Villeroy & Boch

1748

Annual Report 2007

Group Overview

		2007	2006[1]	2006[2]	2005	2004
Sales	*Euro Million*	848.6	815.0	964.2	893.2	959.9
EBITDA	*Euro Million*	77.0	72.8	77.3	68.9	86.5
EBIT	*Euro Million*	38.8	34.4	33.3	24.3	33.8
EBT	*Euro Million*	29.4	24.5	23.1	16.1	23.6
Group results for the year	*Euro Million*	23.8	18.2	17.1	13.2	16.7
NOPAT	*Euro Million*	42.6	38.9	32.2	12.8	31.5
Balance sheet total	*Euro Million*	804.9	789.4	789.4	787.1	785.1
Cash flow from operating activities	*Euro Million*	59.4	22.7	22.7	56.9	63.1
Capital expenditure	*Euro Million*	28.4	35.9	39.9	35.4	51.9
Depreciation	*Euro Million*	38.2	38.4	44.0	44.6	52.7
Employees (annual average)	*Number*	9,221	9,235	10,211	9,521	9,633
Net operating margin	*Percent*	2.8	2.2	1.8	1.5	1.7
Equity ratio (incl. minority interests)	*Percent*	42.8	44.4	44.4	43.8	44.0
Return on equity (ROE)	*Percent*	6.9	5.2	4.9	3.8	4.8
Cash flow profitability	*Percent*	7.0	2.8	2.4	6.4	6.6
Net earnings per ordinary share	*Euro*	0.88	0.66	0.62	0.47	0.58
Net earnings per preference share	*Euro*	0.93	0.71	0.67	0.52	0.63
Dividend per ordinary share	*Euro*	0.37	0.37	0.37	0.32	0.37
Dividend per preference share	*Euro*	0.42	0.42	0.42	0.37	0.42

Continued Divisions

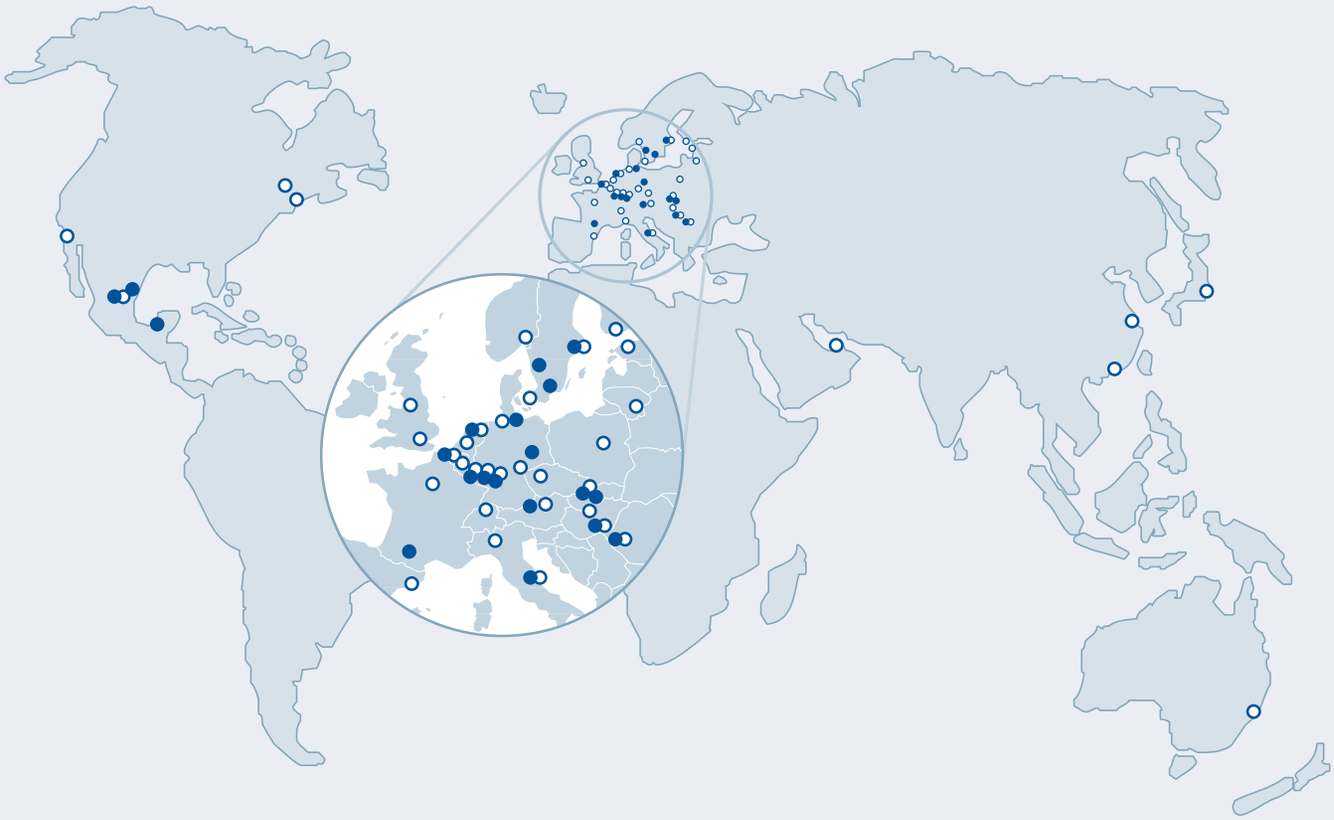
Bath and Wellness	*Sales*	*Euro Million*	522.2	489.2	489.2	430.6	422.5
	EBIT	*Euro Million*	21.1	28.3	28.3	20.3	26.0
Tableware	*Sales*	*Euro Million*	326.4	325.8	325.8	318.9	317.1
	EBIT	*Euro Million*	17.7	6.1	6.1	10.7	20.2

[1] Group overview of the continued Divisions Bath and Wellness and Tableware
[2] As reported in the Annual Report 2006

Villeroy & Boch worldwide

● *Production Site*

○ *Sales Company*



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The traditional brand Villeroy & Boch is globally respected and reflects innovation, quality and superior design. This reputation has been pursued and further developed within the financial year 2007.

On the following pages, you will find the six most important developments within the eventful financial year 2007.

A tendency to rise:

Increase in sales and profit

Globally, the Group was able to generate Euro 848.6 million within the continued operations Bathroom and Wellness as well as Tableware which reflects an increase of 4.1% compared to the prior year. Also the operating result (EBIT) has grown from Euro 34.4 million to Euro 38.8 million in 2007.

On the road to success:

Tableware with a considerable improvement of profit

Within the highly competitive Tableware market, Villeroy & Boch was able to demonstrate superior strength. On the one hand, sales have risen slightly to Euro 326.4 million, and on the other hand the Division generated an operating result (EBIT) of Euro 17.7 million compared to Euro 6.1 million in the prior year. Thereby, the net operating margin has increased to 5.4%.

Unlimited:

Foreign business is rising continuously

The percentage of foreign sales further increased and reached 79% in the financial year 2007. Villeroy & Boch will consistently pursue its internationalization strategy, which contributes considerably to the Company's success. Besides the American market, the growing markets in Asia and the Middle East are focused upon.

Growth:

American ceramic sanitary sales rise due to the integration of the new plants

In 2006, Villeroy & Boch acquired with foresight a ceramic sanitary production in Mexico and this way established a sound basis for the development within the American market. Because of this strategic move, the Company today has a market share of 22% in Mexico. Furthermore, in 2007 Villeroy & Boch was able to increase sales in North- and Central America from Euro 33 million to Euro 55.9 million.

Substantial:

The operating cash flow rises to Euro 59 million

While cash flow from operating activities was at Euro 22.7 million in 2006, it increased in 2007 to Euro 59.4 million. The reasons for this are explained in the Annual Report as well as why the Group's net solvency of Euro 48.3 million is clearly above prior year's amount of Euro 21.9 million.

Change:

The tile business is restructured

In 2007, the V&B Fliesen GmbH has been put on a sound basis: 51% of the interest was sold to a strong partner. The remaining 49% are kept as financial investment. After the disposal of additional smaller companies the whole Tile Division is deconsolidated at the end of the year. This way a sustainable basis has been established for the future.

(From left to right): Werner Jäger, Dietmar Langenfeld, Charles Krombach, Ralf Runge, Wolfgang Thieser, Hannsgeorg Edinger, Luitwin Gisbert von Boch-Galhau, Dr. Jürgen Friedrich Kammer, Peter Prinz Wittgenstein, Ulrich Küppers, Wendelin von Boch-Galhau, Emmanuel Villeroy de Galhau

Members of the Supervisory Board

Karl Gustaf Ratjen
Honorary member

Peter Prinz Wittgenstein
Chairman
Management Consultant

Josef Balle* (until 06/30/2007)
1st Vice-Chairman (until 06/01/2007)
Chairman of V&B Fliesen GmbH Works Council

Ulrich Küppers*
1st Vice Chairman (since 06/01/2007)
State Regional Manager (Landesbezirksleiter) Rheinland-Pfalz/ Saarland of the Industriegewerkschaft Bergbau, Chemie, Energie, Mainz (Mining, Chemistry, Energy, Mainz)
a) BASF AG, Ludwigshafen
STEAG Saarenergie AG, Saarbrücken
(Vice-Chairman)
Technische Werke Ludwigshafen AG, Ludwigshafen
(Vice-Chairman)
b) Klinikum Ludwigshafen, Ludwigshafen
(Vice Chairman)
SOTEC GmbH, Saarbrücken
(Vice Chairman)

Luitwin Gisbert von Boch-Galhau
2nd Vice Chairman
Entrepreneur
b) Banque CIAL, Strasbourg/France
(Member of the Administrative Board)
within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary (Chairman)

Wendelin von Boch-Galhau (since 06/01/2007)
Entrepreneur
b) V&B Fliesen GmbH, Merzig (since 05/09/2007)
Nici GmbH, Altenkunstadt (since 08/01/2007)

Hannsgeorg Edinger*
Trade Union Secretary of IG Bergbau, Chemie, Energie, Hanover
a) Schott AG, Mainz

Werner Jäger* (since 07/16/2007)
IT Administrator

Dr. Jürgen Friedrich Kammer
Former Management Board Chairman and afterwards Supervisory Board Chairman Süd-Chemie AG, Munich
a) Lanxess AG, Leverkusen
b) Wittelsbacher Ausgleichsfonds, Munich
Augustinum gemeinnützige GmbH, Munich

Charles Krombach
Director of the Landewyck Group S.à r.l., Luxembourg
Director of Heintz van Landewyck S.à r.l., Luxembourg

Dietmar Langenfeld*
Chairman of Villeroy & Boch AG Central Works Council
Chairman of Sanitärfabrik Works Council

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

Berthold Scholtes* (until 06/30/2007)
Technical Director of V&B Fliesen GmbH

Kilian von der Tann (until 06/01/2007)
Lawyer

Wolfgang Thieser* (since 07/16/2007)
Project Manager Bathroom and Wellness

Emmanuel Villeroy de Galhau
Entrepreneur

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

Report of the Supervisory Board

The year 2007 was a very eventful one for Villeroy & Boch AG. The sale of a majority interest in V&B Fliesen GmbH and the mid-year change at the top of the Management Board characterized the past year.

COOPERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The cooperation between the Management Board and the Supervisory Board again proved to be very trusting and constructive. Even between meetings, the Supervisory Board was informed on a regular, timely and comprehensive basis and was given a role at an early point in time in all major developments and matters awaiting decisions. Especially in the case of international acquisition projects, the Supervisory Board was actively included in the course of proceedings. At times it also gathered information on site.

FOCAL POINTS OF THE MEETINGS OF THE SUPERVISORY BOARD

At the beginning of the year there was a special meeting in which the Supervisory Board approved the sale of the 51 % majority interest in V&B Fliesen GmbH to the Turkish Eczacibasi Group. As a result of licence agreements entered into with the Turkish partner, however, "Tiles" continues to be an integral component of the "House of Villeroy & Boch" concept. In the long term, the cooperation ensures a stronger presence of Villeroy & Boch tiles on the world market. Villeroy & Boch AG now is concentrating is operations on the Bathroom and Wellness Division as well as on Tableware.

The focal points in the four scheduled meetings of the Supervisory Board for the financial year 2007 were as follows: In spring, Frank Göring was appointed, effective from June 1st 2007, as new CEO. Further, the areas of responsibility in the Group Management Board were realigned. In the future, two management teams will assume direction of operations of the two divisions and will report directly to the CEO. In addition the Supervisory Board resolved for the second half of the year to set up the new Management Board department of "Corporate Development," to which, among others, the departments Strategic Planning, Innovation and Engineering are assigned. This decision intends to advance strategic development in the globalization of the Group.

In addition to the reorganization of the Management Board, the agenda included the Management Report of the Group, approval of the financial statements and the current status of international projects.

In June, Volker Pruschke was appointed as a new member of the Management Board for the newly established department "Corporate Development." In addition elections took place in the Investment, Audit, Human Resources and Mediation committees.

In fall, the Management Board provided information on the present status of ongoing acquisition projects as well as on the situation of the Group, the financial situation, risk management and personnel development.

In the focal point of the December meeting were planning for 2008 and mid-term corporate planning. In addition, the changes in the Corporate Governance Codex were passed as a part of the compliance declaration in accordance with § 161 AktG.

A SIGNIFICANT TOPIC: CORPORATE GOVERNANCE

In the past year, the government commission for the German Corporate Governance Codex made several new recommendations and suggestions. These changes were discussed in the December meeting and a new declaration of conformity was issued. Villeroy & Boch AG deviates in only a very few points from the recommendations and suggestions of the commission. The differences are a part of the current declaration of conformity in accordance with § 161 AktG which is published on the Internet site of Villeroy & Boch AG under the heading "Investor Relations". Together with the Management Board, the Supervisory Board is convinced that good corporate governance is essential to responsible, effective corporate management. For this reason the topic "Corporate Governance" will be treated in a chapter of is own in this annual report.

WORK OF THE COMMITTEES

In order to carry out its responsibilities, the Supervisory Board formed three committees.

The **Audit Committee** convened twice in 2007. The central topics of the first meeting in March were the report of KPMG on the 2006 financial statements and the recommendation for the appointment of KPMG as the auditor for the financial year of 2007. The focal points of the second meeting were, among other things, risk management and the work of the internal audit department.

The **Human Resources Committee** met three times. In addition to various personnel topics, the central topics were the decision concerning the appointment of new Management Board member Volker Pruschke and the restructuring of the department responsibilities of the Group Management Board.

And finally, the **Investment Committee** in December dealt with Group and investment planning for 2008 and with mid-term planning of the Company.

In the 2007 reporting year it was not necessary to convene the Mediation Committee.

CONCERNING THE FINANCIAL STATEMENTS

KPMG audited the consolidated financial statements of the Villeroy & Boch Group and the financial statements of Villeroy & Boch AG as of December 31st 2007 as well as the combined management report and issued an unqualified audit opinion. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

The Management Board provided the Supervisory Board with the aforementioned documents together with the recommendation for the appropriation of net income in a timely manner. The financial statements were discussed in detail in the Audit Committee in March as well as in the Supervisory Board meeting in April 2008 in the presence of the auditor. Following the examina-

Peter Prinz Wittgenstein
Chairman of the Supervisory Board

tion by the Audit Committee and the Supervisory Board, no objections were found. Based on the conclusive results of the audits carried out, the Supervisory Board endorsed and therefore approved the financial statements prepared by the Management Board.

PERSONNEL INFORMATION

In addition to employee representatives Josef Balle and Berthold Scholtes, Mr. Kilian von der Tann resigned from the Supervisory Board as of the end of the 2007 Annual General Meeting of the Shareholders. The Supervisory Board would like to express its gratitude to the members for their successful work. The new employee representatives are Wolfgang Thieser and Werner Jäger.

In addition, the 2007 Annual General Meeting of the Shareholders elected Mr. Wendelin von Boch as member of the Supervisory Board.

The Supervisory Board would like to express its gratitude to all employees, the employees' representatives and the Management Board of Villeroy & Boch AG for their services rendered and the commitment shown in the 2007 financial year.

Mettlach, April 2008

The Supervisory Board
Peter Prinz Wittgenstein
Chairman

Management Board

The Management Board of Villeroy & Boch AG: Manfred Finger, Frank Göring, Volker Pruschke

Members of the Management Board

Frank Göring
Spokesman of the Board (CEO) (since June 1st 2007)

Frank Göring, born in 1961 in Mülheim an der Ruhr, has been the spokesman of the Management Board (CEO) since June 1st 2007 and is responsible for the two divisions Bathroom and Wellness, Tableware as well as for Public Relations. Mr. Göring has been working for Villeroy & Boch AG since 1997. On January 1st 2005 he was appointed to the Management Board.

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

Manfred Finger
Finance and Personel (CFO)

Manfred Finger, born in 1950 in Stuttgart, has been a member of the Management Board since October 1st 1996. Mr. Finger is responsible for the areas of Finance/Controlling, Taxes, Real Estate Management, Information Technology and Personnel. In addition Mr. Finger is the Personnel Director of Villeroy & Boch AG.

b) V&B Fliesen GmbH, Merzig (since 07/12/2007)

Volker Pruschke
Corporate Development (CSO) (since September 1st 2007)

Volker Pruschke, born in 1963 in Cologne, has been a member of the Management Board since September 1st 2007 and is in charge of "Corporate Development". He is responsible for the departments M&A, Strategy, Innovation, Engineering, Purchasing, Audit and Law.

Wendelin von Boch-Galhau
Chairman (CEO) (until June 1st 2007)

Wendelin von Boch, born in 1942 in Mettlach, has been employed by Villeroy & Boch AG since 1967. Beginning in 1987 he has been a member of the Management Board and beginning January 1st 1998 he has been its chairman. Since 2005, he has also been the head of the Tableware Division. Mr. von Boch retired as chairman of the Management Board at Annual General Meeting of the Shareholders on June 1st 2007 and was elected to the Supervisory Board of Villeroy & Boch AG.

b) V&B Fliesen GmbH, Merzig (since 05/09/2007)
Nici GmbH, Altenkunstadt (since 08/01/2007)

Peter von der Lippe
Tile Division (until January 31st 2007)

Peter von der Lippe, born in 1944 in Schwednitz, was appointed to the Management Board of Villeroy & Boch AG on April 15th 2000. Beginning January 1st 2005, he assumed responsibility for the Tile Division. As of January 31st 2007, Mr. von der Lippe resigned his membership on the Management Board and until December 31st 2007 was the Director of V&B Fliesen GmbH.

b) Membership in comparable domestic and foreign boards of commercial enterprises in terms of § 125 AktG

"Changes have always been a part of our corporate culture."

Frank Göring, Spokesman of the Management Board

Interview with Spokesman of the Management Board Frank Göring

Mr. Göring, how was the past year for Villeroy & Boch?

Good! All in all, we were very well satisfied, with just a few reservations. Sales development was very positive, and after structural adjustments we improved 4 % in comparison with the prior year. The good thing is that all signs are for continued growth. We were able to increase the operating result (EBIT) of the Tableware Division and Bathroom and Wellness Division from Euro 34.4 million to Euro 38.8 million.

How was the development in the divisions?

Let me begin with Tableware. Here we were able to record overall very good development. Even in the very difficult German market characterized by cheap imports and the dying out of specialty shops, we were able to assert ourselves robustly. Contributing to this was, to a large extent, the successful launch of our secondary brand. Starting this year, with VIVO | Villeroy & Boch we have been offering a great new product with Villeroy & Boch quality. It is convincing because it is also absolutely competitive with import goods in price. And yet it is made in Germany, which may astonish many people. The good thing is that with it we are reaching a completely new target group, namely young consumers that at first glance do not belong to the customer base of Villeroy & Boch Tableware.

And how did things look like in the other division – Bathroom and Wellness?

In Bathroom and Wellness, we could feel the slump in the German building industry in 2007. Remember that the first-home buyer allowance was eliminated. Therefore we had to record a

decline in sales in Germany. But we were able to make up for this because we increased considerably abroad. Sales in this division increased overall by almost 7 %. This shows how important it is for us to have an international orientation. In this way, country-specific effects such as in Germany this year can be successfully offset. At the same time, this serves as an example for the entire history of our enterprise: In the past 260 years, Villeroy & Boch has often proven its flexibility and has adjusted to new developments. Changes have always been part of our corporate culture. It is only in this way that the Company has been successful for such a long time. That will also continue to be critical in the coming decades.

Are there special points of emphasis concerning internationalization?

If you look at total sales, we are already realizing 79 % abroad, but only around 18 % outside of Europe. Of course the classical European markets still offer growth opportunities today. But they are already very, very strongly saturated. Our old core markets are stagnating or are growing only slightly.

Things look completely different in Asia and also in the Middle East. And it is specifically here that there is an enormous potential for us that we are using. The same is true in America: It is an attractive market, not just because of its absolute size. With the acquisition in Mexico last year, we have created a good foundation for achieving even more in North America. We have made our entry into the United States, and in Mexico our market share is already around 22 %. We of course intend to develop still further.

What does further globalization mean for the Villeroy & Boch brand?

With our brand, the consumer takes home a bit of European lifestyle.

Our brand has an excellent reputation. It is capital that works for us worldwide. In the American and the Asian markets, our opportunities are really enormous as a result of our centuries-old tradition and the European origin. In these markets, a great name such as Villeroy & Boch awakens true yearning and desire.

With our brand, the consumer takes home a bit of European lifestyle. In Europe as well, people are thinking again about traditional values: family, origin, stability and home are important again. A decade or two ago that was not important – today these values create roots, identity and security, even in younger target groups. Our brand embodies all of that.

On June 1st 2007 you succeeded Wendelin von Boch as the head of the Company. What does this change mean for you personally?

For me, it is a great honour and I am very grateful for the confidence that has been placed in me. My goal is first to ensure the continuity of the past years. Both for the family as well as for all other shareholders. Second, new ideas and stimulus always come with a change of leadership. Since I have already been with the Company for ten years, I of course continue to be committed to the corporate culture. But to ensure the future of the Company, there is no way around linking our traditional values with new ideas.

There were other organizational changes in the Management Board with your advent.

Correct. We streamlined the Management Board to three departments. This speeds up our decision processes. Set up in this way, we can dedicate ourselves more strongly to strategic development in the continuing process of globalization. Our new Management Board department of "Corporate Development" demonstrates how important we think it is to bundle strategic planning. Working together, we will set the right course in the coming years. In Volker Pruschke we were able to gain an outstanding, internationally experienced man. The Finances and Personnel department will continue to be headed by Manfred Finger. Together I think we have the right combination of new spirit and extensive experience in our team.

It looks like the three of you will have a full measure of responsibilities…

That is why we created what we call the Executive Management Team (EMT) last year that consists of eleven experienced managers who control the essential divisions. Most of them have been key employees for many years with comprehensive know-how in their field. Six of the members direct operations of the divisions in two teams. The EMT in this way supports the Management Board in its work; decisions are now implemented more quickly by the members in a team. This eases the load for the Management Board. In this way we of course can concentrate more intensively on strategic matters. But accomplishments are not achieved only at the top level. The backbone of the Company continues to be our employees. The personal commitment of our workforce is enormous. Without it our success would not be possible.

Members of Management Board and EMT (from left to right:) Philippe Boff, Johan Boheman, Rainer Kuhn, Georg Lörz, Thomas Ochs, Volker Pruschke, Frank Göring,Ralf Becker, Jürgen Kehling, Erich Reiter, Manfred Finger, Alexander Lohnherr, Nicolas-Luc Villeroy, Jörg Hagmaier

What does the further development of the Group look like, and what goals do you have for the coming years?

In short: We are a European company and want to grow to be strongly international. In order to be able to measure success, you have to tie it to figures. In the mid-term, we intend to increase sales outside of Europe to more than 30 %. We plan to exceed the milestone of a billion euros of sales with profitable growth.

In the mid-term, we intend to increase sales outside of Europe to more than 30 %.

Exactly how do you intend to do that?

In accomplishing this, our two divisions will require completely different approaches. Concerning Bathroom and Wellness, products as well as market conditions require that we be present on site – including manufacturing facilities. The first significant step was the acquisition in Mexico; now we are working in the direction of Asia and in the Middle East. In Tableware, we can further develop our export business through effective logistics and the productivity of our present European locations. In this Division, we are concentrating, besides the United States, primarily on Asia.

In addition, we of course have to focus on one more essential aspect: our products. Innovations and design will continue to be the most important basis for our success. Consumers have become more sophisticated. More than ever before, they want individualized products and services. We will clearly meet this demand with our brand. Our goals are a high level of service, first-class quality and quick, reliable processes.

Mr. Göring, many thanks for the open interview.

Employees

Employees

"Many ideas emerge during the course of work. In design, in production, in organization. Our employees further develop the best of these into true innovations for our Company."

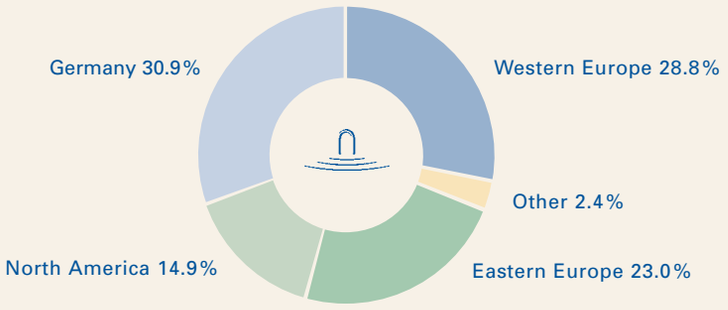
Jörg Hagmaier, Manager Corporate Human Resources

TREND AND NUMBER OF EMPLOYEES IN THE GROUP, AVERAGE FOR THE YEAR 2007

Divisions	*2007*	*2006*	*Change 06/07*
Bathroom and Wellness	5,931	5,789	142
Tableware	2,848	3,011	- 163
Other	442	435	7
Group as a whole	**9,221**	**9,235**	**- 14**

Countries	*2007*	*2006*	*Change 06/07*
Germany	2,849	2,870	- 21
Western Europe	2,654	2,769	- 115
Eastern Europe	2,118	2,004	114
Other	1,600	1,592	8
Group as a whole	**9,221**	**9,235**	**- 14**

PERSONNEL BY REGIONS



Employees

CORPORATE PERFORMANCE MANAGEMENT

Jointly with the employee representatives, in the year 2007 we entered into a trend-setting flexibility arrangement in order to strengthen the German locations. On the one hand, it was important to lower personnel costs, and on the other hand to take into consideration the interests of the employees. We succeeded in accomplishing this. Working hours were agreed upon such that employees in production and logistics have the right to individually select their regular working hours between 30 and 38 hours per week. This presents an entire series of new possibilities for employees and their supervisors. As a result of this agreement, the working hours as a resource can be used more in line with demand. Initial experience with it show that in practice this opportunity proves its worth all the way around.

CORPORATE HR DEVELOPMENT

Villeroy & Boch AG was honoured for its concept of management training. At the MUWIT* Congress for Continuing Education and Personnel Development, there was a contest in which participating companies included some DAX listed companies. The aspect of sustainability was the critical quality for the award of the prize. The aspect of the Villeroy & Boch AG concept the jury found to be convincing was that consistently across all hierarchal levels, personnel development instruments were oriented toward the competence model, the management principles and the corporate guidelines of the Company.

Villeroy & Boch AG was given the MUWIT Award for its concept of management training.

The process of selecting personnel was standardized in 2007 so that throughout the Group, selection of personnel now takes place everywhere on the basis of uniform criteria. In addition, applicants can now also participate in the recruiting process online. It is obvious that not only job applications but also the downstream administrative processes were simplified for operational HR managers.

To improve the selection of future skilled workers and managers, we set up the diagnosis tool "Jobfidence". It recognizes and measures not only the intelligence of the applicants but also their behavioural patterns. As a result, better matches were achieved in filling vacancies. The same

Barbara Ditzler (Manager Corporate HR Development) and Jörg Hagmaier (Manager Corporate HR) with the MUWIT Award.

* MUWIT = Management & Weiterbildung im Trend (Management & Continuing Education in the Trend)

holds true for the personality test "Insights Discovery". This team-development tool now focuses and optimizes the cooperation of national and also international teams.

Also established in 2007 was a new management tool: the Villeroy & Boch Management Mirror. It is a part of the development concept for management-level employees that was recognized with the MUWIT Award. Employees evaluate their superiors regarding the extent to which they live up to the in-house principles and where there might still be potential for improvement. Many participants in leadership training programs in recent years have already placed themselves before the Management Mirror in 2007. This process is being continued in 2008.

CORPORATE HR SERVICES AND INFORMATION SYSTEMS

Employees record their own working hours by PC. This increases transparency and lowers administrative expense.

SAP Employee Self-Service (for approval of vacation applications) introduced in 2006 and the SAP Manager Self-Service (for decentralized provision of information for management employees) were further developed in 2007. A new portal interface was established that serves as the platform for self service. Since the end of 2007, all employees can now record their working hours themselves through their PC. This new service increases the transparency in time accounts and clearly lowers the administrative expense. Because the SAP R/3 HR system was adapted, now even global processes and master data can be administered better. This is critical for the internationalization concept of the entire Human Resources department anticipated in 2008.

AN EYE ON THE FUTURE: APPRENTICES

In the year 2007, forty-three apprentices began their training program with Villeroy & Boch AG in a total of sixteen different skilled trades. This was slightly more than last year.

Since 2007, Villeroy & Boch AG has begun training retail merchants. To start with, four young graduates started on this path. This skilled trade will continue to be offered in the future, in particular in retail in our Creations and Concession Shops. The existing trainee exchange program with Sweden was continued in 2007 and in the coming years will continue to be a fixed component of the training program at Villeroy & Boch.

The "Open House Day" in the teaching shop in Merzig found great response. Here many students and their families have learned about the industrial/technical training at Villeroy & Boch.

INTERESTS IN BALANCE: THE EMPLOYEE REPRESENTATIVE PROGRAM

2007 was a year of changes in the Company. In the discussions, the employee representatives proved themselves to be responsible, constructive partners. As in the previous years, the cooperation was characterized by a trusting attitude and open communication. It was possible not only to set up working hours flexibly, as mentioned above, but also the employer-financed pension fund through the Chemie pension fund was renegotiated by the collective bargaining partners.

The fact that in spite of the difficult economic environment, the Villeroy & Boch Group asserted itself well, is due in particular to the efforts of the entire workforce, which with great commitment and high motivation contributed to the success of the enterprise. The Management Board would like to especially thank all of the employees for this.

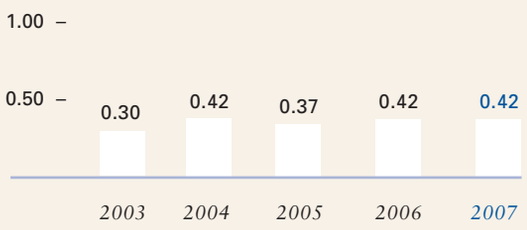

DEUTSCHE BÖRSE

The Villeroy & Boch Share

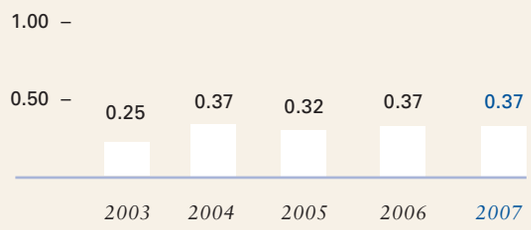
"The Villeroy & Boch share could not resist the general market development. Because of the improved profitability, we expect a quick recovery of the stock quotation."

Manfred Finger, CFO

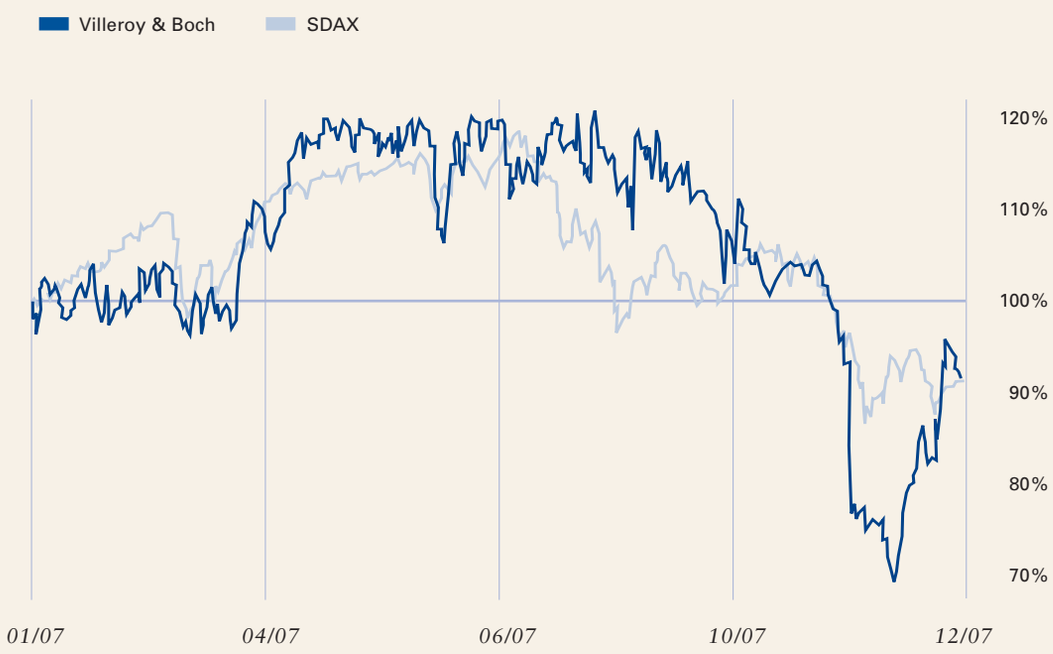
DIVIDENDS PER PREFERRED SHARE *in euros*



DIVIDENDS PER COMMON SHARE *in euros*



DEVELOPMENT OF THE VILLEROY & BOCH SHARE



The Share

TIMES OF GREAT CHANGES

The year 2007 was a turbulent one not just for the investors of Villeroy & Boch. Generally it was characterized by large price fluctuations. After a rise of the German leading index DAX in the opening weeks of the year, by February it had already been pushed into the loss zone. Investors had driven the prices in China to such heights that worries of an overheating of the markets began to emerge. But the fear did not materialize, and the DAX rose again, at times up to 8100 points. In summer, the prices again came under pressure as for the first time the effects of the U.S. real estate crisis began to be felt in Germany. The DAX recovered a second time in fall for a short period, and after another drop in prices in November finally climbed into the profit zone at the year end. At the end of the year, the DAX showed a gain of around 22 % and thus defied the weak parameters of the worldwide markets. In comparison with the DAX, the Dow Jones index was only able to salvage 7 % for the year, while the European blue-chip Euro Stoxx 50 gained only 4 %.

Generally the nervousness of the markets caused the investors to favour liquid securities. This is clearly visible in the indices of the smaller securities which limped along behind the larger ones. Thus the MDAX was pulled down especially as a result of banks that had made bad speculations in the course of the U.S. real estate crises. At year end, it achieved only a slight gain of 3 %. The SDAX rose until the end of July and then came under pressure and showed losses at the end of the year of just at 8 %.

FOLLOWING THE SDAX: THE VILLEROY & BOCH PREFERRED SHARE

The preferred share began the financial year on January 2nd with a price of Euro 13.45. In the first quarter, it proved to be almost unaffected by market influences and consistently was around Euro 13. At the end of March, the share then went well into the plus range and in the course of the following months for the most part was in a range above the performance of the SDAX. While the latter came under pressure already by the beginning of July and recorded definite price losses, the Villeroy & Boch share continued to defy this influence and on August 8th closed at Euro 16.05, the highest closing price in ten years.

The general nervousness of the market caused investors to favor more liquid securities.

In mid-September the share then began to fall slightly and in the course of the following weeks continued to decline. In November the price then fell by as much as 30 %. A stock fund focused on small and mid-sized companies which held considerable interest in Villeroy & Boch was dissolved. In a short time, the shares were sold off on the exchange in relatively large blocks. On November 30th, the share finally reached the low for the year of Euro 9.50. In the final weeks of the year, it then was able to gain ground again and closed at year end with a price of Euro 12.32. Thus analogously with the SDAX, the Villeroy & Boch share also lost around 8 % in value in the course of the year.

SOUND SECURITIES: THE VILLEROY & BOCH COMMON SHARE

In contrast to the preferred shares, the common shares of the Company are not available in open trading but continue to be held by the founder families. This structure guarantees the stability and long-term orientation of the Company even in a turbulent stock market year such as 2007. Purchase and sales of common shares are always transactions between the owners. Included in such transactions are the director's dealings reported this year (see also "Corporate Governance") which had prompted questions among some investors. These transactions represented only a shifting of share ownership within the family and were not in the smallest degree influenced by the economic situation of the corporate group.

COMMON INTERESTS: INVESTOR RELATIONS

In the financial year there again was contact on a regular basis, and numerous discussions were held with investors following current developments of the Company and its future strategy. In the coming year, these discussions will again present an important opportunity to cultivate contact with investors. Beyond this, Villeroy & Boch intends to continuously expand contact with the capital market. For example, participation in various investor forums is planned for 2008 in order to present the strategic development of the Group to a broad public.

AN OBLIGATION TO STABILITY: TREASURY SHARES

In the financial year 2007, as in the preceding year, no treasury shares were purchased. On December 31st 2007, Villeroy & Boch AG continues unchanged to have 1,683,029 treasury shares in its possession. This corresponds to around 6 % of share capital. Moreover, there were no programs of any kind for the acquisition of share options for key employees of Villeroy & Boch AG.

STABILITY ASURED: THE DIVIDEND

Supervisory Board and Management Board recommend an unchanged dividend of Euro 0.42 prefered share.

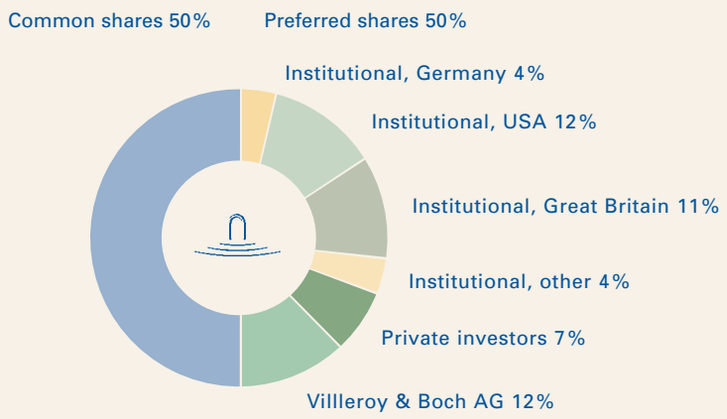
On the basis of the good operating results and the positive development of cash flow in 2007, the Supervisory Board and the Management Board will recommend to the Annual General Meeting of Shareholders unchanged dividends of Euro 0.42 per preference share and Euro 0.37 per common share. This is a sign of continuity and an act of confidence.

VILLEROY & BOCH SHARE 2007[1]

ISIN	DE0007657231
WKN	765723
Securities exchange symbol	VIB3
Class	no-par bearer preferred shares
Transparency level	Prime Standard
Shareholder structure	88.0% (as of 12/28/2007)
Share capital of preference shares	14,044,800 shares (Euro 35,954,688.00)
Quotation	Preferred shares: official trading Frankfurt/Main, XETRA and unofficial dealing in Berlin-Bremen, Düsseldorf, Hamburg, Munich and Stuttgart.
Yearly high	Euro 16.05 on 08/08/07
Yearly low	Euro 9.50 on 11/30/07
Closing price on 12/28/2007	Euro 12.32 (XETRA)
Market capitalization as of 12/28/2007	Euro 152.3 million
Profit per share	0.91 Cent
PET high/low	17.64 / 10.44

[1] Common shares not traded publicly

DISTRIBUTION OF SHARE OWNERSHIP



Source: Deutsche Börse/own calculation

Corporate Governance Report

From the Management and Supervisory Boards to the Villeroy & Boch AG annual report for the 2007 financial year.

Corporate Governance is rated highly at Villeroy & Boch AG. It forms the basis for 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 AG to a very great extent takes into account the recommendations mentioned in this report, as it also does with respect to the suggestions of the German Corporate Governance Codex and, with the exceptions mentioned, continues to comply with it.

In accordance with § 161 AktG (German Public Limited Company Law), on December 14th 2007 the Management and Supervisory Boards made their annual declaration of conformity.

THE CRITICAL FACTOR: CLOSE COOPERATION BETWEEN THE MANAGEMENT AND THE 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 updates on relevant matters of corporate planning and strategic further development, on the trend of business and the situation of the Group (including risk management and compliance).

For important business transactions, in particular decisions or measures that could fundamentally alter the asset, financial and earnings situation of Villeroy & Boch AG reservations are made in the rules of procedure of the Management and Supervisory Boards for the approval of the Supervisory Board.

THE WORK OF THE SUPERVISORY BOARD AND THE COMMITTEES

In addition to the statutory Mediation Committee, the Supervisory Board has set up additional committees from among its members to support its work. The Human Resources Committee decides on the conclusion, amendment and termination of employment contracts with members of the Management Board, on the approval for the granting of loans to the group of persons named in §§ 89 and 115 of the Companies Act (AktG) and on service contracts, in particular consultancy agreements with Supervisory Board Members. The Investment Committee takes part in preliminary discussions with the Management Board on corporate and investment planning and paves the way for decisions on investment requiring the approval of the Supervisory Board according to the rules and procedures of the Management Board.

The Audit Committee is charged with assessing and preparing the accounting of Villeroy & Boch AG and the Group, risk management (including compliance) and the examination of independence of the auditor, identification of the focal points of the audit and the granting of the audit engagement to the auditor.

The committees meet as required and prepare the Supervisory Board's adoption of resolutions within the scope of their duties.

CLEAR REGULATIONS THAT PREVENT CONFLICTS OF INTEREST

Villeroy & Boch AG observes the legal regulations as well as those contained in the Corporate Governance Codex concerning conflicts of interests. While discharging their management duties at Villeroy & Boch AG, the members of the Management and the Supervisory Boards do not pursue any interests of their own which may oppose corporate interests. Consultancy agreements and any other contracts for services or work concluded by a member of the Supervisory Board with the Company require the approval of the Supervisory Board. In the 2007 financial year, no conflicts of interest occurred, and no consultancy agreements or other contracts for services or work were entered into with members of the Supervisory Board.

DIRECTORS' DEALINGS

Villeroy & Boch AG immediately discloses on its website any transactions with shares of the Company subject to registration in accordance with § 15a WpHG (German Securities Trading Law). In the reporting year, several acquisitions subject to registration and concluded by a member of the Supervisory Board and persons closely related to the member were disclosed. The relevant information in accordance with the WpHG is published on the website of the Company.

OWNERSHIP OF SHARES OF THE COMPANY

Ownership of shares of the Company by members of the Management and Supervisory Boards was also published on the website of the Company within the scope of WpHG disclosures.

EFFICIENCY AUDIT

In the year 2007, as in the previous years, the Supervisory Board of Villeroy & Boch AG performed an efficiency audit with positive results.

APPROPRIATE REMUNERATION FOR MANAGEMENT AND SUPERVISORY BOARDS

For relevant data on this, please see the separate remuneration report on page 39 of the annual report.

RISK MANAGEMENT

Villeroy & Boch AG maintains a system for the identification and monitoring of operating and financial risks. The elements of the risk management system are designed for early recognition and control of corporate risks. The Management Board is responsible for the internal supervision and risk management system and for assessing 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. As a result, risks can be recognized at an early point in

time and reliable information on the financial situation of the Company can be provided on an ongoing basis for internal and external use.

COMPLIANCE

Villeroy & Boch AG places high priority on compliance. The Management Board and Supervisory Board therefore check the composition, structure, work methods and areas of responsibility in Villeroy & Boch Aktiengesellschaft and in the Group under the aspect of compliance. The Audit Committee receives reports on a regular basis concerning compliance and any associated effects on the financial and earnings situation.

TRANSPARENCY AND FINANCIAL PUBLICATIONS

Having transparent management and monitoring mechanisms is an essential prerequisite for promoting trust, in particular of the shareholders, in Villeroy & Boch AG. It is important in this respect to provide shareholders and participants in the capital market prompt and uniform information on the situation of the Company.

Investors can obtain the latest information on the current developments of the Group through the Internet. Our publications fulfil the requirements for transparency prescribed by the WpHG. Any transactions for the purchase or sale of Villeroy & Boch shares by members of the Management Board are publicised on a regular basis. Simultaneously with the publication of this annual report, a compilation of all publications of Villeroy & Boch AG in the financial year 2007 and up to the publication of this annual report is made in the annual document in accordance with § 10 of the Securities Prospectus Act (Wertpapierprospektgesetz = WpPG). This can also be viewed on the website of the Company at http://www.villeroy-boch.com/de/de/home/unternehmen/investor-relations/jaehrliches-dokument-gemaess-10-wppg.html

ACCOUNTING

The Consolidated Financial Statements and the Interim Reports of Villeroy & Boch AG are prepared in accordance with the International Financial Reporting Standards (IFRS), and the Villeroy & Boch AG Financial Statements are prepared in accordance with the provisions of the German Commercial Code (HGB).

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The Supervisory Board commissioned KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt/Main, the auditor appointed by the Annual General Meeting of the Shareholders, to audit the annual financial statements.

The Audit Committee and the Supervisory Board examined the professional eligibility and independence of the auditor. For this purpose, KPMG issued a statement on the extent to which professional, financial or other relations exist between KPMG, its directors and auditing management on the one hand and Villeroy & Boch AG, its subsidiaries and directors on the other. The statement of independence issued, which ensures that there are no conflicts of interest, 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 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 by the auditor. It was also agreed that the auditor is to give notice to the Supervisory Board, or to make 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 Board and the Supervisory Board in accordance with § 161 AktG. There was no indication that the independence of the auditor is not sufficiently guaranteed.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODEX

KPMG issued the following statement in the meeting of the Supervisory Board on April 1st 2008:

"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 of § 161 AktG."

The text of the declaration of conformity can be accessed on our website at http://www.villeroy-boch.com/fileadmin/user/ir/Entsprechenserklaerung_141207.pdf and is also available in our annual financial statements.

Remuneration report

The following remuneration report for the Management and Supervisory Boards of Villeroy & Boch AG is an integral part of the Corporate Governance Report.

APPROPRIATE REMUNERATION FOR MANAGEMENT AND SUPERVISORY BOARDS

In order to promote a corporate management which aims at long-term value creation, the remuneration of the members of the Management Board comprises two components:

- fixed remuneration
- variable performance-related bonus dependent on target achievement

In addition to profit targets for Villeroy & Boch AG and the Divisions, each year the Human Resources Committee of the Supervisory Board set individual targets in agreement with individual members of the Management Board. These strategic targets, together with achieving the target return on net operating assets set for the medium term and the planned annual net profit, bear equal weight in calculating the performance-related bonus. It makes up approximately 50 % of the total remuneration of a member of the Management Board and is therefore a significant motivating

factor. Subsequent modification of performance-related targets and comparative parameters is excluded.

No loans or advances were granted to Management and Supervisory Board members in the 2007 financial year.

In accordance with § 7 of the Articles of Association, Supervisory Board members receive a fixed remuneration with a significant results-related component which is dependent on the shareholder's dividend.

In the 2007 financial year, the Supervisory Board members did not receive any further remuneration or benefits for personally rendered services.

ITEMISATION OF MANAGEMENT AND SUPERVISORY BOARD REMUNERATION

As regards the remuneration of Management and Supervisory Boards, Villeroy & Boch AG complied, and also complies in the 2007 financial year, with the recommendations of the German Corporate Governance Codes, but with the exception of an itemised report on remuneration of the Management Board. Owing to a resolution passed at the Annual General Meeting of Shareholders on June 9th 2006 concerning the financial years 2006 to 2010 inclusive, the Company is exempt from the legal obligation to provide an itemised report of Management Board remuneration, which came into effect on August 3rd 2005 by virtue of the law on the disclosure of Management Board remuneration (VorstOG).

Accordingly, further details given in this remuneration report will not be effected on an itemised basis for Management Board members.

SUPERVISORY AND MANAGEMENT BOARD REMUNERATION

Additional data on the remuneration of the Management and Supervisory Boards including the itemised remuneration of the Supervisory Board are found in the appendix to the Annual Report on page 148. These data are a part of the remuneration report and thus are also a part of the Corporate Governance Report.

Responsibility Statement

RESPONSIBILITY STATEMENT IN THE ANNUAL FINANCIAL REPORT – CONSOLIDATED FINANCIAL STATEMENTS

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

Mettlach, March 7th 2008

Frank Göring

Manfred Finger

Volker Pruschke

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Management Report

- Group sales (without Tiles) rise 4.1 %
- Consolidated operating result (EBIT) of continued divisions at Euro 38.8 million shows 12.9 % improvement over prior year (prior year: Euro 34.4 million)
- Result of continued divisions after taxes increase to Euro 23.8 million (prior year: Euro 18.2 million)
- Result of the sold Tile Division pulls down Group results by Euro 16.6 million (Villeroy & Boch AG with Euro 15.5 million)
- Same dividends as in prior year
- Net liquidity clearly higher

GENERAL ECONOMIC CONDITIONS

In the first half of 2007, the world economy again clearly expanded, and initially the outlook for the future was very positive. The general economic climate in the second half of the year initially was also not pulled down by the real estate crisis in the United States, but then toward year end it deteriorated, and economic growth also slowed. In Germany, on the other hand, the economy proved to be robust despite several negative influences such as the high petroleum price and the strong euro. Toward the middle of the year, the initial effects of the real estate crisis began also to be felt here: The business and consumer climate was clouding over. Real economic growth, however, proved to not be impressed and as a result of the high export figures scarcely slowed. Domestic demand, in contrast, decreased. This was due to the further rising energy prices, the clearly increased costs for groceries and the increase in value-added tax at the beginning of the year.

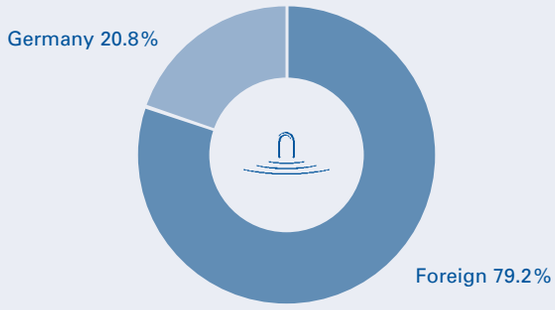
PRESENTATION OF INCOME STATEMENT

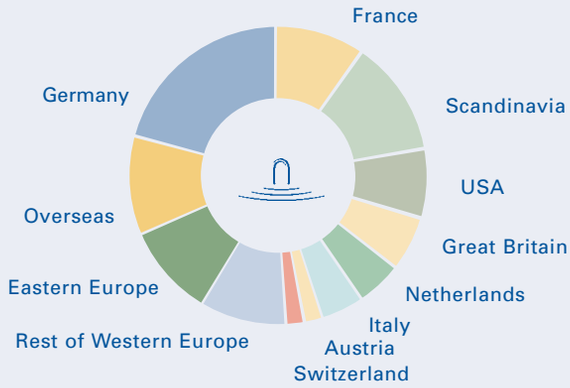
When a material portion of a group is sold, under IFRS 5 a distinction is made in reporting between the continued and the sold business segments of a company, with the emphasis being placed primarily on the continued segments. Since as of June 30th 2007, material interests (51 %) of V&B Fliesen GmbH as well as two additional companies were sold, they are not included in the Group financial statements. In spite of continued cooperation with the purchaser, the interests in V&B Fliesen GmbH are reflected on the balance sheet as a financial investment. This is because business policy cannot be materially influenced and dividends are not drawn on the basis of a contract.

For this reason the following Management Report pertains in large part to the continued divisions. Additional information on the Tile Division, which from the point of view of the

GROUP SALES BY COUNTRIES

Share in %	*Country*	*Euro million*
20.8	**Germany**	**176.6**
9.8	France	83.6
12.5	Scandinavia	106.4
7.4	USA	62.5
5.7	Great Britain	48.8
4.8	Netherlands	40.7
4.6	Italy	38.7
1.9	Austria	16.6
2.1	Switzerland	17.5
9.4	Rest of Western Europe	79.4
10.0	Eastern Europe	84.8
11.0	Overseas	93.0
79.2	**Total foreign sales**	**672.0**





Villeroy & Boch Group financial statements was sold, can be found in the notes to the Group financial statements.

STRUCTURE OF THE CONSOLIDATED INCOME STATEMENT (IFRS)

in Euro million	*2007*	*% of sales*	*2006*	*% of sales*
Continued Operations:				
Sales	848.6	100.0	815.0	100.0
Cost of sales	- 506.7	- 59.7	- 484.1	- 59.4
Gross profit	341.9	40.3	330.9	40.6
Selling, marketing and development costs	- 248.1	- 29.2	- 241.2	- 29.6
General and administrative expenses	- 45.6	- 5.4	- 44.3	- 5.4
Remaining expenses/income	- 9.4	- 1.1	- 11.0	- 1.4
EBIT	38.8	4.6	34.4	4.2
Financial results	- 9.4	- 1.1	- 9.8	- 1.2
Result from ordinary activities (EBT)	29.4	3.5	24.6	3.0
Income taxes	- 5.6	- 0.7	- 6.4	- 0.8
Results for the year Continued operations	23.8	2.8	18.2	2.2
Sold Tile Division:				
Result from discontinued operations	- 16.6	- 2.0	- 1.1	- 0.1
Results for the year (Group)	7.2	0.8	17.1	2.1

SALES AND RESULT

Promising results: Group sales rise by 4,1 %

In the 2007 financial year, sales of Euro 848.6 million were realized for the Villeroy & Boch Group (without Tiles). Compared with prior year sales of Euro 815.0 million, this represents an absolute increase of 4.1 %. This is reflected above all in the Bathroom and Wellness Division, while the Tableware Division also managed to increase slightly.

In Germany, sales of the Villeroy & Boch Group fell by 7.0 % to Euro 176.6 million. In contrast, foreign sales at Euro 672.0 million reflected an increase of 7.5 %. Increases in sales were achieved particularly in the regions Eastern Europe (+17.1 %), Scandinavia (+6.0 %), Spain (+6.7 %) and Australia (+6.7 %). Foreign sales as a percentage of total sales rose from 76.7 % to 79.2 %.

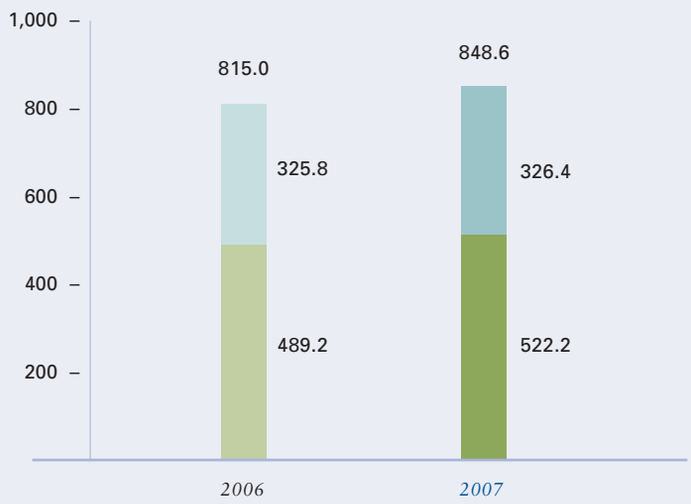
Group result (without the sold Tile Division) increased

The operating result (EBIT) of the Villeroy & Boch Group increased in the 2007 financial year by Euro 4.4 million to Euro 38.8 million. This represents an increase in EBIT of 12.9 %. The result from continued divisions after taxes increased to Euro 23.8 million following Euro 18.2 million in the prior year.

Financial results of the Group improved by Euro 0.4 million and is at Euro -9.4 million. The share of interest for pensions of Euro -9.2 million forms the major component of the financial results. The consolidated tax ratio rose from 25.8 % in the prior year to 45.2 %.

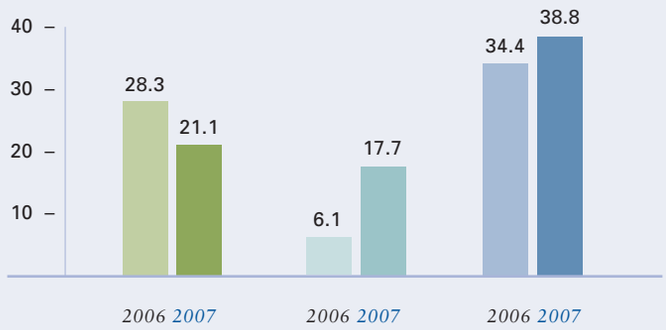
GROUP SALES

Breakdown by divisions (in Euro million)



GROUP EBIT

(in Euro million)



Bathroom and Wellness
Tableware
Continued divisions

The reason for the increase is that the losses resulting from the sale of V&B Fliesen GmbH are not taken into consideration for tax purposes. With respect to the continued divisions, the tax ratio is approx. 19.1 %. Included in the tax expenditures are tax refunds from prior years in the amount of Euro 2.2 million.

The negative result of the Tile Division is composed essentially of the loss from the sale of the 51 % share in V&B Fliesen GmbH and of an additional write-down of the shares in the company still held by Villeroy & Boch AG. The adjustment was based on the sale price of the shares sold.

SALES DEVELOPMENT IN THE DIVISIONS (GROUP)

In the year 2007, the **Bathroom and Wellness Division** realized sales of Euro 522.2 million. Thus in comparison with 2006, sales rose by 6.7 %. Taking into consideration the Mexico/USA acquisition which was reflected only on a pro-rata basis in 2006, organic growth was 2.8 %. This is because exports increased by approx. 12 %, while as a result of the slump in the economic environment of the industry that set in during the third quarter, domestic sales weakened significantly, falling almost 11% in comparison with the prior year.

For the **Ceramic Sanitary Ware, Kitchen and Furniture Business Segment,** the financial year ended well. At Euro 388.6 million, sales were 8.9 % (Euro 31.8 million) above those of the reported prior year. The decline in the German market (-8.7 % from the prior year) was more than offset through the clear increases in foreign sales (+15.2 %), which was in part due to acquisition. The foreign share in total sales thus increased to 78 % compared with 71 % in the prior year.

The **Wellness and Fittings Business Segment** also increased in 2007. With sales of Euro 133.6 million, there was an increase of around 1 % over the prior year. This was possible even despite the difficult market situation in Germany, as a result of which domestic sales show a double-digit drop in comparison with the prior year. These business segments were able to grow as a result of disproportionate rates of increase in particular in the Scandinavian markets (+9.4 %) and in Eastern Europe (+17.7 %).

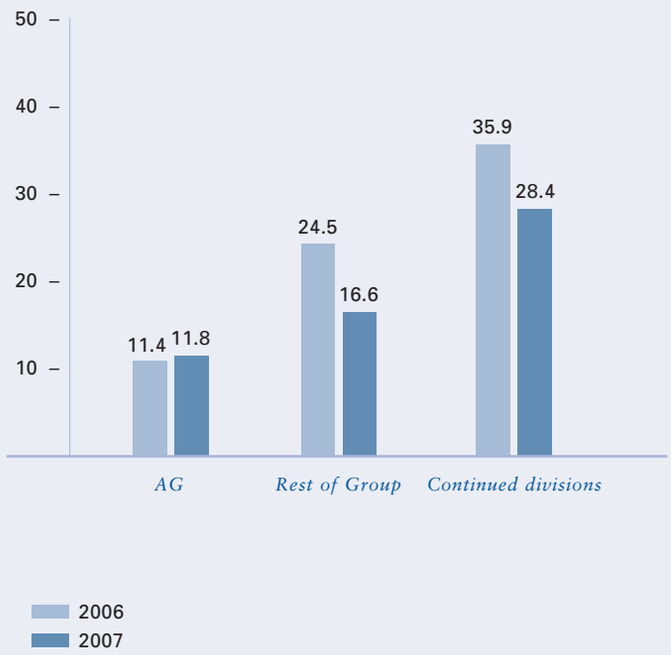
Sales of the **Tableware Division** grew modestly in 2007 to Euro 326.4 million. That is a 0.2 % increase over the prior year. Since it was possible to export more (+0.6 % compared with the prior year), the declines in the German market (-1.2 %) were offset. This took place despite the weak economic environment in the United States and the devaluation of the U.S. dollar – here sales dropped by 13.2 % compared with the prior year. This was offset through clear increases in the Premiums & Incentives segment in Spain (+7.8 % compared with the prior year) and in Eastern Europe (+16 % compared with the prior year).

Result trend in the Divisions

In 2007, the Bathroom and Wellness Division was not able to repeat the result (EBIT) of the prior year of Euro 28.3 million. During the financial year, the EBIT for this division came to Euro 21.1 million and thus is Euro 7.2 million below the result of the prior year, in which positive effects from sales of real estate property were contained. In addition, the result for the year 2007 was brought down by Euro 2.4 million as a result of the safety campaign completed in the 4th quarter for Quaryl bathtubs of the subsidiary Ucosan B.V..

CAPITAL EXPENDITURES FOR FIXED ASSETS AND INTANGIBLE ASSETS

(in Euro million)



In the **Ceramic Sanitary Ware, Kitchen and Furniture Business Segment**, the very good prior year result was not achieved. As a result of the changed product mix, the margins were slightly below the level of the prior year.

In the **Wellness and Fittings Business Segment**, the result achieved was at about the same level as that of the prior year. This was accomplished in spite of the difficult environment, in particular in the important German market, and the one-time expense resulting from the Quaryl safety campaign. This was due to a stable cost situation resulting from the measures initiated in the prior year. Moreover, additional restructuring expenditures from optimization projects of the supply chain of around Euro 1.5 million are contained in the result (prior year: Euro 3.6 million).

The operating result (EBIT) in the **Tableware Division** at Euro 17.7 million is clearly above that of the prior year in the amount of Euro 6.1 million. After adjustment for the restructuring measures contained in the latter in the amount of Euro 9.1 million, the result shows an improvement of approx. 16.4% at an unchanged level of sales. This improvement is attributable in large part to the clearly improved utilization of production capacity and the associated lowering of production costs.

CAPITAL EXPENDITURE

Increased volume of Group capital expenditure

Capital expenditures for property, plant and equipment and intangible assets for the 2007 financial year came to Euro 28.4 million for the continued divisions. In comparison to that, Euro 35.9 million were invested in the prior year.

A 41.9 % share of total capital expenditures was allocated to domestic locations. Depreciation in the year 2007 was Euro 38.2 million compared with Euro 38.4 in the prior year.

The focal point of investment activity is in the Bathroom and Wellness Division with around 71 % (prior year: 81 %). In the reporting year, capital expenditures were Euro 20.2 million compared with Euro 29.1 million in the prior year. In foreign locations, primarily modernisation measures were carried out in the area of ceramic sanitary products in Hungary, Romania and France and also in the area of fittings. In Germany, investment was made primarily in the optimization of die-casting technology.

For the Tableware Division, 56.4 % of capital expenditure was made in Germany and 43.6 % abroad. Compared with the prior year, capital expenditures in this segment rose from Euro 6.8 million to Euro 8.2 million and were used for the further development of the distribution network, for expansions of production and for improvements in logistics processes.

FINANCING (INCLUDING THE SOLD TILE DIVISION)

Cash flow from operating activities (Group) increases to Euro 59 million; Group liquidity increases as a result of Tile disinvestment

In the financial year 2007, cash flow from current business activity increased by Euro 36.7 million from Euro 22.7 million to Euro 59.4 million.

VILLEROY & BOCH GROUP – ABRIDGED CASH FLOW STATEMENT

in Euro millions	2007	2006
Profit after tax	7,2	17,1
Depredation of fixed assets incl. write-up	49.2	44.2
Change in non-current provisions	- 24.3	- 11.6
Profit from disposal of fixed assets	- 2.1	- 12.3
Changes in inventories, accounts receivable, liabilities and current provisions as well as other assets and liabilities	15.4	- 25.6
Other non-cash income/expenses	14.0	10.9
Cash flow from operating activities	59.4	22.7
Cash flow from investing activities	- 58.2	- 60.7
Cash flow from financing activities	59.5	- 9.3
Change in cash balance	60.7	- 47.3
Changes due to exchange rate	0.2	0.1
Net increase in cash and cash equivalents	60.9	- 47.2
Balance of cash and cash equivalents as of 01/01/	11.6	58.5
Changes in consolidated companies	2.6	0.3
Balance of cash and cash equivalents as of 12/31/	75.1	11.6

The increase in cash flow from operating activities in the reporting year was achieved essentially through a reduction of other current assets and of current financial assets by Euro 20.3 million. This is largely because the purchase-price receivables of real estate properties sold in the prior year were paid and securities were sold.

The fact that in the prior year vendor receivables of approx. Euro 19.0 million were built up continues to be felt. In the other direction, there was an increase in inventories in the reporting year by Euro 14.6 million. In addition the increase in other short-term liabilities increased operating cash flow.

Funds flowed out through capital expenditures on a similar order of magnitude as in the prior year. Other significant factors were time deposit investments of Euro 45.2 million and the fact that in the prior year, additional funds flowed out through investment in the Mexican sanitary ware business.

The greatly changed cash flow from financing activities is due essentially to the obtaining of loans in the amount of Euro 70.0 million.

INCREASE IN NET SOLVENCY DUE TO TILE DISINVESTMENT

Net solvency increased in the Villeroy & Boch Group as of year end by Euro 26.4 million from Euro 21.9 million to Euro 48.3 million. There are several reasons for this: First, 51 % of the shares in V&B Fliesen GmbH and two tile trading companies were sold, and second, it was due to receipt of payments from real estate sales of the prior year.

In contrast to the prior year, the Villeroy & Boch Group reflects financial liabilities in the amount of Euro 72.0 million because intermediate-term loans were obtained. The loans were taken against the background of the interest increases that are expected in the mid-term. This secures the globalization strategy and provides a foundation for the ability to react at any time to possible opportunities.

For purposes of this analysis, cash, current financial assets and current and non-current financial liabilities are combined.

DISCLOSURES ON THE TILE DIVISION

The sold Tile Division, which is included pro rata temporis in the Group financial statements, realized sales of Euro 80.8 million. This is in contrast to prior year sales in the amount of Euro 149.2 million. The operating result (EBIT) in the amount of Euro -16.3 million (prior year: Euro -1.1 million) is influenced by considerable special effects. Adjusted for these special effects in the amount of Euro -16.8 million, there is an operating result of Euro 0.5 million. The one-time effects are essentially composed of the deconsolidation loss of the 51 % share in V&B Fliesen GmbH in the amount of Euro 6.8 million, an additional adjustment for the shares in the company still carried on the balance sheet in the amount of Euro 7.8 million as well as a one-time expenditure in the amount of Euro 2.0 million. The 49 % financial interest in V&B Fliesen GmbH was valued analogously with the shares sold as of June 30th 2007.

During the first half year, capital expenditures of Euro 1.4 million were made compared with Euro 4.0 million in the prior year. For the most part, production technology was expanded at the Merzig location as well as in France.

BALANCE SHEET STRUCTURE IN 2007

In comparison with the prior year, the Group balance sheet structure is predominantly characterised by the sale of the Tile Division. Total assets of the Group increased by Euro 15.5 million from Euro 789.4 million to Euro 804.9 million despite the deconsolidation of the tile companies since borrowing rose in comparison with the prior year.

The equity ratio dropped by 1.6 % from 44.4 % in 2006 to 42.8 % in the financial year as a result of the lower net income in comparison with the prior year and in connection with the expansion of the balance sheet total.

Non-current assets fell a total of approx. Euro 15 million. This is due predominantly to the fact that depreciation for the financial year was greater than capital expenditures. The 36.8 % share of fixed assets in total assets is 1.9 % below that of the prior year. The shares in V&B Fliesen GmbH are reflected on the balance sheet as a financial investment, since Villeroy & Boch no longer can exercise any significant influence on its business policies.

Current assets (including cash) increased compared to the prior year by approx. Euro 31 million to Euro 462 million since cash increased strongly. This was partially able to offset the reduction in inventories as well as of trade accounts receivable. Non-current assets are more than covered by equity capital.

GROUP BALANCE SHEET STRUCTURE

(in Euro million)

Assets	*2006*	*2007*
Non-current assets	358.0	342.9
Current assets	419.8	386.9
Cash and cash equivalents	11.6	75.1
Total assets	**789.4**	**804.9**

Liabilities and Equity	*2006*	*2007*
Equity	350.4	344.6
Non-current liabilities	218.9	268.0
Current liabilities	220.1	192.3
Total assets	**789.4**	**804.9**

EMPLOYEES

The average number of persons employed in the continued divisions fell slightly in comparison with the prior year, from 9,235 to 9,221.

In the **Bathroom and Wellness Division** the number of persons employed increased in comparison with the prior year by 142 from 5,789 to 5,931 employees.

In the **Tableware Division** the number of employees declined by 163 from 3,011 to 2,848. Of the entire average number of persons employed, 6,372 are occupied abroad and 2,849 in Germany. Thus there is no significant change from the prior year.

Compared with the prior year, personnel expenses of the continued divisions fell by 1.5 % from Euro 293.3 million to Euro 288.9 million. Taking into consideration the personnel expenses contained in restructuring expenses in the amount of approx. Euro 3.0 million (prior year: Euro 15.0 million) there was an increase of 2.7 %. The personnel expenses ratio (personnel expenses to sales) was 34.0 % (prior year: 36.0 %) and 33.7 % (prior year: 34.1 %) after adjustments to exclude the effects of restructuring expenses.

PROCUREMENT

The purchase prices for energy, raw materials and consumables rose in the 2007 financial year by around 3 %. Around Euro 150 million was expended in the Group for this area.

The price increase is attributable predominantly to drastically increased prices for electricity at almost all locations (approx. +20 %). Gas costs, despite increasing market prices, were held stable in the reporting year since contracts for gas were entered into at the end of 2006 or beginning of 2007.

In the area of raw materials and consumables, the Group was successful in saving costs. As a result, the cost increases resulting in part from very sharply increased world market prices of several key factors (e.g. paper prices for packaging) were for the most part offset. The remaining price increases thus remained below expectations.

RESEARCH AND DEVELOPMENT

Expenditures on research and development in the year 2007 in the Villeroy & Boch Group of Euro 9.3 million were approx. 11 % below those of the prior year (Euro 10.5 million). By far the largest share – roughly 74.4 % – was expended in the Bathroom and Wellness Division, while 25.6 % of the expenditures were made in the Tableware Division.

In both the Bathroom and Wellness and the Tableware divisions, the focus was on the development of new product lines as well as on improving production processes in existing and as well as new types of tools.

In addition ceramic bodies and glazes were improved qualitatively and process stability was increased. Raw material productivity was also supported through R&D grant projects. Their goal is to further develop manufacturing technologies and to lower the consumption of resources. This has a positive economic effect and at the same time is beneficial to the environment.

In addition to R&D activities in the area of ceramics or ceramic processes, Villeroy & Boch also assumes responsibility for saving water and energy in the development of products. Through reducing energy it was possible by way of example in the manufacture of sanitary ware at the Saar locations to reduce CO_2 emissions in the generation of heat by 13 %.

Together with other branches of industry within Germany, work is proceeding on a model for reducing water consumption in the area of sanitary facilities. This project like many others is based on joint research activities of the Company with universities and scientific institutions.

THE OPPORTUNITIES

Out of the many opportunities, several that are especially important for the Group will be highlighted. In combination with advancing globalization, Villeroy & Boch will continue and intensify its strategy of internationalization. In this way the recognition level and value of the brand Villeroy & Boch will be further increased.

Alongside North America, the Asian markets in particular offer outstanding growth potential for Villeroy & Boch which will be important to utilize without delay. Accordingly, current activities are in the process of being implemented in the markets in China and India. Another essential building block is the planned integration of an Asian production location for ceramic sanitary. This will make it possible to cost-effectively supply local Asian markets with products of the Bathroom and Wellness Division.

Also in the markets of the Middle East additional growth is to be generated. Projects to this end are in progress.

Consistent utilization of the excellent innovative power of the Group also continues to present great opportunities. New creations from Villeroy & Boch continue to be pioneering for the entire industry.

Since globalization will continue to move forward in the future, Villeroy & Boch will strategically further internationalize itself. In this way the level of name recognition and the value of the brand Villeroy & Boch can be further developed.

In addition, the joint venture entered into with the Turkish EKS Group will contribute to promoting the name recognition of the brand Villeroy & Boch. The entire “House of Villeroy & Boch” concept will be continued through license agreements that have been concluded.

RISK REPORT

Risk management in the Villeroy & Boch Group

In addition to financial risks, the Villeroy & Boch Group is subject to a general and a special market risk.

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

Financial risks

As a corporate group active on a worldwide basis, Villeroy & Boch is exposed to a series of financial risks. These are in particular:

- credit risks
- liquidity risks
- interest and currency risks

The bad debt risk for financial instruments with positive market values is minimized through maintaining limits as well as through establishing certain relative or absolute levels of risk exposure. In order to ensure that the Villeroy & Boch Group is solvent and financially flexible at all times, an adequate liquidity reserve is maintained in the form of credit lines and cash funds. The risk of volatile interest markets is levelled out through existing interest swaps. Currency risk in the Group is hedged in several steps for a period of 12 months. This takes place for foreign currency exposures during the financial year.

Global financial management

Global financial management is centrally controlled and exercised by the Group treasury department. All relevant topics such as policies relating to banks, financing agreements and global solvency control are regulated by principles that are applicable throughout the Group.

The management processes implemented for the above financial risks are described in the notes to the Group financial statements under No. 45.

General market risk

Risks that can arise out of the general economic environment or individual industries are presented in the economic outlook.

Legal risks

In 2007, a franchisee in the area of tableware asserted out-of-court claims. Villeroy & Boch rejected the claims. As of the time of preparation of the financial statements, no suit had been initiated in this matter. The EU Commission has sent Villeroy & Boch a statement of objection (SO) in the COMP/E-1/39.092 – PO/Bathroom Fittings and Fixtures proceedings. Villeroy & Boch rejected the points of the complaint both in writing as well as in the oral hearing before the Commissions on factual as well as legal grounds. Villeroy & Boch views the SO as being unsubstantiated. A decision by the EU Commission in the aforementioned proceedings has not yet been made.

Risks from the procurement and sales market

In view of the market prices which in some cases have risen explosively (e.g. $100 for a barrel of crude oil), it is difficult to forecast the further development of purchase prices for 2008. For the 2008 financial year we expect a rise in purchasing prices of an average of roughly 6 %. More than 80 % of the purchasing volume accordingly has already been hedged.

The cost-cutting project will also be continued in 2008 and will provide additional benefits. In this connection, capital investment funds will also be utilized (e.g. for further recovery of heat).

With respect to sales and procurement, increasing imports from low-wage countries negatively influence the European ceramic industry. In this area, Villeroy & Boch pursues the strategy of countering these influence factors through successive specialization and optimization of automation possibilities.

OCCURRENCE OF PARTICULAR SIGNIFICANCE AFTER CONCLUDING THE 2007 FINANCIAL YEAR (VILLEROY & BOCH GROUP)

There are currently no events of essential importance which occurred after the end of the 2007 financial year.

ESSENTIAL FEATURES OF THE REMUNERATION SYSTEM

The remuneration system for Management Board members is made up of a fixed remuneration and a variable, performance-based incentive payment for objective achievement.

In addition to the target operating results and yields, the Supervisory Board Human Resources Committee reaches agreements with individual members of the Management Board on individual objectives. In calculating the incentive payment for goal achievement, equal weighting is given to these strategic goals and the achievement of the targeted medium-term return on net operating assets and of the planned results for the year. Subsequent change may not be made to the performance objectives and comparative parameters.

The Supervisory Board members receive remuneration as stipulated in § 7 of the Articles of Association and which includes a significant performance-related component measured on the basis of the shareholders' dividend.

OTHER DISCLOSURES FOR VILLEROY & BOCH AG

Sales of Villeroy & Boch AG rose

In 2007, Villeroy & Boch AG recorded an increase in sales revenues compared with the prior year from Euro 452.7 million to Euro 480.7 million. Of this increase in sales, approx. 82 % is attributable to the Tableware Division and approx. 18 % to the Bathroom and Wellness Division.

Operating result reduced as a result of special write-off resulting from tile disinvestment

The net income of Villeroy & Boch AG fell in the 2007 financial year in comparison with the prior

year by Euro 17.1 million to Euro 5.2 million as a result of the charge against results from the disinvestment of tiles. In the financial statements of the AG there is a one-time expense in the amount of approx. Euro 15 million resulting from the sale of V&B Fliesen GmbH. It is composed primarily of the loss on the sale in the amount of Euro 5.3 million and an adjustment of the remaining shares of the company on the balance sheet in the amount of approx. Euro 7.8 million and a one-time expense in the amount of Euro 2.0 million.

A tax expense in the amount of Euro 0.5 million is reflected in net income of Villeroy & Boch AG after application of loss carryovers. Tax refunds in the amount of Euro 1.8 million are taken into consideration in this. Retained earnings are composed of the net income for the year and result carried forward in the amount of Euro 19.0 million.

Dividend proposal

The Supervisory Board and Management Board will propose to the General Meeting of Shareholders on May 30th 2008 that the retained earnings, the balance of which is Euro 24.2 million, be used to distribute a dividend of

Euro 0.42	per individual preferred share and
Euro 0.37	per individual common share.

The distribution volume accordingly is a total of Euro 11.1 million. This amount will change by the portion of the dividend apportioned to the company's own holding of individual preferred shares at the time dividends are distributed. A total of Euro 13.1 million is therefore to be carried forward to a new account at Villeroy & Boch AG.

Volume of capital expenditures slightly above that of the prior year

Capital expenditures were made in Villeroy & Boch AG in the amount of Euro 12.2 million (prior year: Euro 11.8 million), of which 62 % (prior year: 59 %) are attributable to the Bathroom and Wellness Division and 38 % (prior year: 41 %) to the Tableware Division. Included in the above amounts are portions that are attributable to the sold tile segment.

Cash flow of Villeroy & Boch AG

Cash flow from operating activities increased from Euro -11.6 million to Euro 42.9 million. The change is due to the decrease in receivables from affiliated companies in the reporting year. Further, the increase in the prior year in the amount of approx. Euro 21 million results from the transfer into V&B Fliesen GmbH. The reduction in pension provisions is essentially attributable to settlement payments for obligations resulting from company pensions. This outflow of liquid funds, however, was more than offset through increased other provisions as well as other liabilities.

The cash flow from investing activities increased by Euro 46.4 million compared with the prior year. This is due primarily to proceeds from the sale of securities, receipt of payments from the sold tile segment and the disbursement made in the prior year for the acquisition in Mexico.

Net solvency

The effects on net solvency described for the Villeroy & Boch Group basically apply as well for Villeroy & Boch AG. Net solvency is Euro 54.6 million and thus increased by Euro 35.0 million.

Balance sheet structure

The change in the balance sheet structure of Villeroy & Boch AG and of the financial statements of the Group is caused to a great extent by the disinvestment of the tile segment in the financial year as well as by further optimizations in the ownership structure within the Villeroy & Boch Group and to extensive new borrowing for continuation of the growth strategy. Total assets increased in comparison with the prior year by Euro 13.8 million to Euro 729.5 million. Total non-current assets fell in comparison with the prior year by Euro 56.2 million. The essential change is found in financial assets, which dropped by Euro 52.3 million, with the sale within the Group of a French financing company at book value contributing in particular to the reduction. Property, plant and equipment fell by approx. Euro 5 million since depreciation was higher than capital expenditures. Current assets increased in comparison with the prior year by Euro 69.9 million from Euro 305.4 million to Euro 375.3 million. In one direction, there is an increase in cash by Euro 101.8 million and in the other primarily a reduction in Group receivables by Euro 46.7 million. On the equity and liability side of the balance sheet, the change is reflected in particular in the increased liabilities to credit institutions in the amount of Euro 66.9 million and the reduction of Group liabilities by Euro 51.3 million. Due to the result for the year 2007, and the increase in the balance sheet total, the equity ratio fell from 51.4% to 49.7%.

Employees

The employment situation at Villeroy & Boch AG shows little change from the prior year. The number of persons employed in the 2007 financial year is 2,628 compared with 2,623 in the prior year.

OCCURRENCE OF PARTICULAR SIGNIFICANCE AFTER CONCLUDING THE FINANCIAL YEAR OF 2007 (VILLEROY & BOCH AG)

There are currently no events of essential importance which occurred after the end of the financial year.

OUTLOOK

Due to the uncertainties in the financial markets, a forecast of the general economic development is difficult. In all likelihood, the world economic environment will initially lose momentum noticeably in 2008. It can be expected that the expansion in the rest of the Eurozone will be slowed due to financial market problems and the strong euro. In the threshold countries, the rate of expansion prospectively will remain high, but there will probably be a slight drop in comparison with 2007.

In Germany, economic activity may well also cloud over. With the high euro exchange rate, competitiveness will prospectively have a negative effect on exports. The foreign demand will probably slow down, in no small part due to the difficult economic situation in the United States.

Moreover, continuing high energy costs will negatively affect companies as well as the purchasing power of private households.

Following the drop in the first half of the year 2008, however, the economy prospectively will recover again. In 2009, it is expected that the general economy in the industrialized countries will be moving forward again. Alongside a relatively strong domestic economy, the foreign demand could then increase again.

SALES, RESULT AND CAPITAL EXPENDITURES IN THE GROUP

Again in 2008, Villeroy & Boch will push forward with the internationalization strategy in order to further solidify its global presence. Organic growth of sales of roughly 6 % to Euro 900 million is expected worldwide for the Group. Both divisions will contribute to this increase. As a result of the improved business trend, operating return should also increase.

For the Bathroom and Wellness Division, there will be an emphasis on the expansion of business activities in Mexico and the United States in order to generate additional growth. In addition, distribution facilities will also be expanded in Asia. For production locations in Europe, the focus will be on systematic expansion of automation. In addition, manufacturing in locations in Eastern Europe will also be expanded.

The Tableware Division has already had a successful start into the new financial year of 2008. At "Ambiente", the most important consumer goods trade fair, there was outstanding response to the new products. Marketing should continue to be strengthened in Asia and thus also the market presence there. Villeroy & Boch is aiming for further market shares both in the private customer segment as well as in the hotel segment, which is growing strongly in Asia. In addition, the international introduction of VIVO | Villeroy & Boch is planned in 2008 following the successful start of the secondary brand in Germany in 2007.

Investments in property, plant and equipment will be expanded in 2008 from Euro 34 million in 2007 to Euro 40 million. Roughly two-thirds of the increase will be in the Bathroom and Wellness Division and one-third in the Tableware Division, which for the most part will be used in the area Sales & Marketing. Concretely, investments will be made in the expansion of the Group's own trade network, i.e., in the development of new creation and concession shops.

SALES AND RESULT OF VILLEROY & BOCH AG

For Villeroy & Boch AG, a stabilization of sales and result from operations is expected.

Management of the Bathroom and Wellness Division (from left to right): Ralf Becker, Johan Boheman, Georg Lörz

Bathroom and Wellness Division

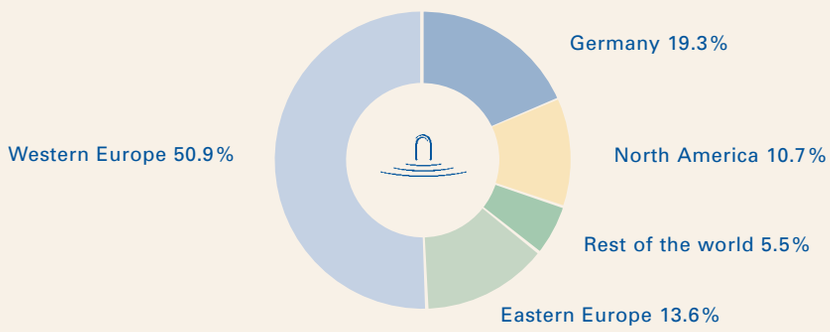
"New materials, shapes and colours are the key for the success of the Bathroom and Wellness Division. For us it is self-evident that in doing so we meet the needs and various preferences of international markets."

Georg Lörz, Marketing Director, Bathroom and Wellness

BATHROOM AND WELLNESS DIVISION KEY DATA

		2007	2006
Sales	*Euro million*	522.2	489.2
EBIT	*Euro million*	21.1	28.3
Net operating margin	*Percent*	4.0	5.8
Capital expenditures	*Euro million*	20.2	29.1
Depreciation	*Euro million*	22.2	22.0
Employees (annual average)	*Number*	5,931	5,789

SALES BY REGIONS



Bathroom and Wellness Division

GROWING SALES, DECLINED EARNINGS

The business segment achieved a disproportionate growth in sales volume in the focus regions.

In 2007, the Bathroom and Wellness Division increased its sales by 7 % compared with the prior year to Euro 522.2 million. While sales increased in other countries in Western Europe to Euro 265.8 million (Euro 257.3 million in the prior year), sales in the German market fell. This was due in particular to the weak demand in the construction sector of the second half of the year. In other markets the Division is consistently growing. Unit sales grew in Eastern Europe by 17 %. Outside of Europe, as a result of acquisitions the Division was even able to increase sales by 68 % to Euro 84.7 million. The operating result on the other hand fell by Euro 7.2 million in comparison with 2006 to Euro 21.1 million. In addition to the effect of the extraordinary charges of Euro 2.4 million in the context of the Ucosan safety campaign, this is attributable among other things also to real estate sales that had positively influenced the prior year's result.

IN FOCUS: CERAMIC SANITARY WARE, KITCHEN AND FURNITURE

In many European countries as well as overseas, the Ceramic Sanitary Ware, Kitchen and Furniture business segment grew disproportionately, while sales in Germany and France declined. This drop in the primary areas was more than offset, however, by the consistent expansion of the markets in Northern and Eastern Europe as well as in Asia and America.

As in the prior year, the high-end categories with the collections "Pure Stone", "Bellevue" and "Memento" again increased strongly. In the intermediate price segment, unit figures for the series "Subway" and "Sentique" also rose significantly. The resulting increased pressure on delivery service was countered by a program for optimizing the supply chain that was started together with an external partner in the middle of 2007.

Many new items were presented at the spring "ISH" trade show. Examples of this are the series "Lifetime", which sets standards with respect to ease of use; a vanity of the series "Variable" that can be changed to order; and additions to the project series "Omnia architectura". Further, new furniture in the collections "City Life" and "Central Line" were presented.

As a result of the backward market development in Germany, sales of kitchen sinks could not grow as in past years. Newly developed shapes and colours should emphasize the strengths of ceramic sinks over stainless steel ones and should again provide for a turn in the trend.

The North American market has developed into one of the most important foreign markets for Villeroy & Boch. Although it was weaker on the whole in the second half of the year as a result of the mortgage crisis, the Division managed to show a continued positive development here, with the successful acquisition of three sanitary-ware factories in Mexico in the year 2006 being one of the significant reasons.

Several new series were specially added to the product group for the U.S. market which were successfully presented in May at the U.S. "KBIS" kitchen and bathroom show.

The brand Villeroy & Boch was introduced effectively in the media with the opening of its first show room in a highly frequented designer centre in Mexico City. Sales of "Vitromex", the leading regional brand, also increased significantly.

WELLNESS AND FITTINGS BUSINESS SEGMENTS

Concerning wellness products, we are known for the clearly structured range concept, which was adapted to regional markets and transferred into the individual countries. In the year 2007, growth of the core brand Villeroy & Boch was again gratifying. In Hungary, Romania and Scandinavia, the local product lines in particular were successful, and in select markets the new marketing concept "Wellness at Home" was introduced with attractive spa and sauna products.

Another highlight was the "ISH" 2007 trade fair. Many new and reworked products drew attention in the trade exhibits. Attractive innovations in shower partitions and steam cabinets have filled gaps in the middle to upper price range. The quality material Quaryl® makes exciting innovations possible, like the "Squaro Superflat" shower tub installed almost level with the floor with integrated siphon and the "Invisible Jets" whirlpool nozzles. Both new developments were awarded in the year 2007 with the coveted "DesignPLUS" award.

Still another plus was that the fixtures of the Gustavsberg brand grew significantly in its focal markets of Scandinavia and Eastern Europe with the new water-saving "Nautic" series.

2008 – THE GOAL DETERMINES THE DIRECTION

Bathroom and Wellness is developing from Europe into the whole world.

Positions in America and in the growth regions of Asia are systematically developed through new distribution channels and country-specific product lines. Thereby, two things are important in this: Asian and American tastes are being taken into consideration with special design features and at the same time the European identity of the brand is being emphasized. In the "native markets" of Germany and France, activities are concentrated on further expansion of the market share. The cooperation with market partners is being intensified and a further optimized supply chain is being configured still more efficiently.

Also at the trade shows, many new products from Villeroy & Boch are accenting growth. The furniture line "Shape" fulfils the trend toward the individualized system solution. The Wellness business segment is presenting itself with refined new products above all in the areas of whirlpools and steam cabinets, such as with the features water heating and coloured light changers. At the same time it is planned to strengthen the supplementing secondary brands. Overall, the goal for sales growth is 8 %, and an improvement in result is expected.

Management of the Tableware Division (from left to right): Alexander Lohnherr, Jürgen Kehling, Nicolas-Luc Villeroy

Tableware Division

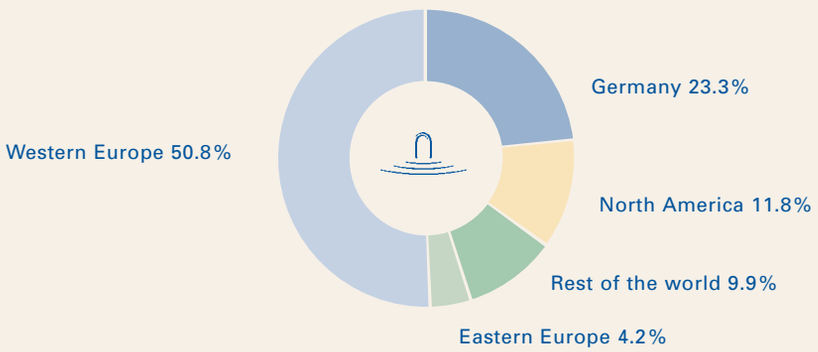
"Our success? We discover new trends, incorporate them into innovative designs and thus gain the enthusiasm of our customers."

Nicolas-Luc Villeroy, Head of the Tableware Division

TABLEWARE DIVISION KEY DATA

		2007	2006
Sales	*Euro Million*	326.4	325.8
EBIT	*Euro Million*	17.7	6.1
Net operating margin	*Percent*	5.4	1.9
Capital expenditures	*Euro Million*	8.2	6.8
Depreciation	*Euro Million*	16.0	16.4
Employees (annual average)	*Number*	2,848	3,011

SALES BY REGIONS



Tableware Division

MODEST GROWTH IN SALES AND EXCELLENT PROFIT

The Tableware Division was able to further strengthen its position internationally. The entire European market developed well with sales growth of 2.4 %. Spain/Portugal, Austria, Scandinavia and Eastern Europe contributed disproportionately high to this result. Outside of Europe, sales developed very positively in the Middle East as well as in Australia and the Far East. In these countries, sales were expanded significantly.

The operating result (EBIT) increased significantly by Euro 11.6 million to a total of Euro 17.7 million. In contrast, sales at Euro 326.4 million were only slightly above the level of the prior year due to the weak core markets of Germany and France. In Germany, the Tableware Division was able to buck the industry trend and end the decline in sales of recent years. Contributing to this was the new brand VIVO | Villeroy & Boch, which successfully targets young consumers with new patterns of living. This concept was very well received above all by the specialty trade. Sales also declined in the North American market. In addition to the low dollar, generally weakened demand due to the overall economic situation also contributed to this in the last trimester.

The operating result increased significantly by Euro 11.6 million to a total of Euro 17.7 million.

TABLEWARE AND ACCESSORIES BUSINESS SEGMENT

In the tableware factories, capacity was very well utilized. This was due to the ongoing success of the asymmetrical products of the premium brand Villeroy & Boch, to the important orders in project business and to the very successful introduction of the new VIVO | Villeroy & Boch brand.

The program of new products by Villeroy & Boch also found good response with the marketing partners at many international trade fairs in the spring of 2007. One such trade fair was the important "Ambiente" where in addition to developing the VIVO | Villeroy & Boch concept, a series of market-tuned, trend-setting new products were presented such as the "Marlene" series featuring art deco styling and the pattern "Vivian". While these series reinterpret the Lifestyle Classic, "My Garden" brings a decidedly naturalistic décor accessory in the Country Segment. The new series "NewWave Caffé – Colours of Africa" – an innovative expression variant in the ethno look sought-after throughout the world – also had a strong introduction.

In February 2008, Villeroy & Boch was again present at "Ambiente" and introduced the new products for the coming year. Among them were the trail-blazing concept "Urban Nature", the porcelain figure series of artist Rosemarie Benedikt and a second line for VIVO | Villeroy & Boch.

GLASS AND CUTLERY BUSINESS SEGMENT

Adjusted for major special contracts, the Glass and Cutlery business segment was able to develop positively again in 2007 in an intensive competitive environment. Thus it significantly improved the result in the division. The glass series "Retro Country" and the successful introduction of the series "My Garden", matching the tableware of the same name, should be especially highlighted.

HOTEL BUSINESS SEGMENT

It was not possible to again increase sales in the Hotel business segment as in the past years. This was due in particular to the weak dollar. But because the emphasis was strategically placed consistently on innovation, quality and service, per unit revenues were optimized. This led to a significant contribution for the result of the Tableware Division. There was a positive response at the fall trade fair: With its organic shape, the new series "Cera" was very well received.

DISTRIBUTION / DISTRIBUTION CHANNELS

The division is consistently pursuing further verticalisation of distribution.

The "House of Villeroy & Boch" concept continues to be key as a distribution model. The Group operates the stores both on its own as well as with competent partners throughout the world and in 2007 further expanded the concept. In the Middle East there are now more than 25 stores, and in Russia the ninth store was inaugurated. With the stores in India, China and Turkey, there are now more than 200 "House of Villeroy & Boch" stores worldwide. Additional openings are planned in Germany and Europe as well as in Asia. With the shop-in-shop concepts, the factory outlets and the concession shops, Villeroy & Boch has more than 550 brand sales points. In total, today Villeroy & Boch is offered at more than 6,000 points of sale.

The Company's own online retail business has become well established as an additional sales channel. Since its introduction in the year 2002 it has been growing disproportionately and again in 2007 it recorded a double digit increase over the prior year.

The VIVO | Villeroy & Boch concept also had a successful kick-off. It was introduced by specialty dealers in Germany, Austria, Switzerland and Luxembourg at more than 1,000 points of sale.

LOOKING AHEAD

Since the Group is aligned more strongly internationally also for the future, the American market is especially in focus in the year 2008. The expansion in Asia, especially in China and India, will also be further accelerated. In 2008 VIVO | Villeroy & Boch is to be introduced in all foreign locations. In addition, a second line will expand the product range in the already established markets. Regarding the accessories segment, Vienna artist Rosemarie Benedikt exclusively designed for Villeroy & Boch a collection of figurines for collecting and giving.

Of course new concepts will also be introduced in the core brands and in some cases completely new paths will be taken. With the introduction of new products at Ambiente 2008, the division has had a successful start for the new financial year. With its clear, purist style and a simple, harmonious aesthetic, the response to "Urban Nature" was exceptional. In 2008, the Tableware Division expects a growth in sales with likewise increasing result.

Tile Division

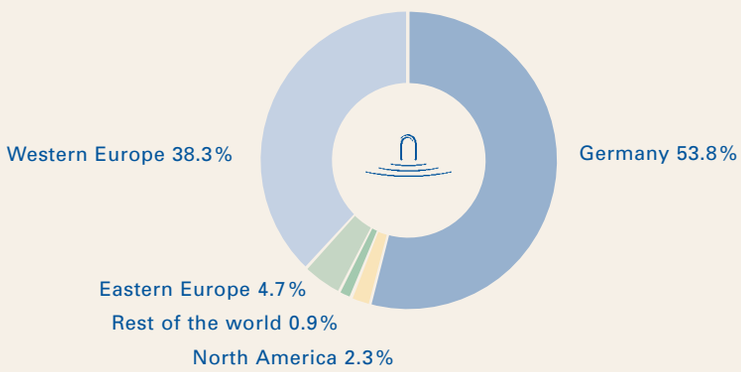
"New types of products are setting standards. Smart connections and intelligent marketing concepts are opening up regions – also in international sales."

Peter von der Lippe, Managing Director of V&B Fliesen GmbH

TILE DIVISION KEY DATA

		2007	2006
Sales	*Euro Million*	80.8	149.2
EBIT	*Euro Million*	- 16.3	- 1.1
Net operating margin	*Percent*	- 20.2	- 0.7
Capital expenditures	*Euro Million*	1.4	4.0
Depreciation	*Euro Million*	3.2	5.6
Employees (annual average)	*Number*	33	976

SALES BY REGIONS



Tile Division

ON A GOOD COURSE: TURNAROUND AND STRATEGIC PARTNERSHIP

The financial year 2007 was characterized by the conclusion of the cooperation negotiations with the Turkish Eczacibasi Group by signing a contract. As of July 1st 2007, the new partner took over 51 % of the shares in V&B Fliesen GmbH and 100 % of the shares of the two tile trading companies in Merzig and Wadgassen. The remaining 49 % of the shares are carried on the balance sheet of Villeroy & Boch AG as financial investments. No agreement was or will be made concerning the taking over of the pro-rata result and this will not take place. And lastly, on December 31st 2007 the operations of the trading company Fliesen Bollman GmbH were sold to Jacob Sönnichsen AG. Thus the Tile Division was completely deconsolidated at year end.

Total sales of the Division come to Euro 80.8 million compared to Euro 149.2 million in 2006. The reduction in sales is due to the deconsolidation as of 06/30/2007. Operating result (EBIT) changed in the opposite direction; at Euro 0.5 million, it developed positively compared with Euro -1.1 million in the prior year.

In order to use the brand Villeroy & Boch for the sale of tiles, a long-term license agreement was signed. In using the brand, the buyer will follow strict specifications of Villeroy & Boch AG. This way the unified marketing concept "House of Villeroy & Boch" can be continued.

TILES TODAY: OPEN FOR NEW SPACES

Expansion of the successful premium brand Villeroy & Boch.

The marketing of tiles by Villeroy & Boch concentrates on international orientation, timely design and high-tech, process-optimized standards. The goal is to continue in the future to expand an internationally successful premium brand. The product range is being streamlined and at the same time efficiency and profitability are being increased while maintaining a high level of product quality.

The new products represent up-to-date, modern design, and the marketing concept was also reworked. Thus the buyer is presented a uniform image from the presentation at the trade show to the showrooms of the speciality dealers and finally to the end consumer's information.

This clear line also determines the initial development steps of a new product. Also with respect to the holistic marketing concept of the entire bathroom, the new products are placed in a spatial context. In development, V&B Fliesen GmbH cooperates closely with universities, internationally successful designers and architects in order to obtain an outside view of the product from the beginning and thus to ensure subsequent success on the market.

The focus of the product developers is not only on private buyers but also on the public and commercial sector. Specifically here is it economically indispensable to emphasize open series rather

than individual tile design. Now in its third year, the design group, composed of international experts and employees, fulfils these demands of product development from an international point of view.

PIONEERING INNOVATIONS – UNIQUE PRODUCTS

Targeted investments in new technologies make it possible to clearly distinguish Villeroy & Boch tiles from the competition. The series "Creative System Gold" and "La Passion" clearly prove this. Thus for example the surface of "Creative System" has a genuine gold plating in a brushed metal look. A special manufacturing process guarantees the durability of the surface. This is unique on the market.

Gold is also a component of the already established series "Moonlight". In 2007 it was expanded by a mosaic decoration, lending this popular theme new possibilities. Just as promising are the fully decorated tiles with the very restrained floral motifs. Combining baroque elements with ideas of today is the theme of "New Glory". The series in crème and bordeaux was enriched by the colours anthracite and white and by hand-painted, silver garnished decors. The vanity "Memento New Glory", with the same decoration, is offered in the sense of the complete bathroom concept.

At the "Cersaie" 2007 trade fair in Bologna, 13 new tile series were presented and already in the initial weeks found a high level of acceptance among trade show visitors. With the presentation of samples that in January 2008 will again take place early, in addition to the new products, the new communicative appearance already discussed will go into the trade shows. Customers will find the rooms that they see in brochures, on the Internet or in advertisements in the same or similar form at the point of sale. In this way, the product series can distinguish themselves and can be perceived still more clearly as a premium brand.

SEEING INTO THE FUTURE

Good conditions for international growth.

As a result of the solid turnaround in result in 2007, the general conditions for future growth along with the new interest holders are very favourable. If technical and ceramic know-how continues further with additional capital investments, production efficiency will also increase. As a result new possibilities for innovation and products will arise. A total investment that will pay off dividends especially in the markets with the expanded international development of project business for the brand Villeroy & Boch.

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Consolidated Income Statement *as of December 31st 2007*

CONTINUED OPERATIONS

in Euro '000	*Notes*	*01/01/–12/31/2007*	*01/01/–12/31/2006*
REVENUE	*25*	**848,585**	**814,971**
Cost of sales	*26*	- 506,692	- 484,131
GROSS PROFIT		**341,893**	**330,840**
Selling, marketing and development costs	*27*	- 248,055	- 241,218
General and administrative expenses	*28*	- 45,631	- 44,327
Other operating income	*29*	20,298	32,742
Other operating expenses	*29*	- 30,100	- 44,094
Result of associates accounted for using the equity method	*30*	384	425
OPERATING RESULT (EBIT)		**38,789**	**34,368**
Financial income		6,486	5,502
Financial expenses		- 15,887	- 15,326
FINANCIAL RESULTS	*31*	**- 9,401**	**- 9,824**
RESULT BEFORE TAX		**29,388**	**24,544**
Income taxes	*32*	- 5,608	- 6,352
RESULT AFTER TAX FROM CONTINUED OPERATIONS		**23,780**	**18,192**

SOLD OPERATIONS

RESULT AFTER TAX FROM SOLD OPERATIONS	*33*	**- 16,622**	**- 1,080**
RESULT AFTER TAX (GROUP)		**7,158**	**17,112**
Thereof attributable to minority interests	*34*	13	- 75
OF WHICH GROUP EQUITY HOLDERS ARE ENTITLED TO (CONSOLIDATED RESULT)		**7,171**	**17,037**

EARNINGS PER SHARE

in Euros		*Notes*	*01/01/–12/31/2007*	*01/01/–12/31/2006*
Consolidated net earnings	Net earnings per common share	*35*	0.25	0.62
	Net earnings per preferred share	*35*	0.30	0.67
Thereof continued operation	Net earnings per common share	*35*	0.88	0.66
	Net earnings per preferred share	*35*	0.93	0.71
Thereof sold operation	Net earnings per common share	*35*	- 0.63	- 0.04
	Net earnings per preferred share	*35*	- 0.63	- 0.04

There were no share dilution effects in the reporting periods.

Assets

in Euro '000	*Notes*	*12/31/2007*	*12/31/2006*
NON-CURRENT ASSETS			
Intangible assets	*1*	48,163	47,681
Property, plant and equipment	*2*	205,506	253,190
Investment properties	*3*	16,571	1,360
Investment accounted for using the equity method	*4*	1,092	1,058
Other financial assets	*5*	25,046	2,528
		296,378	**305,817**
Other non-current assets	*10*	78	240
Deferred tax assets	*6*	46,471	51,926
		342,927	**357,983**
CURRENT ASSETS			
Inventories	*7*	168,726	205,759
Trade receivables	*8*	135,008	163,486
Financial assets	*9*	45,219	10,348
Other current assets	*10*	25,948	24,184
Tax claims	*11*	11,969	16,017
Cash and cash equivalents	*12*	75,091	11,596
		461,961	**431,390**
TOTAL ASSETS		**804,888**	**789,373**

Equity and Liabilities

in Euro '000	*Notes*	*12/31/2007*	*12/31/2006*
EQUITY ATTRIBUTABLE TO VILLEROY & BOCH AG SHAREHOLDERS			
Issued capital	*13*	71,909	71,909
Capital surplus	*14*	193,587	193,587
Retained earnings	*15*	71,723	67,556
Consolidated result	*16*	7,171	17,037
		344,390	**350,089**
EQUITY ATTRIBUTABLE TO MINORITY INTERESTS	*17*	**184**	**310**
TOTAL EQUITY		**344,574**	**350,399**
NON-CURRENT LIABILITIES			
Provisions for pensions	*18*	154,326	171,643
Non-current provisions for personnel	*19*	19,372	19,335
Other non-current provisions	*20*	5,166	5,320
Non-current financial liabilities	*21*	70,000	0
Other non-current liabilities	*22*	3,717	3,606
Deferred tax liabilities	*6*	15,432	19,017
		268,013	**218,921**
CURRENT LIABILITIES			
Current provisions for personnel	*19*	8,234	9,333
Other current provisions	*20*	24,290	23,487
Current financial provisions	*21*	1,972	0
Other current liabilities	*22*	83,750	99,514
Trade payables	*23*	66,782	82,391
Income tax liabilities	*24*	7,273	5,328
		192,301	**220,053**
TOTAL LIABILITIES		**460,314**	**438,974**
TOTAL EQUITY AND LIABILITIES		**804,888**	**789,373**

Consolidated Statement of Equity *as of December 31st 2007*

in Euro '000	*Issued Capital*	*Capital-surplus*	*Retained earnings*	*Consolidated result*	*Equity attributable to Villeroy & Boch AG share-holders*	*Equity attributable to minority interests*	*Total equity*
Notes	*13*	*14*	*15*	*16*		*17*	
As of 01/01/2006	**71,909**	**193,587**	**62,214**	**13,075**	**340,785**	**3,642**	**344,427**
Dividend				- 9,068	- 9,068	- 66	- 9,134
Reclassification of prior-year result			4,007	- 4,007	0		0
Consolidated result 01/01/–12/31/				17,037	17,037	75	17,112
Subsequent measurement IAS 39			- 447		- 447		- 447
Acquisition of minority interests					0	- 3,338	- 3,338
Currency adjustment			1,962		1,962	- 3	1,959
Other changes in equity			- 180		- 180		- 180
As of 12/31/2006	**71,909**	**193,587**	**67,556**	**17,037**	**350,089**	**310**	**350,399**
As of 01/01/2007	**71,909**	**193,587**	**67,556**	**17,037**	**350,089**	**310**	**350,399**
Dividend				- 10,389	- 10,389	- 30	- 10,419
Reclassification of prior-year result			6,648	- 6,648	0		0
Consolidated result 01/01/–12/31/				7,171	7,171	- 13	7,158
Subsequent measurement IAS 39			3,428		3,428		3,428
Acquisition of minority interests					0	- 86	- 86
Currency adjustment			- 4,253		- 4,253	3	- 4,250
Other changes in equity			- 1,656		- 1,656		- 1,656
As of 12/31/2007	**71,909**	**193,587**	**71,723**	**7,171**	**344,390**	**184**	**344,574**

Consolidated Cash Flow Statement *as of December 31st 2007*

in Euro '000	*Notes*	*2007*	*2006*
Result after taxes	16	7,158	17,112
Depreciation of non-current assets		49,221	44,188
Change in non-current provisions		- 24,266	- 11,569
Profit from disposal of fixed assets		- 2,088	- 12,341
Change in inventories, receivables and other assets		5,718	- 14,205
Change in liabilities, current provisions and other liabilities		9,966	- 4,227
Taxes paid/received in financial year		- 1,077	- 5,698
Interest paid in financial year		- 4,594	- 4,535
Interest received in financial year		5,333	3,065
Other non-cash income/expenses	40	13,999	10,934
CASH FLOW FROM OPERATING ACTIVITIES	40	**59,370**	**22,724**
Purchase of intangible assets, property, plant and equipment		- 29,766	- 38,804
Investments in non-current financial assets and cash payments for the acquisition of consolidated companies		- 1,889	- 37,010
Cash payments for restricted deposits	9	- 45,219	-
Cash receipts for the sold operations		13,804	-
Cash receipts from disposals of fixed assets		4,881	15,157
CASH FLOW FROM INVESTING ACTIVITIES	41	**- 58,189**	**- 60,657**
Change in financial liabilities/other		69,913	- 247
Dividend payments		- 10,389	- 9,068
CASH FLOW FROM FINANCING ACTIVITIES	42	**59,524**	**- 9,315**
SUM OF CASH FLOWS		**60,705**	**- 47,248**
Changes due to exchange rates		231	80
NET INCREASE IN CASH AND CASH EQUIVALENTS		**60,936**	**- 47,168**
Balance of cash and cash equivalents as of 01/01/		11,596	58,490
Change in cash and cash equivalents resulting from Changes in consolidated companies		2,559	274
Net increase in cash and cash equivalents		60,936	- 47,168
BALANCE OF CASH AND CASH EQUIVALENTS AS OF 12/31/	43	**75,091**	**11,596**

The balance of cash and cash equivalents consists of the items 'Cash at banks' and 'Cash on hand (including cheques)' (see also No. 12).

Group Segment Reporting *as of December 31st 2007*

SEGMENT REPORTING ACCORDING TO DIVISION – PRIMARY SEGMENTS

	Bathroom and Wellness Division			*Tableware Division*		
in Euro million	*2007*	*2006*	*Difference*	*2007*	*2006*	*Difference*
Revenue						
Segment revenue from sales to external customers	522.2	489.2	33.0	326.4	325.8	0.6
Segment revenue from transactions with other segments	1.3	1.4	- 0.1	0.1	0.1	0.0
Result						
Segment result	21.1	28.3	- 7.2	17.7	6.1	11.6
Financial results	0.0	0.0	0.0	0.0	0.0	0.0
Other information						
Segment assets	374.9	377.4	- 2.5	178.5	186.0	- 7.5
Segment liabilities	128.8	128.4	0.4	52.5	50.8	1.7
Capital expenditures	20.2	29.1	- 8.9	8.2	6.8	1.4
Capital expenditures arising from mergers	0.0	19.1	- 19.1	0.0	0.0	0.0
Scheduled depreciation of segment assets	22.2	22.0	0.2	16.0	16.4	- 0.4
Write-downs on financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash expenses	0.0	0.0	0.0	0.0	0.0	0.0

See Villeroy & Boch Group Notes to the Financial Statements, No. 44 for additional information.

SEGMENT REPORTING ACCORDING TO REGION – SECONDARY SEGMENTS

	Germany			*France*			*Rest of Western Europe*		
in Euro million	*2007*	*2006*	*Dif.*	*2007*	*2006*	*Dif.*	*2007*	*2006*	*Dif.*
Revenue									
Segment revenue from sales to external customers	176.6	189.9	- 13.3	83.6	85.1	- 1.5	348.2	333.5	14.7
Segment revenue from transactions with other segments	1.4	1.4	0.0	0.0	0.0	0.0	0.0	0.1	- 0.1
Other information									
Segment assets	219.9	217.9	2.0	23.9	23.0	0.9	171.1	176.5	- 5.4
Segment liabilities	84.5	79.3	5.2	18.4	15.3	3.1	52.4	58.1	- 5.7
Capital investment expenditures	11.9	10.3	1.6	2.7	2.4	0.3	6.7	13.1	- 6.4
Capital investment expenditures from mergers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

See Villeroy & Boch Group Notes to the Financial Statements, No. 44 for additional information.

Consolidation			Continued operations			Sold operations		
2007	2006	Difference	2007	2006	Difference	2007	2006	Difference
0.0	0.0	0.0	848.6	815.0	33.6	80.8	149.2	- 68.4
- 1.4	- 1.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	38.8	34.4	4.4	- 16.3	- 1.1	- 15.2
- 9.4	- 9.8	0.4	- 9.4	- 9.8	0.4	0.0	- 0.4	0.4
251.5	113.8	137.7	804.9	677.2	127.7	0.0	112.2	- 112.2
279.0	221.0	58.0	460.3	400.2	60.1	0.0	38.8	- 38.8
0.0	0.0	0.0	28.4	35.9	- 7.5	1.4	4.0	- 2.6
0.0	0.0	0.0	0.0	19.1	- 19.1	0.0	0.0	0.0
0.0	0.0	0.0	38.2	38.4	- 0.2	3.2	5.6	- 2.4
7.8	0.2	7.6	7.8	0.2	7.6	0.0	0.0	0.0
- 17.2	- 13.8	- 3.4	- 17.2	- 13.8	- 3.4	0.0	0.0	0.0

Eastern Europe			Rest of the world			Consolidation			Continued operations			Sold operations		
2007	2006	Dif.	2007	2006	Dif.	2007	2006	Dif.	2007	2006	Dif.	2007	2006	Dif.
84.7	72.4	12.3	155.5	134.1	21.4	0.0	0.0	0.0	848.6	815.0	33.6	80.8	149.2	- 68.4
0.0	0.0	0.0	0.0	0.0	0.0	- 1.4	-1.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
76.1	75.2	0.9	62.3	70.8	- 8.5	251.6	113.8	137.8	804.9	677.2	127.7	0.0	112.2	- 112.2
10.0	8.9	1.1	15.9	17.6	- 1.7	279.1	221.0	58.1	460.3	400.2	60.1	0.0	38.8	- 38.8
5.4	8.5	- 3.1	1.7	1.6	0.1	0.0	0.0	0.0	28.4	35.9	- 7.5	1.4	4.0	- 2.6
0.0	0.0	0.0	0.0	19.1	- 19.1	0.0	0.0	0.0	0.0	19.1	- 19.1	0.0	0.0	0.0

GENERAL INFORMATION

Villeroy & Boch AG headquarters are situated in Saaruferstrasse, Mettlach. As a public limited company under German law, it is quoted on the German stock market and acts as parent company to the Villeroy & Boch Group. The Villeroy & Boch Group is an internationally established network of companies which focuses its activities as the leading lifestyle provider on the segments Bathroom and Wellness and Tableware. During the financial year, the Group successively separated itself from the activities of the Tile Division. Villeroy & Boch AG trades on the Prime Standard of the German stock market, Deutsche Börse AG.
The consolidated financial statements as of 31 December 2007 were prepared in consideration of § 315a HGB [German Commercial Code] in accordance with the current provisions of the International Accounting Standards Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC). In so doing, all accounting principles have been considered which have been adopted by the European Commission and the application of which is compulsory for the financial year beginning on January 1st 2007. The consolidated financial statements have been supplemented by additional explanatory notes in accordance with § 315a HGB.
The following explanatory notes give detailed information and comments on the balance sheet as of December 31st 2007, the income statement in accordance with the cost-of-sales method, the statement of changes in equity, the segmenting and the cash flow statement, in each case for the period from January 1st through December 31st 2007.
The consolidated financial statements were prepared in Euros. Unless specially noted, all amounts are in thousands of Euros (Euro '000).
The significant accounting and valuation principles of the IFRS are described below as they are applied in accordance with regulations by Villeroy & Boch.

ACCOUNTING PRINCIPLES

Intangible assets
Intangible assets acquired for consideration are capitalized at historical cost. The historical cost is composed of the acquisition price less reductions in the acquisition price plus ancillary expenses necessary for the asset to become operational. Self-generated intangible assets are capitalized in the year of their creation only if the requirements stipulated in IAS 38 are fulfilled. Valuation of additions is at costs of production including allocable overhead. Items that have a limited useful life are reduced by scheduled amortization using the straight-line method in accordance with the course of useful life. Assets are not amortized until the point in time at which they are placed in service. The useful life is primarily from three through six years. Amortization is predominantly included in general and administrative expenses.
Assets with an indefinite useful life, such as goodwill, are written down only if loss of value is documented. In order to determine the value, the historical cost is compared with the recoverable value. Recoverable value is defined as the higher of the net realizable value and the value in use of the same asset.
The net realizable value corresponds to the proceeds that could be achieved with an independent business partner after deduction of the total sale costs incurred.
The basis for determining the value in use is the current three-year plan drawn up by the management. The planning principles are brought in line with the respective current facts and circumstances. In so doing, reasonable assumptions with respect to macroeconomic trends and historical developments are taken into consideration. A perpetual annuity is taken into account for planning projection for periods after the three-year planning period. The value in use is calculated through discounting the extrapolated streams of payments using the discounted cash flow method using an appropriate long-term interest rate before income taxes. Rates of increase in sales and result are taken into consideration in the planning projections. The annual impairment test for capitalised goodwill is conducted on the level of the divisions.
In the event reductions in value are ascertained, they are recorded with effect on operating result. Should the grounds for impairment write-down made in prior years with effect on operating results cease to exist, a corresponding write-up will be made. A write-up is not permitted in the case of capitalized goodwill.

Property, plant and equipment

Property, plant and equipment are reported in the balance sheet at cost or production costs minus scheduled depreciation on the basis of useful life. Acquisition costs are composed of the acquisition price minus reductions in the original price plus ancillary expenses necessary for the asset to become operational. Cost of production is reflected on the basis of directly allocable direct costs together with pro rata material and manufacturing overheads including depreciation. Costs of financing, maintenance and repair of property, plant and equipment are recorded as expenses. In the event an asset is made up of several components the useful lives of which differ significantly from each other, the individual elements are depreciated in accordance with their individual performance potential. All components of an asset are reflected in the same balance sheet item.

Property, plant and equipment are depreciated using the straight-line method over their useful lives. The following periods of useful life are taken as a basis throughout the Group:

Asset class	*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 – 6
Other fixtures, fittings and equipment	3 – 10

The estimated commercial useful lives are reviewed regularly and, if necessary, the future depreciation instalments are adjusted.

In addition to the scheduled depreciation, the value of property, plant and equipment is written down if the value in use or the net realizable value of the asset concerned has fallen below the adjusted acquisition or production cost. Should the reasons for a write-down carried out in prior years cease to exist, an appropriate write-up is made.

Facilities under construction are reflected on the balance sheet at acquisition costs. They are not depreciated until the point in time at which such assets have been completed and placed in service.

Leasing

If assets are rented or leased and if the lessor bears all essential risks and opportunities that are associated with ownership, the lease payments or rent expenses are included directly in the income statement as expense (operating lease).

If beneficial ownership is held by the Villeroy & Boch Group (finance lease), the asset is capitalized at the fair value of the leased asset or the lower present value of the lease instalments. Depreciation is distributed over the appropriate useful life of the asset or, if shorter, the term of the lease agreement. The corresponding payment obligations arising from the future lease instalments are set up as a liability.

Government grants

Grants are not recorded until the Group has fulfilled the prerequisites with certainty and the grants have been made. Government grants and assistances received for the acquisition or construction of tangible and intangible assets reduce the acquisition or production costs in so far as they can be allocated to the individual assets. If this is not the case, they are recorded as deferred revenues which are subsequently reversed, with effect on operating result, depending on the degree of fulfilment.

Investment property

Real estate and buildings held to earn regular rental income (investment properties) are to be reported separately from assets used in operations. A multi-purpose real property is classified on a pro rata basis as a financial investment if the leased portion of the building could be sold separately.

If the criterion of individual disposability is not met, the property is considered to be an investment property if the owner-occupied portion is insignificant (less than 30 %). Investment properties are shown on the balance sheet at adjusted acquisition costs. Depreciation expenses correspond to those of property, plant and equipment used for operations. The basis for determining market values is the official land benchmark maps taking into consideration appropriate premiums or discounts with respect to the particular property. The land benchmark maps are drawn up at regular intervals by committees of experts of the competent cadastral offices on the basis of real estate transactions effected in the respective administrative district.

Non-current assets held for sale

Under IFRS 5, non-current assets are to be classified as 'held for sale' if the carrying amount of the object can be realised primarily 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 likely. The valuation is calculated on the basis of the lower of the carrying amount and the fair value less the cost of sale. These assets are not subject to scheduled depreciation.

Investments accounted for using the equity method

Interests in associated companies are shown on the balance sheet in accordance with the equity method, whereby the acquisition costs are adjusted to reflect the future, pro rata results of the associated interest. In the income statement, the changes in equity are reflected in operating result.

Other financial assets

Other financial assets are to be capitalized at costs, if appropriate using the effective interest method. Subsequent measurement is geared to assignment to valuation classes for financial instruments. Ascertained reductions in value are recorded with effect on result. Should the reasons for an impairment write-down that was necessary in prior years cease to exist, a write-up with operating effect on the result is undertaken. In this case the write-up will not exceed the reductions in value taken in the prior years.

Financial instruments

Financial instruments refer to economic processes based on a contract which include a claim for cash. Financial instruments are fundamentally reflected as soon as the Villeroy & Boch Group becomes a contractual party of the provisions of a financial instrument. In the Villeroy & Boch Group, all spot transactions are reflected on the balance sheet on the settlement date and all derivatives are reflected as of the trading date.

Measurement of financial instruments is at acquisition cost. Subsequent valuation is based on classification of the financial instrument into valuation categories:

- Held for trading financial assets or liabilities, which are shown at fair value;
- Held-to-maturity investments, which are shown at adjusted acquisition cost using the effective interest method.
- Loans and receivables or liabilities, which are valued at adjusted acquisition costs.
- Available-for-sale financial assets form a residual class containing all the financial instruments valued in accordance with IAS 39 which cannot be placed in any of the first three categories. Consequently these are valued at their current market value without affecting operating result.

Currently the fair value option for valuing financial instruments is not used. Related financial instruments form a valuation unit if the opportunities and risks arising from all component parts are closely linked and the underlying transaction was shown in the balance sheet at fair value with effect on operating result. In all other cases, the embedded derivative of the base component is treated separately and is treated with effect on operating result as an independent instrument at fair value.

A financial instrument is removed from the books if the claim for settlement has expired. In the event of transfer of a financial asset, an examination is to be made under the disposal rules of IAS 39 to determine whether it is to be charged off. Reclassifications were not made among the individual valuation categories in the reporting year.

Hedge accounting

In hedge accounting, the various value changes of the hedge instrument and the hedged item are largely offset. In the beginning of the hedge relationship, the link between the underlying transaction and the hedging transaction is documented, including the effectiveness of this relationship. Effectiveness means that the change in market value of the hedged transaction will be offset by the opposing fair-value changes of the hedging instrument. Further information on hedge accounting can be found at No. 45.

Distinction between current and non-current

A balance sheet item is to be classified as current if it fulfils at least one of the following criteria:

a. Its realization/settlement is expected within the regular course of business;
b. It is held primarily for trading purposes;
c. Its realization/repayment is expected within twelve months after the balance sheet date, or
d. In the case of an asset, it concerns cash or cash equivalent; 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 balance sheet items are to be classified as non-current.

Non-current items as a rule are discounted at a rate of 5.0 % (prior year: 5.0 %). Exceptions for specific countries apply for Romania (7.0 %), Hungary and Mexico (8.0 % for each).

Inventories

Inventories are valued at the lower of cost or the net realizable value. The cost of inventories include the directly allocable direct costs (e.g. direct material and wages) and overheads of the production process. For most raw materials and supplies as well as merchandise, acquisition costs are determined on the basis of the moving average method and contain all costs incurred in order to put such assets at their current location and into their current condition. Work in process and finished goods are valued at standard costs uniform for the Group. Reflected as net realizable value are the sales proceeds which are expected to be realized minus any costs incurred up to the sale.

Write-downs are made to an appropriate extent for inventory risks arising from the length of time held and/or diminished usability. To the extent the net realizable value of inventories that previously had been written down has increased, the resulting recovery of the original value is taken into consideration as a reduction of cost of sales.

Receivables

Trade receivables as well as other current receivables are valued upon acquisition – if applicable using the effective interest method – at acquisition costs less reductions of value. An expense for reduction of value is recorded if the book value of the receivable is higher than the present value of the future receipt of payment. Reductions of value adequately take into account the expected bad debt risks; specific bad debts result in write-off of the associated assets. In the framework of the specific adjustments, these items are grouped on the basis of like properties of contingency risk, are investigated jointly for losses of value and if appropriate are adjusted. Reductions of value of trade receivables are generally made using allowance accounts. In the case of other receivables, the person responsible for the portfolio decides on the basis of the particular situation whether the contingency risk will be taken into consideration through an allowance account or through direct reduction of the receivable.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and time deposits with an original term of up to three months. Cash is shown on the balance sheet at nominal amount. In the case of cash equivalents, interest income is taken into consideration prorated for time and with effect on operating result.

Equity instruments

The equity and debt instruments issued by the Villeroy & Boch Group are classified in accordance with the economic content of the contractual agreements as financial debt or equity capital. An equity capital instrument is a contract that establishes a residual claim on the assets of the Villeroy & Boch Group after deduction of all liabilities. Equity capital instruments are recorded at the issue proceeds less direct issue costs.

Provisions for pensions
The provisions for defined benefit pension plans are reflected 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. The amount of the provision is reduced by the fair value of plan assets if these assets are classified as trust assets and are administered by third parties. Plan assets not needed for covering expectancies are capitalized. These assets may only be used in accordance with the trust classification. As of the beginning of the year, the expected monthly revenue represents a component of the actuarial result. Actuarial profits and losses outside of a ten-percent margin of scope of the obligation are calculated at the beginning of a financial year and are then distributed, with effect on operating results, over the remaining period of service. The expense for the period of service is recorded in the personnel expense. The interest portion arising from the change in provisions is shown in other financial results.

Retirement benefit
Payments for defined contribution protection plans are recorded as personnel expense if the employees have rendered the service which provides the entitlement to the contributions. If the contribution already paid to the protection system exceeds the value of the service rendered, the difference is capitalized as an asset; in the event of the opposite constellation, it is recorded as a liability.

Other provisions
Provisions are set up for legal or constructive obligations to third parties that arise from a past event, 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 on the basis of a best judgment estimate. Discounting is undertaken where necessary.

Liabilities
Non-current liabilities are reported at historical costs. Liabilities arising from purchases of goods and services are fundamentally valued at historical costs using the effective interest method. Other current liabilities are reflected at their repayment amount. To date, the Group has not used the fair-value option in the case of financial liabilities.

Financial guarantees
Financial guarantees obligate the guarantor to make a certain payment in order to compensate the warrantee for a specific loss. The loss arises when debtors do not comply with their payment obligations in a timely manner. The potential payment obligation is recorded as soon as the Villeroy & Boch Group becomes a party to a contract as guarantor. Financial guarantees reflected on the balance sheet are valued at fair value.

Contingent liabilities
Contingent liabilities are potential or existing obligations that are based on past events and for which an outflow of resources is not likely. Contingent liabilities are to be taken into consideration outside of the balance sheet; see note 46. The obligations listed correspond to the volume of liability existing on the balance sheet date. Contingent liabilities are recorded as liabilities at their fair value if they were assumed in the framework of the acquisition of an enterprise.

Realization of income and loss
Sales revenues are valued at the fair value of the consideration received or to be received and are reduced by rebates or other discounts. Sales revenues, commission revenues and other operating revenues are recorded when the required delivery of goods or services has been rendered and the essential risks and benefits of ownership have passed to the customer. Compensation for use is recorded on a straight-line basis over the agreed period of time. Dividend revenues are recorded when a legal claim for payment has arisen. Interest income is allocated to the proper accounting periods in accordance with the nominal value and the agreed interest method. Rental revenues from real estate held as financial investment are to be recorded on a straight-line basis over the term of the relevant lease relationship. Revenues from transactions within the Group are not realized until the assets have ultimately left the Group. Operating expenses are recorded as expenses at the time of their causation.

Research and development costs
Research costs arise as a result of independent and planned search for new scientific or technical knowledge. In accordance with IAS 38, they are recorded as expenses when they are incurred. Development costs comprise expenses that serve to technically and commercially implement available theoretical knowledge. Development ends with the commencement of commercial production or of commercial utilization. Costs incurred within this period of time are capitalized if the prerequisites for capitalization as an intangible asset are fulfilled. Due to the risks existing until market introduction, the prerequisites ordinarily are not completely fulfilled.

Taxes
Income tax expense represents the total of current and deferred taxes. Current and deferred taxes are recorded as expense or revenue unless they are associated with items that were recorded directly to equity. In these cases, the tax is likewise reflected directly in equity.

Current taxes
Current tax expense is determined on the basis of taxable income for the financial year. Taxable income differs from net income for the year of the Income Statement since it excludes those expenses and revenues that are taxable or deductible in later years or not at all. The liabilities of Villeroy & Boch Group for current taxes are carried on the balance sheet on the basis of the applicable tax rates.

Deferred taxes
Deferred taxes are formed for temporary differences between valuation amounts in the Group balance sheet and the tax balance sheet and in addition for tax reduction claims that arise from the expected future application of existing loss carry-forwards. Deferred taxes are determined on the basis of the expected tax rates that apply at the time of settlement of the differing valuation amounts between the tax and the reporting balance sheet. The balance sheet items deferred tax assets and deferred tax liabilities in accordance with IAS 1 are generally deemed to be non-current.

Estimates and assumptions of management
In preparing the consolidated financial statements, to a certain degree assumptions and/or estimates must be made. These assumptions and estimates by way of example have had an effect on judging the inherent value of assets carried on the balance sheet, on the determination within the Group of economic lives, the timing of collection of receivables, the evaluation of the use of tax loss carry-overs and the reflection of provisions. The underlying assumptions and estimates are based on the information currently available at the time of preparation of these consolidated financial statements. In individual cases, the actual values can deviate from the projected amounts.

Future modifications as a result of accounting regulations adopted
See note 54 concerning new developments of the IASC regulations.

CONSOLIDATED COMPANIES

In addition to Villeroy & Boch AG, the Consolidated Financial Statements include 15 (prior year: 19) German and 45 (prior year: 51) foreign subsidiaries in which – directly or indirectly – majority voting rights are held. All subsidiaries are included in the consolidated financial statements of Villeroy & Boch AG. The share of interest is recorded separately and is published in the electronic Bundesanzeiger (Federal Bulletin).
The relief measures in accordance with § 264 subsection 3 HGB for the audit and publication of financial statements were availed for Villeroy & Boch Creation GmbH, Mettlach.

The changes within the Villeroy & Boch Group in comparison with the prior year resulted from the following:

Villeroy & Boch AG and fully consolidated companies:		*Germany*	*Abroad*	*Total*
As of January 1st 2007		20	51	71
Additions due to	newly established companies	-	1	1
	share purchases	-	-	-
Reductions due to	sales	- 4	-	- 4
	amalgamations	-	- 3	- 3
	liquidations	-	- 4	- 4
As of December 31st 2007		**16**	**45**	**61**

Companies accounted for using the equity method	*Germany*	*Abroad*	*Total*
As of December 31st 2007 – unchanged	**1**	**-**	**1**

Investments in companies accounted for using IAS 39		*Germany*	*Abroad*	*Total*
As of January 1st 2007		3	3	6
Additions due to	purchase of shares	1	-	1
	partitioning	-	2	2
As of December 31st 2007		**4**	**5**	**9**

Additions due to newly established companies
The newly formed company Alföldi Kerámia Kft. with registered office in Budapest took over the contractual activities of the "Alföldi" brand well-known in Eastern Europe which is produced in the Hungarian plant in Hódmezövásárhely.

Reductions due to sales
On March 26th 2007 Villeroy & Boch AG sold, effective June 30th 2007, 51 % of the shares of V&B Fliesen GmbH to the Turkish EKS Eczacibasi Karo Seramik Sanayii ve Ticaret A.S., a subsidiary of Eczacibasi Holding AS (Eczacibasi Group). It was possible to win the latter as a future joint-venture partner for tiles. The Management Board of Villeroy & Boch AG believes that the Group is not able to exercise significant influence on the company since the other shares are in the hands of a single shareholder who in addition manages the daily affairs of V&B Fliesen GmbH. The remaining shares are reflected on the balance sheet as a financial investment (see note 5). Continuation of the unified "House of Villeroy & Boch" marketing concept will be ensured through license agreements that have been entered into.
Effective July 1st 2007, the two specialized tile trading companies Fliesenhandel an der Cristallerie GmbH, Wadgassen, and Fliesenhandel Merzig GmbH, Merzig, were sold to V&B Fliesen GmbH. Both companies continue as legally independent subsidiaries of V&B Fliesen GmbH.
A description of the company transactions is provided in the section "Acquisitions/Disinvestments/Discontinued Operations".

Reductions due to amalgamations
In order to optimize the ownership structure within the Villeroy & Boch Group, among other things Villeroy & Boch Ungarn ZRt was merged into Villeroy & Boch Holding Ungarn GmbH effective retroactively to January 1st 2007. Moreover, in Scandinavia Villeroy & Boch (Denmark) A/S was merged into Villeroy & Boch Danmark A/S on January 1st 2007 and Villeroy & Boch Nordic AB was merged into Villeroy & Boch Gustavsberg AG effective November 29th 2007.

Reductions doe to liquidations
The following companies were liquidated:
- Société pour le Développement des Produits Céramiques S.A., La Ferté-Gaucher/France
- V&B Carreaux S.à r.l., Strasbourg /France
- V&B Sanitaire S.à r.l., Strasbourg /France
- V&B Nederland B.V. Amsterdam/Netherlands

An overview of the significant Group companies is found on page 152 of the Annual Report.

ACQUISITIONS / DISINVESTMENTS / DISCONTINUED OPERATIONS

Acquisitions
No acquisitions were made in the 2007 financial year.

Planned acquisitions
Up to the release of the consolidated financial statements on March 7th 2008 for distribution to the Supervisory Board, no such matters arose.

Disinvestments
On July 3rd 2007, all shares in Koch & Bergfeld GmbH, domiciled in Bremen, were sold. The selling price in the amount of Euro 0.600 million was paid in cash. Essentially a parcel of land with a remaining book value of Euro 0.403 million, it is no longer among the assets of the Group. This transaction does not have any effects on Group sales.

Discontinued operations
A discontinued activity applies solely to those company components of the Villeroy & Boch Group that are disposed of in their entirety, as a group or by component, in the framework of a single, unitary plan or which are discontinued through abandonment in accordance with a unitary plan.

In the framework of a portfolio cleanup, the Management and Supervisory Boards of Villeroy & Boch AG decided not to continue the tile segment. The following transactions were made in several steps:

Company	*Acquirer*	*Type deal*	*Date sold*
V&B Fliesen GmbH, Merzig	Eczacibasi-Gruppe	Share Deal	06/30/2007
Fliesenhandel an der Cristallerie GmbH, Wadgassen	V&B Fliesen GmbH	Share Deal	07/01/2007
Fliesenhandel Merzig GmbH, Merzig	V&B Fliesen GmbH	Share Deal	07/01/2007
Fliesen Bollmann GmbH & Co. KG., Lübeck	Jacob Sönnichsen AG	Asset Deal	12/31/2007

On March 26th 2007, Villeroy & Boch AG sold, effective June 30th 2007, 51 % of the shares in V&B Fliesen GmbH to the Turkish Eczacibasi Group. Through this transaction, the Eczacibasi Group expanded its tile department through the addition of quality series. On June 29th 2007, an initial instalment payment in the amount of Euro 11.750 million was received. Since then, the sales price has been definitively set by the two parties at Euro 15.622 million. Based on this sale price, there is a deconsolidation loss in the amount of Euro 6.759 million. An additional valuation adjustment was made on the currently held 49 % interest in V&B Fliesen GmbH in the amount of Euro 7.805 million. A guarantee provision in the amount of Euro 2 million was formed for risks connected with the sale of the company. Payment of the remaining sale price currently has not been received. The sale of the personal (movable) property was financed through a long-term loan. As of the balance sheet date, the amount of Euro 10.719 million is reflected on the balance sheet. Repayment will take place linearly over a period of nine years. The purchaser provided a bank guarantee as security. Effective July 1st 2007, the two tile specialty store companies Fliesenhandel an der Cristallerie GmbH, Wadgassen, and Fliesenhandel Merzig GmbH, Merzig, were sold to V&B Fliesen GmbH. The sales price of Euro 1.454 million was paid in cash.
With the purchase contract dated December 8th 2007, Jacobs Sönnichsen AG of Flensburg assumes all assets and all personnel-related liabilities that were in the possession of Fliesen Bollmann GmbH & Co. KG on December 31st 2007. The three locations of Fliesen Bollmann GmbH & Co. KG in Lübeck, Cuxhaven and Rostock will be continued by the purchaser. All 25 employees will be taken over. The rights to the name "Fliesen Bollmann" pass to the purchaser. On January 2nd 2008, Jacob Sönnichsen AG transferred Euro 2.800 million as a provisional sale price. Jacob Sönnichsen AG is traditionally strongly involved in tile specialty sales and intends to strengthen this division in a lasting way with this purchase.

In the financial year, transactions in companies had the following effects on the balance sheet of the Villeroy & Boch Group:

in Euro '000	*2007*	*2006*
Intangible assets	107	143
Property, plant and equipment	15,058	16,459
Other non-current assets	1,806	1,325
Inventories	53,393	51,941
Trade receivables	25,401	24,920
Other current assets	3,932	1,714
Cash and cash equivalents	3,442	68
Assets assumed	**103,139**	**96,570**
Pension provisions	0	6,948
Non-current provisions	2,404	1,469
Deferred tax liabilities	839	839
Current provisions	1,118	1,801
Financial liabilities	6,000	0
Trade payables	16,709	43,426
Other current liabilities	30,698	15,731
Liabilities assumed	**57,768**	**70,214**
Fair value of net assets	45,371	26,356

All sold assets and liabilities were reflected a their fair value.
Details with respect to the income statement are presented in note 33.

The change in financial resources of the sold tile activities developed in the reporting period as follows:

in Euro '000	*2007*	*2006*
Net payment streams from operating activity	4,857	4,528
Net payment streams from investing activity	- 1,368	- 4,053
Net payment streams from financing activity	- 47	- 407
Cash and cash equivalents at the time of sale	3,442	68

CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group Consolidated Financial Statements are prepared in accordance with accounting and valuation methods uniform for the Group and are consolidated in accordance with IAS 27. The balance-sheet date of the consolidated companies corresponds to that of the parent company.
The Consolidated Financial Statements include the transactions of the respective companies in which the Villeroy & Boch Group directly or indirectly holds a majority of the voting rights of the subsidiaries or on the strength of economic control, companies in which the Group is also in a position to draw the majority of the economic benefit or is compelled to bear the risks arising from the activities of the company concerned. As a rule this is the case when share ownership exceeds 50%. Inclusion begins on the date on which control becomes possible and ends when control is no longer feasible.
Capital consolidation for the companies included is carried out in accordance with IFRS 3, whereby the investment book values of the subsidiary companies at the time of their acquisition are offset against the newly evaluated equity capital portion allotted to them. The resulting differences are recognised as goodwill. Hidden reserves and burdens that become revealed are carried forward in the following consolidation in accordance with the corresponding 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 revenues between the included companies are eliminated. Intercompany results in fixed assets and also inventories are neutralized. The results of subsidiaries acquired or sold in the course of the year are reflected in the Group income statement accordingly from the actual time of acquisition or until the actual time of disposition.
Deferred taxation in accordance with IAS 12 is carried out on consolidated measures affecting net income provided the varying tax expense is expected to balance itself in later financial years.
In including an associated company for the first time, the differential amounts arising from the initial consolidation are treated in accordance with the principles of full consolidation. Intercompany profits and losses for these companies were insignificant in the years under review.
The consolidation principles and accounting and valuation methods applied in the prior year have been retained.

CURRENCY TRANSLATION

Taking individual company financial statements as a basis, all business transactions in foreign currency are valued at the exchange rate at the time of their original recording. Valuation on the respective balance-sheet date is carried out at the current rate.
The individual company balance sheets of the consolidated companies are translated into euros according to the concept of the functional currency. For all foreign companies in the Group, the functional currency is the respective national currency, since such companies operate their affairs independently as regards finance, commerce and organization. For practical reasons, the assets and liabilities are translated at the spot rate on the balance-sheet date and all items of the Income Statement are translated at the average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are treated as not affecting operating result. The effects of currency exchange which are based on equity-type net investment in a foreign consolidated company are recorded as not affecting operating result. If companies which 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 important currencies in relation to the Euro changed as follows:

Currency (1 Euro =)		*Balance-sheet exchange rate* 2007	2006	*Average exchange rate* 2007	2006
Mexican peso	MXN	16.0700	14.32000	14.9030	13.7062
Swedish crown	SEK	9.4350	9.0430	9.2282	9.2778
US dollar	USD	1.4716	1.3181	1.3638	1.2532
Hungarian forint	HUF	252.3250	251.6750	251.7533	264.9765

The following exchange rate changes are contained in the income statement:

in Euro '000	2007	2006
Exchange rate gains	5,171	2,177
Exchange rate losses	- 5,080	- 1,549
	91	**628**

An upward/downward revaluation of these important foreign currencies by 10% as of 12/31/2007 would among other things have the following effects:

Scenario analysis in Euro '000	MXN	SEK	USD	HUF
Scenario 1 (upward revaluation by:)	10%	10%	10%	10%
Sales	3,567	9,648	5,947	5,595
Operating result (EBIT)	92	386	215	1,047
Equity	153	244	158	1,412
Scenario 2 (devaluation by:)	- 10%	- 10%	- 10%	- 10%
Sales	- 4,360	- 11,792	- 7,268	- 6,838
Operating result (EBIT)	- 114	- 470	- 262	- 1,280
Equity	- 187	- 298	- 193	- 1,729

In the prior year period, the effects were as follows:

Scenario analysis in Euro '000	MXN	SEK	USD	HUF
Scenario 1 (upward revaluation by:)	10%	10%	10%	10%
Sales	2,147	10,055	6,010	5,016
Operating result (EBIT)	84	375	145	1,231
Equity	- 64	240	255	747
Szenario 2 (devaluation by:)	- 10%	- 10%	- 10%	- 10%
Sales	- 2,624	- 12,290	- 7,345	- 6,131
Operating result (EBIT)	- 104	- 413	- 178	- 1,056
Equity	78	- 294	- 276	- 913

The determination process is described in note 45.

RELEASE FOR PUBLICATION

The Villeroy & Boch Management released the Consolidated Financial Statements on March 7th 2008 for transmittal to the Supervisory Board. It is the duty of the Supervisory Board to examine the Consolidated Financial Statements and to issue a declaration as to whether it approves the Consolidated Financial Statements.

NOTES TO CONSOLIDATED BALANCE SHEET

Non-current assets

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

Fixed assets

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

Euro '000	*Intangible assets*	*Property, plant and equipment*	*Investment property*	*Investment accounted for using the equity method*	*Other financial assets*	*Total*
Text reference	*1*	*2*	*3*	*4*	*5*	
Accumulated costs						
As of 01/01/2007	60,512	918,430	1,360	1,058	2,739	984,099
Currency adjustments	- 211	- 6,078	0	0	- 8	- 6,297
Changes in consolidated companies	- 521	- 112,364	0	0	20,055	- 92,830
Additions	2,214	27,552	0	384	10,848	40,998
Disposals	- 514	- 26,753	- 1,009	- 350	- 581	- 29,207
Transfers	13	- 67,630	67,501	0	- 2	- 118
As of 12/31/2007	**61,493**	**733,157**	**67,852**	**1,092**	**33,051**	**896,645**
Accumulated depreciation						
As of 01/01/2007	12,831	665,240	0	0	211	678,282
Currency adjustments	- 2	- 3,032	0	0	0	- 3,034
Changes in consolidated companies	- 414	- 97,454	0	0	0	- 97,868
Scheduled depreciation	1,422	39,136	828	0	30	41,416
Write-downs	0	0	0	0	7,805	7,805
Disposals	- 490	- 25,522	- 281	0	- 41	- 26,334
Impairments	0	0	0	0	0	0
Transfers	- 17	- 50,717	50,734	0	0	0
As of 12/31/2007	**13,330**	**527,651**	**51,281**	**0**	**8,005**	**600,267**
Net book values						
As of 12/31/2007	**48,163**	**205,506**	**16,571**	**1,092**	**25,046**	**296,378**
As of 12/31/2006	47,681	253,190	1,360	1,058	2,528	305,817

1. Intangible assets

Movement of intangible assets was as follows:

in Euro '000	*Concessions patents, licenses & similar rights*	*Goodwill*	*Advances paid on intangible assets*	*Total*
Accumulated costs				
As of 01/01/2006	**18,707**	**35,343**	**0**	**54,050**
Currency adjustments	- 37	8	0	- 29
Changes in consolidated companies	1	0	0	1
Additions	1,707	5,759	3	7,469
Disposals	- 911	0	0	- 911
Transfers	- 68	0	0	- 68
As of 01/01/2007	**19,399**	**41,110**	**3**	**60,512**
Currency adjustments	- 19	- 192	0	- 211
Changes in consolidated companies	- 521	0	0	- 521
Additions	2,214	0	0	2,214
Disposals	- 514	0	0	- 514
Transfers	13	0	0	13
As of 12/31/2007	**20,572**	**40,918**	**3**	**61,493**
Accumulated depreciation				
As of 01/01/2006	**11,815**	**0**	**0**	**11,815**
Currency adjustments	5	0	0	5
Changes in consolidated companies	0	0	0	0
Scheduled amortization	1,432	0	0	1,432
Additions	- 421	0	0	- 421
Disposals	0	0	0	0
Transfers	0	0	0	0
As of 01/01/2007	**12,831**	**0**	**0**	**12,831**
Currency adjustments	- 2	0	0	- 2
Changes in consolidated companies	- 414	0	0	- 414
Scheduled amortization	1,422	0	0	1,422
Additions	- 490	0	0	- 490
Disposals	0	0	0	0
Transfers	- 17	0	0	- 17
As of 12/31/2007	**13,330**	**0**	**0**	**13,330**
Net book values				
As of 12/31/2007	**7,242**	**40,918**	**3**	**48,163**
As of 12/31/2006	6,568	41,110	3	47,681

A description of "Changes in consolidated companies" is found in the section "Acquisitions/Disinvestments/Discontinued Operations".

The asset group "Concessions, patents, licenses and similar rights" grew in the financial year by Euro 0.674 million (prior year: Euro -0.324). In Germany, the Group invested Euro 1.910 million (prior year: Euro 1.114 million) primarily in new software licenses.

Amortization in this asset group is under the straight-line method over three to six years. The amortization expense is primarily contained in sales and administrative costs. Self-generated intangible assets contained in this asset group (book value Euro 0.000 million – as in the prior year) were disposed of in the reporting year. The Group carries software licenses in Germany with a book value of Euro 2.051 million (prior year: 2.114 million). Amortization on these licenses was Euro 0.975 in the financial year (prior year: Euro 0.921). In France, key money with a book value of Euro 2.608 million (prior year: Euro 2.429 million) is reflected.

As in the prior year, the impairment test did not result in any indications for an impairment write-down.

Goodwill as of December 31st 2007 was Euro 40.915 million (prior year: Euro 41.110 million). The reduction in the financial year is the result of exchange rate changes. In the prior year, good will increased through acquisitions by Euro 5.759 million. For purposes of performing the impairment test, the capitalised goodwill of the Villeroy & Boch Group was allocated to the Bathroom and Wellness Division as a payment generating unit. The realizable amount was calculated as value in use and with an amount of Euro 0.551 million (prior year: Euro 0.545) was in excess of the net assets of the division. For determining the value in use, a discount rate of 6.0 % p.a. (2006: 6.0 % p.a.) was used. No reduction in value was indicated. The primary key values of the division are presented in the segment report on page 84 (see also note 44).

As in the prior year, there are no restrictions on ownership or disposal of intangible assets. Their acquisition was not supported by governmental grants. No intangible assets were pledged as security for liabilities. No intangible assets were permanently closed down in the financial year. A future economic benefit is expected on all capitalized values. Contractual obligations for the acquisition of intangible assets as of the balance-sheet date are described in note 47.

2. Property, plant and equipment

Movement of property plant and equipment used in business operations in the current reporting periods was as follows:

in Euro '000	*Land and Buildings*	*Technical equipment plant & machinery*	*Other equipment, fixtures fittings equipment*	*Advance payments & property, plants & machinery in construction*	*Total*
Accumulated costs					
As of 01/01/2006	**310,791**	**452,475**	**132,119**	**7,116**	**902,501**
Currency adjustment	779	1,949	- 1,244	6	1,490
Change in consolidated companies	11,659	7,324	70	0	19,053
Additions	3,688	13,147	7,441	8,120	32,396
Disposals	- 2,228	- 22,723	- 11,641	- 352	- 36,944
Transfers	314	2,918	939	- 4,237	- 66
As of 01/01/2007	**325,003**	**455,090**	**127,684**	**10,653**	**918,430**
Currency adjustment	- 1,893	-2,769	- 1,381	- 35	- 6,078
Change in consolidated companies	- 1,158	- 100,133	- 11,032	- 41	- 112,364
Additions	1,459	10,191	8,713	7,189	27,552
Disposals	- 3,207	- 20,697	- 2,769	- 80	- 26,753
Transfers	- 65,870	7,257	654	- 9,671	- 67,630
As of 12/31/2007	**254,334**	**348,939**	**121,869**	**8,015**	**733,157**
Accumulate depreciation					
As of 01/01/2006	**196,779**	**351,370**	**108,615**	**0**	**656,764**
Currency adjustment	208	1,540	- 1,068	0	680
Change in consolidated companies	0	0	0	0	0
Scheduled depreciation	6,954	26,403	9,220	0	42,577
Disposals	- 1,406	- 22,168	- 11,207	0	- 34,781
Transfers	- 209	0	209	0	0
As of 01/01/2007	**202,326**	**357,145**	**105,769**	**0**	**665,240**
Currency adjustment	- 247	- 1,575	- 1,210	0	- 3,032
Change in consolidated companies	- 755	- 87,998	- 8,701	0	- 97,454
Scheduled depreciation	6,096	24,136	8,904	0	39,136
Disposals	- 2,940	- 19,374	- 3,208	0	- 25,522
Transfers	- 50,731	- 4	18	0	- 50,717
As of 12/31/2007	**153,749**	**272,330**	**101,572**	**0**	**527,651**
Net book values					
As of 12/31/2007	**100,585**	**76,609**	**20,297**	**8,015**	**205,506**
As of 12/31/2006	122,677	97,945	21,915	10,653	253,190

A description of the company transactions that took place in the reporting period is provided in the section 'Acquisitions/disinvestments/discontinued operations'.
The item 'Land and buildings' dropped essentially as a result of a change in use of the land and buildings necessary for tile manufacture. Since July 1st 2007, these properties have been leased to the Eczacibasi Group. These properties are carried in the balance sheet at a remaining book value of Euro 15.139 million as "Investment property" (see note 3).
In the reporting year, public grants received in the amount of Euro 0.035 million were deducted from acquisition costs (prior year: Euro 1.862 million); Euro 1.283 million is included as a liability in deferred income (prior year: Euro 1.363 million). Deferred revenue in the amount of Euro 0.080 million (prior year: Euro 0.081 million) was released with effect on the operating result. All requirements with respect to the awarding of these grants have been fulfilled; there are currently no uncertainties as to performance. There are no restrictions 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 remained unchanged at Euro 0.000 million. No item of property, plant and equipment was permanently shut down. Future economic benefit is expected from all capitalized amounts. In the reporting year, no amounts of compensation were received from third parties for items of property, plant or equipment that were impaired, lost or shut down. As in the prior year, no borrowing costs were capitalized. Contractual obligations existing as of the balance-sheet date for the acquisition of property, plant or equipment are described in note 47.

Leasing

In the 2007 financial year, leasing expense from operating lease agreements was Euro 34.954 million (prior year: Euro 34.689 million). The Group rents salesrooms, warehouses, office premises and other facilities and movable tangible assets. The increase in lease expense by Euro 0.265 million (prior year: Euro 0.244 million) is based primarily on the construction of new marketing branches. The agreements have base lease periods between a half year and 32 years. None of the agreements contains a purchase option. Most of the agreements are implicitly renewed under the existing terms and conditions. Neither price adjustment provisions or any other restrictions were agreed.
In order to improve Group cash flows, rented or leased property that is currently unused is offered to interested parties against payment. In the financial year, this resulted in additional receipts amounting to Euro 0.218 million (prior year: Euro 0.184 million). Operating costs incurred and other obligations are borne by our tenants. The subleases terminate by no later than the expiration of the Group lease agreement. The increase in receipts results from the consistent subleasing of properties in Germany and abroad.

Obligations arising from operating lease relationships are due for payment in subsequent years as follows:

in Euro '000	*up to 1 year*	*1 to 5 years*	*over 5 years*
Future minimum lease payments			
as of December 31st 2007	13,611	33,164	5,098
as of December 31st 2006	13,986	33,312	6,997
Future income from subleasing			
as of December 31st 2007	212	397	184
as of December 31st 2006	165	385	259

In all time bands, the future rent and lease payments are reduced through the transfer of lease agreements in the tile segment to the Eczacibasi Group. In some cases this savings effect was offset through the expansion of the Group's own retail sales network. This essentially concerned the leasing of new branches in France, Australia and New Zealand.
As in the prior year, there are no agreements within the Group that fulfil the criteria for capitalization as financing lease contracts.

3. Investment properties

Within the scope of follow-up development programs, three properties in Germany are being continuously developed. In the financial year, one property was sold at a price of Euro 1.0 million. The gain on the sale is included in other operating revenue (see note 29). In the prior year, the optimization of the utility concept at two locations was capitalized as subsequent acquisition costs in the amount of Euro 0.057 million. Villeroy & Boch AG realized receipts in the amount of Euro 0.183 million (prior year: Euro 0.209 million) through leasing to affiliated companies. These receipts were eliminated in the Group financial statements in accordance with the consolidation principles. Maintenance and operating expenses for these properties come to Euro 0.190 million (prior year: Euro 0.085 million).

Since July 1st 2007, the Villeroy & Boch Group has been leasing the real property necessary for tile manufacture to the Eczacibasi Group. During the 30-year term of the agreement, the monthly lease is Euro 0.025 million. The future lease amount is geared to the changes in the consumer price index. Lease revenues in the amount of Euro 0.148 million were realized in the financial year. The tenant bears all maintenance expenses. Series competing with the line "Villeroy & Boch" may not be manufactured in these properties.

Changes in real estate properties held for investment are as follows:

in Euro '000	*Land*	*Buildings*	*Investment properties*	
			2007	*2006*
Accumulated costs				
As of January 1st	**1,339**	**21**	**1,360**	**1,303**
Additions	0	0	0	57
Transfer from property, plant and equipment	569	66,932	67,501	-
Disposals	- 298	- 711	- 1,009	0
As of December 31st	**1,610**	**66,242**	**67,852**	**1,360**
Accumulated depreciation				
As of January 1st	**0**	**0**	**0**	**0**
Scheduled depreciation	0	828	828	0
Transfer from property, plant and equipment	0	50,734	50,734	-
Disposals	0	- 281	- 281	0
As of December 31st	**0**	**51,281**	**51,281**	**0**
Net book values				
As of December 31st	**1,610**	**14,961**	**16,571**	**1,360**

On December 31st 2007, properties with a book value of Euro 0.643 million were sold which were split off from operating assets. The sales price receivables are included in other assets.

The market value of the properties capitalised as of December 31st according to the current land benchmark tables is Euro 25.3 million (prior year: Euro 8.1 million). Villeroy & Boch holds title to all financial properties.

The following payments are anticipated from lease agreements with third parties:

in Euro '000	*up to 1 year*	*1 to 5 years*	*over 5 years*
as of December 31st 2007	296	1,186	7,262
as of December 31st 2006	-	-	-

Financial assets

Movement in financial assets in the reporting period was as follows:

in Euro '000	*Investment accounted for using the equity method*	*Other investments*	*Securities investments*	*Loans*	*Total*
Text reference	*4*	*5*	*5*	*5*	
Accumulated costs					
As of 01/01/2006	**633**	**30**	**3,569**	**12,195**	**16,427**
Currency adjustments	0	0	0	0	0
Changes in consolidated companies	0	0	0	80	80
Additions	425	0	0	308	733
Disposals	0	0	- 3,169	- 137	- 3,306
Transfers	0	0	0	- 10,137	- 10,137
As of 01/01/2007	**1,058**	**30**	**400**	**2,309**	**3,797**
Currency adjustments	0	0	0	- 8	- 8
Changes in consolidated companies	0	20,055	0	0	20,055
Additions	384	0	0	10,848	11,232
Disposals	- 350	0	- 400	- 181	- 931
Transfers	0	0	0	- 2	- 2
Stand zum 12/31/2007	**1,092**	**20,085**	**0**	**12,966**	**34,143**
Accumulated depreciation					
As of 01/01/2006	**0**	**0**	**289**	**3**	**292**
Currency adjustments	0	0	0	0	0
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	0	0	9	170	179
Impairments	0	0	0	0	0
Disposals	0	0	- 257	- 3	- 260
Write-ups	0	0	0	0	0
Transfers	0	0	0	0	0
As of 01/01/2007	**0**	**0**	**41**	**170**	**211**
Currency adjustments	0	0	0	0	0
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	0	0	0	30	30
Impairments	0	7,805	0	0	7,805
Disposals	0	0	- 41	0	- 41
Write-ups	0	0	0	0	0
Transfers	0	0	0	0	0
As of 12/31/2007	**0**	**7,805**	**0**	**200**	**8,005**
Net book values					
As of 12/31/2007	**1,092**	**12,280**	**0**	**12,766**	**26,138**
As of 12/31/2006	1,058	30	359	2,139	3,586

The regional distribution of financial assets is as follows:

in Euro '000	*Investment accounted for using the equity method*	*Other investments*	*Securities investments*	*Loans*	*Total*
Germany	1,092	12,275	-	11,026	24,393
Rest of Eurozone	-	3	-	1,655	1,658
Other international destinations	-	2	-	85	87
Book value as of 12/31/2007	**1,092**	**12,280**	**-**	**12,766**	**26,138**
Germany	1,058	25	0	317	1,400
Rest of Eurozone	-	3	359	1,738	2,100
Other international destinations	-	2	0	84	86
Book value as of 12/31/2006	**1,058**	**30**	**359**	**2,139**	**3,586**

There are no ownership or disposal restrictions for financial assets. No financial assets were pledged as security for liabilities.

Investment accounted for using the equity method

As in the prior year, a company domiciled in Germany that is not listed on the stock exchange is carried at equity.
The percentage of voting rights in this company is 50%. The book value of the interest, which is not allocable to any operating segment, is Euro 1.092 million (prior year: Euro 1.058 million). In the reporting year, this equity interest realized a directly allocable profit in the amount of Euro 0.384 million (prior year: Euro 0.425 million) including interest on capital contributions. Its financial statements contain the following key figures:

in Euro '000	*12/31/2007*	*12/31/2006*
Balance Sheet		
Non-current assets	579	613
Thereof property, plant and equipment	548	582
Current assets	3,144	4,118
Thereof cash	19	48
Total assets	**3,723**	**4,731**
Equity capital	780	780
Non-current liabilities	0	0
Thereof financial liabilities	0	0
Current liabilities	2,943	3,951
Thereof financial liabilities	0	57
Total capital and liabilities	**3,723**	**4,731**
Villeroy & Boch – share in equity	390	390

in Euro '000	*2007*	*2006*
Income statement		
Sales	12,472	13,299
Gross profit	3,614	3,863
Operating result	815	965
Result before tax	704	858
Result after tax	569	706
Villeroy & Boch – share in result after tax	284	353

5. Other financial assets

Other financial assets are made up of securities held on a long-term basis, other investments and loans.

in Euro '000	*12/31/2007*	*12/31/2006*
Available-for-sale financial assets		
Equity instruments of unrelated companies (investments) (a)	12,280	30
Unrelated equity instruments for long-term investment (b)	0	359
Financial asset at fair value through profit or loss (derivates)	0	0
Held-to-maturity investments		
Noncallable bonds (c)	0	0
Loans measured at costs		
Loans to related companies (d)	10,719	0
Loans to 3rd parties (e)	2,047	2,139
Other financial assets	**25,046**	**2,528**

(a) In other investments, the Villeroy & Boch Group reflects non-listed shares of outside companies. As of the balance-sheet date, the remaining shares of V&B Fliesen GmbH were reflected in this item (see page 93). In the financial year, the value in use was determined and impairs in the amount of Euro 7.805 million were made with effect on operating result.

(b) In the first quarter of 2007, the fixed-interest securities and interests in a separate fund in the amount of Euro 0.359 million held to cover the Austrian severance pay provision were sold.

(c) In the prior year, a promissory note bond was reclassified to current assets (see note 9).

(d) Villeroy & Boch AG made a long-term loan in the amount of Euro 10.719 million to V&B Fliesen GmbH. Principal payments will take place on a straight-line basis over a period of nine years. As security for the loan, the borrower provided a guarantee. Additional information is presented on page 93 and following.

(e) There is no active market for these loans. They comprise the following:

in Euro '000	*2007*	*2006*
Gross book value of the loans and receivables as of December 31st	**2,247**	**2,309**
Thereof: Neither impaired nor delinquent at the balance-sheet date	**2,047**	**2,139**
Loan due for payment within one year	95	0
Loan due for payment in two to five years	212	275
Loan due for payment after five years	-	43
Loan with an indeterminable maturity (max. 30 years)	1,740	1,821
Thereof: Impaired as of the balance-sheet date but not delinquent	**70**	**80**
Loan due for payment within one year	-	40
Loan due for payment in two to five years	69	40
Loan due for payment after five years	1	-
Thereof: As of the balance-sheet date impaired and delinquent	**130**	**90**
Delinquent for up to one year	40	90
Delinquent between two and five years	90	0

The final due date to for loans to third parties with indeterminable maturity is geared to employee fluctuation.
The change in adjustments comprises the following:

in Euro '000	*2007*	*2006*
As of January 1st	170	120
Additions affecting result	30	50
As of December 31st	**200**	**170**

Other non-current assets

In accordance with IFRS, non-current assets also include deferred tax and other non-current assets. Other non-current asset items are explained in note 10.

6. Deferred tax

Deferred taxes are reported in the balance sheet in the following positions:

in Euro '000	*12/31/2007*	*12/31/2006*
Deferred tax assets arising from temporary differences	27,180	29,408
Deferred tax assets arising from loss carry-forwards	19,291	22,518
Deferred tax assets	**46,471**	**51,926**
Deferred tax liabilities	**15,432**	**19,017**

The deferred taxes arising from temporary differences are a result of different valuations between the consolidated balance sheet and the tax balance sheet in the following positions:

		Deferred tax assets		*Deferred tax liabilities*	
in Euro '000	*note*	*12/31/2007*	*12/31/2006*	*12/31/2007*	*12/31/2006*
Intangible assets	1	4,915	261	482	743
Property, plant and equipment	2	4,254	5,428	3,213	5,222
Investment properties	3	-	-	271	-
Financial assets	5	262	361	99	27
Inventories	7	5,421	7,495	- 48	285
Other assets	10	54	345	2,264	1,437
Special tax items		0	0	8,223	10,802
Provisions for pensions	18	9,182	11,742	355	0
Other provisions	20	2,001	1,248	84	33
Liabilities	22	1,091	2,528	489	468
Deferred tax arising from temporary differences		**27,180**	**29,408**	**15,432**	**19,017**

The individual balance-sheet items are described in the notes under the number given.

Deferred tax assets on loss carry-forwards comprise the following:

in Euro '000	*12/31/2007*	*12/31/2006*
Deferred tax on domestic loss carry-forwards		
Resulting from corporate income tax and reunification charge	5,414	10,306
Resulting from municipal trade tax	5,983	4,423
Total deferred tax on domestic loss carry-forwards	11,397	14,729
Deferred tax on foreign loss carry-forwards	22,668	18,912
Total domestic and foreign deferred tax on loss carry-forwards	**34,065**	**33,641**
Deferred taxes not eligible for credit on loss carry-forwards	- 14,774	- 11,123
Deferred tax on loss carry-forwards	**19,291**	**22,518**

While domestic loss carry-forwards can be carried forward without limitation with regard to minimum taxation, time limitations specific to the respective country apply to foreign loss carry-forwards. Utilization of the existing deferred tax assets arising from loss carry-forwards is planned as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
Utilization within one year	2,947	6,312
Utilization after the first year up to the end of the second year	105	7,433
Utilization after the second year up to the end of the third year	1,834	6,935
Utilization after the third year up to the end of the fourth year	9,326	1,115
Utilization after the end of the fourth year	5,079	723
	19,291	**22,518**

Deferred tax amounting to Euro 0.836 million (prior year: Euro -0.222 million) was offset against equity without effect on the operating result. With respect to the trend in the result of the last two financial years, tax deferral can be classified as follows:

	Temporary differences		*Tax on loss carry-forwards*	
in Euro '000	*Assets*	*Liabilities*	*Gross*	*Net*
Companies with				
positive trend	27,172	5,294	10,038	7,922
permanent positive trend	11,691	9,655	16,042	7,762
negative trend	7,607	483	4,897	3,523
permanent negative trend	1	0	3,088	84
Total	**46,471**	**15,432**	**34,065**	**19,291**

Income tax expense is explained in note 32.

Current assets

7. Inventories

On the balance-sheet date, inventories comprised:

in Euro '000	*12/31/2007*	*12/31/2006*
Raw materials and supplies	29,103	35,046
Work in progress	28,306	30,966
Finished goods	110,178	138,523
Advance payments	1,138	923
Emission allowances	1	301
	168,726	**205,759**

Inventories are divided among the individual divisions as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
Bathroom and Wellness	99,476	86,344
Tableware	69,250	66,796
Tile	-	52,619
	168,726	**205,759**

Regionally, inventories are distributed as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	80,212	125,707
Rest of Eurozone	34,876	33,535
Other international destinations	53,638	46,517
	168,726	**205,759**

The decline in inventories held in Germany is based primarily on the sale of the tile activities. During the financial year, valuation reserves for inventories were reduced by Euro 9.204 million from Euro 32.533 million to Euro 23.329 million with effect on the operating result. Of the inventories reported on the balance-sheet date, Euro 1.139 million (prior year: Euro 1.224 million) were reflected at net realisable value.
Realisation of inventories is expected within twelve months No restraints exist on ownership or disposal. No inventories are pledged as security for liabilities.

8. Trade receivables

Movement in trade accounts receivable in the financial year was as follows:

in Euro '000	*12/31/2007*	*Remaining term more than 1 year*	*12/31/2006*	*Remaining term more than 1 year*
Trade receivables	**135,008**	**74**	**163,486**	**88**

For sales of goods and merchandise, payment terms are granted specific to the respective countries and industries. Regionally, there receivables are distributed as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	76,770	99,950
Rest of Eurozone	32,965	10,035
Other international destinations	25,272	53,501
Book value	**135,008**	**163,486**

On the balance-sheet date, the Tableware Division holds trade receivables in the amount of Euro 47.445 million (prior year: Euro 50.919 million). The Bathroom and Wellness segment accounted for Euro 86.165 million (prior year: Euro 89.663 million). Receivables of the Bathroom and Wellness Division in the amount of Euro 0.071 million (prior year: Euro 0.063 million) are due after one year. There is no significant concentration of default risks in the Group as they are distributed over a large number of customers. A valuation adjustment is made on receivables from debtors which are more than 90 days late. The adjustment rates are based on historical experience. Every change in creditworthiness since the granting of the payment terms is taken into consideration. In the event of existing individual default and transfer risks, the receivables are reported at the lower realisable amount taking into consideration specific value adjustments. The Villeroy & Boch Group utilises an external examination of creditworthiness. The assessment of customers and the establishment of credit limits are continuously monitored by customer credit management. The procedures that have been implemented are described in note 45.

Trade receivables are made up of the following:

in Euro '000	*2007*	*2006*
Book value as of December 31st	**135,008**	**163,486**
Thereof: As of balance-sheet date neither adjusted nor delinquent	**112,849**	**142,833**
Receivable is due within 90 days	107,838	135,256
Receivable is due in 91 to 180 days	4,872	7,200
Receivable is due in 181 to 360 days	65	289
Receivable is due after 361 days	74	88
Thereof: As of balance-sheet date not adjusted but delinquent	**16,407**	**15,210**
Customer delinquent up to 90 days	14,573	12,331
Customer delinquent between 91 and 180	1,367	2,236
Customer delinquent between 181 and 360	467	643
Thereof: As of balance-sheet date adjusted but not delinquent	**79**	**97**
Receivable is due within 90 days	79	97
Thereof: As of balance-sheet date adjusted and delinquent	**5,673**	**5,346**
Customer delinquent up to 90 days	2,285	1,872
Customer delinquent between 90 and 180 days	241	379
Customer delinquent between 180 and 360 days	1,055	925
Customer delinquent more than 361 days	2,092	2,170

With respect to receivables that are neither adjusted nor delinquent, as of the balance-sheet date there is no indication of a possible default of the debtor. The procedures implemented for continuous monitoring of unpaid receivables are described in note 45.

Movement of allowances on trade receivables was as follows:

	2007			2006		
in Euro '000	*Specific*	*Portfolio*	*Total*	*Specific*	*Portfolio*	*Total*
As of January 1st	4,758	1,197	5,955	4,577	1,342	5,919
Changes in consolidated companies	0	0	0	115	332	447
Additions	1,598	157	1,755	1,400	282	1,682
Exchange rate differences	- 24	- 79	- 103	42	- 14	28
Applied	- 638	- 152	- 790	- 628	- 161	- 789
Released	- 1,265	- 162	- 1,427	- 748	- 584	- 1,332
As of December 31st	**4,429**	**961**	**5,390**	**4,758**	**1,197**	**5,955**

Specific value adjustments in the amount of Euro 1.332 million (prior year: Euro 1.491 million were formed since bankruptcy proceedings were initiated on the debtor. On the basis of the payment behavior observed, individual value adjustments in the amount of Euro 3.009 million (prior year: Euro 3.107 million) were made. The value adjustment expense represents the difference between the book value of receivables and the anticipated proceeds of their liquidation.

During the financial year, trade receivables in the amount of Euro 0.416 million (prior year: Euro 0.567 million) were transferred to an independent insurance company.

To cover existing risks, the Group received the following items of collateral:

	Fair values	
in Euro '000	*12/31/2007*	*12/31/2006*
Retention of ownership	68,404	68,485
Guarantees	2,233	5,158
Other items of security	25,753	4,804
	96,390	**78,447**

In the case of retention of ownership, the transfer of the goods to the acquirer takes place subject to delayed transfer of legal title. It lapses automatically as soon as the debt has been paid. The guarantees and other items of security received are administered by the customer credit management department and are not returned until complete payment of the debt. Further information on the procedure implemented is presented in note 45.

9. Current financial assets

The current financial assets include investments the settlement of which is expected within 12 months after the balance-sheet date.

in Euro '000	*12/31/2007*	*12/31/2006*
Held-to-maturity investment	45,219	10,192
Financial assets at fair value through profit or loss	0	156
Current financial assets	**45,219**	**10,348**

Held-to-maturity investment

During the financial year, time deposits in the total amount of Euro 45.219 million were made. All time deposits are denominated in euros. The banks, the creditworthiness of which is certified by international rating services, are located in the following regions:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	20,000	10,192
Rest of Eurozone	25,219	-
Other international destinations	0	-
Book value	**45,219**	**10,192**

Within the first quarter of 2008, Euro 25.219 is due; the remaining time deposits will be redeemed by no later than November 2008. The bank selection process is described in note 45.
During the financial year, the promissory note bond issued in 2006 was repaid by the debtor in full and on time. Over its entire term interest income of Euro 0.326 million was realized.

Financial assets at fair value through profit or loss (held for trading)

This valuation category consisted of a derivative which was embedded in a guaranteed promissory note bond. In the 2007 financial year, valuation income/loss was recorded in the amount of Euro -0.156 million (prior year: Euro +0.078 million). The valuation is based on an appraisal of the issuer. Through this combined investment, the Group realized total profit of Euro 0.210 million.

10. Non-current and current other assets

Other assets comprise the following:

in Euro '000	Book value 12/31/2007	Remaining term up to 1 year	Remaining term over 1 year	Book value 12/31/2006	Remaining term up to 1 year	Remaining term over 1 year
Accounts due from associates	**232**	232	0	**666**	666	0
Remaining other assets	**23,596**	23,565	31	**21,353**	21,133	220
Prepaid expenses	**2,198**	2,151	47	**2,405**	2,385	20
	26,026	**25,948**	**78**	**24,424**	**24,184**	**240**

The essential item in the position "remaining other assets" is receivables from the sale of tile activities in France and Germany in the amount of Euro 6.919 million. In addition, this position includes receivables from the market valuation of security instruments (see note 45), receivables from the sale of property, plant and equipment (Euro 0.901 million), lease deposits, receivables from initial equipping of franchisers, debit balances with creditors, receivables from employees and a number of individual matters. During the financial year, the receivables from the sale of real properties in France and Denmark (Euro 11.725 million) recorded in the prior year were collected in a timely manner. In total Euro 2.043 million (prior year: Euro 1.327 million) with a character similar to prepayments is included in this item.
Included in the position prepaid expenses are the usual transitory timing adjustments for expenditures such as for leases and insurance premiums.

Non-current and current other assets are distributed regionally as follows:

in Euro '000	2007	thereof long-term	2006	thereof long-term
Germany	16,504	31	5,306	219
Rest of Eurozone	4,403	-	13,039	-
Other international destinations	5,119	47	6,079	21
Book value as of December 31st	**26,026**	**78**	**24,424**	**240**

Other non-current and current assets in the amount of Euro 6.144 million (prior year: Euro 4.077 million) are reflected in the Tableware Division. The Bathroom and Wellness Division has Euro 3.462 million (prior year: Euro 4.744 million). Of the non-current components, Euro 0.031 million is allocated to the Tableware Division (prior year: Euro 0.033 million) and Euro 0.047 million to the Division Bathroom and Wellness (prior year: Euro 0.021 million).

The following classes of financial instruments are contained in these assets:

in Euro '000	*12/31/2007*	*thereof non-current*	*12/31/2006*	*thereof non-current*
Loans and receivables	21,729	-	21,584	220
Other financial instruments (Hedge)	2,099	-	435	-
Total financial instruments	**23,828**	**-**	**22,019**	**220**
Financial assets that,				
are not subject to IAS 39	2,198	78	2,405	20
Book value	**26,026**	**78**	**24,424**	**240**

In the instrument class "loans and receivables", the Group carries security deposits in the amount of Euro 0.974 million (prior year: 0.936 million) that were provided to the respective lessors in the form of cash. The fair value or these deposits corresponds to the capitalized book values.
The capitalized prepaid expenses are classifies as financial assets that do not come under IAS 39.
In order to take risks into account, value adjustments were made in adequate amounts that the persons responsible for the assets charged directly against the book value. In the case of recoverable receivables, there are no indications that the debtors will not comply with their payment obligations. As in the prior year, as of December 31st there are no delinquent receivables.
There is no significant concentration of contingency risk in the Group since they are divided over a large number of contractual partners.

11. Tax claims

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

in Euro '000	*Book value 12/31/2007*	*Remaining term up to 1 year*	*Remaining term more than 1 year*	*Book value 12/31/2006*	*Remaining term up to 1 year*	*Remaining term more than 1 year*
Claims on income tax	**5,285**	5,285	0	**4,883**	4,883	0
Other tax claims	**6,684**	6,684	0	**11,134**	11,134	0
	11,969	**11,969**	**0**	**16,017**	**16,017**	**0**

Of the tax claims as of 12/31/2007, a total of Euro 3.765 million is attributable to German companies and the amount of Euro 8.204 million to foreign companies of the Villeroy & Boch Group.
Claims on income taxes are essentially made up of outstanding claims for corporate income tax refunds, the predominant portion of which, at Euro 4.735 million, is attributable to Group companies abroad.
The greater part of other tax claims are on the books of foreign companies and primarily comprise value-added tax claims in the amount to Euro 4.739 million.

12. Cash and cash equivalents

On the balance-sheet date, cash and cash equivalents comprise:

in Euro '000	*12/31/2007*	*12/31/2006*
Cash on hand and checks	900	1,044
Cash in demand accounts with banks	29,064	10,552
Cash equivalents	45,127	-
	75,091	**11,596**

In the Villeroy & Boch Group, the balance in cash and cash equivalents increased as of year end by Euro 63.495 million to Euro 75.091 million. This is attributable primarily to the sale carried out in the financial year of the tile activities (see page 93) and the borrowing of funds (see also note 21). Acting in the other direction is an outflow of funds through the settlement of pension claims (see also note 18).
As of the balance-sheet date, the Villeroy & Boch Group carried only fixed deposits with a maximum term of 93 days as cash equivalents.
Fixed deposits with longer terms are carried as current or non-current financial assets (notes 5 and 9). The cash balance in banks for the entire Group was consolidated by Villeroy & Boch AG with bank liabilities in the amount of Euro 1.371 million (prior year: Euro 11.220 million) since the necessary netting facts and conditions and the intention of net settlement are present (IAS 32.42).

Cash is held in the following economic areas:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	65,359	902
Rest of Eurozone	1,383	1,525
Other international destinations	8,349	9,169
Book value	**75,091**	**11,596**

The risk of default on liquid assets is minimal as they are held in banks certified by international rating agencies as having a high credit standing.
As self-generated financial instruments, cash and cash equivalents are reported in the class cash reserve (see also note 45). The cash flow statement is presented on page 83 and is discussed beginning with note 40.

Equity

Equity of the Villeroy & Boch Group comprises:
- issued capital, capital reserves and retained earnings of Villeroy & Boch AG
- retained earnings of consolidated companies since commencement of inclusion in the Group
- reduction of equity by treasury shares of Villeroy & Boch AG
- effects of consolidation measures and
- minority interests in equity

Movement of equity is shown separately in the Consolidated Statement of Changes in Equity on page 82.

13. Issued capital

Issued capital of Villeroy & Boch AG at the time of reporting is unchanged from the prior year at Euro 71,909,376.00 and is divided into 14,044,800 individual ordinary share certificates and 14,044,800 fully paid nonvoting individual preference share certificates. Both share classes have an interest in the share capital in equal amount with a calculated share of Euro 2.56 each. The ordinary shares and the preference shares are bearer shares.

The holders of the nonvoting preference share certificates receive from the annual retained earnings a preference dividend higher than that of the holders of ordinary shares by Euro 0.05 per individual preference share certificate, but at a minimum they receive a preference dividend in the amount of Euro 0.13 per individual preference share certificate. If in one financial year the retained earnings are not sufficient for payment of this preference dividend, payments of the arrearages will be made out of the retained earnings of subsequent years, whereby the older arrearages will be satisfied before the more recent ones. Only after satisfaction of all arrearages will the preference dividend of the current financial year be paid. The right the subsequent payment is a component of the claim on profit of the financial year from whose retained earnings the subsequent payment on the preference shares is granted.

A resolution of the General Meeting of the Shareholders of June 3rd 2006 authorized the Management Board of Villeroy & Boch AG to acquire treasury preferential shares by December 2nd 2007 up to a calculated portion of Euro 7,190,937 of share capital. Villeroy & Boch AG may hold a maximum of 10% of the share capital in no-par preferential shares (2,808,960 shares). Transactions require the approval of the Supervisory Board. All transactions took place through the stock exchange. There were no share transactions with related companies or persons. The utilization of the preference shares held is restricted through resolutions that have been made.

Movement of shares outstanding was as follows:

Shares (number)	*2007*	*2006*
Common share		
Shares outstanding – unchanged	14,044,800	14,044,800
Preferred share		
Shares issued	14,044,800	14,044,800
Treasury stock		
As of December 31st – unchanged	1,683,029	1,683,029
Shares outstanding	**12,361,771**	**12,361,771**

Shares held by the Villeroy & Boch Group (treasury stock) are not entitled to dividends.

14. Capital surplus

Capital surplus amounting to Euro 193.587 million includes the premium arising from the initial public offering in 1990 and has remained unchanged since then.

15. Retained earnings

Retained earnings of the Villeroy & Boch Group in the amount of Euro 71.723 million (prior year: Euro 67.556 million) contain the retained earnings of Villeroy & Boch AG and the proportional profits of the consolidated subsidiaries produced since they became part of the Group. In addition, this item includes consolidation measures and currency influences.

Retained earnings comprise the following:

in Euro '000	*2007*	*2006*
General contingency reserve	90,376	83,728
Reserve for treasury stock	- 14,099	- 14,099
Surplus for hedging transactions in accordance with IAS 39	1,753	- 2,446
Surplus for deferred taxes	- 398	438
Surplus for foreign currency translation	88	1,143
Surplus resulting from net investment in a foreign business operation	- 4,341	- 1,028
Other surplus	- 1,656	- 180
	71,723	**67,556**

The general contingency reserve comprises the following undistributed profits:

in Euro '000	*2007*	*2006*
As of January 1st	83,728	79,721
Additions (see also note 16)	6,648	4,007
As of December 31st	**90,376**	**83,728**

Retained earnings were reduced by the treasury shares held by consolidated companies at their accumulated historical costs in accordance with IAS 32.33.

in Euro '000	*12/31/2007*	*12/31/2006*
Reserve for treasury stock unchanged	- 14,099	- 14,099

The following revaluation surpluses arising from the effective portion of hedging activities are reflected in retained earnings (see note 45):

in Euro '000	*Currency futures transactions*		*Interest swaps*	
	2007	*2006*	*2007*	*2006*
As of January 1st	- 1,667	- 1,282	- 779	- 1,880
Currency adjustments	15	- 6	0	0
Additions	2,001	- 1,667	0	0
Disposals	1,652	1,288	531	1,101
As of December 31st	**2,001**	**- 1,667**	**- 248**	- 779

In accordance with IAS 39, a revaluation surplus was formed for deferred taxes, without effect on operating result, in the amount of Euro -0.771 (prior year: Euro +0.222) million. The profits and losses recorded in the reporting period with effect on operating result from the valuation of interest swaps are offset in the financial results against interest income/expense of the underlying transactions. The release, with effect on operating result, of the provision arising from valuation of currency futures transactions is primarily contained in gross profit from sales.
As in the prior year, no revaluation surplus could be formed for "available-for-sale" financial assets because these securities were held in order to cover the Austrian settlement (see note 19).

Movement of the surplus for deferred tax was as follows:

in Euro '000	*2007*	*2006*
As of January 1st	438	216
Currency adjustments	- 3	2
Additions	0	220
Disposals	- 833	0
As of December 31st	**- 398**	**438**

In addition exchange-rate-based changes in loans are taken into consideration which were classified as net investment in foreign Group companies:

in Euro '000	*2007*	*2006*
As of January 1st	- 1,028	0
Changes resulting from upward revaluations	- 3,313	- 1,028
Changes resulting from devaluations	0	0
As of December 31st	**- 4,341**	**- 1,028**

Essentially, this effect is based on the exchange rate movement of the Mexican pesos. This led to a change in equity in the amount of Euro 2.901 million.

Other surplus comprise the following:

in Euro '000	*2007*	*2006*
As of January 1st	- 180	396
Additions from		
Withholding tax on internal distributions	- 57	- 180
Changes in consolidated companies	- 1,599	0
Disposals	180	- 396
As of December 31st	**- 1,656**	**- 180**

16. Consolidated results

The following are reported in the consolidated results of Villeroy & Boch AG:

in Euro '000	*2007*	*2006*
As of January 1st	17,037	13,075
Payment of dividends	- 10,389	- 9,068
Transfer into general retained earnings	- 6,648	- 4,007
Net income available to shareholders of Villeroy & Boch AG	7,171	17,037
As of December 31st	**7,171**	**17,037**

Transfers to general retained earnings on a regular basis are not a component of the capital management.

The following dividends were paid to the holders of Villeroy & Boch shares:

in Euro	*July 4th 2007*		*June 12th 2006*	
	Per share	*Total*	*Per share*	*Total*
Common shares	0.37	5,196,576.00	0.32	4,494,336.00
Outstanding preferred shares	0.42	5,191,943.82	0.37	4,573,855.27
		10,388,519.82		**9,068,191.27**

The recommendation of the Supervisory Board and the Management Board of Villeroy & Boch AG concerning appropriation of earnings of the 2007 financial year is explained in note 51.

17. Equity Attributable to Minority Interests

Interests of third parties in the equity of consolidated subsidiary companies are shown under the item 'equity attributable to minority interests'. On the balance-sheet date, they totaled Euro 0.184 million (prior year: Euro 0.310 million). In the financial year, the Villeroy & Boch Group acquired additional shares of Villeroy & Boch Ungarn ZRt held by third parties. The minorities interests reflected stem from small outside interest in three Group companies in Romania, Hungary and France.

Capital management

The Villeroy & Boch manages its capital with the goal of maximizing results through optimization of the proportion of equity to borrowed capital. Capital management is intended to ensure continued existence of the enterprise. The equity ratio is central to capital management. The equity ratio describes the relationship between equity and total capital. The more equity is available, the higher the financial stability of the group of companies and the more independent the Villeroy & Boch Group is from capital providers.

While there are no regulations in Germany concerning a minimum level of capital, several foreign subsidiaries are subject to widely varying requirements. In a quarterly monitoring process, levels of capital are examined in accordance with the national minimum requirements and any measures required are initiated.

Overview of reported expenses and revenues

in Euro '000	*2007*	*2006*
Items recorded directly to equity		
Gains/losses from cash flow hedge	4,199	716
Changes in value of financial assets held for sale	0	0
Results from the disposal of assets of the category held for sale	0	- 1,385
Changes in deferred taxes	- 836	222
Currency-transaction-related changes in value of net investment in foreign operations	- 3,313	- 1,028
Differences resulting from currency translation of financial statements of foreign operations	- 809	2,234
Other changes not reflected in profit or loss	- 1,722	576
Net result recorded directly in equity	- 2,481	1,335
Consolidated net income	**7,171**	**17,037**
Total result in accordance with IAS 1.97	**4,690**	**18,372**
Thereof allocated to shareholders of Villeroy & Boch AG	4,675	18,447
Minority interests	15	- 75

NON-CURRENT AND CURRENT LIABILITIES

18. Provisions for pensions

The provision for defined benefit pension plans has the following regional distribution:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	143,991	159,428
Rest of Eurozone	8,712	10,844
Other international destinations	1,623	1,371
Pension provision	**154,326**	**171,643**

Provisions for defined benefit pension plans in Germany dropped essentially as a result of cash settlements in the amount of Euro 11.649 million.

Provisions for defined benefit pension plans developed within the financial year as follows:

in Euro '000	*2007*	*2006*
As of January 1st	171,643	173,466
Currency adjustments	260	54
Utilization	- 28,777	- 13,695
Reversals	0	0
Additions	11,200	11,703
Changes in consolidated companies	0	115
As of December 31st	**154,326**	**171,643**

Provisions for defined benefit pension plans dropped by Euro 17.317 million (prior year: reduction of Euro 1.823 million) to Euro 154.326 million. Essentially, the increase in applications is based on cash settlements made. The increased interest rate had a positive effect on additions. In the prior year, pension provisions increased as a result of acquisitions by Euro 0.115 million.
Provisions for anniversary bonuses and partial-retirement for the first time are presented in the separate balance-sheet item "non-current and current personnel provisions" (see note 19).

Pension reserves were valued using company-specific parameters. Variables in the Group are as follow:

in %	*2007*		*2006*	
	Average	*Range*	*Average*	*Range*
Discount rate	-	5.45	-	4.5
Expected long-term wage and salary trend	2.6	1.5 bis 3.5	2.6	1.0 bis 3.5
Expected long-term pension trend	1.5	1.0 bis 6.7	1.5	1.0 bis 6.7
Expected long-term country-specific inflation	2.0	1.5 bis 3.5	1.9	1.5 bis 4.0
Expected country specific fluctuation	5.0	2.0 bis 5.0	5.0	5.0 bis 8.5
Expected yield of plan assets	4.3	4.3 bis 5.3	4.3	4.3 bis 5.0

Average values are calculated as weighted mean on the basis of cash values. The discount rate is determined, taking into consideration the current group of participants, on the basis of senior, fixed-interest corporate bonds. In estimating future compensation and pension trends the duration of employment with the company and other factors of the labor market are taken into consideration. Valuation is based on country-specific mortality tables and plant-specific fluctuation rates. For calculating obligations in Germany, the Heubeck'schen Mortality Tables 2005G are used. The expected yield is based on the portfolio structure of the plan assets (see next page). In accordance with the age structure of the group of participants, the asset managers optimize the asset allocation. For each plan, the expected yield is obtained from the weighted average of expected returns for each of the investment classes held. There are no claims for damages.

Movement of pension-right present values are as follows:

in Euro '000	*2007*	*2006*
As of 01/01/	191,049	190,583
Current service cost	2,253	1,919
Interest cost	9,430	9,517
Actuarial gains and loss realized	99	962
Currency changes arising from non-EURO plans	98	54
Benefits paid	- 15,779	- 12,316
Changes resulting from business combinations	0	330
Settlements	- 11,649	0
As of December 31st	**175,501**	**191,049**

Plan assets changed in the current financial year as follows:

in Euro '000	*2007*	*2006*
As of 01/01/	19,406	17,117
Expected return on plan assets	917	801
Currency changes from non-Euro plans	- 162	5
Contributions by the employer	1,298	1,513
Benefits paid	- 284	- 245
Plan assets acquired as a result of business combinations	0	215
As of December 31st	**21,175**	**19,406**

In 2007 the actual earnings on plan assets were Euro 0.918 million (prior year: Euro 1.202 million). Deviations between the expected and the actual earnings are taken into consideration in the actuarial profits/losses. For the 2008 financial year, earnings in the amount of Euro 0.132 are expected. In the framework of restructuring measures, the conversion of significant portions of plan assets into qualified insurance plans is planned. For this reason, the earnings expected for the 2008 financial year shrank.

Plan assets show the following portfolio structure:

	12/31/2007		12/31/2006	
	in Euro '000	%	in Euro '000	%
Shares/share funds	2,855	13	2,484	13
Annuities/annuity funds	10,168	48	7,267	37
Loans and promissory notes	7,203	34	7,516	39
Cash and cash equivalents	710	4	824	5
Other items	239	1	1,315	6
Plan assets	**21,175**	**100**	**19,406**	**100**

Plan assets do not include any shares of Villeroy & Boch AG or any real estate leased to Group companies.

The pension reserves can be derived from the expectancies, plan assets and the actuarial gains and losses as follows:

in Euro '000	2007	2006
Present value of defined benefit obligation covered	175,501	191,049
Unrealized actuarial results	10,684	27,922
Scope of obligation arising from results-based plans	186,185	218,971
Fair value of plan assets	- 21,175	- 19,406
Present value of the obligation of the commitments fully or partially covered on 12/31/	**165,010**	**199,565**
Unrealized actuarial results	- 10,684	- 27,922
Pension provisions on December 31st	**154,326**	**171,643**

Movement of the net pension provisions is represented in the following 5-year overview:

in Euro '000	2003	2004	2005	2006	2007
Pension-right present values – internally secured	175,245	173,190	169,509	168,423	153,499
Pension-right present values – externally secured	14,895	16,656	21,074	22,626	22,002
Present value of accrued pension rights	190,140	189,846	190,583	191,049	175,501
Plan assets	- 11,311	- 13,295	- 17,117	- 19,406	- 21,175
Balance sheet amount	178,829	176,551	173,466	171,643	154,326
Excess arising from plan assets	667	558	533	401	1

In the past financial year, the following amounts were recorded from the defined benefit pension plans with effect on results:

in Euro '000	12/31/2007	12/31/2006
Current service cost	2,253	1,919
Interest cost	9,430	9,517
Expected return on plan assets	- 917	- 801
Amortized actuarial gains and losses	98	962
	10,864	**11,597**

The pension expenses presented are contained in the sales, marketing and general administrative costs. The interest expense and the expected return on plan assets are reported in financial results.

Defined contribution pension plans

The defined contribution plans predominantly have to do with state-organized, collective pension schemes.
Payments of the Villeroy & Boch Group as a rule are geared to the national legal framework. The following personnel expense arising from defined contribution plans was recorded:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	9,539	11,247
Rest of Eurozone	1,873	2,223
Other international destinations	5,246	4,111
	16,658	**17,581**

The contributions of the Villeroy & Boch Group to statutory pension insurance in Germany contain Euro 1.244 million (prior year: Euro 2.261 million), which was paid by the companies deconsolidated in the past financial year. There are similar social welfare systems for employees in Sweden, Hungary, Luxembourg, France, USA, Great Britain, Mexico, Austria, Norway and Japan.

The following timing adjustments for these plans are contained in the balance sheet:

	12/31/2007		*12/31/2006*	
in Euro '000	*Prepaid expense*	*Deferred revenue*	*Prepaid expense*	*Deferred revenue*
Eurozone (without Germany)	5	109	2	110
Other international destinations	-	74	-	75
	5	**183**	**2**	**185**

19. Non-current and current personnel provisions

Non-current and current personnel provisions are presented for the first time in a separate balance-sheet item. It contains provisions for anniversary bonuses and partial retirement (in the prior year a component of the provision for pensions and similar obligations) and provisions for severance pay, settlement, and management bonus (prior year, component of other provisions).

For personnel provisions, the payment of the Villeroy & Boch Group is based on the legal, tax and economic circumstances of the particular country. In the reporting period, these provisions changed as follows:

	Non-current provisions				*Current*	*Total*
in Euro '000	*Partial retirement*	*Anniversary bonuses*	*Severance pay*	*Total*	*provisions*	
As of 01/01/2006	**8,426**	**7,235**	**2,883**	**18,544**	**8,114**	**26,658**
Currency adjustments	0	- 16	- 27	- 43	- 77	- 120
Utilization	- 2,642	- 656	- 453	- 3,751	- 7,686	- 11,437
Reversals	0	- 1,605	0	- 1,605	- 161	- 1,766
Additions	4,217	152	583	4,952	9,143	14,095
Changes in consolidated companies	0	291	947	1,238	0	1,238
As of 01/01/2007	**10,001**	**5,401**	**3,933**	**19,335**	**9,333**	**28,668**
Currency adjustments	0	- 36	- 123	- 159	- 143	- 302
Utilization	- 3,033	- 507	- 395	- 3,935	- 8,927	- 12,862
Reversals	-13	0	0	- 13	- 43	- 56
Additions	4,657	257	372	5,286	8,649	13,935
Transfers	0	0	0	0	32	32
Changes in consolidated companies	- 1,142	0	0	- 1,142	- 667	- 1,809
As of 12/31/2007	**10,470**	**5,115**	**3,787**	**19,372**	**8,234**	**27,606**

Employees in Germany and Austria, subject to certain personal requirements, can reduce their working hours prior to commencement of retirement during a statutorily set period of time. Within this period of time, compensation reductions resulting from the reduced working hours are offset by the state. In the prior year, the potential group of recipients in Germany was limited, and applications for partial retirement could be filed for the last time up to December 31st 2007.
In the prior year, provisions for anniversary bonuses were reversed, with effect on operating results, in the amount of Euro 1.605 million on the basis of a plant agreement.
Personnel from the countries Austria (old severance pay), Mexico, Italy and Australia upon separating from the respective Group company will receive a settlement financed by the employer. In the reporting year, the settlement provision dropped on the basis of employee turnover in Italy and Mexico. In the prior year, the provision increased by Euro 0.947 million on the basis of acquisitions.
The short-term personnel provisions dropped in 2007 by Euro 1.099 million (prior year: increase in the amount of Euro 1.219 million) primarily as a result of a smaller addition to provisions for settlements in comparison with the prior year.

20. Other non-current and current provisions

Movement in the other non-current and current provisions in the reporting period was as follows:

in Euro '000	Non-current provisions	Current provisions for: Guarantees	Restructuring	Other Taxes	Other	Total	Aggregate sum
As of 01/01/2006	**4,788**	**9,083**	**8,468**	**1,143**	**7,547**	**26,241**	**31,029**
Currency adjustments	74	46	- 29	4	- 56	- 35	39
Utilization	- 133	- 1,635	- 5,646	- 80	- 4,270	- 11,631	- 11,764
Reversal	0	- 556	0	0	-730	- 1,286	- 1,286
Allocation	591	1,650	2,890	93	3,768	8,401	8,992
Transfers	0	0	0	0	- 43	- 43	- 43
Changes in consolidated group	0	585	0	0	1,255	1,840	1,840
As of 01/01/2007	**5,320**	**9,173**	**5,683**	**1,160**	**7,471**	**23,487**	**28,807**
Currency adjustments	- 58	- 125	- 23	- 5	- 566	- 719	- 777
Utilization	- 368	- 1,576	- 3,316	- 253	- 3,402	- 8,547	- 8,915
Reversal	- 1	- 278	- 82	- 8	- 384	- 752	- 753
Allocation	283	4,407	2,216	115	4,487	11,225	11,508
Transfers	0	- 31	35	- 1	27	30	30
Changes in consolidated group	- 10	- 304	0	0	- 130	- 434	- 444
As of 12/31/2007	**5,166**	**11,266**	**4,513**	**1,008**	**7,503**	**24,290**	**29,456**

The non-current provisions are made up of precautionary measures related to environmental protection and recultivation projects. Provisions for severance pay will be presented in the future in personnel provisions (see note 19).

The provision for measures related to the environment in the amount of Euro 5.166 million (prior year: Euro 5.320 million) covers expected financial burdens arising from the recultivation of landfill sites, the elimination of environmental impact on existing production facilities, the certified carbon dioxide emission and for similar measures. At the time of reporting, a total of Euro 3.818 million (prior year: Euro 4.761 million) was set aside for recultivation projects.

In the guarantee provisions, obligations resulting from the usual product guarantees are taken into account, as are also risks from guarantees in connection with the as yet incomplete divestment measures in the Tile Division.

Other tax provisions contain obligations arising from net worth tax in the amount of Euro 0.485 million (prior year: Euro 0.637 million) as well as from German real estate tax in the amount of Euro 0.413 (prior year: 0.413 million).

Other provisions essentially include provisions for commissions, risks of lawsuits, audit costs, license fees and also a large number of individual items.

Changes arising from company acquisitions concluded in the reporting year are represented in the item "Changes in consolidated companies".

21. Non-current and current financial liabilities

The Villeroy & Boch Group reflects the following financial liabilities:

in Euro '000	*12/31/2007*	*12/31/2006*
Remaining term up to 1 year	1,972	-
Remaining term between one and five years	70,000	-
Remaining term over 5 years	**0**	-
Book value	**71,972**	-

All financial liabilities are denominated in euros. The average annual interest rate is 5.25 %. The loans were obtained from banks of the following regions:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	46,265	-
Rest of Eurozone	25,707	-
Other international destinations	0	-
Book value	**71,972**	-

Receivables from and/or payables to banks in the amount of Euro 1.371 million (prior year: Euro 11.220 million) were consolidated. The offsetting conditions and the intention to settle on a net basis are present (see also note 12).

The non-current and current financial liabilities reflected on the balance sheet are assigned to the financial instrument class "liabilities arising from financial services" (see also note 45). Through the obtaining of bank loans, the Group exposes itself to an interest-change risk. In the case of liabilities with fixed interest rates, there is a risk for the fair value, while in the case of variable interest rates there is a risk at the time of the payment streams. The risk management system is presented in note 45. The liquidity management system ensures that financial liabilities are settled in a timely manner. In the reporting year there was no payment default or subsequent negotiations of terms and conditions. The Group fulfilled all contractual terms and conditions.

22. Other non-current and current liabilities

Other non-current and current liabilities comprise the following:

	Carrying amount	*Remaining term*		*Carrying amount*	*Remaining term*	
in Euro '000	*12/31/2007*	*up to 1 year*	*over 1 year*	*12/31/2006*	*up to 1 year*	*over 1 year*
Advances received on purchase orders	5,213	5,213	0	1,055	1,055	0
Personnel liabilities	25,683	24,999	684	28,785	28,785	0
Bonuses and rebates	37,057	37,057	0	45,574	45,574	0
Other tax liabilities	8,868	8,868	0	9,872	9,872	0
Other liabilities	8,413	6,841	1,572	15,234	13,167	2,067
Deferred income	2,233	772	1,461	2,600	1,061	1,539
	87,467	**83,750**	**3,717**	**103,120**	**99,514**	**3,606**

Personnel liabilities are allotted to the following divisions:

in Euro '000	*12/31/2007*	*12/31/2006*
Tableware	7,686	8,229
Bathroom and Wellness	15,849	15,481
Tiles	0	3,695
Others	2,148	1,380
Carrying amount	**25,683**	**28,785**

Liabilities arising from bonuses and rebates as a rule are offset in the first six months of the following year. They were incurred in the following divisions:

in Euro '000	*12/31/2007*	*12/31/2006*
Tableware	3,686	3,234
Bad und Wellness	33,371	32,248
Tiles	0	10,092
Carrying amount	**37,057**	**45,574**

Among the German companies, other tax liabilities amount to Euro 2.389 million (prior year: Euro 3.794 million) and comprise primarily liabilities arising from wage and church tax in the amount of Euro 2.054 million (prior year: Euro 2.349 million). The foreign companies are reflecting predominantly wage and church tax in the amount of Euro 1.860 million (prior year: Euro 1.047 million) and value-added tax in the amount of Euro 3.804 million (prior year: Euro 3.551 million). No liabilities arising from income taxation were reflected in other tax liabilities (see note 24).
The other liabilities essentially comprise changes in market value resulting from the valuation of hedging transactions, negative balances in customer accounts and a number of other individual matters. The group properly fulfilled all contractual terms and conditions.
Deferred income essentially contains grants and assistances. The government grants were made essentially in Italy and Romania. The subsidies support the acquisition of non-current assets of long-term usefulness. In Romania, the subsidized assets are already in use. A description is provided in note 2.
An interest subsidy in the amount of Euro 0.351 million (prior year: Euro 0.713 million) granted in Germany is also contained in deferred income.

The following classes of financial instruments are contained in other non-current and current liabilities:

in Euro '000	*12/31/2007*	*Thereof non-current*	*12/31/2006*	*Thereof non-current*
Other liabilities	48,950	1,358	58,898	1,289
Hedging instruments	1,733	214	2,965	778
Total financial instruments	**50,683**	**1,572**	**61,863**	**2,067**
Financial instruments that are not valued in accordance with IAS 39	36,784	2,145	41,257	1,539
Carrying amount	**87,467**	**3,717**	**103,120**	**3,606**

The financial instruments that are not valued in accordance with IAS 39 comprise tax liabilities, personnel liabilities and deferred income. Liquidity management of the Villeroy & Boch Group ensures that liabilities are paid on time (see also note 45)

23. Trade payable

Trade accounts payable consist of unpaid obligations resulting from purchase of goods and services

in Euro '000	*Carrying value 12/31/2007*	*Remaining term up to 1 year*	*Remaining term more than 1 year*	*Carrying value 12/31/2006*	*Remaining term up to 1 year*	*Remaining term more than 1 year*
Trade payable	**66,782**	**66,782**	**0**	**82,391**	**82,391**	**0**

Liquidity management ensures timely payment of the liabilities. A description of liquidity management is provided in note 45.

24. Non-current and current income tax liabilities

Non-current and current income tax liabilities are distributed regionally as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
Germany	4,984	3,339
Rest of Eurozone	879	763
Other international destinations	1,410	1,226
Carrying amount	**7,273**	**5,328**

The income tax liabilities comprise the following:

in Euro '000	*Carrying value 12/31/2007*	*Remaining term up to 1 year*	*Remaining term more than 1 year*	*Carrying value 12/31/2006*	*Remaining term up to 1 year*	*Remaining term more than 1 year*
Income tax liabilities	795	795	0	787	787	0
Income tax provisions	6,478	6,478	0	4,541	4,541	0
Carrying value	**7,273**	**7,273**	**0**	**5,328**	**5,328**	**0**

In the reporting years, the item "income tax provision" changed as follows:

in Euro '000	*12/31/2007*	*12/31/2006*
As of January 1st	4,541	4,008
Currency adjustments	- 13	1
Utilization	- 1,454	- 2,851
Reversals	0	0
Allotments	3,479	3,383
Transfers	- 75	0
Changes in consolidated companies	0	0
As of December 31st	**6,478**	**4,541**

Income tax provisions are attributable predominantly to Villeroy & Boch AG. They contain yet to be paid income taxes.

NOTES TO CONSOLIDATED INCOME STATEMENT

25. Revenue

The Villeroy & Boch Group realizes revenue exclusively from the sale of goods and merchandise. The development of revenues is presented in the framework of segment reporting on page 84.

26. Cost of sales

Costs of sales comprise the costs of products and 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.
The increase in cost of sales is predominantly caused by the acquisitions carried out in 2006 in Mexico and the United States which were included for the full year in 2007 for the first time.

27. Selling, marketing and development costs

This item contains the costs of marketing and distribution, of the field sales force, advertising and logistics, license expenses and costs of research and development.
Expenses amounting to Euro 9.352 million (prior year: Euro 10.489 million) are included for research and development in the continued segments.

The latter are divided as follows between the individual divisions:

in Euro '000	*2007*	*2006*
Bathroom and Wellness	6,955	7,592
Tableware	2,397	2,897
	9,352	**10,489**

The Villeroy & Boch Group invested Euro 0.979 million (prior year: Euro 1.656 million) in the sold segment in research and development.

28. General and administrative expenses

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

29. Other operating income/expenses

Other operating income and expenses are made up as follows:

in Euro '000	*2007*	*2006*
Other operating income		
Exchange rate gains[1]	11,565	16,400
Accounting profit from disposal of fixed assets	1,345	7,850
Reversal of valuation reserves to receivables	384	892
Reversal of provisions	432	752
Other matters	6,572	6,848
Total	**20,298**	32,742
Other operating expenses		
Restructuring expense	4,430	16,722
Exchange rate losses[1]	10,081	15,549
Expenses from the allowances to receivables	1,602	1,632
Other matters	13,987	10,191
Total	**30,100**	44,094
Other operating income/expenses	**- 9,802**	**- 11,352**

[1] *predominantly from cash flow hedges*

Included in remaining other operating income are essentially recovery of damages, rental revenue, income from licenses and additional individual matters. Included in remaining other operating expenses are, by way of example, expenses from the disposal of fixed assets and expenses from insurance premiums.

30. Result of associates accounted for using the equity method

The result arising from companies valued at equity comprises results from investments in an associated company in the amount of Euro 0.384 million (prior year: Euro 0.425 million).

31. Financial results

Reflected in financial results are the following:

in Euro '000	*2007*	*2006*
Net interest income/expense	- 19	- 812
Remaining net financial income/expense	- 9,382	- 9,012
	- 9,401	**- 9,824**

Net interest income/expense contains the following:

in Euro '000	*2007*	*2006*
Interest income	6,413	4,040
Interest expenses	- 6,432	- 4,852
Net interest income/expense	**- 19**	**- 812**
Thereof resulting from financial instruments of the class		
Cash and cash equivalents	266	- 1,857
Loans and receivables/other liabilities	- 1,662	341
Held-to-maturity investments	340	218
Financial assets and liabilities not valued in accordance with IAS 39	1,037	486

The improvement in net interest income/expense by Euro 0.793 million is based essentially on the increased level of cash and cash equivalents (see also note 12). As a result of obtaining non-current liabilities (see also note 21) the interest expense of the category "loans and receivables/other liabilities" increased.

The following are reflected in other financial results:

in Euro '000	*2007*	*2006*
Interest in the change of the reserves for pensions and similar obligations	- 9,227	- 9,755
Income from "available-for-sale" financial assets	2	756
Expenses and revenues resulting from held for trading investments (derivates)	- 156	78
Other	- 1	- 91
Total other financial results	**- 9,382**	**- 9,012**

In comparison with the prior year, other financial results fell by Euro 0.370 million. The positive interest effect from the valuation of the pension reserve (increase in interest rate by 0.95 % to 5.45%) and the reduction of pension rights through cash settlements were not able to offset in the financial year the effects arising from outflows from "financial instruments available for sale".

32. Income taxes

Reflected as income taxes are the taxes due or paid in the individual countries on income and earnings as well as deferred taxation. German companies in the Villeroy & Boch Group are subject to an average municipal trade tax on income amounting to approx. 15.5 % of trading profit, which is deductible when determining corporation income tax. The corporation income tax rate is 25 % plus a reunification charge of 5.5 %.

Deferred taxes are determined in the individual countries on the basis of the tax rates expected at the time of realization. These tax rates are fundamentally based on the legal regulations applying or passed as of the balance-sheet date. In Germany, the tax rate used for deferred tax on the basis of temporary differences is 29.5 % and for deferred tax on loss carry-forwards is 15.83 % (corporate income tax portion) plus 13.67 % (municipal trade tax portion). The calculation of foreign income taxes is based on the valid laws and ordinances in the individual countries. The resulting income tax rates vary from 16.0 % to 42.9 %.

in Euro '000	*2007*	*2006*
Taxes paid or due in Germany	- 648	- 1,716
Taxes paid or due abroad	- 4,225	- 6,092
	- 4,873	**- 7,808**
Deferred taxes	- 1,032	1,869
Taxes on income	- 5,905	- 5,939
Thereof resulting from continued operations	- 5,608	- 6,352
from sold operations	- 297	413

The effective tax rate is 45.21 % (prior year: 25.76 %). The difference from the German tax rate, which in the year 2007, as in the prior year, was 37.7 %, can be computed as follows:

in Euro '000	*2007*	*2006*
Result before income taxes	13,062	23,051
Expected income tax (EBT x tax rate of 37,7 %)	- 4,924	- 8,690
Differences arising from foreign tax rates	2,059	2,016
Tax effects arising from:		
- non-deductible expenses	- 3,963	- 1,971
- other variances	923	2,707
Actual income tax expense	**- 5,905**	**- 5,939**
Actual tax rate in %	**45.21 %**	**25.76 %**

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

in Euro '000	*2007*	*2006*
Change in deferred tax assets	- 5,454	- 316
Change in deferred tax liabilities	3,586	2,407
Change in deferred tax assets and liabilities formed without affecting operating result	836	- 222
Deferred taxes in accordance with Income Statement	**- 1,032**	**1,869**

33. Result after tax from sold operations

The Management Board and Supervisory Board of Villeroy & Boch AG resolved to sell the Tile Division. Details concerning the assets and liabilities disposed of are provided at page 94. The components of result reflected in the Income Statement are provided below. The comparable figures with respect to result were adapted.

in Euro '000	*12/31/2007*	*12/31/2006*
Revenues	80,850	149,202
Other income	129	3,732
Depreciation/amortization expenses	- 3,197	- 5,599
Material costs	- 49,478	- 71,054
Personnel costs	- 21,075	- 44,247
Other expenses	- 23,507	- 33,120
Financial result	- 47	- 407
Results before taxes	- 16,325	- 1,493
Allocable income taxes	- 297	413
Net income of sold operation	**- 16,622**	**- 1,080**

34. Result after tax attributable to minority interests

Minority shares in the result after taxes amount to Euro 0.013 million (prior year: Euro -0.075 million). The decrease is attributable to the acquisition of further shares in Villeroy & Boch Ungarn ZRT.

35. Earnings per share

Net earnings per share is obtained by dividing the consolidated results for the year by the weighted number of issued shares and is stated for each class of shares as follows:

Common shares	*12/31/2007*	*12/31/2006*
Number of issued individual share certificates outstanding	14,044,800	14,044,800
Proportionate consolidated results (Euro '000)	3,485	8,733
Thereof from continued operations	12,325	9,307
from sold operations	- 8,840	- 574
Net earnings per share (euros)	0.25	0.62
Thereof from continued operations	0.88	0.66
from sold operations	- 0.63	- 0.04
Preferred shares		
Number of issued individual share certificates outstanding	12,361,771	12,361,771
Proportional share of net earnings (Euro '000)	3,686	8,304
Thereof from continued operations	11,467	8,810
from sold operations	- 7,781	- 506
Net earnings per share (in Euro)	0.30	0.67
Thereof from continued operations	0.93	0.71
from sold operations	- 0.63	- 0.04

In the weighted average number of individual share certificates in circulation, the purchases and sales of the Group are taken into consideration pro rata temporis. The development of treasury shares is described in note 13.
A share dilution effect did not exist either in the reporting year or in the prior year. The changes in reporting made in the financial year do not affect the key figures per share class.

36. Depreciation and amortization

Depreciation and amortization in the financial year were made up as follows:

in Euro '000	*2007*	*2006*
Scheduled amortization of intangible assets	1,422	1,432
Impairment on goodwill	0	0
Scheduled depreciation of property, plant and equipment	39,136	42,577
Write-downs on property, plant and equipment	0	0
Scheduled depreciation of investment properties	828	0
Impairment on financial assets	7,835	179
Total amortization and depreciation	**49,221**	**44,188**
Thereof from continued operations	**46,024**	**38,589**
from sold operations	**3,197**	**5,599**

37. Cost of materials

Cost of materials comprises the following:

in Euro '000	*2007*	*2006*
Cost of raw materials and supplies (including primary products)	162,413	152,311
Cost of purchased goods	121,829	125,878
	284,242	**278,189**
Cost of purchased services	49,299	47,359
Total cost of materials	**333,541**	**325,548**
Thereof from continued operations	**284,063**	**254,494**
from sold operations	**49,478**	**71,054**

Outside of production, cost of materials arose essentially in the area of research and development.

38. Personnel expenses

Personnel expenses are made up as follows:

in Euro '000	*2007*	*2006*
Wages and salaries	245,947	254,827
Payments following termination of employment		
Defined benefit plans	10,864	11,597
Defined contribution plans	16,658	17,581
Payments arising from termination of employment	2,419	16,053
Other benefits payments	34,135	37,484
Total personnel expenses	**310,023**	**337,542**
Thereof from continued operations	**288,948**	**293,295**
from sold operations	**21,075**	**44,247**

Average number of persons employed:

Number of employees	*2007*	*2006*
Wage earners	5,475	5,554
Salaried employees	3,746	3,681
	9,221	**9,235**

Of the entire workforce, 2,849 employees (prior year: 2,869) are employed in Germany and 6,372 (prior year: 6,366) abroad.

Number of employees	*2007*	*2006*
Bathroom and Wellness	5,931	5,789
Tableware	2,848	3,011
Others	442	435
	9,221	**9,235**

An average of 620 wage earners and 356 salaried employees were employed in the sold tile segment in the prior year. Of these, 717 employees worked in Germany and 259 abroad.

39. Other taxes

Other taxes total Euro 4.918 million (prior year: 6.389 million) and are made up of the following:

	2007		2006	
in Euro '000	*Germany*	*Abroad*	*Germany*	*Abroad*
Net worth tax	0	243	0	261
Real estate tax	931	821	1,015	886
Remaining other taxes	- 150	3,073	151	4,076
	781	**4,137**	**1,166**	**5,223**
Thereof from continued operations	**628**	**3,669**	**900**	**4,314**
from sold operations	**153**	**468**	**266**	**909**

The item "remaining other taxes", as in the prior year, essentially contains expenses from the French "Taxe professionnelle".

NOTES TO CONSOLIDATED CASH FLOW STATEMENT

The Cash Flow Statement presents the change in the financial resources of the Villeroy & Boch Group in the course of the reporting year and thus discloses payment streams in order to disclose the source and application of cash funds. A distinction is made between cash flow from operating activities, from investing activities and from financing activities. Effects from changes in the consolidated companies are eliminated in the respective items. Inflows and disposals of cash resulting from exchange rate volatility are reflected separately. The Cash Flow Statement is presented on page 83.

40. Cash flow from operating activity

Cash flow from operating activities is determined indirectly, whereby adjustments are made to the consolidated result before taxes for expenses and revenues that do not affect cash such as depreciation and amortization and changes in operating assets and liabilities and equity that affect cash are taken into consideration.

Cash flow from operating activities rose in the reporting year in comparison with the prior year by Euro 36.646 million to Euro 59.370 million. This was caused essentially by the reduction in other receivables in the reporting year by Euro 20.332 million – predominantly as a result of receipt of payment for real estate sold in the prior year and the repayment of a promissory note loan. Also contributing to the rise is the reduction recorded in the reporting year of other liabilities as well as the strong reduction in the prior year of trade receivables in the amount of Euro 19.044 million. Acting in the other direction was the increase in inventories. The change in non-current provisions is primarily the result of payout of pension claims.

Consolidated result before taxes was adjusted by the following non-cash revenues and expenses:

in Euro '000	*2007*	*2006*
Interest arising from the change in the provision for pensions and similar obligations	9,227	9,755
Revenues/expenses tax provision	3,585	3,476
Revenues/expenses deferred tax	1,569	- 1,869
Other non-cash events	- 382	- 428
	13,999	**10,934**

41. Cash flow from investing activities

Cash flow from investing activities is essentially the result of the outflow of funds for investments in non-current assets and the inflow of funds from disposals of non-current assets. In total, the outflow of funds from investing activities in the reporting year was Euro 58.189 million (prior year: Euro 60.657 million).

The amount of Euro 31.655 million (prior year: Euro 75.814 million) was used for investments in non-current assets. Of this amount, Euro 29.766 million (prior year: Euro 38.804 million) was for acquisition of intangible assets and property, plant and equipment. Additional explanations on these investments are found in notes 1 and 2. Liquid funds in the amount of Euro 45.219 million were invested in intermediate-term time deposits (see also note 9).

In the prior year, cash flow from investing activity was characterized by payment of the purchase price associated with the Mexico acquisition in the sanitary wares area. The amount of Euro 30.792 million was expended for the acquisition of the Mexican group of companies.

The Group realized receipts in the amount of Euro 4.881 million (prior year: Euro 15.157 million) from the disposal of non-current assets. Additional information on the company transactions of the reporting year are presented in the section "acquisitions / disinvestments / discontinued segments" on page 93.

42. Cash flow from financing activities

Cash flow from financing activities is the result of obtaining and repaying financial liabilities and of dividend payments.

In total, the inflow of funds (prior year: outflow) from financing activities in the reporting year was Euro 19.864 million (prior year: Euro -9.041 million). At play here was essentially the reduction of long-term bank liabilities (see also note 21) and in the other direction an investment in intermediate-term time deposits.

43. Cash and cash equivalents

The inflows and outflows of funds disclosed result in a cash balance at December 31st in the amount of Euro 75.091 million (see also note 12), with liquid funds thus being higher than the comparable value of the prior year (Euro 11.959 million) by Euro 63.495 million. The influence from the translation of foreign currencies in the reporting year was Euro 0.231 million (prior year: Euro 0.080 million).

NOTES ON GROUP SEGMENT REPORTING

44. Notes on group segment reporting

The segments to be reported are organized to conform with the internal management and internal reporting structures of the Group. The primary segment is thus derived from the divisions. The following divisions are distinguished in the Villeroy & Boch Group:

Division	*Activities*
Bathroom and Wellness	Ceramic sanitary ware, ceramic kitchen sinks and bathroom furniture, ceramics purchased from external companies, fittings, accessories and bathroom furniture, bathtubs, shower tubs, whirlpools, shower partitions, shower and steam cubicles, fittings and technical accessories, kitchen fittings purchased from external companies and technical fittings as well as sauna and spa facilities
Tableware	Tableware services made of faience, vitreous porcelain, fine Violbo china and bone china, gift articles made of ceramic and glass, lead-crystal drinking glasses, tableware, cutlery and silverware purchased from external companies, gift articles made of ceramic and glass, lead-crystal drinking glasses, table linen and accessories for the well-laid table purchased from external companies
Tiles	Non-vitreous and glazed/unglazed vitreous wall and floor tiles; tiles and natural stone purchased from external companies; turnkey complete solutions for projects of the middle and sophisticated categories as well as bathroom in conventional construction and as ready-made modular concept for hotels and resorts

During the financial year, the Group separated itself in stages from the activities of the Tile Division (see also page 93).

The information contained in the Group segment reporting on page 84 was determined in the following manner:

- **Segment revenues from sales to external customers** (external revenues) represent sales of the Divisions to companies outside the Group.
- **Segment revenues from transactions with other segments** (internal revenues) comprise sales to other divisions. Segment-spanning transactions are of subordinate significance and are undertaken at arm's length. The transfer price for non-marketable services is charged on the basis of incremental costs.

Consolidated sales revenues can be reconciled as follows:

	External revenues		*Revenues between the segments*		*Total*	
in Euro '000	*2007*	*2006*	*2007*	*2006*	*2007*	*2006*
Continued operations						
Bathroom and Wellness	522,170	489,158	1,329	1,376	523,499	490,534
Tableware	326,415	325,813	116	160	326,531	325,973
Total segment revenues	848,585	814,971	1,445	1,536	850,030	816,507
Eliminations	0	0	- 1,445	- 1,536	- 1,445	- 1,536
Revenues of the continued operations	**848,585**	**814,971**	**0**	**0**	**848,585**	**814,971**
Sold operations						
Tiles	80,850	149,202	0	7	80,850	149,209
Eliminations	0	0	0	- 7	0	- 7
Revenues from the sold operations	**80,850**	**149,202**	0	**0**	**80,850**	**149,202**

- **Segment result** (EBIT; operating result) is defined as the result before interest and taxes. The segment result comprises the following:

in Euro '000	*12/31/2007*	*12/31/2006*
Continued segments		
Bathroom and Wellness	21,079	28,273
Tableware	17,710	6,095
Total	**38,789**	**34,368**
Financial result	- 9,401	- 9,824
Profit before taxes	**29,388**	**24,544**
Income tax expense	- 5,608	- 6,352
Net income of the continued operations	**23,780**	**18,192**
Sold segment		
Tiles	- 16,280	- 1,086
Financial result	- 45	- 407
Profit before taxes	**- 16,325**	**- 1,493**
Income tax expense	- 297	413
Net income of the sold operations	**- 16,622**	**- 1,080**
Consolidated net income for the year	**7,158**	**17,112**

- **Segment assets** (operating assets) comprise intangible assets and property, plant and equipment, inventories, trade receivables, receivables due from associated companies, discounted bills of exchange, other assets (excluding income tax refund claims) and prepaid expenses. Included in the reconciliation of operating assets and balance-sheet total are the items that are to be allocated to financial, tax and other non-operating segments. These essentially are financial assets, securities, cash and cash equivalents as well as deferred tax assets and liabilities.

- **Segment liabilities** (operating liabilities) comprise other provisions, trade payables, accounts due to associates, other liabilities (excluding income tax liabilities) and deferred income.

As of the balance-sheet date, segment assets and liabilities were as follows:

	Assets		*Liabilities*	
in Euro '000	*12/31/2007*	*12/31/2006*	*12/31/2007*	*12/31/2006*
Continued operations				
Bathroom and Wellness	374,895	377,429	128,801	128,408
Tableware	178,494	186,013	52,491	50,811
Reconciling item	251,499	113,775	279,022	221,006
Total	**804,888**	**677,217**	**460,314**	**400,225**
Sold operations				
Tiles	-	112,156	-	38,749
Consolidated	**804,888**	**789,373**	**460,314**	**438,974**

- **Investing expenditures** contain the entire acquisition costs of the intangible assets and the property, plant and equipment that were added during the reporting period.
- **Scheduled depreciation/amortization** pertains to the intangible assets and property, plant and equipment allocated to the individual segments, which is contained in segment result.
- An important item in the reconciliation to consolidated result is the write-downs on financial assets.
- Included in non-cash expenses are the following:

in Euro '000	*2007*	*2006*
Interest expenses resulting from the change in provisions for pensions and similar obligations	9,227	9,755
Expenses arising from the reversal of the tax provision	3,594	3,476
Expenses arising from reversal of deferred tax	4,317	538
Other non-cash expenses	0	63
	17,138	**13,832**

Segments by regions

The secondary reporting format is geared to the ranking of the markets with the most sales. In Germany, the Group manufactures at five locations and offers its entire range of products. In the second strongest individual market, France, there are two manufacturing locations. Products are manufactured at four locations in the region "Rest of Western Europe". In addition to three production locations in Mexico, the Villeroy & Boch Group maintains pure sales and marketing locations in the other regions, each of which market and sell the entire product range of the Group.

The key figures are determined as follows:
- Allocation of segment revenues from sales to external customers is based on the registered seat of the customer.
- Segment assets are allocated according to the company locations.
- Capital expenditures of the segment are likewise allocated on the basis of the company location. They comprise the capital expenditures for intangible assets (including acquired goodwill) and property, plant and equipment.

OTHER NOTES

45. Financial instruments

With respect to its assets, liabilities and planned transactions, the Villeroy & Boch Group is subject to risks in particular arising from the volatility of exchange rates, interest rates and market prices. The goal of its financial risk management is to limit these market risks arising though the ongoing operating and financing activities. For this purpose selected derivative and original financial instruments are utilized as deemed appropriate.

Inventory of financial instruments

The Group carries the following original and derivative financial instruments on its balance sheet:

in Euro '000	*Nominal value*	*Adjusted acquisition costs*			*Fair Value*		*Carrying value as of 12/31/2007*	*Fair Value as of 12/31/2007*
Valuation class / *Valuation category:* / *Balance sheet item*	*Cash reserve*	*Loans and receivables*	*Available-for-sale*	*Held-to-maturity*	*Available-for-sale*	*Hedge accounting*		
Cash and cash equivalents	75,091	-	-	-	-	-	75,091	75,091
Trade receivables	-	135,008	-	-	-	-	135,008	135,008
Other receivables	-	21,729	0	0	0	-	21,729	21,729
Loans to related companies and 3rd parties	-	12,766	0	0	0	-	12,766	12,766
Other financial assets	-	0	12,280	45,219	0	2,099	59,598	59,598
	75,091	**169,503**	**12,280**	**45,219**	**0**	**2,099**	**304,192**	**304,192**
Financial assets that do not come under IAS 39							15,259	
Other assets							485,437	
Total assets							**804,888**	

in Euro '000	*Adjusted acquisition costs*	*Fair Value*		*Carrying value as of 12/31/2007*	*Fair Value as of 12/31/2007*
Valuation class / *Valuation category:* / *Balance sheet item*	*Other liabilities*	*Hedge accounting*	*Fair-value option*		
Trade payables	66,782	-	-	66,782	66,782
Liabilities arising from financial services	71,972	-	-	71,972	71,972
Other liabilities	48,950	1,733	-	50,683	50,683
	187,704	**1,733**	**-**	**189,437**	**189,437**
Financial liabilities, that do not come under IAS 39				255,445	
Other liabilities				360,006	
Total liabilities and equity				**804,888**	

In the prior year, the following financial instruments were contained in the balance sheet:

in Euro '000 *Valuation class*	*Nominal value*	*Adjusted acquisition cost*			*Fair Value*			*Book Value*	*Fair Value*
Valuation category: / *Balance-sheet item*	*Cash reserve*	*Loans and receivables*	*Available for sale*	*Held-to-maturity*	*Available-for-sale*	*Hedge accounting*	*Held for trading*	*at 12/31/2006*	*at 12/31/2006*
Cash and cash equivalents	11,596	-	-	-	-	-	-	11,596	11,596
Trade receivables	-	163,486	-	-	-	-	-	163,486	163,486
Other receivables	-	21,584	-	-	-	-	-	21,584	21,584
Credits to related companies and 3rd parties	-	2,139	0	0	-	-	-	2,139	2,139
Other financial assets	-	0	30	10,192	359	435	156	11,172	11,72
	11,596	**187,209**	**30**	**10,192**	**359**	**435**	**156**	**209,977**	**209,977**

in Euro '000 *Valuation class:*	*Adjusted acquisition costs*	*Fair Value*		*Carrying*	*Fair Value*
Valuation category: / *Balance-sheet item*	*Other liabilities*	*Hedge accounting*	*Fair-value-option*	*value as of 12/31/2006*	*as of 12/31/2006*
Trade payables	82,391	-	-	82,391	82,391
Other liabilities	58,897	2,965	-	61,862	61,862
	141,288	**2,965**	**-**	**144,253**	**144,253**

Significant accounting and valuation methods for financial instruments are described beginning on page 86.
Cash and cash equivalents, trade receivables and other receivables predominantly have short remaining terms and therefore their carrying values as of the balance-sheet date correspond to their fair values.
The fair values of other receivables as well as of financial investments held to final maturity correspond to the present values of payment associated with the assets taking into consideration the current interest rates.
Financial assets that do not come under IAS 39 comprise, by way of example, shares in subsidiaries or associated companies. Among other assets are the intangible assets, property, plant and equipment and deferred tax assets.
Trade receivables and other liabilities as a rule have short remaining terms. The values carried on the balance sheet represent approximately the fair values.
Provisions for pensions and similar obligations, personnel and tax liabilities are not accrued according to IAS 39. In addition to equity capital, deferred tax liabilities are reflected as other items on the liability and equity side.

Derivative financial instruments
The Villeroy & Boch Group employs financial instruments to secure currency, interest and brass positions in order to minimize or eliminate market fluctuations. Only standardized, marketable OTC transactions such as forward exchange and commodities futures transactions and interest rate swaps are utilized for this purpose.

On the balance-sheet date, the following derivative financial instruments were held:

	Fair Values of the Hedging Instruments			
	Assets		*Liabilities*	
in Euro '000	*2007*	*2006*	*2007*	*2006*
In the cash flow hedge:				
Interest swaps	-	-	1,007	1,623
Forward currency transactions	2,099	435	60	1,342
In the fair-value hedge:				
Commodity futures transactions	-	-	666	-
	2,099	**435**	**1,733**	**2,965**

Derivative financial instruments are accounted for as hedging instruments in connection with hedged items only if the various value changes of the hedging instrument and the hedged position largely are compensated. In the framework of a cash flow hedge, valuation is at the fair value. Effective valuation components are initially received without effect on result and only upon maturity are received with effect on result. Ineffective valuation shares are recognized immediately with effect on result. In the case of a fair value hedge, the hedge transaction and the secured risk portion of the underlying transaction are valued at market value and are realized simultaneously with effect on result.
The treasury of the Villeroy & Boch Group considers effective management of financial risks to be one of its chief responsibilities.

Risk management system
Within the Villeroy & Boch Group there is a functional, effective risk management system with a clear functional organization. Unambiguous responsibilities are assigned to the individual organizational units involved in the risk control process:
The risk control process begins in the **Management Board** which defines, alongside of the general principles of corporate strategy, the principles relating to risk policy as well as the accompanying reporting obligations.
The **risk management system** is responsible for active control and monitoring of risks. Risk management functions cover the entire process from early recognition of risk to controlling or handling of the risks or residual risks. Risk management proper in the sense of "risk response" is fundamentally in the sphere of responsibility of process management, i.e., decentrally in the divisions or for the central functions in the respective departments. Through the allocation of risk management to the respective process responsibility it is ensured that all areas of the Group are involved.
Risk controlling identifies, measures and evaluates all risks. In particular, through the involvement of the respective division controllership, the integration of risk management into the existing, Group-wide, decentralized controlling organisation is ensured for a seamless flow of processes.
Group internal audit among other things exercises the function of recognizing in the framework of its sphere of activity risks, independently evaluating and assessing them (discovery and valuation function) and then presenting recommendations for improvement (advisory function).
The audit committee of the **Supervisory Board** exercises a control function with respect to all measures for risk limiting and controlling the Villeroy & Boch Group.

Management the risks interest changes

Interest risks occur as a result of interest rate fluctuations caused by the market when Group companies obtain funds at fixed and variable interest rates. The risk to earnings arising from interest changes is determined on the basis of sensitivity analyses and is controlled by the Group treasury through maintaining a proper relationship between the borrowing of funds on a fixed- and variable interest basis, whereby depending on the market situation, among other things interest swaps are utilized. Intercompany financing is usually structured using matching maturities for replacement financing.

The Villeroy & Boch Group utilizes interest and interest-currency swaps in the framework of cash flow hedges. The hedge transaction is valued at fair value. The valuation result is split into an effective and an ineffective portion. The effective portions of valuation changes are initially recorded in retained earnings (see note 15) and are not recorded with effect on operating result until upon realization of the stream of payments. The ineffective portions of the valuation results are immediately taken into consideration with effect on operating result. The general accounting rules do not change for the transactions underlying the hedged streams of interest. As in the prior year, in the 2007 financial year there were only effective hedging relationships.

As of the balance-sheet date, the Group carries the following hedging instruments on its balance sheet:

Final maturity	*Currency*	*Nominal volume*	*Fair Value in Euro '000*	*Fixed interest*	*Reference interest*
03/30/2008	EUR	8,000,000	253	5.64 %	6 month Euribor
03/30/2008	CHF	10,000,000	173	4.34 %	6 month Libor
03/30/2009	EUR	7,000,000	300	5.71 %	6 month Euribor
03/30/2010	EUR	5,000,000	281	5.76 %	6 month Euribor

The fixed interest is settled annually on March 30th and the variable interest is settled on March 30th and September 30th. Within the settlement cycles, the future interest payments are accrued in the financial result. Liquidity management ensures the solvency of the Villeroy & Boch Group.

As a result of the existing interest positions, the Villeroy & Boch Group is exposed to fluctuations caused by the market. In the event of a theoretical change in interest rates in the 2007 financial year by +/- 50 base points, the financial results would have increased or fallen by Euro 0.500 million (prior year: Euro +/-0.400 million) if all other variables remained constant. Net income for the year would have moved analogously. The sensitivity analysis was determined on the basis of an average interest risk exposure of derivative and original financing instruments as of December 31st of a given year. In so doing, the most important interest currencies of the Group (EUR, USD, MXN, SEK, CHF und DKK) were taken into consideration at the appropriate interest level.

In the financial year, there were no changes in the market risk exposures of the Villeroy & Boch Group nor were there changes in the method of controlling and evaluation risk.

Management of interest change risks

In the framework of its global business activities, the Group is exposed to currency risks resulting from planned and posted foreign currency transactions. As a result of the invoicing of sales and services to Group companies in their local currency, the exchange rate risks of the Villeroy & Boch Group are largely centralized with Villeroy & Boch AG.

Currency risk is hedged in the Group for a period of 12 months in several stages. Initially, in order to determine the remaining hedging volume, the receivables are netted on a currency by currency basis through out the Group. The remaining foreign currency risk is initially hedged at a level of 70 %. Within a year, additional hedging measures follow in accordance with the development of business. Market risk positions are valued by means of a sensitivity analysis.

As of December 31st 2007, the positions in the various foreign currencies were closed and Villeroy & Boch accordingly is not exposed to any significant currency risks.

In the Villeroy & Boch Group, planned future foreign currency sales in various currencies resulting from operating business activity are utilized as underlying transactions in the framework of cash flow hedges. Valuation takes place analogously with the method described in conjunction with management of risks from changes in interest rates. Foreign currency futures transactions, which are securitized with first-class banks, are utilized as hedging transactions. The prospective effectiveness test is performed with the aid of the "critical term match" method since the parameters on both sides relevant to valuation, such as volume, currency or maturity, coincide. The effectiveness is determined retrospectively by means of the dollar offset method. The planned and realized foreign currency sales are verified on the basis of a planned/actual comparison. In the financial year, as in the prior year, there were only effective hedging relationships.

Forward exchange transactions are presented as follows:

	Assets		*Liabilities*	
in Euro '000	*Nominal volume*	*Fair Value*	*Nominal volume*	*Fair Value*
Within the next 3 months	-	-	3,144	106
In three to six months	-	-	38,699	1,791
In six to twelve months	7,385	60	28,214	202
After twelve months	-	-	-	-
	7,385	**60**	**70,057**	**2,099**

In accordance with the aforementioned risk-management principles, all foreign currency items during a year are hedged. To this extent, there are no significant unsecured currency positions at the time of reporting. The sensitivities indicated on page 96 are calculated in accordance with the foreign currency balance sheets.
In the financial year, there were no changes in exposures of the Villeroy & Boch Group to market risks and no changes in the method of risk control and valuation.

Management of market price risks
Villeroy & Boch Gustavsberg AB in Sweden produces high-quality sanitary fittings from a brass alloy. The existing procurement price risk was hedged through conclusion of commodity futures contracts.
The hedge relationship is accounted for as a fair value hedge. In a fair value hedge, the hedge transaction and the hedged risk portion of the base transaction are valued at market value and are simultaneously realized with effect on operating result. Fixed obligations to purchase 1,260 tons of brass at an established price are designated as the base transactions. Reflected on the balance sheet in other assets (note 10) are market price changes of the base transaction in the amount of Euro 0.666 million which result from fluctuation of brass quotations since conclusion of the contract.
The significant terms and conditions of the commodities futures transactions such as nominal value or maturity correspond to the raw materials demand necessary for production. For this reason it is likely that the fair value changes of the base and the hedge transaction will completely offset each other. Accordingly under IAS 39.AG108 a prospective effectiveness of the hedge relationship can be assumed without mathematical documentation (critical term match). The retrospective effectiveness is determined by means of the dollar offset method. For this purpose, the cumulative absolute change in fair value of the commodity futures contracts designated as hedging instruments are compared with the cumulative absolute changes of the fair values of the raw material orders. Current effectiveness is documented by the monthly retrospective test. The following table presents the payment streams:

	Nominal volumes		*Fair Value*
in Euro '000	*Tons*	*in Euro '000*	*in Euro '000*
Within the next 3 months	315	1,216	- 170
In three to six months	420	1,621	- 166
In six to twelve months	525	2,026	- 330
After twelve months	0	0	0
	1,260	**4,863**	**- 666**

As a result of the current market situation, all contracts are reflected as financial liabilities. The negative market values resulting from the commodity futures transactions (Euro -0.666 million) are almost completely offset through the capitalized market price changes of the base transactions in the amount of Euro 0.666 million.
As of the balance-sheet date, there was an open brass position of around 207 tons. In the event of a change of the brass quotation by +/-10 % and under the theoretical assumption that all other variables remain constant, the carrying values on the balance sheet as of 12/31/2007 would rise/fall by Euro 0.070 million. These two scenarios would not have any effect on the income statement.
The Villeroy & Boch Group continues to be exposed to a market price risk that results from the equity investments (see note 5(a)). All equity investments represent equity instruments held for which no active market exists. For this reason, valuation is at adjusted acquisition costs. All equity investments are held for strategic reasons and not for trading purposes. A parameter adjustment within the valuation model by +/-10 % would among other things change the financial result and equity capital by Euro +/-0.780 million. In the prior year, this parameter change would not have had any influence on the two variables since no valuation adjustment was made. An analogous parameter adjustment of the valuation model of the credits valued at adjusted acquisition costs (see note 5(e)) would change the two figures by Euro +/-0.003 million (prior year: Euro +/-0.005 million).
The Management report contains additional information on the general procurement market risk on page 56.

Management credit-standing/bad debt risks
Credit-standing or bad debt risks arise if one contractual party does not comply with its contractual obligations, i.e. if by way of example banks completely or partially default in the framework of deposit accounts or if customers completely or partially default in the framework of sales. For the reduction and control of these risks the guidelines of the Villeroy & Boch Group provide that business relationship may only be entered into with creditworthy business parties and, if necessary, with the provision of items of security.
For banks, minimum requirements with respect to their creditworthiness and individual maximum limits for involvement to be entered into are established based on predefined categories which are based on the ratings of international rating agencies or internal examinations of creditworthiness. The loss risks are monitored on a regular basis in that compliance with the established limits for the banks is ensured on a continuous basis and the limits are adapted to altered market conditions if appropriate. The loss risks in the case of monetary deposits and derivative financial instruments are very slight since the contractual parties have a rating of at least A-/A3 by international rating agencies.
There are trade receivables worldwide with a large number of customers which are distributed among the divisions of Villeroy & Boch. The customer receivables in western markets are protected through trade credit insurance. The loss risk for uninsured customers is controlled through a reporting system and a limit system. Compliance with limits is centrally monitored. Villeroy & Boch counters possible loss risks through receiving security provided by customers (mortgages, guarantees, etc.), prompt collection measures as well as early formation of specific valuation allowances.
Specific valuation allowances are formed in particular in the case of significant financial difficulties of the debtor and impending bankruptcies. The maximum loss risk corresponds to the carrying values of customer receivables reflected on the balance sheet (see also note 8). Customer defaults could have a negative effect on the development on business, whereby Villeroy & Boch, taking into consideration the aforementioned risk control instruments, considers a significant effect on result to be unlikely.

Management of liquidity risks

For management of liquidity risks, there is an appropriate concept for controlling the requirements for short-term, intermediate-term and long-term financing and liquidity. In order to ensure solvency at all times as well as the financial flexibility of Villeroy & Boch, the Group controls liquidity risks through the maintenance of adequate liquidity reserves, adequate credit lines with German and foreign banks and through a liquidity projection with a 12-month planning horizon.

Financial tools used for this purpose are money market products (see note 12), intermediate-term time deposits (see note 9) and the obtaining of loans (see note 21). Within the Group a financing requirement of Group companies is fundamentally covered through internal loan relationships. To the extent that legal, tax or other circumstances do not permit this, external loans are provided for the Group companies involved. This makes possible cost-effective, always adequate coverage of the financial requirements for business operations and for on-the-spot capital expenditure.

Villeroy & Boch utilizes international cash-pooling systems that lead to reduced volumes of external financing and to an optimization of the financial results.

The central treasury receives information from all company components in order to be able to prepare a liquidity profile. The liquidity projection geared to a planning horizon of twelve months constantly monitors the forecasted and actual payment streams and reconciles the maturity profiles of financial assets and liabilities. In addition to a cash flow statement and the three general liquidity classes, to control its liquidity risk, Villeroy & Boch Group uses among other things the following key figures: dynamic debt-equity ratio, debt coefficient and working capital.

The remaining contractual terms of the financial liabilities are taken into consideration in liquidity planning as follows:

in Euro '000	*Book value at 12/31/*	*Outflow expected in the following time ranges*				
		Gross	*within 3 months*	*from 4 months to 1 year*	*between 1 and 5 years*	*after 5 years*
Original financial instruments:						
Trade payables	66,782	66,782	66,782	0	0	0
Liabilities arising from financial services	71,972	84,422	1,371	1,737	81,314	0
Other liabilities	48,950	50,762	37,110	12,001	1,651	0
Derivative financial instruments						
Hedges with negative market values	1,733	79,888	5,761	70,560	3,567	0
Totals as of December 31st 2007	**189,437**	**281,854**	**111,024**	**84,298**	**86,532**	**0**
Original financial instruments						
Trade payables	82,391	82,391	82,391	0	0	0
Other liabilities	58,897	61,149	43,136	16,660	1,353	0
Derivative financial instruments						
Hedges with negative market values	2,965	80,507	4,262	68,684	7,561	0
Total as of December 31st 2006	**144,253**	**224,047**	**129,789**	**85,344**	**8,914**	**0**

For these original and derivative financial instruments with negative market values, the indicated undiscounted payment obligations are based on the earliest date on which the Group can be required to pay.

Within the Villeroy & Boch Group, there is no significant liquidity risk. In the financial year there were no changes in the risk position of the Villeroy & Boch Group and no changes in the method of risk control and valuation.

Other disclosures on financial instruments

In the reporting year, the following net results were achieved through the use of original and derivative financial instruments:

	Valuation result			*Disposals*	*Total*
in Euro '000	*Fair Value*	*Currency*	*Valuation adjustment*		
Net result of financial year 2007					
Loans and receivables/Other liabilities	-	- 103	8,650	0	8,547
Available-for-sale financial assets	-	-	41	5	46
Held for trading investments	-	-	-	156	156
Cash-flow-hedge accounting	2,532	15	0	1,652	4,199
Fair-value hedge accounting	- 666	0	0	- 4	- 670
Net result of the financial year 2006					
Loans and receivables/Other liabilities	-	- 28	447	0	419
Available-for-sale financial assets	-	-	-	757	757
Held for trading investments	78	-	-	-	78
Cash-flow-hedge accounting	- 1,667	- 6	0	2,389	716
Fair-value hedge accounting	-	-	-	-	-

The breakdown of interest result according to the individual classes of financial instruments is provided in note 31. There were no incomplete write-offs in either the reporting year or the prior year.

46. Contingent liabilities and commitments

in Euro '000	*12/31/2007*	*12/31/2006*
Trustee obligations	315	326
Other contingencies	19	20

There are no obligations due to associated companies.

47. Other financial obligations

in Euro '000	*12/31/2007*	*12/31/2006*
Obligations arising from orders placed for		
investments in intangible assets	2	0
investments in property, plant and equipment	446	1,034

The rental and lease obligations are presented in detail in note 2.

48. Relations with related companies and persons

In the framework of our business operations, we purchase materials, inventories and services worldwide from numerous business partners. Among these are ones in which the Villeroy & Boch Group holds equity interests. as well as companies that are connected with members of the Supervisory Board of Villeroy & Boch AG. All transactions are at usual market terms and conditions. The corresponding sales in the view of the Villeroy & Boch Group are not of material significance.

Villeroy & Boch AG granted a long-term loan to V&B Fliesen GmbH, which was classified as a related company. A description of this transaction is provided in note 5(d).

Related persons or their family members employed within the Villeroy & Boch Group receive compensation based on position and/or function that is paid independently of the person of the holder of the position. The compensation of the members of management is presented in text note 49.
The transactions between Villeroy & Boch AG and its subsidiaries and among the subsidiaries essentially pertain to the exchange of work in process and finished goods as well as merchandise. These transactions were eliminated in accordance with the consolidation principles.

49. Supervisory Board and Management Board remuneration

According to the Memorandum and Articles of Association of Villeroy & Boch AG, members of the Supervisory Board are entitled to claim reimbursement of the expenses they have incurred as a result of their work. In addition to this, they receive a fixed basic remuneration and a variable component of remuneration.
The fixed remuneration is Euro 12,000 per year. In addition to the base remuneration, the Chairman receives Euro 28,000, and the Deputy Chairman receives Euro 8,000. The variable remuneration amounts to Euro 195.00 per member of the Supervisory Board for every cent per share of shareholders' dividends (average of the dividends paid on a preferential share and an ordinary share) in excess of 10.5 cents.
The preceding remunerations are paid together with any statutory value-added tax which may be incurred. A claim to remuneration exists only pro rata temporis for the term of appointment.
The Chairman of the Investment Committee and the Chairman of the Audit Committee (Peter Prinz Wittgenstein and Charles Krombach, respectively) each receive Euro 4,000, and the members thereof (Luitwin Gisbert von Boch and Dietmar Langenfeld as well as Peter Prinz Wittgenstein and Ralf Runge, respectively) each receive Euro 2.500 per annum in addition to the base remuneration.
As in the prior year, members of the Supervisory Board of Villeroy & Boch AG received remuneration for participating in the supervisory boards of the subsidiaries – in the meaning of § 125 AktG – in the amount of Euro 0.003 million.
In the financial year, the members of the Supervisory Board of Villeroy & Boch AG received the following remuneration:

in Euro '000	*Fixed remuneration*	*Variable compensation for 2006*	*Other executive bodies*	*Total*	*Prior year*
Peter Prinz Wittgenstein	47	6	-	53	40
Luitwin Gisbert von Boch-Galhau	23	6	3	32	26
Ulrich Küppers	17	6	-	23	15
Josef Balle (up to 06/30/2007)	10	6	-	16	22
Emmanuel Villeroy de Galhau	12	6	-	18	14
Wendelin von Boch-Galhau (from 06/01/2007)	7	-	-	7	-
Kilian von der Tann (up to 06/01/2007)	8	6	-	14	17
Hannsgeorg Edinger	12	6	-	18	11
Ina Rauls (up to 06/01/2007)	0	5	-	5	17
Dietmar Langenfeld (from 01/01/2007)	13	-	-	13	-
Charles Krombach	14	6	-	20	15
Dr. Jürgen Friedrich Kammer	12	5	-	17	15
Berthold Scholtes (up to 06/30/2007)	6	5	-	11	15
Ralf Runge	15	5	-	20	17
Werner Jäger (from 07/16/2007)	5	-	-	5	-
Wolfgang Thieser (from 07/16/2007)	5	-	-	5	-
Gisela Hannack (up to 09/30/2005)	-	-	-	-	3
	206	**68**	**3**	**277**	**227**

A total of Euro 0.295 million, including the variable remuneration components of the financial year 2007, was recorded as expense in the Group operating results of the 2007 financial year (prior year: Euro 0.172 million) whereby an additional expense for variable

remuneration components of the year 2006 in the amount of Euro 0.011 million (prior year: reversal with effect on operating result in the amount of Euro 0.045 million) was taken into consideration.
Total remuneration of the members of the Management Board in the amount of Euro 2.394 million (prior year: Euro 2.208 million) are composed of Euro 0.951 million (prior year: Euro 1.227 million) fixed and Euro 1.443 million (prior year: Euro 0.981 million) variable salary components. The pension rights of the Management Board members in the amount of Euro 1.723 million (prior year: Euro 1.760 million) are included in provisions for pensions. Provisions for former members of the Management Board amount to Euro 14.267 million (prior year: Euro 11.842 million). Emoluments in the financial year amounted to Euro 1.324 million (prior year: Euro 1.057 million).
§ 314 subsection 2 sentence 2 HGB in combination with § 286 subsection 5 HGB was applied with respect to the disclosure of the individual Management Board emoluments.

50. Events subsequent to the balance-sheet date

There are no significant events to report.
The Consolidated Financial Statements were approved by the Management Board of Villeroy & Boch AG on March 7th 2008 for release to the Supervisory Board. The Supervisory Board has the responsibility of examining the Consolidated Financial Statements and declaring whether it approves them.

51. Proposed appropriation of Villeroy & Boch AG retained earnings

The Supervisory Board and the Management Board propose using the retained earnings of Euro 24,229,923.57 to distribute a dividend of Euro 0.37 per individual ordinary share certificate and Euro 0.42 per individual preference share certificate. The proposed appropriation of retained earnings corresponds to dividends of:

	Euro
for common share capital	5,196,576.00
for preferred share capital	5,898,816.00
	11,095,392.00

The remaining amount of retained earnings in the amount of Euro 13,134,531.57 will be carried forward to new account.
If at the time of the resolution on the appropriation of retained earnings treasury stock is still in the possession of the company, the dividend payment for preference share capital is reduced by the sum allotted to the treasury shares. Retained earnings brought forward increase accordingly. Figures relating to treasury shares held is contained in note 13.

52. Corporate Governance Codex

The declaration of conformity with the German Corporate Governance Codex, prescribed by § 161 AktG for the financial year 2007 was made by the Management Board and the Supervisory Board of Villeroy & Boch AG on December 14th 2007. The Corporate Governance Report of the Management Board and the Supervisory Board is located on page 36 of the annual report. The conformity declaration is permanently accessible to the shareholders on the Internet (www.villeroy-boch.de, Investor Relations).

53. Auditor's fees

The fees of the auditor, KPMG Europe LLP, are made up as follows:

in Euro '000	*2007*	*2006*
Annual audit	304	276
Other certification or valuation services	11	8
Tax consultancy services	46	40
Other services	51	30

Reflected for the annual audit of our subsidiary in London by the English branch of KPMG Europe LLP is Euro 0.042 million.

54. Developments in the IASC regulatory system

The regulatory system of the International Accounting Standard Committee Foundation ("IASC Foundation") comprises the basic concept, individual standards and interpretations. IASB is the publisher of all standards in the name of the IASC. The IFRIC publishes interpretations which serve to explain and interpret already existing standards.
Publications of the IASC Foundation that were adopted by the EU and are to be utilized for financial years beginning from January 1st 2009 are as follows:

Standard		Designation
IFRS	7	Financial Instruments: Disclosures
IAS	1	Changes with respect to Capital Disclosures
IFRIC	7	Application of the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC	8	Scope of Application of IFRS 2
IFRIC	9	Reassessment of Embedded Derivatives
IFRIC	10	Interim Financial Reporting and Impairment

Publications of IASC Foundation that were adopted by the EU which are not mandatorily to be applied beginning January 1st 2007 are as follows:

Standard		Title	To be applied beginning
IFRS	8	Business segments	01/01/2009
IFRIC	11	IFRS 2 Transactions with Treasury Shares and Shares of Group Companies	01/01/2008

Publications of the IASC Foundation that have not yet been adopted by the EU:

Standard		Title
IAS	1	Revised: Presentation of Financial Statements: A Revised Presentation
IAS	23	Borrowing Costs
IFRIC	12	Service Concession Arrangements
IFRIC	13	Customer Loyalty Programs
IFRIC	14	IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The above standards and interpretations will be applied when they become effective within the European Union. EU Directive 1606/2002 requires the application of IFRS which has been recognized by the EU. Through this recognition, the IASB publications are implemented into European law. This means that every standard, every modification of a standard and every interpretation that is published by the IASC Foundation will be independently investigated by the EU to determine whether it can be applied in the EU. The standards and modifications that currently have not yet been adopted by the EU are cited with their English titles in the absence of an official German translation. Due to absence of recognition, application in advance is not possible. With the EU recognition of the modified IAS 23, financing costs are to be capitalized in the case of assets with multiple-month production processes. According to the present capital expenditure planning, financing costs can be capitalized in the case of only a few projects. In conjunction with the implementation of IFRS 8, segment reporting must be reviewed. According to present understanding, the Villeroy & Boch Group will be affected by these changes only marginally.

Mettlach, 7th March 2008

Frank Göring | Manfred Finger | Volker Pruschke

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 2007. 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 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpf)
Qualified auditor

(Braun)
Qualified auditor

Major Consolidated Companies

Affiliated companies:

Division Bathroom and Wellness	Belgium	Villeroy & Boch Wellness N.V., Roeselare
	France	Villeroy & Boch S.A.S., Paris
	Italy	Villeroy & Boch Wellness Italia S.r.l., Castelraimondo
	Netherlands	Ucosan B.V., Roden
		Ucosan Holding B.V., Roden
	Romania	S.C. Mondial S.A., Lugoj
	Sweden	Villeroy & Boch Gustavsberg AB, Gustavsberg/Värmdö
		Villeroy & Boch Wellness AB, Växjö
	Republic of Slovakia	Vagnerplast Slovensko s.r.o., Partizánske
	Czech Republic	Vagnerplast spol. s.r.o., Velké Prítocno - Unhost
	Hungary	Villeroy & Boch Magyarország Kft., Hódmezövásárhely
	Mexico	Vilbomex S.A. de C.V., Saltillo
Tableware Division	Denmark	Villeroy & Boch Danmark A/S, Brondby
	Germany	Villeroy & Boch Creation GmbH, Mettlach
	Luxembourg	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg, Luxembourg
	France	Villeroy et Boch Arts de la Table S.A., Paris
	Italy	Villeroy & Boch Arti della Tavola S.r.l., Milan
	Switzerland	Villeroy & Boch Creatable AG, Lenzburg
	Norway	Villeroy & Boch Norge AS, Oslo
	Netherlands	Villeroy & Boch Tableware B.V., Nijkerk
	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
Division-spanning companies	England	Villeroy & Boch (U.K.) Ltd., London
	Spain	Villeroy & Boch Hogar S.L., Barcelona
	Austria	Villeroy & Boch Austria G.m.b.H., Salzburg
	Belgium	Villeroy & Boch Belgium S.A., Bruxelles
	USA	Villeroy & Boch USA Inc., Princeton

Company capital		*Interest of Villeroy & Boch Aktiengesellschaft*		
Currency	*Million*	*direct* %	*indirect* %	*Total* %
EUR	1.56	100.00	-	100.00
EUR	9.27	100.00	-	100.00
EUR	8.00	-	100.00	100.00
EUR	1.53	-	100.00	100.00
EUR	1.65	100.00	-	100.00
RON	17.01	99.56	-	99.56
SEK	20.00	100.00	-	100.00
SEK	1.00	-	100.00	100.00
SKK	0.20	-	100.00	100.00
CZK	92.93	-	100.00	100.00
HUF	2,292.30	99.99	-	99.99
MXN	305.05	81.95	18.05	100.00
DKK	0.51	-	100.00	100.00
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
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
GBP	1.10	-	100.00	100.00
EUR	0.27	44.44	55.56	100.00
EUR	1.24	100.00	-	100.00
EUR	0.06	99.90	0.10	100.00
USD	1.10	-	100.00	100.00

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

ASSETS STRUCTURE
Relationship between non-current assets and current assets.

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

CEO
Chief Executive Officer (CEO) is the designation in English for the sole managing officer or management board member of a company or the chairman of the executive officers or of the management board.

CFO
The Chief Financial Officer (CFO) of a company is the corporate officer for managing the financial risks, the financial planning and record-keeping.

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

CSO
The Chief Strategic Officer (CSO) designates to the corporate officer responsible for the long-term strategic development planning of a company.

DEBT COEFFICIENT
Relationship between equity capital and debts.

EBIT
Earnings Before Interest and Tax.

EBITDA
Earnings Before Interest, Tax, Depreciation and Amortization.

EBIT MARGIN
Ratio of EBIT to sales.

EBITDA MARGIN
Ratio of EBITDA to sales.

EBT
Earnings Before Tax.

EQUITY RATIO
Ratio of shareholders' equity to total capital.

FREE CASH FLOW
Free cash flow refers to the free funds at the companies disposal. It consists of the cash flows from operating and investing activities.

FREE CASH FLOW MARGIN
Ratio of free cash flow to sales.

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

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

NOPAT (NET OPERATING PROFIT AFTER TAX)
Balance of gross profit and selling, marketing and development costs, general and administrative expenses and income taxes.

RETURN ON CAPITAL EMPLOYED (ROCE)
See "Return on Total Capital Employed".

RETURN ON EQUITY (ROE)
Yield on the funds made available to the company by the owners as well as the unrestricted profits retained in the company.

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

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

SALES PROFITABILITY
The ratio of net income/loss to sales.

WORKING CAPITAL
Difference between current assets and current liabilities.

Explanation of Ratios

BALANCE SHEET RATIONS (IN %)

Cash flow profitability	cash flow : total capital x 100
Equity ratio	shareholders' equity : total capital x 100
Net operating margin	profit : sales x 100

ASSET SITUATION RATIOS (IN %)

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

FINANCIAL SITUATION RATIOS

Cash ratio (in %)	cash : current analytic liabilities x 100
Quick ratio (in %)	cash + trade receivables : current liabilities x 100
Current ratio (in %)	cash + trade receivables + inventories : current analytic liabilities x 100
Equity gearing (in %)	liabilities : shareholders' equity x 100
Working capital (in Euro million)	current assets – current analytic 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)	sales profitability x turnover rate = (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 : profit per share
Operating cash flow per share	operating cash flow : number of shares in circulation

YIELD RATIOS (IN %)

Return on Equity (ROE)	profit : total equity x 100
Return on Capital Employed (ROCE)	EBIT : (property, plant and equipment + investment property + working capital) x 100

Company Calendar 2008

ANNUAL MEETING OF SHAREHOLDERS

May 30th 2008
3 pm
Townhall Merzig (“Stadthalle Merzig”)

Villeroy & Boch will report on
the first quarter of the year on

April 29th 2008,

on the first six months of the year on

July 29th 2008

and on
the first three quarters of the year on

October 28th 2008.

Dear Shareholders,

If you are interested in further information, please contact:

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Concept and design: Klötzner Company Werbeagentur GmbH, Hamburg

Multi-Year Comparison of Ratios

Asset situation ratios		2007	2006[1]	2006[2]	2005	2004
Fixed assets	*Euro Million*	296.4	305.8	305.8	305.4	311.7
Change in comparison with previous year	*Percent*	- 3.1	0.1	0.1	- 2.0	- 11.0
Other non-current assets	*Euro Million*	46.5	52.2	52.2	52.7	43.1
Change in comparison with previous year	*Percent*	- 10.8	- 1.1	- 1.1	22.2	- 22.9
Current assets	*Euro Million*	462.0	431.4	431.4	429.0	430.3
Change in comparison with previous year	*Percent*	7.1	0.6	0.6	- 0.3	- 1.4
Intensity of investments	*Percent*	36.8	38.7	38.7	38.8	39.7
Assets structure	*Percent*	74.2	83.0	83.0	83.5	82.5
Asset depreciation ratio	*Percent*	72.4	72.4	72.4	72.8	71.3
Balance sheet total	*Euro Million*	804.9	789.4	789.4	787.1	785.1
Change in comparison with previous year	*Percent*	2.0	0.3	0.3	0.3	- 6.8

Financial situation ratios		2007	2006[1]	2006[2]	2005	2004
Equity (incl. that attributable to minority interests)	*Euro Million*	344.6	350.4	350.4	344.4	345.6
Liabilities	*Euro Million*	460.3	439.0	439.0	442.7	439.5
Equity gearing	*Percent*	133.6	125.3	125.3	128.5	127.2
Cash ratio	*Percent*	46.9	6.1	6.4	32.5	31.9
Quick ratio	*Percent*	131.2	91.4	122.5	108.3	102.8
Current ratio	*Percent*	236.6	198.9	235.5	222.6	266.3
Working capital	*Euro Million*	301.8	239.9	249.8	249.1	269.6

Earnings situation ratios		2007	2006[1]	2006[2]	2005	2004
EBITDA margin	*Percent*	9.1	8.9	8.0	7.7	9.0
EBIT margin	*Percent*	4.6	4.2	3.5	2.7	3.5
EBT margin	*Percent*	3.5	3.0	2.4	1.8	2.5
Operating cash flow margin	*Percent*	7.0	2.8	2.4	6.4	6.6
Free cash flow margin	*Percent*	0.1	- 4.7	- 3.9	2.7	5.6
Return On Investment (ROI)	*Percent*	3.0	2.3	2.2	1.7	2.1
Cash flow ROI (CFROI)	*Percent*	5.7	4.9	5.2	4.9	5.9

Share ratios		2007	2006[1]	2006[2]	2005	2004
Annual closing price (Xetra)	*Euro*	12.32	13.37	13.37	11.84	9.26
Annual high (Xetra)	*Euro*	16.05	14.00	14.00	15.50	9.90
Annual low (Xetra)	*Euro*	9.50	10.99	10.99	8.90	7.25
Net earnings per ordinary share	*Euro*	0.88	0.66	0.62	0.47	0.58
Net earnings per preference share	*Euro*	0.93	0.71	0.67	0.52	0.63
Operating cash flow per share	*Euro*	2.25	0.86	0.86	2.15	2.39
Dividend per ordinary share	*Euro*	0.37	0.37	0.37	0.32	0.37
Dividend per preference share	*Euro*	0.42	0.42	0.42	0.37	0.42
Changes compared with previous year (ordinary share)	*Percent*	0.0	15.6	15.6	- 13.5	48.0
Changes compared with previous year (preference share)	*Percent*	0.0	13.5	13.5	- 11.9	40.0
Dividend yield per ordinary share	*Percent*	2.90	2.96	2.96	2.62	4.31
Dividend yield per preference share	*Percent*	3.29	3.36	3.36	3.03	4.90
Price-cash flow ratio (KCV)[3]	*Factor*	5.68	14.52	14.52	5.67	3.59
Price-earnings ratio (PER) per ordinary share[3]	*Factor*	14.5	18.9	20.2	26.0	14.8
Price-earnings ratio (PER) per preference share[3]	*Factor*	13.7	17.6	18.6	23.5	13.6

Yield ratios		2007	2006[1]	2006[2]	2005	2004
Return on Equity (ROE)	*Percent*	6.9	5.2	4.9	3.8	4.8
Return on Capital Employed (ROCE)	*Percent*	7.4	7.0	6.6	4.9	6.4

[1] Group overview of the continued Divisions Bath and Wellness and Tableware
[2] As reported in the Annual Report 2006
[3] Calculations are based on the average market price, which results as the average from the annual high and the annual low.

Villeroy & Boch

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