Annual Report 2008

260 Years

Group Overview*

in Euro Million	2008	2007	2006
Sales	840.9	848.6	815.0
EBITDA	61.9	77.0	72.8
EBIT	24.1	38.8	34.4
EBT	16.0	29.4	24.5
Group results for the year	11.0	23.8	18.2
NOPAT	20.6	42.6	38.9
Balance sheet total	772.3	804.9	789.4
Cash flow from operating activities	17.5	59.4	22.7
Capital expenditure	26.7	28.4	35.9
Depreciation	37.8	38.2	38.4
Number			
Employees (annual average)	10,193	9,221	9,235
in Percent			
Net operating margin	1.3	2.8	2.2
Equity ratio (incl. minority interest)	42.8	42.8	44.4
Return on equity (ROE)	3.3	6.9	5.2
Cash flow profitability	2.1	7.0	2.8
in Euro			
Net earnings per ordinary share	0.40	0.88	0.66
Net earnings per preference share	0.45	0.93	0.71
Dividend per ordinary share	0.32	0.37	0.37
Dividend per preference share	0.37	0.42	0.42

* Group overview of the continued Divisions without Tile Division

Divisions

in Euro Million	2008	2007	2006
Bath and Wellness			
Sales	521,1	522,2	489,2
EBIT	15,4	21,1	28,3
Tableware			
Sales	319,8	326,4	325,8
EBIT	8,7	17,7	6,1

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Living atmosphere within the bathroom. Exclusively and romantically furnished with bath tub and washing stand of the gently curved *La Belle* line

Classy collection *Arden Lane*: timeless and discreet elegance with an artistic butterfly design

Shape the modular furniture program makes an accurate layout possible. Here it is complemented with the wooden colour of the *My Art* tub

Decoratively curved: the *Urban Nature* traverse

Members of the Supervisory Board

Luitwin Gisbert von Boch-Galhau

Honorary member (since 30 May 2008)

Second Vice Chairman (until 30 May 2008)

b) Banque CIC Est, Strasbourg/Frankreich (Member of the Administrative Board)
within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary (Chairman)

Karl Gustaf Ratjen

Honorary member (until 1 April 2008)

Peter Prinz Wittgenstein

Chairman

Management Consultant

Ralf Runge*

First Vice Chairman (since 30 May 2008)

Chairman of the Faiencerie and Cristallerie Works Council

b) Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH, Merzig
Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH & Co. KG, Merzig

Wendelin von Boch-Galhau

Second Vice Chairman (since 30 May 2008)

Managing Director of country life von Boch-Galhau Verwaltungs-Gesellschaft mbH

b) V&B Fliesen GmbH, Merzig
Nici GmbH, Altenkunstadt

Jürgen Beining* (since 30 May 2008)

Head of Sales, Bathroom and Wellness

Eugen von Boch (since 30 May 2008)

Entrepreneur

b) Volksbank Untere Saar eG, Losheim

Dr. Alexander von Boch-Galhau (since 30 May 2008)

Management Consultant

b) Union Stiftung, Saarbrücken

Hannsgeorg Edinger*

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

a) Schott AG, Mainz

Werner Jäger*

IT Administrator

Dr. Jürgen Friedrich Kammer

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

a) Lanxess AG, Leverkusen

b) Wittelsbacher Ausgleichsfonds, Munich
Augustinum gemeinnützige GmbH, Munich (until 21 October 2008)

Charles Krombach

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

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

Ulrich Küppers* (until 30 May 2008)

First Vice Chairman (until 30 May 2008)

Managing Director of THS GmbH and THS Wohnen GmbH, Gelsenkirchen (since 26 January 2008)

b) VWG GmbH (since 26 January 2008)
THS Consulting (since 26 January 2008)
V&B Fliesen GmbH, Merzig (until 31 March 2008)

Dietmar Langenfeld*

Chairman of the Villeroy & Boch AG Central Works Council

Chairman of the Sanitärfabrik Works Council

Ralf Sikorski* (since 30 May 2008)

District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz

a) BASF SE, Ludwigshafen (since May 2008)

b) V&B Fliesen GmbH, Merzig (since 1 April 2008)
Evonik Power Saar GmbH, Saarbrücken (since April 2008) (Vice Chairman)
Evonik New Energies GmbH, Saarbrücken (since July 2008) (Vice Chairman)

Wolfgang Thieser* (until 30 May 2008)

Project Manager, Bathroom and Wellness

Emmanuel Villeroy de Galhau (until 30 May 2008)

Entrepreneur

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

Report of the Supervisory Board

Peter Prinz Wittgenstein
Chairman of the Supervisory Board

The acquisition of the Thai sanitary ware producer Nahm Sanitaryware Co. Ltd. in 2008 was a key step in the continuing internationalisation of the Group. The Supervisory Board approved the acquisition and provided intensive support for this process in 2008. Other key developments requiring close cooperation between the Supervisory Board and the Management Board included the acquisition of the bathroom furniture manufacturer Sanipa GmbH and the employee survey. Towards the end of the year, the Supervisory Board addressed the effects of the global economic crisis on the Company.

Focus of the meetings of the Supervisory Board

The **spring meeting** primarily focused on the Group Management Report, the approval of the annual financial statements and the status report on international projects.

At this meeting, Karl Gustaf Ratjen stepped down from his honorary membership of the Supervisory Board on grounds of age. We would like to thank Mr. Ratjen for his many years of successful service as the Chairman of the Supervisory Board of Villeroy & Boch AG and his continued support as an honorary member in recent years.

On the occasion of the **General Meeting of Shareholders** at the end of May, the shareholder representatives Luitwin Gisbert von Boch-Galhau and Emmanuel Villeroy de Galhau as well as the employee representatives Ulrich Küppers and Wolfgang Thieser stepped down from the Supervisory Board. In April, the employees of Villeroy & Boch AG elected Jürgen Beining and Ralf Sikorski as replacement employee representatives and confirmed the reappointment of Hannsgeorg Edinger, Werner Jäger, Dietmar Langenfeld and Ralf Runge. The General Meeting of Shareholders approved the proposed re-election of the shareholder representatives Peter Prinz Wittgenstein, Dr. Jürgen Friedrich Kammer and Charles Krombach and the election of Dr. Alexander von Boch-Galhau and Eugen von Boch as new members of the Supervisory Board.

At the subsequent **constituent Supervisory Board meeting**, the members confirmed Peter Prinz Wittgenstein as the Chairman of the Supervisory Board and appointed Ralf Runge and Wendelin von Boch-Galhau as First and Second Vice Chairman respectively. This meeting also re-elected the committees and appointed Luitwin Gisbert von Boch-Galhau to the Supervisory Board as an honorary member.

At the **autumn meeting**, the Management Board reported on the results of the Germany-wide employee survey, among other things. The Supervisory Board welcomed this initiative and expressed its support for the plan to conduct similar surveys at international sites of the Group.

The **December meeting** was dominated by the financial and economic crisis and its effect on the Company's current situation, as well as planning for 2009. The declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the AktG (German Stock Corporation Act) was amended and adopted at this meeting.

In addition, a number of individual discussions on current topics were held with the Chairman of the Supervisory Board and the Chairman of the Audit Committee in the course of the year.

Work of the committees

The **Audit Committee** met twice in 2008. The March meeting focused on the report by KPMG AG Wirtschaftsprüfungsgesellschaft on the 2007 annual financial statements and the proposed election of KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2008 financial year, while the December meeting focused on risk management, the work of Internal Audit and a report on the establishment of the internal compliance organisation.

The **Human Resources Committee** met in April and December of the reported year, addressing personnel topics as well as the agreement on objectives and the remuneration of the Management Board.

The **Investment Committee** met in December to discuss corporate and investment planning for 2009.

Financial statements

The financial statements, the IFRS consolidated financial statements and the combined Management Report of Villeroy & Boch AG for the 2008 financial year were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and issued with an unqualified audit opinion. The Supervisory Board concurred with the findings of the audit report and, following its own examination, approved the financial statements prepared by the Management Board at its meeting in March 2009. The financial statements have therefore been adopted in accordance with section 172 AktG. The Supervisory Board also concurred with the proposal by the Management Board on the appropriation of the retained earnings of Villeroy & Boch AG.

The Supervisory Board thanks the current and former members of the Supervisory Board, the Management Board and all of the Company's employees for their commitment and dedication in the unexpectedly difficult 2008 financial year.

The Supervisory Board also expresses its particular gratitude to Luitwin Gisbert von Boch-Galhau, who has worked on behalf of the Company for more than 50 years. His intuition for markets and strategic decisions have made a decisive contribution to the Group's development. The Supervisory Board also expressed its appreciation of the fact that Luitwin Gisbert von Boch-Galhau will continue to provide the Supervisory Board with his expertise as an honorary member in future.

For the Supervisory Board

Peter Prinz Wittgenstein, Chairman
Mettlach, March 2009

Manfred Finger
Finance and Human Resources (CFO)
b) V&B Fliesen GmbH, Merzig

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

Volker Pruschke
Corporate Development (CSO)

b) Membership in comparable domestic and foreign boards of commecial enterprises in term § 125 AktG

Letter to Shareholders

Dear Shareholders, Employees and Friends of Villeroy & Boch,

We have had an eventful year. Business developments in the year of our 260-year anniversary varied greatly on account of the international spread of the economic crisis. In the first half of the year, we recorded growth in revenue of 3.8 % as against the previous year. In the second half of the year, however, the effects of the tense economic situation also became clear in our Company. Alongside the US, key European markets such as the UK and Spain saw a sharp drop in demand. Overall, this caused a slight dip in revenue of 1 % to Euro 840 million.

We countered the effects of the economic crisis on our consolidated result early on with effective measures. On the one hand, selective adjustments were made in production volumes, while on the other hand there were comprehensive cost-cutting measures in all areas of the Group. The global economy is currently in an exceptional condition, the further extent of which is difficult to estimate. Further measures will be dependent on the developments in the first few months of 2009.

Despite the difficult general conditions, we also worked systematically and successfully in the past year to expand our long-term competitive capability. Our strategy of internationalisation was advanced further as a key pillar. In 2008, we opened a number of new tableware shops in Europe and above all in Asia, including Mumbai and Beijing. More shops will follow in 2009. Asia is one of our largest growth markets outside Europe of the Bathroom & Wellness Division. With the acquisition of the sanitary ware producer Nahm Sanitaryware Co., Ltd., we have created an excellent foundation on which to reach the Asian and Australian market quickly and efficiently. At the end of 2008, we acquired additional land to expand our factory. In the mid-term we plan to increase production output significantly in Thailand.

Within our European production network, we will continue the path we have followed in recent years: focusing and specialising locations and creating centres of expertise to help significantly strengthen our competitiveness. This process, which is primarily reflected by the automation of our Western European production locations and – for ceramic sanitary ware – the expansion of our capacity in Eastern Europe, will be continued.

In addition to Asia, there are also markets in Europe such as Poland and Russia that offer great potential for our brand and products. We must take advantage of these opportunities.

Meanwhile, we feel that our growth prospects in what is still our largest and most important market, Germany, are somewhat limited. Hence, we were all the more delighted that even in the troubled year of 2008, we recorded a moderate revenue increase in our domestic market, thanks primarily to our Tableware Division. In the Bathroom & Wellness Division, our high quality bathroom furniture segment enjoyed consistently strong demand. Thus, the second acquisition of the year, that of the bathroom furniture manufacturer Sanipa GmbH Badeinrichtungen in Treuchtlingen, was a strategically logical and important step towards increasing our capacity and exploiting further potential in our bathroom furniture business.

Thanks to our solid balance sheet structure and good liquidity position, we also feel that we are well positioned for a potentially prolonged crisis and are still able to act flexibly and pursue our goals further. Unfortunately, this is not reflected by the price of our shares at this time. Naturally, we are more than dissatisfied with the price performance of our shares; nonetheless, we are confident that they will recover as soon as the financial markets calm down.

The commitment, loyalty and productivity of our employees are essential for the success of Villeroy & Boch. At this point, I would like to thank all the employees of our Company: especially in these difficult times, you are all greatly challenged. Thanks to everyone's personal commitment, we will master the current challenges. We will continue to expand our market position and emerge from the crisis stronger than before.

Yours

Frank Göring

Employee of tableware production site in Mettlach

Employees

Trend and Number of employees in the group, average for the year 2008

Divisions	2008	2007	08/07
Bathroom and Wellness	6.879	5.931	948
Tableware	2.894	2.848	46
Other	420	442	-22
Group as a whole	**10.193**	**9.221**	**972**

Countries	2008	2007	08/07
Germany	3.001	2.849	152
Western Europe	2.644	2.654	-10
Eastern Europe	2.128	2.118	10
Other	2.420	1.600	820
Group as whole	**10.193**	**9.221**	**972**

Over recent years, as part of our human resources work, we have attached particular importance to training our employees and in 2007 received the MUWIT* award for our concepts.

A key project in this was the comprehensive training for our executives on matters such as leadership values, change management and conflict management to improve cooperation within the Company in particular.

Villeroy & Boch begins first employee survey

As a systematic continuation of this approach, a survey was conducted among our employees in 2008 to find out if our employees largely feel the same way about these positive change processes.

Aims of the employee survey:

- to find out more about employees' opinions of the Company, their working situation and their direct managers
- to increase the integration of employees and executives into the ongoing improvement process so that everyone can play a part in the change
- to initiate and implement sustainably effective measures, to take workflows and the working environment a step further so that ultimately everyone enjoys work more

Conducted in two stages, the 2008 survey included all blue- and white-collar employees in Germany and parts of Austria and Switzerland. Further surveys are being planned for the international locations.

The questionnaire consisted of around 100 questions that, in addition to work satisfaction, also touched on aspects such as employees' opinions on the image of Villeroy & Boch.

Around 75 % of employees responded to the survey, confirming the strong level of commitment towards our Company. This is an above-average result, particularly for the first time that an employee survey has been attempted, and therefore is of high information value.

*MUWIT= Management & Weiterbildung im Trend (Up-to date Management and Education)

The results were gathered and have subsequently been communicated and discussed in numerous information events with the Supervisory Board, Management Board, executives and employees. Employees were notified of the results in detail in newsletters, articles in the employee magazine INHOUSE and at information events.

White-collar employees gave encouraging feedback on the management culture and their respective direct supervisors. Furthermore, both blue- and white-collar employees positively rated working with colleagues, work content and the trusting corporate culture in particular. The work climate was largely assessed better than at similar companies.

Important aspects included advice from employees regarding potential for improvement in internal cooperation and process workflows. We will be initiating targeted optimisation projects to tackle this over the coming months.

Looking ahead: staff development and training

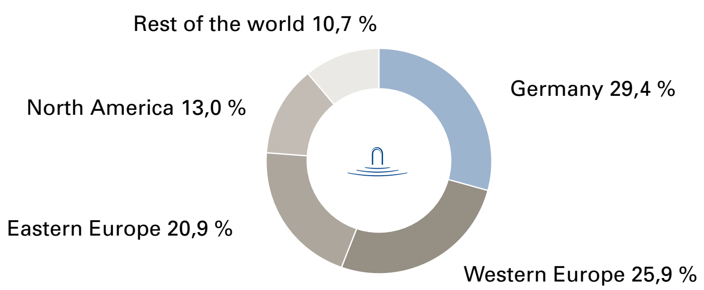
One main area of focus for staff development work in 2008 was the analysis of potential of international sales employees with the help of development centres to jointly define measures for further career development and to ensure long-term personnel planning.

Similarly, we have advanced the programs for training young executives in junior development centres. In total, 120 employees have taken part in this so far. The intensive contacts that have for years been maintained with schools and universities have been extended in light of worsening conditions on labour markets. This also applies to our apprenticeship activities, which progressed at the same level as in previous years.

We recruited a total of 40 apprentices in eleven different skilled professions in 2008. In addition to activities such as office administrators, computer technicians, electricians for industrial engineering and industrial mechanics, for the second year in a row sales people began their retail career at our factory outlet in Mettlach and in the concession shops and Creations.

As in previous years, the cooperation with our employee representatives was defined by openness and trust. The more difficult economic circumstances in the second half of the year were countered by the combined efforts of the entire staff. The huge commitment and motivation of employees play a key role in the success of our Company. The Management Board would like to thank all the employees for this.

Personnel by regions



The German Villeroy & Boch integration team with employees from the new Thai subsidiary Nahm

Employees at Management Dialog discussing the results of the employee survey

The Share – Overview of the 2008 stock market year

The crisis in the US real estate market which started in 2007 was originally perceived to be limited in extent. In the course of 2008, however, it developed into the largest global financial and economic crisis for several decades. A number of banks already found themselves in difficulties in the first half of the year, but events really started to accelerate from September onwards, with banks and insurance companies around the world being forced to seek assistance in the form of takeovers or government aid. Over 2008 as a whole, the Dow Jones Industrial Average fell by almost 34 % – the third worst year in its history.

In Germany, the DAX opened the year at 8,100 points, only just below the record high recorded in July 2007. Even prior to the events in September, however, the share price crash in Europe on 21 January made it clear that the US real estate crisis was far from merely an American problem. The value of DAX stocks fell by 7 % – the greatest daily loss in percentage terms since the terrorist attacks on 11 September 2001.

With an overall loss of 40 %, 2008 will go down as the second worst year in the DAX's 20 years of existence. The SDAX declined by as much as 46 % in 2008.

Villeroy & Boch's preference shares

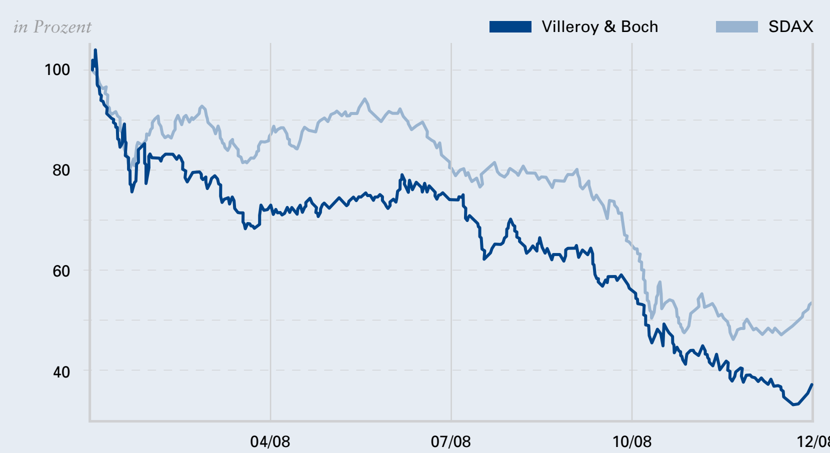
Villeroy & Boch's preference shares were unable to escape the impact of global events, recording similar performance to the market as a whole. Villeroy & Boch's share price started 2008 at Euro 12.30 and declined steadily over the course of the year, with the trading volume falling by around 19 % year-on-year. In other words, reluctance among investors due to the uncertainty affecting the market meant that the number of shares traded was around one-fifth less than in 2007. Only May, October and December saw a higher trading volume than in the corresponding month of the previous year. One of the main reasons for this was the increased capital requirements on the part of a number of investment funds, some of which were forced to reduce or eliminate their holdings of Villeroy & Boch shares due to liquidity bottlenecks.

Villeroy & Boch Share 2008*

WKN	765723
Securities exchange symbol	VIB3
Shareholder structure	88 % Free-Float
Yearly high	Euro 12.80 as of 03/01/2008
Yearly low	Euro 4.00 as of 19/12/2008
Closing price	Euro 4.58 as of 30/12/2008
Market capitalisation as of 30/12/2008	Euro 56.6 million
Profit per Share	Euro 0.45
PET high/low	28.44/8.88

*Common shares not traded publicly

Development of the Villeroy & Boch Share



This created additional share price pressure. Despite this, numerous meetings were held with investors and analysts throughout the year and the Company maintained its active contact with the financial community. The favourable share price towards the end of the year saw growing interest among investors and analysts in particular. On 30 December, the last trading day, Villeroy & Boch's shares closed the year at Euro 4.58, resulting in market capitalisation of just Euro 120 million.

Dividends

Given the ongoing crisis, it is difficult to make a reliable forecast with respect to business development in 2009. The Villeroy & Boch Group remains in a stable financial position, with consolidated net income for the year after tax increasing from Euro 7.2 million in 2007 to Euro 11 million in 2008. However, the result for 2007 includes the non-recurring expenses relating to the disposal of the Tile Division. By contrast, the operating result (EBIT) from continuing operations declined from Euro 38.8 million to Euro 24.1 million. Compared with the previous year, the Management Board and the Supervisory Board will therefore propose the distribution of a reduced dividend of Euro 0.37 per preference share and Euro 0.32 per ordinary share to the General Meeting of Shareholders.

Outlook

Confidence in the financial markets has been shattered. Although Villeroy & Boch's shares are currently trading at an extremely low level, it is impossible to make a reliable forecast with regard to share price performance in 2009. First positive voices are now predicting a market recovery as early as mid-2009. In light of this development and the historically low valuation of the Company's shares, a share price recovery would appear to be a distinct possibility.

Villeroy & Boch Management Report

- *Revenue almost level year-on-year at Euro 841 million (down 0.9%)*
- *Result after taxes (Group) rises to Euro 11.0 million (previous year: Euro 7.2 million)*
- *EBIT margin of 2.9% of sales (previous year: 4.6%) despite poor economic situation*
- *Dividend of Euro 0.32 per ordinary share and Euro 0.37 per preference share*

General economic conditions

Following a good start and high demand, initially dramatic price hikes for energy, industrial raw materials and food, the global economy was dominated by the real estate crisis in the US in 2008, and increasingly by the heavy turbulence on the international financial markets from the middle of the year. As the year progressed, these negative effects led to an unusually strong downward trend for the entire global economy. The resulting decline in demand and the erosion of commodities prices gradually slowed the upturn in the emerging markets and also accelerated the downward trend in the industrialised nations. Germany has also been hit by this negative development, as the general conditions for the export activities of German companies have increasingly deteriorated. This general economic slide had a growing effect on the ceramics markets. Starting in North America, the UK and Spain, the real estate crisis caused sometimes dramatic slumps in construction activities. Consumers' insecurity also impaired demand for tableware products. This was exacerbated further by the cautious warehouse management policies in wholesale and retail.

Income Statement Villeroy & Boch

Structure of the consolidated income statement (IFRS)

in Euro million	2008	% of revenue	2007	% of revenue
Revenue	840.9	100.0	848.6	100.0
Cost of sales	-513.0	-61.0	-506.7	-59.7
Gross profit	**327.9**	**39.0**	**341.9**	**40.3**
Selling, marketing and development costs	-252.8	-30.0	-248.1	-29.2
General and administrative expenses	-49.5	-5.9	-45.6	-5.4
Other expenses/income	-1.5	-0.2	-9.4	-1.1
EBIT	**24.1**	**2.9**	**38.8**	**4.6**
Net finance expense	-8.1	-1.0	-9.4	-1.1
Earnings before taxes (EBT)	**16.0**	**1.9**	**29.4**	**3.5**
Income taxes	-5.0	-0.6	-5.6	-0.7
Result after taxes from continued operations	**11.0**	**1.3**	**23.8**	**2.8**
Result after taxes from sold operations, Tiles	**-**	**-**	**-16.6**	**-2.0**
Result after tax (Group)	**11.0**	**1.3**	**7.2**	**0.8**

Revenue and result

Consolidated revenue down slightly year-on-year

Under the influence of the adverse development of the global economy, Villeroy & Boch generated revenue of Euro 840.9 million in the 2008 financial year. After revenue in the previous year of Euro 848.6 million, this corresponds to a slight decline of Euro 7.7 million or -0.9 %. Adjusted for currency effects, revenue was up 0.5 % as against the previous year's figure.

Sales of Villeroy & Boch Group by countries

Countries	*in Euro million*	*Share*
Germany	**185.6**	**22.1 %**
Foreign (total)	**655.3**	**77.9 %**
Scandinavia	100.0	11.9 %
Eastern Europe	93.0	11.1 %
France	80.5	9.6 %
Rest of the World	75.2	8.9 %
BeNeLux	73.3	8.7 %
Italy	46.7	5.6 %
USA	43.8	5.2 %
UK	40.7	4.8 %
Spain	31.5	3.7 %
Mexico	29.2	3.5 %
Switzerland	18.0	2.1 %
Austria	17.4	2.1 %
Other Western Europe	6.0	0.7 %

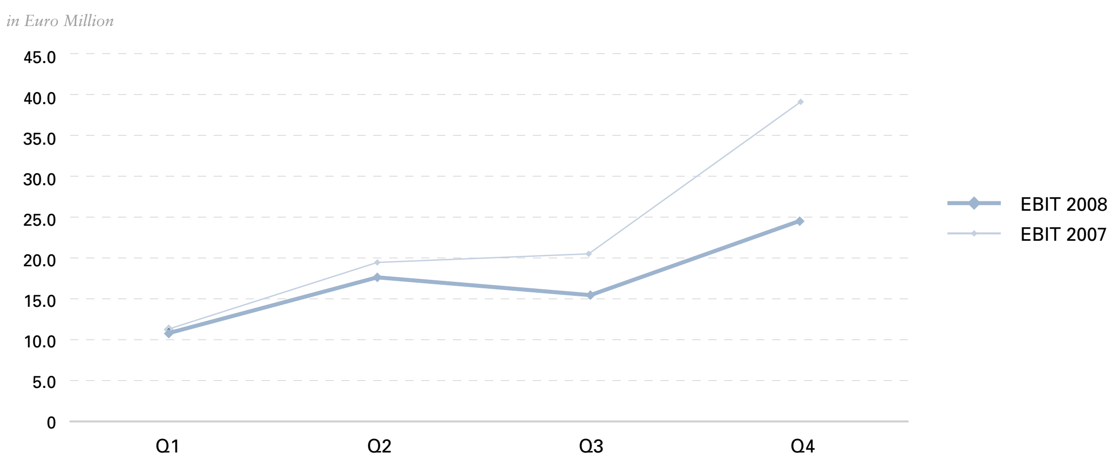
On the difficult German market, Villeroy & Boch posted encouraging growth of 5.1 % as against the previous year with revenue of Euro 185.6 million. In contrast, international revenue declined by 2.5 % to Euro 655.3 million. This decline was essentially due to the markets where the real estate crisis hit particularly early and hard: the US (down 30.0 %), the UK (down 16.5 %) and Spain (down 24.0 %).

Consolidated result down due to economy

The operating result (EBIT) of Villeroy & Boch declined by Euro 14.7 million as against the previous year to Euro 24.1 million in the 2008 financial year. This corresponds to a decline of 37.9 %. The Group's EBIT margin was 2.9 % (previous year: 4.6 %).

As part of the overall economic crisis, EBIT slid – initially slowly – from around the middle of the year, and then crashed significantly compared to the prior year in the fourth quarter. This is shown by the graphic below:

Development of EBIT



The Group's net financial expense improved by Euro 1.3 million to Euro -8.1 million. The essential part of the net financial expense was accounted for by the interest share for pensions of Euro -8.7 million.

The result after taxes was Euro 11.0 million after Euro 7.2 million in the previous year. The consolidated tax ratio was down from 45.2 % in the previous year to 31.2 %. This change is predominantly due to the expenses in connection with the disposal of the Group's tile activities that did not affect taxes in the previous year and the reduction in Germany's corporate income tax rate from 25.0 % (2007) to 15.0 % (2008).

Revenue and result in Divisions (Group)

Revenue development in Divisions

In the 2008 financial year, the **Bathroom and Wellness Division** generated revenue of Euro 521.1 million, on par with the previous year's level.

After adjustment for the acquisitions of the bathroom furniture manufacturer Sanipa GmbH in Germany and the sanitary ware producer Nahm Sanitaryware Co. Ltd. in Thailand, revenue was, however, down slightly by 2.9 %. With stable business in Germany, revenue decreased significantly in some key international markets. In total, exports fell by 3.5 %. Changing currency conditions also had a negative impact in the amount of around Euro 5 million, mainly in the US and Mexico.

Group Sales 2007/2008 – Distribution by Division

	2007	2008	Variation	
Bathroom and Wellness	522.2	521.1	-1.1	-0.2 %
Tableware	326.4	319.8	-6.6	-2.0 %
	848.6	**840.9**	-7.7	**-0.9 %**

The **ceramic sanitary ware, kitchen and furniture products area** ended the financial year with acquisition-related revenue of Euro 379.0 million, 2.5 % or Euro 9.6 million less than the figures reported for the previous year. The decline is essentially explained by the slump of the overseas markets US and Mexico (down 25.4 % in total) following the real estate crisis, partially offset by the encouraging increase in the Eastern European growth markets (up 10.6 %).

On the **wellness and fittings products area**, revenue also declined by 4.1 % in the 2008 reporting year to Euro 128.1 million. A further rise in Villeroy & Boch brand products' revenue was offset by a strong slide in secondary brands. Regionally, revenue losses in Germany (down 1.3 %) and Western Europe (down 6.7 %) were only partially offset by growth in Eastern Europe (up 4.6 %).

Revenue in the **Tableware Division** in 2008 amounted to Euro 319.8 million, 2.0 % lower than in the previous year. Encouraging growth of 4.2 % on the German market, which has been shrinking in recent years, was almost entirely countered by the drop in revenue of 3.9 % on the international markets. In addition to the strong influence of the economic crisis on key markets such as the US, Spain and the UK, the depreciation of some foreign currencies against the Euro also had a negative impact on revenue of around Euro 6 million.

Results in Divisions

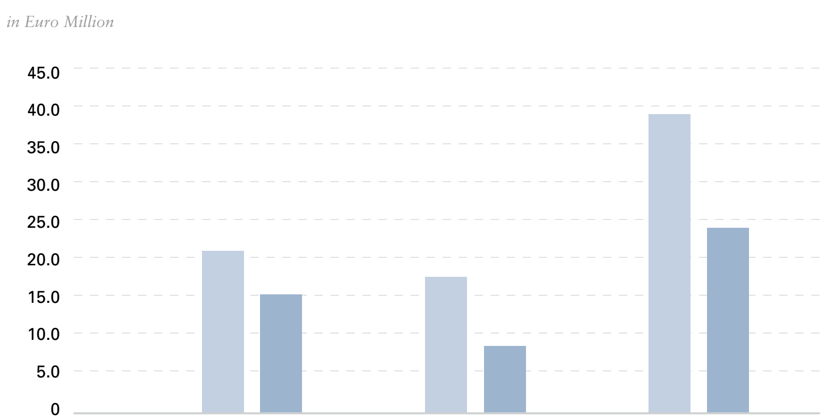
The **Bathroom and Wellness Division** ended the financial year with an operating result (EBIT) of Euro 15.4 million, a fall of Euro 5.7 million on the previous year's result. In addition to the drop in sales after adjustment for acquisitions, the main factors driving this development were the surge in procurement prices in the energy and commodities sector and additional expenses in connection with tapping new growth markets and the integration of newly acquired investments.

Despite the slump in the construction industry in North America in particular in the second half of the year and the strong rise in procurement costs, the **ceramic sanitary ware, kitchen and furniture products area's** result almost matched the previous year's figure.

The result in the **wellness and fittings product area** deteriorated tangibly as against the previous year on account of the revenue situation.

The operating result (EBIT) in the **Tableware Division** was down in the financial year from Euro 17.7 million in the previous year to Euro 8.7 million mainly as a result of sales. The encouraging first half of the year was eroded by the effects of the crash in the global economy.

Group EBIT 2007/2008



	Bathroom & Wellness	Tableware	Continued Divisons
2007	21.1	17.7	38.8
2008	15.4	8.7	24.1

Investments

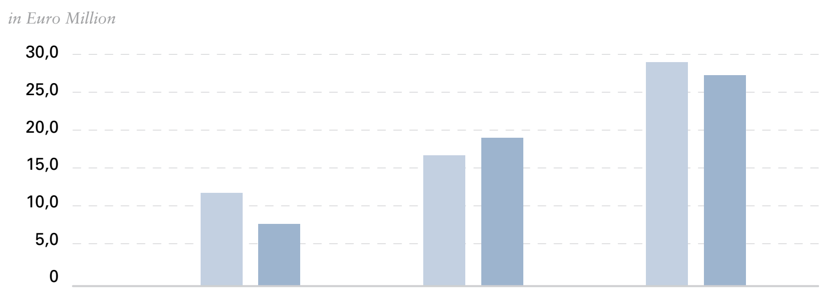
Investment volume in Villeroy & Boch

Purchases of property, plant and equipment and intangible assets in the 2008 financial year amounted to Euro 26.7 million after Euro 28.4 million in the previous year. 32.6 % of total investment spending related to Germany. Depreciation and amortisation in 2008 amounted to Euro 38.7 million as against Euro 38.2 million in the previous year.

At 74 % (previous year: 71 %), investment activities focused mainly on the **Bathroom and Wellness Division**. In the reporting year, investments in this area matched the previous year's level at Euro 19.8 million. Investments abroad were predominantly for production technology in Sweden, Romania, Hungary and Mexico. Furthermore, the basis for production expansion was established in Thailand. In Germany, investments centred on increasing the flexibility of production workflows.

59.4 % of the Euro 6.9 million in investments of the **Tableware Division** related to Germany. Investments were geared primarily towards maintaining production facilities and the further expansion of the sales network.

Capital expenditure of fixed and intangible assets 2007 / 2008



	AG	Rest of Group	Continued Divisions
2007	11.8	16.6	28.4
2008	7.9	18.8	26.7

Financing

The cash flow from operating activities declined by Euro 41.9 million as against the previous year from Euro 59.4 million to Euro 17.5 million.

This is due to the reduction in trade payables of around Euro 11.8 million and in advance payments received on account of orders (Euro 3.9 million) and the decrease in other liabilities and other provisions of around Euro 12.7 million.

The operating cash flow was also squeezed by corporation and trade tax payments for the years 2006 to 2008. This was offset by a significantly lower reduction in non-current provisions relating mainly to the reversals of company pensions in the previous year and the tiles divestment.

The cash flow from investing activities improved from Euro -58.2 million to Euro -22.3 million. The particularly strong figure for the previous year was largely influenced by a time deposit investment of Euro 45.2 million.

In addition to purchases of intangible assets and property, plant and equipment, which were down slightly year-on-year, there were investments of Euro 9.5 million in connection with the acquisitions in Thailand and Germany in the financial year. Residual purchase price payments and other contractually agreed payments from the tiles area sold in the previous year contributed a total of Euro 7.9 million.

The cash flow from financing activities was defined mainly by the dividend distribution. The high previous year's figure resulted largely from borrowing activities in the amount of Euro 70.0 million.

Abridged Cash Flow Statement

in Euro Million	2008	2007
Profit after taxes	11.0	7.2
Depreciation of non-current assets incl. write-up	38.7	49.2
Change in non-current provisions	-13.8	-24.3
Profit from disposal of fixed assets	-0.3	-2.1
Changes in inventories ,accounts receivables, liabilities and current provisions as well as other assets and liabilities	-30.1	15.4
Other non-cash income/expenses	12.0	14.0
Cash flow from operating activities	**17.5**	**59.4**
Cash flow from investing activities	**-22.3**	**-58.2**
Cash flow from financing activities	**-12.2**	**59.5**
Change in cash balance	**-17.0**	**60.7**
Changes due to exchange rates	**0.8**	**0.2**
Net increase in cash and cash equivalents	**-16.2**	**60.9**
Balance of cash and cash equivalents as of 01/01	**75.1**	**11.6**
Changes in consolidated companies	0.1	2.6
Balance of cash and cash equivalents as of 31/12	**59.0**	**75.1**

Change in net liquidity due to acquisitions

Net liquidity as of the balance sheet date was Euro 22.9 million. Thus, it was down by Euro 25.4 million from Euro 48.3 million in the previous year. This is essentially due to the acquisitions of the sanitary ware producer Nahm Sanitaryware Co. Ltd. in Thailand and the bathroom furniture manufacturer Sanipa GmbH in Germany in the 2008 financial year. In addition, the Group provided partial advance financing in the second half of the year for a advertising media transaction of the Tableware Division in Italy.

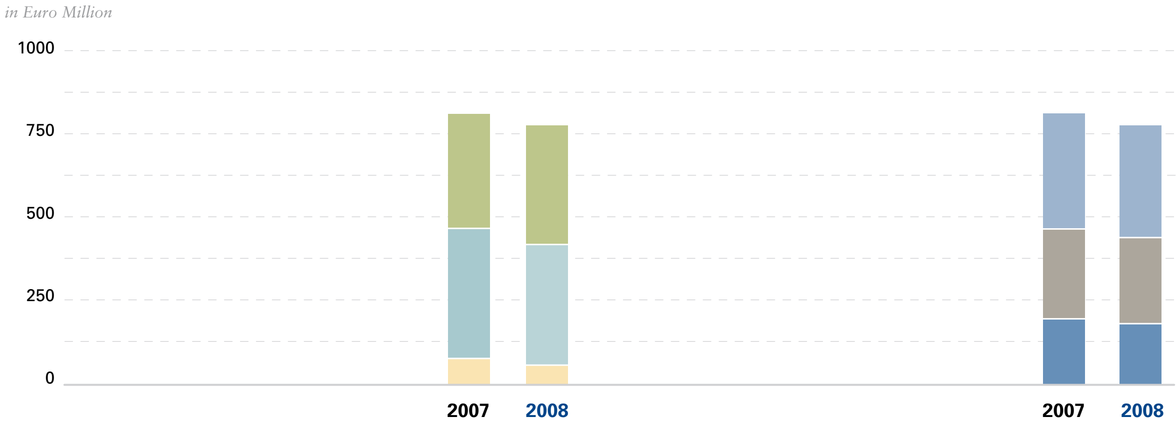
The loans borrowed in 2007 of Euro 70.0 million were still in place after 31 December 2008. Furthermore, additional financial liabilities of around Euro 5.5 million were assumed by way of the acquisition in Thailand, which are also reported as of the end of the year.

In this analysis the cash and cash equivalents, current financial assets, the promissory note bond (payable on 28 June 2010) and current and non-current financial liabilities have been pooled.

BALANCE SHEET STRUCTURE IN 2008

Consolidated total assets declined by Euro 32.6 million from Euro 804.9 million in the previous year to Euro 772.3 million: The balance sheet structure was as follows:

Group Balance sheet structure 2007 / 2008



Assets	2007	2008
Non-current assets	342.9	355.7
Current assets	386.9	357.6
Cash and cash equivalents	75.1	59.0
Total assets	**804.9**	**772.3**

Equity and Liabilities	2007	2008
Equity	344.6	330.9
Non-current liabilities	268.0	261.7
Current-liabilities	192.3	179.7
Total equity and liabilities	**804.9**	**772.3**

The equity ratio was unchanged at 42.8 %. The drop in equity of around 4 % was compensated by the high decline in total assets. The reduction of equity was predominantly caused by various currency and hedging effects, which are deducted directly from equity in line with IFRSs.

Non-current assets rose by a total of Euro 12.8 million. This was essentially due to the investment in a promissory note loan in the amount of Euro 20.0 million. This was countered by the development of property, plant and equipment as investments amounted to less than depreciation and amortisation.

At 40.2 %, the share of non-current assets in total assets was up 3.4 % on the previous year.

Current assets (including cash and cash equivalents) were down by around Euro 45.4 million as against the previous year to Euro 416.6 million. In addition to the investment in a promissory note loan of Euro 20.0 million, cash and cash equivalents were reduced mainly by the acquisitions implemented in the financial year. Also, the increase in inventories was less than the decline in trade receivables and other current assets.

Employees

The average headcount at Villeroy & Boch rose year-on-year from 9,221 to 10,193. This was due to the acquisitions in Thailand and Germany.

The number of employees in the **Bathroom and Wellness Division** increased by 948 as against the previous year from 5,931 to 6,879.

In the **Tableware Division**, the payroll climbed slightly by 46 from 2,848 to 2,894. Of the total average headcount, 7,192 are employed abroad and 3,001 in Germany. Personnel expenses at Villeroy & Boch climbed by 2.6 % as against the previous year from Euro 288.9 million to Euro 296.5 million. Euro 5.0 million of this growth is due to the acquisitions. Adjusted for these developments, personnel expenses were up 0.9 %.

The personnel costs ratio (personnel expenses to sales) was 35.3 % in the reporting year (previous year: 34.0 %).

Procurement

In the 2008 financial year, the purchase prices for energy, raw materials and supplies climbed by around 6 %. As in the previous year, the Group's expenses for these commodities amounted to around Euro 150 million.

The main driver behind this price increase was energy costs, which rose by 18 %. This is made especially clear by the rising price of crude oil, which soared to more than USD 140 per barrel, more than 25 % higher than the previous year on average.

Various energy-saving projects were initiated in order to reduce energy costs, including, for example, heat recovery facilities in two sanitary product factories. In both cases, total gas consumption at the respective plants was lowered by a double-digit percentage.

Price hikes for raw materials and suppliers were also countered by intensive savings measures.

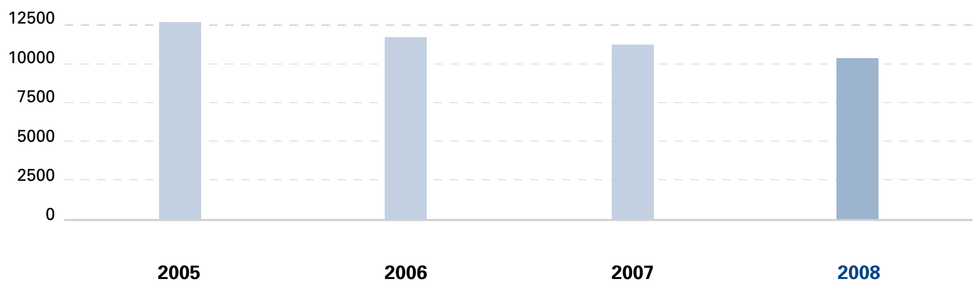
Research and development

In 2008, Villeroy & Boch spent a total of Euro 10.3 million on research and development – 9.6 % more than in the previous year. 73.3 %, by far the largest share of this related to the Bathroom and Wellness Division. The Tableware Division accounted for 26.7 % of spending.

In particular, the expenses related to the development of new product lines and additions to existing ones as well as the necessary shaping tools. In addition, targeted projects were carried out to improve ceramic masses and glazes and to increase raw material productivity and energy efficiency.

The graphic below shows the economic and ecological effects of long-term economising in terms of CO_2 emissions for heat generation for drying processes at the sanitary products plant in Mettlach.

Development of CO_2 volumes



Furthermore, under the leadership of Villeroy & Boch in an industry-wide pilot project, water consumption was reduced in the direct production process for our products and clean water was recovered at the end of the process.

Opportunities

The following factors are seen as opportunities for Villeroy & Boch:

Based on the solid financial foundation, which is reflected among other things by the high equity ratio, the strategy of internationalisation will be intensively pursued further. This will focus mainly on expanding sales activities in Asia and North America. A great deal of potential is expected in tapping the Indian market in particular.

The integration of the Thai sanitary product location acquired in the previous year has now been completed, thus establishing the production platform for the Asian market. A further expansion of activities here is in planning.

Overall, thanks to our broad international distribution basis, our healthy equity situation and the strength of the Villeroy & Boch brand, we are confident that we will emerge from the current economic crisis and the associated market shake-out stronger than before, allowing us to further enhance customer awareness and thereby the value of the Villeroy & Boch brand.

Risks

Risk management at Villeroy & Boch

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

Such risks that are known to Villeroy & Boch are minimised and avoided where possible. Risks are only consciously taken when the prospects for success entailed are accordingly attractive. Also, it must be possible to calculate these risks and their probability must be low.

Financial and economic risks

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

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

The risk of default on assets and receivables is minimised by limit management and risk-oriented measurement using suitable criteria. In order to ensure that Villeroy & Boch is sufficiently liquid and financially flexible at all times, a sufficient liquidity reserve is maintained in the form of lines of credit and cash. The risk of volatile interest markets is managed by way of interest rate swaps. The currency risk is managed by concluding currency hedges for the respective 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, finance agreements and global liquidity management.

The management procedures implemented for the above financial risks are described in note 55 to the consolidated financial statements.

General market risk

The risks that can arise from the overall economic environment or the sector are presented in the outlook on the economy.

Legal risks

At present there are two pending legal disputes with noteworthy risk potential. Firstly, a Tableware franchisee brought an action on the grounds of breach of contract in 2008. Villeroy & Boch has rejected its claims in the legal proceedings, which are ongoing. The second case concerns antitrust proceedings in which the EU Commission filed a written objection to Villeroy & Boch in the proceedings COMP/E-1/39.092 - PO/ Bathroom Fittings and Fixtures in 2007. The items in the objection have been rejected by Villeroy & Boch. There have been no further developments in this matter as against the presentation in the last annual report.

Tax risks

Like all business enterprises, Villeroy & Boch is subject to the ongoing examination of its declared and deducted taxes by the German financial authorities. In terms of amount, the largest share of the Group's business volume relates to Villeroy & Boch AG. This company is currently undergoing an external tax audit for the financial years 2002 to 2004. The audit is focusing on the evidence of appropriateness of business relations with affiliated companies. As yet there have been no specific findings or additional demands. On the basis of the findings to date, we do not anticipate that the audit will have any significant impact on results.

Procurement and sales market risks

The long-term effects of the recession on the world market prices for the most important commodities are still unclear. One significant effect can be seen, for example, in crude oil. However, gas prices are not expected to profit from this until the second half of the year on account of the delayed connection. In total, energy costs will increase again by more than 10 % as against 2008. The projects to reduce consumption are being continued to ameliorate the effect of high, long-term energy prices.

The renegotiation of existing contracts for raw materials and supplies has been initiated, as have a number of cutback projects to achieve cost relief through price reductions.

In addition to the current global effects of the financial crisis, the constant rise in imports from low-wage countries is still exercising a negative influence on the European ceramics industry. Here, Villeroy & Boch is pursuing a strategy of countering these influences by gradually specialising its ranges and increasing the automation of production.

Events of particular importance after the end of the 2008 financial year (Villeroy & Boch Group)

At present there have been no events of particular importance after the end of the 2008 financial year.

Basic features of the remuneration system

The system of remuneration established for members of the Management Board consists of fixed remuneration and a performance-based variable bonus awarded for the attainment of goals.

For the variable component, the Human Resources Committee of the Supervisory Board agrees results targets, returns and individual goals with the members of the Management Board. These strategic goals and the attainment of the intended operating return on net assets and the planned net income for the year are weighted equally in calculating the bonus for the attainment of goals. They account for around 50 % of the total remuneration of a member of the Management Board. Performance targets and comparative parameters cannot be amended subsequently.

The Supervisory Board receives the remuneration stipulated by Article 7 of the Articles of Association, which comprises a key performance-based component. This is measured against the shareholder dividend.

Group outlook

The forecasts for further economic developments have dimmed since autumn 2008 and are expected to remain negative for the coming year. The duration and extent of the economic crisis are not foreseeable at this time, hampering a reliable forecast. It is assumed that business production will decline further in almost all industrialised nations in the coming months and that demand for both tableware and bathroom and wellness products will fall further.

Revenue, results and investments in the Group

On account of the uncertain economic environment, Villeroy & Boch has decided to publish only qualitative statements on its business development for the financial year 2009. Generally, the Group is anticipating a difficult year. Given the slowdown in incoming orders, adjustments of production volume were already initiated in the second half of 2008. Among other things, the usual Christmas break period was extended by up to three weeks at individual locations. In addition, the Company first implemented its options for flexible working time regulations such as reducing time accounts and residual holiday entitlement, though shorter working hours have had to be introduced in some locations since the start of the new year. If the weak order level as of the start of the year continues, further measures in addition to the above ones that have already been implemented will become inevitable.

In order to safeguard results and liquidity, additional Group-wide savings in structure costs are also necessary. Corresponding cost-cutting programmes are in development and the initial immediate measures were already implemented over the course of the second half of 2008. These savings include both the obvious re-examination of business trips, hospitality and similar non-personnel operating costs and initiatives to lower purchasing prices. There has already been a stop on new recruitment and a general adjustment of personnel structures will probably be unavoidable.

In light of the general economic conditions and the strain of the necessary adjustment measures it seems hardly possible that the Group will conclude the 2009 financial year with a positive result.

However, despite the tense economic situation, Villeroy & Boch will continue to selectively expand its international activities in 2009 as well. This includes extending the global sales network in both Divisions focusing on Asia and North America and also broadening sanitary wares production in Asia and increasing automation at the European factory locations – thereby ensuring our competitive position. Thus, we want to take advantage of opportunities that arise during the crisis to improve market share and be prepared for the economic recovery on the key future growth markets that is expected in the medium term.

Purchases of property, plant and equipment will almost match the 2008 level in the coming year. Around half of this will relate to the production of projects launched in 2008. The Bath and Wellness Division will account for around three-quarters of investments and the Tableware Division for one quarter.

Proposal for dividend

The Supervisory Board and Management Board shall propose to the General Meeting of Shareholders on 15 May 2009 to use the retained earnings of Villeroy & Boch AG in the amount of Euro 23.6 million to distribute a dividend of

Euro 0.37 per preference share and
Euro 0.32 per ordinary share.

The total distribution volume will therefore amount to Euro 9.7 million. This amount will be amended by the share of the dividend relating to the treasury preference shares at the time of distribution. Not including this change, Euro 13.9 million would be carried forward to new account at Villeroy & Boch AG.

Corporate Governance Report

Responsible corporate governance has traditionally been a matter of key significance to Villeroy & Boch AG. It forms the foundation for trust on the part of shareholders, customers, employees and the public, which is strengthened further by compliance with the recommendations and suggestions of the German Corporate Governance Code. The Management Board and the Supervisory Board issued their annual declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on 16 December 2008.

Dialogue between the Management Board and the Supervisory Board

As in previous years, there was intensive and trusting communication between the Management Board and the Supervisory Board in the reporting year 2008, which went beyond the scheduled meetings of the Supervisory Board and was manifested in additional, individual talks between the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. Again, the Supervisory Board received comprehensive, direct and regular reports on issues of corporate planning, further strategic development, the Group's position, the risk situation and compliance.

The Rules of Procedure of the Management Board and the Supervisory Board grant the Supervisory Board the right to withhold its approval for significant transactions, including in particular decisions and measures that affect the net assets, financial position and results of operations of Villeroy & Boch AG.

Avoiding conflicts of interest

Villeroy & Boch AG complies with both statutory regulations and those contained in the German Corporate Governance Code on conflicts of interest. The members of the Management Board and the Supervisory Board have a duty to the interests of the Company and do not pursue any own interests that may clash with those of the Company in managing and controlling Villeroy & Boch AG. There were no conflicts of interest in the 2008 financial year.

D&O insurance

An excess has not been provided for in the D&O insurance for members of the Management Board and Supervisory Board of Villeroy & Boch AG.

Efficiency of the Supervisory Board

The Supervisory Board of Villeroy & Boch AG again performed an efficiency review in 2008. This takes the form of a self-assessment of the body's working methods by its members. Among other things, the efficiency of the Supervisory Board was reflected in the work of its committees, which met as required and prepared resolutions for the meetings of the Supervisory Board. Efficiency was rated very highly by all involved.

Directors' dealings

Reportable transactions in shares of the Company are published immediately on the website of Villeroy & Boch AG in line with section 15a of the German Securities Trading Act (WpHG). In the reporting year, one member of the Management Board provided notice of a reportable acquisition as defined by section 15a WpHG.

Systematic control

The business and financial risks of Villeroy & Boch AG are detected and controlled early on by way of a control and risk management system. This is the responsibility of the Management Board, which also assess the effectiveness of the systems. In addition, principles, guidelines, processes and responsibilities have been defined and established to guarantee accurate and prompt recognition of all business transactions, to enable early identification of risks and to provide reliable and up-to-date information on the financial situation of the Company for internal and external purposes.

Compliance established

A compliance organisation was set up in the reporting year to guarantee Group-wide compliance with legal provisions and the Company's internal guidelines. The Chief Compliance Officer was appointed in the December meeting of the Supervisory Board. The entire Management Board is responsible for the implementation of the compliance guidelines and the Group-wide implementation of the compliance organisation.

Transparency and communication with shareholders/investor relations

The transparency of the management and monitoring mechanisms is an essential requirement for fostering trust among the shareholders of Villeroy & Boch AG in particular. Great importance is attached to providing on the situation of the Company to shareholders and capital market participants promptly and without favour. In addition, investors can track current developments at Villeroy & Boch AG on the Internet.

The information published there satisfies the transparency requirements of the WpHG. The annual document in accordance with section 10 of the German Securities Prospectus Act (WpPG) compiles all publications by Villeroy & Boch AG in the 2008 financial year that can be read on the website.

Full reporting

The consolidated financial statements and quarterly reports of Villeroy & Boch AG are prepared in line with the principles of the International Financial Reporting Standards (IFRSs). This year, the Company prepared its accounts within the 90-day period recommended by the Code and will strive to do so again in future.

Annual audit

The Supervisory Board again commissioned KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt/Main, to audit the annual financial statements for the 2008 financial year as the auditor appointed by the General Meeting of Shareholders.

The Audit Committee acknowledged the statement of independence presented and ensured that there were no conflicts of interest.

In accordance with the regulations of the German Corporate Governance Code, it was agreed with the auditor that the Chairman of the Audit Committee would be notified directly of grounds for exclusion of bias during the audit.

It was also agreed that the auditor would report immediately on any findings or events of significance to the work of the Supervisory Board during its audit. In addition, the auditor must inform the Supervisory Board or note in its audit report if it identifies any facts as part of its audit indicating an inaccuracy in the declaration of compliance issued by the Management Board and the Supervisory Board in accordance with section 161 AktG.

Declaration by KPMG

KPMG AG Wirtschaftsprüfungsgesellschaft issued the following declaration in the meeting of the Supervisory Board on 19 March 2009:

"In the context of our audit we did not detect any inaccuracies in the declaration of compliance with the German Corporate Governance Code representing a serious violation in accordance with section 161 AktG."

Responsibility Statement

Responsibility statement by the legal representatives of Villeroy & Boch

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 further development of the Group.

Mettlach, 7 March 2009

Frank Göring Manfred Finger Volker Pruschke

Bathroom collection *Subway*, complemented by fittings from the *Cult* line: attractive especially to modern and practical oriented consumers due to various functional benefits.

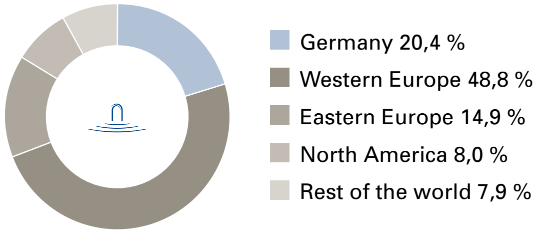
Modern and transparent bathroom interior with a sophisticated functionality: bathroom furniture *Shape*, bath tub *My Art* and washing stand *Loop*.

Bathroom and Wellness Division

Key Data

in Euro Million	2008	2007
Sales	521,1	522,2
EBIT	15,4	21,1
Capital expenditures	19,8	20,2
Depreciation	23,5	22,2

Sales by regions



The Bathroom & Wellness Division has been able to keep its revenue level constant year-on-year in spite of the severe impact of the financial crisis on the construction industry in the past financial year. However, without the acquisitions of the bathroom furniture manufacturer SANIPA and the Thai sanitary ware producer NAHM, revenue was down slightly by 2%. The decline in the operating result was due to greater production costs owing to the rise in procurement prices for energy and commodities, expenses for tapping new markets in growth regions and integration costs for the newly acquired investments.

Performance varies on different markets

Revenue in Germany was encouragingly stable year-on-year and the acquisition of SANIPA even generated an increase of 6%. Growth continued in Eastern Europe and the Asian markets. In individual markets, such as Poland and the Far East, we sustainably improved our market position.

However, the American continent was hit particularly hard by the crisis. In Western Europe, significant revenue losses were suffered as a result of the economy in the UK, Spain and the Scandinavian nations in particular.

Always focusing on the customers

It is important to Villeroy & Boch always to offer its customers excellent service in addition to high-quality products. The sense of identity is the basis of how we work. This is why we worked to enhance sustainably service for our customers by systematically reviewing and improving our processes in the reporting period. As a result, we drove up our ratings for key aspects such as delivery accuracy from 91% to 96% and immediate availability from 93% to 96%.

Products areas in a difficult market environment

Revenue development for **ceramic sanitary ware** in Europe was positive, particularly in the high-end market segment. In the past year, sales in the high-end category of bathroom editions, especially the *Memento* range, rose again strongly.

In the mid-range price segment, the *Sentique* collection with its modern-timeless design became the third hit product alongside the *Subway* and *Loop* series.

The *Omnia architectura* project line is a guarantee of positive development in national and international property business.

In the **bathroom furniture** products area, we laid the foundation for further growth with the acquisitions of SANIPA. Under the SANIPA brand, we have begun to strengthen our market position in the German-speaking region and Luxembourg. Furthermore, the Company worked intensively to expand the Villeroy & Boch furniture range. These initiatives began to bear fruit in the reporting year and Villeroy & Boch bathroom furniture further increased its international revenue. We will continue to pursue this line of success. After adjustment for acquisitions, bathroom furniture revenue was up 8% year-on-year.

Even in the difficult market environment, the **wellness** area improved its revenue from Villeroy & Boch brand products by 4% as against the previous year. Factors contributing to this were the success of *Squaro Flat* shower tubs and innovative *Invisible Jets* for whirlpools that were introduced in recent years and have won prizes for design. The new *Gustavsberg* brand shower cabin range has also enjoyed a promising start.

However, the successful *Villeroy & Boch* products did not offset the slide in secondary brands, with the result that the wellness area suffered a loss in revenue and results in 2008 as against the previous year. Results were also reduced by the ongoing restructuring measures.

Design expertise and innovative strength

Villeroy & Boch has always conducted research into innovative technical solutions with the aim of increasing comfort and introducing more environmentally friendly such functionality with products such as water-saving fittings and urinals. At ISH 2009, the Division took part in the "Blue Responsibility" campaign, an initiative for sustainability and responsible use of natural resources. As part of this campaign, Villeroy & Boch introduced the Company's latest development: the *Omnia Green* WC. This innovation sets new standards in the sanitary sector as it requires only 3.5 l of water per flush, a saving of 40%.

Outlook

The aim for the coming financial year is to gain market share in the hotly contested markets of Europe and to increase exploitation of the growth regions in Eastern Europe and Asia.

We presented new innovations in all areas at the international bathroom trade fair *ISH*. This emphasises both the design expertise and the innovative strength of the *Villeroy & Boch* brand. With the *La Belle* bathroom series that comprises all product areas, we have succeeded in romantically reinterpreting the unmistakable style and authenticity of the premium brand.

The *My Art* bathtub collection with its various border mouldings and panelling has allowed a completely new reimagining of the bathroom. For example, customers can choose borders made of glass or black compounds, which can be combined with *United* bathtub panelling to create unusual lighting effects. This makes a subtle contribution to the emotional landscaping of the bathroom.

Innovative design and exceptional convenience are characteristics of this bathroom, furnished with the program *Shape* and the Quaryl-tub *My Art* with bathtub panelling *United*.

System program *2morrow* for trend-setting consumers offers a range of planning possibilities following the modular principle – here with the washing stand *Look*.

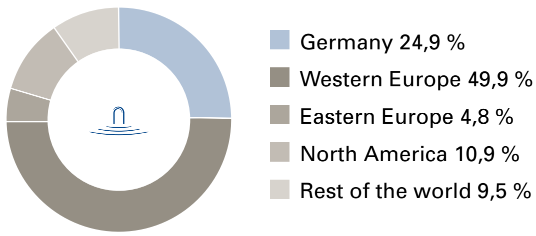
Classy table decoration with Country segment line *Urban Nature*

Tableware Division

Key Data

in Euro Million	2008	2007
Sales	319,8	326,4
EBIT	8,7	17,7
Capital expenditures	6,9	8,2
Depreciation	14,3	16,0

Sales by regions



In the 2008 financial year, the Tableware Division almost held its ground in a very choppy market environment. The slight drop in revenue of 2% year-on-year was due mainly to the effects of the financial crisis in the second half of the year. The slide in operating result is partly explained by the lost revenue. Other reasons included falling proceeds on account of the strong price pressure and the rise in expenses for the expansion of the international sales network. One main area here was extending market penetration in Asia.

Performance varies on different markets

In Germany, which is still the most important individual market, revenue was up as against the previous year. This was helped not just by the good Christmas business but by the marketing activities for the Company's 260-year anniversary as well. Other good news was that in Italy revenue rose year-on-year in almost all significant sales channels. The markets in Eastern Europe enjoyed very positive momentum. Thanks to the constant expansion of sales activities, this region is still one of the fastest-growing areas with an increase of 20% on 2007. The already leading position of Villeroy & Boch in the Middle East was consolidated and performance was also encouraging in Asia with a rise in revenue of more than 10%.

In particular, the Division bore the brunt of the economic situation on the American market and in the key countries of the UK and Spain. In the US and Canada, sales were significantly lower than in the previous year, something for which the poor overall market alone was not to blame. In addition, the depreciation of the US dollar and pound sterling against the euro had a negative impact on revenue in America and the UK.

Tableware still relying on multi-channel sales

Tableware is still employing its multi-channel sales strategy: in addition to a broad range of countries, a balanced distribution structure is also essential for the Division's success.

Its own shops – the *House of Villeroy & Boch* concept and the *Factory Outlets* – slightly improved their revenue in Europe, while the advancing recession caused the stores problems in the US. For the most part, the *concession shop* model – Villeroy & Boch's own sales area inside department stores – outperformed the general industry trend. As a result, 23 new locations were opened in 2008. Furthermore, customers increasingly took advantage of the opportunity to shop online, driving this sales channel's growth up to double digits.

Following the success of the major projects in Spain in the preceding year, a new large project was also completed in Italy in the reporting period, which supports market partners with considerable advertising expenses. This also has a positive influence on the other sales channels and raises awareness of the brand.

Hotel and catering business has shown parallels with other business. Germany, Eastern Europe, the Middle East and Asia all posted a satisfactory performance, which countries such as the US, England and Spain suffered more from purchase restraint.

Successful products in a difficult environment

In the products area, the new series launched in 2008 *Urban Nature* did very well in particular and the *NewWave Caffè* editions also improved on the good 2007 results with their new designs. In addition, the sales figures for the new *Samarah* line, a classic décor line in the premium segment, confirmed the success of the strategy first implemented three years ago of further expanding high-end tableware. A large share of crockery revenue is now generated in this segment with the trend still rising.

Revenue growth for the secondary brand *VIVO | Villeroy & Boch* was also highly satisfactory following its launch in various European countries and the introduction of a new edition in the German-speaking region.

Outlook

With 2009 expected to be a difficult year, the Division's first aim is to stabilise the Europe and US regions and to gain market share. Secondly, it will continue to focus on extending its markets and sales channels in Asia, particularly in China, Japan and India, which offer significant revenue and results potential for the Tableware Division.

One highlight in 2009 will be the new *Privilege* customer card. In order to offer more service, Villeroy & Boch is launching a comprehensive customer loyalty scheme with this card. The aim of this is to intensify the dialogue with customers and to respond better to the wishes and requirements of consumers.

The Division's new products were presented at the Ambiente consumer goods fair in mid-February 2009. Fortunately, attendees showed keen interest in the product presentations by Villeroy & Boch despite the economic crisis. These focused on new designs based on original values such as nature and family. Precisely in these uncertain times, customers are feeling the desire to create a safe and trusted basis in their own home – known as nesting or cocooning. The *Urban Nature* line with its clear shapes heralded this trend last year and it will also be visible in the product highlights for the coming year, such as *New Cottage*, *Green Garland* and *Rêve en Fleur*. In keeping with this trend, customers at the trade fair also showed ardent interest in the Christmas world products from Villeroy & Boch. This is an indication of nostalgia for original traditions.

Samarah – a classic line with an artful-exotic décor suitable for exclusive sceneries

Lucky-U line of the trendy brand VIVO, tailored to the young and fashionable generation.

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Consolidated Financial Statements of the Villeroy & Boch Group

Notes

Consolidated Income Statement as of December 31st 2008

in Euro Million	Notes	2008 01/01-31/12	2007 01/01-31/12
Revenue	33	**840,884**	**848,585**
Cost of sales	34	-513,005	-506,692
Gross profit		**327,879**	**341,893**
Selling, marketing and development costs	35	-252,806	-248,055
General and administrative expenses	36	-49,504	-45,631
Other operating income	37	30,120	20,298
Other operating expenses	38	-31,698	-30,100
Result from investments accounted for using the equity method	39	120	384
Operating result (EBIT)		**24,111**	**38,789**
Finance income	40	7,608	6,486
Finance expenses	41	-15,678	-15,887
Net finance expense	42	**-8,070**	**-9,401**
Earnings before taxes		**16,041**	**29,388**
Income taxes	43	-4,999	-5,608
Result after tax from continued operations		**11,042**	**23,780**
Result after tax from sold operations		**0**	**-16,622**
Result after tax (Group)		**11,042**	**7,158**
Thereof attributable to minority interests	44	10	13
of which Group equity holders are entitled of (consolidated result)		**11,052**	**7,171**
Earnings per shares in Euros			
Earnings per ordinary share	45	0.40	0.25
Earnings per preference share	45	0.45	0.30

Consolidated Balance Sheet as of December 31st 2008

Assets

in Euro Million	Notes	31/12/2008	31/12/2007
Non-current assets			
Intangible assets	6	54,634	48,163
Property, plant and equipment	7	195,302	205,506
Investment property	8	15,995	16,571
Investment accounted for using the equity method	9	1,212	1,092
Other financial assets	10	43,653	25,046
		310,796	**296,378**
Other non-current assets	15	43	78
Deferred tax assets	11	44,870	46,471
		355,709	**342,927**
Current assets			
Inventories	12	179,537	168,726
Trade receivables	13	126,580	135,008
Financial assets	14	21,392	45,219
Other current assets	15	26,412	32,632
Current tax assets	16	3,702	5,285
Cash and cash equivalents	17	58,978	75,091
		416,601	**461,961**
Total assets		**772,310**	**804,888**

Shareholders' Equity and Liabilities

in Euro Million	Notes	31/12/2008	31/12/2007
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	18	71,909	71,909
Capital surplus	19	193,587	193,587
Retained earnings	20	53,902	71,723
Consolidated result	21	11,052	7,171
		330,450	**344,390**
Equity attributable to minority interests	22	**487**	**184**
Total equity		**330,937**	**344,574**
Non-current liabilities			
Provisions for pensions	25	151,249	154,326
Non-current provisions for personnel	27	18,417	19,372
Other non-current provisions	28	4,052	5,166
Non-current financial liabilities	29	70,000	70,000
Other non-current financial liabilities	30	3,293	3,717
Deferred tax liabilities	11	14,640	15,432
		261,651	**268,013**
Current liabilities			
Current provisions for personnel	27	8,415	8,234
Other current provisions	28	19,588	24,290
Current financial liabilities	29	7,490	1,972
Other current liabilities	30	84,098	83,750
Trade payables	31	56,636	66,782
Income tax liabilities	32	3,495	7,273
		179,722	**192,301**
Total liabilities		**441,373**	**460,314**
Total equity and liabilities		**772,310**	804,888

Consolidated Statement of Equity as of December 31st 2008

in Euro Million	Issued capital	Capital surplus	Retained earnings	Consoli-dated result	Equity attributable to Villeroy & Boch AG shareholders	Equity attributable to minority interests	Total Equity
Notes	18	19	20	21		22	
As of 01/01/2007	**71,909**	**193,587**	**67,556**	**17,037**	**350,089**	**310**	**350,399**
Dividend				-10,389	-10,389	-30	-10,419
Reclassification of prior-year result			6,648	-6,648	0		0
Consolidated result 01/01 - 31/12				7,171	7,171	-13	7,158
Thereof from continued operations					(23,780)	(-13)	(23,767)
Subsequent measurement IAS 39			3,428		3,428		3,428
Acquisition of minority interests					0	-86	-86
Currency adjustment			-4,253		-4,253	3	-4,250
Other changes in equity			-1,656		-1,656		-1,656
As of 31/12/2007	**71,909**	**193,587**	**71,723**	**7,171**	**344,390**	**184**	**344,574**
As of 01/01/2008	**71,909**	**193,587**	**71,723**	**7,171**	**344,390**	**184**	**344,574**
Dividend				-10,389	-10,389	-6	-10,395
Reclassification of prior-year result			-3,218	3,218	0		0
Consolidated result 01/01 - 31/12				11,052	11,052	-10	11,042
Subsequent measurement IAS 39			-7,083		-7,083		-7,083
Acquisition of minority interests					0		0
Currency adjustment			-7,898		-7,898	3	-7,895
Other changes in equity			378		378	316	694
As of 31/12/2008	**71,909**	**193,587**	**53,902**	**11,052**	**330,450**	**487**	**330,937**

Consolidated Cash Flow Statement as of December 31st 2008

in Euro Thousands	Notes	2008	2007
Result after taxes	21	11,042	7158
Depreciation of non-current assets		38,749	49,221
Change in non-current provisions		-13,820	-24,266
Profit from dispoal of fixed assets		-261	-2,088
Change in inventories, receivables and other assets		52	5,718
Change in liabilities, current provisions and other liabilities		-22,549	9,966
Taxes paid/received in financial year		-6,803	-1,077
Interest paid in financial year		-7,822	-4,594
Interest received in financial year		6,925	5,333
Other non-cash income/expenses		11,966	13,999
Cash Flow from operating activities	50	**17,479**	**59,370**
Purchase of intangible assets, property, plant and equipment		-26,664	-29,766
Investment in non-current financial assets and cash payments for the acquisition of consolidated companies		-9,493	-1,889
Cash receipts / payments for debt instruments		4,588	-45,219
Cash receipts for discontinued operations		7,857	13,804
Cash receipts from disposals of fixed assets		1,418	4,881
Cash Flow from investing activities	51	**-22,294**	**-58,189**
Change in financial liabilities		-1,780	69,913
Dividend payments		-10,389	-10,389
Cash Flow from financing activities	52	**-12,169**	**59,524**
Sum of cash flows		**-16,984**	**60,705**
Changes due to exchange rates		**797**	**231**
Net increase in cash and cash equivalents		**-16,187**	**60,936**
Balance of cash and cash equivalents as of 01/01		75,091	11,596
Change in consolidated companies		74	2,559
Net increase in cash and cash equivalents		-16,187	60,936
Balance of cash and cash equivalents as of 31/12	17 + 53	58,978	75,091

Notes to the consolidated financial statements of Villeroy & Boch AG, Mettlach for the 2008 financial year

General information

Villeroy & Boch AG is domiciled in Saaruferstrasse, 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 network of companies whose activities as a leading lifestyle provider are focused on the Bathroom and Wellness and Tableware Divisions. Villeroy & Boch AG is traded on the Prime Standard of the Frankfurt Stock Exchange operated by Deutsche Börse AG.

In line with section 315a of the HGB (German Commercial Code), the consolidated financial statements as of 31 December 2008 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). To this extent, all accounting principles adopted by the European Commission which are required to be applied for financial years beginning on 1 January 2008 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 euros (Euro). Unless otherwise noted, all amounts are disclosed in Thousands of euros (Euro Thousands).

The annual financial statements of Villeroy & Boch AG issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft and the consolidated financial statements of Villeroy & Boch AG are published in the electronic Bundesanzeiger (Federal Gazette).

The Management Board of Villeroy & Boch AG released the consolidated financial statements for submission to the Supervisory Board on 5 March 2009. The Supervisory Board is responsible for examining the consolidated financial statements and issuing a statement as to whether it approves the consolidated financial statements.

The following section describes the significant accounting principles of the IFRSs as applied by Villeroy & Boch in accordance with the relevant standards.

1. Accounting principles

Intangible assets

Acquired intangible assets are carried at cost. Cost is composed of the purchase price less purchase price reductions plus any ancillary expenses necessary to bring the asset to its working condition. Finance expenses are recognised in income. Internally generated intangible assets are capitalised in the year of their creation only if the requirements of IAS 38 are met. Initial measurement is performed at cost including attributable overheads. Items with a limited useful life are reduced by straightline 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 primarily included in general and administrative expenses.

Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of their impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price and the value in use of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The basis for determining the value in use is the current three-year plan drawn up by management. The planning principles applied are adjusted to reflect current facts and circumstances, including reasonable assumptions on macroeconomic trends and historical developments. For planning projection, a perpetual annuity is applied for periods after the three-year planning period. The value in use is calculated by discounting the projected cash flows using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the planning projections. Annual impairment testing for capitalised goodwill is performed at divisional level.

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

Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation in accordance with its useful life. Cost is composed of the purchase price less purchase price reductions plus any ancillary expenses necessary to bring the asset to its working condition. Cost is determined on the basis of the directly attributable direct costs of the asset plus the proportionate material and manufacturing overheads including depreciation. Financing, maintenance and repair costs for property, plant and equipment are recognised in income.

In the case of assets consisting of several components whose useful lives differ significantly from each other, the individual elements are depreciated in accordance with their individual potential useful life. All of the components of an asset are reported in the same balance sheet item.

Property, plant and equipment is depreciated on a straightline basis over its useful life. The following useful lives are applied throughout the Group:

Asset class	Useful life
	in Years
Buildings (primarily 20 years)	20 – 50
Operating facilities	10 – 20
Kilns	05 – 10
Technical equipment and machinery	06 – 12
Vehicles	04 – 08
IT equipment	03 – 06
Other operating and office equipment	03 – 10

The estimated commercial useful lives are reviewed on a regular basis and the future depreciation instalments adjusted as necessary.

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

Property, plant and equipment under construction is carried at cost. Depreciation only begins when the assets are completed and placed in service.

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 in 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 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. Government assistance and subsidies received for the acquisition or construction of property, plant and equipment and intangible assets serve to reduce 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) is reported separately from assets used in operations. Mixeduse property is classified as a financial investment on a proportionate basis 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 costs. 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 income statement in the operating result.

Other financial assets

Other financial assets are carried at cost using the effective interest method as appropriate. Subsequent measurement is based on the classification of the respective asset within the valuation categories for financial instruments. Any impairment losses identified are recognised in income. If the reason for the recognition of an impairment loss ceases to exist in a future period, the impairment loss is reversed to income accordingly. In this case, the reversal may not exceed the impairment losses recognised in previous periods.

Financial instruments

Financial instruments describe economic transactions based on a contract that includes an entitlement to receive cash. Financial instruments are generally recognised as soon as the Villeroy & Boch Group becomes a party to a contract for a financial instrument. At the Villeroy & Boch Group, all spot transactions are recognised at the settlement date and all derivatives are recognised at the trading date.

Financial instruments are initially carried at cost. Subsequent measurement is based on the classification of the respective financial instrument within the following valuation categories:

- Assets or liabilities held for trading, which are carried at fair value.
- Held-to-maturity investments, which are carried at amortised cost using the effective interest method.
- Assets or liabilities classified as loans and receivables, which are carried at amortised cost.
- Available-for-sale financial assets are a residual category containing all of the financial instruments measured in accordance with IAS 39 that cannot be allocated to any of the first three categories. These items are measured at fair value and taken directly to equity.

The Group does not currently apply the fair value option for the measurement of financial instruments. Related financial instruments form a cash-generating unit if the risks and rewards arising from all of the components are closely linked and the underlying transaction is recognised in income at fair value. In all other cases, the embedded derivative is separated from the underlying component and recognised in income at fair value as a separate instrument.

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

Hedge accounting

In hedge accounting, the various changes in the value of the hedging instrument and the hedged position largely offset each other. At the inception of the hedge, the relationship between the underlying transaction and the hedging transaction is documented, including the effectiveness of this relationship. Effectiveness means that any change in the market value of the hedged transaction will be offset by an opposing change in the fair value of the hedging instrument.

Discounting non-current balance sheet items

A discount rate of 5.0 % (previous year: 5.0%) is generally applied for non-current items. Country-specific exceptions apply for Romania, Hungary and Mexico (each 8.0%).

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. Work in process and finished goods are carried at the standard costs prescribed on a uniform basis throughout the Group. Net realisable value is defined as the proceeds that are expected to be realised less any costs incurred prior to the sale.

Write-downs are recognised to an appropriate extent for inventory risks arising from the storage period and/or impaired realisability. In the event of an increase in the net realisable value of inventories written down in prior periods, the resulting reversal is recognised as a reduction of the cost of goods sold.

Receivables

Trade receivables and other current receivables are recognised at cost less impairment losses on acquisition using the effective interest method as appropriate. A valuation allowance is recognised if the carrying amount of the receivable is higher than the present value of the future cash inflow. Valuation allowances are used to adequately reflect the expected default risk, while concrete cases of default result in the derecognition of the respective asset. In the case of specific valuation allowances, items are grouped on the basis of similar default risk characteristics and jointly tested for impairment, with valuation allowances recognised as appropriate. Valuation allowances on trade receivables are generally recognised using allowance accounts. In the case of other receivables, the person responsible for the portfolio decides whether the default risk should be recognised using an allowance account or a direct valuation allowance depending on the respective situation.

Cash and cash equivalents

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

Provisions for pensions

Provisions for defined benefit pension plans are recognised using the projected unit credit method on the basis of actuarial appraisals. In addition to the pensions and acquired benefits identified at the balance sheet date, this method takes expected future increases in salaries and pensions into account. The amount of the provision is reduced by the fair value of plan assets if these assets are classified as trust assets and administered by third parties. Plan assets not required to cover future benefits are capitalised. These assets may only be used in accordance with their trust classification. At the start of the year, the expected monthly income from plan assets is recognised in income. The difference between expected and actual income is recognised in actuarial gains/losses. Actuarial gains and losses exceeding ten percent of the total obligation are calculated at the start of the financial year and allocated to income over the average remaining working life of the respective employees. Past service cost is reported in personnel expenses. The interest portion of the change in provisions is reported in net other finance expense.

Retirement benefits

Payments for defined contribution plans are reported in personnel expenses if the employees have performed the service providing the entitlement to the contributions. If the contribution already paid to the pension plan exceeds the value of the service rendered, the difference is recognised as an asset; if the opposite is true, a corresponding liability is recognised.

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

Non-current liabilities are carried at amortised cost. Trade payables are generally measured at amortised cost using the effective interest method. Other current liabilities are carried at their repayment amount.

Contingent liabilities

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

Revenue recognition

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

Research and development costs

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

Taxes

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

Current taxes

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

Deferred taxes

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

Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and/or estimates are required to be made to a certain extent. These may have an effect on impairment testing for the assets recognised on the face of the balance sheet, the Group-wide determination of economic lives, the timing of the settlement of receivables, the evaluation of the utilisation of tax loss carryforwards and the recognition of provisions, among other things. The main sources of estimation uncertainty are future-oriented measurement factors such as interest rates, assumptions on 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 improved information becomes available. The carrying amounts of the affected items are presented separately in the respective notes.

Modifications due to the adoption of accounting provisions

With the exception of IFRS 8 (Segment Reporting), which has been applied early, the accounting principles applied by the Villeroy & Boch Group are the same as in the previous year. IFRIC 11 (Group and Treasury Share Transactions), which was required to be applied for the first time in the 2008 financial year, did not have a material impact on the Group's accounting principles. Details of the early application of IFRS 8 (Segment Reporting) can be found in note 54.

Information on new developments within the IASC Framework can be found in note 64.

2. Basis of consolidation

In addition to Villeroy & Boch AG, the consolidated financial statements include 16 (previous year: 15) German and 44 (previous year: 45) foreign subsidiaries in which a majority of the voting rights are held either directly or indirectly.

All subsidiaries are included in the consolidated financial statements of Villeroy & Boch AG. The list of shareholdings in accordance with section 313 (2) HGB is prepared on an individualised basis in accordance with section 313 (4) HGB and is published in the electronic Bundesanzeiger in accordance with section 325 HGB.

The exemption options provided by section 264 (3) HGB for the audit and publication of financial statements were applied for Villeroy & Boch Creation GmbH, Mettlach and, in terms of publication, also for Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen.

The changes within the Villeroy & Boch Group compared with the previous year were as follows:

Villeroy & Boch AG and fully consolidated companies:	Germany	Abroad	Total
As of 1 January 2008	**16**	**45**	**61**
Additions due to			
newly formed companies (a)	-	3	3
business combinations (b)	1	1	2
Disposals due to			
mergers (c)	-	-2	-2
liquidation (d)	-	-3	-3
As of 31 December 2008	**17**	**44**	**61**

(a) Additions due to newly formed companies

The Villeroy & Boch Group formed the following companies in the past financial year:

	Prinicipal activity	Formation date
EXCELLENT INTERNATIONAL HOLDING LIMITED, Hong Kong	Holding company	31 Mar. 2008
Villeroy & Boch Sales India Private Limited, Mumbai	Sales	30 Jun. 2008
Rollingergrund Premium Properties SA, Luxembourg	Real estate management	27 Jul. 2008

(b) Additions due to business combinations

The following business combinations were conducted in the past financial year:

	Prinicipal activity	Addition date	Equity interest
Nahm Sanitaryware Co. Ltd., Bangkok	Production of ceramic sanitary ware	30 Apr. 2008	80 %
Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen	Production of bathroom furniture	1 May 2008	100 %

Further information on these transactions can be found in note 3.

(c) Disposals due to mergers

In order to optimise the ownership structure, Villeroy & Boch Wellness AB, Växjö, Sweden, was merged into Produkt Design Växjö AB, Växjö, and Produkt Design Växjö AB was subsequently merged into Villeroy & Boch Gustavsberg AB, Stockholm.

(d) Disposals due to liquidation

The following inactive Group companies in the Bathroom and Wellness Division were liquidated in the past financial year:

	Liquidation date
VILLEROY & BOCH WELLNESS LIMITED, Cheshire (UK)	26 Aug. 2008
Gustavsberg Eesti OÜ, Tallinn (Estonia)	31 May 2008
U.A.B. Gustavsberg Vilnius (Lithuania)	2 Dec. 2008

3. Business combinations/discontinued operations

Acquisitions

On 19 March 2008, the Villeroy & Boch Group acquired 80% of the shares of the sanitary ware producer Nahm Sanitaryware Co. Ltd., Bangkok, Thailand. This acquisition created a platform for the entire Asian region and Australia.

Selected liquidation assets of the Bavarian bathroom furniture manufacturer Sanipa were consolidated within an acquired corporate shell on 15 April 2008. Villeroy & Boch AG acquired the majority of the real estate at the company's Treuchtlingen site and its production equipment. All of the brands were retained. This asset deal served to increase the Group's manufacturing capacity in the growth area of bathroom furniture.

Both acquisitions are allocated to the Bathroom and Wellness Division. The Villeroy & Boch Group's reporting structure remains unchanged. Due to the volume of the acquisition compared with the key figures for the segment as a whole, the acquisitions are presented in combined form.

The fair values of the acquired assets and liabilities at the acquisition date were as follows:

in Euro Thousands	Notes	Total
Intangible assets	6	273
Property, plant and equipment	7	9,857
Inventories	12	2,757
Other non-current and current assets		2,106
Cash and cash equivalents	17	74
Assets acquired		15,067
Non-current and current provisions	27+28	1,237
Financial liabilities	29	5,331
Other liabilities		3,729
Liabilities assumed		10,297
Fair value of net assets		**4,770**
Minority interests		-60
Goodwill	6	4,727
Cost of acquisition		9,437
thereof incidental costs of acquisition		626

As the acquired companies did not prepare their annual financial statements in accordance with IFRSs, an opening IFRS balance sheet was prepared at the acquisition date. Accordingly, IFRS amounts for the assets and liabilities prior to the acquisition date are not available. The same applies to the key income statement items. There were no contingent liabilities at the acquisition date.

The cost of the acquisitions totalled Euro 9,437 thousand, including directly attributable incidental costs of Euro 626 thousand.

in Euro Thousands	31 Dec. 2008
Total purchase price settled in cash	9,437
less cash and cash equivalents acquired	-74
Actual cash outflow	**9,363**

Goodwill in the amount of Euro 4,727 thousand represents the benefits of the expected synergies within the Bathroom and Wellness Division, earnings growth, future market development in the Asia-Pacific region in particular, and the expertise of the acquired workforce. These factors cannot be recognised separately from goodwill, as a reliable measurement of the resulting benefit is not possible.

The customer lists obtained as a result of the acquisition do not meet the criteria for recognition as intangible assets, and hence are also included in goodwill.

The goodwill arising from the acquisition was included in the most recent impairment test for the Bathroom and Wellness cash-generating unit (see note 6). No impairment was identified.

The acquisitions had the following impact on the consolidated income statement for 2008:

Income statement at the end of the year:	2008
in Euro Thousands	
Revenue	14,108
Gross profit	4,121
Operating result (EBIT)	693
Consolidated result after tax	418

The result generated was primarily attributable to operating activities.

The acquisitions had the following impact on the consolidated balance sheet as of 31 December 2008:

Balance sheet as of:	31 Dec. 2008
in Euro Thousands	
Non-current assets	12,317
thereof property, plant and equipment	12,298
Current assets	7,791
Total assets	**20,108**
Non-current liabilities	285
Current liabilities	17,109
thereof financial liabilities	5,527
Residual amount (equity)	**2,714**
Total capital and liabilities	**20,108**

Information on the IASC Framework has only been available since the acquisition date. No simulations were prepared from the start of the financial year, as this would have required an unreasonably high level of cost and effort.

The acquired companies had the following commitments (see note 56) and other financial obligations (see note 57) as of 31 December 2008:

in Euro Thousands	31 Dec. 2008
Guarantees	84
Obligations from orders placed (for property, plant and equipment)	442

At 31 December 2008, the acquired companies had rental obligations in the amount of Euro 222 thousand (see note 7).

Discontinued operations

In 2007, the Tile Division was classified as discontinued operations and sold in full. There were no discontinued operations to report in the year under review.

4. 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 principles and consolidated in accordance with IAS 27. The balance sheet date of the consolidated companies corresponds to that of the parent company.

The consolidated financial statements include the transactions of 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 are allocable 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.

Capital consolidation for the companies included in consolidation is performed in accordance with IFRS 3. The carrying amounts of the subsidiaries at the acquisition date are offset against the remeasured equity interest attributable to them, with the resulting differences recognised as goodwill. Any hidden reserves and liabilities identified as a result are carried at amortised cost in subsequent consolidation in the same way as the corresponding assets and liabilities.

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

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

Deferred taxation in accordance with IAS 12 is performed for consolidated measures recognised in income if the respective difference is expected to reverse in a subsequent period.

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

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

5. Currency translation

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. Measurement at the respective balance sheet date is performed at the current exchange rate.

The single-entity balance sheets of consolidated companies are translated into euros in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate on the balance sheet date, while all income statement items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are taken directly to equity (see note 20). Currency effects arising from net investments in foreign Group companies are reported in reserves (see note 20). When consolidated companies leave the consolidated group, any translation differences previously taken directly to equity are reversed to income.

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

Currency 1 Euro =		Exchange rate at balance sheet date		Average exchange rate	
		2008	2007	2008	2007
Mexican peso	MXN	19.3500	16.0700	16.1682	14.9030
Swedish crown	SEK	10.9150	9.4350	9.5454	9.2282
US dollar	USD	1.3977	1.4716	1.4853	1.3638
Hungarian forint	HUF	264.5050	252.3250	250.0683	251.7533

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

in Euro Thousands	2008	2007
Exchange rate gains	5,942	5,171
Exchange rate losses	-5,444	-5,080
	498	91

The sensitivity of these currencies is discussed in note 55.

Notes to the consolidated balance sheet

6. Intangible assets

Intangible assets developed as follows:

» **See table 13 page 63**

Concessions, patents, licences and similar rights include the $C0_2$ emission allowances granted in the past financial year in the amount of Euro 578 thousand, as unused certificates can be used until 31 December 2012. These items were carried at their market value at the balance sheet date. A provision of Euro 497 thousand was recognised for CO_2 emissions in the past financial year (see note 28). The allowances used in 2008 are not required to be submitted until 30 April 2009.

The Villeroy & Boch Group has capitalised software licences in Germany with a carrying amount of Euro 4,394 thousand (previous year: Euro 2,051 thousand). New licences with a value of Euro 2,348 thousand were acquired in the past financial year (previous year: Euro 1,910 thousand). Amortisation amounted to Euro 922 thousand (previous year: Euro 975 thousand). In France, the Group has key money with a carrying amount of Euro 3,009 thousand (previous year: Euro 2,608 thousand). As in the previous year, impairment testing did not give rise to any indications of impairment.

Goodwill in the amount of Euro 45,040 thousand (previous year: Euro 40,918 thousand) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The realisable amount, which was calculated as the value in use, was higher than the net assets of the Division. A discount rate of 6.0% p.a. was applied in determining the value in use (2007: 6.0% p.a.). No impairment was identified. The key figures for the Division are presented in the segment report in note 54.

13 Statement of intangible assets

in Euro Thousands	Concessions patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As of 1 January 2007	**19,402**	**41,110**	**60,512**
Currency adjustments	-19	-192	-211
Changes in consolidated group	-521	0	-521
Additions	2,214	0	2,214
Disposals	-514	0	-514
Reclassifications	13	0	13
As of 1 January 2008	**20,575**	**40,918**	**61,493**
Currency adjustments	84	-605	-521
Changes in consolidated group	451	4,727	5,178
Additions	3,380	0	3,380
Disposals	-444	0	-444
Reclassifications	87	0	87
As of 31 December 2008	**24,133**	**45,040**	**69,173**
Accumulative amortisation and impairment			
As of 1 January 2007	**12,831**	**0**	**12,831**
Currency adjustments	-2	0	-2
Changes in consolidated group	-414	0	-414
Amortisation	1,422	0	1,422
Disposals	-490	0	-490
Reversals of impairment losses	0	0	0
Reclassifications	-17	0	-17
As of 1 January 2008	**13,330**	**0**	**13,330**
Currency adjustments	-29	0	-29
Changes in consolidated group	178	0	178
Amortisation	1,503	0	1,503
Disposals	-443	0	-443
As of 31 December 2008	**14,539**	**0**	**14,539**
Residual carrying amounts			
As of 31 December 2008	**9,594**	**45,040**	**54,634**
As of 31 December 2007	7,245	40,918	48,163

A description of the changes in the consolidated group can be found in note 3.

14 Statement of property, plant and equipment

in Euro Thousands	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 2007	**325,003**	**455,090**	**127,684**	**10,653**	**918,430**
Currency adjustments	-1,893	-2,769	-1,381	-35	-6,078
Changes in consolidated group	-1,158	-100,133	-11,032	-41	-112,364
Additions	1,459	10,191	8,713	7,189	27,552
Disposals	-3,207	-20,697	-2,769	-80	-26,753
Reclassifications	-65,870	7,257	654	-9,671	-67,630
As of 1 January 2008	**254.334**	**348.939**	**121.869**	**8.015**	**733.157**
Currency adjustments	-3,994	-7,036	-2,283	-86	-13,399
Changes in consolidated group	11,002	10,669	1,393	101	23,165
Additions	3,678	6,907	6,730	5,969	23,284
Disposals	-1,981	-4,767	-7,387	-100	-14,235
Reclassifications	-5,546	6,786	543	-8,319	-6,536
As of 31 December 2008	**257,493**	**361,498**	**120,865**	**5,580**	**745,436**
Accumulative depreciation and impairment					
As of 1 January 2007	**202,326**	**357,145**	**105,769**	**0**	**665,240**
Currency adjustments	-247	-1,575	-1,210	0	-3,032
Changes in consolidated group	-755	-87,998	-8,701	0	-97,454
Depreciation	6,096	24,136	8,904	0	39,136
Disposals	-2,940	-19,374	-3,208	0	-25,522
Reclassifications	-50,731	-4	18	0	-50,717
As of 1 January 2008	**153,749**	**272,330**	**101,572**	**0**	**527,651**
Currency adjustments	-895	-5,471	-1,274	0	-7,640
Changes in consolidated group	2,519	10,229	560	0	13,308
Depreciation	6,192	21,178	8,079	0	35,449
Impairment losses	210	755	22	0	987
Disposals	-1,644	-4,604	-7,160	0	-13,408
Reclassifications	-5,945	-309	41	0	-6,213
As of 31 December 2008	**154,186**	**294,108**	**101,840**	**0**	**550,134**
Residual carrying amounts					
As of 31 December 2008	**103,307**	**67,390**	**19,025**	**5,580**	**195,302**
As of 31 December 2007	100,585	76,609	20,297	8,015	205,506

The company transactions in the period under review are described in note 3.

7. Property, plant and equipment

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

» See table 14 page 64

Impairment losses in the amount of Euro 987 thousand relate to the write-down of specific items of property, plant and equipment in the Bathroom and Wellness Division to their recoverable amount. The recoverable amount was defined as the net realisable value (liquidation value), as the series manufactured using these items of property, plant and equipment at the respective locations have been discontinued. The impairment losses are reported in other expenses.

In the reporting year, government grants received in the amount of Euro 218 thousand were deducted from the cost of the respective assets (previous year: Euro 35 thousand). Prepaid expenses (see note 30) include government grants in the amount of Euro 1,205 thousand at the balance sheet date (previous year: Euro 1,283 thousand). Of this figure, Euro 78 thousand (previous year: Euro 80 thousand) was reversed to income.

Operating leases

In the 2008 financial year, rental expenses under operating leases amounted to Euro 34,545 thousand (previous year: Euro 34.954 thousand). The Group rents sales premises, warehouses, office space and other facilities and movable tangible 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. No price adjustment clauses or other restrictions have been agreed.

In the past financial year, the Villeroy & Boch Group generated additional income of Euro 214 thousand from subletting unused properties with current leases (previous year: Euro 218 thousand). Any ancillary costs and other obligations are borne by the tenants. The subleases shall end no later than the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

in Euro Thousands	Up to 1 year	1 to 5 years	More than 5 years
Future minimum lease payments			
as of 31 December 2008	14,910	30,855	9,205
as of 31 December 2007	13,611	33,164	5,098
Future sublease income			
as of 31 December 2008	320	461	154
as of 31 December 2007	212	397	184

8. Investment property

Investment property developed as follows:

» See table 16 page 65

Property with a value of Euro 234 thousand (previous year: Euro 16,767 thousand) was reclassified from property, plant and equipment to investment property as the foreign location in question is being prepared for rental. The properties required for tile production have been classified as investment property since 1 July 2007.

The market value of the properties capitalised as of 31 December amounted to Euro 41.2 million (previous year: Euro 25.3 million). Market values were calculated on the basis of current appraisals and land benchmark value tables.

16 Statement of investment property

in Euro Thousands	Land	Buildings	Investment property 2008	Investment property 2007
Accumulative cost				
As of 1 January	**1,610**	**66,242**	**67,852**	**1,360**
Additions	0	0	0	0
Transfer from property, plant and equipment	0	6,447	6,447	67,501
Disposals	0	-1,115	-1,115	-1,009
As of 31 December	**1,610**	**71,574**	**73,184**	**67,852**
Accumulative depreciation and impairment				
As of 1 January	**0**	**51,281**	**51,281**	**0**
Depreciation	0	810	810	828
Transfer from property, plant and equipment	0	6,213	6,213	50,734
Disposals	0	-1,115	-1,115	-281
As of 31 December	**0**	**57,189**	**57,189**	**51,281**
Residual carrying amounts				
As of 31 December	**1,610**	**14,385**	**15,995**	**16,571**

In the past financial year, the Group recorded:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Rental income (= contingent rents)	296	148
Property management and similar expenses	-190	-190

Villeroy & Boch AG rents the properties required for tile production under an **operating lease**. The monthly rent for the 30-year lease term is around Euro 25 thousand. Future rents are aimed at reflecting changes in the consumer price index. All maintenance expenses are borne by the tenant. No products competing with the "Villeroy & Boch" series may be manufactured in these properties.

The following payments are expected from leases with third parties:

in Euro Thousands	Up to 1 year	1 to 5 years	More than 5 years
as of 31 December 2008	296	1,186	6,966
as of 31 December 2007	296	1,186	7,262

9. Investments accounted for using the equity method

As in the prior year, an unlisted company domiciled in Germany is accounted for using the equity method. The Group has a 50% interest in the 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 Thousands	2008	2007
Accumulative cost		
As of 1 January	**1,092**	**1,058**
Additions	120	384
Disposals	0	-350
As of 31 December	**1.212**	**1.092**
Accumulative impairments		
As of 31 December – unchanged	**0**	**0**
Residual carrying amounts		
As of 31 December	**1,212**	**1,092**

With revenue of Euro 13,140 thousand (previous year: Euro 12,472 thousand), the company generated a return on sales of 4.5% (previous year: 4.6%). The equity ratio amounted to 16.3% (previous year: 20.1%).

10. Other financial assets

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

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Financial assets, carried at fair value		
Investments a)	12,280	12,280
Held-to-maturity investments		
Uncallable bonds b)	20,000	0
Loans carried at cost		
Loans to related parties c)	9,528	10,719
Loans to third parties d)	1,845	2,047
Other financial assets	**43,653**	**25,046**

a) The Villeroy & Boch Group primarily recognises its remaining interest in V & B Fliesen GmbH in the amount of Euro 12,250 thousand as an investment. No impairment was identified in the period under review (previous year: Euro 7,805 thousand).

b) In the year under review, Villeroy & Boch AG subscribed for a two-year promissory note with a bank domiciled in Germany. Interest is paid annually. The promissory note is covered by the Deposit Protection Fund of the Association of German Banks.

c) Villeroy & Boch AG granted V&B Fliesen GmbH a long-term loan with a carrying amount of Euro 9,528 thousand at the balance sheet date (previous year: Euro 10,719 thousand). Repayment is on a linear basis over a period of eight years. A guarantee was provided by Eczacibasi Holding A.S. as security for the loan.

d) There is no active market for these loans.
They are composed as follows:

in Euro Thousands	2008	2007
Gross carrying amount at 31 December	**1,991**	**2,247**
thereof:		
Not impaired or overdue at the balance sheet date	**1,845**	**2,047**
Loan due for payment within one year	129	95
Loan due for payment in two to five years	184	212
Loan with indefinite maturity (max. 30 years)	1,532	1,740
thereof:		
Impaired but not overdue at the balance sheet date	**26**	**70**
Loan due for payment in two to five years	26	69
Loan due for payment in more than five years	-	1
thereof:		
Impaired and overdue at the balance sheet date	**120**	**130**
Overdue for one year or less	-	40
Overdue for between two and five years	120	90

The final due dates of loans to third parties with indefinite maturities are based on employee fluctuation.

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

in Euro Thousands	2008	2007
As of 1 January	200	170
Utilisation	-43	-
Reversals to income	-11	-
Additions recognised in income	-	30
As of 31 December	**146**	**200**

11. Deferred taxes

Deferred taxes are reported in the following balance sheet items:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Deferred tax assets from temporary differences	24,174	27,180
Deferred tax assets from tax loss carryforwards	20,696	19,291
Deferred tax assets	**44,870**	**46,471**
Deferred tax liabilities	**14,640**	**15,432**

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

» See table 24 page 68

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

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Deferred taxes from German tax loss carryforwards		
from corporate income tax and solidarity surcharge	3,579	5,414
from trade tax	4,247	5,983
Total deferred taxes from German tax loss carryforwards	7,826	11,397
Deferred taxes from foreign tax loss carryforwards	27,854	22,668
Total deferred taxes from German and foreign tax loss carryforwards	35,680	34,065
Non-imputable deferred taxes on tax loss carryforwards	-14,984	-14,774
Deferred taxes on tax loss carry-forwards	20,696	19,291

Whereas German tax loss carryforwards can be carried forward without limitation subject to minimum taxation requirements, country-specific time limits apply to foreign tax loss carryforwards. Deferred tax assets from tax loss carryforwards were written down in the amount of Euro 14,984 thousand (previous year: Euro 14,774 thousand) in the past financial year, as the tax loss carryforwards are not likely to be utilised based on the Group's medium-term tax planning. Utilisation of existing deferred tax assets from tax loss carryforwards is planned as follows:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Utilisation within one year	2,461	2,947
Utilisation between one and two years	2,179	105
Utilisation between two and three years	8,644	1,834
Utilisation between three and four years	2,591	9,326
Utilisation in more than four years	4,821	5,079
	20,696	**19,291**

Based on earnings trends over the last two financial years, deferred taxes can be classified as follows:

» See table 27 page 68

Deferred tax assets are recognised on the basis of expected results and trend developments at the respective subsidiaries.

12. Inventories

At the balance sheet date, inventories were composed as follows:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Raw materials, supplies and merchandise	28,887	29,103
Work in progress	23,736	28,306
Finished goods and goods for resale	126,511	110,178
Advance payments	403	1,139
	179,537	168,726

The new emission allowances granted in the year under review were recognised as intangible assets (see note 6).

Inventories are broken down between the individual divisions as follows:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Bathroom and Wellness	106,147	99,476
Tableware	73,390	69,250
	179,537	168,726

In the past financial year, the value adjustments on inventories increased by Euro 4,516 thousand, from Euro 23,329 thousand to Euro 27,845 thousand with an effect on the operating result.

13. Trade receivables

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

» See table 30 page 68

At the balance sheet date, the Tableware Division had trade receivables of Euro 45,288 thousand (previous year: Euro 47,445 thousand), while the Bathroom and Wellness Division accounted for trade receivables of Euro 80,426 thousand (previous year: Euro 86,165 thousand). Non-current receivables related exclusively to the Bathroom and Wellness Division (previous year: Euro 71 thousand).

24 Composition of deferred tax assets and liabilities

in Euro Thousands	Note	Deferred tax assets		Deferred tax liabilities	
		31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
Intangible assets	6	4,112	4,915	647	482
Property, plant and equipment	7	4,151	4,254	3,098	3,213
Investment property	8	-	-	251	271
Financial assets	10	292	262	99	99
Inventories	12	4,436	5,421	34	-48
Other assets	15	124	54	2,374	2,264
Special tax items		0	0	7,491	8,223
Provisions for pensions	25	7,281	9,182	35	355
Other provisions	28	2,112	2,001	243	84
Liabilities	30	1,666	1,091	368	489
Deferred taxes from temporary differences		24,174	27,180	14,640	15,432

27 Deferred items - earning trends

in Euro Thousands	Temporary differences		Taxes from tax loss carryforwards	
Companies with	**Assets**	**Liabilities**	**Gross**	**Net**
positive earnings trend	0	0	0	0
constant positive trend	17,019	11,217	22,033	12,938
negative earnings trend	698	2,970	1,266	1,266
constant negative trend	6,457	453	12,381	6,492
Total	**24,174**	**14,640**	**35,680**	**20,696**

30 Trade receivables - geographical allocation

in Euro Thousands	31 Dec. 2008	thereof due in more than 1 year	31 Dec. 2007	thereof due in more than 1 year
Germany	77,195	38	76,770	73
Eurozone excl. Germany	12,283	-	32,965	2
Other international destinations	37,102	51	25,273	-
Carrying amount	126,580	89	135,008	75

32 Trade receivables - Development of valuation allowances

in Euro Thousands	2008			2007		
	Specific	Portfolio	Total	Specific	Portfolio	Total
As of 1 January	4,429	961	5,390	4,758	1,197	5,955
Additions	1,450	440	1,890	1,598	157	1,755
Exchange rate differences	-665	64	-601	-24	-79	-103
Utilisation	-449	-231	-680	-638	-152	-790
Reversals	-520	-235	-755	-1,265	-162	-1,427
As of 31 December	4,245	999	5,244	4,429	961	5,390

Trade receivables are composed as follows:

in Euro Thousands	2008	2007
Carrying amount at 31 December	**126,580**	**135,008**
thereof:		
Not impaired or overdue at the balance sheet date	105,841	112,849
Receivables due in 90 days or less	99,572	107,838
Receivables due between 91 and 180 days	6,208	4,872
Receivables due between 181 and 360 days	61	65
Receivables due in 361 days or more	0	74
thereof:		
Not impaired but overdue at the balance sheet date	15,161	16,407
Customer in default for 90 days or less	14,444	14,573
Customer in default for between 91 and 180 days	508	1,367
Customer in default for between 181 and 360 days	209	467
thereof:		
Impaired but not overdue at the balance sheet date	1,232	79
Receivables due in 90 days or less	1,195	79
Receivables due between 91 and 180 days	37	0
thereof:		
Impaired and overdue at the balance sheet date	4,346	5,673
Customer in default for 90 days or less	464	2,285
Customer in default for between 91 and 180 days	278	241
Customer in default for between 181 and 360 days	829	1,055
Customer in default for 361 days or more	2,775	2,092

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

» See table 32 page 68

Specific valuation allowances were recognised in the amount ofEuro 1,457 thousand (previous year: Euro 1,332 thousand) due to the initiation of bankruptcy proceedings on the debtor. Based on observed payment behaviour, specific valuation allowances were recognised in the amount of Euro 1,958 thousand (previous year:Euro 3,009 thousand).

During the financial year, trade receivables in the amount of Euro 280 thousand (previous year: Euro 416 thousand) were transferred to an independent insurance company. The Group received Euro 21 thousand from the realisation of other collateral (previous year: 0). The Group received the following collateral to cover existing risks:

in Euro Thousands	Fair value	
	31 Dec. 2008	31 Dec. 2007
Retention of ownership	15,046	68,404
Guarantees	8,911	2,233
Other collateral	1,680	25,753
	25,637	96,390

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

14. Current financial assets

This item contains financial assets classified as held-to-maturity in the amount of Euro 21,392 thousand (previous year: Euro 45,219 thousand). The relevant banks, whose creditworthiness has been certified by international rating agencies (see note 55), are located in the following regions:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Germany	605	20,000
Eurozone excl. Germany	20,787	25,219
Carrying amount	21,392	45,219

All investments are fully hedged against debtor default.

15. Other non-current and current assets

Other assets are composed as follows:

» See table 35 page 70

Miscellaneous other assets declined as a result of the scheduled settlement of the receivables from the sale of tile activities recognised in the previous year in the amount of Euro 6,919 thousand. This item also includes security deposits, receivables from the initial provision of equipment to franchisers, creditors with debit balances, receivables from employees and a number of individual items. All in all, this item contains transactions with the characteristics of advance payments in the amount of Euro 986 thousand (previous year: Euro 2,043 thousand). The Group has recognised security deposits in the amount of Euro 1,081 thousand (previous year: Euro 974 thousand) that were provided to the respective lessors in cash. The fair value of these deposits corresponds to their capitalised carrying amounts.

The fair value assessment of currency forward contracts led to the capitalisation of Euro 4,776 thousand (previous year: Euro 2,099 thousand) under other current assets, resulting in neither profit nor

35 **Statement of other non-current and current assets**

in Euro Thousands	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31 Dec. 2008	Up to 1 year	More than 1 year	31 Dec. 2007	Up to 1 year	More than 1 year
Receivables from associates	**232**	232	0	**232**	232	0
Miscellaneous other assets	**12,847**	12,804	43	**23,695**	23,617	78
Fair values of hedging instruments	**4,776**	4,776	0	**2,099**	2,099	0
Tax claims	**8,600**	8,600	0	**6,684**	6,684	0
	26,455	**26,412**	**43**	**32,710**	**32,632**	**78**

loss. In the context of hedge accounting this effect is charged against negative market values in the amount of Euro 10,365 thousand (previous year: Euro 1,733 thousand) within retained earnings (see note 30).

Tax claims primarily relate to value added tax claims in the amount of Euro 7,281 thousand (previous year: Euro 4,739 thousand), of which Euro 4,815 thousand (previous year: Euro 2,356 thousand) relate to Group companies in Germany.

In order to reflect risk to an adequate extent, valuation adjustments were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no overdue receivables at 31 December. There is no significant concentration of default risks within the Group, as such risks are distributed across a large number of contractual partners.

16. Current tax assets

Income tax claims totalling Euro 3,702 thousand (previous year: Euro 5,285 thousand) largely consist of outstanding corporate income tax assets, which are primarily attributable to foreign Group companies in the amount of Euro 3,152 thousand (previous year: Euro 4,978 thousand).

17. Cash and cash equivalents

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

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Cash on hand incl. cheques	343	900
Current bank balances	3,430	29,064
Cash equivalents	55,205	45,127
	58,978	**75,091**

Cash is held in the following economic areas:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Germany	49,712	65,359
Eurozone excl. Germany	1,142	1,383
Other international destinations	8,124	8,349
Carrying amount	**58,978**	**75,091**

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

18. Issued capital

The issued capital of Villeroy & Boch AG at the reporting date was unchanged at Euro 71,909,376.00 and is divided into 14,044,800 fully paid up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital with a notional interest of Euro 2.56 per share.

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

A resolution of the General Meeting of Shareholders on 3 June 2006 authorised the Management Board of Villeroy & Boch AG to acquire preference treasury shares with a national interest in the share capital of up to Euro 7,190,937 until 2 December 2007. Villeroy & Boch AG may hold a maximum of 10% of the share capital in no-par value preference shares (2,808,960 shares). Transactions under this authorisation require the approval of the Supervisory Board. All transactions were conducted via the stock exchange. There were no share transactions with related companies or persons. The utilisation of the preference shares held is restricted by way of the resolutions adopted.

The number of shares in circulation developed as follows:

Number of shares	2008	2007
Ordinary shares		
Ordinary shares in circulation -unchanged-	14,044,800	14,044,800
Preference shares		
Preference shares issued	14,044,800	14,044,800
Shares held by the Villeroy & Boch Group as of 31 December -unchanged-	1,683,029	1,683,029
Preference shares in circulation	**12,361,771**	**12,361,771**

19. Capital surplus

The capital surplus in the amount of Euro 193,587 thousand contains the premium arising from the initial public offering in 1990 and has remained unchanged since then.

20. Retained earnings

The retained earnings of the Villeroy & Boch Group in the amount of Euro 53,902 thousand (previous year: Euro 71,723 thousand) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group. This item also includes consolidation measures and exchange rate effects.

Retained earnings are composed as follows:

in Euro Thousands	2008	2007
General retained earnings	87,158	90,376
Reserve for treasury shares	-14,099	-14,099
Reserve for hedging transactions in accordance with IAS 39	-5,330	1,753
Reserve for deferred taxes	-20	-398
Reserve for foreign currency translation	-6,305	88
Reserve from net investment in a foreign business operation	-5,846	-4,341
Other reserves	-1,656	-1,656
	53,902	71,723

General retained earnings contain the following undistributed profits:

in Euro Thousands	2008	2007
As of 1 January	90,376	83,728
Additions (see note 21)	-	6,648
Disposals (see note 21)	-3,218	-
As of 31 December	**87,158**	**90,376**

Retained earnings were reduced by the treasury shares held by Group companies at their cumulative historical cost in accordance with IAS 32.33.

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Reserve for treasury shares -unchanged-	-14,099	-14,099

Retained earnings contain the following revaluation reserves from the effective portion of hedging transactions (see note 55):

» See table 42 page 72

Deferred taxes taken directly to equity in the amount of Euro 275 thousand (previous year: Euro - 771 thousand) were recognised in the revaluation surplus in accordance with IAS 39. Remeasurement gains on interest rate swaps recognised in income during the reporting period are offset against the interest income/expense from the underlying transactions in net finance expense. The reversal to income of the surplus for the remeasurement of currency futures is primarily contained in gross profit on sales.

The reserve for deferred taxes developed as follows:

in Euro Thousands	2008	2007
As of 1 January	-398	438
Currency adjustments	-5	-3
Additions	520	0
Disposals	-137	-833
As of 31 December	-20	-398

Changes in loans classified as net investments in foreign Group companies due to exchange rate fluctuations were also taken into account:

in Euro Thousands	2008	2007
As of 1 January	-4,341	-1,028
Changes due to currency appreciation	-1,694	-3,313
Changes due to currency depreciation	189	0
As of 31 December	-5,846	-4,341

This effect is primarily attributable to the exchange rate development of the Mexican peso, which resulted in a change in equity in the amount of Euro 1,694 thousand (previous year: Euro 2,901 thousand).

42 Composition of reseve for hedging

in Euro Thousands	Currency forwards		Commodity forwards		Interest rate swaps	
	2008	2007	2008	2007	2008	2007
As of 1 January	2,001	-1,667	-	-	-248	-779
Currency adjustments	-11	15	-	-	-	-
Additions	887	2,001	-6,042	-	-	-
Disposals	-1,990	1,652	-	-	71	531
Rounding differences	1	-	-	-	1	-
As of 31 December	**888**	**2,001**	**-6,042**	**-**	**-176**	**-248**

46 Dividend distribution

in Euro Thousands	2 July 2008		4 July 2007	
	Dividend per share	Total dividend	Dividend per share	Total dividend
Ordinary shares	0.37	5,196,576.00	0.37	5,196,576.00
Preference shares in circulation	0.42	5,191,943.82	0.42	5,191,943.82
		10,388,519.82		**10,388,519.82**

48 Specific parameters of Provision for pensions

in Percent	2008		2007	
	Average	Range	Average	Range
Discount rate	-	6.30	-	5.45
Expected long-term wage and salary trend	2.6	2.0 to 5.0	2.6	1.5 to 3.5
Expected long-term pension trend	1.5	1.5 to 5.0	1.5	1.0 to 6.7
Expected long-term country-specific inflation	2.0	1.1 to 5.0	2.0	1.5 to 3.5
Expected country-specific fluctuation	5.0	1.2 to 5.0	5.0	2.0 to 5.0
Expected return on plan assets	2.1	1.0 to 6.3	4.3	4.3 to 5.3

53 Five-year view at provision for pensions

in Euro Thousands	2004	2005	2006	2007	2008
Present value of pension obligations - internally secured	173,190	169,509	168,423	153,499	150,718
Present value of pension obligations - externally secured	16,656	21,074	22,626	22,002	17,843
Present value of pension obligations recognised in liabilities	189,846	190,583	191,049	175,501	168,561
Plan assets	-13,295	-17,117	-19,406	-21,175	-17,312
Amount recognised in liabilities	176,551	173,466	171,643	154,326	151,249
Surplus from plan assets	558	533	401	1	0

21. Consolidated result

The consolidated result of Villeroy & Boch AG amounted to Euro 11,052 thousand compared with Euro 7.171 thousand at previous year.

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

» See table 46 page 72

The proposal by the Supervisory Board and the Management Board of Villeroy & Boch AG on the appropriation of retained earnings for the 2008 financial year is discussed in note 61.

22. Equity attributable to minority interests

In the period under review, equity attributable to minority interests increased from Euro 184 thousand in the previous year to Euro 487 thousand, largely as a result of acquisitions. Minority interests exist at three Group companies in Thailand, Romania and Hungary.

23. Capital management

The Villeroy & Boch Group manages its capital with the objective of maximising results by optimising the ratio of equity to debt. The overriding aim of capital management is to ensure the continued existence of the Company. The equity ratio is the core element of capital management.

24. Statement of reported income and expenses

in Euro Thousands	**2008**	**2007**
Taken directly to equity:		
Gains/losses from cash flow hedges	-7,083	4,199
Changes in deferred taxes	378	-836
Changes in value due to the currency translation of net investments in foreign operations	-1,505	-3,313
Differences from the currency translation of financial statements of foreign operations	-6,393	-809
Other changes taken directly to equity	-	-1,722
Net result taken directly to equity	-14,603	-2,481
Consolidated net income	11,052	7,171
Total result in accordance with IAS 1.97	-3,551	4,690
thereof attributable to shareholders of Villeroy & Boch AG	-3,555	4,675
minority interests	4	15

25. Provisions for pensions

At the balance sheet date, the Villeroy & Boch Group recognised provisions for defined benefit pension plans in the amount of Euro 151,249 thousand (previous year: Euro 154,326 thousand). As in the previous year, a total of 93% of these provisions were recognised by German companies. Accordingly, all defined benefit pension plans are presented in combined form.

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

» See table 48 page 72

Average values are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds, taking into account the current group of participants. In estimating future salary and pension trends, the length of service with the company and other of employment with the company and other labour market factors are taken into consideration. Measurement is based on country-specific mortality tables and plant-specific fluctuation rates. The expected return is based on the portfolio structure of the plan assets. For each plan, the expected return is obtained from the weighted average of expected returns for each of the investment classes held.

The present value of pension obligations developed as follows:

in Euro Thousands	**2008**	**2007**
As of 1 January	175,501	191,049
Current service cost	1,595	2,253
Interest cost	9,498	9,430
Actuarial gains and losses	-3,382	99
Currency changes arising from non-euro-denominated plans	-738	98
Benefits paid	-13,913	-15,779
Settlements	-	-11,649
As of 31 December	**168,561**	**175,501**

The accounted actuarial gains oppose to an effect of the plan asset development, shown below, in the amount of Euro 3,309 thousand (Amortised actuarial gains: Euro 73 thousand).

Plan assets changed as follows in the past financial year:

in Euro Thousands	**2008**	**2007**
As of 1 January	21,175	19,406
Expected return on plan assets	33	917
Actuarial gains and losses	-3,309	-
Currency changes arising from non-euro-denominated plans	-332	-162
Contributions by the employer	323	1,298
Benefits paid	-578	-284
As of 31 December	**17,312**	**21,175**

A return of Euro 36 thousand is expected in the 2009 financial year.

The portfolio structure of plan assets is as follows:

in Euro Thousands	31 Dec. 2008	%	31 Dec. 2007	%
Equities/equity funds	3,101	18	2,855	13
Annuities/annuity funds	12,901	74	10,168	48
Loans and promissory notes	-	-	7,203	34
Cash and cash equivalents	979	6	710	4
Other items	331	2	239	1
Plan assets	**17,312**	**100**	**21,175**	**100**

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

in Euro Thousands	2008	2007
Present value of defined benefit obligation covered	168,561	175,501
Unrealised actuarial gains and losses	1,619	10,684
Obligation arising from defined benefit plans	170,180	186,185
Fair value of plan assets	-17,312	-21,175
Present value of obligation for commitments fully or partially covered as of 31 December	**152,868**	**165,010**
Unrealised actuarial gains and losses	-1,619	-10,684
Provisions for pensions as of 31 December	**151,249**	**154,326**

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

» See page 53 page 72

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

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Current service cost	1,595	2,253
Interest cost	9,498	9,430
Expected return on plan assets	33	-917
Amortised actuarial gains and losses	-73	98
	11,053	10,864

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

26. Defined contribution pension plans

Defined contribution plans generally illustrate the employer´s contribution to stateorganised collective pension schemes. Personnel expenses were recorded as follows:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Germany	9,651	9,539
Eurozone excl. Germany	1,939	1,873
Other international destinations	5,941	5,246
	17,531	**16,658**

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 56 page 75

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 state.

28. Other non-current and current provisions

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

» See table 57 page 75

Non-current provisions relate to precautionary measures for environmental protection and recultivation projects. The provision for environmental protection measures in the amount of Euro 4,052 thousand (previous year: Euro 5,166 thousand) covers the expected financial burden arising from the recultivation of landfill sites, the elimination of environmental impact at existing production facilities, certified carbon dioxide emissions and similar measures. At the reporting date, a provision of Euro 2,373 thousand (previous year: Euro 3,818 thousand) was recognised for recultivation projects.

Warranty provisions are recognised for the obligations arising from standard product warranties, as well as warranty risks relating to the outstanding divestments in the Tile Division.

Other tax provisions relate to wealth tax obligations in the amount of Euro 423 thousand (previous year: Euro 485 thousand) and German real estate tax in the amount of Euro 330 thousand (previous year: Euro 413 thousand).

Miscellaneous other provisions primarily relate to provisions for commissions, litigation risks, audit costs, license fees and a large number of individual items.

56 Statement of non-current and current provisions for personnel

in Euro Thousands	Non-current provisions for:				Current provisions	Total
	Partial retirement	Anniversary bonuses	Severance pay	Total		
As of 1 January 2007	10,001	5,401	3,933	19,335	9,333	28,668
Currency adjustments	0	-36	-123	-159	-143	-302
Utilisation	-3,033	-507	-395	-3,935	-8,927	-12,862
Reversals	-13	0	0	-13	-43	-56
Additions	4,657	257	372	5,286	8,649	13,935
Reclassifications	0	0	0	0	32	32
Changes in consolidated group	-1,142	0	0	-1,142	-667	-1,809
As of 1 January 2008	10,470	5,115	3,787	19,372	8,234	27,606
Currency adjustments	0	-56	-180	-236	-179	-415
Utilisation	-3,212	-356	-162	-3,730	-7,728	-11,458
Reversals	0	-72	-364	-436	-39	-475
Additions	2,123	557	521	3,201	7,979	11,180
Changes in consolidated group	0	0	246	246	148	394
As of 31 December 2008	**9,381**	**5,188**	**3,848**	**18,417**	**8,415**	**26,832**

57 Statement of other non-current and current provisions

in Euro Thousands	Non-current provisions	Current provisions for:					Total
		Warranties	Restructu-ring	Other taxes	Miscella-neous	Total	
As of 1 January 2007	**5,320**	**9,173**	**5,683**	**1,160**	**7,471**	**23,487**	**28,807**
Currency adjustments	-58	-125	-23	-5	-566	-719	-777
Utilisation	-368	-1,576	-3,316	-253	-3,402	-8,547	-8,915
Reversals	-1	-278	-82	-8	-384	-752	-753
Additions	283	4,407	2,216	115	4,487	11,225	11,508
Reclassifications	0	-31	35	-1	27	30	30
Changes in consolidated group	-10	-304	0	0	-130	-434	-444
As of 1 January 2008	5,166	11,266	4,513	1,008	7,503	24,290	29,456
Currency adjustments	-147	-158	0	-15	-307	-480	-627
Utilisation	-470	-3,376	-2,632	-198	-4,076	-10,282	-10,752
Reversals	-995	-983	0	0	-429	-1,412	-2,407
Additions	497	1,714	424	60	4,432	6,630	7,127
Reclassifications	0	-80	0	0	80	0	0
Changes in consolidated group	1	612	0	2	228	842	843
As of 31 December 2008	**4,052**	**8,995**	**2,305**	**857**	**7,431**	**19,588**	**23,640**

58 Statement of non-current and current financial liabilities - geographical distribution

in Euro Thousands	31 Dec. 2008	thereof non-current	31 Dec. 2007	thereof non-current
Germany	46,265	45,000	46,265	45,000
Eurozone excl. Germany	25,699	25,000	25,707	25,000
Other international destinations	5,526	-	-	-
Carrying amount	77,490	70,000	71,972	70,000

29. Non-current and current financial liabilities

Financing was obtained from banks in the following regions:

» See table 58 page 75

Receivables from and/or liabilities to banks were consolidated in the amount of Euro 1,448 thousand (previous year: Euro 1,371 thousand), as the offsetting conditions have been met and the Company intends to settle the respective positions on a net basis (see note 17).

30. Other non-current and current liabilities

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

» See table 59 page 77

Other tax liabilities primarily relate to liabilities for payroll and church tax in the amount of Euro 3,551 thousand (previous year: Euro 3,914 thousand) and value added tax in the amount of Euro 2,930 thousand (previous year: Euro 4,034 thousand).

Resulting in neither profit nor loss, the fair value assessment lead primarily to a rise of other current liabilities in the amount of Euro 10,365 thousand (previous year: Euro 1,733 thousand). In the context of hedge accounting this effect is mainly charged against positive market values in the amount of Euro 4,776 thousand (previous year: Euro 2,099 thousand) within the retained earnings (see note 15).

Miscellaneous other liabilities include debtors with credit balances and a large number of individual items. The Group properly fulfilled all contractual terms and conditions.

Deferred income essentially relates to investment grants and subsidies. Government grants were primarily granted in Romania, Italy, Germany and Hungary. The subsidies served to support the acquisition of non-current assets with a long useful life. In Romania, the subsidised assets are already in use. The emission allowances granted free of charge in Hungary and Germany are recognised in the amount of Euro 81 thousand for CO_2 allowances not utilised in the year under review (note 6).

31. Trade payables

Trade payables consist of outstanding obligations from the purchase of goods and services.

» See table 60 page 77

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

32. Non-current and current income tax liabilities

Income tax liabilities are composed as follows:

» See table 61 page 77

Income tax liabilities in the amount of Euro 423 thousand (previous year: Euro 795 thousand) primarily relate to foreign companies and contain unpaid taxes on income. Income tax provisions in the amount of Euro 2,428 thousand were recognised for companies in Germany (previous year: Euro 4,985 thousand).

Notes to the consolidated income statement

33. Revenue

The Villeroy & Boch Group realises revenue exclusively 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, personnel expenses and energy costs, but also overheads and allocable depreciation of production facilities.

The increase in the cost of sales is primarily attributable to the acquisitions in Germany and Thailand in the year under review.

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 individual divisions invested in research and development as follows:

in Euro Thousands	**2008**	**2007**
Bathroom and Wellness	7,518	6,955
Tableware	2,739	2,397
	10,257	**9,352**

36. General and administrative expenses

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

37. Other operating income

Other operating income is composed as follows:

in Euro Thousands	**2008**	**2007**
Exchange rate gains 1)	14,668	11,565
License income	4,680	1,782
Reversal of provisions	2,616	432
Reversal of valuation allowances on receivables	737	384
Book profits on the disposal of non-current assets	515	1,345
Miscellaneous other operating income	6,904	4,790
Total	**30,120**	**20,298**

[1]) Note as a result of absence without offsetting balanced of appropriate currency losses at „Other operating expenses"

59 Statement of other non-current and current liabilities

in Euro Thousands	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31 Dec. 2008	Up to 1 year	More than 1 year	31 Dec. 2008	Up to 1 year	More than 1 year
Advance payments received on account of orders	**1,281**	1,281	0	**5,213**	5,213	0
Personnel liabilities	**23,420**	22,775	645	**25,683**	24,999	684
Bonus liabilities	**36,276**	36,276	0	**37,057**	37,057	0
Other tax liabilities	**8,312**	8,312	0	**8,868**	8,868	0
Fair values of hedging instruments	**10,365**	10,195	170	**1,733**	1,519	214
Miscellaneous other liabilities	**6,202**	4,760	1,442	**6,680**	5,322	1,358
Deferred income	**1,535**	499	1,036	**2,233**	772	1,461
	87,391	84,098	3,293	**87,467**	83,750	3,717

60 Statement of trade payables

in Euro Thousands	2008	thereof non-current	2007	thereof non-current
Germany	33,013	-	35,553	-
Eurozone excl. Germany	10,200	-	11,650	-
Other international destinations	13,423	-	19,579	-
Carrying amount at 31 December	56,636	-	66,782	-

61 Statement of income tax liabilities

in Euro Thousands	2008	thereof non-current	2007	thereof non-current
Income tax liabilities	423	-	795	-
Income tax provisions	3,072	-	6,478	-
Carrying amount at 31 December	3,495	-	7,273	-

Miscellaneous other operating income primarily consists of reimbursements for damages, rental income and other individual items.

38. Other operating expenses

Other operating expenses are composed as follows:

in Euro Thousands	2008	2007
Exchange rate losses [1]	15,791	10,081
Restructuring expenses	3,384	4,430
Cost of additions to valuation allowances on receivables	2,102	1,602
Miscellaneous other operating expenses	10,421	13,987
Total	31,698	30,100

[1] Note as a result of absence without offsetting balanced of appropriate currency gains at „Other operating income"

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

39. Result from investments accounted for using the equity method

The result from companies accounted for using the equity method contains income from investments in an associated company in the amount of Euro 120 thousand (previous year: Euro 384 thousand).

40. Finance income

Finance income consists of:

in Euro Thousands	2008	2007
Interest income from		
Cash and cash equivalents	5,060	4,540
Loans and receivables	790	385
Held-to-maturity investments	1,260	340
Other interest income	474	1,178
Total interest income	**7,584**	**6,443**
Income from available-for-sale financial instruments	-	3
Other finance income	24	40
Total finance income	**7,608**	**6,486**

Finance income increased by Euro 1,122 thousand to Euro 7,608 thousand in the reporting year. This was primarily due to medium-term investments conducted during the course of the year, which resulted in interest income of Euro 1,260 thousand (previous year: Euro 340 thousand).

41. Finance expenses

Finance expenses developed as follows in the year under review:

in Euro Thousands	2008	2007
Finance expenses from		
Overdraft facilities	-4,663	-4,273
Long-term borrowing interest	-2,267	-2,047
Other interest expenses	-8	-68
Total interest expenses	**-6,938**	**-6,388**
Expenses from financial assets, held for trading	-	-156
Other finance expenses	-1	-0
Total finance expenses before changes in provisions	**-6,939**	**-6,544**
Interest component of changes in provisions (mainly due to pensions)	-8,739	-9,343
Total finance expenses	**-15,678**	**-15,887**

42. Net finance expense

Net finance expense is composed as follows:

in Euro Thousands	2008	2007
Net interest income/expense from financial instruments classified as		
Cash and cash equivalents	397	266
Loans and receivables/other liabilities	-1,477	-1,662
Held-to-maturity investments	1,260	340
Total net interest income/expense in accordance with IFRS 7	**180**	**-1,056**
Interest expense from assets and liabilities not measured in accordance with IAS 39	-8,273	-8,233
Other	23	-112
Total net finance expense	**-8,070**	**-9,401**

43. Income taxes

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

Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These are generally based on the legislation in force or substantially enacted as of the balance sheet date. In Germany, the tax rate for deferred taxes from temporary differences is 29.5%, while the tax rate for deferred taxes from tax loss carryforwards is 15.83% (corporate income tax) plus 13.67% (trade tax). Foreign income tax is calculated on the basis of the applicable statutory provisions and ordinances in the respective countries. The resulting income tax rates vary from 16.0% to 42.9%.

in Euro Thousands	2008	2007
Taxes paid or due in Germany	-2,323	-648
Taxes paid or due abroad	-1,486	-4,225
	-3,809	-4,873
Deferred taxes	-1,190	-1,032
Income taxes	-4,999	-5,905
thereof from continued operations	-4,999	-5,608
from discontinued operations	-	-297

The effective tax rate is 31.16% (previous year: 45.21%). This change is predominantly due to the expenses in connection with the disposal of the Group's tile activities that did not affect taxes in the previous year and the reduction in Germany's corporate income tax rate from 25.0% (2007) to 15.0% (2008).

The difference between this and the German income tax rate, which was 29.5% in 2008 (previous year: 37.7%), is derived as follows:

in Euro Thousands	2008	2007
Result before income taxes	16,041	13,062
Expected income tax (EBT x tax rate of 29.5%/37.7%)	-4,732	-4,924
Differences arising from foreign tax rates	338	2,059
Tax effects arising from:		
Non-deductible expenses	-1,426	-3,963
Other differences	821	923
Actual income tax expense	-4,999	-5,905
Actual tax rate in %	31.16	45.21

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

in Euro Thousands	2008	2007
Change in deferred tax assets	-1,603	-5,454
Change in deferred tax liabilities	791	3,586
Change in deferred tax assets and liabilities taken directly to equity	-378	836
Deferred taxes recognised in the income statement	-1,190	-1,032

44. Result after tax attributable to minority interests

Minority interests accounted for Euro 10 thousand of the result after tax (previous year: Euro 13 thousand).

45. Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year by the weighted number of shares in circulation and are disclosed for each class of shares as follows:

Ordinary shares	31 Dec. 2008	31 Dec. 2007
Number of shares in circulation	14,044,800	14,044,800
Proportionate consolidated results (Euro thousands)	5,549	3,485
Earnings per share (Euro)	0.40	0.25

Preference shares	31 Dec. 2008	31 Dec. 2007
Number of shares in circulation	12,361,771	12,361,771
Proportionate consolidated results (Euro thousands)	5,503	3,686
Earnings per share (Euro)	0.45	0.30

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

46. Depreciation and amortisation

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

in Euro Thousands	2008	2007
Amortisation of intangible assets	1,503	1,298
Goodwill impairment	0	0
Depreciation of property, plant and equipment	35,449	36,063
Write-downs of property, plant and equipment	987	0
Depreciation of investment property	810	828
Write-downs of financial assets	0	7,835
Total depreciation and amortisation (continued operations)	**38,749**	**46,024**
Depreciation and amortisation (discontinued operations)	-	3,197
Total depreciation and amortisation	**38,749**	**49,221**

47. Cost of materials

The cost of materials comprises the following:

in Euro Thousands	2008	2007
Cost of raw materials and supplies (including primary products)	144,736	149,187
Cost of purchased goods	96,125	93,353
	240,861	**242,540**
Cost of purchased services	46,793	41,523
Total cost of materials (continued operations)	**287,654**	**284,063**
Cost of materials (discontinued operations)	-	49,478
Total cost of materials	**287,654**	**333,541**

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

48. Personnel expenses

Personnel expenses are composed as follows:

in Euro Thousands	2008	2007
Wages and salaries	232,934	228,376
Post-employment benefit costs		
Defined benefit plans	11,053	10,864
Defined contribution plans [1]	17,531	16,658
Termination benefits	3,190	3,529
Other benefits	31,790	29,521
Total personnel expenses (continued operations)	**296,498**	**288,948**
Personnel expenses (discontinued operations)	-	21,075
Total personnel expenses	**296,498**	**310,023**

[1] Primarily containing employer´s constribution to state-organised collective pension schemes.

Average number of employees in continued operations:

Number of employees	2008	2007
wage earners	6,255	5,475
Salaried employees	3,938	3,746
	10,193	9,221

Of the workforce as a whole, a total of 3,001 people are employed in Germany (previous year: 2,849), with the remaining 7,192 employed outside Germany (previous year: 6,372).

Number of employees	2008	2007
Bathroom and Wellness	6,879	5,931
Tableware	2,894	2,848
Others	420	442
	10,193	9,221

The growth in the workforce is due to acquisitions.

49. Other taxes

Other taxes amounted to Euro 3,741 thousand (previous year: Euro 4,918 thousand) and are composed as follows:

» See table 78 page 80

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

50. Cash flow from operating activities

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

In the year under review, cash flow from operating activities declined by Euro 41,891 thousand year-on-year to Euro 17,479 thousand. This significant change was primarily attributable to the reduction

78 Composition of other taxes items

in Euro Thousands	2008		2007	
	Germany	Abroad	Germany	Abroad
Wealth tax	0	223	0	243
Real estate tax	445	1,036	831	821
Other taxes	41	1,996	-203	2,605
Total (continued operations)	486	3,255	628	3,669
Other taxes (discontinued operations)	-	-	153	468
Total other taxes	486	3,255	781	4,137

in trade payables (Euro 12,144 thousand) and advance payments received on account of orders (Euro 3,933 thousand) and the decrease in other provisions (Euro 13,101 thousand), as well as tax payments (Euro 5,726 thousand). These factors were offset by a reduction in trade receivables, which was partially compensated by the higher level of inventories. The change in amortisation of intangible assets and depreciation of property, plant and equipment is offset by the lower reduction in non-current provisions; these changes relate to the disposal of the Group's tile activities in the previous year.

The consolidated result before taxes was adjusted for the following non-cash income and expense items:

in Euro Thousands	2008	2007
Interest arising from the change in provisions for pensions and similar obligations	8,673	9,227
Income/expenses for tax provisions	2,619	3,585
Income/expenses for deferred taxes	809	1,569
Other non-cash items	-135	-382
	11,966	13,999

51. Cash flow from investing activities

Cash flow from investing activities primarily results from the outflow of funds for investments in non-current assets and the inflow of funds from disposals of non-current assets. Net cash used in investing activities totalled Euro 22,294 thousand in the year under review (previous year: Euro 58,189 thousand).

In the 2008 financial year, a total of Euro 36,157 thousand (previous year: Euro 31,655 thousand) was invested in non-current assets, of which Euro 26,664 thousand (previous year: Euro 29,766 thousand) related to intangible assets and property, plant and equipment and Euro 9,493 thousand (previous year: Euro 1,889 thousand) was primarily attributable to payments for the acquisition of consolidated companies. The significant change in cash flow from investing activities is largely due to the investments in time deposits in the previous year in the amount of Euro 45,219 thousand, of which Euro 20,631 thousand was reversed in 2008. The resulting cash inflow was utilised for an investment in the form of a promissory note with a volume of Euro 20,000 thousand. Cash flow from investing activities was also affected by residual purchase price payments and other contractually agreed payments relating to the disposal of the Group's tile activities in the amount of Euro 7,857 thousand.

52. Cash flow from financing activities

Cash flow from financing activities in 2008 was dominated by the dividend payment. The total cash outflow from financing activities in the year under review was Euro 12,169 thousand (previous year: cash inflow of Euro 59,524 thousand). The main reason for this significant change is the sharp increase in non-current liabilities to banks in the previous year (Euro 70,000 thousand).

53. Cash and cash equivalents

Cash and cash equivalents totalled Euro 58,978 thousand at the balance sheet date (previous year: Euro 75,091 thousand). Foreign currency translation effects amounted to Euro 797 thousand in the year under review (previous year: Euro 231 thousand).

54. Segment reporting

The Villeroy & Boch Group has prepared its segment reporting in accordance with IFRS 8 for the first time. The reporting segments are based on internal management structures. This report focuses on the allocation of resources and the evaluation of the performance of each individual segment. The previous standard (IAS 14) required segmentation to be performed on the basis of a risk/reward approach. The identification of the reporting segments has been modified accordingly.

Group management is organised into two business units based on product groups:

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

The **Tableware** reporting segment produces table services made of faience, vitreous porcelain, fine Vilbo china and bone china, lead-crystal drinking glasses, and ceramic and glass gift articles. The product range is rounded off by cutlery, silverware, lead-crystal drinking glasses and tableware accessories purchased from third parties, among other things.

In the previous year, the Group successively withdrew from the production of wall and floor tiles. Group finance and income taxes are managed on a Group-wide basis and are not allocated to the individual business segments.

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

» See table 80 page 83

The operating result of the two business units is monitored separately as a key performance indicator. Segment operating result (EBIT) is calculated as follows:

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Bathroom and Wellness	15,431	21,079
Tableware	8,680	17,710
Total operating result	**24,111**	**38,789**
Net finance expense (see note 42)	-8,070	-9,401
Profit before taxes	**16,041**	**29,388**
Income taxes (see note 43)	-4,999	-5,608
Consolidated net income	**11,042**	**23,780**

Assets and liabilities are regularly monitored at segment level:

» See table 82 page 83

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

Other segment information:

» See table 83 page 83

In addition to the investments presented above, the Villeroy & Boch Group acquired intangible assets and property, plant and equipment in the amount of Euro 10,130 thousand as a result of business combinations in the Bathroom and Wellness segment. Goodwill of Euro 4,727 thousand was capitalised (see note 3).

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual segments. Additional write-downs and impairment losses in the amount of Euro 987 thousand (previous year: 0) were recognised in income in the Bathroom and Wellness product segment (see note 7).

The following table shows the geographical distribution of revenue from external customers and non-current assets:

» See table 84 page 83

Geographical allocation is based on the domicile of the respective national companies. The Villeroy & Boch Group generates revenue from a large number of customers.

55. Financial instruments

With respect to its assets, liabilities and planned transactions, the Villeroy & Boch Group is subject to risks arising from the volatility of exchange rates, interest rates and market prices in particular. The aim of financial risk management is to limit these market risks though ongoing operating and financing activities. Villeroy & Boch Group Treasury considers the effective management of financial risk to be one of its main responsibilities.

Inventory of financial instruments

The consolidated balance sheet includes the following primary and derivative financial instruments:

» See table 85 page 84

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

» See table 86 page 85

Risk management system

The Villeroy & Boch Group has a functional and effective risk management system with a clear functional organisation. Unequivocal responsibilities are assigned to the individual organisational units involved in the risk control process:

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

Risk Management is responsible for the active control and monitoring of risks. Risk management functions cover the entire process, from the early recognition of risk to the controlling and handling of (residual) risk. As a matter of principle, actual risk management in the sense of "risk response" is the responsibility of process management, i.e. decentrally at divisional level or, for central functions, in the respective departments. The allocation of risk management to the respective process responsibilities ensures that all areas of the Group are involved.

Risk Controlling identifies, measures and evaluates all risks. In particular, the involvement of the controlling team for the respective division serves to ensure that risk management is integrated into the existing Group-wide decentralised controlling organisation. Risk management functions are coordinated centrally in order to guarantee a seamless workflow.

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

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

Management of interest rate risk

Interest rate risk occurs as a result of interest rate fluctuations on the market when Group companies invest or obtain funds at fixed and variable interest rates. The earnings risk arising from interest rate changes is determined on the basis of sensitivity analyses and controlled by Group Treasury, which maintains an appropriate relationship between fixed- and variable-interest borrowings using instruments such as interest rate swaps depending on the market situation. Intercompany financing and refinancing are generally structured with matching maturities.

The Villeroy & Boch Group utilises interest rate swaps for the purpose of cash flow hedging. The hedge transaction is carried at fair value. Net gains and losses are split into an effective and an ineffective portion. The effective portions are initially reported in retained earnings (see note 20) and are not recognised in income until the cash flow is realised, whereas the ineffective portions are recognised in income immediately. The general accounting provisions are the same for the transactions underlying the hedged interest flows. As in the previous year, the Group had only effective hedging relationships in the year under review.

The Group recognised the following hedging instruments at the balance sheet date:

» See table 87 page 83

Fixed interest is settled annually on 30 March and variable interest is settled on 30 March and 30 September. Within these settlement cycles, future interest payments are deferred in the financial result.

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. In the event of a theoretical change in interest rates in the 2008 financial year of +/- 50 bp and assuming all other variables remained constant, the financial result would have been Euro 287 thousand higher/lower (previous year: Euro 500 thousand). Net income for the year would have been affected to the same extent. The sensitivity analysis was performed on the basis

80 Business segments - revenues

in Euro Thousands	Revenue from external customers		Intersegment revenue		Total	
	2008	2007	2008	2007	2008	2007
Bathroom and Wellness	521,081	522,170	743	1,329	521,824	523,499
Tableware	319,803	326,415	14	116	319,817	326,531
Total segment revenue	840,884	848,585	757	1,445	841,641	850,030
Eliminations	0	0	-757	-1,445	-757	-1,445
Consolidated revenue	**840,884**	**848,585**	**0**	**0**	**840,884**	**848,585**

82 Business segments - monitored assets and liabilities

in Euro Thousands	Assets		Liabilities	
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
Bathroom and Wellness	378,848	374,895	116,472	128,801
Tableware	173,891	178,494	50,242	52,491
Reconciliation	219,571	251,499	274,659	279,022
Total	772,310	804,888	441,373	460,314

83 Business segments - other information

in Euro Thousands	Additions of intangible assets and property, plant and equipment		Depreciation and amortisation	
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
Bathroom and Wellness	19,750	20,172	23,476	22,215
Tableware	6,914	8,225	14,286	15,974
Total	26,664	28,397	37,762	38,189

84 Business segments - geographical distribution

in Euro Thousands	Revenue from external customers		Non-current assets*	
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
Germany	405,721	385,309	89,064	90,449
Eurozone excl. Germany	185,166	187,496	53,007	57,590
Other international destinations	249,997	275,780	123,903	122,279
Total	840,884	848,585	265,974	270,318

* In accordance with IFRS 8.33 (b)

87 Interest rate swaps

Final maturity	Currency	Nominal volume	Fair value in '000	Fixed interest	Reference interest
30 Mar. 2009	EUR	7,000,000	212	5.71 %	6-month Euribor
30 Mar. 2010	EUR	5,000,000	318	5.76 %	6-month Euribor

of the average interest rate risk exposure of derivative and primary financial instruments as of 31 December, taking into account the major interest rate currencies at the appropriate interest level.

In the past financial year, there were no changes in the market risk exposures of the Villeroy & Boch Group or the risk controlling and evaluation methods applied.

Management of exchange rate risk

In the course of its global business activities, the Group is exposed to exchange rate risk arising from planned and recognised transactions in foreign currencies. The Villeroy & Boch Group hedges exchange rate risk over a period of 12 months. The required hedging volume is first determined by netting receivables and liabilities throughout the Group for each currency. The remaining exchange rate risk is initially hedged at a level of 95%.

At the Villeroy & Boch Group, the planned future revenue in various foreign currencies arising from operating activities is designated as an underlying. Cash flow hedges are measured using the procedure described for the management of interest rate risk. Currency futures securitised with firstclass banks are employed as hedging transactions. Effectiveness is tested prospectively by way of sensitivity analysis and examined retrospectively using the dollar offset method. Planned and realised foreign-currency revenue is verified on the basis of a target/actual comparison. In the past financial year, the Group reported ineffective hedges in the amount of Euro 64 thousand (previous year: 0).

The Group's currency futures are contracted as follows:

	Assets		Liabilities	
	Nominal volume	Fair value	Nominal volume	Fair value
within the next 3 months	10,794	1,127	7,545	976
in 3 to 6 months	11,046	1,189	7,311	872
in 6 to 12 months	21,918	2,460	18,681	2,101
	43,758	4,776	33,537	3,949

85 Financial instruments in hand as of Dec. 2008

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

Valuation class:	Amortised cost	Fair Value	Carrying amount at 31 Dec.2008	Fair value at 31 Dec. 2008
Valuation category: / Balance sheet item	Other liabilities	Hedge Accounting		
in Euro Thousands				
Trade payables	56,636	-	56,636	56,636
Liabilities from financial services	77,491	-	77,491	77,491
Other liabilities	43,759	10,365	54,124	54,124
	177,886	**10,365**	**188,251**	**188,251**

At the reporting date, there were no material unhedged currency positions.

Sensitivities were calculated on the basis of foreign-currency balance sheets, assuming a 10% appreciation/depreciation in key currencies (see note 5):

» See table 89 page 86

In the previous year, the effects were as follows:

» See table 90 page 86

In the past financial year, there were no changes in the market risk exposures of the Villeroy & Boch Group or the risk controlling and evaluation methods applied.

Management of market price risk

Market price risk results from changes in the price of purchased commodities used in the Villeroy & Boch Group's value chain, such as raw materials and supplies. The Villeroy & Boch Group limits this volatility where possible. As part of risk management, the Group identifies the commodity hedging volume. The purchase prices for natural gas and brass are hedged using derivative financial instruments.

The purchase price for natural gas, which is used to fire production kilns, is linked to quoted oil prices in Luxembourg and Germany. Price fluctuations are eliminated by concluding oil swaps with planned future gas consumption at the Group's sites as the designated underlying. Swaps entered into for hedging purposes are only concluded with first-class banks. In the same way as for interest rate and exchange rate hedges, these items are accounted for as cash flow hedges. Prospective effectiveness was confirmed by a sensitivity analysis, while retrospective effectiveness is determined using the dollar offset method. To this end, the cumulative absolute change in the fair value of the commodity swaps designated as hedging instruments is compared with the cumulative absolute change in the fair value of commodity orders. The ineffective portion is identified by way of monthly retrospective testing. At the balance sheet date, the Group reported ineffective hedges in the amount of Euro -11 thousand.

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

	Nominal volume		Fair value
	Tons	*Euro'000*	*Euro'000*
within the next 3 months	4,888	1,965	1,049
in 3 to 6 months	2,778	1,117	500
in 6 to 12 months	8,334	3,351	1,358
in more than 12 months	10,468	4,217	1,533
	26,468	**10,650**	**4,440**

86 Financial instruments in hand as of Dec. 2007

Valuation class: / Valuation category: / Balance sheet item	Nominal amount	Amortised cost			Fair value		Carrying amount at 31 Dec. 2007	Fair value at 31 Dec. 2007
	Cash reserve	Loans and receivables	Available-for-sale	Held to maturity	Available-for-sale	Hedge accounting		
in Euro Thousands								
Cash and cash equivalents	75,091	-	-	-	-	-	75,091	75,091
Trade receivables	-	135,008	-	-	-	-	135,008	135,008
Other receivables	-	21,729	0	0	0	-	21,729	21,729
Loans to related and third parties	-	12,766	0	0	0	-	12,766	12,766
Other financial assets	-	0	12,280	45,219	0	2,099	59,598	59,598
	75,091	**169,503**	**12,280**	**45,219**	**0**	**2,099**	**304,192**	**304,192**

Valuation class: / Valuation category: / Balance sheet item	Amortised cost	Fair Value	Carrying amount at 31 Dec.2007	Fair value at 31 Dec. 2007
	Other liabilities	Hedge Accounting		
in Euro Thousands				
Trade payables	66,782	-	66,782	66,782
Liabilities from financial services	71,972	-	71,972	71,972
Other liabilities	48,950	1,733	50,683	50,683
	187,704	**1,733**	**189,437**	**189,437**

At the balance sheet date, the Group had an unhedged gas position of around 6,724 metric tons. In the event of a change in quoted crude oil prices of +/-10% and assuming that all other variables remained constant, the carrying amounts at 31 December 2008 would have been Euro 109 thousand higher/lower. The ineffective portion would have had an effect of +/- Euro 3 thousand on the income statement.

The Group enters into derivative financial instruments to hedge the price risk arising from brass alloys for high-quality sanitary fittings. In the same way as for gas contracts, these items are accounted for as cash flow hedges with monthly requirements based on production planning as the designated underlying. The hedged price for the respective planning period was determined by way of futures contracts with a first-class bank. Prospective effectiveness is tested using the critical term match method, as the valuation parameters – such as volume and maturity – coincide on both sides. Retrospective effectiveness is determined using the dollar offset method. To this end, the cumulative absolute change in the fair value of the futures contract is compared with the cumulative absolute change in the fair values of the designated commodity exposures. Full effectiveness is documented by monthly retrospective testing.

The following table presents the cash flows:

	Nominal volume		**Fair value**
	Tons	*Euro'000*	*Euro'000*
within the next 3 months	300	864	370
in 3 to 6 months	300	864	364
in 6 to 12 months	600	1,729	712
	1,200	**3,457**	**1,446**

Due to the market situation, all contracts are currently reported in financial liabilities.

At the balance sheet date, the Group had an unhedged brass position of around 150 tons. 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 2008 would have been Euro 23 thousand higher/lower, while the income statement would not have been affected.

In the past financial year, the definition of underlyings was revised as there were no fixed delivery obligations at the designation date, meaning that the hedges for the 2009 financial year could not be accounted for as fair value hedges. In a fair value hedge, the hedge

89 Currency sensitivities 2008

Scenario analysis in Euro thousands	**MXN**	**SEK**	**USD**	**HUF**
Scenario 1 (appreciation of:)	10%	10%	10%	10%
Revenue	2,973	8,744	4,069	5,192
Operating result (EBIT)	-127	-286	-40	535
Equity	-223	-233	-6	471
Scenario 2 (depreciation of:)	-10%	-10%	-10%	-10%
Revenue	-2,973	-8,744	-4,069	-5,192
Operating result (EBIT)	127	286	40	-535
Equity	223	233	6	-471

90 Currency sensitivities 2007

Scenario analysis in Euro thousands	**MXN**	**SEK**	**USD**	**HUF**
Scenario 1 (appreciation of:)	10%	10%	10%	10%
Revenue	3,567	9,648	5,947	5,595
Operating result (EBIT)	92	386	215	1,047
Equity	153	244	158	1,412
Scenario 2 (depreciation of:)	-10%	-10%	-10%	-10%
Revenue	-3,567	-9,648	-5,947	-5,595
Operating result (EBIT)	-92	-386	-215	-1,047
Equity	-153	-244	-158	-1,412

transaction and the secured risk portion of the underlying are measured at fair value and realised simultaneously in income. The conversion to a cash flow hedge resulted in a change in presentation in the current financial statements. Above and beyond this, there were no changes in the market risk exposures of the Villeroy & Boch Group or the risk controlling and evaluation methods applied.

Further information on general procurement market risk can be found in the Management Report.

Management of credit/default risk

Credit and default risks arise if a contractual party fails to meet its contractual obligations, e.g. if a bank completely or partially defaults in connection with investments or if customers completely or partially default in connection with sales. In order to minimise and control these risks, the guidelines of the Villeroy & Boch Group state that business relationships may only be entered into with creditworthy business partners and, if necessary, subject to the provision of collateral.

For banks, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established on the basis of predefined categories derived from the ratings issued by international rating agencies or internal examinations of creditworthiness. Default risk is regularly monitored insofar as compliance with the established limits for banks is ensured on an ongoing basis and limits are adjusted to reflect changes in market conditions as appropriate. Default risk for investments and derivative financial instruments are negligible, as the respective contractual parties have a rating of at least A-/A3 as issued by international rating agencies. External security may also be provided for the respective investment, e.g. by the Deposit Protection Fund of the Association of German Banks, the joint liability scheme of the Sparkassen-Finanzgruppe or the protection scheme of the German Cooperative Banking Group.

The Group has trade receivables with a large number of customers around the world. These trade receivables are allocated to Villeroy & Boch's divisions. Receivables from customers in key markets are protected through the conclusion of trade credit insurance. The default risk for uninsured customers is controlled by way of reporting and a limit system. Compliance with limits is centrally monitored. Villeroy & Boch counters potential default risk through the receipt of collateral from customers (mortgages, guarantees, etc.), prompt collection measures and the early recognition of specific valuation allowances. Specific valuation allowances are recognised in particular in the event of significant financial difficulties on the part of the debtor and impending bankruptcy. The maximum theoretical default risk corresponds to the total carrying amount of receivables from customers (see note 13). Customer defaults could have a negative effect on Villeroy & Boch's business development, although a significant impact on earnings is considered to be unlikely in light of the risk control instruments described above.

Management of liquidity risk

An appropriate liquidity risk management concept is in place for controlling short-term, medium-term and long-term financing and liquidity requirements. In order to ensure the permanent solvency and financial flexibility of Villeroy & Boch, the Group controls liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and performing a 12-month liquidity projection supplemented by short-term liquidity forecasts.

The financial instruments used for this purpose are money market products (see note 17), medium-term time deposits (see note 10) and borrowings (see note 29). Within the Group, the financing requirements of Group companies are generally covered in full by internal lending. To the extent that legal, tax or other circumstances do not permit this, external loans are provided for the Group companies involved. This allows the cost-effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. Villeroy & Boch utilises international cash pooling systems in order to reduce external finance volumes and optimise its financial result.

Central Treasury receives information from all Group companies in order to allow it to prepare a liquidity profile. The 12-month liquidity projection is used to monitor forecast and actual cash flows on an ongoing basis. The maturity profiles of financial assets and liabilities are also compared. In addition to a cash flow statement and the three general liquidity classes, the Villeroy & Boch Group uses key figures such as the dynamic debt/equity ratio, debt coefficients and working capital to control its liquidity risk.

The remaining contractual terms of financial liabilities are included in liquidity planning as follows:

» See table 93 page 88

The undiscounted payment obligations disclosed above are based on the earliest date on which the Group can be required to make payment.

There is no significant concentration of liquidity risk within the Villeroy & Boch Group. In the past financial year, there were no changes in the risk exposures of the Villeroy & Boch Group or the risk controlling and evaluation methods applied.

Other disclosures on financial instruments

In the year under review, the following net results were generated from the utilisation of primary and derivative financial instruments:

» See table 94 page 89

93 Liquidity planning

in Euro Thousands	Carrying amount at 31 Dec.	Cash outflow expected in the following time bands: Gross	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Primary financial instruments:						
Trade payables	56,636	56,636	56,636	0	0	0
Liabilities from financial services	77,491	88,440	1,448	9,373	77,619	0
Other liabilities	43,759	43,841	31,344	10,983	1,514	0
Derivative financial instruments Hedges with negative fair values	**10,365**	**48,620**	**11,062**	**33,053**	**4,505**	**0**
Totals at 31 December 2008	**188,251**	**237,537**	**100,490**	**53,409**	**83,638**	**0**
Primary financial instruments:						
Trade payables	66,782	66,782	66,782	0	0	0
Liabilities from financial services	71,972	84,422	1,371	1,737	81,314	0
Other liabilities	48,950	50,762	37,110	12,001	1,651	0
Derivative financial instruments Hedges with negative fair values	1.733	79.888	5.761	70.560	3.567	0
Totals at 31 December 2007	**189,437**	**281,854**	**111,024**	**84,298**	**86,532**	**0**

94 Net results of financial instruments

in Euro Thousands	Remeasurement result Fair value	Currency	Valuation adjustment	Disposals	Total
Net result for the 2008 financial year					
Loans and receivables/other liabilities	-	601	-3,253	723	-1,929
Available-for-sale financial instruments	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-
Cash flow hedge accounting	-5,153	-11	0	-1,919	-7,083
Fair value hedge accounting	0	0	0	684	684
Net result for the 2007 financial year					
Loans and receivables/other liabilities	-	-103	8,650	0	8,547
Available-for-sale financial instruments	-	-	41	5	46
Held-to-maturity investments	-	-	-	156	156
Cash flow hedge accounting	2,532	15	0	1,652	4,199
Fair value hedge accounting	-666	0	0	-4	-670

56. Contingent liabilities and commitments

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Guarantees	84	-
Trustee obligations	259	315
Other contingencies	15	19

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

57. Other financial obligations

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Obligations arising from orders placed		
for investments in intangible assets	66	2
for investments in property, plant and equipment	1,884	446

58. Related party disclosures

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

Villeroy & Boch AG, Germany, is the ultimate controlling entity of the Villeroy & Boch Group. Transactions between Villeroy & Boch AG and its subsidiaries and between subsidiaries primarily relate to the exchange of work in process, finished goods and merchandise. 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 9). From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to this company was insignificant.

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

in Euro Thousands	31 Dec. 2008	31 Dec. 2007
Revenue	131	37
Other income and expenses	7,919	3,685
Receivables	2,760	4,806
Liabilities	-8	-194

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

A long-term loan granted to Villeroy & Boch Fliesen GmbH is discussed in note 10(c).

Related persons or their family members employed within the Villeroy & Boch Group receive compensation based on their position and/or function that is paid independently of the identity of the holder of the position

59. Supervisory Board and Management Board remuneration in accordance with section 314 HGB

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.

A resolution of the General Meeting of Shareholders on 30 May 2008 increased the fixed annual basic remuneration by Euro 8,000 to Euro 20,000. The Chairman of the Supervisory Board receives an additional Euro 45,000 (up Euro 17,000), while the Deputy Chairman receives an additional Euro 13,500 (up Euro 5,500). Since 1 June 2008, members of the Supervisory Board have received a meeting fee of Euro 1,250 for each meeting of the full Supervisory Board.

The Chairman of the Investment Committee (Peter Prinz Wittgenstein) and the Chairman of the Audit Committee (Charles Krombach) each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the committees (Investment Committee:

Wendelin von Boch-Galhau and Dietmar Langenfeld; Audit Committee: Peter Prinz Wittgenstein and Werner Jäger) each receive Euro 2,500 p.a. in addition to their basic remuneration.

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

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

In the past financial year, the members of the Supervisory Board of Villeroy & Boch AG received the following remuneration:

» See table 98 page 91

As in the previous year, Mr. Luitwin Gisbert von Boch-Galhau received remuneration of Euro 3,000 for his chairmanship of a supervisory board of a subsidiary within the meaning of section 125 of the AktG (German Stock Corporation Act).

The consolidated result for the 2008 financial year contains expenses of Euro 518 thousand including the projected variable remuneration components for 2008 as of the balance sheet date (previous year: Euro 351 thousand). In accordance with the accrual basis of accounting, expenses were recognised for the variable remuneration components for 2008 in the amount of Euro 74 thousand (previous year: Euro 11 thousand) and for outstanding meeting fees in the amount of Euro 15 thousand. The members of the Supervisory Board were

98 **Supervisory board - earning**

in Euro Thousands	Fixed remuneration	Meeting fees	Variable remuneration for 2007	Total	Prior year
Peter Prinz Wittgenstein	64	3	6	73	53
Dr. Alexander von Boch-Galhau	12	3	-	15	-
Eugen von Boch	12	3	-	15	-
Wendelin von Boch-Galhau	26	3	3	32	7
Hannsgeorg Edinger	17	3	6	26	18
Dietmar Langenfeld	19	3	6	28	13
Charles Krombach	21	3	6	30	20
Dr. Jürgen Friedrich Kammer	18	3	6	27	17
Ralf Runge	26	3	6	35	20
Werner Jäger	18	3	3	24	5
Ralf Sikorski	13	3	-	16	-
Jürgen Beining	12	3	-	15	-
Luitwin Gisbert von Boch-Galhau (until 30 May 2008)	9	-	6	15	29
Ulrich Küppers (until 30 May 2008)	8	-	6	14	23
Emmanuel Villeroy de Galhau (until 30 May 2008)	5	-	5	10	18
Wolfgang Thieser (until 30 May 2008)	5	-	3	8	5
Kilian von der Tann (until 1 June 2007)	-	-	2	2	14
Josef Balle (until 30 June 2007)	-	-	3	3	16
Berthold Scholtes (until 30 June 2007)	-	-	3	3	11
Ina Rauls (until 31 December 2006)	-	-	-	-	5
Rounding differences	-	-6	-3	-9	-
	285	30	67	382	274

reimbursed expenses totalling Euro 44 thousand (previous year: Euro 63 thousand).

Management Board remuneration

The remuneration paid to members of the Management Board in the amount of Euro 1,687 thousand (previous year: Euro 2,333 thousand) is composed of fixed (Euro 845 thousand; previous year: Euro 890 thousand) and variable salary components (Euro 842 thousand; previous year: Euro 1,443 thousand). In the past financial year, the Villeroy & Boch Group paid insurance premiums for Management Board members in the amount of Euro 2 thousand (previous year: Euro 4 thousand). The members of the Management Board received remuneration in kind totalling Euro 51 thousand (previous year: Euro 57 thousand).

The pension entitlements of Management Board members in the amount of Euro 1,707 thousand (previous year: Euro 1,723 thousand) are included in provisions for pensions. Provisions for pensions for former members of the Management Board amount to Euro 13,363 thousand (previous year: Euro 14,267 thousand). In the past financial year, former members of the Management Board received pension benefits totalling Euro 1,742 thousand (previous year: Euro 1,324 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.

60. Events after the balance sheet date

There are no significant events to report.

61. Proposal on the appropriation of Villeroy & Boch AG retained earnings

The Supervisory Board and the Management Board propose that the retained earnings of Euro 23,642,787.62 be used to distribute a dividend of Euro 0.32 per ordinary share and Euro 0.37 per preference share. This corresponds to the following total dividend payment:

in Euro	
Ordinary share capital	4,494,336,00
Preference share capital	5,196,576,00
	9,690,912,00

The remaining retained earnings in the amount of Euro 13,951,875.62 will be carried forward to new account.

If the Company still holds treasury shares at the date of the resolution on the appropriation of retained earnings, the dividend payment for the preference share capital shall be reduced by the amount attributable to those treasury shares and the amount of retained earnings carried forward to new account shall be increased accordingly. Information on treasury shares can be found in note 18.

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

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG for the 2008 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 16 December 2008. The declaration is permanently available to shareholders on the Internet.

63. Auditors' fees and services in accordance with section 314 HGB

The fees paid to the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, are composed as follows:

in Euro Thousands	2008	2007
Audit of financial statements	348	304
Other assurance or valuation services	5	11
Tax advisory services	55	46
Other services	17	51

These fees also include remuneration paid to other KPMG companies classified as subsidiaries of KPMG AG Wirtschaftsprüfungsgesellschaft within the meaning of section 271 (2) HGB. Fees totalling Euro 24 thousand were recognised for the audit of the financial statements of our subsidiaries in Spain and Switzerland in the year under review.

64. Developments in the IASC Framework

The following publications by the IASC Foundation were adopted by the EU and are required to be applied for financial years beginning after 31 December 2008:

Standard	Name
IAS 1	Presentation of Financial Statements
IAS 23	Borrowing Costs
IFRS2	Amendment to IFRS 2 "Share-based Payment"
IFRIC13	Customer Loyalty Programmes
IFRIC14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRS 1 & IAS 27	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of Investments in Subsidiaries, Jointly Controlled Entities and Associates
n.a.	Improvements to the International Financial Reporting Standards
IAS 32	Amendments to IAS 32 Financial Instruments: Presentation
IAS 1	Amendments to IAS 1 Presentation of Financial Statements

The EU has not yet adopted the following IASC publications:

Standard	Name
IFRS 3	Business Combinations
IFRS 1	First-time Adoption of International Financial Reporting Standards
Amendments to IAS 27	Consolidated and Separate Financial Statements
Amendments to IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition
IFRIC 12	Service Concession Arrangements
IFRIC15	Agreements for Construction of Real Estate
IFRIC16	Hedges of a Net Investment in a Foreign Operation
IFRIC17	Distributions of Non-Cash Assets to Owners

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. Following the recognition of the amended IAS 23 by the EU, financing costs must be capitalised for assets with creation processes lasting several months with effect from 1 January 2009. Based on current capital expenditure planning, financing costs can only be capitalised for a small number of projects. According to the information available at present, the Villeroy & Boch Group will only be affected by the changes described above to a marginal extent.

Mettlach, 5 March 2009

Frank Göring   Manfred Finger   Volker Pruschke

For reasons of clarity the combined management report of the Villeroy & Boch AG and the Villeroy & Boch-Group was shortened in this annual report by those texts coherent with the annual financial statements of the Villeroy & Boch AG.

The auditor has issued the unqualified audit option for the complete consolidated financials statements of the Group, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements as well as the unabridged combined management report of the Company and the Group.

The complete text of the combined management report will be published with the German elektronischer Bundesanzeiger.

Auditor's Report

We have audited the consolidated financial statements prepared by the Villeroy & Boch Aktiengesellschaft, Mettlach, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the combined management report of the Company and the Group for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Cologne, 5 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kraus
Qualified auditor

Braun
Qualified auditor

Major Consolidated Companies

Affiliated Companies

Division Bathroom and Wellness

Germany	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen
Belgium	Villeroy & Boch Wellness N.V., Roeselare
France	Villeroy & Boch S.A.S., Paris
Netherlands	Ucosan Holding B.V., Roden
Rumania	S.C. Mondial S.A., Lugoj
Sweden	Villeroy & Boch Gustavsberg AB, Gustavsberg
Thailand	Nahm Sanitaryware Co. Ltd., Bangkok
Czech Repubic	Vagnerplast spol. S.r.o., Velké Prítocno - Unhost
Hungary	Villeroy & Boch Magyarország Kft., Hódmezövásárhely
Mexico	Vilbomex S.A. de C.V., Saltillo

Division Tableware

Germany	Villeroy & Boch Creation GmbH, Mettlach
Luxembourg	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg, Luxembourg
France	Villeroy et Boch Arts de la Table S.A., Paris
Switzerland	Villeroy & Boch Creatable AG, Lenzburg
Canada	Villeroy & Boch Tableware Ltd., Aurora
Australia	Villeroy & Boch Australia Pty. Ltd., Frenchs Forest

Division-spanning companies

UK	Villeroy & Boch (U.K.) Ltd., London
Spain	Villeroy & Boch Hogar S.L., Barcelona
Austria	Villeroy & Boch Austria G.m.b.H., Salzburg
USA	Villeroy & Boch USA Inc., Princeton

ANNUAL MEETING OF SHAREHOLDERS

15 May 2009
3 pm
Townhall Merzig ("Stadthalle Merzig")

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

30 April 2009,

on the first half-year on

30 July 2009

and on the first three quarters of the year on

29 October 2009.

Dear Shareholders,

For further information, please contact:
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Designed @ FDESiGN

Villeroy & Boch
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