Villeroy & Boch

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ANNUAL REPORT 2011

THE GROUP AT A GLANCE

		2011	2010	2009	2008	2007
Revenue	in Euro million	743	714	715	841	849
Revenue – Germany	in Euro million	208	180	198	186	177
Revenue – Abroad	in Euro million	535	534	518	655	672
EBITDA	in Euro million	64	–17	–29	63	85
EBITDA (before special expenditures)	in Euro million	64	56	33	63	85
EBIT	in Euro million	37	–49	–86	24	39
EBIT (before special expenditures)	in Euro million	37	24	–2	24	39
EBT	in Euro million	26	–60	–97	16	29
EBT (before special expenditures)	in Euro million	26	13	–13	16	29
Group results	in Euro million	18	–63	–97	11	24
NOPAT	in Euro million	20	21	5	18	26
Balance sheet total	in Euro million	598	598	674	772	805
Cash flow from operating activities	in Euro million	34	–42	50	18	59
Cash flow from operating activities (before EU)	in Euro million	34	31	50	18	59
Capital Expenditure	in Euro million	26	24	21	27	28
Depreciation and amortisation	in Euro million	27	30	35	38	38
Impairment losses (incl. reversals)	in Euro million	0	3	22	1	8
Employees (annual average)	Number	8,558	8,729	9,440	10,193	9,221
Net operating margin (before special expenditures)	in percent	5.0	3.3	–0.2	2.9	4.6
Return on equity (ROE) (before special expenditures)	in percent	10.1	5.9	–5.4	3.3	6.9
Cash flow sales profitability (before EU)	in percent	4.6	4.3	7.1	2.1	7.0
Equity ratio (incl. minority interests)	in percent	30.2	28.9	34.4	42.8	42.8
Earnings per ordinary share	in Euro	0.67	–2.40	–3.68	0.40	0.88
Earnings per preference share	in Euro	0.72	–2.35	–3.63	0.45	0.93
Dividend per ordinary share	in Euro	0.35	0.15	–	0.32	0.37
Dividend per preference share	in Euro	0.40	0.33	–	0.37	0.42

DIVISIONS

Bathroom and Wellness

Sales	in Euro million	462	447	427	521	522
EBIT	in Euro million	19	19	–65	15	21
EBIT (before special expenditures)	in Euro million	19	19	–4	15	21

Tableware

Sales	in Euro million	281	267	289	320	326
EBIT	in Euro million	9	5	–21	9	18
EBIT (before special expenditures)	in Euro million	9	5	2	9	18

Dear shareholders,

I am delighted to be able to report to you on a good 2011 financial year in which Villeroy & Boch again recorded profitable growth in the second year after the crisis.

Despite growing uncertainty on the market in the last quarter of the year, our revenue increased by 4% to total Euro 743 million in the 2011 financial year. Although there were sharp rises in the cost of raw materials, we again significantly improved our operating result by 17% to Euro 28 million. Including proceeds of around Euro 9 million from the disposal of the former plant buildings in Lübeck-Dänischburg, our EBIT for 2011 totalled Euro 37 million.

These figures show that the cost reduction and structural programmes we have implemented over recent years have paid off. The earnings growth in the past financial year is primarily attributable to the planned structural adjustments within our production network. While the industrial masterplan in previous years was still primarily focused on the Bathroom and Wellness Division, the effects in the past year mainly came from the Tableware Division, where we completed the modernisation and consolidation of production at our two competence centres in Merzig and Torgau as scheduled. This means that the key elements of the package of measures adopted in 2009 have now been largely implemented, thereby allowing us to focus on process optimisation.

With the aim of also identifying potential for improvement in administrative areas, we continued our efficiency programme in 2011 under the name ECOS (Efficient Consumer Oriented Services). Our project teams are currently working on more than 30 cross-functional projects aimed at making our workflows simpler, more effective and more transparent. We see productivity as a continuous feature of our daily work.

In order to allow us to continue on our path of profitable growth, we are also focusing on the following activities in particular:

- On the product side, we have recharged our best-sellers, such as *NewWave* in the Tableware Division and *Subway 2.0* in the Bathroom and Wellness Division; the *Subway* collection has also been extended to include bathroom furniture, resulting in double-digit growth rates. Meanwhile, the new products we presented last year have enjoyed excellent development. We have created another best-seller in the Tableware Division with the *Farmhouse Touch* country collection. We have also addressed the area of cooking and baking with our *CeramicPlus* tableware collection with its innovative surface

finishing that is particularly quick and easy to clean. As well as functionality, design plays a particularly elementary role for our brand. Numerous awards, such as the recent Universal Design Award for our *One* tableware cutlery and the Reddot Design Award for our *My Nature* bathroom collection, underline our ability to repeatedly set new standards. With revenue growth of 16% including a major project, our impressive business development in Germany – a highly competitive market that is important to us – is, in my view, a sign that we have addressed the right areas.

- We systematically pressed ahead with our activities in the growth markets of Asia and Russia. The capacity of our sanitary ware plant in Thailand is currently being expanded as planned, and the new firing kiln is scheduled to go into operation in early 2013. We have formed a new company in Russia: the establishment of a logistics platform is aimed at driving our expansion above and beyond the centres of Moscow and St. Petersburg. In China, too, we have been working on expanding our business outside of major cities since last year. The success we have achieved in the year under review – with revenue growth of 58% in China and 24% in Russia – serves to reinforce our belief that we are on the right track. We have developed specific products for these luxury-friendly markets, such as the exclusive *Year of Dragon* gift collection. We also extended the *Amazonia* and *Authentic Avantgarde* Collection luxury gift article collections in the past year to include additional items and decors. In this context, it was a particular honour for us to create an exclusive collector's plate to mark the reopening of the world-famous Bolshoi Theatre in Moscow.

- We have further expanded our position in our national and international project business. A key factor in this success was our new *360° Projects* concept. We succeeded in winning prestigious and lucrative projects, such as the Hotel Grand Fortune Bay in China with an order volume of more than half a million euro.

- We see ourselves as pioneers in the field of energy and CO_2 reduction. In 2011, for example, we became the first company in the ceramic industry to commission an ORC (Organic Rankine Cycle) system. This allows us to generate electricity from exhaust air at our sanitary ware factory in Mettlach, thereby reducing our CO_2 emissions by around 10% per year. Like our fittings plant in Sweden, our plant in Mettlach is also certified in accordance with the EMAS (Eco Management and Audit Scheme). At Villeroy & Boch, sustainability, environmental protection and growth go hand in hand.

- Last but not least, we are continuously investing in our employees and young talents. We have intensified our management trainee programme for university graduates and are proud of the fact that students – our potential future employees – voted us among the Top 100 Employers in Germany in a survey published in Wirtschafts-Woche magazine.

I hope this overview demonstrates our commitment to continuing to generate reliable returns for you in future. Our latest figures show that our measures are having the desired effect – a fact for which, on behalf of myself and my Management Board colleague Jörg Wahlers, I would like to thank our entire workforce. Our employees have always embodied the creativity and quality for which Villeroy & Boch's products stand.

In 2011, Villeroy & Boch generated a solid operating result plus an extraordinary gain on the disposal of property. Dear shareholders, as we wish you to participate in our good business development, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 16 May 2012 the payment of a dividend of Euro 0.35 per ordinary share and Euro 0.40 per preference share; both of these figures are Euro 0.20 higher than in the previous year.

I very much hope that you will continue to accompany your company's development. Together we will proceed with optimism and vigour to write the next chapters in Villeroy & Boch's success story.

Sincerely,

Frank Göring
Chairman of the Management Board
Mettlach, March 2012

Villeroy & Boch
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MEMBERS OF THE MANAGEMENT BOARD

Jörg Wahlers and Frank Göring

Frank Göring

Chairman of the Management Board (CEO)
b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary

Jörg Wahlers (since 16 May 2011)

Finance and Human Resources (CFO)

Manfred Finger (until 31 July 2011)

Finance and Human Resources (CFO)
b) V&B Fliesen GmbH, Merzig (until 28 January 2011)

MEMBERS OF THE SUPERVISORY BOARD

Luitwin Gisbert von Boch-Galhau

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

Wendelin von Boch-Galhau

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

Ralf Runge*

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

Peter Prinz Wittgenstein

Second Vice Chairman of the Supervisory Board
Management Consultant

Jürgen Beining*

Head of Sales, Bathroom and Wellness

Dr. Alexander von Boch-Galhau

Management Consultant
b) Union Stiftung, Saarbrücken/Germany

Dietmar Geuskens*

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

Werner Jäger*

IT Administrator
Chairman of the Head Office Works Council

Dr. Jürgen Friedrich Kammer

Former Chairman of the Management Board and Supervisory Board of Industrie-Chemie AG Munich/Germany
b) Wittelsbacher Ausgleichsfonds, Munich/Germany
(Vice Chairman)

Charles Krombach

Former Managing Director of Landewyck Group S.à r.l., Luxembourg, and Heintz van Landewyck S.à r.l., Luxembourg
b) Advisory Board of Landewyck Group S.à r.l., Luxembourg

Dietmar Langenfeld*

Industrial Foreman for Logistics
Chairman of the Villeroy & Boch AG Central Works Council
Chairman of the Sanitärfabrik Works Council

Ralf Sikorski*

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

Francois Villeroy de Galhau

Member of the Executive Committee (Directeur général délégué) of BNP Paribas S.A., Paris/France
b) BNP Paribas Assurances S.A., Paris/France
(Member of the Supervisory Board)
Bayard Presse S.A., Montrouge/France
(Member of the Supervisory Board)

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

REPORT OF THE SUPERVISORY BOARD

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

KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met four times in the 2011 financial year. No member of the Supervisory Board attended fewer than half of these meetings. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times. The Supervisory Board was also informed about particularly important developments, such as the continued progress of the EU anti-trust proceedings on bathroom fittings, in written and oral reports outside of the regular meetings.

Key topics discussed in the past financial year:
The *balance sheet meeting* in March 2011 focused on discussing the single-entity and consolidated financial statements for 2010 and their approval and adoption by the Supervisory Board. The agenda for the General Meeting of Shareholders was also adopted. Personnel issues were another key topic. After consulting an independent remuneration expert, the Supervisory Board resolved the adjustment of the remuneration system for the Management Board to reflect the provisions of the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the recommendations of the German Corporate Governance Code. The appointment of Frank Göring as Chief Executive Officer and his contract were extended on this basis. The declaration of conformity was amended accordingly. The Supervisory Board also examined target fulfilment for 2010 and defined the new targets for 2011. Finally, the Management Board reported to the Supervisory Board on the Group's current position, the status of the EU anti-trust proceedings and the compliance organisation.

The *May meeting*, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders. The appointment of Mr. Jörg Wahlers to the Management Board was also discussed in greater detail and a fundamental resolution on a transaction requiring approval was adopted.

At the *autumn meeting* in September 2011, the Management Board reported to the Supervisory Board on the Group's position, the status of the expansion of the internal control system (ICS), the status of the EU anti-trust proceedings on bathroom fittings and their potential impact, and

Wendelin von Boch-Galhau,
Chairman of the Supervisory Board

on strategic projects. The Supervisory Board approved various transactions requiring approval and adjusted the pensions of former Management Board members in accordance with the relevant contractual provisions.

The *December meeting* adopted the planning for 2012. The declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG) was also updated and adopted. The Management Board reported to the Supervisory Board on the Group's position and on strategic projects.

Members of the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee to discuss current issues. This served to ensure that the Supervisory Board was informed about the Company's current operational development, significant transactions and the development of key financial indicators at all times.

In the year under review, the Supervisory Board continued to inform itself about the progress of the action for annulment that is pending with the General Court of the European Union in connection with the anti-trust proceedings on bathroom fittings (see Annual Report 2010, p. 46) and all of the issues arising for the Company as a result, including with regard to D & O insurance. The Chairman of the Supervisory Board also attended the meetings reporting on and discussing the results of the audit assignments commissioned by the Supervisory Board, among other things, but did not participate in votes on further action. In respect of his person, this may constitute a conflict of interest within the meaning of section 5.5.3 of the German Corporate Governance Code insofar as he was, among other things, the Chief Executive Officer of the Company during the period to which the EU anti-trust proceedings relate. As a precaution, Mr. Wendelin von Boch-Galhau will continue to refrain from participating in any necessary votes by the Supervisory Board on such matters in future.

REPORT ON THE COMMITTEES

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

The *Audit Committee* held three ordinary meetings in the year under review. At its February meeting, the Audit Committee discussed the preliminary single-entity and consolidated financial statements. At the March meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the annual financial statements for 2010 and it was agreed that it would be recommended to the Supervisory Board that Ernst & Young GmbH Wirtschaftprüfungsgesellschaft be proposed to the General Meeting of Shareholders for election as the auditor of the single-entity and consolidated financial statements for the 2011 financial year. The December meeting focused on the status of the preliminary audit of the single-entity and consolidated financial statements by the auditor, risk management, the status of the expansion of the internal control system (ICS), and the report by Internal Audit.

The meeting of the *Investment Committee* in December involved the preparation of corporate and investment planning for 2012 for resolution by the Supervisory Board.

The members of the *Human Resources Committee* met in March and September to discuss the remuneration system for the Management Board, the extension to the contract of the Chief Executive Officer, the objectives for the Management Board and the pension adjustments in the contracts of the Management Board members in preparation for the resolutions by the Supervisory Board.

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

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

PERSONNEL CHANGES

The Management Board extended the appointment of Mr. Frank Göring as a member of the Management Board and Chief Executive Officer by a further five years until the end of 2016. Mr. Manfred Finger, who served as Chief Financial Officer and Labour Director for a number of years, stepped down from the Management Board with effect from 31 July 2011. The Supervisory Board would like to thank Mr. Finger for the cooperation they enjoyed in a spirit of mutual trust and wish him all the best for his retirement. The Supervisory Board appointed Jörg Wahlers as a new member of the Management Board for an initial term of three years. Mr. Wahlers took up his position in May 2011 and has been responsible for Finance and Human Resources since Mr. Finger stepped down from the Management Board. He was also appointed as the new Labour Director.

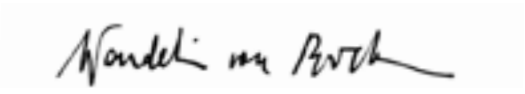
AUDIT OF THE SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS

The single-entity financial statements, the IFRS consolidated financial statements and the combined Management Report of Villeroy & Boch AG for the 2011 financial year were audited by the auditor elected by the General Meeting of Shareholders, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and issued with an unqualified audit opinion. These documents and the reports by the auditor were made available to all members of the Audit Committee and the Supervisory Board in good time before the balance sheet meeting. They were discussed intensively at the meeting of the Audit Committee and the balance sheet meeting of the Supervisory Board in March 2012. At both meetings, the auditor reported on the audit as a whole and the individual focal points and key findings of the audit and answered all of the Supervisory Board's questions in detail. In particular, the auditor expressed an opinion as to whether there were any material deficiencies in the internal control and risk management system with regard to the financial reporting process and did not express any objections in this respect. The auditor stated that there were no circumstances that could give rise to grounds for concern as to its impartiality and provided the Supervisory Board with information on the services performed in addition to the audit of the annual financial statements. The Supervisory Board concurred with the audit report and the findings of the audit.

The Supervisory Board examined the single-entity and consolidated financial statements and the combined Management Report for the 2011 financial year, taking into account the report by the auditor, and the proposal by the Management Board on the appropriation of retained earnings. Following its own examination, the Supervisory Board approved the single-entity financial statements prepared by the Management Board at its balance sheet meeting in March 2012 in accordance with the recommendation by the Audit Committee. The single-entity financial statements have therefore been adopted in accordance with section 172 of the AktG. The Supervisory Board also approved the consolidated financial statements and the combined Management Report. The Supervisory Board concurred with the proposal by the Management Board on the appropriation of retained earnings.

The Supervisory Board would like to thank the active members of the Supervisory Board and the Management Board for their continued good cooperation in a spirit of mutual trust. In particular, the Supervisory Board would also like to express its gratitude to the employees of the Villeroy & Boch Group for their outstanding commitment in the past financial year.

For the Supervisory Board



Wendelin von Boch-Galhau, Chairman
Mettlach, March 2012

CORPORATE GOVERNANCE REPORT

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

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

DECLARATION ON CORPORATE GOVERNANCE

Responsible management

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

The Supervisory Board appoints, advises and monitors the Management Board. Its workings are established in corresponding Rules of Procedure. Ordinary meetings of the Supervisory Board are held at least four times a year. On the basis of continuous, rapid and transparent information – both written and verbal – provided by the Management Board, the Supervisory Board is directly involved in all decisions of material importance to the Company.

Composition of the Management Board

The Management Board of Villeroy & Boch AG currently consists of two members. The members of the Management Board are appointed by the Supervisory Board in accordance with the provisions of the German Codetermination Act. In appointing members to the Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates. With respect to the overall composition of the Management Board, it seeks to ensure diversity and to have appropriate participation by women. When examining

potential candidates to fill vacant positions on the Management Board, highly qualified women are included in the selection process and are taken into account to an appropriate extent. The precise composition of the Management Board is shown on page 14. Personnel changes in the year under review are presented in the Report of the Supervisory Board.

Composition of the Supervisory Board

The Supervisory Board of Villeroy & Boch AG is composed of twelve members, six of whom are elected by the General Meeting of Shareholders (shareholder representatives) and six of whom are elected by the Company's employees in accordance with the provisions of the German Codetermination Act (employee representatives). The term of office of members of the Supervisory Board is normally five years. The Supervisory Board takes its role of monitoring a globally operating company seriously. It is of the opinion that its composition is an important factor in successfully performing its diverse tasks to the optimal benefit of the Company. In accordance with the recommendation set out in section 5.4.1 of the German Corporate Governance Code, it therefore defined the following targets for its composition at its meeting on 10 March 2011:

"The composition of the Supervisory Board of Villeroy & Boch AG should be such that the Management Board will be subject to informed monitoring by and receive expert advice from the Supervisory Board at all times. The candidates proposed for election to the Supervisory Board should be in a position, thanks to their knowledge, skills and professional experience, to perform the tasks of a Supervisory Board member in an internationally active company and to safeguard the reputation of the Villeroy & Boch Group with the public. In the process, attention should be paid to the personality, integrity, commitment, professionalism and independence of the persons proposed for election. The individual knowledge, skills and experience of the individual members of the Supervisory Board should complement each other in such a way that there is sufficient professional expertise available for the work of the Supervisory Board as such and for the business activities of each division at all times to guarantee that the Management Board is monitored professionally and efficiently and provided with advice on a continuous basis. In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience. In proposing members for election, the Supervisory Board shall also seek to ensure appropriate participation by women. Highly qualified women should be included in the selection process when examining potential candidates as new members or filling vacant positions on the Supervisory Board and should be taken into account to an appropriate extent in the members proposed for election. The Supervisory Board will strive to have at least one female member in future. The Supervisory Board should have a sufficient number of independent members. Significant conflicts of interest that are not merely temporary should be avoided. The Supervisory Board members should also have sufficient time to perform their functions such that they can do so with the requisite regularity and diligence. The regulation on the age limit laid down by the Supervisory Board in the Rules of Procedure will be taken into account. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board."

The Supervisory Board is of the opinion that, on the whole, its current members have the necessary knowledge, professional experience and skills to perform their tasks properly. In the year under review, there were no elections to the Supervisory Board and no future proposals for election were discussed. The precise composition of the Supervisory Board is shown in the list on page 15.

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

The cooperation between the Management Board and Supervisory Board was again characterised by open, trust-based communication to the benefit of the Company in 2011. This was seen in the meetings of the Supervisory Board and in the discussions between members of the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. In the past financial year, the reports by the Management Board to the Supervisory Board focused specifically on the direction and implementation of corporate strategy, the Company's business development, the Group's position, and questions relating to the risk situation, risk management, the internal control system and compliance.

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

Supervisory Board committees

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

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

The Human Resources Committee primarily deals with the conclusion as well as the amendment and termination of the employment contracts of Management Board members and long-term succession planning. It prepares the appointment and dismissal of members of the Management Board, the remuneration system for the Management Board and the total remuneration for the individual members of the Management Board, including contractual bonus provisions, pension provisions and other contractual benefits, for resolution by the full Supervisory Board. It is chaired

by the Chairman of the Supervisory Board and also includes one employee representative and one shareholder representative. The current members are Wendelin von Boch-Galhau (Chairman), Ralf Sikorski and Dr. Jürgen Friedrich Kammer.

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

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

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

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

Prevention of conflicts of interest

The members of the Management Board and the Supervisory Board have a duty to uphold the interests of the Company and not to pursue any personal interests that could clash with those of the Company in fulfilling their duties. All members of the Management Board and the Supervisory Board are obliged to disclose any potential conflicts of interest to the Supervisory Board. Roles in other statutory supervisory boards and comparable domestic and foreign controlling bodies of commercial enterprises held by members of the Management Board and the Supervisory Board can be found on pages 14 and 15. Links with related parties are shown in the notes to the consolidated financial statements on page 118.

Efficiency review

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

Directors' dealings

In accordance with section 15a of the German Securities Trading Act (WpHG), disclosures on transactions in shares of Villeroy & Boch AG requiring notification are published immediately on the Company's website; this was the case for transactions by members of the Management Board in the 2011 financial year. At the end of the year under review, the members of the Supervisory Board held directly and indirectly (within the meaning of sections 15a and 22 WpHG) 7.36% of all the ordinary and preference shares issued by the Company (2,066,230 shares). Of this figure, 4.36% (1,223,530 shares) were attributable to Wendelin von Boch-Galhau and 2.77% (778,980 shares) were attributable to Alexander von Boch-Galhau. The members of the Management Board held 0.10% of the shares in circulation (28,750 shares).

Comprehensive information creates transparency and trust

Villeroy & Boch AG seeks to inform all target groups of the Company's position equally and in good time and to ensure optimal transparency with regard to its management and controlling mechanisms by way of comprehensive reporting. This includes the annual publication of the consolidated financial statements and quarterly reports, which are prepared in accordance with the International Financial Reporting Standards (IFRS). The 90-day period for the publication of the consolidated financial statements set out in section 7.1.2 of the German Corporate Governance Code was again observed this year. The single-entity financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website *www.villeroy-boch.com* also contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports by Villeroy & Boch AG are also available to download in German and English from the Investor Relations section. The publications comply with the transparency requirements set out in the German Securities Trading Act. The annual document in accordance with section 10 of the German Securities Prospectus Act compiles all of the publications relating to Villeroy & Boch AG in the 2011 financial year.

To allow us to maintain a dialogue with analysts and shareholders, the financial and analysts' press conference and the General Meeting of Shareholders are held once a year.

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

Ernst & Young confirmed as auditors

The Supervisory Board again commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the single-entity and consolidated financial statements for the 2011 financial year as the auditor appointed by the General Meeting of Shareholders. The Audit Committee and the Supervisory Board had previously satisfied themselves as to the independence of the auditor.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman of the Audit Committee would be informed immediately of any potential grounds for disqualification or partiality and any facts and events of importance for the proper performance of the tasks of the Supervisory Board arising during the performance of the audit. If the audit gives rise to facts that show a misstatement in the declaration of conformity issued by the Management Board and the Supervisory Board in accordance with section 161 of the German Stock Corporation Act (AktG), the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

Declaration of conformity in accordance with section 161 AktG

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

"The Management Board and the Supervisory Board examined the Company's compliance with the German Corporate Governance Code on 14 December 2011. In accordance with section 161 AktG, the Management Board and the Supervisory Board of Villeroy & Boch AG hereby declare that, since the publication of the last declaration of conformity on 10 March 2011, the Company has complied with and continues to comply with the recommendations of the Government Commission of the German Corporate Governance Code (the "Code") in the version dated 26 May 2010 with the exception of the small number of recommendations listed below:

Section 3.8 (2) of the Code:

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

Section 5.3.3 of the Code:

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

COMPLIANCE AT THE VILLEROY & BOCH GROUP

In the 2011 financial year, Villeroy & Boch focused on the further intensification of the compliance organisation within the Group:

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

Restructuring of the Compliance organisation

In the year under review, Villeroy & Boch restructured its existing compliance organisation in line with the principle of permanent and sustainable self-improvement. The objective was to ensure that operating business is incorporated within the compliance organisation to an even greater extent, starting from the level of the Management Board:

- Technical responsibility for compliance issues is divided between the Legal department, which is responsible for ensuring that the statutory provisions relating to competition and anti-trust law are upheld, and the Compliance department, which is responsible for all other issues.

- As in the previous years, our compliance organisation begins directly with the Management Board of Villeroy & Boch AG. Compliance falls within the responsibility of the Chief Financial and Human Resources Officer with the exception of issues falling within the responsibility of the Legal department, which reports to the Chief Executive Officer.

- The Chief Compliance Officer, who is responsible for Group-wide compliance at Villeroy & Boch with the exception of competition and anti-trust law, reports directly to the Chief Financial and Human Resources Officer.

- To ensure that compliance is present within all departments, the Compliance Officer is supported by the Compliance Advisory Board (CAB). The members of the Compliance Advisory Board are the heads of Treasury, Human Resources, Controlling, Internal Audit and Information Technology, the senior environment and occupational health and safety manager, and the senior controllers of the Bathroom and Wellness and Tableware divisions.

- To ensure that compliance is represented in the Group's operating business to an even greater extent, a Compliance Advisory Group has been introduced for each division in addition to the central Compliance Advisory Board. The Compliance Advisory Groups for the Bathroom and Wellness and Tableware divisions are managed by the respective divisions. Their members are the respective heads of Supply Chain Management, Divisional Controlling, Sales, Marketing and Logistics and the head of the Legal department. These Compliance Advisory Groups also support the Chief Compliance Officer.

- Villeroy & Boch has also restructured its compliance organisation at the level of its subsidiaries: As previously, each subsidiary has a local Compliance officer with responsibility for compliance at the respective company. The local Compliance Officers are assigned directly to, and report to, the Chief Compliance Officer. This serves to ensure that compliance is realised throughout the Group and that feedback is provided to the Management Board by the subsidiaries via the Chief Compliance Officer.

- The Legal department at Villeroy & Boch retains sole Group-wide responsibility for compliance in the area of competition and anti-trust law. It performs the central monitoring of all of the Company's business processes with respect to the provisions of competition and anti-trust law. In this function, the head of the Legal department continues to report directly to the Management Board, including on legal issues. To provide support for this process, a separate function for advising on and monitoring the Company and its subsidiaries from an anti-trust law perspective has been established and an appointment has been made to this position.

Commitment of the Management Board and senior managers

To ensure that the Management Board is also committed to compliance, the head of the Legal department and the Chief Compliance Officer are the direct points of contact for the Management Board when it comes to compliance-related matters. They are also involved in central decisions by the Management Board and the two divisions.

Employee involvement

Villeroy & Boch has also taken the intensification of its compliance organisation seriously with respect to its employees:

In 2010, an internal whistleblower platform allowing all employees to report breaches of compliance regulations anonymously if desired was installed at the level of Villeroy & Boch AG. In the year under review, Villeroy & Boch continued and intensified the Group-wide training of its employees as initiated in previous years with a particular focus on competition and anti-trust law and the topics of ethical behaviour, combating corruption and money laundering, and occupational health and safety. These classroom-based training sessions are individually adjusted to reflect the needs of the respective target groups – managers, members of the Works Council, administration and, in particular, employees in purchasing, sales and marketing functions. Participation in these training sessions is mandatory for all employees.

At the same time, Villeroy & Boch has created e-learning systems together with external advisors, which it is continuing to develop on an ongoing basis. These e-learning systems are also individually tailored to the Company and the employees being trained and can be used throughout the Group. The systems, which end with a final examination and a certificate of participation, will provide our employees with further training on the topics of ethical behaviour, anti-trust law, combating corruption, IT security and occupational health and safety.

Involvement of business partners

Villeroy & Boch has also continued to implement the topic of compliance with respect to its business partners. For example, it has rolled out a Code of Conduct for suppliers, made preparations for customer commitment to its Code of Conduct, and introduced a Letter of Compliance obliging employees to actively implement and demand compliance in their dealings with business partners. The Chief Compliance Officer, the local Compliance Officers and the Legal department are the day-to-day contacts for employees and business partners. The Code of Conduct for suppliers can also be viewed in the *Investor Relations/Corporate Governance* section of our website at *www.villeroy-boch.com*

Permanent improvement

The basis for these improvements to the compliance organisation is provided by Villeroy & Boch's compliance strategy for the period from 2011 to 2016: This involves the regular adjustment and coordination of guidelines and interfaces, the internal authorisation concept and the analysis and further development of compliance and the internal control system.

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

The ethical principles and the general Code of Conduct can also be viewed in the *Investor Relations/ Corporate Governance* section of our website at *www.villeroy-boch.com*

Outlook

The next measures will be to intensify our compliance organisation further, particularly at our subsidiaries, to offer our employees more detailed training based on an existing training cascade, to constantly analyse and improve our general compliance, and to establish a certification process for our anti-trust compliance.

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

MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION

Principles of the remuneration system

The Supervisory Board examined the remuneration system for the Management Board in light of the extension to the contract of the Chief Executive Officer and the appointment of a new Management Board member in the year under review. In particular, it examined the remuneration system with respect to the changes in statutory requirements resulting from the German Act on the Appropriateness of Management Board remuneration, which came into force on 31 July 2009, and the recommendations of the German Corporate Governance Code and made adjustments where it considered this to be necessary or otherwise appropriate.

As in the case of the reassessment of Management Board remuneration, the Supervisory Board obtained advice in this matter from an independent remuneration consultant.

The remuneration system for current members of the Management Board is performance-oriented, with the fixed remuneration of the Management Board members being supplemented by a performance-based variable component. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes more than half of the total remuneration paid. In contrast to the previous remuneration system, however, there are changes to the composition and weighting of the variable remuneration. The variable remuneration is now broken down into a short-term annual component (annual bonus) and a long-term component with a measurement period of three years. This long-term remuneration has a higher weighting than the short-term component. In terms of content, both variable remuneration components are oriented towards the Company's financial targets (return on assets, EBIT, also EBT in some cases) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2011 financial year. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car, also for private use, is offered to members of the Management Board. The existing contracts of the current members of the Management Board provide for defined benefit or defined contribution pension commitments. In the opinion of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the Company's financial situation and do not exceed typical remuneration either in a vertical comparison or in a horizontal comparison with reference companies.

Supervisory Board remuneration is also composed of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

Supervisory Board remuneration

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

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

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

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

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

In TEuro	Fixed remun-eration	Meeting fees	Variable remuneration for 2010	Total	Previous year
Wendelin von Boch-Galhau[2*) 3*)]	73	5	3	81	77
Ralf Runge	34	5	3	42	39
Peter Prinz Wittgenstein[1) 2)]	39	5	3	47	44
Dr. Alexander von Boch-Galhau	20	5	3	28	25
Francois Villeroy de Galhau	20	4	2	26	23
Jürgen Beining	20	5	3	28	25
Werner Jäger[1)]	23	5	3	31	28
Dr. Jürgen Friedrich Kammer[3)]	23	4	3	30	28
Charles Krombach[1*)]	24	4	3	31	29
Dietmar Langenfeld[2)]	23	5	3	31	28
Ralf Sikorski[3)]	23	4	3	30	28
Dietmar Geuskens	20	5	3	28	25
Members who left in 2010	–	–	–	–	2
Rounding differences	– 3	–1	– 3	– 7	– 3
	339	55	32	426	398

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

A total expense of Euro 506 thousand was reported in the Group result for the 2011 financial year (previous year: Euro 459 thousand). In addition to the fixed remuneration paid and the meeting fees for 2011, this figure includes Euro 83 thousand for the provision for variable remuneration as well as other reimbursements of expenses.

Management Board remuneration

An expense of Euro 1,935 thousand (previous year: Euro 1,968 thousand) was reported in the income statement for the 2011 financial year. This figure is composed of fixed salary components amounting to Euro 1,139 thousand (previous year: Euro 1,144 thousand) and variable salary components amounting to Euro 796 thousand (previous year: Euro 824 thousand). In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 2 thousand (previous year: Euro 2 thousand). The members of the Management Board received remuneration in kind totalling Euro 35 thousand (previous year: Euro 43 thousand). The aforementioned payments also include remuneration paid to a member who has left the Management Board. Provisions for pensions for former members of the Management Board amounted to Euro 15,199 thousand (previous year: Euro 13,174 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,371 thousand (previous year: Euro 1,135 thousand).

The provisions of section 314 (2) sentence 2 in conjunction with section 286 (5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2011 financial year.

VILLEROY & BOCH'S SHARES – THE 2011 STOCK MARKET YEAR

DISILLUSIONMENT ON THE STOCK MARKETS

Hopes of an economic recovery and a good stock market year in 2011 were still high at the start of January. However, the government debt crises in Europe and the USA, the nuclear disaster in Fukushima, the Arab spring and fears of a US recession led to disillusionment. The year saw a great deal of uncertainty in the world's financial centres and hence was characterised by losses on the stock markets.

Following the impressive stock market years of 2009 and 2010 in particular, the DAX – the benchmark German index – closed 2011 at 5,898 points, representing a disappointing performance of around -15%. However, things could have been worse: the index fell to a low for the year of 5,072 points (closing call) in September.

VILLEROY & BOCH'S PREFERENCE SHARES

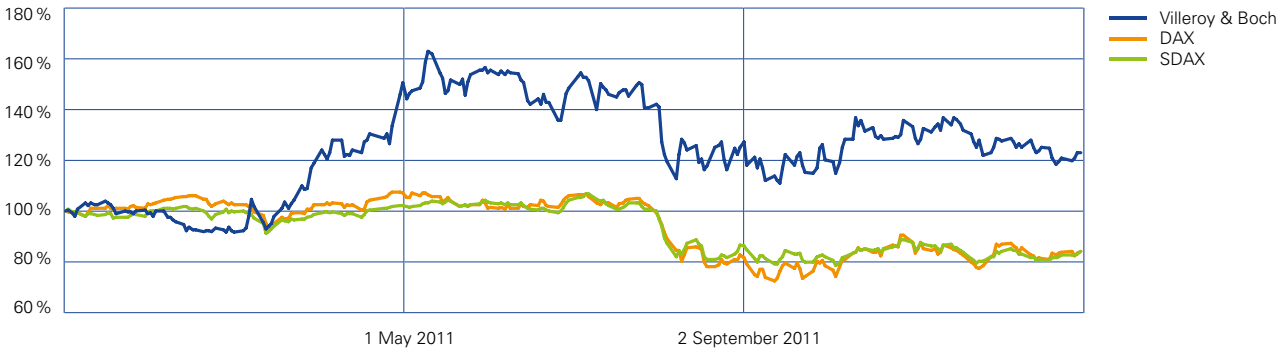
Villeroy & Boch's preference shares opened 2011 at Euro 4.79 before falling to their low for the year of Euro 4.40 in the first quarter. From there, the share price climbed sharply by Euro 3.39 or 77%, peaking at a high for the year of Euro 7.79 on 12 May. The shares largely fluctuated between Euro 6.50 and Euro 7.50 until the end of July before falling to Euro 5.40 in early August in line with wider market developments. Although the share price recovered to Euro 6.55 in mid-October and mid-November, it was unable to break the Euro 7.00 barrier again before the end of the year. Villeroy & Boch's preference shares closed the year at Euro 5.88, meaning that – unlike the DAX – they enjoyed solid growth of around 23% compared with the start of the year.

CAPITAL MARKET COMMUNICATIONS

On the occasion of the traditional spring analyst conference in Frankfurt/Main, CEO Frank Göring and the then CFO Manfred Finger presented the consolidated financial statements, provided information on the Company's development and answered analysts' questions in detail. In addition, the annual General Meeting of Shareholders was held in May and individual teleconferences and meetings with analysts were conducted during the course of the financial year. On 1 August, Jörg Wahlers was appointed as the new Management Board member of Villeroy & Boch AG responsible for Finance and Human Resources. The *Investor Relations* section of the Company's website at *www.villeroy-boch.com* provides further information for analysts and shareholders.

PROPOSED DIVIDEND

Due to the positive business development, the Supervisory Board and the Management Board will propose to the General Meeting of Shareholders the payment of a dividend of Euro 0.40 per preference share and Euro 0.35 per ordinary share. This represents a Group distribution ratio of 54% excluding treasury shares.



WKN	765723	Yearly high[1]	7,79 Euro
ISIN	DE0007657231	Yearly low[2]	4,40 Euro
Securities exchange symbol	VIB3	Closing Price[3]	5,88 Euro
Shareholders structure	88% Free-Float	Earnings per ordinary share*	0,67 Euro
Market capitalisation	82,6 Mio. Euro	Earnings per preference share	0,72 Euro

* Common shares not traded publicly; 1) 12 May 2011; 2) 24 February 2011, 1 and 4 March 2011; 3) 30 December 2011

OUTLOOK 2012

The journey into the 2012 financial year is something of a leap into the dark. Forecasts differ significantly, while the debt and financial crisis in the euro zone will continue to keep the stock markets in suspense. Although there are risks for Europe and the USA and fears of a slowdown in momentum in China, however, most experts are optimistic with regard to 2012. The benchmark German DAX index is likely to make a successful stand against the European government debt crisis in the second half of the year at the latest. 2012 could be a good year for shares, not least due to a lack of investment alternatives with a favourable risk/reward ratio. On average, bankers, fund managers and analysts expect the DAX to climb to 7,000 points. This would represent a gain of around 15% compared with the start of the year. Price performance will be driven by the robust German economy. All of this should benefit Villeroy & Boch's preference shares in 2012.

OUR EMPLOYEES

"For more than 260 years, the commitment and initiative of our employees and their passion for our products have been central to our success and our economic independence. In future, our HR strategy will be built on the same three pillars: finding the best candidates, developing our employees and their potential, and keeping them at Villeroy & Boch in the long term."

Jörg Hagmaier, Senior Director Corporate HR

In 2011, Villeroy & Boch again conducted a wide range of internal and external activities with a view to securing its status as an employer of choice. A policy of continuous, open communication means that employees are always provided with comprehensive information on events concerning the company: key features include regular letters from the CEO to the workforce, information events with top management and direct contact with employees, such as in live chats with the Management Board. Employees also report to their colleagues in the company magazine *Inhouse*, which has a more than 70-year history of featuring exciting topics, particularly from Villeroy & Boch's subsidiaries. Events held during the year, such as healthy living days, the Inspirations series with interesting presentations and the Management Dialogue for executives, are particularly important when it comes to promoting employee motivation and identification with the company.

Villeroy & Boch places particular importance on diversity in its workforce, because it sees diversity as an opportunity in itself: different cultural backgrounds, mindsets and experiences are fundamental to the success of an internationally active company. With this in mind, Villeroy & Boch adopts a systematic approach to its Human Resources (HR) policy with a focus on sustainable succession planning, not least with a view to ensuring the transfer of expertise. Specific appointments from within the company, particularly with regard to more women in management positions, set the right tone for the future of Villeroy & Boch.

Villeroy & Boch is also active and successful in the area of employer branding, i.e. the external presentation of the company as an attractive employer with the aim of differentiating it from its competitors. Long-standing cooperation with universities and participation in top-class recruitment fairs serve to attract the interest of potential candidates. As such, it was no surprise that Villeroy & Boch was named as one of the 100 most attractive employers in Germany in a study conducted by the consultancy firm Universum in 2011.

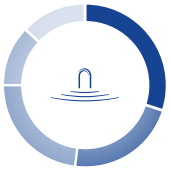
IN FIGURES

Trend and number of employees within the Group*

Divisions	2011	2010	10/11
Bathroom and Wellness	5,733	5,835	–102
Tableware	2,317	2,460	–143
Other	399	393	6
Group as a whole	**8,449**	**8,688**	**–239**

* As of 31.12.

Personnel by regions



Countries	2011
Germany	30 %
Western Europe	23 %
Eastern Europe	22 %
North America/Mexico	12 %
Rest of the world	13 %

TRAINING AT VILLEROY & BOCH

The shortage of skilled labour – one of the key topics in the German economy in 2011 – can only be resolved by way of a sustainable training programme. For a number of years, Villeroy & Boch has adopted a philosophy of training its own specialist staff, and the company was happy to welcome the 43 young people who started their professional career at its German locations in the past financial year. Villeroy & Boch is providing this cycle of trainees with a practical education in a range of professional roles, including office and industrial clerks, retail sales staff, industrial ceramists, industrial mechanics, mechanatronics engineers, IT specialists, wood technicians, media designers, IT systems electronics technicians and energy electronics technicians. A total of 103 trainees were employed in Germany in 2011.

Right from the beginning of their training, people starting their career get to know the company, its products and its people from the bottom up, visit sites such as the sanitary ware and tableware production facilities in Mettlach and Merzig, are sensitised to topics such as occupational health and safety and compliance, and are helped to understand their contribution to Villeroy & Boch's success through active involvement in Ideas Management, among other things. In the first few weeks, training focuses in particular on team spirit, including a visit to a climbing course with a view to promoting teambuilding and cooperation.

Teambuilding: 2011's trainees on the climbing course

As a globally active company, it is also extremely important that young employees recognise the international and, in particular, intercultural context of Villeroy & Boch at an early stage. The experience of seeing and understanding issues and problems from different perspectives will help them to take the best approach to the challenges facing them in their everyday work in future.

Accordingly, Villeroy & Boch proactively supports the exchange of trainees between various company locations with the assistance of the European Union's *Leonardo Da Vinci* programme. In 2011, for example, a number of German trainees visited the subsidiary plant in Romania for three weeks. There was also an exchange between Vargarda in Sweden and Mettlach: every year, Swedish pupils visit the *Central Training Workshop* in Mettlach as part of their school internship before trainees from Villeroy & Boch AG make a return visit to the subsidiary plant in Vargarda.

In 2011, more than 80% of the young people trained at the Saar locations were offered full-time employment, which serves to underline the quality of the trainees concerned and Villeroy & Boch's training philosophy.

REPORTS FROM THE JUNIOR MANAGEMENT PROGRAMME

In 2010, Villeroy & Boch launched its junior management programme under the motto *From university to practice*. The aim of the three-year programme is to train future specialist experts and managers. Junior managers get to know the different departments in their selected area on the job, perform various near-the-job roles and hence develop their functional and cross-functional expertise on a continuous basis. They also participate in cross-functional HR development measures and seminars.

Two junior managers from the first programme report on their experiences:

Anja Jäger, Junior Management Programme, Supply Chain Management

After my masters, I decided to join Villeroy & Boch AG's junior management programme in the area of Supply Chain Management. The company demands a high degree of initiative and willingness to assume responsibility. The aim of the junior management programme is not to get to know as many departments as possible in a short period of time, but rather to become intensively involved in a department for a longer period depending on your individual interests. This is the case for me at the moment. Supply Chain Management has an extremely international focus, making it a truly exciting area to work in. I am fully integrated within the respective departments and am given challenging and complex tasks with a great deal of responsibility. The good thing about the program is that we also get to participate in useful training sessions on things like soft skills, specialist expertise and project management.

Jairo Barrera, Junior Management Programme, Controlling/Accounting

My name is Jairo Barrera and I come from Mexico. I have been a junior manager in Controlling at Villeroy & Boch since October 2010. When I was looking for a job, it was important for me to find a company with an international focus. I found Villeroy & Boch, a company that is active in many countries (including my home country of Mexico). As part of the programme, I have now worked in two areas: Production Controlling and Reporting. In both cases, I did not only obtain an insight into the various tasks in the respective department, but also had the opportunity to establish a network within the company. As a junior manager, the opportunity to get a wider view of the Controlling process chain is particularly valuable, from cost recording and controlling for production through to the preparation of the various reports for use in the decision-making process. Now that this year is coming to a close, I am looking forward to another successful year with Villeroy & Boch, full of new tasks – and maybe including some time abroad.

FURTHER TRAINING AND HR DEVELOPMENT AT VILLEROY & BOCH

Villeroy & Boch's long-term success depends to a large extent on the qualification of all its employees, who are given continuous further training. Villeroy & Boch defines HR development as investment aimed at preparing employees for growing and changing requirements at an early stage.

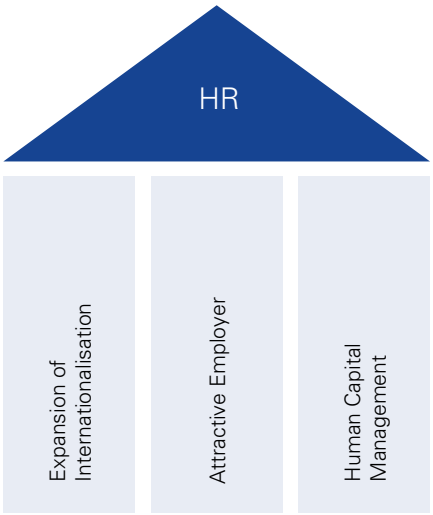
The need for further training measures is identified using standardised tools. One particularly important feature is the Villeroy & Boch employee appraisal – an annual discussion between an employee and his or her manager that addresses and agrees on topics such as cooperation and the employee's future development and the necessary measures. Villeroy & Boch's individual further training traditionally involves on-the-job and near-the-job measures in particular, the aim being to facilitate employees' development by transferring complex, innovative and/or new tasks within their own area of activity.

For an internationally active company like Villeroy & Boch, growing importance is attached to having employees with foreign-language skills. This affects more than just those employees who have close contact with international customers or subsidiaries outside Germany. Quite the opposite, in fact: with the workforce at the company's headquarters in Mettlach in particular becoming increasingly international, it is especially important that all employees can speak English. To this end, Villeroy & Boch has offered a new foreign-language training concept throughout the Group since 2010 as part of the *Global Academy*, consisting of live online training, e-learning and business talking.

INTERNATIONAL MANAGEMENT DEVELOPMENT

2011 saw the start of a new chapter in management development: the *Leadership Values Program* was held for the first time with the participation of international Villeroy & Boch managers from France, Belgium, the Czech Republic, the United Kingdom, Poland, Sweden and the Netherlands. It will be held at different European locations in future, such as London in early 2012. The programme is based on Villeroy & Boch's management principles and will make a decisive contribution to maintaining the Group-wide management and corporate culture.

VILLEROY & BOCH'S HR STRATEGY



Villeroy & Boch's HR strategy

Demographic change, a shortage of skilled labour and the *War for Talents* are dominating the current HR environment, and the resulting risks are posing significant challenges for companies. Villeroy & Boch is particularly interested in staying a step ahead of the game by adopting the right HR strategy, both in the competition for the best talents on the employment market and with a view to long-term employee retention.

Villeroy & Boch's HR strategy is based on three pillars. In addition to Human Capital Management, it is driven by the Group's internationalisation strategy and Villeroy & Boch's internal and external positioning as an attractive employer.

The primary objective is to ensure that the company's future staff requirements are covered and to implement strategic competence management. Villeroy & Boch ensures this through Group-wide transparency with regard to the organisational structure and the qualifications and skills of its employees.

COMPETENCE MANAGEMENT AT VILLEROY & BOCH

Recognising employee potential requires a clear, well-structured job architecture throughout the Group that illustrates the company's requirements of its jobs in terms of qualifications and skills. Villeroy & Boch is currently working on creating and establishing this job architecture. Extensive job descriptions and transparent, fair and non-hierarchical job evaluations serve to ensure the

uniform presentation of the Villeroy & Boch organisation. Organisational job evaluation is also combined with a set of competence requirements that is considered by Villeroy & Boch to be optimal for meeting the requirements of the respective position. These competences are derived from Villeroy & Boch's Group strategy. The competence model is comprised of four competence fields each consisting of four competences:

1 PERSONALITY		2 STRATEGY & MANAGEMENT	
Interpersonal skills	Cooperation	Analytical competence	Entrepreneurial thought and action
Persuasiveness	Conflict-handling skills	Process quality	Innovation and change initiative

3 JOB		4 LEADERSHIP	
Results orientation	Customer orientation	Goal and activity orientation	Employee development
Intercultural competence	Methodological competence	Team orientation	Employee motivation

Villeroy & Boch's competence model

The expectations of employees in terms of competences are clearly communicated in order to ensure that HR, managers and employees all "speak the same language" and that each jobholder is informed about his or her tasks and responsibilities with regard to qualifications and competencies.

A comparison between the competence requirements for the respective job and the actual competencies of the employee allows him or her to meet expectations and make the best possible contribution to Villeroy & Boch's success. This is achieved using standardised HR development tools, such as the Villeroy & Boch employee appraisal.

The value added generated by Villeroy & Boch's competence management is unmistakable. It enables the identification of highly qualified, international key players for today and the future. Employees can also be shown professional development opportunities within their career paths as a manager or expert at the company. This increases employee retention as well as covering future recruitment requirements through sustainable, Group-wide succession planning.

THE GLOBAL HR PROJECT

Villeroy & Boch's competence management is currently represented and implemented on a Group-wide basis by Corporate HR. This is performed as part of the Global HR Project with the aim of ensuring uniform HR work throughout the company.

In addition to the support and cooperation of the local HR managers at Villeroy & Boch's subsidiaries, an international global HR conference was held in Mettlach in autumn 2011. This event, which was initially attended by HR representatives from the Group's European subsidiaries, provided an opportunity to outline the overall concept and discuss it in the context of the situation at the individual subsidiaries.

The competence management tools are now being successively applied at the company's locations in order to allow the qualifications and skills of all Villeroy & Boch employees around the world to be analysed. This will enable Villeroy & Boch to lay the foundations for an integrated and consistent Group-wide HR management system to support its corporate culture.

International Global HR Conference at Villeroy & Boch in Mettlach

EXCURSUS: HUMAN RESOURCES INTERNATIONAL – RUSSIA

Russia is one of Villeroy & Boch's future markets alongside China and India. Since the mid-1990s, the Bathroom and Wellness Division has been represented there, today via an own independent company. Country Manager Magdalena Gniadzik reports on establishing the organisation, the local challenges and the support provided by Corporate Human Resources.

INTERVIEW WITH MAGDALENA GNIADZIK

Ms Gniadzik, how did you end up working for Villeroch & Boch?

It's quite a funny story. As the manager of a representative office, I made initial contacts in Poland for German companies. One of those companies was Villeroy & Boch, who contracted me to find a Polish representative for the company. We were unable to find a suitable candidate, so I was asked if I would like to take up the position myself … and suddenly I was a Villeroy & Boch employee. Now, 17 years on, I am the Area Manager for Russia, Belarus and Central Asia.

Has it been a problem for you, as a woman, to hold senior positions in Poland and Russia?

No, quite the opposite. In Poland, this is no longer an issue. For cultural reasons in particular, it is not very common for women to hold management positions in Russia, although female employment is quite high. In my position as Country Manager in Russia, however, it quickly became apparent that customers had no problem with the fact that I am a woman, and it has not disadvantaged me in my working life at all. I also still feel like Villeroy & Boch provides me with excellent support in my role and prepares me extremely well with management training packages such as the Leadership Values Program.

Russia is one of Villeroy & Boch's future markets – what challenges does it pose?

We concluded the organisational phase with the formation of the company in Moscow. Recruitment is completed for the time being and our local presence is assured. The next step is to complete our conversion from what was previously more of an agent-based marketing approach to our own trading activities as a company with a separate import function. At present, my work is focused in particular on bridging the gaps between the different cultures – including within Russia – and realising and implementing Villeroy & Boch's corporate culture at the Russian company.

How did you ensure that you appointed employees that were right for Villeroy & Boch's spirit?

I was provided with extensive support by Corporate Human Resources and am now convinced of the merits of the Group-wide HR tools, although I was sceptical to begin with. I was particularly impressed by the psychological procedure for measuring professional performance requirements and the team development tool, as were long-standing employees and the applicants themselves. Even the candidates we did not appoint were extremely grateful for the constructive and transparent feedback they received.

How do you manage the balancing act between constantly travelling on business in Eastern Europe and Germany and life with your young daughter in Moscow?

Sometimes I am not even sure myself. There is certainly no magic formula. I think women are generally better at organising and at managing time. But no one can do everything perfectly. Ultimately, what matters is my work and the challenges it brings, which I enjoy. This naturally has a positive impact on my private life.

RESEARCH AND DEVELOPMENT, INNOVATION, ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY

Saarschleife – an icon of the Saarland

Environmental awareness benefits not only nature and the environment, but also results in a greater quality of life. The path to achieving environmentally beneficial and economically viable technologies is primarily research and innovation, both of which have been important aspects of Villeroy & Boch's corporate strategy for many years. Through research and development, innovation, environmental protection and occupational health and safety, Villeroy & Boch is not only taking responsibility for current and future generations, but also laying the foundations for long-term economic success and competitiveness.

RESEARCH AND DEVELOPMENT

Part of the corporate strategy is to research, develop and use new, innovative processes and technologies. For instance, the latest scientific findings are used as a basis for optimising ceramic production. Energy efficiency and productivity have been increased significantly here in the manufacture of geometrically complex products in recent years. A key technology in this respect is moulding using the pressure casting method, which imposes very high requirements on the quality of the ceramic raw materials used. Ultimately, for example, fluctuations in the particle size distribution and mineralogical composition can result in unstable processes and, consequently, to scrappage of intermediate and end products. The aim of the Villeroy & Boch *SIMSAN* development project is to avoid losses of resources and energy and to reduce CO_2 emissions.

A new control and drying process is being developed in the context of the *Dry Control* project. Central to the project is the energy-intensive drying of large ceramic parts such as toilets. By means of state-of-the art technology, targeted drying can now be carried out, leading to reduced scrappage of pieces.
As a result of *Dry Control*, the Mettlach site is expected to see a saving of 1,550 tonnes of ceramic raw materials worth several hundred thousand euros, 15,000 MWh of energy and 2,200 tonnes of CO_2 emissions. Both economic and ecological benefits also come courtesy of savings in drinking water, chemicals and landfill volumes.

INNOVATION

Creating something new and thus producing innovations – a challenge that Villeroy & Boch is constantly embracing and meeting. Questioning the tried and tested and linking tradition with progress – these are the tasks that Villeroy & Boch has set itself. There is no letup here – the challenge is to stay one step ahead and be surprisingly new. A company can only be innovative if it sets itself these tasks. The innovations can be in the area of design or production methods or their impacts on the environment. These aspects are often interlinked.
One example from the Bathroom and Wellness division is the *Omnia GreenGain* toilet. The innovation lies in the tripling of the water inlet to reduce water consumption at the end. Compared with conventional toilets, water consumption has been reduced by 2.5 litres per flush to 3.5 litres. That is a saving of 40%.
In the Tableware division, the *NewWave* series has revolutionised the previously accepted aesthetic principles. The series' asymmetrical shape broke the paradigm that ceramics always have to be round. This approach was an absolute innovation at the time, and cast a whole new light on dining and eating culture. In shape and production methods as well as décor, Villeroy & Boch is constantly coming up with ways of reassessing the traditional and creating something totally new.

Omnia GreenGain toilet

Products from the *NewWave* series

Systematic innovation and lateral thinking

Students from Coburg University present their innovative design ideas on the subject of *Bathroom Worlds 2020*

Innovations are based on fresh, groundbreaking and original ideas. To ensure that these do not come about by chance only every now and again, Villeroy & Boch trains its employees in systematic innovation and lateral thinking. In particular, questioning techniques, thought processes and creativity and problem-solving techniques can be learned. New ideas for products, solutions and services can also be generated in target group-oriented innovation workshops. For instance, in November 2011, Villeroy & Boch held the *Hotel Bathroom of the Future* workshop, which was attended by planners, architects and interior designers from all over Germany.

As well as a clear innovation vision and strategy, innovation as a corporate principle also requires a structured approach. However, the main ingredients for successful innovation are enthusiasm and passion. The employees who submit their suggestions as part of the Villeroy & Boch Ideas Management system have major innovation potential. The huge success of the Ideas Management system demonstrates the creativity, flexibility and keen eye of the staff. Almost half of the 1000 or so ideas submitted were implemented in 2011.

Early identification of trends is also a key factor. Changes in society and the eating and bathroom culture are important indicators that must be identified and researched. Outcomes for the range policy can be derived from this in the medium and long term. With the tool of trend research, creativity at Villeroy & Boch can be geared towards customers' current and future needs even more specifically.
Visionary projects with design universities such as Coburg University can also provide inspiration for product and concept development. On the subject of *Bathroom Worlds 2020 – New Lifestyles, New Bathroom Concepts*, the students looked at megatrends such as urbanisation, bathroom technology, energy efficiency and the bathroom as a hideaway, and channelled them into innovative, creative design ideas. Projects like this reveal new possibilities, identify future requirements and unearth new talents for product development.

Keeping in touch with the zeitgeist is essential to the success of innovations at Villeroy & Boch. Innovation ideas and projects are moved forward in the *Group Innovation Committee* (GIC). As this strategic process is crucial to all subsequent activities, the Management Board is actively involved in the GIC.

Innovative products 2011

Villeroy & Boch again impressed with new, innovative products in 2011. Outstanding examples here are the extension of the *NewWave* series for the Tableware division, and the two bathroom collections *My Nature* and *O.novo* for the Bathroom and Wellness division.

Unusual and innovative design – the *NewWave* collection has represented a break from the traditional shapes and production methods of tableware products ever since it was launched. Even an innovative and successful collection like *NewWave* doesn't stand still, but keeps on being reinvented. That is why Villeroy & Boch supplemented the product range in 2011. The collection extension was centred on the extravagant *NewWave* Eyecatcher, a double bowl. The typical *NewWave* sweeping contours, reminiscent of a flag blowing in the wind, have been transformed with a fresh approach, making them rounder. The unusual, visually stunning products like the *Urban Nature* Traverse and the *Flow* bowl have been joined by another highlight.

NewWave Eyecatcher Double bowl

Urban Nature Traverse

Flow Bowl

The bathroom collection *My Nature* interprets the longing for originality. High-quality ceramics from Mettlach are combined with vividly ground, indigenous chestnut. One innovation here is the haptic *Castanea* décor, which is available as an option for the wash basin. Thanks to new production technology, it is now possible, for the first time, to manufacture visible and touchable décors with deep structures and a sophisticated design. The toilet, which is mounted with a hidden attachment, needs just 4.5 litres of water for an optimum flush. For the *NatureSeat*, Villeroy & Boch combines real wood components with easy-care hygienic thermoset plastic.

With the *O.novo* series, Villeroy & Boch is revolutionising its bathroom range in the entrance segment. The toilets need just 3 or a maximum of 4.5 litres of water for an optimum flush. In the area of project business, this provides crucial points for international LEED certification (Leadership in Energy and Environmental Design) of sustainably designed buildings and structures.

However, for Villeroy & Boch, environmental protection is not only a key factor in research and innovation. It all starts with environmentally sound production. Environmental protection is rigorously pursued through optimum use of raw materials and energy and reduction of emissions.

NatureSeat Toilet seat

My Nature Washbasin with *Castanea* decor

ENVIRONMENT

The three examples below show what outstanding work Villeroy & Boch has already done in the field of environmental protection. They also show the potential to be tapped at Villeroy & Boch. By using state-of-the-art technology and enhancing existing capabilities, it is possible to make substantial energy and cost savings, thus ensuring active environmental protection.

Process-integrated environmental protection

Process-integrated environmental protection constitutes all activities already scheduled in production. Thanks to modern technologies, post-treatment strategies such as clarification systems and filters are partly not necessary at all. One of the many projects implemented at Villeroy & Boch which vouches for process-integrated environmental protection is the integration of state-of-the-art waste water technology into the glaze treatment process. The new waste water system enables the recovery of approx. 300 tonnes of dry glaze raw materials per year. This technology has also enabled Villeroy & Boch to halve the volume of waste water discharged into the Saar River.

Merzig kiln

The impressive potential for increasing energy efficiency can be seen in the example of the firing kiln in Merzig. Optimisation based on real-life conditions can produce a CO_2 saving of 4,200 tonnes per year. Five interlocking measures are pivotal in the project. Firstly, insulation of the body of the kiln has been improved. This reduces the heat energy used and shortens the heating-up and cooling-down phase. Utilisation of waste heat from the cooling zone also saves energy. The pre-heating of air in the combustion process when the heating gas is burned can be carried out by absorbing energy from the indirect cooling zone. Further energy savings are obtained through the use of bulk ceramic material to fill energy-losing areas of the kiln car. Optimised moulding and material shaping of the kiln furniture also reduces the energy requirement.

ORC system in Mettlach

To generate electricity from exhaust air, Villeroy & Boch finished construction of an energy recovery system at the Mettlach sanitary ware factory in collaboration with Keramischer OFENBAU GmbH in 2011. This system operates in accordance with the ORC (Organic Rankine Cycle) procedure. Warm exhaust air from the cooling zone of a tunnel kiln (220-260°C) is directed into the plant. In the ORC system's direct evaporator, this waste heat helps vaporise an organic coolant and generate a pressure of around 25 bar. This steam drives a high-frequency generator coupled to a turbine. Electricity is generated, fed into the Villeroy & Boch network, and consumed. Villeroy & Boch thus benefits from an annual financial advantage. There is no comparable standard system in the world with a direct evaporator that operates in this performance range (30 kW). Most ORC systems to date operate in a performance range far above 100 KW.

DOCUMENTATION OF ENVIRONMENTAL ACTIVITIES

Transparency is a key factor in the environmental activities of Villeroy & Boch. The environmental management of Villeroy & Boch is documented by the EMAS certificate and the international environmental management standard ISO 14001. Many of the Villeroy & Boch sites have already been ISO 14001-certified and validated in accordance with EMAS.

EMAS

EMAS, the acronym for the Eco Management and Audit Scheme, was developed by the European Union. It is a Community scheme comprising environmental management and environmental auditing for organisations that wish to improve their environmental performance. The EMAS directive (eco-audit directive) ascribes a crucial role to the individual responsibility of an economy to deal with its direct and indirect environmental impact and relates to a specific location. Two Villeroy & Boch production facilities have been validated in accordance with the EMAS directive: Vargarda (fittings) in Sweden in 2001 and Mettlach (sanitary ware factory) in Germany in 2009. The German sites in Torgau and Merzig in the Tableware division are planning EMAS validation for 2012.

ISO 14001

ISO 14001 is an international environmental management standard which defines globally recognised requirements for an environmental management system. It focuses on a process of continuous improvement as a means to achieve the respective defined environmental targets of an organisation. This process is based on the *planning – execution – monitoring – optimisation* method. In addition to the already certified sites, the Torgau and Merzig sites in the Tableware division are planning ISO 14001 certification for 2012.

Documents and certificates confirm Villeroy & Boch's environmental activities

ENVIRONMENTAL STRATEGY IN THE WORKPLACE: OCCUPATIONAL SAFETY AND PREVENTIVE HEALTH

An important part of the environmental strategy also concerns the employees' immediate workplace. Health and safety – in both production and administration – are at the heart of the activities of Villeroy & Boch. For instance, the production sites have achieved continuous improvement of their safety management. In addition to the legally prescribed safety measures, occupational safety management focuses on prevention and a raising of awareness of occupational safety among employees. Employees are actively included in the determination and avoidance of risks. The success of this is evident from the accident statistics. For example, the number of accidents resulting in non-productive time exceeding three days has been drastically reduced at the sanitary ware factory in Mettlach, where no accidents at all have been recorded in the last three and a half years. For Villeroy & Boch, the emissions generated by the use of additives also have an impact on both the environment and occupational safety. Therefore, for example, no lead compounds in the production of sanitary ware have been used for more than 20 years. The lead oxide still used in the ceramics industry is no longer used at Villeroy & Boch.
In addition to the legally prescribed examinations for performing specific activities, Villeroy & Boch also arranges health campaigns. The first "health days" were held at the Mettlach site in 2010. All employees from production and administration were invited to participate in the campaigns, including personal expert consultation. The aim was not only to raise the level of awareness of health issues, but also, more importantly, to communicate methods for remaining fit and healthy at a practical level. The extensive services provided ranged from medical checkups, massage and back screening through to training in the use of defibrillators, workplace ergonomics and first-aid measures. Following their enormous success, these campaigns were conducted at a further six sites in 2011.

Research, development and early identification of trends lead to innovative, more environmentally sound production methods and, in turn, innovative, more environmentally sound products. Occupational safety and the health of employees are also part of the corporate strategy: By constantly advancing in these areas, Villeroy & Boch is going down the path of environmentally beneficial and economically viable progress.

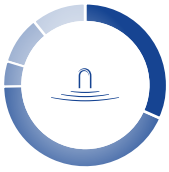
TABLEWARE DIVISION

Nicolas-Luc Villeroy, Head of the Tableware Division, with the new *Mariefleur* collection

Key Data

In Euro million	2011	2010
Sales	281	267
EBIT – operating	9	5
Capital expenditures	8	12
Depreciation	8	9

Sales by regions



Country	2011
Germany	32 %
Western Europe	43 %
Eastern Europe	5 %
North America	9 %
Rest of the World	11 %

INTERVIEW WITH NICOLAS-LUC VILLEROY, HEAD OF DIVISION

Mr. Villeroy, what is your assessment of the 2011 financial year as far as your division is concerned?
2011 was a year of highs and lows. Looking back, however, I can say that we increased our revenue in a number of markets, such as Sweden (+13%), Eastern Europe (+24%) and Switzerland (+16%). We also recorded growth of 23% in our home market of Germany, which was extremely satisfying, and we performed well in Russia (+20%) and China. By contrast, the Arab spring hit our revenue to a certain extent, and the economic crisis appears to have reached Australia just in the past year. All in all, global growth in the first half of 2011 meant that it was better than the second half of the year, which was significantly impacted by the crisis in the euro zone. A few words on our hotel activities: In Europe, we generated growth of 8% in this area in 2011. We also won some prestigious orders in the Middle East – most notably for fitting out the Qatar National Convention Center, a project whose volume runs into the millions.

What were the other highlights of the 2011 financial year for the Tableware division?
One of the highlights of the past year was the extremely positive Ambiente trade fair in spring, where we were able to surprise visitors with a number of new products. The *Farmhouse Touch* porcelain series proved particularly successful over the course of the year. This is especially notable because the series includes more than just white items, which are traditionally strong performers: *Farmhouse Touch* is also available in a version with blue decoration, *Farmhouse Touch Blueflowers*, and this actually accounts for the lion's share of the collection's sales. Our *NewWave* line extension also met with a positive response. Other product highlights included high-end collections of gift items like *Amazonia* and the *Pieces of Jewellery* glass series.

In addition to our products, we again focused on our point of sales, whether in terms of renovation (Zürich, Wadgassen, Baden-Baden) or opening new outlets (Nailloux near Toulouse or worldwide, e.g. in Mexico and China). New openings represent a particularly important step for Villeroy & Boch, as managing or installing our own store layout concepts generally serves to strengthen our brand presence, helping us to be successful and record significant growth rates. New openings also allow us to test and optimise our sales strategy. For example, we opened a store in Reutlingen in late October – a pilot project that will show us which shop concepts and product ranges will bring us success in medium-sized towns and cities in future.

Following collections such as Petite Fleur, Althea Nova and Farmhouse Touch Blueflowers, Villeroy & Boch recently presented Mariefleur, a new crockery series with a floral design, at the Ambiente 2012. Are floral motifs a perpetual trend for Villeroy & Boch?
Floral motifs are part of Villeroy & Boch's DNA. We have a long history of extremely successful floral decors, such as *Alt Luxemburg* and *Wildrose*. Here at Villeroy & Boch's head office in Mettlach, Germany, you only have to look out of the window to see nature in all its glory, as well as beautiful buildings. The geographical origin of the brand is also reflected in the two pillars of our crockery styles, *Classic* and *Country*. By interpreting these two styles for city life, we come to our third pillar: *Metropolitan*. From my own experience, I can say that floral designs work in all three of

Villeroy & Boch's styles. Trend analyses also clearly show that colours and floral motifs are current. This is why our design for 2012 is once again extremely fresh, colourful and flowery. These decors reflect the tastes of major target groups, including internationally.

Speaking of international target groups and matters of taste: What impact is Villeroy & Boch's internationalisation strategy having on the design of its Tableware products?
Globalisation is making the world into a village. As people travel more and more frequently, cultures become intertwined. Each and every one of us, from designers to consumers, is exposed to a variety of influences from every region of the world. These then end up on our tables in the form of pizza or pasta plates, for example. At Villeroy & Boch, we recognise such influences and approach them proactively. Accordingly, the international dimension is affecting our activities in four ways:

Firstly, in terms of pricing, which changes to reflect our brand's positioning in the respective market. Secondly, in terms of decor: this year, for example, we have released an Asian motif to mark "the Year of Dragon". Thirdly, the globalisation process is affecting the shape of our products. Although we insist on remaining true to our European roots when it comes to shape, we occasionally allow ourselves to make cultural adjustments. For example, we have developed a typical Arab-style demitasse without a handle and, in 2012 – with *Anmut Asia* – we are also introducing Asian rice and soup bowls. The Villeroy & Boch brand has developed particularly well in Russia and China. And fourthly, internationalisation means that we can no longer talk about one single dining and eating culture, but rather a number of different cultures that live side by side. This is opening up new possibilities for us and our product range. In addition to the traditional table setting, our tableware activities now also focus on specific mentalities, approaches and themes. These can be as varied as a coffee or tea theme, or an Asian or barbecue theme. Nowadays, we offer products in different price categories for the table, for decoration and for the kitchen.

Is Villeroy & Boch still making a contribution to the democratisation of tableware?
This contribution is also part of Villeroy & Boch's DNA. For as long as I can remember, making tableware accessible to our customers has been important for us. As such, we have always endeavoured to develop products with an extremely good price/performance ratio for mass consumption and daily use – even back in the days when the precious nature of porcelain meant it was still known as "white gold".

What are your division's goals for 2012?
Firstly, I hope our employees will remain highly committed and passionate. Without them, we would be unable to achieve what we do, and would have to be far less ambitious in our targets. We have naturally set ourselves the aim of further growth, not only in our core European markets, but also in growth markets such as China and Russia – and we are well equipped to achieve this.

BATHROOM AND WELLNESS DIVISION

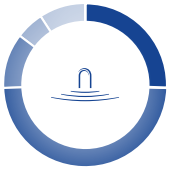
Andreas Pfeiffer,
Head of Bathroom and Wellness Division

Individual and modern: the successful *Subway 2.0* collection
Geometric perfection: the *Lagor Pure* built-in sink

Key Data

In Euro million	2011	2010
Sales	462	447
EBIT – operating	19	19
Capital expenditures	18	12
Depreciation	19	21

Sales by regions



Country	2011
Germany	26 %
Western Europe	49 %
Eastern Europe	11 %
North America	5 %
Rest of the World	9 %

INTERVIEW WITH ANDREAS PFEIFFER, HEAD OF DIVISION

Mr. Pfeiffer, how would you summarise 2011 for your division?
2011 was a satisfactory year for the Bathroom and Wellness Division on the whole. Although the deterioration in the economic climate in the last quarter meant we were unable to sustain the trend recorded in the first nine months, we closed the year with revenue growth of 3% as against the previous year. Regional development was extremely uneven. On the one hand, the political unrest in the Middle East and the financial and debt crisis in the Southern European markets had an impact on our sales. On the other hand, we generated extremely good results in the important markets of Western and Central Europe, particularly in Germany (+11%). All in all, this is a result that the entire Bathroom and Wellness team can be proud of, especially considering it was achieved in a difficult market environment.

This time last year, you mentioned Asia and Russia as particularly interesting regions. Did you make good progress in these markets in 2011?
Russia (+25%) and China (+64%) were growth drivers once again in 2011. Over the past year, we successfully pressed ahead with investments in our internal structures and the systematic establishment of our brand through the expansion of our distribution network. In both countries, we are now generating significant absolute revenue levels in excess of Euro 30 million. We also see potential for sustainable growth over the coming years on the path we have taken. This is underlined by the formation of a sales company in Russia.

The latest quarterly reports have shown that Villeroy & Boch has clearly backed the right horse when it comes to bathroom furniture. Is the "single-source bathroom" strategy still going from strength to strength?
Villeroy & Boch has been pursuing the "single-source bathroom" strategy, its strategy for selling collection bathrooms, with great success for a number of years. In 2011, our non-ceramic product range accounted for more than 40% of our revenue. Bathroom furniture made a particularly notable contribution in the past year, with growth of 17%, but bathtubs and shower tubs also played a part in the sustainable improvement in revenue from Villeroy & Boch products.

From production to the end product. The" single-source bathroom" – this includes bathroom accessories such as soap dishes. How has the new German e-shop for these products been received?
The launch of our German e-shop for bathroom accessories in November was a success. This online presence is extremely important for us. The new sales platform, which can be accessed at *http://badshop.villeroy-boch.com*, is developing positively. The project is still young and will improve our brand's customer retention. We are currently testing the acceptance of these products in our own stationary sales network at a point of sale in Rottach-Egern, Germany.

What were the biggest product surprises of the year for your division?
The revenue development of the *Subway* programme brand in 2011 was not entirely surprising, but did exceed our expectations. New bathroom furniture programmes and additions to the ceramic product range, *Subway 2.0*, mean that we are also well positioned for the coming years in this market segment. We are enjoying similar success with our high-quality ceramic kitchen sinks. One particularly notable example is the timelessly modern design of the *Lagor Pure* built-in sink, with its traditional straight lines and organic panache.

The O.novo decorated washbasin and the MoretoSee bathroom mirror with integrated +Sound sound system won the Plus X Award in 2011, while products from the My Nature collection received the Reddot Design Award. How important are design prizes for your division?
These awards serve to underline our innovative strength in the areas of design and communication. Our employees are proud of what they have achieved, and with good cause. At the same time, design prizes spur us on to maintain our reputation as a pioneer in this field in future.

Moving on to the project business, were you able to secure prestigious orders for Villeroy & Boch in 2011?
We presented our *360° Projects* project platform at the ISH trade fair last March. Since then, we have devoted ourselves to the target group of architects, designers, developers and plumbers even more intensively than in the preceding years. This is helping us to continue to sustainably expand our position in our project business in the core European markets as well as in Russia and Asia. In 2011, for example, we secured prestigious projects for fitting Villeroy & Boch products at the Grand Fortune Bay Hotel in Sanya, China, and the newly constructed Center Parcs holiday park by the Bostalsee lake in the Saarland.

What are your expectations for the division in 2012?
It will be another exciting year whose events appear to be more or less impossible to predict. We will do everything in our power to further strengthen our position in our markets and, if the economic conditions allow, to ultimately enjoy a more profitable year than in 2011.

Mr. Pfeiffer, what are your medium- and long-term goals?
We will successfully extend our leading position as the traditional European premium brand in Europe, Asia and the Americas with a clear focus on the expansion of our brand and integrated bathroom concepts that are tailored to the needs of customers in our private and project business. In straightforward terms, we will focus our organisation on strengthening our position in our existing markets while leveraging growth opportunities in selected markets in Asia and Russia.

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Amazonia – The extravagant porcelain collection is inspired by the colourful natural world of the Amazon. Originally conceived as a series of high-quality gift items made from the finest premium bone porcelain, it has now been extended to create a complete dinnerware collection.

Page 8 and 9

Subway 2.0 – The *Subway 2.0* bathroom collection encompasses a wide selection of space-saving, functional products that are designed for use in small spaces and offer optimal solutions even for unconventional room layouts. With its contemporary, modern design, the collection is well-suited for furnishing a range of different lifestyle worlds.

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Anmut My Colour/Anmut Bloom – The *Anmut* dinnerware form has a deliberately restrained, extremely balanced and harmoniously proportioned design. The *My Colour* decor is an exciting combination of fresh, contemporary colours with a platinum edging. The *Bloom* decor features floral, graphic and geometric decors in highly expressive colours.

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New vase concept: Numa, Nek, Tiko and Kima – The new vase collection reinterprets classical forms and combines them with modern colours. The colour concept uses both muted and vibrant shades, making individual combinations possible – whether harmonious or contrasting. The vases are produced using a traditional overlay technique with real coloured glass.

Page 12 and 13

La Belle – The design of the *La Belle* collection incorporates style elements of the romantic era, such as curved ornaments and blossom tendrils, and interprets these in a contemporary manner. This leads to a design that is sensual and playful but also clear and modern. *La Belle* is an imaginative collection that highlights the arc between the romantic and the modern in unusual bathroom designs.

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Year of Dragon – 2012 is the *Year of the Dragon* in the Chinese calendar. Villeroy & Boch demonstrates the high esteem in which it holds Asian culture and lifestyle with the luxurious *Year of Dragon* collection of gift items. The dragon depicted as the central motif on the porcelain items in the *Year of Dragon* series is powerfully rendered, reflecting its strong nature.

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Memento – With powerful purism and effective contrasts, the *Memento* collection brings uncompromising linearity to the bathroom and adds a touch of character. It underscores the clear, original forms while making the bathroom into a statement of pure design. The timelessly scaled-back design is an expression of the very best in design expertise.

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2011

Villeroy & Boch
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GROUP MANAGEMENT REPORT 2011

REVENUE UP 4% YEAR-ON-YEAR TO EURO 743 MILLION

REVENUE UNCHANGED IN FOURTH QUARTER DESPITE DEMAND-SIDE IMPACT OF GLOBAL DEBT CRISIS

OPERATING EBIT BEFORE SPECIAL INCOME UP 17% TO EURO 28 MILLION

FORMER PLANT BUILDING IN LÜBECK-DÄNISCHBURG SOLD IN DECEMBER 2011 FOR PROCEEDS OF EURO 9 MILLION

GROUP RESULT INCREASES TO EURO 18 MILLION

GENERAL ECONOMIC CONDITIONS

Following a satisfactory first half of the year, the subsequent deterioration of the economic climate continued in the fourth quarter. The rapidly spreading government debt crisis and the regular shocks it provided to an already weakened financial sector had a negative impact on demand for consumer and investment goods around the world. Some of the European markets that are central to Villeroy & Boch's business were particularly hard hit by this development. The markets of Brazil, Russia, India and China, which have proved robust for some time, also failed to fully escape the effects of the crisis, meaning that they were increasingly unable to provide the same strong positive momentum to counteract this development as was previously the case.

VILLEROY & BOCH CONSOLIDATED INCOME STATEMENT

» See Table page 63

REVENUE AND EARNINGS

Consolidated revenue up 4% year-on-year

In the 2011 financial year, the Villeroy & Boch Group generated revenue of Euro 743 million, up 4% on the figure of Euro 714 million recorded in the previous year.

CONSOLIDATED REVENUE 2011

Villeroy & Boch Group revenue by country

In Euro million	Revenue	Share
Germany	**208**	**28 %**
Abroad	**535**	**72 %**
Scandinavia	101	14 %
Rest of Overseas	76	10 %
France	71	10 %
Eastern Europe	65	9 %
BeNeLux	60	8 %
United Kingdom	31	4 %
Italy	29	4 %
USA	27	4 %
Mexico	20	3 %
Switzerland	20	3 %
Austria	18	2 %
Spain	12	2 %
Rest of Western Europe	5	1 %

Revenue of Euro 208 million was generated in the German market, an improvement of around Euro 28 million or 16%. Around half of this revenue growth was attributable to a major project in the Tableware Division with a volume of Euro 13 million. Foreign revenue was up on the previous year at Euro 535 million. Reve-

Structure of the consolidated income statement (IFRS)

In Euro million	2011	% of revenue	2010	% of revenue
Revenue	743	100	714	100
Cost of sales	–433	–58	–419	–59
Gross profit	**310**	**42**	**295**	**42**
Selling, marketing and development costs	–236	–32	–226	–32
General administrative expenses	–46	–6	–41	–6
Other expenses/income	0	0	–5	–1
Operating EBIT (before special expenditures)	**28**	**4**	**24**	**3**
Sale of Dänischburg	**9**	**1**	**–**	**–**
EU anti-trust proceeding	**–**	**–**	**–73**	**–10**
EBIT (incl. special expenditures/income)	**37**	**5**	**–49**	**–7**
Net finance expense	–11	–2	–10	–1
Earnings before taxes (EBT)	**26**	**4**	**–60**	**–8**
Income taxes	–8	–1	–3	–0
Group result	**18**	**2**	**–63**	**–9**

nue in Russia and China increased substantially. This was offset by declining revenue in the USA due to the closure of unprofitable retail locations and unfavourable exchange rates.

Group result rises to Euro 18 million

Increased revenue compared with 2010 and a reduction in production costs served to improve the gross profit by Euro 15 million. As announced, we continued and intensified the expansion of our activities in the growth regions of Asia, the Pacific and the Americas, which was initiated in 2010, as well as our junior management programme for university graduates. Including inflation-related increases, this resulted in structural costs rising by Euro 11 million. All in all, the operating result (EBIT before special income) in the 2011 financial year was Euro 4 million higher than in the previous year at Euro 28 million.

Including a gain of around Euro 9 million on the disposal of the former plant buildings in Lübeck-Dänischburg, EBIT after special income amounted to Euro 37 million in 2011, up Euro 86 million on the previous year. Earnings for the 2010 financial year were impacted by a non-recurring special expenditure of Euro 73 million resulting from the EU fine.

The Group's net finance expense deteriorated by around 7% to Euro -11 million. This was primarily due to the reduction in average net liquidity as a result of the payment of the EU anti-trust fine in September 2010.

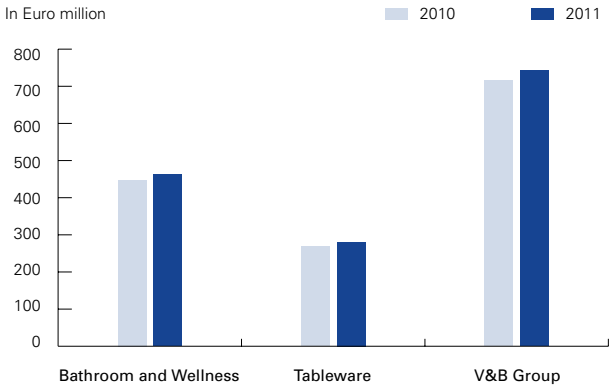
Tax expense in 2011 amounted to Euro 8 million (previous year: Euro 3 million).

All in all, the Group result for the 2011 financial year was again clearly positive at Euro 18 million.

REVENUE AND EARNINGS BY DIVISION (GROUP)

Consolidated revenue 2010/2011

Breakdown by division



In Euro million

Division	2010	2011	Change	
Bathroom and Wellness	447	462	15	3 %
Tableware	268	281	13	5 %
V&B Group	**714**	**743**	**29**	**4 %**

Business development in the divisions

The **Bathroom and Wellness Division** generated revenue of Euro 462 million in the 2011 financial year (up 3% year-on-year).

On a regional basis, China (+64%), Ukraine (+54%), Russia (+25%), Germany (+11%), Belgium (+7%) and the Netherlands (+5%) enjoyed particularly strong development. Revenue in the Americas declined by 11%, not least due to unfavourable exchange rates. All of the product ranges in the division delivered positive growth. The highest growth rates were recorded in the area of bathroom furniture, where revenue was up 17% on the previous year.

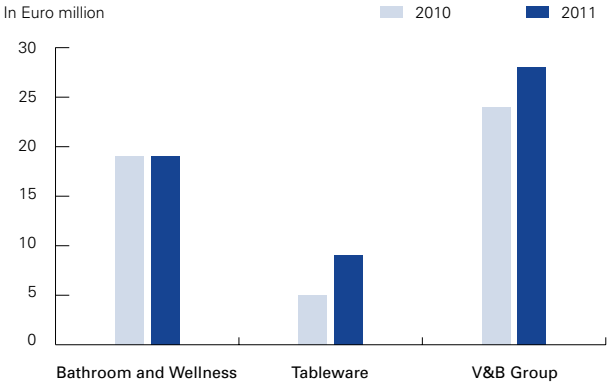
Despite significant price rises for some raw materials and purchased commodities and targeted strategic investments in the expansion of activities in the division's growth regions, the operating result (EBIT) remained unchanged year-on-year at Euro 19 million.

The **Tableware Division** generated revenue of Euro 281 million in 2011, up 5% on the previous year. In this division, too, development was driven in particular from business in Germany (+23%) and was attributable to a large extent to a major project with a supermarket chain with a volume of Euro 13 million. Total revenue in the division's foreign markets declined by 2% year-on-year. There was growth in Russia (+20%), the rest of Eastern Europe (+24%), Switzerland (+16%) and Sweden (+13%), while the closure of unprofitable retail locations in the USA and the change in the US dollar exchange rate had a negative impact. In the Arab region, the impact on revenue of the political upheaval in the first quarter was reversed to a satisfactory extent by the end of the year.

In the 2011 financial year, the operating result (EBIT) improved from Euro 4 million to Euro 9 million. This was driven by the higher level of revenue as well as cost reductions in production due to the modernisation and concentration of manufacturing on just two plant locations.

Consolidated-EBIT 2010/2011

(before proceeds on sale of Dänischburg/EU special expenditure)

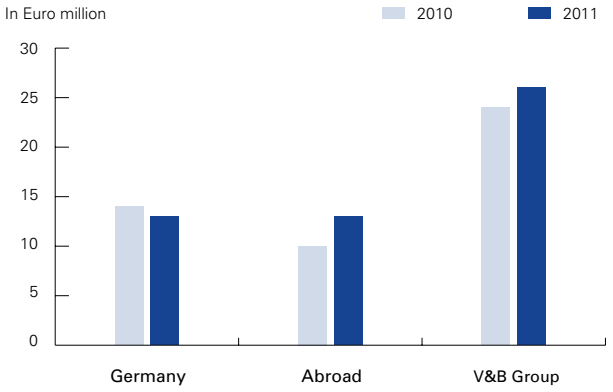


In Euro million

Division	2010	2011
Bathroom and Wellness	19	19
Tableware	5	9
V&B Group	**24**	**28**

INVESTMENTS

Investments in intangible assets and property, plant and equipments 2010/2011



In Euro million	2010	2011
Germany	14	13
Abroad	10	13
V&B Group	**24**	**26**

Investment volume at the Villeroy & Boch Group

Investments in intangible assets and property, plant and equipment in the 2011 financial year totalled Euro 26 million after Euro 24 million in the previous year. Thereof, 50% related to Germany.

At 69% (previous year: 51%), the majority of investment activities related to the **Bathroom and Wellness Division**. Investments outside Germany totalled Euro 11 million, of which 29% related to Western Europe, 42% to Eastern Europe and 29% to locations overseas. These activities focused in particular on investments in conjunction with the further expansion of the location in Thailand and the modernisation of production technology in Romania and Hungary. Investments were also made in further improving production workflows in Germany.

Investments in the **Tableware Division** amounted to Euro 8 million. Of this figure, 79% was attributable to Germany and primarily related to the optimisation of production processes at the plants in Torgau and Merzig. The sales network outside Germany was further expanded.

FINANCING

Condensed cash flow statement

In Euro million	2011	2010
Group result before special expenditures	18	10
Current depreciation and amortisation of non-current assets incl. reversals	27	33
Change in non-current provisions	–14	–14
Profit from disposal of fixed assets	–11	–2
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	–3	–8
Other non-cash income/expenses	16	11
Net cash flow from operating activities (previous year: before EU fine)	**34**	**31**
EU anti-trust proceedings	–	–73
Total net cash flow from operating activities	**34**	**–42**
Net cash flow from investing activities	**–5**	**5**
Net cash flow from financing activities	**–6**	**–2**
Total cash flows	**22**	**–39**
Cash and cash equivalents on 1 January	**37**	**79**
Total cash flows	22	–39
Change in cash and cash equivalents due to exchange rate effects	0	0
Change in basis of consolidation	–	–2
Cash and cash equivalents on 31 December	**59**	**37**

The net cash flow from operating activities (before the EU fine) amounted to Euro 34 million, up Euro 3 million on the previous year. This change is due to the improved operating result.

The net cash flow from investing activities declined by Euro 10 million year-on-year. The figure for the previous year contained a cash inflow from an investment in the amount of Euro 20 million, whereas this was only partially offset by increased receipts from disposals of fixed assets in the year under review.

The net cash flow from financing activities for 2011 largely consists of the dividend paid for 2010.

NET LIQUIDITY

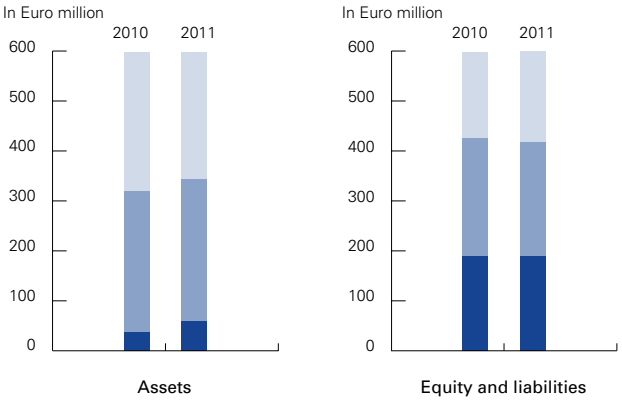
Net liquidity improved by Euro 22 million year-on-year to total Euro 8 million. This development was driven in particular by the current net profit and the proceeds of the disposal of the former plant buildings in Dänischburg.

Cash and cash equivalents, current financial assets and current and non-current financial liabilities are combined in calculating net liquidity.

BALANCE SHEET STRUCTURE IN 2011

The balance sheet total at the reporting date remained unchanged as against the previous year at Euro 598 million. The balance sheet structure is as follows:

Consolidated balance sheet structure in 2010/2011



Assets in Euro million	2010	2011
Non-current assets	279	254
Current assets	282	285
Cash and equivalents	37	59
Total assets	**598**	**598**

Equity and liabilities in Euro million	2010	2011
Equity	173	181
Non-current liabilities	236	228
Current liabilities	189	190
Total equity and liabilities	**598**	**598**

The net profit for the 2011 financial year means that, following the dividend payment, equity increased once again by around Euro 8 million to Euro 181 million. As a result, the equity ratio rose from 29% in the previous year to 30%.

All in all, non-current assets declined by Euro 25 million. This was due in part to the reclassification of items totalling Euro 11 million from non-current assets to assets held for sale in conjunction with the planned disposal of a further 15% of the shares of V&B Fliesen GmbH to the Turkish majority shareholder (Euro 4 million) and the sale of a sanitary ware plant in Mexico (Euro 7 million).
Further factors included the scheduled repayment of a long-term loan by V&B Fliesen GmbH (Euro 1 million), a reduction in non-current assets due to exchange rate fluctuations (Euro 3 million) and the higher level of depreciation and amortisation in the year under review compared with the level of investment (around Euro 1 million). Accordingly, non-current assets accounted for 36% of total assets (previous year: 39%).

Deferred tax assets declined by Euro 7 million due to the utilisation of tax loss carryforwards.

Current assets increased by Euro 3 million year-on-year to Euro 285 million. Assets held for sale remained largely unchanged, as the aforementioned reclassification from non-current assets was almost fully offset by the sale of the assets reported in this category in the previous year.
Cash and cash equivalents rose by Euro 22 million to Euro 59 million in the year under review. Further details can be found in the cash flow statement.

Non-current liabilities fell by Euro 8 million. This was primarily reflected in the decline in pension provisions and deferred tax liabilities. Current liabilities remained largely unchanged, with the rise in trade payables of Euro 6 million being offset by a reduction in current provisions in the amount of Euro 7 million.

EMPLOYEES

Villeroy & Boch had a total of 8,449 employees as of 31 December 2011, of whom 30% were employed in Germany. Compared with the previous year, the number of employees declined by 239. The Bathroom and Wellness Division accounted for 5,733 employees, while a total of 2,317 people were employed in the Tableware Division and 399 in central functions.
Taken as an average for the year as a whole, the number of employees at the Villeroy & Boch Group decreased from 8,729 to 8,558.

PROCUREMENT

As a result of the continued positive development of the global economy in the first three quarters of 2011 and the above-average price rises for raw materials during this period (e.g. energy, zircon, precious metals, brass, plastics, packaging materials), Villeroy & Boch was confronted by demands for price increases in the relevant product groups that were considerably more pronounced than had been forecast for 2011. The continued savings projects and the work of the procurement organisation meant that these price rises were ultimately restricted to an average of around 5% for the product groups concerned.

RESEARCH AND DEVELOPMENT

In the year under review, spending on research and development at the Villeroy & Boch Group, including the development of designs, totalled Euro 12 million. Thereof, Bathroom and Wellness accounted for Euro 8 million and Tableware for Euro 4 million.

In 2011, our culture of innovation, which is characterised by artistic creativity, design affinity, ingenuity and a passion for ceramics, not only led to innovative, prize-winning product concepts – such as *My Nature* in the Bathroom and Wellness Division – but also resulted in significant technological progress in conjunction with systematic research and development.

A great deal of this progress, particularly in the areas of energy efficiency and productivity, was achieved in the course of research projects.

One example is the *SIMSAN* development project. Using state-of-the-art analytical procedures and electron microscopy, optimised raw material mixtures that significantly improve energy efficiency and productivity are being developed with the aid of computer simulations. This enables undisturbed, robust process control, particularly for the production of geometrically complex items. Other examples of current research projects that underline the innovative strength of the traditional company Villeroy & Boch, such as the ORCeram research project that was successfully completed in 2011, can be found in the "Research and Development, Innovation, Environment, Occupational Health and Safety" section of the 2011 Annual Report.

OPPORTUNITIES

With the closure of the former primary manufacturing facility at the faiencerie in Mettlach and the modernisation and expansion of tableware production in Merzig, the implementation of the industrial masterplan in the Tableware Division is now completed. The resulting reduction in production costs has enabled a sustainable improvement in the competitiveness of this division and has already led to a tangible improvement in earnings. Outside of the Group's day-to-day business, there is considerable earnings potential amounting to more than Euro 50 million in the development and marketing of property not required for operating purposes, such as in Sweden and Luxemburg.

Company-specific opportunities for Villeroy & Boch are derived from the strength of its brand and its current and future product portfolio. Villeroy & Boch will continue to offer its customers an innovative, modern and needs-oriented product range from both divisions that reflects current consumer behaviour and product trends. The Internet and, in particular, social networks will become increasingly important for marketing purposes and for activating new target groups.

In its domestic markets, Villeroy & Boch's past structural adjustments means that it enjoys a competitive position and expects to further expand its market share despite a certain degree of saturation.

On the cost side, additional potential can be generated through continuous process improvements and an increased focus on value added in the Group's activities.

Opportunities also result from

- the focused process of internationalisation, particularly in the growth markets of China and Russia;
- the continued expansion of the Group's international hotel and project business;
- new marketing concepts at the point of sale in the Tableware Division; and
- the development of new premium product ranges.

RISKS

Risk management at the Villeroy & Boch Group

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

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

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

General market risk

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

Financial and economic risks

As an international Group, Villeroy & Boch is exposed to a number of financial risks.

In particular, these are:

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

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

Global financial management

Global financial management is organised centrally by the Group's Treasury department. Its Group-wide principles regulate all relevant issues, such as banking policy, financing agreements and global liquidity management.
The management procedures implemented for the aforementioned financial risks are described in note 54 to the consolidated financial statements.

Legal risks

During the EU anti-trust proceedings (COMP/E-1/39.092 - PO/ Bathroom Fittings and Fixtures), the European Commission imposed a fine totalling Euro 71.5 million on the Villeroy & Boch Group on 23 June 2010 for alleged violations of anti-trust law. Villeroy & Boch has filed an action for the annulment of this ruling with the General Court of the European Union. This action remains pending. A decision is not expected before 2013.

The German Federal Cartel Office is currently investigating the German porcelain industry and has conducted searches at an industry association and competitors. Villeroy & Boch has not been searched. We do not expect this matter to have negative consequences for us.

An action has been brought against Villeroy & Boch Gustavsberg AB by a former licensor claiming damages for alleged unjustified termination of contract. We consider these claims to be groundless and have opposed the action accordingly. The action is pending.

An action has also been brought against Villeroy & Boch Gustavsberg AB by the competitor IFÖ due to the alleged breach of copyright. Proceedings are currently pending. We also consider these claims to be groundless and have opposed the action accordingly.

Tax risks

Like all commercial enterprises, Villeroy & Boch is subject to the ongoing examination by the German fiscal authorities of its tax declarations and payments. In quantitative terms, the largest share of the Group's business volume relates to Villeroy & Boch AG.

The external tax audit for the financial years from 2002 to 2004 was completed in the 2011 financial year. The results of this external tax audit fall broadly within the parameters of the write-downs and liabilities already recognised in the consolidated balance sheet, meaning that there is no impact on the Group's earnings situation.

The external tax audit for the financial years from 2005 to 2007 began in 2011. The audit is currently still at the factual analysis stage. As yet, there are no findings with regard to risks identified in the course of this audit at Villeroy & Boch AG.

The external wage tax audit for the period from 2005 to 2007 was completed in 2011. The resulting tax backpayments are covered by the corresponding provisions.

Procurement and sales market risks

The deterioration in the economic climate has put the brakes on the substantial global rise in the cost of raw materials. Since then, prices have seen varied development, remaining at a high level in some product groups while others show signs of a downturn. Further price development in the various categories will depend to a large extent on future global economic performance and continued development in political crisis regions. Accordingly, it is not currently possible to provide a reliable forecast of price development in 2012 and the resulting procurement risks and opportunities.

Internal control system

As Villeroy & Boch AG is a publicly traded corporation within the meaning of section 264d of the German Commercial Code (HGB), it is required to describe the key characteristics of its internal control and risk management system with respect to the consolidated financial reporting process, including the financial reporting processes of the companies included in consolidation, in accordance with section 315 (2) no. 5 HGB. The risk management system encompasses all organisational provisions and measures aimed at identifying and dealing with business risks. Accordingly, an internal control system is defined as those principles, processes and measures introduced by a company's management with a view to the organisational implementation of management decisions

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

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

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

included in consolidation via a clearly defined management and reporting organisation.

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

In particular, the key characteristics of the internal control and risk management system that could have a significant influence on consolidated financial reporting are as follows:

- The Villeroy & Boch Group is characterised by a clear organisational, corporate, controlling and monitoring structure.

- Planning, reporting, controlling and early warning systems and processes have been agreed and reconciled on a Group-wide basis for the comprehensive analysis and management of risk factors affecting the Group's earnings and risks that could endanger the continued existence of the Group.

- Functions in all areas of the financial reporting process (e.g. financial accounting and controlling) are clearly allocated.

- The completeness and correctness of financial reporting data is examined regularly on the basis of spot checks and plausibility checks, as well as manual controlling and using the software employed. A risk-, process- and content-oriented layer of controlling is installed at a segment level.

- Key processes of relevance to financial reporting are analysed on a regular basis.

- The principle of dual control is applied for all key processes of relevance to financial reporting.

- The following measures are implemented in order to ensure the proper IT-based processing of transactions and data relating to consolidated financial reporting:

  a) Data processing is organised as a central service provider that supplies IT systems for the Group companies and ensures the quality of data processing by defining and monitoring guidelines to be applied throughout the Group. The same applies even after the establishment of a cooperative partnership in the area of IT with Rödl & Partner in 2010, as part of which the global IT infrastructure of the Villeroy & Boch Group was transferred to a subsidiary of Rödl & Partner.
  b) The aim of employing a uniform standard software system to process all data of relevance to financial accounting at all Group companies has largely been realised.
  c) Suitable processes and process reviews have been implemented in order to manage and control the adjustment of IT systems that are relevant to financial accounting.
  d) Suitable workflows and measures have been established in order to strictly and systematically regulate logical access to the IT systems.
  e) Recognised standards for security in data processing (IT General Controls) are observed on the basis of the recommendations of the German Federal Office for Information Security (BSI IT Baseline Protection Catalogue).

- Internal audit forms part of the internal monitoring and opportunity/risk management system and has a corresponding Group-wide mandate delegated by the Management Board. Using a systematic target- and risk-oriented approach, the functionality and effectiveness of the internal control and risk management system and other aspects are examined and assessed primarily on a test basis. Where weaknesses are identified, proposals for improvement are developed and agreed in conjunction with the units under review and their implementation is regularly monitored on the basis of an established follow-up process.

To the extent prescribed by law, the Audit Committee of the Supervisory Board continues to monitor the effectiveness of the internal control, risk management and internal audit system and the audit of the financial statements, among other things, in accordance with section 107 (3) sentence 2 of the German Stock Corporation Act (AktG). The suitability of the risk early warning system is also regularly examined by the external auditors of Villeroy & Boch AG as part of their statutory audit of the single-entity and consolidated financial statements and the (Group) management report.

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

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

EVENTS OF PARTICULAR IMPORTANCE AFTER THE END OF THE 2011 FINANCIAL YEAR (VILLEROY & BOCH GROUP)

On 22 December 2011, an agreement was concluded for the sale of the ceramic sanitary ware plant in Saltillo, Mexico, to the WoodCrafters Group. Under the terms of this agreement, the buyer will take on the approximately 600 employees at this location. The agreement was implemented on 29 February 2012. Taking into account all costs and guarantees, the purchase price was slightly higher than the net carrying amount of the assets sold, which was around Euro 7 million.

Other than this, there are currently no other significant events that took place after the end of the financial year.

PRINCIPLES OF THE REMUNERATION SYSTEM

The Supervisory Board examined the remuneration system for the Management Board in light of the extension to the contract of the Chief Executive Officer and the appointment of a new Management Board member in the year under review. In particular, it examined the remuneration system with respect to the changes in statutory requirements resulting from the German Act on the Appropriateness of Management Board remuneration, which came into force on 31 July 2009, and the recommendations of the German Corporate Governance Code and made adjustments where it considered this to be necessary or otherwise appropriate. As in the case of the reassessment of Management Board remuneration, the Supervisory Board obtained advice in this matter from an independent remuneration consultant.

The remuneration system for current members of the Management Board is performance-oriented, with the fixed remuneration of the Management Board members being supplemented by a performance-based variable component. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes more than half of the total remuneration paid. In contrast to the previous remuneration system, however, there are changes to the composition and weighting of the variable remuneration with effect from 1 January 2012. The variable remuneration is now broken down into a short-term annual component (annual bonus) and a long-term component with a measurement period of three years. This long-term remuneration has a higher weighting than the short-term component. In terms of content, both variable remuneration components are oriented towards the Company's financial targets (return on assets, EBIT, also EBT in some cases) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2011 financial year. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car for private use is offered to members of the Management Board. The existing contracts of the current members of the Management Board provide for defined benefit or defined contribution pension commitments. In the opinion of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the Company's financial situation and do not exceed typical remuneration either in a vertical comparison or in a horizontal comparison with reference companies.

Supervisory Board remuneration is also composed of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

DECLARATION IN ACCORDANCE WITH SECTION 315 (4) HGB

With respect to the disclosures in accordance with section 315 (4) HGB, reference is made to note 17 (issued capital) and note 25 (voting right notifications) of the notes to the consolidated financial statements. The disclosure requirements set out in section 315 (4) no. 6 HGB are satisfied in accordance with section 84 AktG (management appointment and dismissal) and sections 179 ff. AktG (amendments to the articles of association).

DECLARATION BY THE MANAGEMENT BOARD

With regard to the declaration by the Management Board required by section 289a HGB (new version), reference is made to the version printed in the Corporate Governance Report contained in the 2011 Annual Report, which is also available online at *www.villeroy-boch.com/corporate-governance*

GROUP OUTLOOK

Over the coming years, the Management Board expects to see a general slowdown in economic development in its key sales markets, resulting in low economic growth on average. Emerging economies, which have had a stabilising effect in recent years, are likely to have to counteract the growing inflationary trends, thereby losing some of their impact as demand drivers. In general, the unresolved government debt crisis and the fragile sentiment in the financial sector will continue to result in disruptions and setbacks around the world.

Revenue, earnings and investments at the Group

Despite the modest macroeconomic conditions, Villeroy & Boch is aiming to generate consolidated revenue of between Euro 750 million and Euro 760 million in 2012. Average annual revenue growth of around 5% is forecast for the coming years.

On the cost side, efforts to rationalise production and the continuous streamlining of workflows and structures in the areas of administration, logistics and sales will continue with the aim of counteracting the expected above-average rise in prices for energy, raw materials and purchased merchandise. Depending on further economic development, we expect our operating earnings in 2012 to fall within a range of plus/minus 15% as against the level recorded in 2011. In light of the forecast stabilisation in the global economy from the second half of 2012 onwards, we expect to see a substantial improvement earnings in 2013.

At around Euro 35 million, annual investments in property, plant and equipment over the next two years will be in line with the level of depreciation. Among other things, investments in 2012 will focus on the completion of the expansion of sanitary ware production in Thailand and the expansion of WC capacities. Around 60% of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 40%.

DIVIDEND PROPOSAL

At the next General Meeting of Shareholders on 16 May 2012, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend as follows:

Euro 0.40	for preference shares
Euro 0.35	for ordinary shares

The dividend distribution will therefore have a total volume of Euro 10.5 million. This amount will change by the share of dividends related to treasury holdings of preference stock at the time the payment is made.

CONSOLIDATED INCOME STATEMENT

for the period from 1 January to 31 December 2011

In Euro thousand	Notes	2011 01/01/– 31/12/	2010 01/01/– 31/12/
Revenue	33	**742,943**	**714,193**
Costs of sales	34	–433,260	–419,166
Gross profit		**309,683**	**295,027**
Selling, marketing and development costs	35	–235,846	–225,703
General administrative expenses	36	–46,051	–40,596
Other operating income[1)]	37	25,463	14,304
Expenses from EU anti-trust proceedings		–	–73,000
Other operating expenses[1)]	38	–16,473	–19,825
Result of associates accounted for using the equity method	39	252	384
Operating result (EBIT)		**37,028**	**–49,409**
(Operating result before real estate income/special expenditures)		*(+27,854)*	*(+23,591)*
Interest income	40	971	1,815
Other finance income	40	11	299
Interest expenses	41	–12,192	–12,527
Financial result		**–11,210**	**–10,413**
Earnings before taxes		**25,818**	**–59,822**
Income taxes	42	–7,537	–2,976
Group result		**18,281**	**–62,798**
Thereof attributable to:			
Minority interests	43	–5	13
Villeroy & Boch AG shareholders		18,286	–62,811
		18,281	**–62,798**
Earnings per share		In Euro	In Euro
Earnings per ordinary share	44	0.67	–2.40
Earnings per preference share	44	0.72	–2.35

During the reporting period there were no dilution effects.
1) Change in disclosure in 2010 excluding earnings effect, see no. 37

CONSOLIDATED BALANCE SHEET

as of 31 December 2011

Assets

In Euro thousand	Notes	As of 31/12/2011	As of 31/12/2010
Non-current assets			
Intangible assets	5	37,381	38,711
Property, plant and equipment	6	151,104	162,106
Investment property	7	15,551	16,295
Investments accounted for using the equity method	8	853	1,101
Other financial assets	9	10,207	15,006
		215,096	**233,219**
Other non-current assets	13	427	198
Deferred tax assets	10	38,584	45,574
		254,107	**278,991**
Current assets			
Inventories	11	146,036	140,673
Trade receivables	12	106,293	107,397
Other current assets	13	19,131	21,415
Income tax claims	14	2,179	2,548
Cash and cash equivalents	15	59,196	37,013
		332,835	**309,046**
Non-current asset held for sale	16	**11,407**	**10,286**
Total assets		**598,349**	**598,323**

Equity and Liabilities

In Euro thousand	Notes	As of 31/12/2011	As of 31/12/2010
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	17	71,909	71,909
Capital surplus	18	193,587	193,587
Treasury shares	19	–14,985	–14,985
Retained earnings	20	–76,280	–82,382
Valuation surplus	21	6,633	4,972
		180,864	**173,101**
Equity attributable to minority interests	22	**72**	**107**
Total equity		**180,936**	**173,208**
Non-current liabilities			
Provisions for pensions	26	140,684	144,558
Non-current provisions for personnel	27	16,405	17,598
Other non-current provisions	28	5,011	5,857
Non-current financial liabilities	29	50,000	50,000
Other non-current liabilities	30	3,616	3,939
Deferred tax liabilities	10	12,120	14,275
		227,836	**236,227**
Current liabilities			
Current provisions for personnel	27	12,011	10,726
Other current provisions	28	32,596	39,156
Current financial liabilities	29	1,341	1,428
Other current liabilities	30	76,656	78,265
Trade payables	31	61,337	55,200
Income tax liabilities		4,437	4,113
		188,378	**188,888**
Liabilities directly associated with the assets classified as held for sale	32	**1,199**	**0**
Total liabilities		**417,413**	**425,115**
Total equity and liabilities		**598,349**	**598,323**

CONSOLIDATED STATEMENT OF EQUITY

as of 31 December 2011

	Equity attributable to Villeroy & Boch AG shareholders						Equity attributable to minority interests	**Total equity**
In Euro thousand	Issued capital	Capital surplus	Treasury shares	Retained earnings	Valuation surplus	**Total**		
Notes	17	18	19	20	21		22	
As of 01/01/2010	**71,909**	**193,587**	**–14,985**	**–17,137**	**–2,024**	**231,350**	**665**	**232,015**
Group result				–62,811		–62,811	13	–62,798
Other comprehensive income				–1,629	6,996	5,367	15	5,382
Total comprehensive income net of tax				**–64,440**	**6,996**	**–57,444**	**28**	**–57,416**
Acquisition of non-controlling interests				–805		–805	–586	–1,391
As of 31/12/2010	**71,909**	**193,587**	**–14,985**	**–82,382**	**4,972**	**173,101**	**107**	**173,208**
As of 01/01/2011	**71,909**	**193,587**	**–14,985**	**–82,382**	**4,972**	**173,101**	**107**	**173,208**
Group result				18,286		18,286	–5	18,281
Other omprehensive income				–5,990	1,661	–4,329		–4,329
Total comprehensive income net of tax				**12,296**	**1,661**	**13,957**	**–5**	**13,952**
Dividend payments				–6,186		–6,186		–6,186
Acquisition of non-controlling interests				–8		–8	–30	–38
As of 31/12/2011	**71,909**	**193,587**	**–14,985**	**–76,280**	**6,633**	**180,864**	**72**	**180,936**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

as of 31 December 2011

In Euro thousand	2011		2010	
Group result		**18,281**		**–62,798**
Other comprehensive income				
Gains or losses on cash flow hedges (cf. no. 21c)				
Changes recognised directly in the valuation surplus	–1,472		2,028	
Changes transferred from the valuation surplus to the Group result	–1,467		–272	
		–2,939		**1,756**
Changes due to foreign currency translation recognised directly in equity				
Conversion of retained earnings in the financial statements of foreign subsidiaries (cf. no. 20)	–5,990		–1,609	
Conversion of valuation surpluses in the financial statements of foreign subsidiaries (cf. no. 21a)	2,399		3,458	
Conversion of net investments in foreign business operation (cf. no. 21b)	2,945		1,763	
		–646		**3,612**
Other income and expenses recognised directly in equity		**–**		**–20**
Income taxes offset directly against the valuation surplus (cf. no. 21d)		**–744**		**34**
Total other comprehensive income		**–4,329**		**5,382**
Total comprehensive income net of tax		**13,952**		**–57,416**
Thereof attributable to:				
Villeroy & Boch AG shareholders		13,957		–57,444
Minority interests		–5		28
		13,952		**–57,416**

CONSOLIDATED CASH FLOW STATEMENT

as of 31 December 2011

In Euro thousand	Notes	2011 01/01/ – 31/12/	2010 01/01/ – 31/12/
Group result		18,281	–62,798
Depreciation of non-current assets	45	27,400	32,726
Change in non-current provisions		–14,215	–13,590
Profit from disposal of fixed assets		–10,818	–1,841
Change in inventories, receivables and other assets		3,750	1,449
Change in liabilities, current provisions and other liabilities		4	–4,730
Taxes paid/received in the financial year		–3,749	–974
Interest paid in the financial year		–3,853	–4,823
Interest received in the financial year		827	1,190
Other non-cash income/expenses	49	16,251	11,311
Cash Flow from operating activities	49	**33,878**	**–42,080**
Purchase of intangible assets, property, plant and equipment		–25,626	–23,182
Investment in non-current financial assets and cash payments		–218	–55
Cash receipts from restricted deposits		–	20,000
Cash receipts from disposals of subsidiaries		–	1,053
Cash receipts from disposals of fixed assets		20,380	6,748
Cash Flow from investing activities	50	**–5,464**	**4,564**
Change in financial liabilities		–87	–540
Cash payments for the acquisition of non-controlling interests	22	–38	–1,391
Dividend payments	23	–6,186	–
Cash Flow from financing activities	51	**–6,311**	**–1,931**
Sum of cash flows		**22,103**	**–39,447**
Balance of cash and cash equivalents as of 01/01/		**37,013**	**78,783**
Change based on total cash flows		22,103	–39,447
Changes due to exchange rates		80	–473
Change in consolidated companies		–	–1,850
Net increase in cash and cash equivalents		**22,183**	**–41,770**
Balance of cash and cash equivalents as of 31/12/	15+52	**59,196**	**37,013**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF VILLEROY & BOCH AG, METTLACH, FOR THE 2011 FINANCIAL YEAR

GENERAL INFORMATION

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

In line with section 315 of the HGB (German Commercial Code), the consolidated financial statements as of 31 December 2011 were prepared in accordance with the current provisions of the International Accounting Standards Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All accounting policies endorsed by the European Commission effective for the financial year beginning on 1 January 2011 were applied. The consolidated financial statements are supplemented by additional explanatory notes in accordance with section 315a HGB.

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

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

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 1 March 2012. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

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

1. ACCOUNTING PRINCIPLES

Intangible assets

Acquired intangible assets are capitalised at the cost necessary to bring the asset to its working condition. Internally generated intangible assets are only capitalised in the year of their creation if they meet the requirements of IAS 38. Initial measurement is at cost including attributable overheads. Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general administrative expenses.
Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price (asset value) and the value in use (capitalised earnings value) of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with payments in the years beyond the planning horizon derived from the situation in the final year of the planning period. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account.

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

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

Property, plant and equipment

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

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

Property, plant and equipment are depreciated on a straight-line basis over their useful life.

The following useful lives are applied throughout the Group:

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

The estimated useful lives are reviewed regularly.

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

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

Leases

If assets are leased and the lessor bears substantially all the risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised directly as expenses in the statement of comprehensive income.

If beneficial ownership remains with the Villeroy & Boch Group (finance lease), the leased asset is capitalised at its fair value or the lower present value of the lease instalments. Depreciation is allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability is recognised for the discounted corresponding payment obligations arising from future lease instalments.

Government grants

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

Investment property

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

Investments accounted for using the equity method

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

Financial instruments

Financial instruments arise from contracts which lead to a financial asset or financial liability or an equity instrument. They are recognised in the statement of financial position as soon as the Villeroy & Boch Group concludes a contract to this effect. Under IAS 39, each financial instrument is allocated to one of four categories in accordance with the classification described in note 54 and, depending on the category chosen, measured either at amortised cost or fair value. Financial instruments are derecognised when the claim for settlement expires.

Inventories

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

Receivables

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

Cash and cash equivalents

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

Pension obligations

Provisions equal to the defined benefit obligations (DBO) already earned are recognised for obligations under defined benefit pension plans. The expected future increase in salaries and pensions is also taken into account. If pension obligations are covered in full or in part by fund assets, the market value of these assets is offset against the DBO if these assets are classified as trust assets and administered by third parties. Actuarial gains and losses, which may result from a change in the discount factor or the difference between expected and actual income from the fund assets, are calculated at the start of the financial year and, up to a range of 10% of the total obligation, are not taken into account (corridor method). Amounts outside this range are allocated in profit or loss over the average remaining working life of the respective employees. Of the annual pension costs, the service cost is reported in staff costs and the interest cost in net other finance costs.

Provisions are not recognised for defined contribution plans as the payments made are recognised in staff costs in the period in which the employees perform the services granting entitlement to the respective contributions.

Other provisions

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

Liabilities

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

Contingent liabilities

Contingent liabilities are possible obligations, predominantly arising from guarantees and liabilities on bills, which were established in the past but whose actual existence is dependent on the occurrence of a future event and where recourse is not likely as at the end of the reporting period. Contingent liabilities are not recognised in the statement of financial position.

Revenue recognition

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

Research and development costs

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

Taxes

Income tax expense represents the total of current and deferred taxes. Both current and deferred taxes are recognised in profit or loss unless they are associated with items recognised outside profit or loss, in which case the corresponding taxes are also recognised outside profit or loss.

Current tax expense is determined on the basis of the taxable income for the financial year. Taxable income differs from the result for the year reported in the statement of comprehensive income, as it excludes those income and expense items that are only taxable or tax-deductible in prior/subsequent periods or not at all. The current tax liabilities of the Villeroy & Boch Group are recognised on the basis of the applicable tax rates.

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

Management estimates and assumptions

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

Modifications due to the adoption of accounting principles

With the exception of the IASC publications mandatory for the first time in the financial year, the accounting policies applied are the same as those applied in the previous year.

The disclosures on the risk of default on trade receivables (see note 12) have been amended on account of changes in IFRS 7 "Financial Instruments". In future, the outstanding payments from the utilisation of collateral as at the end of the reporting period must be disclosed. The collateral received and its fair value need no longer be disclosed.

The regulations effective for the first time in the 2011 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on new developments within the IASB Framework can be found in note 63.

2. BASIS OF CONSOLIDATION

In addition to Villeroy & Boch AG, the consolidated financial statements include all 15 (previous year: 15) German and 42 (previous year: 44) foreign subsidiaries in which Villeroy & Boch AG directly or indirectly holds a majority of voting rights. The simplification options provided by section 264(3) HGB for the audit and publication of financial statements were exercised for Sanipa Badmöbel Treuchtlingen GmbH and Villeroy & Boch Creation GmbH. Shareholdings in accordance with section 313(2) HGB are shown in note 62.

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

Villeroy & Boch AG and consolidated companies:	Germany	Abroad	Total
As of 1 January 2011	**16**	**44**	**60**
Disposals due to mergers	–	–2	–2
As of 31 December 2011	**16**	**42**	**58**

In order to simplify the holding structure of the Villeroy & Boch Group, the following companies were merged with Ucosan Holding B.V. based in Roden, Netherlands, retroactively to 1 January 2011 on 1 October 2011:

Name	Registered office	Activity	Interest
Ucosan B.V.	Roden, Netherlands	Production	100%
Bowic B.V.	Roden, Netherlands	Development	100%

Ucosan Holding B.V. was then renamed to Ucosan B.V.

3. PRINCIPLES OF CONSOLIDATION

The annual financial statements of the companies included in the Villeroy & Boch Group's consolidated financial statements are prepared in accordance with uniform Group accounting policies and consolidated in accordance with IAS 27. The end of the reporting period for the consolidated companies is the same as that of the parent company.

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

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

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

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

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

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

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

4. CURRENCY TRANSLATION

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. They are measured at the closing rate as at the end of the respective reporting period. The single-entity statements of financial position of consolidated companies are translated into euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate at the end of the reporting period, while all statement of comprehensive income items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised outside profit or loss (see note 21). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21). When consolidated companies leave the consolidated group, any translation differences previously taken directly to equity are reversed to profit or loss.

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

Currency		Exchange rate at the balance sheet date		Average exchange rate	
Euro 1 =		**2011**	**2010**	**2011**	**2010**
Mexican peso	MXN	18.05	16.55	17.27	16.89
Swedish krona	SEK	8.91	8.97	9.03	9.64
US dollar	USD	1.29	1.34	1.40	1.33
Hungarian forint	HUF	314.58	277.95	278.54	275.95

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. INTANGIBLE ASSETS

Intangible assets developed as follows:

In Euro thousand	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As of 1 January 2010	**23,350**	**45,289**	**68,639**
Currency adjustments	245	587	832
Changes in consolidated group	–242	–5,955	–6,197
Additions	1,413	–	1,413
Disposals	–4,591	–	–4,591
Reclassifications	13	–	13
As of 1 January 2011	**20,188**	**39,921**	**60,109**
Currency adjustments	–161	28	–133
Additions	739	–	739
Disposals	–2,292	–	–2,292
Reclassifications	15	–	15
As of 31 December 2011	**18,489**	**39,949**	**58,438**
Accumulative amortisation and impairment			
As of 1 January 2010	**14,776**	**14,735**	**29,511**
Currency adjustments	110	–	110
Changes in consolidated group	–242	–5,955	–6,197
Amortisation	1,420	–	1,420
Disposals	–3,446	–	–3,446
As of 1 January 2011	**12,618**	**8,780**	**21,398**
Currency adjustments	–129	–	–129
Amortisation	928	–	928
Impairment losses	16	–	16
Disposals	–1,156	–	–1,156
As of 31 December 2011	**12,277**	**8,780**	**21,057**
Residual carrying amounts			
As of 31 December 2011	**6,212**	**31,169**	**37,381**
As of 31 December 2010	**7,570**	**31,141**	**38,711**

Concessions, patents, licences and similar rights mainly include capitalised software licences, capitalised key money for rented retail space in French subsidiaries and emission allowances.

In Germany, the Group has software licences amounting to Euro 1,721 thousand (previous year: Euro 2,147 thousand). New licences with a value of Euro 267 thousand were acquired in the past financial year (previous year: Euro 297 thousand). Amortisations on software amounted to Euro 1,131 thousand in the reporting year (previous year: Euro 1,127 thousand). Licences no longer required and already completely written down with an original cost of Euro 1,025 thousand were disposed of.

As in the previous year, impairment testing did not give rise to any indication of impairment with regard to the capitalised key money with a carrying amount of Euro 2,829 thousand (previous year: Euro 3,009 thousand). The key money for one location was disposed of in the financial year.

As of the end of the reporting period, CO_2 emission allowances were capitalised in the amount of Euro 735 thousand (previous year: Euro 1,313 thousand). This carrying amount is offset by equal liability items. The reduction in carrying amounts on both sides of the statement of financial position in the reporting year is due to a decline in the price of certificates on the European Energy Exchange (reporting year: Euro 6.76; previous year: Euro 13.80).

Goodwill in the amount of Euro 31,169 thousand (previous year: Euro 31,141 thousand) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 53.

Capitalised goodwill was tested for impairment. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2015 were discounted using an interest rate before income tax of 9.8% p.a. (previous year: 9.4% p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 9.1% p.a. (previous year: 8.8% p.a.). The present value calculated in this way was greater than the net assets of the division, meaning that no impairment loss was required to be recognised on this item.

In addition to the impairment test, a sensitivity analysis was also performed for the two divisions defined as cash-generating units. Changes in basic assumptions were assumed in these calculations. There were no additional impairment requirements in the event of either a Euro 1.0 million reduction in earnings or a 2% increase in the discount rates used.

6. PROPERTY, PLANT AND EQUIPMENT

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

» See table page 87

The Villeroy & Boch Group acquired property, plant and equipment in the amount of Euro 24,693 thousand (previous year: Euro 22,574 thousand), mainly as part of extension and rationalisation activities. Acquisitions focused on isostatic pressing equipment in Merzig, a die casting line for wash basins in Mettlach and expanding capacity in Romania, Thailand and Hungary.

The disposals in the financial year in cost of Euro 68,280 thousand (previous year: Euro 42,059 thousand) and the accumulative depreciation of Euro 67,602 thousand (previous year: Euro 39,771 thousand) predominantly result from the scrapping of assets already written down in full that can no longer be used. This resulted in a total disposal of property, plant and equipment with a residual carrying amount of Euro 678 thousand.

The factory in Mexico available for sale with a residual carrying amount of Euro 6,965 thousand was reclassified from property, plant and equipment to non-current assets held for sale (note 16).

In the financial year, government grants in the amount of Euro 1,241 thousand (previous year: Euro 0) were offset against the cost of property, plant and equipment. Deferred income (see note 30) include government grants in the amount of Euro 854 thousand as at the end of the reporting period (previous year: Euro 929 thousand). Euro 84 thousand of this (previous year: Euro 78 thousand) was reversed to profit or loss.

Development of property, plant and equipment

In Euro thousand	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Property, plant and equipment under construction	Total
Accumulative cost					
As of 1 January 2010	**240,985**	**360,593**	**114,694**	**7,895**	**724,167**
Currency adjustments	4,927	8,418	2,193	504	16,042
Changes in consolidated group	–6,442	–1,574	–1,601	–26	–9,643
Additions	1,819	7,981	5,184	7,590	22,574
Disposals	–1,683	–18,864	–21,507	–5	–42,059
Reclassifications	–14,874	413	1,224	–3,953	–17,190
As of 1 January 2011	**224,732**	**356,967**	**100,187**	**12,005**	**693,891**
Currency adjustments	–2,605	–3,115	–217	–76	–6,013
Additions	863	8,111	5,128	10,591	24,693
Disposals	–17,785	–38,669	–11,797	–29	–68,280
Reclassifications	–11,981	2,535	361	–9,409	–18,494
As of 31 December 2011	**193,224**	**325,829**	**93,662**	**13,082**	**625,797**
Accumulative depreciation and impairment					
As of 1 January 2010	**151,342**	**303,226**	**99,221**	**–**	**553,789**
Currency adjustments	1,629	6,386	1,749	–	9,764
Changes in consolidated group	–3,393	–1,648	–1,657	–	6,698
Depreciation	5,825	15,751	6,002	–	27,578
Impairment losses	68	97	78	–	243
Disposals	–1,338	–18,690	–19,743	–	–39,771
Reclassifications	–11,932	–2,191	1,003	–	–13,120
As of 1 January 2011	**142,201**	**302,931**	**86,653**	**–**	**531,785**
Currency adjustments	–842	–2,529	–111	–	–3,482
Depreciation	5,303	14,713	5,360	–	25,376
Impairment losses	–	–	61	–	61
Disposals	–17,525	–38,539	–11,538	–	–67,602
Reclassifications	–9,073	–2,372	–	–	–11,445
As of 31 December 2011	**120,064**	**274,204**	**80,425**	**–**	**474,693**
Residual carrying amounts					
As of 31 December 2011	**73,160**	**51,625**	**13,237**	**13,082**	**151,104**
As of 31 December 2010	**82,531**	**54,036**	**13,534**	**12,005**	**162,106**

Operating leases

In the 2011 financial year, rental expenses under operating leases amounted to Euro 32,570 thousand (previous year: Euro 33,085 thousand). The Group leases sales premises, warehouses, office space and other facilities and movable assets. The leases have basic terms of between six months and 32 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions.

Income of Euro 232 thousand was generated from subletting unused properties with current leases (previous year: Euro 316 thousand). Any ancillary costs and other obligations are borne by the sublessors. The subleases end no later than the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

In Euro thousand	Less than 1 year	1 to 5 years	More than 5 years
Future lease payments			
as of 31 December 2011	19,601	25,622	2,954
as of 31 December 2010	17,353	27,270	1,142
Future sublease income			
as of 31 December 2011	237	379	1
as of 31 December 2010	234	391	8

7. INVESTMENT PROPERTY

Investment property developed as follows:

» See table page 89

This item includes property in the Saarland, Luxemburg, Italy and France.

The reclassification of one investment property in France already leased and no longer used in operations was recognised as a transfer from property, plant and equipment.

According to appraisals and current land value tables, the market value of properties capitalised as of 31 December 2011 was Euro 52.6 million (previous year: Euro 52.7 million).

The Group generated the following amounts from its investment property:

In Euro thousand	31/12/2011	31/12/2010
Rental income	552	344
Property management and similar expenses	–122	–63

Rental income is expected to develop as follows:

In Euro thousand	Less than 1 year	1 to 5 years	More than 5 years
as of 31 December 2011	573	2,168	7,435
as of 31 December 2010	368	1,576	6,405

Future rents rise in line with the trend in the consumer price index. The tenants usually bear all maintenance expenses.
There are no restrictions on disposal on the investment property held by the Villeroy & Boch Group. Similarly, there are no contractual obligations to acquire the property recognised in this item.

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

In Euro thousand	2011	2010
As of 1 January	**1,101**	**1,087**
Additions	252	614
Disbursement	–500	–600
As of 31 December	**853**	**1,101**

Development of investment property

In Euro thousand	Land	Buildings	Investment property 2011	Investment property 2010
Accumulative cost				
As of 1 January	**1,222**	**87,772**	**88,994**	**87,913**
Additions	79	115	**194**	213
Transfer from property, plant and equipment	60	8,451	**8,511**	17,177
Reclassifications	–	–	**–**	–15,794
Disposals	–	–135	**–135**	–515
As of 31 December	**1,361**	**96,203**	**97,564**	**88,994**
Accumulative depreciation and impairment				
As of 1 January	–	**72,699**	**72,699**	**68,104**
Depreciation	–	1,007	**1,007**	1,080
Impairment losses	–	–	**–**	1,500
Transfer from property, plant and equipment	–	8,442	**8,442**	13,120
Reclassifications	–	–	**–**	–10,608
Disposals	–	–135	**–135**	-497
As of 31 December	–	**82,013**	**82,013**	**72,699**
Residual carrying amounts				
As of 31 December	**1,360**	**14,191**	**15,551**	**16,295**

9. OTHER FINANCIAL ASSETS

Other financial assets include:

In Euro thousand	31/12/2011	31/12/2010
Investments (a)	**2,579**	**6,329**
Loans to:		
- related parties (b)	5,955	7,146
- third parties (c)	1,673	1,531
Total	**10,207**	**15,006**

(a) 25% of shares in V&B Fliesen GmbH with a value of Euro 6,250 thousand were reported in investments in the previous year. A call option on 15% of these shares was exercised in the 2011 financial year. They are expected to be transferred effective 1 January 2014 by no later than the end of September 2014. As a result of this, the pro rata carrying amount of these shares, totalling Euro 3,750 thousand, was reclassified to "Non-current assets held for sale" (see note 16). As of the end of the reporting period, a residual investment of 10% with a carrying amount of Euro 2,500 thousand is still reporting in this item.

(b) This item contains a loan receivable to V&B Fliesen GmbH, Merzig, which was established in connection with the sale of the majority stake in the company in 2007. The scheduled repayment of Euro 1,191 thousand was made in the financial year. The remaining term of the loan is five years. A

guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.

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

They mature as follows:

In Euro thousand	2011	2010
Gross carrying amount as of 31 December	**1,700**	**1,546**
Thereof: Not impaired or overdue as at the end of the reporting period	**1,673**	**1,531**
- due within one year	69	68
- due in two to five years	157	46
- with indefinite maturity	1,447	1,417
Thereof: Impaired but not overdue as at the end of the reporting period	**14**	**2**
Thereof: Impaired and overdue as at the end of the reporting period	**13**	**13**

10. DEFERRED TAXES (ASSETS AND LIABILITIES)

The following deferred taxes are reported in the statement of financial position:

In Euro thousand	31/12/2011	31/12/2010
Deferred tax assets from temporary differences	24,588	27,663
Deferred tax assets from tax loss carryforwards	13,997	17,911
Deferred tax assets	**38,584**	**45,574**
Deferred tax liabilities	**12,120**	**14,275**

Deferred taxes from temporary differences are due to different carrying amounts in the consolidated statement of financial position and the tax base in the following items:

» See table at top of page 91

Deferred tax on loss carryforwards is as follows:

In Euro thousand	31/12/2011	31/12/2010
Deferred taxes on German loss carryforwards		
from corporate income tax and solidarity surcharge	5,863	7,861
from trade tax	6,407	7,795
Total	12,270	15,656
Deferred taxes on foreign loss carryforwards	28,055	28,465
Total	40,325	44,121
Value adjustment	–26,328	–26,210
Deferred taxes on tax loss carryforwards	**13,997**	**17,911**

Whereas German loss carryforwards can be carried forward indefinitely subject to minimum taxation requirements, country-specific time limits apply to some foreign loss carryforwards. Deferred tax assets on tax loss carryforwards were written down in the amount of Euro 26,328 thousand (previous year: Euro 26,210 thousand) as the result of an impairment test as it will presumably not be possible to utilise the corresponding pro rata tax loss carryforwards in line with tax planning by the end of the 2012–2016 planning horizon.

The reductions in deferred taxes on loss carryforwards result from the positive results of Villeroy & Boch AG and key subsidiaries in 2011.

Deferred taxes from temporary differences attributable to balance sheet positions

		Deferred tax assets		Deferred tax liabilities	
In Euro thousand	Notes	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Intangible assets	5	2,375	1,454	1,534	1,435
Property, plant and equipment	6	6,823	10,031	4,473	4,500
Investment property	7	–	–	–	262
Financial assets	9	172	180	48	48
Inventories	11	2,462	3,246	0	5
Other assets	13	279	455	341	1,024
Special tax-items		–	–	4,756	6,173
Provisions for pensions	26	5,599	7,046	491	322
Other provisions	28	5,379	3,851	16	–
Liabilities	30	1,499	1,400	461	506
Deferred taxes from temporary differences		**24,588**	**27,663**	**12,120**	**14,275**

11. INVENTORIES

Inventories were composed as follows as at the end of the reporting period:

In Euro thousand	31/12/2011	31/12/2010
Raw materials, supplies and merchandise	23,043	21,861
Work in progress	16,933	21,133
Finished goods and goods for resale	106,056	97,656
Advance payments	4	23
	146,036	**140,673**

Inventories are broken down between the individual divisions as follows:

In Euro thousand	31/12/2011	31/12/2010
Bathroom and Wellness	90,505	82,088
Tableware	55,531	58,585
	146,036	**140,673**

The value allowances on inventories decreased by Euro 2,840 thousand in the year under review, from Euro 20,859 thousand to Euro 18,019 thousand, as a result of improvements in the inventory structure.

12. TRADE RECEIVABLES

Villeroy & Boch grants its customers country- and industry-specific payment terms. The geographical allocation of these receivables by customer domicile is as follows:

In Euro thousand	31/12/2011	31/12/2010
Germany	16,873	16,649
Rest of euro zone	34,833	31,589
Rest of world	57,773	63,020
Gross carrying amount	**109,479**	**111,258**
Value adjustment	–3,186	–3,861
Carrying amount	**106,293**	**107,397**

Euro 36,246 thousand (previous year: Euro 31,351 thousand) relates to the Tableware Division and Euro 70,047 thousand (previous year: Euro 76,046 thousand) to the Bathroom and Wellness Division.

The receivables are composed as follows:

In Euro thousand	2011	2010
Items not impaired nor overdue	**79,145**	**85,561**
Not impaired but overdue	**9,158**	**8,454**
Customer in default for 90 days or less	8,819	7,557
Customer in default between 91 and 360 days	244	783
Customer in default for 361 days or more	95	114
Impaired but not overdue[1)]	**17,616**	**13,723**
Receivables due in 90 days or less	17,188	13,292
Receivables due between 91 and 360 days	421	417
Receivables due in 361 days or more	7	14
Impaired and overdue	**3,560**	**3,520**
Customer in default for 90 days or less	1,146	575
Customer in default between 90 and 360 days	879	1,886
Customer in default for 361 days or more	1,535	1,059
Total gross amount	**109,479**	**111,258**
Value adjustment	**–3,186**	**–3,861**
Net carrying amount	**106,293**	**107,397**

1) receivables not covered by credit insurance

With respect to receivables that are neither impaired nor overdue, there was no evidence of potential default as at the end of the reporting period. Write-downs are generally recognised for receivables from debtors who are more than 90 days in default. The corresponding allowance rates are based on past experience. The rise in receivables impaired but not due of Euro 3,893 thousand is primarily due to uninsured receivables from customers in Eastern Europe, Russia and the Arab region. All changes in creditworthiness since granting the payment terms are taken into consideration. There is no significant concentration of default risks within the Group as such risks are distributed across a large number of customers.

In 2011, a total of Euro 2,329 thousand (previous year: Euro 2,835 thousand) of value allowance are attributable to the impaired and overdue category and Euro 857 thousand (previous year: Euro 1,026 thousand) to the impaired but not overdue category.

Value allowances developed as follows:

» See table at top of page 93

As of the end of the reporting period, trade receivables in the amount of Euro 201 thousand (previous year: Euro 260 thousand) were transferred to an insurance company for regulation purposes.

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

Development of valuation allowences on trade receivables

In Euro thousand	2011 Specific	2011 Global	2011 Total	2010 Specific	2010 Global	2010 Total
As of 1 January	**2,835**	**1,026**	**3,861**	**5,459**	**995**	**6,454**
Additions	582	160	742	1,313	388	1,701
Change in scope of consolidation	–	–	–	–297	–14	–311
Exchange rate differences	–31	–2	–33	12	35	47
Utilisation	–873	–200	–1,073	–2,071	–353	–2,424
Reversals	–184	–127	–311	–1,581	–25	–1,606
As of 31 December	**2,329**	**857**	**3,186**	**2,835**	**1,026**	**3,861**

13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

In Euro thousand	Carrying amount 31/12/ 2011	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount 31/12/ 2010	Remaining term Less than 1 year	Remaining term More than 1 year
Fair values of cash flow hedges	**1,943**	1,587	356	**3,505**	3,315	190
Advance payments and deposits	**2,100**	2,030	70	**2,415**	2,407	8
Miscellaneous other assets	**7,453**	7,453	–	**7,246**	7,246	–
Total financial instruments in terms of IAS 39*	**11,496**	**11,070**	**426**	**13,166**	**12,968**	**198**
Tax claims	**5,638**	5,638	0	**6,094**	6,094	0
Prepaid expenses	**2,424**	2,423	1	**2,353**	2,353	0
Total other assets	**19,558**	**19,131**	**427**	**21,613**	**21,415**	**198**

* Financial instruments are described in note 54.

As at the end of the reporting period, the hedging instruments were exclusively currency futures (Euro 1,943 thousand; previous year: Euro 1,828 thousand). There is a valuation surplus in the same amount at the equity (see note 21c). In the previous year, commodity swaps were also recognised in the amount of Euro 1,677 thousand. The fair values of the commodity swaps are negative at this time and have therefore been reported under liabilities as of the end of the reporting period (see note 30). The financial trading transactions exclusively serve the purpose of reducing risk on planned operating transactions (see note 54).

The Group has recognised security deposits in the amount of Euro 1,034 thousand (previous year: Euro 1,006 thousand) that were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

"Miscellaneous other assets" include receivables from other investees, receivables from employees, creditors with debit balances and a number of individual items.

The tax receivables mainly comprise sales tax credit of Euro 3,549 thousand (previous year: Euro 5,283 thousand).

In cases of doubt regarding collectibility, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no overdue receivables in this item as of 31 December 2011. There is no significant concentration of default risks within the Group as such risks are distributed across a large number of contractual partners.

14. INCOME TAX CLAIMS

The income tax claims of Euro 2,179 thousand (previous year: Euro 2,548 thousand) primarily include outstanding corporate income tax assets. Euro 1,454 thousand (previous year: Euro 1,438 thousand) of this figure relates to foreign Group companies.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were composed as follows as at the end of the reporting period:

In Euro thousand	31/12/2011	31/12/2010
Cash on hand incl. cheques	198	840
Current bank balances	12,133	51
Cash equivalents	46,865	36,122
Total cash and cash equivalents	**59,196**	**37,013**

Cash is held at banks of good credit standing that are predominantly a part of a deposit protection system (see note 54).

16. NON-CURRENT ASSETS HELD FOR SALE

These assets are recognised at amortised cost or fair value less the expected costs to sell.

The following non-current assets were held for sale in the financial year:

In Euro thousand	2011	2010
Property (a)	57	5,186
Saltillo production location (Mexico) (b)	7,600	–
Equity investments (c)	3,750	5,100
Total	**11,407**	**10,286**

(a) The disposal in 2011 relates to the former plant grounds in Lübeck-Dänischburg transferred to the IKEA Group on 23 December 2011. The purchase price was paid at the end of December 2011.

(b) In December 2011, an agreement was signed for the sale of the production site in Saltillo (Mexico). The buyer is assuming the property, the production facilities, raw materials and supplies and work in progress. The staff obligations also transferred to the buyer in this context are described under note 32 “Liabilities directly associated with the assets classified as held for sale”. The current status of this transaction is described in note 61 “Events after the end of the reporting period”.

(c) The 24% participation held in V&B Fliesen GmbH reported under this item in 2010 was transferred to the majority shareholder as per the terms of the agreement on 28 January 2011. However, in the 2011 financial year, a new 15% participation was added to this item after its transfer at a carrying amount of Euro 3,750 thousand by no later than the end of September 2014 was agreed (see note 9a).

17. ISSUED CAPITAL

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

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

The numbers of different shares outstanding were as follows:

Number of shares	2011	2010
Ordinary shares		
Ordinary shares outstanding - unchanged -	14,044,800	14,044,800
Preference shares		
Preference shares issued - unchanged -	14,044,800	14,044,800
Shares held by the Villeroy & Boch Group as of 31 December - unchanged -	1,683,029	1,683,029
Preference shares outstanding	12,361,771	12,361,771

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

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

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

must be within 10% of the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the day on which the public purchase offer or the public invitation to submit offers to sell is publicly announced.

If the authoritative share price deviates substantially following the publication of a public purchase offer for all preference shareholders or the public invitation to all preference shareholders to submit offers to sell, the purchase offer or the invitation to submit offers to sell can be adjusted. In the event of this, the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the announcement of the adjustment is taken as a basis. The volume of a public tender can be limited. If, in the case of a public purchase offer or a public invitation to submit offers to sell, the volume of the preference shares tendered exceeds the planned buyback volume, the acquisition can be conducted in the ratio of the issued or offered preference shares; the right of preference shareholders to tender their preference shares in proportion to their ownership interests is excluded in this respect. Preferential treatment of smaller amounts of up to 100 shares per preference shareholder can be provided for.

The public invitation to all preference shareholders can provide for further conditions. The acquisition cannot be for the purpose of trading in treasury shares.
The Management Board was also authorised to use the acquired preference shares for all legally permitted purposes.

18. CAPITAL SURPLUS

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

19. TREASURY SHARES

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

20. RETAINED EARNINGS

The retained earnings of the Villeroy & Boch Group in the amount of Euro -76,280 thousand (previous year: Euro -82,382 thousand) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

In Euro thousand	2011	2010
As of 1 January	**–82,382**	**–17,137**
Consolidated earnings attributable to Villeroy & Boch AG shareholders	18,286	–62,811
Dividend distribution	–6,186	–
Currency adjustments	–5,990	–1,609
Acquisition of non-controlling interests	–8	–805
Other changes	–	–20
As of 31 December	**–76,280**	**–82,382**

21. VALUATION SURPLUS

The valuation surplus comprises the reserves of "other comprehensive income":

» See table at top of page 97

(a) Reserve for currency translation of financial statements of foreign Group companies
Group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). This resulted in a change in net equity in the financial year of Euro 2,399 thousand (previous year: Euro 3,443 thousand). In addition, non-controlling interests accounted for Euro 1 thousand (previous year: Euro 15 thousand).

(b) Reserve for currency translation of long-term loans classified as net investments in foreign group companies
The net change in equity amounts to Euro 2,945 thousand (previous year: Euro 1,763 thousand).

(c) Reserve for cash flow hedges
This item arises from the recognition outside profit or loss of fluctuations in the fair value of cash flow hedges (see note 54). This item developed as follows in the reporting period:

» See table page 97

(aa) The reversal of the reserve from the revaluation of currency forwards and commodity swaps is included in the net operating result.

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

In Euro thousand	31/12/2011	31/12/2010
Positive fair value changes (see note 13)	1,943	3,505
Negative fair value changes (see note 30)	–3,173	–1,750
Payment for due forwards	–	–44
Non-controlling interests	–	–2
Carrying amount	**–1,230**	**1,709**

Composition of valuation surplus

In Euro thousand	2011	2010	Change
Currency translation of financial statements of foreign group companies (a)	9,473	7,074	2,399
Currency translation of long-term loans classified as net investments in foreign group companies (b)	–834	–3,779	2,945
Cash flow hedges (c)	–1,230	1,709	–2,939
Deferred taxes (d)	–776	–32	–744
	6,633	**4,972**	**1,661**

Reserve for cash flow hedges

	Currency forwards		Commodity swaps		Total cash flow hedges	
In Euro thousand	2011	2010	2011	2010	2011	2010
As of 1 January	76	–142	1,633	154	1,709	–47
Changes in equity						
Currency adjustments	–64	55	10	220	–54	275
Addition to new contracts	–998	78	–420	1,677	–1,418	1,755
Non-controlling interests	–	–2	–	–	–	–2
Total	–1,062	131	–410	1,897	–1,472	2,028
Reversals to income (aa)	–14	87	–1,453	–418	–1,467	–272
As of 31 December	**–1,000**	**76**	**–230**	**1,633**	**–1,230**	**1,709**

(d) Reserve for deferred taxes

This reserve relates to fair value changes of cash flow hedges and represents the net total of positive and negative change in value. It developed as follows:

In Euro thousand	2011	2010
As of 1 January	–32	–66
Currency adjustments	–5	–55
Additions	509	406
Disposals	–1,248	–317
Non-controlling interests	0	0
As of 31 December	**–776**	**–32**

22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Minority interests amounted to Euro 72 thousand after Euro 107 thousand in the previous year. As in the previous year, there are minority interests in two Group companies. As of 20 July 2011, further shares (0.2%) were acquired in the Romanian subsidiary S.C. Mondial for a purchase price of Euro 38 thousand.

23. DISTRIBUTABLE AMOUNTS AND DIVIDENDS

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

The net profit of Villeroy & Boch AG for 2011 amounted to Euro 9,402 thousand. In accordance with a joint resolution by the Supervisory Board and the Management Board, Euro 600 thousand was withdrawn from retained earnings. Taking into account the profit carried forward of Euro 555 thousand, the unappropriated surplus amounts to Euro 10,557 thousand.

At the next General Meeting of Shareholders on 16 May 2012, the Supervisory Board and the Management Board of Villeroy & Boch AG will propose that the unappropriated surplus be used to distribute a dividend as follows:

Euro 0.35	per ordinary share
Euro 0.40	per preference share

The proposal for the appropriation of profits corresponds to a dividend of:

ordinary shares:	Euro 4,916 thousand
preference shares:	Euro 5,618 thousand
	Euro 10,534 thousand

If the company holds more treasury shares at the time of the resolution on the appropriation of profits, the dividend payment for the preferred capital will be reduced by the amount attributable to the treasury shares. The amount attributable to treasury shares is to be carried forward to new account.

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

In Euro thousand	16/05/2011		2010	
Eligible share class	Dividend per share	Total dividend	Dividend per share	Total dividend
Ordinary shares	0.15	2,107	–	–
Preference shares	0.33	4,079	–	–
		6,186	–	–

24. CAPITAL MANAGEMENT

The primary goal of central capital management in the Villeroy & Boch Group is ensuring liquidity and access to the capital markets at all times. This provides the Group with freedom of action and sustainably increases its enterprise value.

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

In Euro thousand	31/12/2011	31/12/2010
Equity	180,936	173,208
Provisions for pensions	140,684	144,558
Financial liabilities	51,341	51,428
	372,961	**369,194**

25. VOTING RIGHT NOTIFICATIONS

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

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

1) On 14 February 2011, Mr Luitwin-Gisbert von Boch-Galhau, Germany, notified us in accordance with section 21(1) WpHG, that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 15% on 17 November 2010 and amounted to 17.74% (2,491,132 voting rights) as of this date. 13.94% of this (1,957,696 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG, 1.10% of which (154,000 voting rights) also in accordance with section 22(1) sentence 1 no. 6 WpHG. A further 3.37% (472,726 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 6 WpHG. Of the following shareholders, 3% or more of the voting rights are attributable to him in each case:
   - Luitwin Michel von Boch-Galhau
   - Siegfried von Boch-Galhau

2) On 20 May 2010, Dr. Alexander von Boch-Galhau notified us in accordance with section 21(1) WpHG, that his share of the voting rights in Villeroy & Boch AG fell below the threshold of 5% on 18 May 2010 and has amounted to 4.13% (580,250 voting rights) since this date. 1.42% of this (200,000 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.

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

1) 18.42% of voting rights are attributable to Mr. Luitwin Michel von Boch-Galhau, Mettlach, as of 1 April 2002; 1.55% of ordinary shares are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

2) 7.41% of voting rights are attributable to Mr. Wendelin von Boch-Galhau, Losheim-Britten, as of 1 April 2002; 6.80% of ordinary shares are attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.

3) 7.14% of voting rights are attributable to Mr. Franziskus von Boch-Galhau, Losheim-Britten, as of 1 April 2002; 0.34% of ordinary shares are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

4) 5.51% of voting rights are attributable to Baron Antoine de Schorlemer, Luxembourg, as of 1 April 2002; 5.14% of which is attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

26. PROVISIONS FOR PENSIONS

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

In Euro thousand	31/12/2011	31/12/2010
Germany	131,964	135,645
Rest of euro zone	7,678	8,088
Rest of world	1,042	825
Provisions for pensions	**140,684**	**144,558**

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

	2011		2010	
In %	Ø	Range	Ø	Range
Discount rate	5.2	2.6 bis 7.5	5.0	3.6 bis 7.5
Expected long-term wage and salary trend	2.6	2.0 bis 5.6	2.6	2.0 bis 5.6
Expected long-term pension trend	1.6	0.1 bis 6.7	1.6	0.9 bis 6.7
Expected long-term country-specific inflation	1.9	1.8 bis 8.7	1.8	1.5 bis 8.7
Expected country-specific fluctuation	3.0	0.0 bis 3.0	3.0	0.0 bis 3.0
Expected return on plan assets	3.6	3.5 bis 7.5	5.0	4.6 bis 7.5

Average values (ø) are calculated as a weighted average on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country specific discount rates range from 2.6% in Norway to 7.5% in Mexico. In Germany, a discount rate of 5.4% (previous year: 5.1%) is applied. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. Measurement is based on country-specific mortality tables and plant-specific fluctuation rates. The figure for the expected return on plan assets is based on the specific structure of these assets. For each plan, the expected return is obtained from the weighted average of expected returns for each of the investment classes held.

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

The present value of pension obligations developed as follows:

In Euro thousand	2011	2010
As of 1 January	161,044	162,982
Current service cost	1,278	1,575
Interest cost	8,642	8,911
Actuarial gains and losses	2	4
Currency changes arising from non-euro-denominated plans	80	1,885
Benefits paid	–12,726	–13,384
Plan settlements	–	–654
Plan transfer due to transfer of operations*	–268	–275
As of 31 December	**158,052**	**161,044**

* Reported as liabilities directly associated with the assets classified as held for sale (see note 32) as transfer has not yet taken place.

There were the following changes to plan assets:

In Euro thousand	2011	2010
As of 1 January	16,486	14,070
Return on plan assets	842	701
Actuarial gains and losses	–	–
Currency changes arising from non-euro-denominated plans	90	1,871
Employer contributions	842	1,373
Benefits paid	–892	–1,529
As of 31 December	**17,368**	**16,486**

The originally expected return of Euro 842 thousand (previous year: Euro 701 thousand) was recognised for the 2011 financial year. Income actually amounted to Euro 697 thousand (previous year: Euro 563 thousand). The difference was included in the unrecognised corridor (see below). A return of Euro 632 thousand is forecast for the 2012 financial year.

The portfolio structure of plan assets is as follows:

	31/12/2011		31/12/2010	
	in Euro thousand	in %	in Euro thousand	in %
Annuities/annuity funds	10,392	60	9,837	60
Equities/equity funds	5,151	30	4,863	30
Property	1,595	9	1,532	9
Cash and cash equivalents	230	1	192	1
Other assets	–	–	62	0
Plan assets	**17,368**	**100**	**16,486**	**100**

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

In Euro thousand	2011	2010
Present value of the defined benefit obligation according to expert opinions, in total	167,039	173,989
Portion not accounted for (corridor)	–8,987	–12,945
Present value of pension obligations	158,052	161,044
Less cover from plan assets	–17,368	–16,486
Provisions for pensions as of 31 December, net	**140,684**	**144,558**

Including the amounts not recognised (corridor), the total actual obligation following deduction of the cover assets amounts to Euro 149,671 thousand (previous year: Euro 157,503 thousand).

The following table provides a five-year overview of changes in the provisions for pensions reported in the statement of financial position:

In Euro thousand	2007	2008	2009	2010	2011
Obligations for which there are no plan assets	153,499	150,718	147,988	143,993	139,924
Obligations for which there are plan assets	22,002	17,843	14,994	17,051	18,128
Obligations recognised in liabilities	175,501	168,561	162,982	161,044	158,052
Plan assets	–21,175	–17,312	–14,070	–16,486	–17,368
Amount recognised in liabilities, net	154,326	151,249	148,912	144,558	140,684

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

In Euro thousand	31/12/2011	31/12/2010
Current service cost	–1,278	–1,575
Interest cost	–8,642	–8,911
Recognised return on plan assets	842	701
Amortised actuarial gains and losses (reversal of corridor in profit or loss)	–2	–4
Net expense	**–9,080**	**–9,789**

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

27. NON-CURRENT AND CURRENT PROVISIONS FOR PERSONNEL

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

» See table at top of page 102

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

Non-current provisions for personnel of Euro 832 thousand were reclassified to “Liabilities directly associated with the assets classified as held for sale”. A description of this transaction can be found in note 32.

Current provisions for personnel mainly include provisions for variable remuneration bonuses in the amount of Euro 11,781 thousand (previous year: Euro 10,418 thousand).

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

Non-current and current provisions for personnel

In Euro thousand	Non-current provisions for: Partial retirement	Anniversary bonuses	Severance pay	Total	Current provisions	Total amount
As of 1 January 2010	**9,019**	**5,316**	**4,044**	**18,379**	**10,695**	**29,074**
Currency adjustments	–	40	263	303	267	569
Utilisation	–3,432	–417	–238	–4,087	–9,283	–13,370
Reversals	–	–17	–364	–381	–645	–1,026
Additions	2,611	428	348	3,387	9,868	13,256
Reclassifications	–	–	–	–	–176	–176
Changes in consolidated group	–	–	–3	–3	–	–3
As of 1 January 2011	**8,198**	**5,350**	**4,050**	**17,598**	**10,726**	**28,324**
Currency adjustments	–	–35	–49	–84	–15	–99
Utilisation	–2,742	–359	–313	–3,414	–9,366	–12,779
Reversals	–	–47	–	–47	–174	–220
Additions	2,400	293	490	3,182	11,130	14,312
Reclassifications	–	–268	–564	–832	–291	–1,123
As of 31 December 2011	**7,856**	**4,934**	**3,615**	**16,405**	**12,011**	**28,415**

Other non-current and current provisions

In Euro thousand	Non-current provisions	Current provisions for: Warranties	Restructuring programme 2009	Other taxes	Miscellaneous	Total	Total amount
As of 1 January 2010	**5,877**	**7,325**	**45,821**	**211**	**8,789**	**62,146**	**68,023**
Currency adjustments	381	181	397	14	265	857	1,238
Utilisation	–1,320	–835	–24,147	–155	–4,235	–29,372	–30,692
Reversals	0	–137	–	–4	–1,008	–1,149	–1,149
Additions	919	2,374	–	687	4,707	7,768	8,687
Reclassifications	0	–959	–	0	1,161	202	202
Change in basis of consolidation	0	–90	–1,154	0	–52	–1,296	–1,296
As of 1 January 2011	**5,857**	**7,861**	**20,917**	**753**	**9,627**	**39,156**	**45,013**
Currency adjustments	–57	17	10	1	45	73	16
Utilisation	–1,276	–994	–7,873	–104	–4,125	–13,096	–14,372
Reversals	0	–680	0	0	–926	–1,606	–1,606
Additions	487	738	0	338	6,753	7,829	8,317
Reclassifications	0		0	0	239	239	239
As of 31 December 2011	**5,011**	**6,942**	**13,054**	**988**	**11,613**	**32,596**	**37,608**

28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

» See table page 102

In particular, non-current provisions relate to future recultivation projects (reporting year: Euro 4,378 thousand; previous year: Euro 4,788 thousand).
The provision for warranties is measured on the basis of company-specific past data. In addition, current information on any new risks in connection with new materials, changes in production processes or other factors influencing quality are also taken into account in measurement.
The provision for restructuring contains the share of expenses from the 2009 restructuring programme that has not yet been paid out.
Miscellaneous other provisions primarily reflect provisions for litigation costs, consulting costs, commission and audit costs.

29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Financing was obtained from banks in the following regions:

In Euro thousand	31/12/ 2011	thereof non-current	31/12/ 2011	thereof non-current
Germany	25,635	25,000	25,722	25,000
Rest of euro zone	25,706	25,000	25,706	25,000
Carrying amount	**51,341**	**50,000**	**51,428**	**50,000**

Receivables from and liabilities to banks were offset in the amount of Euro 16,179 thousand (previous year: Euro 8,308 thousand) as the offsetting conditions have been met and the company intends to settle the respective positions on a net basis.

30. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

» See table page 104

The measurement of hedging instruments (see note 54) relates to currencies in the amount of Euro 2,943 thousand (previous year: Euro 1,750 thousand) and commodities in the amount of Euro 230 thousand (previous year: Euro –).

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

Other tax liabilities primarily include payroll and church tax in the amount of Euro 3,381 thousand (previous year: Euro 3,661 thousand) and value added tax in the amount of Euro 5,721 thousand (previous year: Euro 4,412 thousand).

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

31. TRADE PAYABLES

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

In Euro thousand	2011	2010
Germany	34,595	31,148
Rest of euro zone	7,122	8,504
Rest of world	19,620	15,548
Carrying amount as of 31 December	**61,337**	**55,200**

32. LIABILITIES DIRECTLY ASSOCIATED WITH THE ASSETS CLASSIFIED AS HELD FOR SALE

These liabilities relate to the planned sale of Mexican production facilities (see note 16):

In Euro thousand	2011
Pension provision (see note 26)	268
Non-current pension provisions (see note 27)	832
Other current personnel obligations	99
Total	**1,199**

This matter has been described in note 61 “Events after the end of the reporting period".

Other non-current and current liabilities

In Euro thousand	Carrying amount 31/12/2011	Remaining term		Carrying amount 31/12/2010	Remaining term	
		Up to 1 year	More than 1 year		Up to 1 year	More than 1 year
Bonus liabilities	**36,309**	36,309	–	**36,154**	36,154	–
Fair values changes of cash flow hedges	**3,173**	3,109	64	**1,750**	1,750	–
Advance payments received on account of orders	**1,943**	1,943	–	**2,390**	2,390	–
Miscellaneous other liabilities	**4,996**	3,542	1,454	**7,684**	6,230	1,454
Total financial instruments in terms of IAS 39*	**46,421**	**44,903**	**1,518**	**47,978**	**46,524**	**1,454**
Personnel liabilities	**22,228**	20,898	1,330	**23,455**	21,821	1,634
Other tax liabilities	**10,268**	10,268	–	**9,137**	9,137	–
Deferred income	**1,355**	587	768	**1,634**	783	851
Total carrying amount	**80,272**	**76,656**	**3,616**	**82,204**	**78,265**	**3,939**

* Financial instruments are described in note 54.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

33. REVENUE

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

34. COST OF SALES

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

35. SELLING, MARKETING AND DEVELOPMENT COSTS

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

The expenses for research and technical development break down into:

In Euro thousand	2011	2010
Bathroom and Wellness	–8,396	–7,858
Tableware	–3,916	–3,589
	–12,312	**–11,447**

36. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise personnel and material costs incurred in management and administrative functions.

37. OTHER OPERATING INCOME

Other operating income is composed as follows:

In Euro thousand	2011	2010
Book profits on the disposal of non-current assets	11,127	2,041
License income	3,662	2,577
Exchange rate gains	3,278	1,796**
Reversal of liabilities	1,821	1,219
Reversal of provisions*	1,210	1,351
Reversal of valuation allowances on receivables	360	1,612
Reimbursement for damages	176	522
Miscellaneous other operating income	3,829	3,186
Total	**25,463**	**14,304**

* not including amounts in other statement of comprehensive income items

** restated

The increase in book profits on the disposal of non-current assets relates to the disposal of the former plant buildings in Dänischburg.
In the financial year, the accounting policy for the recognition of exchange rate gains and losses was amended such that related transactions are reported net in the statement of comprehensive income.

38. MISCELLANEOUS OTHER OPERATING EXPENSES

Miscellaneous other operating expenses are composed as follows:

In Euro thousand	2011	2010
Consulting services	–4,057	–2,718
Exchange rate losses	–2,314	–2,885*
Costs of maintenance/repairs	–1,376	–789
Addition to valuation allowances on receivables	–782	–1,773
Impairment losses on investment property	–	–1,500
Impairment losses on financial assets	–	–905
Book losses on the disposal of non-current assets	–308	–200
Miscellaneous other operating income	–7,636	–9,055
Total	**–16,473**	**–19,825**

* restated

Please see note 37 for information on the change in the presentation of exchange rate losses.
The additions to valuation allowances on receivables relate to trade receivables (see note 12) and other receivables.
In particular, the other items include expenses for maintenance and insurance premiums.

39. RESULTS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

This item includes the pro rata income from the investment in an associated company in the amount of Euro 252 thousand (previous year: Euro 384 thousand).

40. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consists of:

In Euro thousand	2011	2010
Interest income from:s		
Cash and cash equivalents	631	846
Loans and receivables	152	210
Held-to-maturity investments	–	612
Other investments	188	147
Total interest income	**971**	**1,815**
Other financial income	11	299
Total financial income	**983**	**2,114**

Financial income declined by Euro 1,131 thousand in the reporting year to Euro 983 thousand. This is essentially due to the significantly lower average investment volume as against the previous year.

41. INTEREST EXPENSES

Finance cost relate to:

In Euro thousand	2011	2010
- Overdraft facilities	–1,073	–790
- Non-current loans	–2,740	–3,251
- Other borrowing	–22	–3
Total interest expense	**–3,835**	**–4,044**
Other finance cost	–33	–19
Total external finance cost	**–3,846**	**–4,063**
Interest expense on provisions	–8,324	–8,464
Total finance costs	**–12,192**	**–12,527**

42. INCOME TAXES

Income taxes include the taxes on income paid or due and deferred taxes. Villeroy & Boch Group companies in Germany are subject to an average trade tax rate of 13.67%. The corporate income tax rate is 15% plus a solidarity surcharge of 5.5%. Rates vary between 10.0% and 42.9% for the other countries.

Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These largely comply with the legislation in force or substantially enacted as at the end of the reporting period.

In Euro thousand	2011	2010
Taxes paid or due in Germany	–1,892	11
Taxes paid or due outside Germany	–650	–1,924
	–2,542	–1,913
Deferred taxes (asset and liabilities)	–4,995	–1,063
Income taxes	**–7,537**	**–2,976**

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

In Euro thousand	2011	2010
Earnings before taxes (EBT)	25,818	–59,822
Retroactive accounting of the cost of the EU fine	0	71,531
Earnings before taxes and EU fine	**25,818**	**11,709**
Expected income tax (EBT x tax rate of 29.5%)	–7,616	–3,454
Differences arising from foreign tax rates	1,382	1,313
Tax effects arising from:		
Non-deductible expenses	–1,543	–602
Adjustment/write-downs on deferred taxes	129	1,514
Tax-free income	961	0
Other deferred taxes	–850	–1,747
Actual income tax expense	**–7,537**	**–2,976**
Actual tax rate in %	**29.2**	**25.4**

The reconciliation of the deferred tax assets and liabilities recognised in the statement of financial position with the deferred taxes recognised in the statement of comprehensive income is as follows:

In Euro thousand	2011	2010
Change in deferred tax assets (note 10)	–6,989	–1,620
Change in deferred tax liabilities (note 10)	2,155	592
Offset outside profit or loss (note 21d)	744	–35
Currency adjustments	–905	0
Deferred taxes recognised in the statement of comprehensive income	**–4,995**	**–1,063**

43. MINORITY INTERESTS

Minority interests in consolidated earnings amount to Euro -5 thousand (previous year: Euro 13 thousand).

44. EARNINGS PER SHARE

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

Ordinary shares	**31/12/2011**	**31/12/2010**
Number of shares outstanding	14,044,800	14,044,800
Pro rata consolidated net income (Euro thousand)	9,397	–33,736
Earnings per share (Euro)	0.67	–2.40

Preference shares	**31/12/2011**	**31/12/2010**
Number of shares outstanding	12,361,771	12,361,771
Pro rata consolidated net income (Euro thousand)	8,889	–29,075
Earnings per share (Euro)	0.72	–2.35

Consolidated net income is allocated in accordance with the appropriation of earnings set out in the Articles of Association (see note 17). The development in treasury shares is described in note 19.

45. DEPRECIATION AND AMORTISATION

Depreciation and amortisation in the financial year broke down as follows:

In Euro thousand	2011	2010
Amortisation of intangible assets	–928	–1,420
Impairment losses on intangible assets	–16	–
Depreciation of property, plant and equipment	–25,376	–27,578
Impairment losses on property, plant and equipment	–61	–243
Depreciation of investment property	–1,007	–1,080
Impairment losses on investment property	–	–1,500
Impairment losses on financial assets	–12	–905
Total depreciation and amortisation	**–27,400**	**–32,726**

Impairment losses in the current financial year total Euro 89 thousand (previous year: Euro 2,648 thousand).

46. COST OF MATERIALS

The cost of materials comprises the following:

In Euro thousand	2011	2010
Cost of raw materials, supplies and merchandise (including primary products)	–113,059	–106,230
Cost of purchased goods	–91,661	–79,063
	–204,719	**–185,293**
Cost of purchased services	–40,864	–40,716
Total cost of materials	**–245,584**	**–226,009**

47. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

In Euro thousand	2011	2010
Wages and salaries	–209,713	–201,914
Post-employment benefit costs:		
Defined benefit plans (see note 26)	–1,280	–1,579
Defined contribution plans	–17,310	–17,881
Termination benefits	–1,079	–2,003
Other benefits	–33,025	–31,891
Total personnel expenses	**–262,407**	**–255,268**

The cost of defined contribution pension plans essentially relates to employer contributions to statutory pension schemes.
Other benefits include employer contributions to health insurance, trade association dues and similar expenses.

Average number of employees:

Number of employees	2011	2010
Wage earners	5,036	5,197
Salaried employees	3,522	3,532
	8,558	**8,729**

Of the workforce as a whole, a total of 2,536 people are employed in Germany (previous year: 2,565), with the remaining 6,022 employed outside Germany (previous year: 6,165).

Number of employees	2011	2010
Bathroom and Wellness	5,813	5,811
Tableware	2,362	2,518
Other	383	400
	8,558	**8,729**

48. OTHER TAXES

Other taxes amounted to Euro 3,617 thousand (previous year: Euro 3,494 thousand) and are composed as follows:

» See table below

The item "Miscellaneous other taxes" essentially includes expenses for the French *contribution économique territoriale* (Euro 751 thousand) and *taxe organic* (Euro 180 thousand).

49. CASH FLOW FROM OPERATING ACTIVITIES

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

Other taxes

	2011		2010	
In Euro thousand	Germany	Abroad	Germany	Abroad
Wealth tax	–	–204	–	–189
Vehicle tax	–66	–64	–67	–64
Real estate tax	–664	–985	–675	–965
Miscellaneous other taxes	–20	–1,614	–71	–1,463
Total other taxes	**–750**	**–2,867**	**–813**	**–2,681**

In the year under review, cash flow from operating activities rose by Euro 75,959 thousand year-on-year to Euro 33,878 thousand. Taking into account the previous year's payment of the EU fine, operating cash flow still improved by Euro 2,959 thousand as a result of the improved operating earnings.
This also entailed a total reduction in trade receivables and other assets of Euro 3,750 thousand.

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

In Euro thousand	2011	2010
Interest from the provision for pensions and similar obligations	8,301	8,435
Additions to tax provisions	3,367	2,399
Expenses/income from deferred taxes	4,835	846
Other non-cash items	–251	–369
	16,251	**11,311**

50. CASH FLOW FROM INVESTING ACTIVITIES

Net cash used in investing activities amounted to Euro -5,464 thousand in the year under review (previous year: Euro 4,564 thousand). 2011 mainly includes cash used for investments in non-current assets and cash generated by disposals of assets. Investments in intangible assets and property, plant and equipment were up Euro 2,444 thousand on the previous year at Euro 25,626 thousand. At Euro 20,380 thousand, payments received from disposals of assets were up Euro 13,632 thousand year-on-year (Euro 6,748 thousand) and essentially relate to the sale of property in Dänischburg and the disposal of a 24% share package in V&B Fliesen GmbH.
In 2010, "Cash receipts from medium-term investments" included the reversal of a note receivable from a bank of Euro 20,000 thousand.

The cash generated by the disposal of subsidiaries in the previous year related to the sale of the Czech subsidiary Vagnerplast.

51. CASH FLOW FROM FINANCING ACTIVITIES

The cash used in the reporting year is mainly due to the payment of the 2010 dividend. In the previous year, the outflow of funds essentially included the payment of the purchase price for the remaining shares in the Thai subsidiary Nahm Sanitaryware.

52. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to Euro 59,196 thousand (previous year: Euro 37,013 thousand), a rise of Euro 22,183 thousand as against the previous year. Above all, the profit from earnings and the disposals of non-current assets described in note 50 contributed towards this. Foreign currency translation effects amounted to Euro 80 thousand in the year under review (previous year: Euro –473 thousand).

53. GROUP SEGMENT REPORTING

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

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

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

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

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

» See table 1 page 111

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

In Euro thousand	31/12/2011	31/12/2010
Bathroom and Wellness	19,060	18,963
Tableware	8,794	4,628
Dänischburg (2011)/EU (2010)	9,174	–73,000
Total	**37,028**	**–49,409**
Net finance expense (see notes 40 and 41)	–11,210	–10,413
Earnings before taxes	**25,818**	**–59,822**
Income taxes (see note 42)	–7,537	–2,976
Group result	**18,281**	**–62,798**

The following assets and liabilities are assigned to the segments:

» See table 2 page 111

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

Other segment information:

» See table 3 page 111

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual segments. The Tableware segment reported impairment losses of Euro 77 thousand (previous year: Euro 146 thousand). Additional write-downs and impairment losses in the amount of Euro 97 thousand were recognised in profit or loss in the Bathroom and Wellness product segment in the previous year. A description of these impairment losses can be found in note 5 for intangible assets and note 6 for property, plant and equipment.

The following table shows the revenue from external customers and non-current assets by domicile of the respective national companies:

» See table 4 page 111

54. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

1. Business segments – revenue

In Euro thousand	Revenue from external customers		Intersegment revenue		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Bathroom and Wellness	461,931	446,598	972	828	462,903	447,426
Tableware	281,012	267,595	12	14	281,024	267,609
Total segment revenue	742,943	714,193	984	842	743,927	715,035
Eliminations	0	0	–984	–842	–984	–842
Consolidated revenue	**742,943**	**714,193**	**0**	**0**	**742,943**	**714,193**

2. Business segments – assets and liabilities

In Euro thousand	Assets		Liabilities	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**
Bathroom and Wellness	307,936	318,047	114,652	120,491
Tableware	136,392	135,052	45,116	45,176
Reconciliation	154,021	145,224	257,645	259,448
Total	**598,349**	**598,323**	**417,413**	**425,115**

3. Business segments – other information

In Euro thousand	Additions to intangible assets and property, plant and equipment		Depreciation and amortisation	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**
Bathroom and Wellness	17,575	12,354	–18,796	–21,070
Tableware	8,051	11,846	–8,515	–9,008
Total	**25,626**	**24,200**	**–27,311**	**–30,078**

4. Business segments – geographical distribution

In Euro thousand	External revenue		Non-current assets*	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**
German companies	378,279	339,437	76,269	74,980
Rest of euro zone	159,831	155,133	28,876	31,038
Rest of world	204,833	219,623	99,318	111,292
Total	**742,943**	**714,193**	**204,463**	**217,310**

* in accordance with IFRS 8.33 (b)

the change in fair value are taken directly to profit or loss when they arise.

List of financial instruments

» See table page 114

(a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).

(b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).

(c) The current and non-current provisions include pension provisions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

The following financial instruments were included in the statement of financial position in the previous year:

» See table page 115

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

Basis of fair value measurement

As in the previous year, the fair values of recognised financial instruments are calculated entirely on the basis of market prices, the parameters on which the derivatives are based, such as current and forward rates, and yield curves.

Management of financial instruments

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

Risk management system

The Villeroy & Boch risk management system covers all areas at the company and allocates clear responsibilities and duties to all organisational units.

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

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

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

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

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

Management of exchange rate risks

In the course of its global business activities, the Group is exposed to exchange rate risk arising from transactions in foreign currencies. Currency futures contracted with first-class banks are employed as hedging transactions. The Villeroy & Boch Group hedges exchange rate risk over a period of twelve months, though hedges can extend beyond this horizon in exceptional cases. The required hedging volume is first determined by netting receivables and liabilities throughout the Group for each currency. The remaining exchange rate risk is initially hedged at a level of 70% on the basis of past experience. There were no changes in the type or extent of these risks or the risk management and measurement methods in the past financial year.

From the conclusion of the contract, it is demonstrated periodically that possible currency fluctuations in the planned hedged item are offset by the opposing effects of the hedge throughout the term of the contract.

The volume identity of planned and recognised foreign currency revenues is also demonstrated for transactions already settled at the end of each reporting period.

The Group's currency futures in 2012 and 2013 are as follows:

» See table below

As at the end of the reporting period, 30% of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the following foreign currencies: GBP 4,838 thousand, NOK 31,883 thousand and CHF 4,266 thousand. In the event of a change in the respective exchange rates of +/-10% and assuming that all other variables remained constant, the carrying amounts at 31 December 2011 would have been Euro 1,355 thousand higher/lower (previous year: Euro 1,069 thousand). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income.

Management of market price risks

These risks result from changes in the price of purchased commodities used in the Villeroy & Boch Group's value chain, such as raw materials and supplies. As part of its risk management activities, the Group identifies the volume of risk with the aim of hedging it. For the commodity of brass, there is the possibility of hedging with a bank or on the stock market. Accordingly, the procurement prices for brass are hedged by means of a commodity swap with a first-class bank. The requirement for the coming year as per production planning is initially hedged at a level of 70% for the following year and 40% for the subsequent year on the basis of past experience. There was no further modification in the management of brass price risks in the financial year. On conclusion of the contract, the volume cover is checked between the hedge and the actual requirements for the duration of the hedge. Changes in the prices in the contract and the underlying price change in the hedged commodity are compared as at the end of each reporting period. In 2011, the volume of hedges was covered by corresponding hedged items on a monthly basis.

Currency forwards

	Assets on the balance sheet date		Liabilities on the balance sheet date	
In Euro thousand	**Transaction volume**	**Changes in fair value**	**Transaction volume**	**Changes in fair value**
within the next 3 months	12,571	408	9,531	577
in 3 to 6 months	13,244	429	14,830	967
in 6 to 12 months	24,331	749	21,557	1,399
in more than 12 months	10,800	357	–	–
	60,946	**1,943**	**45,918**	**2,943**

Financial instruments as of December 2011

In Euro thousand	Carrying amount as of 31/12/2011	Amounts not measured under IAS 39	Amounts measured under IAS 39					Carrying amount as of 31/12/2011	Fair value as of 31/12/2011
			Nominal amount	Amortised cost			Fair value		
			Cash reserve	Loans and receivables	Available-for-sale	Held-to-maturity	Cash flow hedge		
Cash and cash equivalents (note 15)	**59,196**	–	59,196	–	–	–	–	59,196	59,196
Trade receivables (note 12)	**106,293**	–	–	106,293	–	–	–	106,293	106,293
Other financial assets (note 9)	**10,207**	–	–	7,628	2,579	–	–	10,207	10,207
Other assets (note 13)	**19,558**	8,062	–	9,553	–	–	1,943	11,496	11,496
			59,196	**123,474**	**2,579**	–	**1,943**	**187,192**	**187,192**
Other assets not recognised under IAS 39 (a)								8,062	–
Non-current assets – excluding other financial assets (note 9)								204,889	–
Inventories (see note 11)								146,036	–
Deferred tax assets (see note 10) and income tax claims (see note 14)								40,763	–
Non-current Assets as held for sale (see note 16)								11,407	–
Total assets								**598,349**	**–**

In Euro thousand	Carrying amount as of 31/12/2011	Amounts not measured under IAS 39	Amounts measured under IAS 39		Carrying amount as of 31/12/2011	Fair value as of 31/12/2011
			Amortised cost	Fair value		
			Liabilities	Cash flow hedge		
Trade payables (note 31)	61,337	–	61,337	–	61,337	61,337
Financial liabilities (note 29)	51,341	–	51,341	–	51,341	51,341
Other liabilities (note 30)	80,272	33,851	43,248	3,173	46,421	46,421
			155,926	**3,173**	**159,099**	**159,099**
Other liabilities not recognised under IAS 39 (b)					33,851	–
Total Equity					180,936	–
Non-current and current provisions (c)					206,707	–
Deferred tax liabilities (see note 10) and income tax liabilities					16,557	–
Liabilities directly associated with the assets classified as held for sale (see note 32)					1,199	–
Total equity and liabilities					**598,349**	**–**

(a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).
(b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).
(c) The current and non-current provisions include pension provisions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

Financial instruments as of December 2010

In Euro thousand	Carrying amount as of 31/12/2010	Amounts not measured under IAS 39	Amounts measured under IAS 39						
			Nominal amount	Amortised cost			Fair value	Carrying amount as of 31/12/2010	Fair value as of 31/12/ 2010
			Cash reserve	Loans and receivables	Available-for-sale	Held-to-maturity	Cash flow hedge		
Cash and cash equivalents (note 15)	**37,013**	–	37,013	–	–	–	–	37,013	37,013
Trade receivables (note 12)	**107,397**	–	–	107,397	–	–	–	107,397	107,397
Other financial assets (note 9)	**15,006**	–	–	8,677	6,329	–	–	15,006	15,006
Other assets (note 13)	**21,613**	8,447	–	9,661	–	–	3,505	13,166	13,166
			37,013	**125,735**	**6,329**	–	**3,505**	**172,582**	**172,582**
Other assets not recognised under IAS 39 (a)								8,447	–
Non-current assets – excluding other financial assets (note 9)								218,213	–
Inventories (see note 11)								140,673	–
Deferred tax assets (see note 10) and income tax claims (see note 14)								48,122	–
Assets as held for sale (see note 16)								10,286	–
Total assets								**598,323**	**–**

In Euro thousand	Carrying amount as of 31/12/2010	Amounts not measured under IAS 39	Amounts measured under IAS 39		Carrying amount as of 31/12/ 2010	Fair value as of 31/12/2010
			Amortised cost	Fair value		
			Liabilities	Cash flow hedge		
Trade payables (note 31)	55,200	–	55,200	–	55,200	55,200
Financial liabilities (note 29)	51,428	–	51,428	–	51,428	51,438
Other liabilities (note 30)	82,204	34,226	46,228	1,750	47,978	47,978
			176,311	**1,750**	**154,606**	**154,606**
Other liabilities not recognised under IAS 39 (b)					34,226	–
Total Equity					173,208	–
Non-current and current provisions (c)					217,895	–
Deferred tax liabilities (see note 10) and income tax liabilities					18,388	–
Total equity and liabilities					**598,323**	**–**

The following table shows the cash flows:

» See table below

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

As at the end of the reporting period and on the basis of production planning for the financial years 2012 and 2013, there is an unhedged brass position of 1,200 tonnes in total (previous year: 1,680 tonnes). In the event of a change in quoted brass prices of +/–10% and assuming that all other variables remained constant, the carrying amounts at 31 December 2011 would have been Euro 480 thousand higher/lower (previous year: Euro 850 thousand). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income in 2011.

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

Management of interest rate risks

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

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. According to a sensitivity analysis before tax effects, in the event of a theoretical change in interest rates in the 2011 financial year of +/–50 bp and assuming all other variables remained constant, the net finance cost would have been Euro 72 thousand higher/lower (previous year: Euro 286 thousand).

Management of credit/default risks

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

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

For banks, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into

Brass futures

	Transaction volume on the balance sheet date		Fair value changes on the balance sheet date
	in tonnes	in Euro thousand	in Euro thousand
Within the next 3 months	240	1,022	52
In 3 to 6 months	240	1,022	47
In 6 to 12 months	480	2,044	80
In more than 12 months	540	2,274	51
	1,500	**6,362**	**230**

are established based on the ratings issued by international rating agencies and the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible as the Group only deals with contract partners with a minimum investment grade rating of at least A–/A3 from an international rating agency. External security is also ensured for the respective instrument, for example through deposit guarantee systems.

Management of liquidity risks

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

The financial instruments used are short-term cash and cash equivalents (see note 15), medium-term investments and borrowings (see note 29). The financing requirements of Group companies are generally in full by internal lending. This allows the cost-effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. Villeroy & Boch utilises international cash pooling systems in order to reduce external finance volumes and optimise its financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit this in exceptional cases.

According to the conditions, the cash outflow are expected in the following time bands:

» See table below

In liquidity planning, recognised liabilities are carried at their payment amount on maturity. This takes into account future interest not shown in the statement of financial position as at the end of the reporting period as it is not incurred until later financial years.

(a) The cash flow from current and non-current financial liabilities includes future interest payments of Euro 7,355 thousand (previous year: Euro 8,863 thousand) that will not be incurred until after 31 December 2011. A bank loan was prematurely extended until 2015 in the past financial year. Accordingly, the interest payments payable up to 2015 increased by Euro 2,542 thousand.

(b) The transaction volume of cash flow hedge liabilities in the amount of Euro 52,280 thousand (previous year: Euro 30,241 thousand) is offset by the opposing effects of the

Cash flow excepted on financial liabilities

In Euro thousand	Carrying amount as of 31/12/	Expected payments on the basis of the contractual terms of financial liabilities			
		Gross	Within three months	From the fourth months to one year	Between one and five years
Trade payables	55,200	55,200	55,200	–	–
Non-current and current financial liabilities (a)	51,428	68,598	8,308	4,079	56,211
Other liabilities	46,229	46,265	42,290	2,501	1,474
Cash flow hedge liabilities (b)	1,750	30,241	10,552	19,689	–
Total as of 31 December 2010	**154,607**	**200,303**	**116,350**	**26,269**	**57,685**
Trade payables	61,337	61,337	61,337	–	–
Non-current and current financial liabilities (a)	51,341	73,533	16,178	2,465	54,890
Other liabilities	43,248	43,283	40,377	1,419	1,487
Cash flow hedge liabilities (b)	3,173	52,280	10,553	39,453	2,274
Total as of 31 December 2011	**159,099**	**230,432**	**128,445**	**43,336**	**58,650**

(a) The cash flow from current and non-current financial liabilities includes future interest payments of Euro 7,355 thousand (previous year: Euro 8,863 thousand) that will not be incurred until after 31 December 2011. A bank loan was prematurely extended until 2015 in the past financial year. Accordingly, the interest payments payable up to 2015 increased by Euro 2,542 thousand.

(b) The transaction volume of cash flow hedge liabilities in the amount of Euro 52,280 thousand (previous year: Euro 30,241 thousand) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of Euro 3,173 thousand (previous year: Euro 1,750 thousand) is forecast, equal to the statement of financial position item. Thereof Euro 629 thousand of this will be settled in the next three months (previous year: Euro 821 thousand).

respective hedged items. As at the end of the reporting period, a net effect of Euro 3,173 thousand (previous year: Euro 1,750 thousand) is forecast, equal to the statement of financial position item. Thereof Euro 629 thousand of this will be settled in the next three months (previous year: Euro 821 thousand).

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

Net income from financial instruments

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

» See table at top of page 119

Net interest income is explained in detail in notes 40 and 41. The development of cash flow hedges is described in note 21c.

55. CONTINGENT LIABILITIES AND COMMITMENTS

In Euro thousand	31/12/2011	31/12/2010
Guarantees	247	111
Trustee obligations	297	280
Other contingencies	19	18

Trustee obligations relate to default obligations of the development fund. Bank guarantees were primarily provided to a Thai national utility and the Thai customs department.

56. OTHER FINANCIAL OBLIGATIONS

In Euro thousand	31/12/2011	31/12/2010
Obligations arising from orders placed		
for investments in intangible assets	42	23
for investments in property, plant and equipment	5,410	8,747

57. RELATED PARTY DISCLOSURES

Related company disclosures

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

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

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

The Villeroy & Boch Group reports on its business relations with the two companies V&B Fliesen GmbH, Merzig, and Rödl System Integration GmbH, Nuremberg, below. Both are considered as related parties.

The consolidated financial statements include the following transactions with **V&B Fliesen GmbH**:

» See table page 119

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

» See table page 119

Net result of financial instruments

In Euro thousand	Net interest result	Gain or loss on measurement			Reversal[1]	Total
		Fair value	Currency	Valuation adjust-ments		
Cash and cash equivalents	56	–	–	–	–	56
Loans and receivables/other liabilities	–3,041	–	–47	–1,612	1,713	–2,987
Held-to-maturity investments	612	–	–	–	–	612
Available-for-sale financial assets	–	–	–	–900	233	–667
Cash flow hedge	–	–1,755	–275	–	274	–1,756
Net result for the 2010 financial year	**–2,373**	**–1,755**	**–322**	**–2,512**	**2,220**	**–4,742**
Cash and cash equivalents	–442	–	–	–	–	–442
Loans and receivables/other liabilities	–2,588	–	33	–795	360	–2,990
Cash flow hedge	–	1,418	54	–	1,467	2,939
Net result for the 2011 financial year	**–3,030**	**1,418**	**87**	**–795**	**1,827**	**493**

1) reversal to profit or loss

Transactions conducted with V&B Fliesen GmbH in 2011

In Euro thousand	Realised in the 2011 financial year	Of which recognised as of 31/12/2011 as a	
		Receivable*	Liability*
Revenues (a)	138	17	–
Financial income	144	80	–
Service income (b)	7,893	2,388	–
Rental income incl. ancillary costs (c)	938	158	–
Service expenses (d)	–620	–	–135
Total	**8,493**	**2,643**	**–135**

Transactions conducted with V&B Fliesen GmbH in 2010

In Euro thousand	Realised in the 2010 financial year	Of which recognised as of 31/12/2010 as a	
		Receivable*	Liability*
Revenues (a)	145	24	–
Financial income	148	65	–
Service income (b)	8,335	2,321	–
Rental income incl. ancillary costs (c)	857	163	–
Service expenses (d)	–845	–	–164
Total	**8,892**	**2,573**	**–164**

* recognised as a receivable from (see note 13)/liability to (see note 30) equity investments

(a) V&B Fliesen GmbH acquired tableware products worth Euro 137 thousand (previous year: Euro 140 thousand) in the financial year. The other revenues are attributable to products from the Bathroom and Wellness Division.
(b) Service income contains income from advertising, licences and IT services and a number of individual items.
(c) Rental income relates to the letting of the production and office building (see note 7).
(d) Expenses for services purchased relate to a number of individual items.

(a) V&B Fliesen GmbH acquired tableware products worth Euro 137 thousand (previous year: Euro 140 thousand) in the financial year. The other revenues are attributable to products from the Bathroom and Wellness Division.

(b) Service income contains income from advertising, licences and IT services and a number of individual items.

(c) Rental income relates to the letting of the production and office building (see note 7).

(d) Expenses for services purchased relate to a number of individual items.

Furthermore, V&B Fliesen GmbH was granted a long-term loan in 2007. As of 31 December 2011, residual receivables of Euro 5,955 thousand (previous year: Euro 7,146 thousand) were recognised under other financial assets (see note 9b).

Over the course of the financial year, service income of Euro 424 thousand was recognised from **Rödl System Integration GmbH**, Nuremberg. An amount of Euro 177 thousand was recognised under other receivables as at the end of the reporting period (see note 13).

There were no other significant transactions with related companies in the period under review. All transactions are conducted at arm's length conditions.

Related person disclosures

The Group's related persons include shareholders able to significantly influence Villeroy & Boch AG, persons in key positions and relatives of these persons.

Persons in key positions include the members of the Supervisory Board, the Management Board and the heads of the two divisions. The following table lists all remuneration of this group of persons:

In Euro thousand	**2011**
Short-term employee benefits	3,101
Post-employment benefits	1,432
Termination benefits	295
Total	**4,828**

Relatives of this group of persons employed within the Villeroy & Boch Group receive the compensation based on their position and/or function paid independently of the identity of the person in that position.

There were no other significant transactions with related persons in the period under review. All transactions are conducted at arm's length conditions.

58. MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION

Supervisory Board remuneration

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

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

The variable remuneration amounts to Euro 195 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share (calculated as the average of the dividends paid for one preference share and one ordinary share).

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

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

» See table page 121

A total expense of Euro 506 thousand was reported in the consolidated earnings for the 2011 financial year (previous year: Euro 459 thousand). In addition to the fixed remuneration paid and the meeting fees for 2011, this figure includes Euro 83 thousand for the provision for variable remuneration as well as other reimbursements of expenses.

Management Board remuneration

An expense of Euro 1,935 thousand (previous year: Euro 1,968 thousand) was reported in the income statement for the 2011 financial year. This figure is composed of fixed salary components amounting to Euro 1,139 thousand (previous year: Euro 1,144 thousand) and variable salary components amounting to Euro 796 thousand (previous year: Euro 824 thousand). In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 2 thousand (previous year: Euro 2 thousand). The members of the Management Board received remuneration in kind totalling Euro 35 thousand (previous year: Euro 43 thousand).

The aforementioned payments also include remuneration paid to one member who has left the Management Board.

Provisions for pensions for former members of the Management Board amount to Euro 15,199 thousand (previous year: Euro 13,174 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,371 thousand (previous year: Euro 1,135 thousand).

The provisions of section 314(2) sentence 2 in conjunction with section 286(5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2011 financial year.

Supervisory Board remuneration

In Euro thousand	Fixed remuneration	Meeting fees	Variable remuneration for 2010	Total	Previous year
Wendelin von Boch-Galhau[2*), 3*)]	73	5	3	81	77
Ralf Runge	34	5	3	42	39
Peter Prinz Wittgenstein[1), 2)]	39	5	3	47	44
Dr. Alexander von Boch-Galhau	20	5	3	28	25
Francois Villeroy de Galhau	20	4	2	26	23
Jürgen Beining	20	5	3	28	25
Werner Jäger[1)]	23	5	3	31	28
Dr. Jürgen Friedrich Kammer[3)]	23	4	3	30	28
Charles Krombach[1*)]	24	4	3	31	29
Dietmar Langenfeld[2)]	23	5	3	31	28
Ralf Sikorski[3)]	23	4	3	30	28
Dietmar Geuskens	20	5	3	28	25
Members who left in 2010	–	–	–	–	2
Rounding differences	–3	–1	–3	–7	–3
	339	55	32	426	398

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

59. AUDITORS' FEES AND SERVICES

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

In Euro thousand	2011	2010
Audits of financial statements	375	364
Other assurance or valuation services	–	–
Tax advisory services	15	–
Other services	181	20

60. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 AKTG

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG for the 2011 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 14 December 2011. The declaration is permanently available to shareholders on the Internet.

61. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 22 December 2011, an agreement was concluded for the sale of the ceramic sanitary ware plant in Saltillo, Mexico, to the WoodCrafters Group. As part of this agreement, the buyer will take on the approximately 600 employees at this location. The agreement was executed on 29 February 2012. Taking into account all costs and guarantees, the purchase price was a little more than the net carrying amount of the assets sold of around Euro 7 million.

Other than this, there are currently no other significant events that took place after the end of the financial year.

62. LIST OF SHAREHOLDINGS

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

		Villeroy & Boch AG investment		
		Direct	Indirect	Total
	Germany	In %	In %	In %
1.	Dritte V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00
2.	Erste V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00
3.	Fliesen-Bollmann Beteiligungsgesellschaft mbH, Mettlach	100.00	0.00	100.00
4.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach	100.00	0.00	100.00
5.	Heinrich Porzellan GmbH, Selb	100.00	0.00	100.00
6.	INTERMAT - Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach	100.00	0.00	100.00
7.	Keraco GmbH, Wadgassen	100.00	0.00	100.00
8.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen	100.00	0.00	100.00
9.	V & B International GmbH, Mettlach	100.00	0.00	100.00
10.	VilboCeram GmbH, Mettlach	100.00	0.00	100.00
11.	Villeroy & Boch asset management Geschäftsführungsges. mbH, Mettlach	100.00	0.00	100.00
12.	Villeroy & Boch asset management Holding GmbH & Co. KG, Mettlach	100.00	0.00	100.00
13.	Villeroy & Boch Creation GmbH, Mettlach	100.00	0.00	100.00
14.	Villeroy & Boch K-Shop GmbH, Mettlach	100.00	0.00	100.00
15.	Zweite V & B asset management GmbH & Co. KG, Mettlach	0.00	100.00	100.00
	Abroad			
16.	Alföldi Kerámia Kft., Hódmezövásárhely (Hungary)	0.00	100.00	100.00
17.	Delfi Asset S.A., Luxembourg (Luxemburg)	0.00	100.00	100.00
18.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100.00	0.00	100.00
19.	Hissnabben Växjö AB, Växjö (Sweden)	0.00	100.00	100.00
20.	International Materials LLC, Delaware (USA)	0.00	100.00	100.00
21.	Kiinteistö Oy, Helsinki (Finland)	0.00	100.00	100.00
22.	Nahm Sanitaryware Co. Ltd., Bangkok (Thailand)	0.00	100.00	100.00
23.	Oy Gustavsberg Ab, Helsinki (Finland)	0.00	100.00	100.00
24.	Proiberian S.l., Barcelona (Spain)	70.00	30.00	100.00
25.	Rollingergrund Premium Properties SA, Luxembourg, (Luxemburg)	0.00	100.00	100.00
26.	S.C. Mondial S.A., Lugoj (Romania)	99.44	0.00	99.44
27.	St. Thomas Creation Inc., San Diego (USA)	0.00	100.00	100.00
28.	St. Thomas Creation S.A. de C.V., Saltillo (Mexico)	0.00	100.00	100.00
29.	Ucosan BV, Roden (Netherlands)	100.00	0.00	100.00
30.	Vilbomex S.A. de C.V., Saltillo (Mexico)	88.32	11.68	100.00
31.	Villeroy & Boch (U.K.) Ltd., London (England)	0.00	100.00	100.00

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

		Villeroy & Boch AG investment		
		Direct	Indirect	Total
	Abroad	In %	In %	In %
32.	Villeroy & Boch Arti della Tavola S.r.l., Milano (Italy)	0.20	99.80	100.00
33.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	0.00	100.00	100.00
34.	Villeroy & Boch Austria G.m.b.H., Mondsee (Austria)	100.00	0.00	100.00
35.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99.99	0.01	100.00
36.	Villeroy & Boch CreaTable AG, Lenzburg (Switzerland)	0.00	100.00	100.00
37.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100.00	0.00	100.00
38.	Villeroy & Boch Danmark A/S, Brondby (Denmark)	0.00	100.00	100.00
39.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100.00	0.00	100.00
40.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44.00	56.00	100.00
41.	Villeroy & Boch Immobilier S.a.r.L, Paris (France)	100.00	0.00	100.00
42.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	99.99	0.00	99.99
43.	Villeroy & Boch Norge AS, Lorenskog (Norway)	0.00	100.00	100.00
44.	Villeroy & Boch Polska Sp.z o.o., Warszawa (Poland)	0.00	100.00	100.00
45.	Villeroy & Boch ooo, Moscow (Russia)	100.00	0.00	100.00
46.	Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxemburg)	100.00	0.00	100.00
47.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	100.00	0.00	100.00
48.	Villeroy & Boch Sociéte Générale de Carrelage S.A.S., Paris (France)	0.00	100.00	100.00
49.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	0.00	100.00	100.00
50.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100.00	0.00	100.00
51.	Villeroy & Boch Tableware Japan K.K., Tokyo (Japan)	0.00	100.00	100.00
52.	Villeroy & Boch Tableware Ltd., Aurora (Canada)	0.00	100.00	100.00
53.	Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China)	100.00	0.00	100.00
54.	Villeroy & Boch USA Inc., New York (USA)	0.00	100.00	100.00
55.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	100.00	0.00	100.00
56.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	0.00	100.00	100.00
57.	Villeroy et Boch S.A.S., Paris (France)	100.00	0.00	100.00
	Investments			
58.	V&B Fliesen GmbH, Merzig (Germany)	25.00	0.00	25.00

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

63. DEVELOPMENTS IN THE IASB

The following IASB publications were adopted by the EU and are required to be applied for financial years beginning after 31 December 2010:

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

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

Standard		Name
IFRS	7	Amendment to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets; effective for financial years beginning after 30 June 2011

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

The EU has not yet adopted the following IASB publications:

Standard		Name
IFRS	1	Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (issued 20 December 2010)
IFRS	7	Amendments to IFRS 7: Disclosures-Offsetting Financial Assets and Financial Liabilities (issued 16 December 2011)
IFRS	9	Financial Instruments: Amortised Cost and Impairment (issued 12 November 2010)
IFRS	10	Consolidated Financial Statements (issued 12 May 2011)
IFRS	11	Joint Arrangements (issued 12 May 2011)
IFRS	12	Disclosures of Interests in Other Entities (issued 12 May 2011)
IFRS	13	Fair Value Measurement (issued 12 May 2011)
IAS	1	Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income (issued 16 June 2011)
IAS	12	Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets (issued 20 December 2010)
IAS	19	Amendments to IAS 19 Employee Benefits (issued 16 June 2011)
IAS	27	Separate Financial Statements (issued 12 May 2011)
IAS	28	Investments in Associates and Joint Ventures (issued 12 May 2011)
IAS	32	Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (issued 16 December 2011)
IFRIC	20	Stripping Cost in the Production Phase of a Surface Mine (issued 19 October 2011)

The above standards and interpretations will be applied when they become effective within the European Union. Recognition by the EU serves to implement IASB publications in European law. Due to the absence of such recognition, early application is not possible. According to the information currently available, the Villeroy & Boch Group will only be affected by the changes described above – with the exception of the amendments to IAS 19 – to a marginal extent. The amendments to IAS 19 will essentially result in the discontinuation of the corridor method for accounting for pension obligations. In future, actuarial gains and losses will be posted in full to the revaluation surplus.

64. COMBINED RESPONSIBILITY STATEMENT

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

Mettlach, 1 March 2012

Frank Göring Jörg Wahlers

AUDIT REPORT

We have issued the following audit opinion for the consolidated financial statements and the Group management report:

"We have audited the consolidated financial statements prepared by the Villeroy & Boch AG, Mettlach, comprising the income statement, the statement of financial position, the statement of changes in equity, the statement of comprehensive income, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Mannheim, 2 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle
German Public Auditor

Waldner
German Public Auditor

GLOSSARY

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

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

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

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

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

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

CFO
The Chief Financial Officer (CFO) is the commercial managing director or management board member responsible for finance at a stock corporation.

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

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

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

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

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EBT
Earnings before tax.

Equity ratio
Ratio of equity to balance sheet total.

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

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

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

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

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

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

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COMPANY CALENDAR 2012

25 April 2012
Report on the first three months 2012

16 May 2012
General Meeting of Shareholders, Merzig Town Hall

23 July 2012
Report on the first half of 2012

23 October 2012
Report on the first nine months 2012

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