury.

A favourable trend was experienced in the Cutlery and Glass Business Segments. The "Gourmet" sector exerted a considerable influence on the glass trend, the "Piemont" series on that of cutlery. Both Business Segments were able to conclude substantial special orders. The Accessories Segment reported a positive worldwide acceptance, above all for its seasonal themes, such as the "Christmas USA" Collection, or the "Essentials" series.

Despite the intensely competitive international market environment, the Hotel Business Segment was able to improve its prior-year sales figures. A considerable contribution was made to this growth by the products launched in 2005, which met with an extremely positive global response. One of the successful new product launches was the "Pi2" series with its predominantly square articles. In recent years Villeroy & Boch's Hotel Business Segment has developed into one of the world's largest commercial suppliers.

NEW SALES POTENTIAL DEVELOPED

A positive development was also seen in the area of "Promotions & Incentives". The appealing concepts created by a specialist team were able to build up new sales potential. One of the newly introduced activities involved co-branding, for example with a major foodstuff manufacturer. Implemented in Poland, this large-scale advertising campaign uses Villeroy & Boch tableware products in its television commercials.

Although the economic situation remains problematic for the specialised retail trade, Villeroy & Boch was nevertheless able to secure new dealers. A positive trend was also reported in the number of departmental stores in Europe and the United States, for whom Villeroy & Boch is a strong partner and main pillar of sales.

Villeroy & Boch has adapted itself to the changed consumer behaviour in the "internet age" by introducing a new distribution channel – e-commerce. The internet has become an attractive market place for certain groups of customers. This not only applies to the young, The country-cottage style is returning in a modern design with fresh patterns, e.g. the pattern "Cascara" on white "Perugia" tableware.

but also to older people who prefer to avoid the stress of town shopping. Internet sales started positively, showing an extremely pleasing sales trend in the second half of 2005 in particular.

OUTLOOK

In its capacity as leading lifestyle supplier in the home interior sector, Villeroy & Boch again presented trend-setting products and concepts to the international trade at this year's "Ambiente" in Frankfurt – the world's major trade fair for consumer goods. An extended range of the asymmetric "Metropolitan" products was displayed with the theme "Style Your Life". Attention also focused on the series from the "Classic" and "Country" lifestyles which are to take up the indications that elegance and tradition are making a comeback where consumer popularity is concerned.
As e-commerce enjoyed such a successful launch, it will be set up in other countries during the course of the coming year, for example in Australia, the Benelux, Spain and Italy. The Division's international marketing activities will concentrate in part on the Eastern European export markets, which are playing an increasingly important role within the EU. The main focus will, however, be on one of the major growth markets for the Tableware Division in future, namely China. Central European markets will shrink as a result of severe demographic changes, while in contrast, those in Asia will gain momentum. Interesting sales potential results here above all in the Hotel Business Segment, as both the Olympic Games and the World Exhibition are being held in China, and the building boom for four and five-star hotels is well under way.

Consolidated Financial Statements of Villeroy & Boch AG

Assets

Euro '000	*Notes*	*31.12.2005*	*31.12.2004*
NON-CURRENT ASSETS			
Intangible assets	*1*	42,235	41,693
Property, plant and equipment	*2*	245,737	258,832
Investment properties	*3*	1,303	560
Investment accounted for at equity	*4*	633	390
Other financial assets	*5*	15,502	10,212
		305,410	**311,687**
Other non-current assets	*10*	482	235
Deferred tax assets	*6*	52,242	42,895
		358,134	**354,817**
CURRENT ASSETS			
Inventories	*7*	205,644	223,666
Trade receivables	*8*	119,292	113,937
Financial assets	*9*	78	0
Other current assets	*10*	13,891	24,360
Tax claims	*11*	14,551	17,012
Cash and cash equivalents	*12*	58,490	51,334
		411,946	**430,309**
TOTAL ASSETS		**770,080**	**785,126**

Liabilities and Shareholders' Equity

Euro '000	*Notes*	*31.12.2005*	*31.12.2004*
EQUITY ATTRIBUTABLE TO VILLEROY & BOCH AG SHAREHOLDERS			
Capital subscribed	*13*	71,909	71,909
Capital surplus	*14*	193,587	193,587
Earnings reserves	*15*	62,496	60,638
Consolidated result		13,075	15,995
		341,067	**342,129**
EQUITY ATTRIBUTABLE TO MINORITY INTERESTS	*16*	**3,642**	**3,458**
TOTAL SHAREHOLDERS' EQUITY		**344,709**	**345,587**
NON-CURRENT LIABILITIES			
Provisions for pensions and similar liabilities	*17*	188,845	191,034
Other non-current provisions	*18*	7,671	9,089
Non-current financial liabilities	*19*	0	489
Other non-current liabilities	*20*	5,068	5,131
Deferred tax liabilities	*6*	21,425	13,926
		223,009	**219,669**
CURRENT LIABILITIES			
Other current provisions	*18*	32,431	49,080
Current financial liabilities	*19*	0	4,321
Other current liabilities	*20*	82,664	80,976
Trade payables	*21*	69,078	68,355
Tax liabilities	*22*	18,189	17,138
		202,362	**219,870**
TOTAL LIABILITIES		**425,371**	**439,539**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**770,080**	**785,126**

Villeroy & Boch Consolidated Profit and Loss Statement

Euro '000	*Notes*	*2005*	*2004*
SALES	*23*	**893,241**	**959,881**
Costs of goods sold	*24*	- 547,088	- 581,880
GROSS PROFIT FROM SALES		**346,153**	**378,001**
Selling expenses, marketing and development costs	*25*	- 281,809	- 286,204
General and administrative expenses	*26*	- 48,671	- 53,380
Amortisation of goodwill	*	–	- 3,555
Other operating income/expense	*27*	8,419	- 1,394
Result from investments in associated companies	*28*	243	295
OPERATING RESULT (EBIT)		**24,335**	**33,763**
Financial income	*29*	6,789	3,903
Financial expenses	*29*	- 15,073	- 14,106
FINANCIAL RESULTS		**- 8,284**	**- 10,203**
RESULT BEFORE TAX		**16,051**	**23,560**
Taxes on income	*30*	- 2,873	- 6,878
RESULT AFTER TAX		**13,178**	**16,682**
of which attributable to minority interests	*31*	- 103	- 687
OF WHICH GROUP SHAREHOLDERS ARE ENTITLED TO (CONSOLIDATED RESULT)		**13,075**	**15,995**
Net earnings per ordinary share in euros	*32*	0.47	0.58
Net earnings per preference share in euros	*32*	0.52	0.63

*) An explanation can be found in note 1

Euro '000	*2005*	*2004*
Result after tax	13,178	16,682
Amortisation of non-current assets	44,560	52,653
Write-ups on non-current assets	- 599	- 288
Change in non-current provisions	- 13,563	- 12,260
Result from disposal of fixed assets	- 2,631	- 459
Change in inventories, accounts receivable and other assets	20,358	2,123
Change in liabilities, current provisions and other liabilities	- 13,155	7,654
Taxes paid in business year	- 1,538	- 6,836
Interest paid in business year	- 3,593	- 3,248
Interest received in business year	4,271	2,484
Other income/expense without effect on liquid assets	9,572	4,607
CASH FLOW FROM OPERATING ACTIVITIES	**56,860**	**63,112**
Investment in intangible and tangible fixed assets	- 35,438	- 51,859
Investment in non-current financial assets and payments for the acquisition of consolidated companies	- 13,636	- 5,868
Deposits from disposals of fixed assets	16,290	20,650
Deposits from change in consolidated companies	0	28,095
CASH FLOW FROM INVESTING ACTIVITIES	**- 32,784**	**- 8,982**
Change in financial liabilities	- 6,000	- 28,824
Deposits due to sale of/payment for the acquisition of treasury stock	0	- 3,724
Withholding tax paid	0	- 93
Dividend payments	- 10,388	- 7,258
CASH FLOW FROM FINANCING	**- 16,388**	**- 39,899**
SUM OF CASH FLOWS	**7,688**	**14,231**
Changes in balance of cash due to exchange rates	- 532	75
OVERALL CHANGE IN THE BALANCE OF CASH	**7,156**	**14,306**
Balance of cash as of 01.01.	51,334	37,028
Overall change in balance of cash	7,156	14,306
BALANCE OF CASH AS OF 31.12.	**58,490**	**51,334**

The balance of cash consists of the items “Cash at banks” and “Cheques and cash on hand”.

Statement of Shareholders' Equity

Euro '000	Capital subscribed	Capital surplus	Earnings reserve	Consolidated result	Proportion of shareholders' equity held by shareholders of Villeroy & Boch AG	Minority interests in shareholders' equity	Total shareholders' equity
As of 01.01.2004	**71,909**	**193,587**	**92,967**	**- 26,064**	**332,399**	**2,613**	**335,012**
Dividend				- 7,258	- 7,258	- 41	- 7,299
Reclassification of prior-year consolidated result			- 33,322	33,322	0		0
Consolidated result				15,995	15,995	687	16,682
Subsequent valuation IAS 39			752		752		752
Currency change			4,128		4,128	199	4,327
Acquisition of treasury stock			- 3,724		- 3,724		- 3,724
Other changes in shareholders' equity			- 163		- 163		- 163
As of 31.12.2004	**71,909**	**193,587**	**60,638**	**15,995**	**342,129**	**3,458**	**345,587**
As of 01.01.2005	**71,909**	**193,587**	**60,638**	**15,995**	**342,129**	**3,458**	**345,587**
Dividend				- 10,388	- 10,388	- 62	- 10,450
Reclassification of prior-year consolidated result			5,607	- 5,607	0		0
Consolidated result				13,075	13,075	103	13,178
Subsequent valuation IAS 39			557		557		557
Acquisition of treasury stock					0	- 3	- 3
Currency change			- 4,702		- 4,702	146	- 4,556
Other changes in shareholders' equity			396		396		396
As of 31.12.2005	**71,909**	**193,587**	**62,496**	**13,075**	**341,067**	**3,642**	**344,709**

GENERAL

The consolidated financial statements of Villeroy & Boch AG, Mettlach, have been prepared in accordance with the valid regulations of the International Accounting Standards Board (IASB), London, applying the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as they are to be applied in the European Union. In so doing, all IFRS accounting principles have been considered whose application is compulsory for the business year commencing January 1st 2005. Section 48 gives information on new developments in the IASC regulatory system.

All requirements stipulated under § 315a HGB (German Commercial Code) have been fulfilled. In this respect, the consolidated financial statements prepared in accordance with International Financial Reporting Standards have a discharging effect.

The relief accorded under § 264 subsection 3 HGB as regards auditing and disclosure has been made use of for Villeroy & Boch Creation GmbH, Mettlach.

While the principle of prudence and the protection of creditors stand at the forefront in the reporting process under German law, the IFRS are increasingly aiming at providing information to enable current and potential investors to take appropriate decisions. The valuation and accounting principles of the IFRS regulatory system, as applied by Villeroy & Boch in accordance with the regulations, are described below.

VALUATION AND ACCOUNTING PRINCIPLES

Intangible assets

In accordance with IAS 38, an intangible asset is a clearly identifiable, nonmonetary asset without physical substance, which serves the manufacture of products, the provision of services, leasing to third parties or which is used for the company's own administration.

Nongratuitously acquired intangible assets are included in the assets at historical cost. The cost of financing is reported with effect on the operating result in accordance with the benchmark method. Research costs are shown as current expenditure of the respective business year. Self-generated intangible assets are only included under assets in the year of their accrual if the requirements stipulated by IAS 38 for capitalisation have been fulfilled.

Intangible assets consist of values with finite and indefinite periods of useful life.

Values for a finite useful life are reduced in accordance with their course of useful life by scheduled amortisation using the straight-line method. Useful life is mainly between three and six years. Amortisation is predominantly included in the general and administrative expenses.

The amortisation of assets with an indefinite useful life, for example goodwill, is only carried out if a reduction in value has been ascertained. In order to determine the value the net original cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the two amounts arising from the net selling price and the value in use of the same asset. The value is reviewed at regular intervals.

The net selling price on sale corresponds to the proceeds that could be achieved with an independent business partner after deduction of the total accrued cost of sale.

The current three-year plan drawn up by the management forms the basis on which the value in use is determined. The planning principles are brought in line with the respective current facts and circumstances. In so doing, assumptions on macroeconomic trends and historical developments are taken into account. A perpetual annuity is taken into account for the follow-up planning projection (from 2009). The value in use is calculated by discounting the extrapolated cash flow with an appropriate long-term interest rate before taxes on income in accordance with the discounted cash flow method. The impairment test for capitalised goodwill is conducted on a Division level.

In the event that reductions in value are ascertained, these are included with effect on the operating result. Should the grounds for impairment amortisation with effect on the operating result cease to exist, a corresponding write-up will be undertaken. A write-up is not permitted in the case of capitalised goodwill.

Payments on account are shown at their original cost. They are not written down until the asset concerned is available and operational.

Property, plant and equipment

Property, plant and equipment are reported in the balance sheet at historical cost or cost of production minus scheduled amortisation dependent on the useful life. The historical cost is composed of the original price minus reductions in the original price plus ancillary expenses necessary for the asset to become operational. The cost of production is assessed on the basis of the directly allocable unit costs together with prorata overhead expenses for material and production including write-downs. The cost of repair of property, plant and equipment and the cost of financing are fundamentally reported with effect on the operating result. Subsequent original costs are capitalised.

In the event that an asset is made up of several components, the useful life of which differs considerably from one to another, scheduled amortisation of the individual elements is undertaken in accordance with their individual performance potential. All the components of an asset are shown in the same item.

The straight-line method is used to depreciate property, plant and equipment in accordance with their period of useful life. The following periods of useful life are taken as a basis throughout the group:

Class of asset	*Useful life in years*
Buildings (predominantly 20 years)	20 – 50
Plant facilities	10 – 20
Kilns	5 – 10
Technical equipment and machinery	6 – 12
Vehicles	4 – 8
EDP systems	3 – 5
Other fixtures, fittings and equipment	3 – 10

The estimated commercial useful life is reviewed regularly and, if necessary, the future instalments for amortisation are adjusted. If a loss in value is ascertained, the property, plant and equipment are written down as stipulated in IAS 36 if the value in use or net selling price of the asset concerned has fallen below the net historical cost or cost of production. Should reasons for a depreciation of the value cease to exist, an appropriate write-up is undertaken.

Low-value items are written off completely in the year of acquisition.

Facilities under construction and payments made on account are reported in the balance sheet at original cost. They are not written down until the assets concerned are available and operational.

If fixed assets are rented or leased, and if beneficial ownership as stated under IAS 17 is held by the respective Group company, the aforementioned values are allocated to the lessee. Capitalisation takes place at their fair value or the lower cash value of the leasing instalments. Depreciation is carried out on the basis of the appropriate useful life or, if shorter, the term of the leasing agreement. The appropriate financial obligations arising from the future leasing instalments are set up as a liability. If the lessee bears all the basic risks and prospects connected to the property, the leasing instalments or rental expenses respectively are included directly in the Profit and Loss Statement as an expense.

Government grants

Where public grants and subsidies for the acquisition or construction of tangible and intangible assets are concerned, the original cost and cost of production are reduced by the amount of the allocation received in accordance with IAS 20, in so far as they can be allocated to the individual assets. If this is not possible, they are accrued and then appropriated with effect on the operating result, depending on the degree to which they have been performed.

Non-current assets held for sale

Non-current assets are to be classified in accordance with IFRS 5 as ‘held for sale’ if the book value of the object can be achieved mainly through its sale and not through its current use. This presupposes that the asset concerned is available for immediate sale in its current condition and that a sale is to be expected. The valuation is calculated on the basis of the lower of the two amounts arising from the book value and the fair value less the cost of sale. These values are no longer depreciated according to schedule.

Investment property

In accordance with IAS 40, real estate and buildings kept to earn regular rentals (investment properties) are to be shown separately from assets used in business operations. They are shown in the balance sheet at net original cost. The period of depreciation corresponds to that of the property, plant and equipment used for business operations. The official land benchmark cards form the basis of the valuation of the current market value.

Investment accounted for at equity

Participating interests in associated companies are shown in the balance sheet in accordance with the equity method. In this case, the original cost accrued at the time of the acquisition is adjusted to reflect the investor's future share of the net profit. In so far as loans are issued to associated companies, they are valued on the basis of their qualification as paid-out credit at net original cost.

Other financial assets

Participating interests and securities held on a long-term basis are classified in accordance with IAS 39 as ‘held-to-maturity assets’ or ‘available-for-sale’ financial assets. The value of financial assets is regularly reviewed.
In so far as a market price can be determined for a participating interest or a security held on a long-term basis, an expense of the depreciation of the value exists if it can be ascertained that the value in the balance sheet is expected to be higher in the long term than the market value. If there is no listed market price available for a financial asset, it is shown on the balance sheet at net original cost. If there are objective and substantive indications for a reduction in value, the recoverable amount is written down.
If a reduction in value is ascertained, it is reported with effect on the operating result. Should the reasons for impairment depreciation required in the previous year cease to exist, a corresponding write-up with effect on the operating result is undertaken.
Loans are shown in the balance sheet at net original cost.

Financial instruments

In accordance with IAS 32, a financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
The initial valuation of financial instruments is undertaken at original cost. The original cost comprises the market price plus transaction cost. In this case, the cost of financing and the general and administrative costs are not taken into account.
IAS 39 divides financial assets into the following classifications:

- Held-for-trading financial assets or liabilities, which are shown at fair value;
- Held-to-maturity financial investments (values on maturity), which are included at net original cost;
- ‘Other’ loans and receivables or liabilities respectively, which are also evaluated at (net) original cost;
- Available-for-sale financial assets, which do not fall under the first three classifications and which are also reported at fair value. In this classification, the change in fair value between balance-sheet dates is not shown in shareholders’ equity with effect on the operating result but without.

Hedge accounting

Forward exchange contracts and interest rate swaps in particular are used within the Villeroy & Boch Group to secure balance sheet items and against the risk of future in-payments and out-payments.
In the case of cash flow hedges to secure against the risk of future in-payments and out-payments, the hedge transaction is valued at market value. Changes in the valuation are initially without effect on the operating result within the remaining earnings reserves and only included with effect on the operating result on realisation of the in-payments and out-payments.
In the case of fair value hedges to secure against the risk of a change in value, both hedge transaction and the proportional risk secured against in the mainstay business are likewise shown in the balance sheet at market value. Fluctuations in the market value of hedge and mainstay transactions are shown with effect on the operating result.
The use of derivative financial instruments is regulated by the Group guidelines approved by the Management Board.

Related financial instruments
Other financial instruments or other contractual agreements may contain derivative components (embedded derivatives). These related instruments form a valuation unit if the prospects and risks arising from both component parts are closely linked and the basic transaction would be shown in the balance sheet at fair value. In all other cases the embedded derivative of the basic component is treated separately and as an independent instrument of the classification 'held-for-trading financial assets or liabilities, which are shown at fair value'.

Other accounts receivable and financial assets
Other accounts receivable and financial assets are shown on the balance sheet at historical cost. Any necessary adjustments to value, which are guided by actual risk of default, are taken into account. A separate disclosure is made in line with the residual time to maturity.

Deferred taxes
Deferred taxes are formed to cover temporary differences between the values reported in the consolidated balance sheet and the tax balance sheet and additionally for claims to a tax decrease, which result from the anticipated future application of loss carried forward. If there is not sufficient certainty that this will be realised, the values are adjusted accordingly.
Deferred taxes are ascertained on the basis of the anticipated taxation rates applicable on the adjustment date of the different valuation rates. Generally, the changes to deferred taxes are reported with effect on the operating result with the exception of the initial entries to be made without effect on the operating result in shareholders' equity. As stipulated in IAS 1, the balance-sheet item 'deferred taxes' is generally deemed to be long term.

Distinction between current and non-current
In accordance with IAS 1, current and non-current assets and current and non-current liabilities are to be shown in separate classifications on the balance sheet. A balance-sheet item is to be classified as short term if it fulfils at least one of the following criteria:

a. Its realisation/redemption is expected within the regular course of business;
b. It is kept primarily for trading purposes;
c. Its realisation/repayment is expected within twelve months of the balance-sheet date or
d. In the case of an asset, it concerns cash; or, in the case of a liability, the Villeroy & Boch Group does not have the absolute right to defer the discharge of its obligation by at least twelve months after the balance-sheet date.

All other assets are classified as non-current.

Inventories
Inventories are valued at original cost or cost of production unless the net value on sale is lower. In accordance with IAS 2, the original cost and the cost of production include the directly allocable unit costs (direct material and labour) and the overhead expenses which are to be allocated to the production process. The cost of financing is not taken into account. Write-downs are undertaken to an appropriate and adequate extent for inventory risks ensuing from the period of storage and/or diminished usability.
Net value on sale is calculated as the sales revenues which are expected to be recovered, minus any costs incurred up to the time of sale.
If the net value on sale increased in inventories which had previously been adjusted, the resulting original value is included as a reduction in the initial cost of the goods sold.

Construction contracts
Provided the result of a production order can be anticipated reliably, production orders are reported on the balance sheet in accordance with the percentage-of-completion method. An external auditor with the necessary expertise is appointed to determine the stage of production to be appropriated. Payments for modifications to the overall order and secure premiums are included in the agreed scope. If the accumulated payments exceed the payments on account, the production order is shown on the assets side of the balance sheet under accounts receivable. If the balance is negative after deduction of the payments on

account, the entry is made on the liabilities side of the balance sheet under obligations. Any anticipated risk of losses arising from production according to customer specification is covered by the creation of a provision.

Provisions for pensions
The provisions for pensions are reported on the basis of actuarial appraisals using the projected unit credit method. In addition to the pensions identified on the balance-sheet date and acquired expectancies, this method also takes anticipated future increases in salaries and pensions into account. Actuarial profit and loss outside a ten-percent margin of the scope of the obligation is distributed over the average remaining period of service. The expense for the period of service is offset with effect on the operating result in the personnel expenses. The proportionate interest expense arising from the allocation to provisions is shown in the financial result.

Other provisions
Provisions are set up in accordance with IAS 37 for legal or de facto commitments to third parties, which arise from past developments, whereby the outflow of funds for settling the existing commitment must be probable and reliably estimable. Valuation is carried out at the future settlement amount. Discounting is undertaken where necessary. The terms are organised according to the type of provision.

Liabilities
Non-current liabilities are reported at historical cost. Liabilities arising from financial leasing are entered on the liabilities side of the balance sheet at the cash value of the leasing instalment. Current liabilities are appropriated with their redemption amount.

Contingent liabilities
Contingent liabilities are potential or existing obligations which are based on past developments and for which an outflow of resources is unlikely. The obligations itemised correspond to the volume of liability existing on the balance-sheet date.

Realisation of income and expense
Income from sales, interest and provisions as well as other operating income is reported when the goods and services owed by the debtor have been provided and the price risk has been transferred to the customer. Income arising from the disposal of assets is not realised until they have definitively left the Group. Income from orders as well as the cost of orders for production orders is reported as soon as a reliable valuation on the result of the order is available and the corresponding volume of the order is presented.

Earnings per share
Earnings per share relate to a ratio determined in accordance with IAS 33. They result from dividing the consolidated results for the year after tax on earnings by a weighted average number of shares issued in the course of the business year. Diluted net earnings per share are calculated on the assumption that all potential share certificates (for example arising from convertible bonds) and share options have been converted or exercised respectively. Options result in a share dilution effect if, on issue of new shares, they would result in a lower than average stock exchange price. The ratio is to be given for each class of share.

Valuations and assessments made by the Management
It is necessary to make assumptions or valuations respectively to a certain degree in the process of drawing up the consolidated financial statements. These have affected, for example, the value assessment of capitalised assets, the ascertainment of the periods of economic useful life to be applied throughout the Group, the date of payment of accounts receivable and the itemisation of provisions. The assumptions and valuations taken as a basis are founded on the level of information currently available at the time the consolidated financial statements are drawn up.

All the amounts represented are, if not otherwise specifically indicated, shown in Euro million.

CONSOLIDATED COMPANIES

In addition to Villeroy & Boch AG, the consolidated financial statements include 17 (previous year: 15) domestic and 49 (previous year: 51) foreign subsidiaries, in which – directly or indirectly – majority voting rights are held.
The changes in the consolidated companies compared to the previous year are due to the first-time consolidation of two newly established domestic companies, which were not yet operational at the end of the year, as well as to the merger of a Swedish production company and the sale of a Finnish company, which was no longer active.
Following are the newly established companies:
- V & B Fliesen GmbH, Merzig
- Villeroy & Boch K-Shop GmbH, Mettlach.

The sale of the Finnish company did not affect the asset situation, financial position or operating result of the Villeroy & Boch Group.
All the subsidiaries are included in the Villeroy & Boch AG consolidated financial statements.
As in the previous year, a company established in Germany is reported in the balance sheet in accordance with the equity method. The shares in voting rights of this company amount to 50 %.
A complete list of share ownership will follow separately and be deposited with the Central Commercial Register at Amtsgericht Saarbrücken, Heidenkopferdell Offices, 66104 Saarbrücken, under HRB 63610.

CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group Consolidated Financial Statements are consolidated in accordance with the valuation and accounting principles stipulated under IAS 27, which are applied throughout the Group.
In so doing, the consolidation focuses on the last audited annual financial statements of the respective company. The balance-sheet date of the consolidated companies corresponds to that of the parent company.
Capital consolidation for the companies included is carried out in accordance with IFRS 3. In this respect, the participation book values of the subsidiary companies at the time of their acquisition are offset against the newly evaluated equity ratio allotted to them. The resulting variations are capitalised as goodwill, and, if a reduction in value is ascertained, amortised with an effect on net income. In accordance with IFRS 3, as of 01.01.2005 the straight-line method is no longer applied.
Once revealed, the hidden reserves and burdens are carried forward in the following consolidation in accordance with the assets and liabilities.
With respect to the consolidation of debts, the reconciled accounts receivable and liabilities of the companies included in the consolidation are offset against each other.
Sales, expenses and income between the companies included are eliminated. Intercompany results in fixed assets and also inventories are eliminated if they are not of secondary importance.
Deferred taxation in accordance with IAS 12 is carried out on consolidation measures affecting net income provided the varying tax expense is expected to balance itself in later business years.
With the exception of the changes required due to the improvement project, the consolidation principles as well as the valuation and accounting principles applied in the previous year have been maintained.

CURRENCY TRANSLATION

Taking individual company financial statements as a basis, all business transacted in foreign currency is valuated at the rate applicable at the time of its initial entry. Valuation on the respective balance-sheet date is carried out at the current rate.
In accordance with IAS 21, the individual company balance sheets of the consolidated companies, which are prepared in foreign currency, are translated to Euro following the concept of functional currency. With respect to the foreign Group com-

panies, the functional currency is the respective national currency as these companies transact business independently as regards finance, commerce and organisation. The assets and liabilities are translated to the spot rate on the balance-sheet date and all items of the Profit and Loss Statement to average monthly rates. Differences arising as a result of translating the financial statements of foreign subsidiary companies are treated as not affecting operating result and reported under a separate item in shareholders' equity. If companies which were formerly consolidated leave the circle of consolidated companies, the translation differences which have been treated as not affecting operating result, are then reversed with an effect on result.
The exchange rates of the most important currencies in relation to the Euro changed as follows:

		Balance-sheet date exchange rate		*Average exchange rate*	
Currency (1 Euro =)		*2005*	*2004*	*2005*	*2004*
Pound Sterling	GBP	0.6870	0.7089	0.6840	0.6787
New Rumanian lei	RON	3.6771	3.9663	3.6252	4.0538
Swedish crown	SEK	9.3930	8.9975	9.2795	9.1260
US Dollar	USD	1.1834	1.3606	1.2451	1.2434
Hungarian forint	HUF	252.6650	245.6250	248.0626	251.7862

The following changes in the exchange rates are recorded in the Profit and Loss Statement:

	2005	*2004*
Exchange profit	1,870	994
Exchange loss	- 1,473	- 1,479
	397	**- 485**

RELEASE FOR PUBLICATION

The Villeroy & Boch Management Board released the consolidated financial statements on 07.03.2006 for transmittal to the Supervisory Board. It is the duty of the Supervisory Board to audit the consolidated financial statements and to issue a declaration as to whether it approves the consolidated financial statements.

NOTES TO BALANCE SHEET

Non-current assets

As stipulated by the IFRS, non-current assets are made up of property assets, deferred tax assets and other non-current assets.

Fixed Assets

Movement of fixed assets in the business year was as follows:

Euro '000	*Intangible assets*	*Property, plant and equipment*	*Investment properties*	*Investment accounted for at equity*	*Other financial assets*	*Total*
Notes	*1*	*2*	*3*	*4*	*5*	
Accumulated costs						
As of 01.01.2005	75,358	900,467	560	390	10,565	**987,340**
Currency adjustment	- 9	- 1,213	0	0	0	- 1,222
Adjustment of financial assets to market values, without affecting operating result	0	0	0	0	1,256	1,256
Changes in consolidated companies	0	0	0	0	0	0
Additions	1,398	33,390	650	243	13,393	49,074
Disposals	- 330	- 30,035	0	0	- 9,392	- 39,757
Transfers	15	- 108	93	0	- 28	- 28
As of 31.12.2005	**76,432**	**902,501**	**1,303**	**633**	**15,794**	**996,663**
Accumulated depreciation						
As of 01.01.2005	33,665	641,635	0	0	353	675,653
Currency adjustment	- 16	- 589	0	0	0	- 605
Changes in consolidated companies	0	0	0	0	0	0
Scheduled amortisation	1,335	43,216	0	0	9	44,560
Disposals	- 188	- 27,498	0	0	- 70	- 27,756
Write-up	- 599	0	0	0	0	- 599
Transfer	0	0	0	0	0	0
As of 31.12.2005	**34,197**	**656,764**	**0**	**0**	**292**	**691,253**
Net book values						
Net book value on 31.12.2005	**42,235**	**245,737**	**1,303**	**633**	**15,502**	**305,410**
Net book value on 31.12.2004	41,693	258,832	560	390	10,212	311,687

1. Intangible Assets

Movement of intangible assets in the business year was as follows:

Euro '000	*Concessions, patents, licences and similar rights*	*Goodwill*	*Advances paid on intangible assets*	*Total*
Accumulated costs				
As of 01.01.2004	**17,816**	**71,104**	**0**	**88,920**
Currency adjustment	13	0	0	13
Changes in consolidated companies	- 937	- 12,786	0	- 13,723
Additions	2,018	0	90	2,108
Disposals	- 1,367	- 593	0	- 1,960
Transfers	0	0	0	0
As of 31.12.2004	**17,543**	**57,725**	**90**	**75,358**
As of 01.01.2005	**17,543**	**35,343**	**90**	**52,976**
Currency adjustment	- 9	0	0	- 9
Changes in consolidated companies	0	0	0	0
Additions	1,398	0	0	1,398
Disposals	- 330	0	0	- 330
Transfers	105	0	- 90	15
As of 31.12.2005	**18,707**	**35,343**	**0**	**54,050**
Accumulated depreciation				
As of 01.01.2004	**11,679**	**30,331**	**0**	**42,010**
Currency adjustment	37	0	0	37
Changes in consolidated companies	- 911	- 11,504	0	- 12,415
Scheduled amortisation	1,574	3,555	0	5,129
Disposals	- 1,096	0	0	- 1,096
Write-ups	0	0	0	0
Transfers	0	0	0	0
As of 31.12.2004	**11,283**	**22,382**	**0**	**33,665**
As of 01.01.2005	**11,283**	**0**	**0**	**11,283**
Currency adjustment	- 16	0	0	- 16
Changes in consolidated companies	0	0	0	0
Scheduled amortisation	1,335	0	0	1,335
Disposals	- 188	0	0	- 188
Write-ups	- 599	0	0	- 599
Transfers	0	0	0	0
As of 31.12.2005	**11,815**	**0**	**0**	**11,815**
Net book values				
Net book value on 31.12.2005	**6,892**	**35,343**	**0**	**42,235**
Net book value on 31.12.2004	6,260	35,343	90	41,693

In the asset group ‘concessions, patents, licences and similar rights’ self-generated intangible assets are capitalised at a book value of Euro 0.034 million (previous year: Euro 0.086 million). This applies exclusively to an internally produced software interface. In addition to the unit costs, the cost of production amounting to Euro 0.110 million includes reasonable charges for overhead expenses. The cost of financing is not capitalised. Scheduled amortisation is undertaken over the useful life of three years. This corresponds to the useful life of the IT systems communicating via the interface. Euro 0.052 million (previous year: Euro 0.024 million) were written down with effect on the operating result in the business year.

The situation regarding the reduction in value of the asset group ‘concessions, patents, licences and similar rights’ is no longer applicable. A write-up on the historical original cost carried forward was reported in other operating income with effect on the operating result and shown under the Tableware Segment.

In accordance with IFRS 3.55, as of 01.01.2005 goodwill in the Bathroom and Wellness Division is no longer amortised according to schedule. Scheduled amortisation on the basis of a useful life of 15 years was discontinued on 31.12.2004. If scheduled amortisation were theoretically to be carried forward, amortisation amounting to Euro 3.477 million would accrue in the 2005 business year. The value of goodwill is ascertained on a yearly basis by means of an impairment test. The recoverable amount in all cases is above the net original cost, therefore resulting in no reduction in value.

In accordance with IAS transitional provisions, as of 01.01.2005 net original cost is balanced with historical amortisation. Due to itemisation of the scheduled amortisation accrued on goodwill in the previous year, it is shown this year under a separate line in the Profit and Loss Statement.

As in the previous business year, no restraints exist on ownership or disposal of intangible assets. Intangible assets were not pledged as security for liabilities.

No intangible assets classified by IFRS 5 as being for sale were kept in the business year. No intangible asset was permanently closed down. An economic value is to be expected in the future on all capitalised values.

2. Property, plant and equipment

Movement of property, plant and equipment used in business operations in the business year was as follows:

Euro '000	*Land and buildings*	*Technical equipment, plant and machinery*	*Other equipment, fixtures, fittings and equipment*	*Advance payments and plant and machinery in process of construction*	*Total*
Accumulated costs					
As of 01.01.2004	**337,708**	**466,712**	**148,593**	**22,170**	**975,183**
Currency adjustment	1,170	2,179	- 634	90	2,805
Changes in consolidated companies	- 18,324	- 29,409	- 6,861	- 110	- 54,704
Additions	2,581	15,874	10,578	20,718	49,751
Disposals	- 13,496	- 44,379	- 14,257	- 436	- 72,568
Transfers	5,710	22,060	- 6,683	- 21,087	0
As of 01.01.2005	**315,349**	**433,037**	**130,736**	**21,345**	**900,467**
Currency adjustment	- 620	- 2,333	1,786	- 46	- 1,213
Changes in consolidated companies	0	0	0	0	0
Additions	2,534	17,580	8,159	5,117	33,390
Disposals	- 2,751	- 15,177	- 12,048	- 59	- 30,035
Transfers	- 3,721	19,368	3,486	- 19,241	- 108
As of 31.12.2005	**310,791**	**452,475**	**132,119**	**7,116**	**902,501**
Accumulated depreciation					
As of 01.01.2004	**208,746**	**356,896**	**117,737**	**0**	**683,379**
Currency adjustment	303	1,629	- 619	0	1,313
Changes in consolidated companies	- 10,647	- 17,434	- 5,609	0	- 33,690
Scheduled depreciation	7,699	27,568	11,505	0	46,772
Disposals	- 8,451	- 35,277	- 12,411	0	- 56,139
Write-ups	0	0	0	0	0
Transfers	901	4,078	- 4,979	0	0
As of 01.01.2005	**198,551**	**337,460**	**105,624**	**0**	**641,635**
Currency adjustment	- 191	- 1,866	1,468	0	- 589
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	6,691	26,074	10,451	0	43,216
Disposals	- 2,548	- 13,385	- 11,565	0	- 27,498
Write-ups	0	0	0	0	0
Transfers	- 5,724	3,087	2,637	0	0
As of 31.12.2005	**196,779**	**351,370**	**108,615**	**0**	**656,764**
Net book values					
Net book value on 31.12.2005	**114,012**	**101,105**	**23,504**	**7,116**	**245,737**
Net book value on 31.12.2004	116,798	95,577	25,112	21,345	258,832

Land and buildings not used in business operations amounting to Euro 0.560 million were reported in previous years together with the property assets applied in the operational value-added process. The information from the previous year was adjusted correspondingly. A description of the investment properties assets is given in note 3.
There are no restraints on rights of disposal for property, plant and equipment. The book value of tangible fixed assets pledged as security for liabilities on the balance-sheet date amounted to Euro 0 million.
In the year under review Euro 1.902 million (previous year: Euro 3.945 million) from the public grants received was deducted at historical cost as an asset; Euro 1.446 million (previous year: Euro 1.465 million) is included as a liability in deferred income. Euro 0.215 million were released from the deduction on the liability side with effect on the operating result. All requirements with respect to the awarding of these grants have been fulfilled, and there is currently no risk of failure in performance.
In the business year no tangible assets were held which were classified in accordance with IFRS 5 as held for sale. No property, plant or equipment was closed down permanently. Future economic utility is anticipated from all capitalised values. No compensation contributions were paid by third parties for property, plant or equipment, which suffered depreciation in value, was destroyed or closed down.
Contractual obligations existing on the balance-sheet date for the acquisition of property, plant or equipment are described in section 42 under ‘other financial obligations’.

Leasing

Due to premature termination of leasing agreements for machines used in business operations, the total value of capitalised leasing items dropped in the course of the business year to Euro 0 million (previous year: Euro 0.256 million). For the same reason, the future leasing obligations arising from financial leasing also amount to Euro 0 million (previous year: Euro 0.035 million). The machines previously leased were acquired at market prices.
In the 2005 business year, the leasing expense arising from operational leasing agreements amounted to Euro 34.445 million (previous year: Euro 31.523 million). The Group rents or leases salesrooms, warehouses, office premises and other facilities or tangible assets. The rental or leasing expense increased compared to the previous year due to the expansion abroad of the company-owned retail trade network in the year under review. The agreements are based on a rental or leasing term of between 6 months and 32 years. None of the agreements contains an option to purchase the object leased. Most of the agreements are implicitly renewed under the existing terms and conditions. Neither price adjustment provisions nor any other restrictions were agreed.
In order to improve the Group cash flow, unused rented or leased property is offered to interested parties against payment. In the business year this resulted in additional income amounting to Euro 0.034 million (previous year: Euro 0.025 million). Accrued incidental expenses and other obligations are assumed by our tenant.
Obligations arising from operational leasing relationships are due for payment in the subsequent years as follows:

Euro '000	*Up to 1 year*	*1 to 5 years*	*More than 5 years*
Operational Leasing			
Leasing payments to be paid in future	19,977	29,457	6,401
Future income arising from subleasing	83	236	50

In order to develop foreign markets further the company-owned retail trade network was expanded in the year under review. This essentially concerned the opening of new branches in France, the USA, Belgium and Australia. As the new establishments have been leased, future obligations arising from operational leasing will increase.

No agreements which meet the requirements for capitalisation as a financial leasing agreement have been concluded since the year under review.

3. Investment Properties

Within the scope of follow-up development programmes properties that are not necessary for business will, if at all possible, constantly be improved with a view to letting them, thus allowing currently unused space to contribute to improving the Group cash flow in the medium to long term.

Several properties are currently being improved, and their capitalised book value in the Consolidated Financial Statements amounts to Euro 1.3 million (previous year: Euro 0.6 million). These book values correspond to the historical cost, as opposed to a current market value of Euro 8.1 million (previous year: Euro 7.7 million). The increase in the book values is due to the capitalisation of further expansion measures and the start of improvements on another property. The current market values shown have been determined by using official maps of estimated land values (base year: 2001) and taking account of surcharges and deductions relevant for the property in question. Committees of experts at the competent cadastral office regularly calculate the values shown in the maps for estimated land values on the basis of prices obtained from land sales in the respective area. Expert opinions drawn up by third parties are not obtained for reasons of cost. Rent totalling Euro 0.209 million (previous year: Euro 0.220 million) is currently being earned from letting the properties to be improved to affiliated companies. In the business year the maintenance and management expenses accrued amounted to Euro 0.073 million; in the previous year these were assumed by the tenant.

Financial Assets

Movement in financial assets in the business year was as follows:

Euro '000	*Investments accounted for at equity*	*Other investments*	*Security investments*	*Loans*	*Total*
Note	*4*	*5*	*5*	*5*	
Accumulated costs					
As of 01.01.2004	**390**	**33**	**10,483**	**2,234**	**13,140**
Currency adjustment	0	0	0	0	0
Adjustment of financial assets to market values, without affecting operating result	0	0	- 5	0	- 5
Changes in consolidated companies	0	- 3	0	- 46	- 49
Additions	0	0	5,686	182	5,868
Disposals	0	0	- 7,645	- 321	- 7,966
Transfers	0	0	0	- 33	- 33
As of 01.01.2005	**390**	**30**	**8,519**	**2,016**	**10,955**
Currency adjustment	0	0	0	0	0
Adjustment of financial assets to market values, without affecting operating result	0	0	1,256	0	1,256
Changes in consolidated companies	0	0	0	0	0
Additions	243	0	2,962	10,431	13,636
Disposals	0	0	- 9,168	- 224	- 9,392
Transfers	0	0	0	- 28	- 28
As of 31.12.2005	**633**	**30**	**3,569**	**12,195**	**16,427**
Accumulated depreciation					
As of 01.01.2004	**0**	**0**	**2,092**	**149**	**2,241**
Currency adjustment	0	0	0	0	0
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	0	0	0	31	31
Impairment	0	0	721	0	721
Disposals	0	0	- 2,237	- 115	- 2,352
Write-ups	0	0	- 288	0	- 288
Transfers	0	0	0	0	0
As of 01.01.2005	**0**	**0**	**288**	**65**	**353**
Currency adjustment	0	0	0	0	0
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	0	0	1	8	9
Impairment	0	0	0	0	0
Disposals	0	0	0	- 70	- 70
Write-ups	0	0	0	0	0
Transfers	0	0	0	0	0
As of 31.12.2005	**0**	**0**	**289**	**3**	**292**
Net book values					
Net book value on 31.12.2005	**633**	**30**	**3,280**	**12,192**	**16,135**
Net book value on 31.12.2004	390	30	8,231	1,951	10,602

4. Investments accounted for at equity

Participating interests in an associated company are shown in the balance sheet in accordance with the equity method. In this case, the company concerned maintains its own valuation principles. Revaluation is dispensed with owing to the insignificant influence of revaluation measures. The company is included on the basis of the current financial statement as of 31.12.2005. The book value of the participating interest amounts to Euro 0.633 million.
The participating interest shown in the balance sheet as an associated company is not listed on the stock exchange.

5. Other financial assets

Other financial assets are made up of the securities held on a long-term basis which are shown in the balance sheet as available for sale and the other participating interests and loans which are classified as held to maturity.

Financial assets available for sale

Included in this category are fixed-interest securities and interests in a separate fund amounting to Euro 0.400 million (previous year: Euro 0.396 million) used to cover the severance pay provisions of the Austrian subsidiaries as stipulated in § 14 of the Austrian Income Tax Law. Investment options are selected in conformity with Austrian legislation.
The remaining investment consists of a participating interest with a holding period up to 2007 in an insurance company quoted on the stock exchange.
Valuation reserves stemming from the market valuation of marketable securities classified as impaired in the previous year amounted to Euro 0.721 million; they are taken into account in net interest income. In the year under review there was no value adjustment arising from impairment. In addition, special depreciation allowances in accordance with IAS 39.67, which had been taken into account in net interest income, were compensated for in the previous year by write-ups to the amount of Euro 0.288 million with effect on the operating result. As a result of the disposal of the financial investments depreciated in the previous year, earnings amounting to Euro 1.838 million were included in the year under review in the Profit and Loss Statement. Furthermore, market value changes amounting to Euro 1.256 million (previous year: Euro -0.005 million), are taken into account in earnings reserves without effect on the operating result. The securities portfolio, the market valuation of which has been taken into account in the revaluation reserve without effect on the operating result, did not change in the course of the business year.

Financial assets held to maturity

The loans category includes a promissory bond issued in 2005 at 2.1 % at an original cost of Euro 9.884 million (base value Euro 10 million). Integrated into this financial instrument is a derivative, which is explained in greater detail in note 9. The borrower of this loan, which has a term of 18 months, is an international credit institution with first-class financial standing. In addition, a deficit guarantee has been issued via the German safety fund. Valuation is undertaken using the effective interest rate method. In the business year this resulted in income arising from interest amounting to Euro 0.09 million.

Other non-current assets

In accordance with IFRS, non-current assets also include deferred tax assets and other non-current assets which serve the Villeroy & Boch Group for more than one year. The other non-current assets are explained in note 10.

6. Deferred taxes

Deferred taxes concern the following balance-sheet items:

		Deferred tax assets		*Deferred tax liabilities*	
Euro '000	*note*	*31.12.2005*	*31.12.2004*	*31.12.2005*	*31.12.2004*
Intangible fixed assets	*1*	266	92	583	291
Property, plant and equipment	*2*	4,195	4,247	7,118	7,996
Financial assets	*5*	397	452	549	- 37
Inventories	*7*	8,396	1,116	788	- 6,234
Other assets	*10*	207	- 19	1,463	645
Special tax items		0	0	10,805	11,117
Provisions for pensions	*17*	13,182	14,035	43	64
Other provisions	*18*	1,993	6,435	20	26
Liabilities	*20*	1,448	704	56	58
Accumulated deficits		22,158	15,833	0	0
Balance-sheet items		**52,242**	**42,895**	**21,425**	**13,926**

Deferred taxes totalling Euro 0.339 million (previous year: Euro 0.82 million) have been absorbed in shareholders' equity without effect on the operating result.

While the accumulated domestic deficits can be carried forward without limitation with regard to minimum taxation, time limitations specific to the respective country often apply to accumulated foreign deficits. The latter have been appropriately taken into account in the valuation. Potential tax savings resulting from as yet unused tax losses totalling Euro 11.769 million (previous year: Euro 10.899 million) have not been capitalised.
For further explanatory comments, see note 30 on 'taxes on income and earnings'. The individual balance-sheet items are explained in the notes under the number given.

Current assets

7. Inventories

Euro '000	*31.12.2005*	*31.12.2004*
Raw materials and supplies	30,839	34,989
Work-in-process	30,058	34,180
Finished goods	144,703	154,455
Advance payments	44	42
	205,644	**223,666**

Inventories are divided between the individual business segments as follows:

Euro ’000	*31.12.2005*	*31.12.2004*
Tiles	56,420	56,348
Bathroom and Wellness	76,916	85,068
Tableware	72,308	82,250
	205,644	**223,666**

No restraints exist on ownership or disposal of intangible assets. No inventories were pledged as security for liabilities.

Construction contracts

Due to the existing structure of business activities in the Project Business Segment production to customer specification is reported in accordance with IAS 11. On 31.12.2005 there were no outstanding production orders shown in the balance sheet using the percentage-of-completion method.

The volume of production orders with a credit balance amounts to Euro 0 million (previous year: Euro 0.481 million). As in the previous year, there are no orders with a debit balance. Partial accounting is not applied to the processing of outstanding production orders.

8. Trade receivables

Movement in accounts receivable from trading in the business year was as follows:

Euro ’000	*31.12.2005*	*Remaining term more than 1 year*	*31.12.2004*	*Remaining term more than 1 year*
Trade receivables	**119,292**	**120**	**113,937**	85

Accounts receivable from trading are balanced at par value. Where default or transfer risks exist, liabilities are calculated at the lower realisable amount. This is reflected in the form of implemented individual valuation reserves. In the business year, valuation reserves were formed to the amount of Euro 2.050 million (previous year: Euro 2.367 million). There is no significant concentration of default risks in the Group as they are distributed over a large number of contractual partners and customers. As in the previous business year, no restraints exist on ownership or disposal.

9. Current financial assets

The item ‘current financial assets’ consists of an embedded derivative, which offers the opportunity of additional index-linked interest payments. There are no risks involved as the capital invested will flow back at the end of the term from a credit institution with first-class rating.

10. Other non-current and current assets

In accordance with the newly-defined balance-sheet presentation put forward by IAS 1, other assets include deferrals in the form of prepaid expenses of the balance sheet.

Euro '000	Book value 31.12.2005	Remaining term up to 1 year	Remaining term more than 1 year	Book value 31.12.2004	Remaining term up to 1 year	Remaining term more than 1 year
Accounts due from associated companies	**792**	792	0	**732**	732	0
Remaining other assets	**11,606**	11,187	419	**21,289**	21,054	235
Prepaid expenses	**1,975**	1,912	63	**2,574**	2,574	0
	14,373	**13,891**	**482**	**24,595**	**24,360**	**235**

The accounts due from associated companies as well as the other assets and prepaid expenses on the assets side are balanced at par value. Appropriate valuation reserves cover any default or other risks. There is no significant concentration of default risks in the Group as they are distributed over a large number of contractual partners and customers.

The item 'remaining other assets' includes receivables due from the pension fund for wage-earners, advances for the motor-vehicle fleet, rent deposits and other security payments, receivables arising from initial equipment and fittings for franchisers, creditors with debit balances, receivables due from the workforce, receivables from the sale of fixed assets, receivables from bonuses, receivables from the market valuation of derivatives and also a multitude of smaller individual items. The decrease in other short-term assets is essentially a result of the receivable arising from the sale of fixed assets in the prepaid expenses item shown in the previous year being discharged in the 2005 business year.
The usual deferrals, such as rent and insurance premiums, are included in the prepaid expenses item.

11. Tax Claims

Movement in the claims due to tax refunds in the business year was as follows:

Euro '000	Book value 31.12.2005	Remaining term up to 1 year	Remaining term more than 1 year	Book value 31.12.2004	Remaining term up to 1 year	Remaining term more than 1 year
Claims on income tax	**7,944**	7,944	0	**10,048**	10,048	0
Other tax claims	**6,607**	6,607	0	**6,964**	6,964	0
	14,551	**14,551**	**0**	**17,012**	**17,012**	**0**

12. Cash and cash equivalents

Euro '000	31.12.2005	31.12.2004
Cheques and cash on hand	723	603
Cash in banks	57,767	50,731
	58,490	**51,334**

Cash on hand and in banks is balanced at par value. No cash equivalents are held in the Villeroy & Boch Group as of the balance-sheet date. Accounts receivable due from banks and liabilities due to banks are reported as having been netted out to the amount of Euro 16.097 million (previous year: Euro 14.561 million), for which there are offsetting terms and the intention of net settlement (IAS 32.80).
There is minimal default risk on liquid assets as they are held by banks certified by international rating agencies as having a high credit standing.

Shareholders' Equity

Consolidated shareholders' equity includes:
- capital subscribed, Villeroy & Boch AG capital and earnings reserves
- earnings reserves of consolidated companies, provided since belonging to the Group
- reduction of shareholders' equity by Villeroy & Boch AG treasury stock
- effects of consolidation measures and
- minority interests in shareholders' equity.

Movement in shareholders' equity is shown separately in the shareholders' equity transition.

13. Capital Subscribed

Share capital is divided into 14,044,800 individual ordinary-share certificates and 14,044,800 nonvoting individual preference-share certificates, each having a calculated share in the share capital of Euro 2.56. The share capital is divided into equal numbers of ordinary shares and preferences shares respectively.
The company's share capital amounts to Euro 71,909,376 (previous year: Euro 71,909,376).

14. Capital Reserves

Capital reserves amounting to Euro 193.587 million include the premium arising from the initial listing on the stock exchange in 1998 and have remained unchanged since then.

15. Earnings Reserves

Other consolidated earnings reserves amounting to Euro 62.496 million (previous year: Euro 60.638 million) include those of Villeroy & Boch AG and the proportional profits – produced since belonging to the Group – of the consolidated subsidiaries. In addition, this item includes consolidation measures and currency influences. The treasury stock held by Villeroy & Boch AG, which has remained unchanged at Euro 14.999 million since the previous year, is offset in the earnings reserves. No treasury stock was acquired in the business year (previous year: Euro 3.724 million). As in the previous year, no stock purchase warrants were sold to executive staff.

16. Minority Interests

Third-party shares in the shareholders' equity of consolidated subsidiary companies are shown under the item 'equity attributable to minority interests'. On the balance-sheet date they total Euro 3.642 million (previous year: Euro 3.458 million) and originate predominantly from the Vagnerplast Group companies. The increase compared to the previous year is largely due to the positive result and the effect of the currency exchange rate.
Minority interests are calculated on the basis of the shareholders' equity reported in the balance sheets of the companies concerned on the balance-sheet date.

Stock Option Plan

In accordance with a resolution passed at the General Meeting of Shareholders on June 25th 1999, a total of 1,058,023 (3.77 % of share capital) no-par individual preference-share certificates were acquired in the 2000 business year. They represent a proportionate share capital of Euro 2,708,539.

In 2003, a total of 282,591 (1.00 % of share capital; Euro 723,433 prorata share capital) no-par-value individual preference-share certificates were acquired following a resolution passed at the General Meeting of Shareholders on May 23rd 2002. In the 2004 business year a further 425,380 (1.51 % of share capital, Euro 1,088,973 prorata share capital) no-par individual preference-share certificates arising from this were acquired. There were no acquisitions or disposals in the 2005 business year. A total of 82,965 shares have been sold to executive staff of Villeroy & Boch AG and its subsidiary companies during the last four years within the scope of a stock option programme. The following table shows the tranches issued in the respective years.

	Proportion of share capital			*Strike price*
Business year	*in shares*	*in %*	*in Euro*	*in Euro*
2000	35,548	0.13	91,003	10.25
2001	25,755	0.10	65,933	12.23
2002	16,810	0.06	43,034	10.58
2003	4,852	0.02	12,421	7.40

Management Board members had to acquire one share from the Villeroy & Boch portfolio for every nine warrants, and other executive staff had to acquire one share for every eight warrants. The shares are to be kept for the entire term of the option. Share options cannot be exercised until at least three years after their issue and no later than three months after the fifth trading date following the General Meeting of Shareholders in 2006. A condition is that the share price has increased by at least 20 % since the time of issue and is valued at a minimum of Euro 12.00. Since these criteria were not fulfilled on the respective date to exercise the options over the last three years, the stock options from the third tranche of 2002, as with the first two tranches, could not be exercised. In accordance with the resolution passed at the General Meeting of Shareholders, the issue of new stock purchase warrants was to be effected by 31.12.2003. The total portfolio of stock purchase warrants at the end of the year amounted to 83,704. In the business year a total of 133,235 of the stock purchase warrants issued expired due to failure to exercise the option.
Due to the favourable trend in the Villeroy & Boch share price, an expense amounting to Euro 0.525 million for the expected exercise of the last tranche of the share option programme was taken into account in the Villeroy & Boch AG annual financial statement. Earnings arising from the price quoted on the balance-sheet date from write-ups on the original cost (Euro 9.46) of the treasury stock amounted to Euro 0.198 million. These earnings were neutralised within the Group. The total shares required when the share option is exercised can be covered by the company's own portfolio. The portfolio remained unchanged with 1,683,029 shares on the balance-sheet date 31.12.2005. This is the equivalent of a prorata share capital of Euro 4,308,555.

Non-current and current liabilities

17. Provisions for pensions and similar obligations

The provisions for pensions and similar obligations include old-age protection for Villeroy & Boch Group employees, the overwhelming majority of whom are resident in the European Economic Area.

The following items are included in the balance sheet:

Euro '000	*31.12.2005*	*31.12.2004*
Provisions for pensions	173,184	176,551
Provisions for similar obligations	15,661	14,483
	188,845	**191,034**

The provisions for pensions and similar obligations have changed as follows:

	Provisions for			
Euro '000	*Pension obligations*	*Anniversary bonuses*	*Semi-retirement*	*Total*
As of 01.01.2004	**178,829**	**7,051**	**8,297**	**194,177**
Currency	7	0	0	7
Utilisation	- 12,979	- 632	- 1,533	- 15,144
Reversal	- 88	- 35	- 459	- 582
Allocation	11,165	543	1,416	13,124
Change in consolidated companies	- 383	- 165	0	- 548
As of 01.01.2005	**176,551**	**6,762**	**7,721**	**191,034**
Currency	- 44	0	0	- 44
Utilisation	- 12,496	- 560	- 2,072	- 15,128
Reversal	- 229	0	0	- 229
Allocation	9,402	1,033	2,777	13,212
Change in consolidated companies	0	0	0	0
As of 31.12.2005	**173,184**	**7,235**	**8,426**	**188,845**

The various old-age protection systems are based, as a rule, on the employee's length of employment and remuneration. The schemes concerned are predominantly performance-oriented pension organisations. In Germany Villeroy & Boch AG pays contributions for the national pension insurance scheme to the amount of Euro 11.647 million (previous year: Euro 11.664 million). In addition, a contributory pension scheme is offered through the Chemical Industry Pension Fund. In the current business year a contribution amounting to Euro 0.082 million (previous year: Euro 0.077 million) was paid. The performance of the Villeroy & Boch Group with respect to the provisions for similar obligations depends on the legal, fiscal and economic conditions applicable in the respective country.

Valuation of pension obligations is carried out using an interest rate for accounting purposes to the amount of 4.3 % and a wage and salary trend of 2.0 %, 2.5 % and 3.5 %. In the case of employee pension-scheme settlements, calculations are carried out on the basis of a retirement pension trend of 1.5 % and 2.0 % and the employee turnover specific to the company. Valuation is carried out on the basis of mortality tables which are specific to the country.

The actuarial profits/losses are entered using the 10 % corridor rule. An expected return of 4.5 % (previous year: 5.7 %) was assumed when determining the plan assets.

In the business year under review, pension expenses were made up as follows:

Euro '000	*31.12.2005*	*31.12.2004*
Expense for period of service	1,286	2,902
Return on plan assets	- 632	- 696
Interest expense	9,957	10,374
	10,611	**12,580**

The pension schemes shown are included in the cost of sales, selling expenses and general and administrative expenses – the proportionate interest expense is appropriately shown in the financial result.

The movement and structure of the pension-right present values and also of the plan assets are as follows:

Euro '000	*31.12.2005*	*31.12.2004*
Present value of pension rights		
As of 01.01.	189,846	190,140
Change in consolidated companies	0	- 642
Currency fluctuations	- 44	7
Interest expense	9,957	10,374
Expense for period of service	1,286	2,902
Annuity payments	- 12,076	- 11,909
Actuarial losses/profits	- 233	- 1,026
As of 31.12.	**188,736**	**189,846**
Change in plan assets		
As of 01.01.	13,295	11,311
Return on plan assets	632	696
Employer contributions	1,626	1,288
As of 31.12.	**15,553**	**13,295**
Financing situation		
As of 31.12.	210,128	192,745
Actuarial losses not yet taken into account	- 36,944	- 16,194
Provision as of 31.12.	**173,184**	**176,551**

Actuarial profit not yet accounted for to the amount of Euro 0.533 million was accrued in plan assets.

18. Other non-current and current provisions

Movement in the non-current and current provisions in the period under review was as follows:

Euro '000	*Non-current provisions*	*Current provisions for:* Personnel sector	Guarantee obligations	Restructuring	Other	Total	*Aggregate sum*
As of 01.01.2004	**10,237**	**6,129**	**9,395**	**17,040**	**13,379**	**45,943**	**56,180**
Currency	2	- 80	34	24	9	- 13	- 11
Utilisation	- 486	- 4,951	- 710	- 13,475	- 5,651	- 24,787	- 25,273
Reversal	- 248	- 71	- 1,030	- 383	- 1,763	- 3,247	- 3,495
Allocation	1,109	7,484	8,853	7,131	9,627	33,095	34,204
Transfer	330	- 699	0	344	- 672	- 1,027	- 697
Change in consolidated companies	- 1,855	- 437	0	0	- 447	- 884	- 2,739
As of 01.01.2005	**9,089**	**7,375**	**16,542**	**10,681**	**14,482**	**49,080**	**58,169**
Currency	- 34	85	- 107	- 24	433	387	353
Utilisation	- 155	- 7,374	- 2,098	- 5,887	- 5,267	- 20,626	- 20,781
Reversal	- 2,062	- 47	- 6,950	- 709	- 5,750	- 13,456	- 15,518
Allocation	833	7,757	915	4,407	3,833	16,912	17,745
Transfer	0	318	0	0	- 184	134	134
Change in consolidated companies	0	0	0	0	0	0	0
As of 31.12.2005	**7,671**	**8,114**	**8,302**	**8,468**	**7,547**	**32,431**	**40,102**

Due to the revision of IAS 1 it was necessary to adjust the prior-year values to the new presentation. Tax reserves are described under tax liabilities in note 22. Some components of provisions for the personnel sector (e.g. provision for severance pay) and the other provisions (such as provisions for environmental protection and recultivation) are shown as long-term provisions.

The long-term provisions are made up of precautionary measures related to environmental protection and recultivation projects as well as provisions for severance pay for personnel from Austria, Italy and Australia.

Provisions for the personnel sector show provisions for outstanding management bonuses and severance payments owing to personnel layoffs. The guarantee provision takes liabilities for the usual product guarantees into account and also continues to cover the risks from guarantees connected to the as yet incomplete divestment measures in the Tile Business Segment. This also includes the income arising from the reversal of the prior-year provision liabilities created to cover the risks prevailing in the 2004 business year.

Other provisions essentially include provisions for interest on tax, the risks of lost lawsuits, auditing costs, commission and also a multitude of individual items.

19. Non-current and current financial liabilities

Details of the non-current and current financial liabilities are shown in the following table:

Euro '000	Book value 31.12.2005	Remaining term Up to 1 year	Remaining term More than 1 year	Book value 31.12.2004	Remaining term Up to 1 year	Remaining term More than 1 year
Liabilities due to banks	0	0	0	4,720	4,272	478
Other liabilities arising from financial services	0	0	0	90	79	11
	0	**0**	**0**	**4,810**	**4,321**	**489**

Accounts receivable due from banks and liabilities due to banks are reported as having been netted out to the amount of Euro 16.097 million (previous year: Euro 14.561 million), for which there are offsetting terms and the intention of net settlement (IAS 32.80). Due to the acceptance of bank loans the Villeroy & Boch Group is subject to the risk of exchange rate fluctuation. In the case of liabilities, fixed interest rates constitute a risk to the fair value, while variable interest rates pose a risk at the time payments are being made. Only loan agreements with a short term have been concluded to provide against this risk. Other liabilities arising from financial services were made up in the previous year of bills payable and liabilities arising from financial leasing. The change is essentially due to the premature termination of the leasing agreements. Further information is given in note 2.

20. Other non-current and current liabilities

In accordance with the current balance-sheet itemisation stipulated by IAS 1, other non-current and current liabilities are made up of other liabilities as well as deferred income.

Euro '000	Book value 31.12.2005	Remaining term Up to 1 year	Remaining term More than 1 year	Book value 31.12.2004	Remaining term Up to 1 year	Remaining term More than 1 year
Advances received on purchase orders	1,671	1,671	0	1,537	1,537	0
Payroll accounting	30,420	30,420	0	31,423	31,423	0
Bonuses and rebates	40,360	40,360	0	36,976	36,976	0
Other liabilities	12,195	9,111	3,084	13,053	9,326	3,726
Deferred income	3,086	1,102	1,984	3,118	1,713	1,405
	87,732	**82,664**	**5,068**	**86,107**	**80,975**	**5.131**

Other liabilities essentially include liabilities arising from customers with credit balances, liabilities ensuing from the acquisition of company shares and changes in market value from the valuation of hedging transactions, as well as a multitude of individual items. Deferred income essentially includes investment subsidies in Romania, Italy and Germany, which are appropriated according to the degree of performance.

21. Trade payables

The trade payables are made up of outstanding obligations arising from trade transactions.

Euro '000	Book value 31.12.2005	Remaining term Up to 1 year	Remaining term More than 1 year	Book value 31.12.2004	Remaining term Up to 1 year	Remaining term More than 1 year
Trade payables	**69,078**	69,078	0	**68,355**	68,355	0

The fair values correspond to the itemised book values.

22. Non-current and current tax liabilities

Non-current and current tax debts are made up of tax liabilities and tax provisions.

Euro '000	Book value 31.12.2005	Remaining term Up to 1 year	Remaining term More than 1 year	Book value 31.12.2004	Remaining term Up to 1 year	Remaining term More than 1 year
Liabilities						
Liabilities from income tax	417	417	0	4,763	4,763	0
Liabilities from other taxes	12,621	12,621	0	8,315	8,315	0
Tax liabilities	**13,038**	**13,038**	**0**	**13,078**	**13,078**	**0**
Provisions						
Accrued income taxes	4,008	4,008	0	2,960	2,960	0
Provisions for other taxes	1,143	1,143	0	1,100	1,100	0
Tax provisions	**5,151**	**5,151**	**0**	**4,060**	**4,060**	**0**
Total tax liabilities	**18,189**	**18,189**	**0**	**17,138**	**17,138**	**0**

The item 'tax provisions' changed in the years under review as follows:

Euro '000	2005	2004
As of 01.01.	**4,060**	**5,057**
Currency	15	32
Utilisation	- 661	- 1,839
Reversal	- 1	- 86
Allocation	1,564	846
Transfer	174	58
Change in consolidated companies	0	- 8
As of 31.12.	**5,151**	**4,060**

EXPLANATORY NOTES ON THE PROFIT AND LOSS STATEMENT

23. Sales

Sales are entered when deliveries or services that are due have been performed and the price risk has been passed to the purchaser. The entry of order income and also of job costs in the case of production orders is carried out as soon as a reliable estimate of the order result exists.

Sales (net) are made up as follows:

Euro million	2005 Domestic	2005 Foreign	2005 Total
Tiles	81.0	62.7	143.7
Bathroom and Wellness	106.7	323.9	430.6
Tableware	86.6	232.3	318.9
	274.3	**618.9**	**893.2**

Euro million	2004 Domestic	2004 Foreign	2004 Total
Tiles	94.5	127.3	221.8
Bathroom and Wellness	103.8	317.2	421.0
Tableware	87.4	229.7	317.1
	285.7	**674.2**	**959.9**

The percentage-of-completion method was applied to the accounting of the production orders for the Project Business Segment, rendering sales in the previous year to the amount of Euro 2.053 million. The percentage of completion method was not applied to the sales reported in the business year.
The movement in regional sales is presented within the scope of segment reporting.

24. Costs of goods sold

Costs of goods sold include the costs of products sold, as well as the costs of merchandise sold. In accordance with IAS 2, not only directly allocable costs such as material, personnel and energy costs are taken into account in this connection, but also overhead expenses and allocable depreciation on production plants.

25. Selling expenses, marketing and development costs

This item includes the costs of marketing and distribution, of the field sales force, advertising and logistic costs, license expenses and the costs of research and development.
Expenses amounting to Euro 12.444 million (previous year: Euro 10.849 million) are included for research and development.

The latter are divided as follows between the individual Divisions:

Euro '000	*2005*	*2004*
Tiles	- 1,997	- 2,388
Bathroom and Wellness	- 7,145	- 6,495
Tableware	- 3,302	- 1,966
	- 12,444	**- 10,849**

26. General and Administrative Expenses

General and administrative expenses include the personnel costs and cost of materials incurred in the management and administrative offices.

27. Other Operating Income/Expenses

Other operating income and expenses presented netted out in the Profit and Loss Statement are made up as follows:

Euro '000	*2005*	*2004*
Other operating income arising from		
Reversal of provisions no longer required	14,637	7,670
Exchange profits [1]	9,911	9,952
Balance payment for Anstalt für Wiederaufbau	–	3,500
Deconsolidation measures	–	13,593
Other measures	13,771	14,983
Total	**38,319**	**49,698**
Other operating expenses arising from		
Exchange losses [1]	9,260	10,400
Deconsolidation measures	–	18,323
Allocation of valuation reserves to receivables	2,659	3,166
Other measures	17,981	19,203
Total	**29,900**	**51,092**
Other operating income/expenses	**8,419**	**- 1,394**

[1] *predominantly from cash flow hedges*

Other operating income and other operating expenses are presented netted out in this item. Included in the other operating income are essentially income from the reversal of provisions no longer required – this to a great extent related to the divestment measures in the previous year, exchange profits, rental revenue, income from the disposal of fixed assets, income from the reversal of valuation reserves and income from licences.
Included in the other operating expenses are essentially expenses for exchange losses, expenses ensuing from the allocation of valuation reserves to receivables, expenses from the disposal of fixed assets and expenses from insurance premiums.

28. Equity Investments Result

The equity investments result in the Villeroy & Boch Group includes income from equity investments in an associated undertaking to the amount of Euro 0.243 million (previous year: Euro 0.295 million).

29. Financial Result

Euro '000	*2005*	*2004*
Other interest and similar income	4,426	2,958
Interest and similar expenses	- 4,743	- 3,603
Interest share in the change in provisions for pensions and similar obligations	- 9,638	- 9,755
Total of net interest income	- 9,955	- 10,400
Remaining financial result	1,671	197
	- 8,284	**- 10,203**

Included in the interest expense is Euro 0.017 million (previous year: Euro 0.152 million) as a proportionate interest share of the leasing instalments arising from the financial leasing agreements, entered in accordance with IAS 17. Included in the interest share resulting from the change in provisions for pensions is income from an investment company dividend to the amount of Euro 0.632 million (previous year: Euro 0.696 million).

30. Taxes on Income

Taxes on income which are paid and due in the individual countries, as well as deferred taxation, are shown as taxes on income and earnings. German companies in the Villeroy & Boch Group are subject to an average municipal trade tax on income, amounting to roughly 15 % of the trading profit, which is deductible when determining corporate income tax. The rate of corporate income tax is 25 %, plus a reunification charge of 5.5 % on corporate income tax. The determination of deferred taxes is based on tax rates expected in the individual countries at the time of realisation. These tax rates are always based on the legal regulations applying or passed on the balance-sheet date.

Foreign income taxes are calculated on the basis of valid laws and orders in the individual countries. The applied income-tax rates for foreign companies vary from 16.0 % to 42.9 %.

Euro '000	*2005*	*2004*
Taxes paid or due	- 5,059	- 9,776
- thereof domestic	(+ 495)	(- 34)
- thereof foreign	(- 5,554)	(- 9,742)
Deferred taxes	2,186	2,898
Taxes on income	**- 2,873**	- 6,878

The effective rate of tax is 17.90 %. The transition to the German rate of income tax, which remained unchanged at 37.70 % in the year 2005, is as follows:

Transition from the expected to the actual tax expense:

Euro '000	*2005*	*2004*
Result before tax on income	16,051	23,560
Expected tax on income (EBT x tax rate of 37.7%)	- 6,051	- 8,882
Differences arising from foreign tax rates	4,343	5,251
Tax effects arising from:		
- amortisation of goodwill	–	- 1,340
- expenses disallowable against tax	- 2,231	- 1,164
- other variances	1,066	- 743
Actual expense of taxes on income	**- 2,873**	**- 6,878**
Actual tax rate in %	**17.90**	**29.19**

The transition of deferred tax assets and liabilities in the balance sheet to the deferred taxes shown in the Profit and Loss Statement is presented as follows:

Euro '000	*2005*	*2004*
Change in deferred tax assets	9,347	- 8,499
Change in deferred tax liabilities	- 7,499	12,217
Change in deferred tax assets and liabilities formed without affecting operating result	338	- 820
Deferred taxes in accordance with Profit and Loss Statement	**2,186**	**2,898**

31. Result after tax attributable to minority interests

Minority shares in the result amount to Euro -0.103 million (previous year: Euro -0.687 million). The decrease is essentially due to the downward trend in the result of the Czech Vagnerplast Group.

32. Net Earnings per Share

Net earnings per share result from dividing the consolidated results for the year by a weighted number of issued shares, and must be stated for each class of share.

Ordinary shares	*2005*	*2004*
Number of individual share certificates issued	14,044,800	14,044,800
Proportionate consolidated results for the year (Euro '000)	6,625	8,089
Net earnings per share (Euro)	0.47	0.58

Preference shares	*2005*	*2004*
Number of individual share certificates issued	12,361,771	12,631,324
Proportionate consolidated results for the year (Euro '000)	6,450	7,906
Net earnings per share (Euro)	0.52	0.63

A share dilution effect did not exist either in the year under review or in the previous year. For the ordinary shares a weighted number of 14,044,800 shares was taken as a basis for the calculation. The weighted treasury stock portfolio was not taken into consideration in the case of preference shares.

33. Depreciation and Amortisation

Depreciation and amortisation in the business year was made up as follows:

Euro '000	*2005*	*2004*
Scheduled depreciation of property, plant, equipment and amortisation		
of intangible assets (in the previous year including goodwill)	44,551	51,901
Depreciation of financial assets	9	752
	44,560	**52,653**

In connection with the valuation of the shares held, depreciation of Euro 0.721 million on the lower recoverable value was necessary in the previous year to fulfil IAS 39 requirements. The expense was shown in the net interest income.

34. Cost of Materials

The following costs of materials are included in the costs of goods sold:

Euro '000	*2005*	*2004*
Cost of raw materials and supplies		
(including primary products)	146,897	162,954
Cost of purchased goods	101,766	124,325
	248,663	**287,279**
Cost of purchased services	43,912	42,235
	292,575	**329,514**

35. Personnel Expenses

Personnel expenses are made up as follows:

Euro '000	*2005*	*2004*
Wages and salaries	259,387	275,278
Social security, pension and other benefit costs	65,335	71,309
thereof for pensions	(4,461)	(5,444)
	324,722	**346,587**

The interest share, to the amount of Euro 9.957 million (previous year: Euro 10.374 million), included in the allocation to pension provisions, is shown in the net interest income; the costs of retirement benefits are reduced by these amounts.

Average number of persons employed:

Number of employees	*2005*	*2004*
Wage earners	5,498	5,849
Salaried employees	4,023	3,784
	9,521	**9,633**

Of the entire workforce, 3,810 persons (previous year: 3,861) are employed in Germany and 5,711 (previous year: 5,772) abroad. The comparable prior-year figures in both tables presented have been adjusted to show the divestments carried out in the 2004 business year.

Employees according to Division:	*2005*	*2004*
Tiles	1,044	1,049
Bathroom and Wellness	4,801	4,859
Tableware	3,203	3,249
Other	473	476
	9,521	**9,633**

36. Other Taxes

Other taxes total Euro 5.597 million (previous year: Euro 6.245 million). These are essentially taxes dependent on assets.

37. Notes to Cash Flow Statement

In accordance with IAS 7 the Cash Flow Statement shows changes in the financial resources of the Villeroy & Boch Group in the course of the year under review. In so doing, the effects of company acquisitions and sales have been eliminated.

A difference is made between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The balance of financial resources includes the liquid assets.

Compared to the previous year, a decrease of Euro 6.2 million in the inflow of funds was generated from operating activities in the 2005 business year. This drop was essentially due to EBT falling in comparison to the previous year by Euro 7.5 million, with a corresponding offset from the tax result to the amount of Euro 4.0 million. Both depreciation and provisions also showed a downward trend. In contrast, the operating cash flow from the reduction of inventories and from lower tax payments had a positive effect. The change in other income/expenses not affecting payment is essentially due to expenses from deferred taxes.

In the business year, the cash flow from investing activities shows an outflow of funds totalling Euro 32.8 million (previous year: Euro 9.0 million). The change compared to the previous year, an adjustment due to the divestment measures carried out in the Tile Division in 2004 (Euro 37.0 million), is marked by fewer disposals of fixed assets in the business year as well as by the drop of 31.7 % in investments in property, plant and equipment and intangible assets compared to the previous year.

In the year under review, the cash flow from the financing activities shows an outflow of funds amounting to Euro 16.4 million (previous year: Euro 39.9 million) which is predominantly a result of the lower diminution in bank liabilities compared to the previous year. In 2004, the more significant diminution in bank liabilities was a result of the inflow of liquid assets from the divestment measures in the Tile Division.

38. Notes to Segment Reporting

Segment reporting is prepared in accordance with IAS 14. The latter states that segmentation can follow the Group's internal control and reporting. This is reflected in the product groups and regions presented. The product-oriented delimitation of these segments also ensues from the different production processes, sales/distribution channels and methods.
Segmentation takes place in three Divisions: Tiles, Bathroom and Wellness and Tableware. The segments produce and/or market the following products:

Tiles
Tile Business Segment
Non-vitreous and glazed/unglazed vitreous wall and floor tiles; tiles and natural stone purchased from external companies.
Project Business Segment
Turnkey solution for projects of medium or luxury category applying conventional methods of construction and as a prefabricated modular bathroom concept 'e.motion', e.g. bathrooms for hotels or resorts

Bathroom and Wellness
Ceramic Sanitary ware and Kitchen Business Segment
Ceramic sanitary ware, ceramic kitchen sinks; fittings/accessories purchased from external companies
Furniture and Fittings Business Segment
Bathroom furniture, fittings and technical accessories; bathroom furniture, kitchen fittings and technical accessories purchased from external companies
Wellness Business Segment
Baths, shower trays, whirlpools, shower partitions, shower cubicles and steam cubicles

Tableware
Tableware services made of faience, vitreous porcelain, fine Vilbo china and bone china, gift articles made of ceramic and glass, as well as lead-crystal drinking glasses; tableware, cutlery and silverware, gift articles made of ceramic and glass, lead-crystal drinking glasses, table linen, accessories for the well-laid table and home furniture purchased from external companies

The segment data is determined in accordance with the balance-sheet valuations and methods of valuation in the underlying consolidated financial statements. The asset and liability items reported for the segments correspond with the expenses and income. Asset and liability items, expenses and earnings are always directly allocated to the segments. The assets and liabilities, expenses and earnings of the central administrative and service sphere are allocated to the operating segments with the aid of keys.
Segment-spanning business is of secondary importance and is dealt with as for outside third parties.

The **external sales** of the segments are differentiated according to sales with external companies and to segment-spanning internal sales. The effects of the divestment measures in the business year 2004 in the Tile Division were shown in the reports for the segments in sales and in the data on the number of persons employed.
The **EBIT** (operating result) of the segments is defined as earnings before interest and taxes on income. Details of this can be found in the Management Report under 'result trend in the divisions'.
The **EBITDA** of the segments is expressed in terms of the result before interest and depreciation and of taxes on income.

Operating assets comprise intangible fixed assets and property, plant and equipment, shares in associated undertakings, inventories, accounts receivable from trade, accounts due from associated undertakings, contingent liabilities from notes discounted, other assets (excluding claims for refund of taxes on income) as well as accrued income. Notes which have already been presented, but are not due on the reporting date, will be added on again to operating assets. This affects the operating assets of the Tile Division to the amount of Euro 16.981 million (previous year: Euro 16.893 million).
Items included in the transition from operating assets to the balance-sheet total are those which are to be allocated to financial, tax and other non-operating sectors. These essentially concern financial assets without shares in associated undertakings, securities, liquid assets, deferred taxes and accounts due from affiliated companies.
Operating liabilities comprise other provisions, trade accounts payable, accounts due to associated undertakings, other liabilities (without liabilities for taxes on income) and deferred charges.
Items included in the transition from operating liabilities to outside capital are those which are to be allocated to the financial, tax and other non-operative sectors. These are essentially: provisions for taxation, liabilities due to banks, notes payable, accounts due to affiliated companies, pension provisions and the part of other provisions not allocated to the segments.
The segmental capital expenditure relates to intangible fixed assets and property, plant and equipment.
Depreciation concerns assets allocated to the individual segments.
Details of employees are based on an annual average.

SEGMENT REPORTING ACCORDING TO DIVISION – PRIMARY SEGMENTS

	Tiles			Bathroom and Wellness		
Euro million	*2005*	*2004*	*Difference*	*2005*	*2004*	*Difference*
External sales (net) [1]	143.7	161.8	- 18.1	430.6	422.5	8.1
Segment-spanning internal sales	0.1	0.1	0.0	1.7	1.5	0.2
Sales (net)	143.8	161.9	- 18.1	432.3	424.0	8.3
EBITDA	0.0	- 1.9	1.9	41.8	51.4	- 9.6
Depreciation (intangible/tangible fixed assets)	6.7	10.5	- 3.8	21.5	25.4	- 3.9
– thereof impairment	(–)	(–)	(–)	(–)	(–)	(–)
Depreciation of financial assets	–	–	–	–	–	–
EBIT	- 6.7	- 12.4	5.7	20.3	26.0	- 5.7
Financial result						
Capital expenditure	5.3	8.9	- 3.6	21.6	27.2	- 5.6
Operating assets	114.3	122.0	- 7.7	316.1	327.2	- 11.1
Operating liabilities	38.2	44.0	- 5.8	106.6	107.7	- 1.1
Net operating assets	76.1	78.0	- 1.9	209.5	219.5	- 10.0
Other expenses without effect on liquid assets	–	–	–	–	–	–
Result from associated companies	0.2	0.3	- 0.1	–	–	–
Number of employees (annual average) [2]	1,044	1,049	- 5	4,801	4,859	- 58

[1] The prior-year figures on external sales (net) have been adjusted by Euro 60 million as a result of the 2004 divestment measures in the Tile Division; a reallocation of segment-spanning internal sales amounting to Euro 1.6 million to external sales in the Bath and Wellness Division is also a direct result of these measures.
[2] The prior-year figures were adjusted in the Tile Division as a result of the 2004 divestment measures.

SEGMENT REPORTING ACCORDING TO REGION – SECONDARY SEGMENTS

	Germany			France			Rest of Western Europe		
Euro million	*2005*	*2004*	*Difference*	*2005*	*2004*	*Difference*	*2005*	*2004*	*Difference*
External sales (net) [1]	274.3	282.0	- 7.7	111.2	113.6	- 2.4	329.5	335.3	- 5.8
Segment-spanning internal sales	1.7	1.4	0.3	0.0	0.0	0.0	0.2	0.2	0.0
Sales (net)	276.0	283.4	- 7.4	111.2	113.6	- 2.4	329.7	335.5	- 5.8
Capital expenditure	13.1	20.6	- 7.5	3.8	3.6	0.2	11.5	11.8	- 0.3
Operating assets	304.3	332.1	- 27.8	36.6	37.3	- 0.7	189.9	203.5	- 13.6
Operating liabilities	101.9	118.7	- 16.8	18.7	18.6	0.1	57.3	56.6	0.7
Net operating assets	202.4	213.4	- 11.0	17.9	18.7	- 0.8	132.6	146.9	- 14.3
Number of employees (annual average) [2]	3,810	3,861	- 51	854	862	- 8	2,290	2,429	- 139

[1] The prior-year figures on external sales (net) have been adjusted as a result of the 2004 divestment measures in the following countries: Germany: Euro -3.7 million, France: Euro -48.1 million, rest of Western Europe: Euro -1.3 million, and Eastern Europe: Euro -5.4 million. The same applies for segment-spanning internal sales for the following countries: Germany: Euro -0.1 million and France: Euro -1.5 million.
[2] The prior-year figures were adjusted in the Tile Division as a result of the 2004 divestment measures in the regions in France: -265, the rest of Western Europe: -95 and Eastern Europe: -397.

Tableware 2005	2004	Difference	*Transition/Consolidation* 2005	2004	Difference	*Villeroy & Boch Group* 2005	2004	Difference
318.9	317.1	1.8	0.0	0.0	0.0	893.2	901.4	- 8.2
0.1	0.0	0.1	- 1.9	- 1.6	- 0.3	0.0	0.0	0.0
319.0	317.1	1.9	- 1.9	- 1.6	- 0.3	893.2	901.4	- 8.2
27.1	36.2	- 9.1	0.0	0.8	- 0.8	68.9	86.5	- 17.6
16.4	16.0	0.4				44.6	51.9	- 7.3
(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
–	–	–	0.0	0.8	- 0.8	0.0	0.8	- 0.8
10.7	20.2	- 9.5				24.3	33.8	- 9.5
			- 8.2	- 10.2	2.0	- 8.2	- 10.2	2.0
8.5	15.8	- 7.3				35.4	51.9	- 16.5
198.5	220.7	- 22.2	141.2	115.2	26.0	770.1	785.1	- 15.0
47.1	54.4	- 7.3	233.5	233.4	0.1	425.4	439.5	- 14.1
151.4	166.3	- 14.9	- 92.3	- 118.2	25.9	344.7	345.6	- 0.9
–	–	–	- 17.9	- 20.4	2.5	- 17.9	- 20.4	2.5
–	–	–	–	–	–	0.2	0.3	- 0.1
3,203	3,249	- 46	473	476	- 3	9,521	9,633	- 112

Eastern Europe 2005	2004	Difference	*Rest of the World* 2005	2004	Difference	*Transition/Consolidation* 2005	2004	Difference	*Villeroy & Boch Group* 2005	2004	Difference
75.0	72.2	2.8	103.2	98.3	4.9	0.0	0.0	0.0	893.2	901.4	- 8.2
0.0	0.0	0.0	0.0	0.0	0.0	- 1.9	- 1.6	- 0.3	0.0	0.0	0.0
75.0	72.2	2.8	103.2	98.3	4.9	- 1.9	- 1.6	- 0.3	893.2	901.4	- 8.2
6.3	14.4	- 8.1	0.7	1.5	- 0.8				35.4	51.9	- 16.5
70.6	69.0	1.6	27.5	28.0	- 0.5	141.2	115.2	26.0	770.1	785.1	- 15.0
9.6	8.2	1.4	4.4	4.0	0.4	233.5	233.4	0.1	425.4	439.5	- 14.1
61.0	60.8	0.2	23.1	24.0	- 0.9	- 92.3	- 118.2	25.9	344.7	345.6	- 0.9
1,895	1,824	71	672	657	15				9,521	9,633	- 112

OTHER NOTES

39. Contingent liabilities and commitments

Euro '000	*31.12.2005*	*31.12.2004*
Contingent liabilities from notes discounted	16,713	16,623
Guarantee and endorsement obligations	25	49
Trustee obligations	427	422

There are no obligations due to associated undertakings.

40. Other financial obligations

Euro '000	*31.12.2005*	*31.12.2004*
Obligations arising from orders placed for capital expenditure	2,110	1,657

Rental and leasing obligations are presented in detail in note 2.

41. Financial Instruments

Financial instruments are contract-based commercial operations which include a claim to money. In accordance with IAS 32 these cover self-generated financial instruments, such as accounts receivable from trading and trade accounts payable or financial claims and liabilities, yet they also include derivative instruments which are used as covering transactions to secure against risks arising from exchange rates and interest rates.

Risk management and controlling

From the view of risk management, performance of these derivative transactions is subject to a strict functional division with regard to business, processing, control and the accounting treatment. Observance of principles stipulated by a uniform guideline and the processing of accounting events are also continuously monitored.

Self-generated financial instruments

These include the individual items that can be seen directly from the balance sheet. Please refer to explanations of the relevant items for their accounting and evaluation. Unless further details are reported, book values correspond to fair values.

Derivative financial instruments

We employ derivative financial instruments to secure currency and interest items in order to minimise or eliminate the exchange risks and financing costs caused as a result of fluctuations in exchange and interest rates. For this purpose we use marketable forward exchange contracts and interest rate swaps – so-called OTC products.

Transactions are only concluded with banks that have a perfect credit standing. They are employed according to uniform guidelines, and their use is subject to strict monitoring and limited to covering operational transactions as well as the financial operations connected with such.

'Usual' purchases and sales of financial assets in accordance with IAS 39 are reported in the balance sheet according to the method of accounting on the due date.

The derivative financial instruments are valuated at fair value, in accordance with IAS 39. They are disclosed in other assets and other liabilities.

Cash flow hedges are used to secure against the risks of in-payments and out-payments from an existing assets or liabilities item, a contractually agreed obligation and planned transactions, i.e. payments which fluctuate in the future.

Forward exchange contracts are concluded to provide security against the exchange risks (essentially USD, GBP, CHF, AUD) arising from future sales and purchase volumes in the individual divisions. Recognised valuation methods are used to calculate the fair values of the forward exchange contracts on a monthly basis. In this respect, valuation is based on spot rates.

The fair values of interest rate swaps, used to minimise the risks of interest rate changes in existing liabilities due to banks, are determined by means of the market valuation provided by a bank.

The market value changes of forward exchange contracts included in a cash flow hedge are reported in shareholders' equity. The valuation of the derivative financial instruments contained in shareholders' equity is transferred to the operating result when the mainstay business secured against is realised. Market value changes in derivative interest-rate tools, which have been concluded to secure against floating interest payments, are likewise recorded in shareholders' equity without effect on the operating result. In so far as the derivative financial instruments are not providing security, valuation is carried out with effect on result.

In the year under review, Euro -0.197 million (previous year: Euro -0.063 million) from the market valuation of the derivative financial instruments was recorded in shareholders' equity, without affecting operating result, and Euro -0.059 million (previous year: Euro -2.182 million) was recorded with effect on the operating result.

On the balance-sheet date, the following derivative financial instruments were employed to minimise risks:

		Fair value	
Euro '000	*Nominal volume*	*Financial assets*	*Financial obligations*
Interest rate swaps	26,429	–	2,820 [1]
Forward exchange contracts	38,897	251	311

[1] *incl. accrued interest*

The interest-hedging business concluded to secure against interest rate risks, amounting to Euro 1.880 million (previous year: Euro 1.936 million) has a remaining term of one to five years, while Euro 0 million (previous year: Euro 0.603 million) was registered for a remaining term of over 5 years. The forward exchange contracts concluded to guard against exchange risks fundamentally have a remaining term of up to one year. In the year under review, Euro 0.940 million was taken over from the valuation reserve of the forward exchange contracts in shareholders' equity and incorporated in the result of the accounting period (previous year: Euro 0.913 million).

Credit or loss risks

The executed, categorically derivative financial contracts are only concluded with banks that have a perfect credit standing, meaning that there is only a very slight risk of loss. In addition, the maximum risk of loss can be regarded as the sum of the positive market values of the derivative financial instruments from which there are claims vis-à-vis contractual partners. A limit is thus set for contracts with the individual contractual partners in order to minimise these risks.

42. Supervisory Board and Management Board remuneration

The Villeroy & Boch AG Supervisory Board remuneration is governed by the Memorandum and Articles of Association. Supervisory Board members receive a fixed remuneration of Euro 7,500 per year for their duties. On the basis of the dividends agreed per ordinary and per preference share, remuneration increases by Euro 195 per unit which exceeds the factor 10.5 calculated from the arithmetic average of the dividends per share in cents. The Chairman receives double, his deputy one and a half times the above-mentioned amounts for a full member.
The sum of Euro 1,500 per year is paid out as remuneration for working with the Investment or Audit Committee respectively. The chairperson of the above committees receives Euro 1,875 per year.
The following remuneration was paid out to Villeroy & Boch AG Supervisory Board members in the business year:

Euro '000	*Fixed*	*Variable Remuneration for 2004*	*Other controlling bodies*	*Total*
Peter Prinz Wittgenstein	19	11	–	30
Luitwin Gisbert von Boch-Galhau	13	8	3	24
Josef Balle	12	8	–	20
Emmanuel Villeroy de Galhau	7	6	–	13
Kilian von der Tann	9	6	–	15
Gisela Hannack (bis 30.09.05)	5	6	–	11
Hannsgeorg Edinger (ab 01.10.05)	2	0	–	2
Ulrich Küppers	7	6	–	13
Ina Rauls	9	6	–	15
Charles Krombach	7	6	–	13
Dr. Jürgen Friedrich Kammer	7	6	–	13
Berthold Scholtes	7	6	–	13
Ralf Runge	9	6	–	15
	113	**81**	**3**	**197**

Any remuneration received by Supervisory Board members for additional duties in the controlling bodies of subsidiary companies – in terms of § 125 AktG (German Public Limited Company Law) – is indicated in the column "other controlling bodies".
A total of Euro 0.229 million, including the 2005 variable components for remuneration expected on the qualifying date, was reported as an expense in the consolidated net annual result of the 2005 business year (previous year: Euro 0.190 million).
Management Board remuneration totalling Euro 2.274 million (previous year: Euro 4.408 million) is composed of Euro 1.264 million (previous year: Euro 2.695 million) in fixed and Euro 1.010 million (previous year: Euro 1.713 million) in variable salaries.
With respect to former members of the Management Board, pension provisions amount to Euro 11.669 million (previous year: Euro 10.536 million), while remuneration in the business year totals Euro 1.053 million (previous year: Euro 1.015 million).
In the 2005 business year, as in the previous year, no stock purchase warrants were issued to Villeroy & Boch AG Management Board members for the acquisition of individual preference-share certificates. The portfolio of stock purchase warrants issued to the Management Board on 31.12.2005 totalled 0 (previous year: 84,627) as the last tranche in 2005 expired without options being exercised. The stock option plan is explained in note 16.

43. Relationships to affiliated companies and persons

Business requiring disclosure does not exist with affiliated persons, nor is there any further performance agreed with other affiliated persons.

The transactions between Villeroy & Boch AG and subsidiary companies as well as between the subsidiary companies themselves were eliminated in accordance with the consolidation principles. An overview of the principal consolidated companies is found in note 50.

44. Events subsequent to the balance-sheet date

On 30.01.2006 a purchase agreement was concluded for the acquisition of the sanitary-ware business of the Mexican industrial group ‘Grupo Industrial Saltillo’ (GIS). This concerns 3 sanitary-ware facilities with a capacity of 2.1 million units and a turnover volume of approximately 60 million US dollars. An interim balance to be drawn up no later than 31.07.2006 forms the basis of the acquisition of the sanitary-ware business. The structure of the purchase price is dependent on this interim balance.

In addition, restructuring measures were announced on 01.02.2006 for the Wellness Business Segment as well as on 22.02.2006 for the Tableware Division. The aim of the planned measures is essentially to secure the respective sites in Roden (Netherlands) and Luxembourg in both sectors. This was prompted in the main by increasing pressure from competition and on prices emanating from low-wage countries, in the tableware sector particularly from the Far East.

The Consolidated Financial Statements were released for publication by the Villeroy & Boch AG Management Board on 07.03.2006.

45. Proposed appropriation of Villeroy & Boch AG retained earnings

Supervisory Board and Management Board propose using the retained earnings of Euro 16,163,274.03 to distribute a dividend of Euro 0.32 per individual ordinary-share certificate and Euro 0.37 per individual preference-share certificate. The proposed appropriation of retained earnings corresponds with a dividend of

	Euro
for ordinary share capital	4,494,336.00
for preference share capital	5,196,576.00
	9,690,912.00

The remaining amount of retained earnings to the amount of Euro 6,472,362.03 will be carried forward to new account.

If treasury stock is still in the possession of the company at the time of the resolution on the appropriation of retained earnings, the dividend payment for preference share capital is reduced by the sum allotted to the treasury stock. Retained earnings brought forward increase accordingly for the year 2006.

46. Corporate Governance Codex

In application of the Corporate Governance Codex, the corporate principles were updated in 2004. The new declaration of conformity as prescribed by § 161 AktG [German Public Limited Company Law] was made by the Management and Supervisory Boards for the business year 2005. A summarised presentation of the Corporate Governance principles can be found in the Annual Report as well as on the internet, where the shareholders’ declaration of conformity can also be accessed permanently (www.villeroy-boch.de, Investor Relations).

47. Audit costs for consolidated financial statements

The auditor's fees are made up as follows:	*Euro '000*
Annual audit	221
Other certification or valuation services	38
Tax consultancy services	54
Other services	21

48. Developments in the IASC regulatory system

The regulatory system of the International Accounting Standard Committee Foundation (abbreviated to 'IASC Foundation') comprises the basic concept, individual standards and interpretations. IASB publishes all the standards in the name of IASC, while IFRIC publications serve to explain and interpret already existing standards. Both institutions have published official announcements on standards, the adoption of which is not as yet obligatory for annual financial statements as of 31st December 2005. The following overview lists the as yet non-obligatory regulations which have not been adopted by the Villeroy & Boch Group up to the present time:

IFRS 6 Exploration for and evaluation of mineral resources
IFRS 7 *Financial instruments: disclosures*
IFRIC 4 Determining whether an arrangement contains a lease
IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental funds
IFRIC 6 *Liabilities arising from participating in a specific market – waste electrical and electronic equipment*

The following standards, already in publication, have been revised; however, adoption of the amendments is not as yet obligatory:
IAS 1 *Capital disclosures*
IAS 19 Reporting actuarial gains and losses, group plans and disclosures
IAS 39 Financial instruments: recognition and measurement (cash flow accounting)
IAS 39 Financial instruments: recognition and measurement plus the provision on the use of the fair value option
IAS 39 *Financial guarantee contracts*
IFRS 4 *Financial guarantee contracts*
IFRS 1 First-time adoption of international financial reporting standards
IFRS 6 *Exploration for and evaluation of mineral resources*

Current information indicates that the Villeroy & Boch Group is only marginally affected by these changes. The standards and amendments not yet adopted by the EU. The standards and amendments not yet adopted by the EU are printed in italics.

Mettlach. March 7th 2006

Wendelin von Boch-Galhau   Manfred Finger   Frank Göring   Peter von der Lippe

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Villeroy & Boch Aktiengesellschaft, Mettlach, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the combined management report of the Company and the Group for the business year from 1 January to 31 December 2005. 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 § 315a Abs. 1 HGB 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 § 317 HGB (Handelsgesetzbuch „German Commercial Code“) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 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, and the additional requirements of German commercial law pursuant to § 315a Abs. 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.

Cologne. March 7th 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kohns)	(Braun)
Qualified auditor	Qualified auditor

Major Group Companies

Affiliated Companies:

Bathroom & Wellness Division	Belgium	Villeroy & Boch Wellness N.V., Roeselare
	France	Villeroy & Boch S.A.S., Paris
	Italy	Villeroy & Boch Wellness Italia S.r.l., Castelraimondo
	Netherlands	Villeroy & Boch (Nederland) B.V., Amsterdam
		Villeroy & Boch Wellness Holding B.V., Roden
	Austria	Villeroy & Boch Badmöbel GmbH, Plainfeld
	Poland	Villeroy & Boch Polska Sp.z o.o., Warsaw
	Romania	S.C. Mondial S.A., Lugoj
	Sweden	AB Gustavsberg, Gustavsberg/Värmdö
		Villeroy & Boch Wellness AB, Växjö
	Slovak Republic	Vagnerplast Slovensko s. r.o., Partizánske
	Czech Republic	Vagnerplast spol. s r.o., Velké Prítocno - Unhost
	Hungary	Villeroy & Boch Magyarország Rt., Hódmezövásárhely
Tableware Division	Germany	Villeroy & Boch Creation GmbH, Mettlach
	Luxembourg	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg, Luxembourg
	France	Villeroy & Boch Arts de la Table S.A.S., Paris
	Italy	Villeroy & Boch Arti della Tavola S.r.l, Milan
	Switzerland	Villeroy & Boch Creatable AG, Lenzburg
	Sweden	Villeroy & Boch Nordic AB, Stockholm
	Norway	Villeroy & Boch Norge AS, Oslo
	Netherlands	Villeroy & Boch Tableware B.V., Oosterhout NB
	Canada	Villeroy & Boch Tableware Ltd., Aurora
	Australia	Villeroy & Boch Australia Pty. Ltd., Frenchs Forest
	Hong Kong	Villeroy & Boch Tableware (Far East) Ltd., Hong Kong
	Japan	Villeroy & Boch Tableware (Japan) K.K., Tokyo
Tile Division	Germany	Fliesenhandel an der Cristallerie GmbH, Wadgassen
		Fliesenhandel Merzig GmbH, Merzig
	France	Villeroy & Boch S.A.S., Paris
Division-Spanning Companies	France	S.D.P.C. S.A., Paris
	England	Villeroy & Boch (U.K.) Ltd., London
	Spain	Villeroy & Boch Hogar S.L., Barcelona
	Austria	Villeroy & Boch Austria Handelsgesellschaft m.b.H., Hallwang
	Denmark	Villeroy & Boch Denmark A/S, Roedovre
	Belgium	Villeroy & Boch Belgium S.A., Brussels
	Hungary	V&B Holding Ungarn Korlátolt Felelösségü Társaságnak, Budapest (V&B Holding Ungarn Vermögensverwaltungsgesellschaft mbH)
	USA	Villeroy & Boch USA Inc., Princeton

Share Capital		Villeroy & Boch AG Participation		
Currency	*Million*	*direct*	*indirect*	*total*
		%	*%*	*%*
EUR	7.56	100.00	–	100.00
EUR	9.27	100.00	–	100.00
EUR	8.00	–	100.00	100.00
EUR	0.05	100.00	–	100.00
EUR	1.62	100.00	–	100.00
EUR	2.20	–	100.00	100.00
PLN	0.50	–	100.00	100.00
RON	17.0	99.56	–	99.56
SEK	20.00	100.00	–	100.00
SEK	1.00	–	100.00	100.00
SKK	0.20	–	60.00	60.00
CZK	92.93	–	67.00	67.00
HUF	2,289.30		99.59	99.59
EUR	0.05	100.00	–	100.00
EUR	15.00	100.00	–	100.00
EUR	3.14	–	100.00	100.00
EUR	0.03	0.20	99.80	100.00
CHF	0.50	–	100.00	100.00
SEK	2.00	–	100.00	100.00
NOK	0.10	–	100.00	100.00
EUR	0.10	100.00	–	100.00
CAD	2.20	–	100.00	100.00
AUD	0.52	–	100.00	100.00
HKD	7.00	–	100.00	100.00
JPY	97.50	–	100.00	100.00
EUR	0.26	100.00	–	100.00
EUR	0.36	100.00	–	100.00
EUR	9.27	100.00	–	100.00
EUR	2.13	97.15	2.85	100,00
GBP	1.10	–	100.00	100.00
EUR	0.27	44.44	55.56	100,00
EUR	1.24	100.00	–	100.00
DKK	1.50	33.33	66.67	100.00
EUR	0.06	99.90	0.10	100.00
HUF	3.00	100.00	–	100.00
USD	3.80	–	100.00	100.00

ASSET DEPRECIATION RATIO
Ratio of accumulated depreciation on property, plant and equipment to historical original cost/cost of production of property, plant and equipment

ASSETS STRUCTURE
Relationship between non-current and current assets

BORROWED CAPITAL
See “Liabilities”

CAPITAL STRUCTURE
See “Equity gearing”

CASH FLOW
The internal financing potential of the company, resulting from the inflow of funds, adjusted to take account of expenses and income not affecting liquid assets

CASH FLOW FROM FINANCING
Cash balance resulting from a change in financial liabilities, deposits from sales, payments for acquiring treasury stock, withholding tax paid and dividend payments

CASH FLOW FROM INVESTING ACTIVITIES
Cash balance that the company has invested in acquiring financial assets and tangible fixed assets or has realised from selling financial assets and tangible fixed assets

CASH FLOW FROM OPERATING ACTIVITIES (OPERATING CASH FLOW)
Cash surplus obtained from operative business

CASH FLOW STATEMENT
Examination of the liquidity trend, taking into consideration the effects of the sources and application of funds within a business year

CORPORATE GOVERNANCE
Good, responsible corporate management and monitoring aimed at long-term real net output

CURRENT LIABILITIES
The current liabilities for calculating liquidity ratios consist of the trade payables plus the current tax liabilities and other current remaining liabilities with the exception of current deferred charges

DEFERRED CHARGES AND PREPAID EXPENSES
Payments during the period under review, the effects of which refer to a period after the balance-sheet date as far as the result is concerned

DEFERRED TAXES
Differences, limited in time, between taxes calculated on results reported according to commercial and tax balance sheets, the aim being to report tax expenditure in accordance with the commercial result

DISTRIBUTION QUOTA
Share of net income distributed to the shareholders in the form of dividend payments

EBIT
Earnings Before Interest and Tax

EBITDA
Earnings Before Interest, Tax, Depreciation and Amortisation

EBIT MARGIN
Ratio of EBIT to sales

EBITDA MARGIN
Ratio of EBITDA to sales

EBT
Earnings Before Tax

EQUITY GEARING
Relationship between shareholders' equity and liabilities

EQUITY RATIO
Ratio of shareholders' equity to total capital

FIXED ASSETS
Fixed assets comprise assets that are destined to serve business operations on a permanent basis. They consist of intangible assets, tangible fixed assets, real estate kept as financial investment, participating interests valued at equity, and other financial assets.

FREE CASH FLOW
Sum of the cash flows from investing activities and operating activities. Free cash flow describes the free funds at the company's disposal.

FREE CASH FLOW MARGIN
Ratio of free cash flow to sales

GOODWILL
The difference by which the purchase price paid to take over a company exceeds the value of the individual corporate assets minus the debts at the time of takeover

GROSS INVESTMENT POSITION
The gross investment basis results from the book value of fixed assets plus accumulated depreciation (each excluding goodwill), plus other non-current assets and current assets.

IFRS (IAS)
International Financial Reporting Standards. Internationally recognised and applied statutory accounting requirements, developed by the International Accounting Standards Board (IASB) with the aim of harmonising accounting worldwide

LIABILITIES
Sum of the liability items "non-current and current liabilities" shown in the balance sheet. These consist of the provisions for pensions and other liabilities, other provisions, liabilities and deferred charges.

MARGINS
Division of the ratio under examination by the sales figure

NOPAT (NET OPERATING PROFIT AFTER TAX)
Balance from gross operating result from sales, the selling expenses, marketing and development costs, the general and administrative expenses and the taxes on income

OTHER NON-CURRENT ASSETS
The other non-current assets consist of deferred taxes on the assets side and the remaining long-term assets which will serve the Villeroy & Boch Group for longer than one year. Fixed assets are recorded separately.

PERCENTAGE RETURN ON SALES
The ratio of net income/loss to sales

RETURN ON CAPITAL EMPLOYED (ROCE)
See also “Return on total capital employed”

RETURN ON EQUITY (ROE)
Yield on the funds made available by the owners of the company, as well as on the company’s openly retained earnings

RETURN ON INVESTMENT (ROI)
Ratio of profit to average total capital

RETURN ON TOTAL CAPITAL EMPLOYED
Yield on the average total capital altogether available

SDAX®
SDAX® is the Selection Index of the Deutsche Börse AG for smaller companies from traditional branches, the so-called “small caps”. It embraces 50 values which are listed in the “Prime Standard” of the Official Market, or in the Regulated Market.

SHAREHOLDERS’ EQUITY
Funds which the company has permanently at its disposal, these coming from deposits or capital contributions made by the owners (including minority shareholders) and from retained earnings

STOCK OPTIONS
Stock options used as a means of compensation for selected management-level employees in the company

WORKING CAPITAL
Difference between current assets and current liabilities

Multi-Year Comparison of Ratios

Asset situation ratios:		2005	2004	2003	2002	2001
Fixed assets	*Euro million*	305.4	311.7	350.2	363.2	390.9
Change in comparison with previous year	*Percent*	- 2.0	- 11.0	- 3.6	- 7.1	2)
Other non-current assets*	*Euro million*	52.7	43.1	55.9	43.0	37.3
Change in comparison with previous year	*Percent*	22.2	- 22.9	30.1	15.3	2)
Current assets*	*Euro million*	412.0	430.3	436.6	474.1	452.6
Change in comparison with previous year	*Percent*	- 4.3	- 1.4	- 7.9	4.7	2)
Intensity of investment	*Percent*	39.7	39.7	41.6	41.3	44.4
Asset structure 1)	*Percent*	86.9	82.5	93.0	85.7	94.6
Asset depreciation ratio*	*Percent*	72.8	71.3	70.1	69.4	69.1
Balance sheet total	*Euro million*	770.1	785.1	842.7	880.3	880.9
Change in comparison with previous year	*Percent*	- 1.9	- 6.8	- 4.3	- 0.1	2)

Financial situation ratios:		2005	2004	2003	2002	2001
Shareholders' equity (incl. minority interests in shareholders' equity)	*Euro million*	344.7	345.6	335.0	376.2	381.1
Liabilities	*Euro million*	425.4	439.5	507.7	504.1	499.8
Equity gearing	*Percent*	123.4	127.2	151.5	134.0	131.2
Cash ratio	*Percent*	35.7	31.9	20.5	30.7	13.9
Quick ratio	*Percent*	108.6	102.8	88.8	106.0	88.8
Current ratio	*Percent*	234.3	266.3	241.9	270.7	247.5
Working capital	*Euro million*	248.3	269.6	255.6	299.4	271.0

Earnings situation ratios:		2005	2004	2003	2002	2001
EBITDA margin						
after special expense	*Percent*	7.7	9.0	5.6	9.0	8.9
before special expense	*Percent*	7.7	9.0	8.3	9.7	8.9
EBIT margin						
after special expense	*Percent*	2.7	3.5	- 1.9	2.8	2.8
before special expense	*Percent*	2.7	3.5	2.2	3.5	2.8
EBT margin	*Percent*	1.8	2.5	- 3.2	1.4	1.6
Operating cash flow margin	*Percent*	6.4	6.6	5.5	7.3	4.1
Free cash flow margin	*Percent*	2.7	5.6	- 0.6	3.9	- 3.8
Return on investment (ROI)	*Percent*	1.7	2.1	- 3.0	1.2	1.1
Cash flow ROI (CFROI)*	*Percent*	4.9	5.9	4.1	5.8	5.7

Share ratios		*2005*	*2004*	*2003*	*2002*	*2001*
Annual closing price (Xetra)	*Euro*	11.84	9.26	7.35	6.80	10.00
Annual high (Xetra)	*Euro*	15.50	9.90	8.45	11.50	13.13
Annual low (Xetra)	*Euro*	8.90	7.25	6.46	6.50	8.30
Net earnings per ordinary share	*Euro*	0.47	0.58	- 0.99	0.35	0.32
Net earnings per preference share	*Euro*	0.52	0.63	- 0.94	0.40	0.37
Operating cash flow per share	*Euro*	2.15	2.39	1.95	2.62	1.47
Dividend per ordinary share	*Euro*	0.32	0.37	0.25	0.50	0.50
Dividend per preference share	*Euro*	0.37	0.42	0.30	0.55	0.55
Changes compared with previous year (ordinary share)	*Percent*	- 13.5	48.0	- 50.0	0	
Changes compared with previous year (preference share)	*Percent*	- 11.9	40.0	- 45.5	0	
Dividend yield per ordinary share	*Percent*	2.62	4.31	3.35	5.56	4.67
Dividend yield per preference share	*Percent*	3.03	4.90	4.02	6.11	5.13
Price-cash flow ratio [3]	*Factor*	5.67	3.59	3.82	3.43	7.27
Price-earnings ratio (PER) per ordinary share [3]	*Factor*	26.0	14.8	- 7.5	25.7	33.5
Price-earnings ratio (PER) per preference share [3]	*Factor*	23.5	13.6	- 7.9	22.5	29.0

Yield ratios		*2005*	*2004*	*2003*	*2002*	*2001*
Return on equity (ROE)	*Percent*	3.8	4.8	- 7.6	2.7	2.5
Return on capital employed (ROCE)	*Percent*	4.9	6.4	- 3.2	4.6	4.9

[*] Prior-year values adjusted to new balance-sheet structure
[1] Please note new definition
[2] No comparison with previous year possible, as balanced for the first time according to IAS
[3] Calculations are based on the average market price, which results as the average from the annual high and annual low.

Explanation of Ratios

BALANCE SHEET RATIOS (IN %)

Cash flow profitability	cash flow : total capital x 100
Equity ratio	shareholders' equity : total capital x 100
Percentage return on sales	profit : sales x 100

ASSET SITUATION RATIOS (IN %)

Asset depreciation ratio	accumulated depreciation on property, plant and equipment : historical cost / cost of production of property, plant and equipment x 100
Intensity of investments	fixed assets : total capital employed x 100
Asset structure	non-current assets : current assets x 100

FINANCIAL SITUATION RATIOS

Cash ratio (in %)	liquid assets : short-term liabilities x 100
Quick ratio (in %)	liquid assets + accounts receivable from trade : short-term liabilities x 100
Current ratio (in %)	liquid assets + accounts receivable from trade + inventories : short-term liabilities x 100
Equity gearing (in %)	liabilities : shareholders' equity x 100
Working capital (in Euro million)	current assets – current liabilities

EARNINGS SITUATION RATIOS (IN %)

Cash Flow ROI (CFROI)	gross cash flow : gross investment position x 100
EBIT margin	EBIT : sales x 100
EBITDA margin	EBITDA : sales x 100
EBT margin	EBT : sales x 100
Free cash flow margin	free cash flow : sales x 100
Operating cash flow margin	operating cash flow : sales x 100
Return on Investment (ROI)	percentage return on sales x rate of turnover = (profit : sales) x (sales : total capital) x 100

SHARE RATIOS

Dividend yield (in %)	dividend : average market price x 100
Price-cash flow ratio	market price per share : cash flow per share
Price-earnings ratio (PER)	market price per share : earnings per share
Operating cash flow per share	operating cash flow : number of shares in circulation

YIELD RATIOS (IN %)

Return on Equity (ROE)	profit : shareholders' capital x 100
Return on Capital Employed (ROCE)	EBIT : (tangible fixed assets + investment properties + working capital) x 100

Company Calendar

General Meeting of Shareholders

June 9th 2006
10 a.m.
Stadthalle Merzig

Villeroy & Boch will report on
the first three months of the year,
with the quarterly report on

April 27th 2006,

on the first six months of the current business year,
with the semi–annual financial statements on

July 27th 2006

and on
the first nine months of the year on

October 26th 2006.

Dear shareholders,

If you are interested in further information, or in the German version of the Annual Report for the year 2005, please contact:

Villeroy & Boch AG · Public Relations
Postfach 1120 · D-66688 Mettlach
Phone: (+49 6864) – 81 1293 · Fax: (+49 6864) – 81 2692
Internet: http:// www.villeroy-boch.com

Concept and design: Klötzner Company Werbeagentur GmbH, Hamburg