Villeroy & Boch
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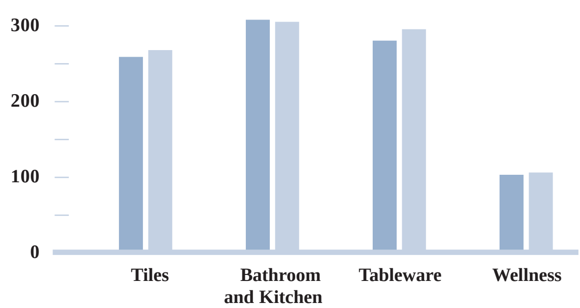
ANNUAL REPORT 2003

		2003	2002	2001
Sales	Euro million	948.6	977.5	975.2
EBITDA				
after special expense	Euro million	53.0	87.9	86.9
before special expense	Euro million	78.5	94.7	86.9
EBIT				
after special expense	Euro million	-17.6	27.0	27.0
before special expense	Euro million	20.8	33.8	27.0
EBT	Euro million	-30.8	13.6	15.2
Group results for the year	Euro million	-25.4	10.3	9.6
Balance sheet total	Euro million	842.7	880.3	880.9
Cash flow from operating activities	Euro million	52.3	71.0	40.0
Capital expenditure	Euro million	59.4	66.1	54.3
Depreciation	Euro million	70.6 [1)]	60.9	59.9
Employees (annual average)	number	10,812	11,010	10,916
Percentage return on sales	in percent	-2.7	1.1	1.0
Equity ratio	in percent	39.4	42.4	43.0
Return on equity (ROE)	in percent	-7.6	2.8	2.5
Cash flow profitability	in percent	5.5	7.3	4.1
Net earnings per ordinary share	Euro	-0.99	0.35	0.32
Net earnings per preference share	Euro	-0.94	0.40	0.37
Dividend per ordinary share	Euro	0.25	0.50	0.50
Dividend per preference share	Euro	0.30	0.55	0.55

[1)] of which Euro 0.6 million financial assets

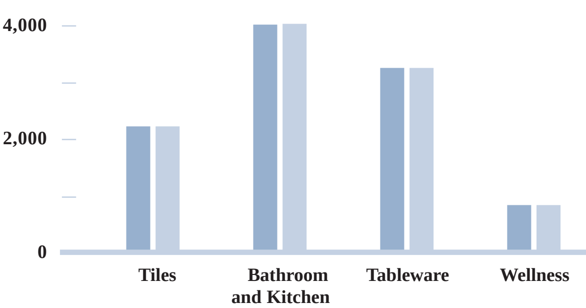
Sales 2003

(Euro Million) 2003 2002



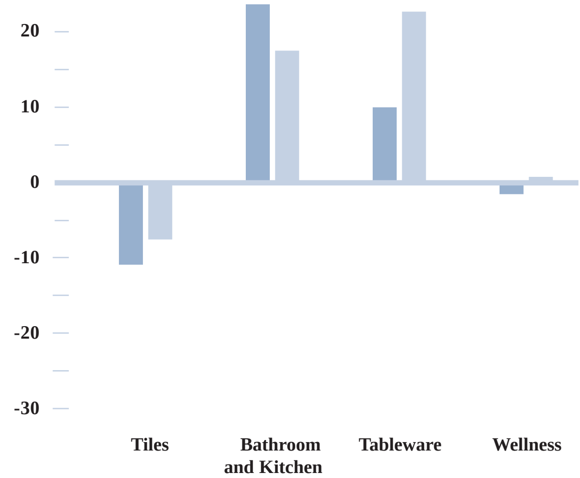
Employees 2003 (annual average)

(Number) 2003 2002



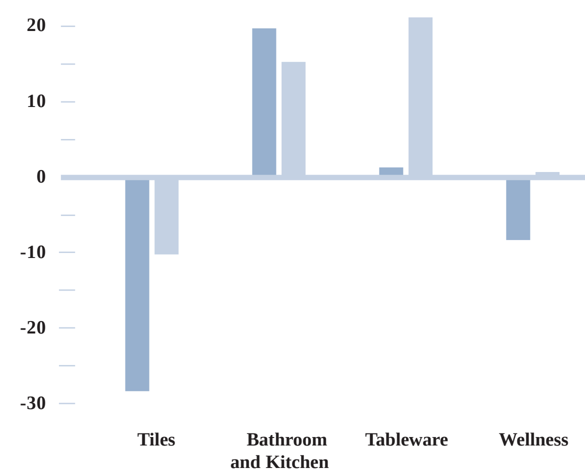
EBIT 2003 before special expense

(Euro Million) 2003 2002



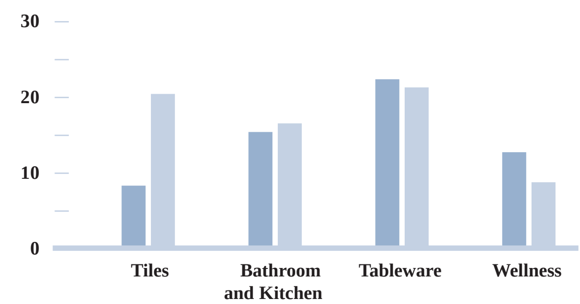
EBIT 2003 after special expense

(Euro Million) 2003 2002



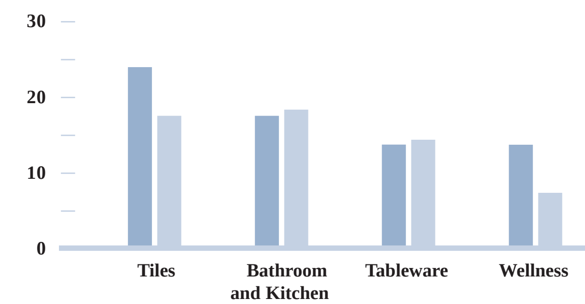
Capital expenditure 2003

(Euro Million) 2003 2002



Depreciation 2003

(Euro Million) 2003 2002



[1]) The new Project Business Division has been excluded.

L I S T   O F   C O N T E N T S

Dear shareholders and business associates,

The 2003 business year was in many respects an exceptional year for our company.
It was influenced on the one hand by an economic environment whose development was far from that expected, and on the other by burdens on result caused by expenses incurred for converting production processes and special expenses for restructuring measures.

The earnings position in the 2003 business year was determined firstly by high expenses for converting production, and additionally by special expenses for restructuring measures in the order of Euro 38 million. Without these special expenses EBT would have been reported at roughly Euro 8 million.

General Business Climate

The overall underlying economic conditions in the first half of 2003 were initially influenced by the war in Iraq and the lung disease SARS in Asia. Within the European Union there was, above all, evidence of the same stagnation of industrial production which has already existed in Germany for three years. In addition, our price competitiveness suffered as a consequence of the strong increase in the exchange rate of the Euro to the US Dollar. As the situation on the employment market remained generally strained and uncertainty prevailed regarding future social, economic and fiscal policies, a decline was seen in private consumption expenditure in Germany. These negative trends had a particularly strong effect on the German retail trade, which reported lower sales for the second year in succession. In the construction industry, Villeroy & Boch's second most important market segment, the domestic market recession continued for its ninth consecutive year.

Business Trend

We were able to evade these negative underlying conditions in Germany owing to our high share of foreign sales, which accounted for 70 % of total sales in 2003 and were thus on the prior-year level. Foreign sales still only constituted a mere 46 % of total sales in 1996.
While in previous years the company was able to rely on rising foreign demand to over-compensate – sometimes considerably – for the declining sales trend on the domestic market, this was no longer the case in 2003. For the first time in years, the company even had to record declines in the area of foreign sales, though these were brought about mostly by currency fluctuations. Had exchange rates remained the same as in the previous business year, sales of -3.2 % would instead have been reported as -1.2 %.
Extreme differences were noted in the individual Division trends in the 2003 business year.
Although only minimal sales increases were reported in the Bathroom and Kitchen Segment of the Bathroom, Kitchen and Tile Division, the results it achieved were clearly better than in the previous year. EBIT rose 24 %. This Division has two major production locations in low-wage countries, which lead, on the whole, to an improved position with regard to costs and competition. It is planned to develop these factories further. An investment programme was consequently launched at the end of 2003 for Romania with the aim of increasing production capacity at this location by roughly 50 %. Against a background of hotly-contested, recessionary markets, the Bathroom and Kitchen Business Segment succeeded in winning back lost market shares, thus creating a sound basis for profitable future growth. The Tile Business Segment experienced a distinct sales decline which was coupled with falling demand on the domestic market – a situation which has been

The Executive Board of Villeroy & Boch AG: Ralf Mock, Dr Bernard Wientjes, Wendelin von Boch-Galhau, Richard Zimmermann, Manfred Finger and Peter von der Lippe.

prevalent for years. While tile consumption still totalled 184 million m^2 in the year 2000, this figure declined even further in 2003 to 139 million m^2. The adjustment of structural costs constituted an important measure for cutting costs and safeguarding results. It was not, however, sufficient to compensate for the deterioration in result brought about by the decline in net proceeds. It is planned to sell two factories abroad and the French trading companies during the current year. Production will then be concentrated at four locations. In view of this planned reduction of tile business, a total of Euro 17.4 million has been taken into account for special expenses in the annual financial statements. Costs saved as a result of these measures should contribute towards improving the results of this business segment once again.

The Wellness Division business trend in 2003 was marked by the specialisation and integration of the recently acquired factory locations in Sweden, the Czech Republic, Italy and Belgium. The expenses for these measures and also the costs incurred for logistic-sector reorganisation led to a loss for the 2003 business year. It was, however, possible to improve the Division's cost position and thus its competitiveness, so that positive effects are anticipated as early as 2004.

Currency exchange-rates alone were responsible for the 3.6 % sales decline in the Tableware Division. Had there not been changes in currency parity, the Division would have been able to report a sales increase of about 1 %. Following the record results in 2002, reasons for the decline in profitability in 2003 are to be found above all in the fun-

In the Tableware Division, Villeroy & Boch has decided in favour of securing existing locations in Germany and Luxembourg. Consequently, production at these factories has, in recent years, been converted to the world's most modern production techniques in the higher-quality segment using a systematic programme of investment.

damental automation measures implemented at the three factories Mettlach/Merzig, Luxembourg and Torgau. Although now concluded, the investment master plan disrupted production sequences and reduced output when it was initially launched. This resulted in a backlog of orders which should be worked off in the coming months. These start-up difficulties – which have now been overcome – gave rise to a Euro 7 million increase in production costs, in turn causing the result to be this amount less than in the previous year. No further start-up costs will be incurred in 2004 with the effect that an appropriate improvement in performance should result.
In addition, restructuring provisions for the personnel cutback agreed at the Luxembourg location were taken into account in the 2003 result. Given the declining number of employees and the automated production, productivity will continue to report a clear increase.
In the Tableware Division, Villeroy & Boch has decided in favour of securing existing locations in Germany and Luxembourg. Consequently, production at these factories has, in recent years, been converted to the world's most modern production techniques in the higher-quality segment. This has been implemented using a systematic programme of investment.
As production facilities with high personnel expenses hardly have a chance of survival in the high-wage locations of Central Europe, there are two possible alternatives: either automation has to be carried out uncompromisingly, or production shifted to low-wage locations. Both of these strategies are being pursued by Villeroy & Boch to various degrees in the individual Divisions.
Lead times are extremely long in the international project-business sector. For this reason the Project Business Division was still unable to attain any sales in 2003. Projects from last year's sales canvassing are now awaiting realisation. Further large-scale projects are expected for this year.

Market Operations

In 2004, as part of a pilot project concentrating initially on five German cities, the Bathroom and Kitchen Business Segment will co-operate with franchise partners to open showrooms under the name of "Villeroy & Boch Bathroom Atelier". The Business Segment has already achieved a successful market positioning of a second brand in England.
It is expected that further potential will be created as a result of co-operations with market partners on a licence basis. We work together with these partners to market line extensions to our product range under the name of "Villeroy & Boch", with the aim of becoming a full-range bathroom supplier. Following the successful launch of a range of fittings under the "Villeroy & Boch" brand name, in cooperation with the company Dornbracht, 2004 will see the consistent continuation of this diversification strategy. From 2004, bathroom radiators will be supplied as part of a licensing partnership with the company Zehnder. They will be marketed under the brand name "Villeroy & Boch by Zehnder".
Internationalisation will be stepped up in the coming years. Priority will be given here to tapping the US market for the Bathroom and Kitchen Business Segment. It is planned to open a selling agency in China in the current business year. Our international market strategy is also focussed on markets in Russia and Australia.

The Wellness Division was likewise able to achieve the successful market launch of its second brand,"VITAVIVA".
International development of the company's own retailing sector is to lead to growth in the Tableware Division. In addition, there will be further development of the Hotel-Tableware Business Segment. The successful launch of the "Metropolitan" segment will again contribute towards improving sales and performance in 2004.

Result and Dividend

The result for 2003 is burdened by special expenses for restructuring measures in the order of Euro 38 million. If these expenses had been excluded, the result before taxes on income would have been roughly Euro 8 million. The restructuring measures are associated with the implementation of master plans in the three Divisions: Tableware, Wellness and Bathroom, Kitchen and Tile. It was essential that they be undertaken to adapt the Divisions to the changed underlying conditions and also to safeguard future profitability. The burden exerted on result by these special expenses does, however, affect the dividends proposed by the Executive and Supervisory Boards. After years of dividends at a continuously high level, proposals will be made for dividends of Euro 0.25 per individual ordinary-share certificate and Euro 0.30 per individual preference-share certificate for the 2003 business year.

Outlook and Objectives

Productivity will be distinctly increased and competitiveness sustainedly improved as a result of automating and concentrating production processes, slimming structures and strengthening low-cost locations in the East.
While plans for the Tableware and Wellness Divisions were already executed on the whole in 2003 and will show significant improvements in performance in the second half of 2004, conversion measures in the Bathroom, Kitchen and Tile Division are to be implemented and completed in the years 2004/2005. They too involve capacity adjustments.
Despite the sustained weak demand for high-quality consumer goods and construction products experienced in particular on the domestic market, programmes for growth will be launched in the course of 2004, which are based on competitively-superior products, a high degree of internationality, innovative ability and the strong "Villeroy & Boch" brand. Increasing sales and the improved industrial structure give rise to expectations of a good return on assets in the coming years.

Mettlach. March 2004

Wendelin v. Boch

Wendelin von Boch-Galhau
Executive Board Chairman

Supervisory Board

Karl Gustaf Ratjen, Königstein
Honorary member of the Supervisory Board

Peter Prinz Wittgenstein, Nidda
Chairman
Management Consultant
a) Mannesmann-Röhrenwerke AG
Gottfried Schultz GmbH & Co.
(Chairman of the Administrative Board)

Josef Balle*, Merzig
1st Vice-Chairman (from 23.5.2003)
Chairman of the Fliesenwerke Saar Works Council

Rosemarie Gattuso*, Mettlach (until 23.5.2003)
1st Vice-Chairwoman
Chairwoman of Works Council at the Faiencerie Mettlach/Merzig

Luitwin Gisbert von Boch-Galhau, Mettlach
2nd Vice-Chairman
Entrepreneur
a) Banque CIAL
Gerling-Konzern Globale Rückversicherungs-AG
b) within the Group:
Villeroy & Boch Magyarország Rt. (Chairman)

Gisela Hannack*, Hanover
Head of the Business Management Department of the IG Bergbau, Chemie, Energie, Hanover

Dr. Jürgen Friedrich Kammer, Munich (from 23.5.2003)
Executive Board Chairman of Süd-Chemie AG, Munich
b) Dalli GmbH
Grünenthal GmbH
Süd-Chemie France S.A.

Charles Krombach, Luxembourg (from 23.5.2003)
Director of Heintz van Landewyck – Manufacture de Tabac – S.à r.l., Luxembourg

Ulrich Küppers*, Ludwigshafen (from 10.9.2003)
Land District Head of the Industrial Union, Bergbau, Chemie, Energie, for the Länder Rhineland Palatinate/Saarland, in Mainz
a) BASF Aktiengesellschaft
RAG Saarberg AG (Deputy Chairman)
Technische Werke Ludwigshafen AG (Deputy Chairman)
b) Verkehrsbetriebe Ludwigshafen GmbH
SFW GmbH Saarbrücken (Deputy Chairman)

Walter Raber*, Nalbach (until 23.5.2003)
Head of Tableware Division Controlling

Ina Rauls*, Merzig
Deputy Chairwoman of the Sanitärfabrik Mettlach Works Council

Ralf Runge*, Merzig (from 23.5.2003)
Works Council member, freed for full-time works council activity

Berthold Scholtes*, Merzig (from 23.5.2003)
Head of Production

Antoine de Schorlemer, Luxembourg (until 23.5.2003)
Businessman
b) Automobile Club du Grand Duché de Luxembourg
SOS-Interfonds

Kilian von der Tann, Tann/Rhön
Lawyer

Claude Villeroy de Galhau, Wallerfangen (until 23.5.2003)
Bachelor of Commerce
b) Japan Pacific Fund Luxembourg
Japacic (SICAV)

Emmanuel Villeroy de Galhau, Paris
Head of "Mergers and Acquisitions" at L'Oréal, Paris

Gerd Zibell*, Gau-Odernheim (until 31.8.2003)
Land District Head of the Industrial Union, Bergbau, Chemie, Energie, for the Länder Rhineland Palatinate/Saarland, in Mainz
a) RAG Saarberg AG
BASF AG

Executive Board

Wendelin von Boch-Galhau, Losheim-Britten
Chairman
a) Messe Frankfurt GmbH
Gerling-Konzern Allgemeine Versicherungs-AG

Manfred Finger, Rehlingen
Finance and Personnel

Peter von der Lippe, Petite-Rosselle/France
Bathroom, Kitchen and Tile Division
b) within the Group:
Villeroy & Boch Magyarország Rt.

Ralf Mock, Königstein
Tableware Division

Dr. Bernard Wientjes, Ommen/Netherlands
Wellness Division
b) Wientjes Kunststoffen Holding bv

Richard Zimmermann, Mettlach
Project Business Division

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

Supervisory Board Chairman:
Peter Prinz Wittgenstein

In the business year 2003 the Executive Board and Supervisory Board made joint decisions which were certainly not easy. It was necessary, however, to adapt some areas of the company to the changed market conditions, so as to be able to return to the former high level of earnings.

During the 2003 financial year the Supervisory Board duly discharged those duties for which it is responsible according to the law and the Memorandum and Articles of Association. It thoroughly examined the company's situation, advised the Executive Board and monitored the Management. The Supervisory Board received regular, prompt and comprehensive reports from the Executive Board and was included in all decisions of essential importance.
During the four Supervisory Board meetings which were held, the Board gave in-depth consideration to the company's economic and financial situation, its major business transactions, its strategy and planning and also to changes in the subsidiaries. Between the meetings, written reports on key events were submitted by the Executive Board and the Executive Board regularly involved the Supervisory Board Chairman in major developments and matters awaiting decisions.
After careful examination, the Supervisory Board or the competent committees granted their consent to transactions which required consent.

Corporate Governance

In its December meeting, the Supervisory Board dealt exhaustively with the subject of Corporate Governance. In joint meetings with the Executive Board discussions were carried out on the subject of updating the corporate policies and a new declaration of conformity was adopted. A summarised presentation of corporate governance principles can be found in the Annual Report (pages 10 to 13) and also on the internet.

Work of the Committees

The Committee for Executive Board Personnel Affairs and Credit Extension, in accordance with § 89 IV AktG [German Public Limited Company Law] (Staff Committee), convened twice in the year 2003. It approved the extension of an existing Executive Board member's contract, dealt with agreements on operational targets and also bonus payments made to the Executive Board.

During the two meetings held during the year under review, the Investment Committee dealt with 2003 investment authorisations, the planning of 2004 capital expenditure and operating result, and also the purchase of an equity interest.
The Audit Committee convened once in 2003, on which occasion discussion concentrated essentially on an examination of the auditor's independence, the audit's main areas of focus, audit fees, awarding the audit assignment to the auditor, the method of preparing the consolidated balance sheet in accordance with IFRS, examination of foreign company profitability and also the situation of the risk management system.
A meeting of the Conference Committee was not necessary in the 2003 financial year.

Audit of Annual and Consolidated Financial Statements

In September 2003 the Supervisory Board's Audit Committee awarded its audit assignment to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft – the auditing company elected at the Shareholders' General Meeting. The Villeroy & Boch AG annual financial statements, the consolidated financial statements of 31.12.2003 and also the Management Report have been audited by the statutory auditor and issued with an unqualified audit certificate. The financial statements were discussed thoroughly in the presence of the auditor at the Supervisory Board Meeting in March 2004. Based on the final result of our own audits, no grounds were found for objection, with the effect that we endorse the auditor's result. The annual financial statements of 31.12.2003 have, therefore, been approved. The Supervisory Board endorses the Executive Board's proposal regarding the appropriation of retained earnings.

Changes in Personnel

In spring 2003, new elections were held for the office of Statutory Employees' Representative on the Supervisory Board. In May 2003 the Supervisory Board convened for a constitutive meeting at which new members were also appointed to the committees. On 23rd May 2003, the employees Ms Rosemarie Gattuso and Mr Walter Raber retired from the Supervisory Board. Their places have been occupied by the newly-elected members Mr Berthold Scholtes and Mr Ralf Runge. The shareholders Baron Antoine de Schorlemer and Mr Claude Villeroy de Galhau also retired from the Supervisory Board. They have been succeeded by the newly-appointed members Mr Charles Krombach and Dr. Jürgen Friedrich Kammer. On 31st August 2003 the union representative Mr Gerd Zibell vacated his Supervisory Board seat. His position on the Supervisory Board was filled from 10th September by Mr Ulrich Küppers. The Supervisory Board would like to express its thanks to all retired members for the work they performed and also wish the new members every success.
In the 2003 financial year, the employees, statutory employees' representatives and the Executive Board took up the challenges posed by extremely difficult markets. The Supervisory Board would like to express its thanks for all the work performed and the great commitment.

Mettlach. March 2004

Peter Prinz Wittgenstein
Supervisory Board Chairman

Villeroy & Boch

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PRINCIPLE OF

CORPORATE GOVERNANCE

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

Good Corporate Governance is rated highly at Villeroy & Boch AG. It forms the basis of efficient and responsible corporate management and the trust our shareholders, customers, employees and the general public place in us.

The Executive Board and Supervisory Board thus passed a resolution on 12th September 2002 to adopt the Corporate Governance principles of Villeroy & Boch AG, which specify more precisely the rules laid down in the German Corporate Governance Code and provide adjustment to the specific requirements of Villeroy & Boch. The Corporate Governance principles were last revised on 10th December 2003. They and the declaration of conformity according to § 161 [German Public Limited Company Law] submitted by the Executive and Supervisory Boards of Villeroy & Boch AG on the same day are published on the Villeroy & Boch web site under Investor Relations.

Close Cooperation Between Executive and Supervisory Boards

Efficient and value-oriented corporate management is based on intensive, continual discussion between the Executive and Supervisory Boards.
The Executive Board thus provides the Supervisory Board with a comprehensive, regular and up-to-date report on corporate planning and strategic development, the course of business and situation of the Group. Explanations and reasons are given for any divergences from the proposed plans and goals that occur in the course of business.
Conditions allowing the Supervisory Board to reserve its approval of important business transactions, in particular decisions or measures that fundamentally change the asset, financial and earnings situation of Villeroy & Boch, are laid down in the rules of internal procedure for the Supervisory and Executive Boards.

In addition to the existing Staff Committee and Conference Committee required by law, the Supervisory Board set up an Investment Committee and Audit Committee from among its members in December 2002 to assist it in its work.
The duties discharged by the committees during the past financial year are described in detail in the Supervisory report.

Provision to Prevent a Conflict of Interests

Executive Board members shall pursue no interests of their own which oppose corporate interests while involved in the management of Villeroy & Boch AG. In particular, they and any persons or companies with whom they are closely connected will refrain from using any business opportunities for themselves to which the company is entitled. In this respect they are subject to a comprehensive prohibition to compete during their work for Villeroy & Boch.
In addition, Executive Board members must immediately disclose any conflicts of interest relevant for their work to the Supervisory Board chairman and inform the other Executive Board members.
Neither Executive Board members nor employees may, in connection with their work, demand or accept gifts or other benefits from third parties, either for themselves or for others, nor may they grant any undue advantages to third parties.
Any transactions between the company on the one hand, and Executive Board members and any persons or companies with whom they are closely connected on the other, are to comply with the standards customary for the industry. The Supervisory Board chairman is to be notified in advance of preparations for any such transactions, unless these involve ordinary personal purchasing or minor transactions. He will arrange for the Supervisory Board to pass a resolution before these transactions are concluded if important corporate interests are affected.
These provisions apply to Supervisory Board members accordingly. Furthermore, every Super-

visory Board member shall disclose conflicts of interest, particularly those which may arise as the result of a consultancy or agency function with customers, suppliers, creditors or other business partners, to the Supervisory Board chairman, who will, in turn, inform the Supervisory Board should the conflicts of interest concerned be considerable. Supervisory Board consent is required for any consultancy agreements or other contracts for services or work a Supervisory Board member may have with the company. No such contracts or agreements were concluded with Supervisory Board members in the year under review.

In the year under review, no Executive Board or Supervisory Board member had any conflicts of interest that were to be disclosed immediately to the Supervisory Board chairman.

Appropriate Remuneration for Executive and Supervisory Boards

In order to promote a corporate management that aims at long-term real net output the remuneration of Executive Board members comprises three components: fixed remuneration, a success-based, variable goal performance bonus, and a stock option programme invested long term.

In addition to the result targets for Villeroy & Boch AG and the Divisions, the Supervisory Board Staff Committee agrees every year on individual goals with the individual members of the Executive Board. When calculating the goal performance bonus, equal weighting is given to these strategic goals, as well as to achieving the return on net operating assets aimed for in the medium term and the planned results for the year. They make up approximately 50 per cent of the entire remuneration of an Executive Board member and are thus a considerable motivation factor.

A subsequent alteration to the goals of performance and comparison parameters is excluded. No loans or advances were granted to Executive or Supervisory Board members in the business year.

In accordance with § 7 of the Memorandum and Articles of Association, Supervisory Board members currently receive a fixed remuneration of Euro 7,500, as well as being reimbursed for their expenses, including the turnover tax levied on Supervisory Board remuneration. As a success-based component the remuneration increases each time by Euro 195 for every cent per share of shareholder dividends exceeding the sum of 10.5 cents.

Remuneration for the chairman is double the amount in each case, and for his deputy, one-and-a-half times these sums. The chairman of a Supervisory Board committee receives an additional 25 % of the fixed annual remuneration in each case, while every other committee member receives a further 20 %. An upper limit of Euro 18,750 exists for the fixed annual remuneration of a Supervisory Board member, including any additional remuneration for committee work.

In the 2003 business year Supervisory Board members did not receive any extra remuneration or benefits over and above this for services they performed personally, particularly consulting and negotiation services.

Private investors can also obtain up-to-date information on developments within the Group via the internet. In addition to the Annual Report, Interim Reports and the financial calendar, analyst presentations are available on the Investor Relations web page. All shareholders are thus treated equally where information is concerned.

Transparency and Financial Publications

Having transparent management and monitoring mechanisms is an essential requirement for promoting trust in the management and monitoring of Villeroy & Boch AG, especially among sharehold-

ers. Of great significance in this respect is providing shareholders and capital market participants with prompt and regular information on the situation of the company.
Private investors can also obtain up-to-date information on developments within the Group via the internet. In addition to the Annual Report, Interim Reports and the financial calendar, analyst presentations are available on the Investor Relations web page. All shareholders are thus treated equally where information is concerned. Moreover, ad hoc notices and announcements about essential activities within the Group are likewise shown on the company's web site in the form of press releases.
The Annual Report and Interim Reports are generally available in German, English and French.
Also published immediately on the Villeroy & Boch web site are notices from shareholders who have attained, exceeded or fallen below 5, 10, 25, 50 or 75 % of the voting rights in the company as a result of acquisition or sale or by any other means. Reports to the company in accordance with § 15a Wertpapierhandelsgesetz [Securities Trading Law] of any acquisitions and sales of Villeroy & Boch shares by Executive and Supervisory Board members, as well as by their spouses or registered living partners and first-degree relatives, are likewise published. No such reports were received by Villeroy & Boch AG in the 2003 financial year.

Reporting and Audit of Annual Financial Statements

The Consolidated Financial Statements and Interim Reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the Annual Financial Statements of Villeroy & Boch AG are drawn up in accordance with the provisions laid down in the German Commercial Code (HGB).
In order to prepare the proposal for electing the auditor at the Villeroy & Boch AG general meeting of shareholders on 26th May 2004, the Supervisory Board Audit Committee examined the independence of the auditor. For this purpose, the Audit Committee

Having transparent management and monitoring mechanisms is an essential requirement for promoting trust in the management and monitoring of Villeroy & Boch AG, especially among shareholders.

requested KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to make a statement on the extent to which professional, financial or other relations exist between KPMG, its bodies and auditing heads on the one hand, and Villeroy & Boch AG, its subsidiaries and officers on the other, which could justify any doubts about independence.
The examination did not provide any indications that the independence of the auditor is not sufficiently guaranteed.
In addition, an agreement was reached with the auditor that the chairman of the Audit Committee would be notified immediately of any grounds for disqualification or impartiality occurring during the audit, and that the auditor would immediately report all discoveries and events made while carrying out the audit, which were essential for the duties of the Supervisory Board.
It has also been agreed that the auditor shall inform the Supervisory Board, or make note of such in the Auditor's Report should he determine facts while carrying out the audit that result in incorrectness of the declaration of conformity made in accordance with § 161 Aktiengesetz [German Public Limited Company Law] by the Executive and Supervisory Boards.

Turnaround on International Share Markets

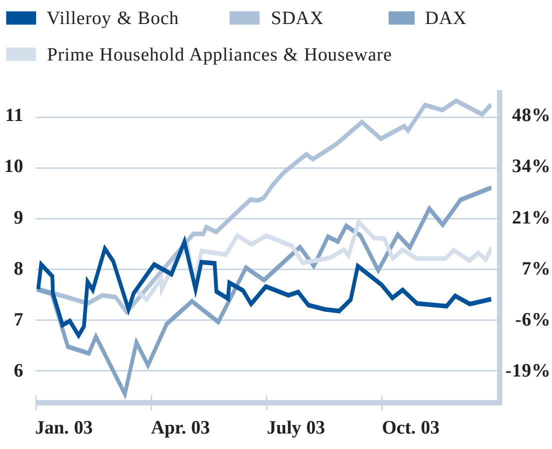
The marked price losses experienced on the share markets in the years 2000 to 2002 were followed in 2003 by a strong tendency to rally. This was particularly supported by the growing expectations of leading economic research institutes at the end of the year. Actual economic data also signalled, however, that the economic situation was stabilising worldwide and corporate profits were increasing.
Comparing the year as a whole the DAX gained 37 % and the SDAX rose by as much as 51 %, while the Dow Jones Index increased by 25 %. Technology equities also registered high levels of growth, the TecDax thus reporting an increase of 51 %.

Wendelin von Boch, the Executive Board Chairman, at the 2003 General Meeting of Shareholders.

Villeroy & Boch Share Unable to Benefit in 2003

The Villeroy & Boch share was unable to benefit from the positive market undertones in 2003. Thus, the movement of our share during the course of the year was, on the whole, lateral, ranging from Euro 6.50 (at the beginning of February) to a high of Euro 8.40 in mid May. Although its quotation of Euro 7.25 at the end of 2003 contrasted clearly with the price of Euro 6.60 at the start of the year, it remained behind the movement of the relevant indices.

Villeroy & Boch Share Trend (index linked)

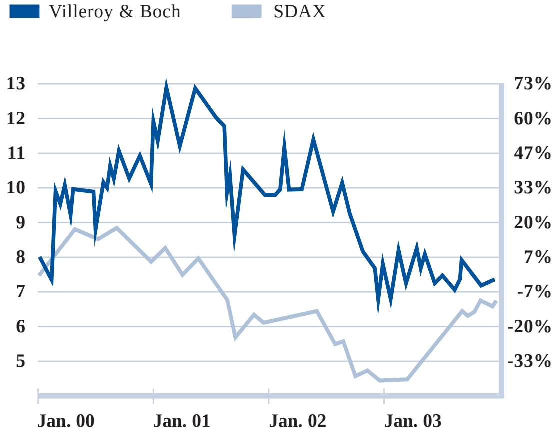


What is certainly an unsatisfactory performance for the Villeroy & Boch share also, however, holds great opportunities, and a noticeably positive price movement could indeed be seen in the first two months of 2004. After two trade journals rated the Villeroy & Boch share as an interesting investment with movement potential, the share price rose to around Euro 9.20 with sales that were clearly higher. The Villeroy & Boch share should have considerably more rallying potential if the measures taken by the company during 2004 have their full effect and the economic situation becomes more positive.

Medium-Term Positive Price Movement

Contrary to the comparably unsatisfactory performance in 2003, the Villeroy & Boch share developed very positively when viewed on a medium-term basis, which takes into account the slumps of the previous years. Villeroy & Boch AG not only managed to surpass the leading indices, but also stood out as a result of its constant and above-average dividend yield.

Villeroy & Boch Preference Share
Frankfurt, 31.12.1999 to 30.12.2003



Reference Figures for Villeroy & Boch Preference Share

ISIN	DE0007657231
Class	no-par value bearer preference shares
Shareholder structure	91.05 % free float
Quotations	official trading Frankfurt/Main (Prime Standard), XETRA and unofficial dealing in Berlin-Bremen, Düsseldorf, Hamburg, Munich and Stuttgart
Designated Sponsor	Landesbank Hessen-Thüringen
Market capitalisation as of 30.12.03	Euro 92.71 million (free float)
PER H/L	-8.9/-6.9

Stable Position in SDAX

The Villeroy & Boch share has been quoted in the Prime Standard on the Frankfurt Stock Exchange since the beginning of 2003 and continues to belong to the SDAX. During the course of the year the development of Villeroy & Boch differed as regards the two criteria decisive for membership in the SDAX, i.e. MarketCap and turnover. As far as turnover was concerned we were able to improve our position from 115 to 98, whereas with MarketCap our position worsened, dropping from 65 to 88. In accordance with the Index rules these positions still mean we have a secure position in the German Small Cap Index.

Stock Options / Acquisition of Treasury Stock

In 2000 Villeroy & Boch AG introduced a stock option programme for executive personnel, and has issued stock purchase warrants on a yearly basis. In 2003 it was not possible to exercise the stock purchase warrants issued in the year 2000, as the premises to do so remained unfulfilled. The 2003 business year saw the allotment of the 4th tranche of the Villeroy & Boch stock option programme. Altogether the authorised persons (executive personnel, excluding Executive Board) subscribed for 4,852 shares and, after a partial transfer of shares from the 1st/2nd tranche, acquired a total of 93,464 stock purchase warrants.

Villeroy & Boch AG still holds roughly 975,000 treasury stocks for the stock option programme. Based on a resolution passed at the General Meeting of Shareholders on 23rd May 2003, Villeroy & Boch AG acquired 282,591 individual preference-share certificates at the end of 2003 and a further 46,229 in January 2004. These shares do not serve the stock option programme.

Adjusted Dividend Policy

For the 2002 business year our General Meeting of Shareholders decided on an unchanged high dividend of Euro 0.55 per preference share and Euro 0.50 per ordinary share when it convened on 23rd May 2003.
Faced with the burden on result caused by restructuring measures, the General Meeting of Shareholders will propose an appropriately adjusted dividend of Euro 0.30 per individual preference-share certificate and Euro 0.25 per individual ordinary-share certificate for the 2003 business year.

Investor Relations Activities

Villeroy & Boch AG was presented at the conference for financial analysts in Frankfurt am Main in April, within the scope of the General Meeting of Shareholders, and in many one-to-one talks. Furthermore, our website has been revised and updated, and contains new information on Investor Relations.

Innovations in the Bathroom and Kitchen Business Segment

In addition to the established finishes "ceramicplus" and "activecare", an increasingly important innovative subject in the Bathroom Division is the integration of electronic and sensory mechanisms. Sensors, for example, regulate the flow and temperature of water from the "Magic Basin" non-contact fittings, according to the position of one's hands in the basin. Reduced to the essentials, the design is an eye-catcher in both the private and project-business sectors. A truly exceptional kind of emotional lighting is created by "City Life", a sensational range of stand-alone furniture items with a unique lighting concept and stylish details.
The newly-developed, concealed means of attachment for WCs and bidets, considerably simplifies the installation of wall-mounted items and does away with unattractive angle brackets. The "Quick Release" and "Soft Closing" toilet-seat systems allow the seat to be removed for cleaning purposes and ensure that the WC lid can be closed gently and quietly.

Innovations in the Tile Business Segment

An important innovation in the Tile segment is the "Shift Tile", whose integrated functional rail makes tile-drilling unnecessary. Hairdryers, hand-towel rings, acrylic boxes or accessories can be easily mounted on the rail using the appropriate hooks.
A similar functional extension is found in the "Two-in-One Tile", whose single casting integrates additional functions in a practical and stylish unit.
Another sensation is the new "Photo Tile", which fulfils customer wishes for personalised products.

Product and Process Innovations in the Tableware Division

In the Tableware Division it has been possible to launch a series of product and design innovations so successfully that all forecasts of volume demand have been clearly exceeded. These innovations are based on the use of computer-aided design and manufacturing (CAD and CAM) of moulds for

Our effective system of innovation management helps us to recognise customer requirements and quickly convert product ideas thus derived into market successes.

die-casting and compression moulding processes. They include, for example "NewWave Caffe" (cup die-casting) and "Dune Lines" (compression moulding and die-casting).
The automated die-casting technique opens up a whole new world of artistic freedom and geometrical shapes for our designers, which were either impossible using conventional manufacturing methods, or only possible using elaborate, single-unit production.
The potential resulting from this leadership in the area of die-casting production will not be fully realised until the coming financial year, when it will be seen in an appropriate increase in output.

Wellness Division Innovations

A multitude of small jets which are installed flush with the surface create a "champagne-like" bubble effect in the "Royal Whisper" model of Quaryl® Whirlpools. Particular emphasis must also be given here to the newly-launched, free-standing bath "Aveo", whose upper and lower shell are cast from Quaryl®. This enables a whirlpool system to be integrated in between the shells. An innovative system ensures that the shells are easy to separate should repair work become necessary.

Innovative Project Business Division

With its "e.motion-industry", the newest Division – Project Business – has extended its "e.motion" concept to include a further target group. "e.motion-industry" is a modular system for turn-key washing, showering and toilet facilities used by the workforce in an industrial environment, e.g. in motor-vehicle manufacture. The elements are prefabricated, coordinated with the tile grid and naturally give consideration to the special requirements for this area of application.


Above: CITY LIFE furniture: a unique and innovative lighting concept makes for special settings. Below left: PHOTO-TILE allows any photo to be fired permanently on a tile as a ceramic decal. Below right: the position of one's hands in the basin regulates water flow and temperature thanks to the sensors of the non-contact fittings MAGIC BASIN.


- **Sales fall 3.0 % below prior-year level, 1.5 % after currency adjustments**
- **EBIT at Euro -17.7 million owing to special expenses totalling Euro 38.5 million**
- **Dividends reduced to Euro 0.25 per individual ordinary share certificate and Euro 0.30 per individual preference share certificate**
- **Clearly positive operating result expected again for 2004, with a slight revival of business activity**

Macroeconomic Development

In the first half of 2003 the international economy was marked by the Iraq war and the lung disease SARS, in Asia. A distinct ease was noticed in international economic development following the quick end to the war in Iraq. The first country to experience economic recovery was once again the USA, where economic growth had already accelerated considerably in the second half of 2003. Essential reasons for this development were the cut in the US key interest rate and the clear reduction in the US-Dollar exchange rate. World trade was able to increase by 3.5 % during this period of economic revival in 2003.

A stagnation of industrial production made the difficult economic trend particularly noticeable in the European Union during the first half of 2003. The Euro countries' price competitiveness suffered as a result of the strong increase in the Euro's exchange rate against the US Dollar. Consequently, the increase in exports was clearly lower than in previous years. As the labour-market situation remained generally strained, private consumption in the Euro zone also developed cautiously, reporting a real increase of 1 %. Regarded as a whole, gross domestic product increased by a mere 0.4 % in the Euro region in 2003.

In comparison, the development in Germany was even worse. The gross domestic product in 2003 hardly reached prior-year level, which means that the German economy has been in a phase of stagnation for three years. Particularly in the first half of 2003, a negative trend was seen both in general economic production and employment. This was not only attributable to the adverse underlying global economic conditions, but also to domestic uncertainties arising from fiscal, social and economic policies. As a result of the restraint in consumer spending private consumption fell by a total of 0.2 %. In contrast, a further clear increase was experienced in the personal savings ratio in 2003. A stabilising influence was, however, exerted on the German economic trend by exports. These were able to increase despite the incessant upward revaluation of the Euro. The first signs of a shift in mood have been apparent in Germany since the middle of the year owing to improvements in the global economy.

No Trend Reversal in the German Construction Sector

Having already exerted its negative influence since 1995, the incessant downward trend in the construction industry also continued in the 2003 business year. Compared with the rest of Europe, Germany is bottom of the housing-construction league with its 253,696 completed accommodation units or 3.1 new homes per 1,000 inhabitants. Compared with the previous year, a total decline of 3.5 % was seen in investments in residential property construction in Germany. Within the European Union as a whole, capital spending on new construction declined 1.0 % in 2003.

Weak Domestic Demand for Consumer Goods

While levels of employment declined and uncertainties regarding the future social, economic and fiscal policies grew, real personal consumption expenditure in German households fell by 0.2 % during the previous business year. This negative trend particularly affected the German retail industry, which reported lower sales for the second year in succession. According to calculations carried out by the HDE [Confederation of German Retail

Trade] Christmas trade turnover was roughly 25 % lower than in the previous business year.

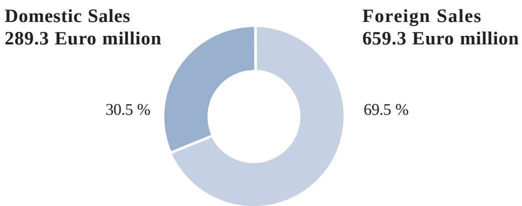
Sales and Orders Received

Drop in Consolidated Sales

Owing to the difficult market environment, Villeroy & Boch sales were unable to develop as planned in the 2003 business year and their total of Euro 948.6 million was roughly Euro 28.9 million (-3.0 %) lower than the prior-year level. Approximately half of this decline – Euro 13.9 million (-1.5 %) – is to be attributed to changed currency parities, particularly in the case of the Euro, which rose strongly in comparison with the US Dollar. Compared with prior-year figures, consolidated domestic sales fell by -2.4 % to a total of Euro 289.3 million. Unlike in previous years, it was not possible to compensate for this sales decrease by an increase in foreign sales, as greater declines in demand were also recorded in several foreign markets. This was seen particularly in the Netherlands, where a -14 % sales decline resulted from a strong downturn in economic activity. In France, which is traditionally Villeroy & Boch's most important foreign market, sales were roughly on prior-year level. Roughly the same sales levels were achieved in the remaining Western-European countries as in the previous year, and a slightly negative trend of -2.2 % was seen in Eastern Europe. Although exchange-rate differences brought about a -20.6 % sales decline in the USA, this was contrasted by Australia, the Middle East and Asia, where it was possible on the whole to achieve growth (+3.7 %). As in the previous year foreign business accounted for roughly 70 % of total sales.

Sales of Villeroy & Boch AG in 2003, in the sum of Euro 535.1 million, were only slightly lower than those of the previous year, which amounted to Euro 539.1 million.

Villeroy & Boch Group Sales According to Countries



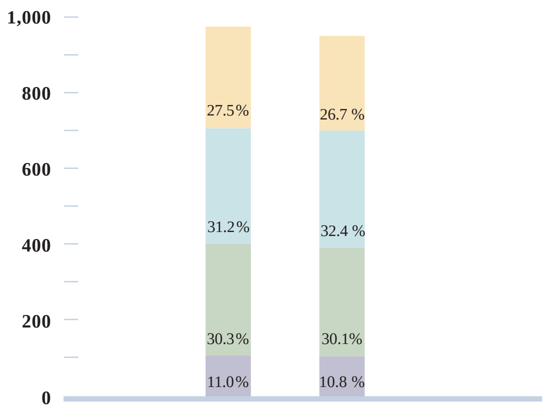
Foreign Sales in Euro million		%
France	177.5	18.7
Scandinavia	89.6	9.4
USA	49.6	5.2
Great Britain	44.6	4.7
Italy	41.7	4.4
Netherlands	41.2	4.3
Austria	18.9	2.0
Switzerland	14.0	1.5
Rest of Western Europe	52.2	5.5
Eastern Europe	82.7	8.7
Overseas	47.3	5.1
Total	659.3	69.5

Strong Rise in Volume of Orders

On the balance sheet date, the volume of orders in the Villeroy & Boch Group totalled Euro 63.2 million, an increase of Euro 19.9 million on prior-year figures. The greatest increase was achieved by the Tableware Division and totalled Euro 17.2 million, a large proportion of which being attributable to the strong demand for asymmetrically-shaped products in the new "Metropolitan" segment. Measures to expand the production capacity for these products were stepped up in the year under review, but were still unable to completely cover the growing demand. The volume of orders in the Wellness Division also increased by Euro 1.9 million. At the end of 2003, the Project Business Division reported a volume of orders totalling Euro 1.8 million, while orders received by the Bathroom, Kitchen and Tile Division were roughly on the same level as in the previous year.

2002/2003 Consolidated Sales

Distribution According to Division (in Euro million)



	2002	2003	Change	
Tiles	268.6	252.8	-15.8	-5.9 %
Bathroom and Kitchen	305.3	307.5	2.2	0.7 %
Tableware	296.5	285.7	-10.8	-3.6 %
Wellness	107.1	102.6	-4.5	-4.2 %
Total	**977.5**	**948.6**	**-28.9**	**-3.0 %**

Sales Trend in the Divisions

A varied trend was experienced in the business segments of the Bathroom, Kitchen and Tile Division in the 2003 business year.
Sales in the Tile Business Segment fell -5.9 % to a total of Euro 252.8 million. The sales trend of -3.8 % in Germany was better than that in foreign markets (-7.2 %). Reasons for this sales decline are to be found not only in the weak level of economic activity, but also in systematic product-range cuts and several cases of insolvency among more important customers. With the exception of Eastern Europe, the business segment reported sales declines in all other countries, these being particularly noticeable in the USA, where sales declined -41.7 % as a result of the closure of deficit-ridden branches in previous years and also due to currency fluctuations.
Compared with the same period of the previous year sales in the Bathroom and Kitchen Business Segment rose slightly in 2003 from Euro 305.3 million to Euro 307.5 million. The 1.3 % increase in exports was only contrasted by a slight sales decline of -0.6 % in Germany. Sales in the rest of Europe saw a slight improvement, with the exception of those in the Netherlands and Austria, where a decline resulted from cyclical trends. The segment was able to achieve a 13.5 % increase in overseas sales.
Tableware Division sales slipped back -3.6 % to a total of Euro 285.7 million. This decline resulted solely from changes in the exchange-rate relations, in particular those of the Euro to the US Dollar. Reporting a -3.3 % sales decline, Villeroy & Boch was still able to assert itself well in the weak German market environment. Foreign sales declined by a total of -3.8 %, which was due above all to currency-rate changes in the USA (-18 %) and changes in demand in the Netherlands (-16 %). Positive trends were, however, reported in markets in France (+4 %), Italy (+12 %) and Austria (+ 11 %).
Compared with prior-year figures, Wellness Division sales fell -4.2 % to a total of Euro 102.6 million. Sales increases were secured in Germany (+2.5 %), France (+16.0 %) and Great Britain (+5.9 %). Business declined -2.8 % in Italy and particularly in the Benelux countries, which constitute key markets for the Division and where the Netherlands reported a sharp -15.0 % tumble in sales.

Result Trend

EBIT Burdened by Special Expenses

Conversions to the latest manufacturing technology and also rationalisation projects in the structural sector, which were both carried out in the year under review, are linked with the cutback of roughly 730 jobs. The expenses incurred for these measures in the personnel sector represent a Euro 16.6 million burden on consolidated result in the 2003 financial year. Furthermore, amortisation of goodwill was undertaken in the amount of Euro 13.6 million – in connection with Wellness Division reorganisation and the Tile Business Segment – and special depreciation allowances of Euro 2.3 million in the course of converting

Structure of the Consolidated Profit and Loss Statement (IFRS)

Euro million

	2003	% of sales	2002	% of sales
Sales	948.6	100.0	977.5	100.0
Costs of goods sold	- 587.2	- 61.9	- 591.1	- 60.5
Gross profit	**361.4**	**38.1**	**386.4**	**39.5**
Selling expenses, marketing and development costs	- 283.4	- 29.9	- 298.0	- 30.4
General and administrative costs	- 54.5	- 5.7	- 53.6	- 5.5
Other expense/income	- 2.7	- 0.3	- 1.0	- 0.1
EBIT before special expense	**20.8**	**2.2**	**33.8**	**3.5**
Special expense	- 38.5	- 4.1	- 6.8	- 0.7
EBIT	**- 17.7**	**- 1.9**	**27.0**	**2.8**
Financial results	- 13.1	- 1.4	- 13.4	- 1.4
Result from ordinary Operations/EBT	**- 30.8**	**- 3.3**	**13.6**	**1.4**
Taxes in income	5.4	0.6	- 3.3	- 0.3
Results for the year	**- 25.4**	**- 2.7**	**10.3**	**1.1**

sanitary-ware production at Gustavsberg. In addition, the inventory evaluation was adjusted to Euro 6.0 million within the framework of the planned reduction in tile business, with the effect that when these special expenses in the amount of Euro 38.5 million are taken into account, the operating result (EBIT) of Euro -17.7 million in the Villeroy & Boch Group was negative. After adjustments to allow for these expenses, EBIT fell from Euro 33.8 million in the previous year to Euro 20.8 million in 2003. Production conversions at the factories in Merzig and Luxembourg (Tableware), at Gustavsberg (Bathroom and Kitchen) and in Merzig (Tiles) led to considerable non-recurring cost increases totalling roughly Euro 9.2 million. Earnings and performance suffered additionally from pressure on gross margins which was brought about as a result of surplus capacity and sluggish demand. A reduction in average net proceeds was also brought about by a product-mix shift in the tableware sector towards lower-cover products without decoration. Structural costs were reduced as a result of systematic cost-cutting programmes. Selling expenses, marketing and development costs were roughly Euro 14.6 million lower than the prior-year value.

The financial results of Euro -13.1 million comprise the interest share resulting from the allocation of Euro -10.5 million to pension provisions, (Euro -10.3 million in the previous year) and also the negative net interest income totalling Euro -2.6 million (previous year: Euro -3.1 million). Net interest income includes the amortisation of paper losses totalling Euro -0.6 million for securities (Euro -2.0 million in the previous year).

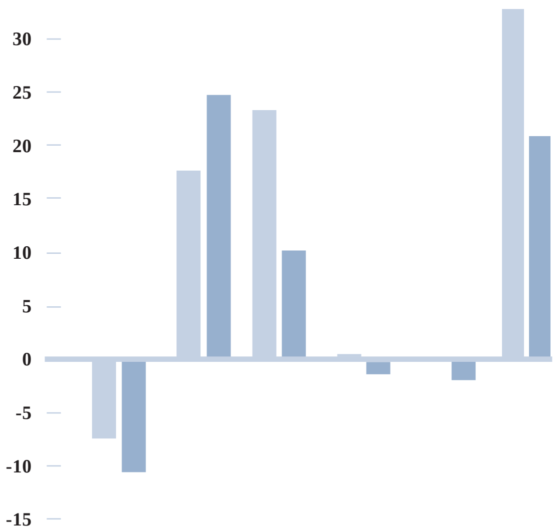
Result Trend in the Divisions

The results, like sales, saw a very varied development in the individual business segments of the Bathroom, Kitchen and Tile Division.

Disregarding special expenses, EBIT in the Tile Business Segment fell to Euro -11.1 million in 2003 as compared with Euro -7.4 million in the

EBIT 2002/2003
before special expense

(in Euro million)



	Tiles	Bathroom & Kitchen	Table-ware	Wellness	Project Business	Total
2002	-7.4	17.4	23.6	0.2	-	33.8
2003	-11.1	24.9	10.1	-1.2	-1.9	20.8

previous year. Savings of roughly Euro 5.5 million, made in the area of structural costs and budgets, were unable to compensate for the Euro 5.8 million decline in contribution margin and non-recurring start-up costs of Euro 1.2 million at the new body-preparation plant and logistics centre in Merzig. In addition, a total of Euro 4.0 million was expended for personnel measures (Euro 3.1 million in previous year). The cost-cutting effects expected from these measures will already be noticeable to some extent in 2004. Taking into account the aforementioned personnel expenses, the goodwill amortisation of an Italian subsidiary and an inventory valuation adjustment, EBIT in 2003 totalled Euro -28.5 million, as compared with Euro -10.5 million in the previous year. In contrast and despite special expenses of Euro 5.5 million incurred for restructuring measures, the Bathroom and Kitchen Business Segment was able to successfully increase EBIT by 24.4 % in 2003, bringing the total to Euro 19.4 million. A particularly pleasing aspect is the increase in domestic-market share and the rise in contribution margin. As a result, the business segment was able to reverse the negative domestic-market trend it experienced in the previous year. Contributions were made towards the rise in operating result by a strict system of cost management and also cuts in personnel, which together achieved savings totalling Euro 5.0 million. The special expenses relate to personnel reductions carried out at the subsidiary Gustavsberg in Sweden, and also rationalisation measures in the structural sector.

The Tableware Division's operating result (EBIT) in the 2003 business year was considerably marked by special expenses in the sum of Euro 8.7 million. These included, above all, personnel measures at the Luxembourg factory, which will lead to a distinct easing of the strain on costs from mid 2004. In addition, extensive measures to convert to fully-automated production processes in all of the Division's factories gave rise to non-recurring expenses of Euro 7.0 million. The growing trend away from patterned and towards plain products during the course of the year exerted a negative effect on contribution margins. All in all, the Euro 1.4 million EBIT after special expenses was disappointing when compared with the record result of Euro 21.7 million achieved in the previous business year.

In the Wellness Division, EBIT before special expenses fell from Euro 0.2 million in the previous year to Euro -1.2 million in 2003. Contributions to the decline in result were made on the one hand, by the weakness in key markets, particularly in the Netherlands, and on the other, by high start-up costs. The start-up costs were non-recurring and incurred for restructuring measures at production locations and reorganisation of the logistics structure. In addition, the result was burdened further by the sum of Euro -6.9 million as a consequence of amortising the goodwill of a Belgian subsidiary following production rationalisation, and also expenses incurred for reducing the numbers of personnel. An overall result of Euro -8.1 million is, therefore, reported.

Net profit for the year of Villeroy & Boch AG has dropped

The net profit for the 2003 business year of Villeroy & Boch AG is Euro 0.3 million, a result therefore of Euro 15.7 million below that of the previous year. The reduction in inventories led to a distinctly lower gross performance although sales were only slightly lower. The earnings situation in the 2003 business year was essentially determined by the income (Euro 34.0 million) resulting from the transfer of interest of Villeroy & Boch Ungarn to the newly founded subsidiary Villeroy & Boch Holding Ungarn. These corporate changes are to be viewed in connection with business considerations concerning the East European activities. In addition, revenue of Euro 5.8 million has accumulated from the dissolution of a Swiss subsidiary. When compared with the prior year period these revenues were faced with distinctly lower dividend distributions and special expenses in the sum of Euro 32.7 million (depreciation of financial assets, provisions for human resources measures, inventory valuation adjustment). Due to high tax-free earnings Villeroy & Boch AG shows no taxes on income.

Dividend Proposal

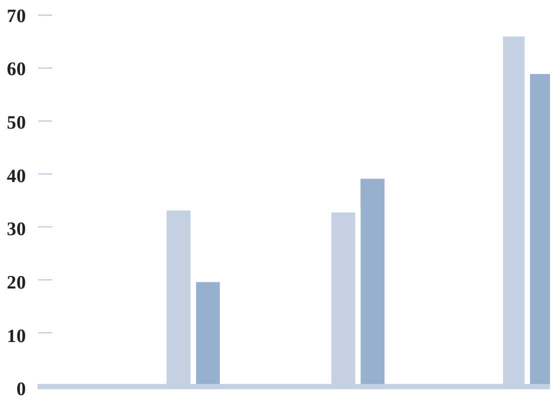
In view of the initiated cost-cutting measures and the burdens thus resulting, both the Executive Board and Supervisory Board will propose a dividend which is lower than that of the previous year, namely

Euro 0.30	per individual preference-share certificate and
Euro 0.25	per individual ordinary-share certificate

to the General Meeting of Shareholders on 26th May 2004.
A total of Euro 7.7 million of Villeroy & Boch AG retained earnings is to be distributed and Euro 1.4 million carried forward to a new account. These amounts will be changed by the share of the dividend apportioned to the company's own holding of individual preference–share certificates at the time dividends are distributed.

Investments in Tangible and Intangible Fixed Assets 2002/2003

(in Euro million)



	AG	Remaining Group	Total
2002	33.2	32.9	66.1
2003	19.5	39.9	59.4

Capital Expenditure

Volume of Capital Expenditure Below Prior-Year Level

In the 2003 business year the Villeroy & Boch Group invested a total of Euro 59.4 million in tangible and intangible fixed assets. When compared with the previous year, this constitutes a Euro 6.7 million reduction in the volume of capital expenditure. A total of 31.8 % of total capital expenditure was allocated to domestic locations. Depreciation in the year 2003, including special depreciation allowance, totalled Euro 70.0 million, as compared with Euro 58.7 million in the previous business year. Villeroy & Boch AG invested Euro 19.5 million (previous year: Euro 33.2 million).
Capital expenditure in the Bathroom, Kitchen and Tile Division declined from Euro 36.4 million to Euro 23.5 million.
Euro 8.1 million of the above-stated sum was invested in the Tile Business Segment in the busi-

ness year 2003 (previous year Euro 20.3 million), roughly 45.0 % of which in Germany. Capital expenditure was carried out essentially for completing the body-preparation plant and also the central warehouse at the Merzig location.

Capital expenditure in the Bathroom and Kitchen Business Segment was 4.3 % lower than the prior-year value and totalled Euro 15.4 million. The majority of investments – 84.4 % – was carried out abroad and concentrated essentially on expanding production capacity in Romania, introducing automation and flexibility with new die-casting technology at the factories in Mettlach and Valence d'Agen, renovating the finished-goods warehouse at Gustavsberg and acquiring new forming equipment at the Gustavsberg fittings factory.

The Tableware Division implemented two large-scale investment measures with its Euro 22.5 million volume of capital expenditure (Euro 21.1 million in the previous year). Production at the factories in Merzig and Luxembourg were converted to the latest production technologies.

A total of Euro 13.4 million was invested in the Wellness Division, as compared with Euro 8.6 million in the previous year. Investment was made in the construction of a new distribution centre at the Italian subsidiary and developing forms for new products.

Drop in Cash Flow From Operating Activities Due to Net Loss for the Year

When compared with the previous business year, the inflow of funds from operating activities in 2003 decreased by Euro 18.8 million to Euro 52.3 million. This reduction is connected with the net loss for the year and the decline in long-term provisions. The reduction in inventories had the reverse effect.

The negative cash flow from investing activities rose to Euro -58.4 million. This was caused by the clearly lower deposits from the disposal of fixed assets, even though there was a reduction in the volume of capital expenditure.

Group Financing

Villeroy & Boch Group – Abridged Cash Flow Statement *(in Euro million)*

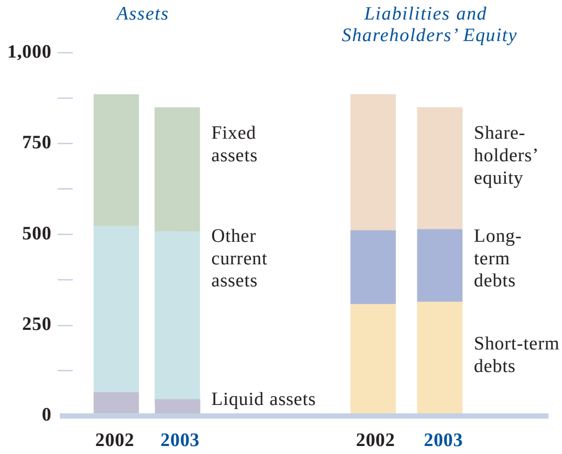
	2003	2002
Results for the year	-25.4	10.3
Depreciation of fixed assets	69.2	60.9
Change in long-term provisions	-10.9	-9.8
Result from disposal of fixed assets	-0.8	-1.5
Changes in inventories, accounts receivable, liabilities and short-term provisions, as well as other assets and liabilities	11.0	5.8
Other income/expenses without effect on liquid assets	9.2	5.4
Cash flow from operating activities	**52.3**	**71.1**
Cash flow from investing activities	**-58.4**	**-33.4**
Cash flow from financing	**-10.6**	**-9.3**
Change in balance of funds	**-16.7**	**28.4**
Balance of finds on 1.1.	**53.7**	**25.3**
Balance of funds on 31.12.	**37.0**	**53.7**

Balance Sheet Structure in 2003

Compared with the previous business year, the balance-sheet total of Euro 842.7 million on 31.12.2003 fell by Euro 37.6 million and the shareholders' equity ratio declined from 42.4 % to 39.4 %.

Fixed assets decreased by Euro 13.0 million to Euro 350.2 million. This is attributable to the

Comparison of Group Balance Sheet Structure 2002/2003 *(in Euro million)*



Assets	2002	2003
Fixed assets	363.2	350.2
Other current assets	463.4	455.5
Liquid assets	53.7	37.0
Balance sheet total	**880.3**	**842.7**

Liabilities and Shareholders' Equity		
Shareholders' equity	373.4	332.4
Long-term debts	202.3	203.0
Short-term debts	304.6	307.3
Balance sheet total	**880.3**	**842.7**

non-recurring amortisation of the goodwill of a Belgian and an Italian subsidiary. The 41.6 % share of fixed assets in the balance-sheet total is virtually unchanged (41.3 % in 2002). A slight decline of Euro 7.9 million was seen in the other current assets, bringing the total to Euro 455.5 million.

A decline was also seen in the long-term liquidity ratio in 2003 as a result of the lower level of shareholders' equity in the Group. A total of 94.9 % of long-term assets (100 % in the previous year) is covered by shareholders' equity.

Decline in Net Liquid Assets

Liquid assets, including marketable securities, declined by Euro 16.7 million from Euro 53.7 million to Euro 37.0 million in the Villeroy & Boch Group as of 31.12.2003. The liabilities to banks and notes payable, including leasing liabilities, totalled Euro 38.9 million and are below the prior-year level of Euro 40.2 million. At the end of the 2003 business year, net liquidity therefore fell to Euro -1.9 million, as compared with Euro 13.5 million in 2002. Contributions to this change were made by the purchase of treasury stock for roughly Euro 2.0 million and security investments additions of Euro 1.5 million.

Employees

Decline in Average Number of Persons Employed

The average number of persons employed in the Villeroy & Boch Group decreased 1.8 % in 2003, from 11,010 to 10,812. A total of 2,212 persons are employed in the Tile Business Segment – 102 persons fewer than in the previous year. Following a decrease of 87 employees, an average of 4,063 persons were occupied in the Bathroom and Kitchen Business Segment. The Wellness Division also reduced its number of persons employed by 11, bringing the total to 859. In contrast, the Tableware Division increased its number of employees by 22, bringing the total to 3,272. This increase took place in the company's own retailing sector. A total of 12 persons are employed in the Project Business Division. The number of employees in other Group sectors has been clearly slimmed down from 426 in the previous year to a current total of 394.

Totalling 6,848 employees, the share of persons occupied abroad is now roughly 63 %.

Development Costs

A total of Euro 12.5 million was spent on research and development in the Villeroy & Boch Group in 2003, as compared with Euro 13.2 million in 2002. The largest share of research and development costs – roughly 74 % – was once again expended in the Bathroom, Kitchen and Tile Division. Of the remaining costs, 17 % was expended in the Tableware Division and 9 % in the Wellness Division.

Risk Management – an Integral Part of the Planning and Controlling Process

Risk management ensures that risks are dealt with in a controlled manner and it is used to recognise existing and future success potential. In order to be permanently successful in the conflicting area which exists between opportunities and risks, it is essential to integrate these risks in the Group's standard decision-making processes. This is why the risk management system set up at Villeroy & Boch is an integral part of the management, planning and controlling process. The entire process is geared towards recognising, assessing and controlling risks. As risks can now be dealt with in a controlled manner, the Executive Board is in a position to recognise adverse developments at an early stage and initiate any countermeasures which may be necessary. Risk reporting is, therefore, integrated into the Group reporting system. Above and beyond operational reporting, all risks relevant for the Group are reviewed within the scope of the initiated risk management system. They are recorded, assessed and controlled at both operative Division and Central Division levels. All domestic and foreign Group companies are incorporated. Risks are assessed according to the potential amount of loss and the probability of loss involved and summarised at Division and Group level. Taking the analysis of recorded risks as a basis, risk management measures are then determined and implemented. As the environment is exposed to constant changes and the nature of risks continually varies, a permanent process has been installed at Villeroy & Boch. In this way the risk management system is always able to fulfil the requirements made at a particular time.

Business Risks

General market risks exist for Villeroy & Boch when business activity is difficult to assess. Owing to the high proportion of sales made abroad, it is, however, possible to be less dependent on the weak domestic market and thus keep the risk involved to a minimum. In contrast, the danger in this situation is increased when there are strong changes in currency parities as, for example, in the case of the US Dollar. We minimise this risk by applying a system of foreign-currency management. Hedging transactions limit the exchange risks which arise from surplus or inadequate cover following a Group-wide process of netting different foreign currencies. The US Dollar for 2003, for example, was hedged at a rate of EUR 1 = US Dollar 0.93 and for 2004, at a rate of EUR 1 = US Dollar 1.12.

Specific risks for the company continue to lie in the negative situation within the industry. A trend towards an upturn in economic activity can as yet not be recognised in the building sector. Prices are exposed to unchanged pressure as a result of surplus production capacity and increases in the market share of products from low-wage countries. Villeroy & Boch is responding to the growing price war on the one hand, by increasing its marketing measures and on the other, by converting its production processes to the latest technology and expanding its production locations in low-wage countries. One example of this is the Bathroom and Kitchen production facility in Romania. Considerable competitive advantages also result for Villeroy & Boch from its market appearance as a full-range supplier.

The German porcelain industry continues to battle against restraint in consumer spending. The process of deconglomeration in the specialised retail trade carries on relentlessly. It is planned to offset the negative trend by expanding the company's own trading operations. We shall continue to promote business expansion in attractive foreign markets such as the USA and Asia, in order to ensure independence from the German market. One of the opportunities we see to increase the volume of business for Bathroom and Kitchen-Division products is in the USA where the sanitary-ware market has a US Dollar 1,230 million volume of sales per year and is dominated by domestic producers. The chief foreign manufacturer has a 7 % market share. In the intermediate term we see dynamic growth in this area for bathroom and kitchen products, with an anticipated volume of approximately US Dollar 4.0 million in 2004. Marketing activities are currently being developed further and carried out by the company's existing marketing company.

Events Subsequent to the End of the 2003 Business Year

There are no events of essential importance which occurred subsequent to the end of the business year 2003.

Outlook

Positive Economic Forecasts for 2004

According to leading economic research institutes (including the Ifo-Institut für Wirtschaftsforschung at the University of Munich) the gross domestic product in Germany should rise 1.7 % in 2004. Although capital spending on new construction is expected to decline a further 0.2 %, a comparatively positive forecast is given for private consumption expenditure due to the reduction in tax. An increase of 1.5 % is therefore expected. A 1.4 % rise in capital spending is expected for the European economic region and a 1.4 % increase in consumption expenditure has been forecast.
In view of the high numbers of unemployed in Germany and the great uncertainty which exists among consumers due to the implemented and planned reforms in the social insurance scheme and tax legislation, it is extremely difficult to assess the trend here. Initial positive signs were recognisable in the first two months of 2004, but it was too early to describe this as a market revival.
The greatest risk for markets outside the European Monetary Union will most probably be the development of currency parity between the US Dollar and the Euro. A weak US Dollar not only impedes exports to the USA, but also encourages imports from Asia which are, as a rule, invoiced in US Dollars.

General Outlook for the Year 2004

The 2004 business year will continue to be difficult for Villeroy & Boch. Main objectives are to stabilise sales and consistently continue to implement cost-cutting measures. We anticipate the following individual trends:

Sales:
Given a market environment which lacks any essential improvement, we expect 2004 sales at prior-year level for the Villeroy & Boch Group. In view of the weak domestic market, Villeroy & Boch will promote growth in foreign markets.

Result:
We assume that we shall be able to improve the prior-year operating result in 2004. As we do not assume any considerable revival in economic activity, the improvement in performance will be achieved by way of internal measures. The cost-cutting programmes already introduced – essentially those to reduce the number of personnel – will be implemented according to schedule and will already lead to corresponding cost cuts in 2004. After the completion of measures to convert production, no further conversion or start-up costs are expected in 2004, with the effect that the strain on costs will also be eased here. Given a continuation of the difficult economic environment, we on the whole expect a clearly improved result for the year 2004.

Capital expenditure:
Capital expenditure: An investment volume of roughly Euro 50.0 million is planned for the 2004 business year. Investment will once again concentrate on improving and adapting production technology and continuing the development of retail-sector business in the Tableware Division.

New Focus in Personnel Organisation

For many years, Villeroy & Boch has been increasing its presence on international markets. The growing need for change which results, calls for innovative concepts in all corporate structures. A foresighted and structuring human-resources policy as part of Group-wide risk management is, therefore, necessary to safeguard the future of Villeroy & Boch. This policy is aimed particularly at permanently widening employee knowledge and awareness. Important measures, such as planning successors and also, the differentiated, perfectly-adapted development of human resources, were therefore bundled together and placed under central responsibility in 2003. The management appraisal system was introduced to launch a future-oriented development of management and organisation. Continuing in the year 2004, this system's main objective is to systematically ascertain and evaluate the potential of executive personnel and, where necessary, agree on qualification measures.

Management Appraisal

Essential requirements for achieving a high degree of motivation, an open working atmosphere and for binding executive personnel and junior staff to the company are the optimal employment of staff and the long-term planning of human resources and development.

A consensus-based analysis of individual quality and performance criteria therefore constitutes the decisional basis for filling future management positions. It demands an equal balance of personality, management competence and the will to make business decisions and technical competence from the successor candidate. The company was able to introduce this system of management appraisal, which should create the required conditions, during the first half of the year. The first level of executive personnel was incorporated in the course of the top-down concept, and is now lending its support to the management appraisal process as a disseminator.

Villeroy & Boch Global Academy

Villeroy & Boch regards effective advanced training as a strategic factor for success. In order to develop this success factor even further, the existing company training areas for customer seminars and human resources development have been combined in the "Villeroy & Boch Global Academy".

The "Villeroy & Boch Global Academy" is the key specialist for customer and employee advice, qualification and training. The planned measures for developing human resources and organisation are competently supported and backed by the "Villeroy & Boch Global Academy".

Employee and customer abilities are further promoted by specially-structured professional and personality training given by the "Villeroy & Boch Global Academy". As a result participants are able to use their potential optimally for themselves and also, therefore, for the company.

Employee Newspaper

Following a long break, the Villeroy & Boch employee newspaper was published once again at the end of the year. This new publication, however, is geared much more strongly to the Group's international structure. The new "INhouse" paper provides an information and communication platform for employees working all over the world. As a printed medium which is intended to be "by employees for employees", the employee newspaper reports on happenings at the Group head office and individual locations. It is published in a total of nine European languages and creates a forum for employee issues and strengthens team spirit beyond national frontiers.

Development of Innovation and Creativity

It is regarded as essential to promote the creative performance of all employees at all levels. The quality of the idea-management concept was further improved in the year 2003. In addition to the number of suggestions for improvement and the

The great degree of care shown by our employees in each stage of production ensures our products' high level of quality.

level of participation, a further important benchmark is the value of the implemented improvements. The net savings achieved with each submitted proposal for improvement averaged Euro 480, which was roughly 86 % higher than in the previous year (Euro 257) and is confirmation of a clear rise in the quality of employee creativity and commitment.

Employees' Representatives

A great variety of corporate changes was supported by the codetermination body during the course of the year. In the relevant discussions held, the employees' representatives proved to be critical, but also constructive. Cooperation with them was marked by a trusting attitude and open communication.

At a European level, the statutory employees' representatives met with Management at the 12th Euroforum in Mettlach to exchange information and views.

The efforts of the entire workforce, a high level of motivation and great commitment on the part of each individual member contributed towards the fact that the Group was able to maintain its market hold in an extremely difficult economic year. The Executive Board expresses its thanks to all employees.

Development of the Average Number of Employees in the Group

	2003	2002	Change 02/03
Segment			
Tiles	2,212	2,314	-102
Bathroom and Kitchen	4,063	4,150	-87
Tableware	3,272	3,250	22
Wellness	859	870	-11
Project Business	12	0	12
Other	394	426	-32
Group as a whole	**10,812**	**11,010**	**-198**
Country			
Germany	3,964	4,097	-133
France	1,275	1,292	-17
Luxembourg	692	718	-26
Other	4,881	4,903	-22
Group as a whole	**10,812**	**11,010**	**-198**

Above: presented together with matching bathroom furniture of real walnut-wood veneer and fittings and accessories from the SOURCE series, AVEO creates a completely harmonious bathroom collection. Below: AVEO – a bathroom as a living space and retreat, combined with the SEPTFONTAINES tile series and – as a special highlight – the LIGHT-TILES innovation to lend your bathroom a truly emotional atmosphere.

Bathroom, Kitchen and Tile Division Ratios

		TILES		BATHROOM AND KITCHEN	
		2003	**2002**	**2003**	**2002**
Sales (total)	Euro million	**252.8**	268.6	**307.5**	305.3
Operating result (EBIT) after special expense	Euro million	**-28.5**	-10.5	**19.4**	15.6
Operating result (EBIT) before special expense	Euro million	**-11.1**	-7.4	**24.9**	17.4
Return on sales (EBIT) before special expense	Percent	**-4.4**	-2.8	**8.1**	5.7
Capital expenditure	Euro million	**8.1**	20.3	**15.4**	16.1
Depreciation	Euro million	**24.1**	17.7	**17.7**	18.8
Employees (average)	Number	**2,212**	2,314	**4,063**	4,150

Tile Business Segment

Master Plan to Improve Profitability

The year 2003 was marked by a sustained weakness in the sector and also pressure on net proceeds as a result of increasing surplus capacity, both of which were experienced nationally and internationally. Based on a thorough analysis of the business segment, a master plan was drawn up to regain a lasting, positive result situation and increasing sales. To achieve these aims, measures were taken in the areas of procurement, product policy, sales and communication.

Decline in Sales and Result

Despite stable market shares in the major markets, Germany and France, sales declined by 3.4 % in comparison with the previous financial year. This can be attributed essentially to product-range streamlining to exclude unprofitable series, to a few larger-scale insolvency cases abroad and to temporary losses as a result of measures carried out in the export sector to convert from commercial agents to own employees. The deterioration in operating result from Euro -10.5 to Euro -28.5 million is attributable to non-recurring expenses in the sum of Euro 4 million for reductions in personnel and also to increased start-up costs for the new fine-stoneware body preparation plant at the Merzig factory, for unintended short-time working and costs for conversion to a new format in the La Ferté Gaucher factory (France).

Reorientation of Purchasing and Materials Management

Brand strength and the demand for a wide range of different tile applications and lifestyles makes it possible to partly forfeit own production, as for example, in the case of finest-quality natural-stone reproductions. By cutting the Division’s own capacity to the targeted level and building up a high degree of external procurement competence, Villeroy & Boch has begun to use progressive technology with low-cost manufacturers.

Successful Launch of New Marketing Mix

Based on the results of exhaustive market research, major product types have been added to the range and leading series reworked. “Palazzio Veccio” and “Bernina” were successfully launched

at the "Bau" trade fair in spring. New range-toppers are the natural-stone reproductions "Marmorino Naturale", "Grando" and "Cardesio" which were introduced at "Cersaie". The greatest amount of attention is being given to the completely reworked Creativ System series "New", which was developed by an internationally-renowned colour designer and architect. Trend-oriented series such as "Enjoy!" and "Kenzo", as well as numerous line extensions rounded off the wave of innovative product launches made during the period autumn 2003/spring 2004.
In order to use synergies for brand capitalisation, all communication media – from end-consumer brochures and special catalogues to presentation systems – have been adapted to suit the lifestyle concept and structure applied throughout the Group as a whole. New condition and price systems have been developed and introduced. They are performance-oriented and suited to competitive needs. Numerous events and a communication campaign positively represented these changes to customers, employees and the public and promoted confidence in the future.

The ENJOY! tile collection takes up the latest stripe trend and immerses bathrooms and kitchens in worlds of bright and carefree colour.

Capital Expenditure

Investment was carried out mainly in the new body-preparation plant at the company's Merzig location. This plant is to be used for producing glazed fine stoneware, which as a result of demand, is increasingly replacing the glazed vitreous material.
Larger investments were also made in the central warehouse area with the aim of reconstructing this area and saving costs by concentrating logistics at a single location.
A total of Euro 8.1 million was invested in the year 2003, which is clearly below the level of the last three years (average Euro 18.2 million).

Outlook for the Tile Business Segment

The underlying economic conditions for the building sector in Germany and major European countries will also remain negative in the year 2004. Competition will be even tougher than in previous years and pressure on quantities and gross margins will increase.
Owing to the measures it has introduced, the Tile Business Segment believes it is on the right path. Further cuts in capacity carried out parallel to expanding sourcing activities and the development of a new distribution structure in Europe will lead to improved utilisation of factory capacity and increased sales. Further positive effects on result are derived from the revised product policy. It plans the introduction of numerous new products to provide series which will range from low-priced to exclusive under the Villeroy & Boch brand.
The result will, however, be burdened by measures initiated at the start of 2004 to reduce excessive inventories and in so doing, avoid new build-ups of stock due to changes in demand. On the whole, a further loss is to be expected for the current business year.

Above: form and function in a new unity – refreshingly different in design, amazingly versatile in function. If you have a small kitchen, but don't want to do without anything, you'll love SOLO. Below: modern and reduced – the slate-look VILBOSTONE fine stoneware series CARDESIO. The delicately-structured surfaces and subtle colours can be optimally combined with modern furnishings.

Bathroom and Kitchen Business Segment

Profits Rise Clearly While Sales Stagnate

The Bathroom and Kitchen Business Segment was able to maintain a good market hold in the difficult economic environment existing throughout Europe. Net sales of Euro 307.5 million exceeded the prior-year value of Euro 305.3 million by 0.7 % and resulted from extremely varied trends in the individual countries.

Good sales trends in Great Britain, South-East Europe and the Middle East, as well as in East Asia and Australia were able to compensate, in particular, for the declines in markets in Germany, Austria, France and the Netherlands which were brought about by the poor level of overall construction activity. Foreign sales continue to account for just under 70 % of total sales. An extremely pleasing aspect is the rise in operating result. Tight cost-management systems in the area of production and structural costs have given rise to a 43.1 % improvement in operating result, bringing the total to Euro 24.9 million (prior year: Euro 17.4 million).

Product Campaign at ISH 2003

A broad-based product offensive was launched with new products at “ISH 2003”.

As expected, the extremely successful market launch of the “Subway” collection in particular leads to the supposition that a high volume of sales is likely in future. The straight-lined design concept displayed by “Subway” appeals to a broad consumer target group, but also enjoys popularity among the target group of planners and architects.

An ideal foundation for generating foreign sales has been laid with the launch of the high-quality “Aveo” collection. It was developed in cooperation with the internationally-renowned London design office Conran & Partners with the particular aim of creating international brand awareness. Also presented was the “Loop” series extension offering a comprehensive concept of shapes and colours for the timeless and lifestyle-spanning series “Loop & Friends” and “Colorlines”. Both showed internationally pleasing marketing and sales trends which are expected to exist long term.

Straight-lined, spacious and with a choice of matching face and body colours: CENTRAL LINE creates generous shelf space, plenty of storage space and a homely ambience.

Present at ISH with New Brand Appearance

The Division presented itself at ISH 2003 in the new Villeroy & Boch-brand corporate design on an area of roughly 1,900 square metres. The aim of this new communication appearance is to increase the awareness of the Villeroy & Boch brand among all relevant target groups using a uniform corporate design for all marketing activities. A further aim is to clearly show the brand's process of modernisation and expansion using potential target groups.

Rating and Purchase Relevance of the Villeroy & Boch Brand/Ceramic Bathroom Sanitary-Ware Business Segment/Germany

An extremely positive trend can be seen in Villeroy & Boch brand rating and purchase relevance in Germany. Villeroy & Boch leads the field of competitors in both values, in some cases with a clear advantage.
Brand rating in the bathroom category is currently 79 %. Purchasing intention in the bathroom category for the Villeroy & Boch brand is currently: 55 %. The background for this is the increasing effect of a uniform corporate design for printed matter and at point of sale, the extremely positive acceptance of new Villeroy & Boch product introductions in the special-interest consumer magazine sector (home, furnishing and design magazines) and the increasing "branding" of products with the name Villeroy & Boch.
The expansion of the target-group range to include high-earning, younger target groups (an important factor for the future) – which was explained in last year's Annual Report – is paying off for this product category with an extremely high brand rating of 81 % in the 30 to 44-year-old age group.

Capital Expenditure

Investment in 2003 concentrated on developing production capacity at our Lugoj (Romania) location, introducing automation and flexibility with new die-casting technology at factories in Mettlach and Valence d'Agen and on the second stage of expansion in renovation measures on the finished-goods warehouse in Gustavsberg (Sweden). Further investment was made in energy-saving programmes in the factories and new forming equipment and tools for the Gustavsberg-Vårgarda fittings factory.

The Bathroom and Kitchen Business Segment recorded a clear increase in operating result in the 2003 business year; the Tile Business Segment was unable to achieve the prior-year result due to special expenses.

Licence Business

The Villeroy & Boch brand shows that it can work successfully with non-ceramic products, a fact which has been confirmed by the marketing success achieved in the areas of fittings, bathroom furniture and the mobile bathroom-accessories range. This diversification strategy is being systematically continued. As a result, a licence partnership was announced with the company Zehnder from 2004. It extends the product range to include bathroom radiators marketed under the brand name "Villeroy & Boch by Zehnder". In addition to Dornbracht, Villeroy & Boch therefore now has a further brand-acceptable partner with whom it can realise its supply of full-range bathrooms.

Outlook

The Bathroom and Kitchen Business Segment feels confirmed in its decision to step up internationalisation and in so doing consistently increase the proportion of foreign sales. A slight sales increase is, therefore, expected for 2004 as a whole, despite the fact that markets in Germany, France and the Netherlands will remain weak. Given the higher-than-average market investments, the Bathroom and Kitchen Business Segments assume that they will also be able to maintain the high result level in 2004, despite considerable pressure on net proceeds.

Above: the new feminine, emotional tableware series MIRA shows in bone china the various stages of a flower as it opens. Below left: UDINE cutlery is perfectly coordinated with MIRA. Below right: rounding of the place setting – blown goblets from MANKAI.

Tableware Division Ratios

TABLEWARE		2003	2002
Sales (total)	Euro million	**285.7**	296.5
Operating result (EBIT) after special expense	Euro million	**1.4**	21.7
Operating result (EBIT) before special expense	Euro million	**10.1**	23.6
Return on sales (EBIT) before special expense	Percent	**3.5**	8.0
Capital expenditure	Euro million	**22.5**	21.1
Depreciation	Euro million	**14.2**	14.7
Employees (average)	Number	**3,272**	3,250

Exchange Rates Prevent Sales Growth

An extremely difficult market environment confronted the Tableware Division in the year 2003.
It was, nevertheless, possible to secure a 2 % increase in the value of orders received in the same period, bringing the total to Euro 308.1 million and providing clear evidence of market success. After making adjustments for exchange-rate influences, the rise in the value of orders totalled as much as 6 %.
Based on 2002 exchange rates, we also achieved a 1 % growth in sales. In unadjusted terms, Tableware Division sales fell 3.6 % to a total of Euro 285.7 million in 2003.

Operating Result Under Pressure

The Tableware Division's operating result fell from Euro 21.7 million to Euro 1.4 million.
A fundamental reason for this decline was the conversion of all production locations to the latest manufacturing technology. This conversion gave rise to unintended additional starting-up costs – in particular at the Merzig factory – which together totalled roughly Euro 7 million at the close of the investment measures. Furthermore, as production capacities were too low, supply capability was clearly reduced in places.

A further considerably adverse effect was exerted on capacity utilisation in the pattern sector, owing to the unexpectedly strong decline in sales of decorated products, in connection with the trend towards less expensive, frequently undecorated ceramic products. At the same time, a constantly growing demand was seen for our predominantly white, asymmetrically-shaped products, such as "NewWave", "NewWave Caffe", "Palm" and "Dune Lines", for which we first had to develop the necessary capacity. This shift in product-mix structure constituted an additional burden on the Tableware Division result in 2003, as did the high costs of rationalisation to reduce the number of employees by roughly 200 – a measure which will, however, lead to a cost saving of roughly Euro 6 million per year from mid 2004.
All in all, the plan to carry out the fundamental production conversion parallel to day-to-day business and without any considerable frictional losses, proved to be too ambitious. Having completed the production conversion at the Merzig, Mettlach and Luxembourg locations and a further production optimisation in Torgau, we now, however, have the very latest in production plant, which is inter-linked in fully-automatic operational sequences. As a result, we have created the conditions necessary to increase the level of productivity achieved by production-sector employees

The degree of automation and the flexibility provided by the die-casting technology together enable the Tableware Division to react promptly to changed customer wishes.

in 2003 by 25 %. The degree of automation and the flexibility provided by the die-casting technology together enable the Tableware Division to comply with changed customer requirements. It is now not only possible to manufacture large numbers of non-rotationally symmetrical pieces at low cost and with consistently excellent quality, but also to further develop the Division's competitive lead in the area of stylish designs and shapes.

Improved Market Position

We have been able to improve our market position in major international markets. A particularly pleasing development was experienced in Italy, France, England, Russia and Japan. As in the previous financial year, international business accounted for 70 % of total sales – as much as 71 % when adjusted to allow for exchange-rate influences.

Market Success With New Product Introductions in the "Metropolitan" Segment

The new products introduced by Villeroy & Boch at the 2003 spring fairs met with an exceptionally positive response. This was particularly so for "NewWave" articles from the "Metropolitan" segment, which our customers regard as extremely innovative. Particular emphasis must be given here to "NewWave Caffe" cups. Provided as a complete package in combination with a curved, "NewWave"-style display stand, they met with a high level of acceptance among dealers and end consumers. The new kinds of retail-sector concepts which we offer with products such as "NewWave Caffe" and "Home Elements", contributed to the success of these series. "Dunes Lines"– the new, asymmetrical, relief-structured shape in the "Metropolitan" segment – was particularly well received in Europe and the USA. Developed particularly for their practical use in the kitchen, products from the "Home Elements" sector were also among the ranks of successfully-launched products.

Jumps in Sales of Glass and Accessories

Glass sales in the Tableware Division rose 12.4 % to a total of Euro 36.5 million. A considerable contribution was made towards this increase by consistently transferring the "Metropolitan" segment's high-sale "NewWave" pattern to the glass sector in the form of the "NewWave" glass series. In this series, the typical, sweeping "NewWave" contours are found once again on the foot of each glass. Although the cutlery market as a whole is receding, we were able to further increase our sales in this sector. Contributions towards this growth were made not only by the "Kensington" and "NewWave" series, but also by "Oscar", a cutlery series which offers an extremely good price-performance ratio.
A clear 32.8 % sales growth was also recorded for business in the gift-article and accessories sector. The Division achieved an excellent sales success with "Christmas Around the World: Germany", which was presented in the shops as a winter landscape with porcelain houses on a specially-developed display stand. Despite rather restrained Christmas trading, this new Christmas range exceeded all expectations.

Systematic Development of Own Retailing Sector

Again in 2003 the Tableware Division responded to the retail trade's increasingly difficult situation in the branch by systematically opening its own new points of sale. Activities focused particularly on opening concession shops (shop-in-shop outlets). Emphasis must be given here to the setting-up of 24 own shops at El Corte Ingles – Spain's largest department store – in the second quarter of 2003. The Division was also able to set up numerous new concession shops at large department-

Above left: the successful ALLEGORIE series is extended by two carafes for red and white wine.
Above right: the BOSTON series can be excellently combined with COUNTRY patterns.

store chains in Australia, France and Great Britain. In addition, 2003 was a year in which we opened more of our own branches and further optimised our own-shop portfolio. As a result, a further 56 points of sale had been added to the already existing number by the end of 2003.

Introduced to the USA in November 2003, distribution via e-commerce has been well received by the customers.

Development of E-commerce Business

Distribution in the USA has been expanded to include the internet. Since November 2003 our American customers have therefore been able to order directly online from our US branch. The application is a pilot project which instantly met with great demand.

Growth and Recovery of Earning Power

In the financial year 2004 we shall continue to step up measures for opening our own stores. In addition, dealings will be intensified with market regions which hold considerable market potential for the Tableware Division, such as North America and Scandinavia, and effective market cultivation continued in the areas of “Metropolitan”, glass and gift articles/accessories by introducing innovative products and conclusive concepts.
With the conclusion of rationalisation measures in the production sector and the accompanying improvement in processes, we are able to serve customer requirements better and faster and attain a lasting increase in the Tableware Division’s earning power.

The material Quaryl® offers a variety of new design possibilities, as can be seen, for example, from the perfect-fit apron in the AVEO bath. In addition, jets, overflow and lighting can be integrated flush in a Quaryl® whirlpool, making bathing a much more comfortable experience.

Wellness Division Ratios

WELLNESS		2003	2002
Sales (total)	Euro million	**102.6**	107.1
Operating result (EBIT) after special expense	Euro million	**-8.1**	0.2
Operating result (EBIT) before special expense	Euro million	**-1.2**	0.2
Return on sales (EBIT) before special expense	Percent	**-1.2**	0.2
Capital expenditure	Euro million	**13.4**	8.6
Depreciation	Euro million	**14.0**	7.5
Employees (average)	Number	**859**	870

Sales Lower Than in Previous Year

Wellness Division expectations were not fulfilled in the 2003 business year.
The certain element of confidence in a stabilisation of major markets, which existed at the start of the year, proved to be unfounded as the year progressed. A further deterioration has been experienced in the construction industry in a series of countries which are particularly important for the Wellness Division.
This applies in particular to the Benelux region, where sales fell by 15.0 %.
In some other markets, such as in France and Great Britain, the Division was able to secure total sales growth of 16.0 % and 5.9 % respectively. Sales in Germany rose 2.5 % in 2003 with strong growth of more than 10.0 % in the second half of the year. Compared with the previous year, Wellness Division sales as a whole declined Euro 4.5 million to a total of Euro 102.6 million.

Reorganisation of Production and Logistics

The year 2003 was a year in which the Wellness Division consolidated its acquired companies. Consolidation, however, is coupled with a fundamental reorganisation of companies which previously manufactured an extremely wide range of wellness products, and will present themselves on the market in future as specialised suppliers. As a result, productivity increases and with it the Division's competitiveness.
During the course of this specialisation, numerous products were assigned to new production locations. Locations in Belgium and Italy now concentrate on large-scale production items, while the Netherlands manufactures luxury products. In future, labour-intensive products will be manufactured at our factories in the Czech Republic and Slovakia.
Reorganisation of this kind is not without complications. Various technological requirements led to start-up problems, which were naturally coupled with non-recurring costs.
In addition to the reallocation of products to production locations, the logistic and distribution structure also underwent a major process of adjustment. The inventories and distribution of brand products have been concentrated in two distribution centres in Italy and the Netherlands. Despite the inevitable non-recurring problems and costs incurred during the start-up phase, we are convinced that our new distribution structure will improve flexibility and customer orientation and permanently cut costs.

Result Burdened by Reorganisation Expense

A reallocation of production within the Division and a structural reorganisation in the logistics sector, put great strains on the Division and negatively influenced the result. As both of these measures were already concluded for the most part by the end of 2003, we expect a strong improvement in productivity coupled with a clear reduction in costs for 2004.

In 2003, the Wellness Division concentrated particularly on its internal processes. In 2004, this concentration is, to a large extent, shifted to our positioning within the market. In concrete terms, this means launching brand leader Villeroy & Boch in Southern and Eastern Europe and continuing development of the secondary-brand strategy in particular in Western Europe. If the effects of the anticipated economic upturn also extend to the construction industry in major Wellness Division markets, we expect that our optimised production and logistic activities will enable us to profit considerably.

The Advantages of a Multiple-Brand Strategy

The Wellness Division has intentionally chosen a multiple-brand strategy, as it provides the framework for supplying various product groups, such as baths and shower trays, whirlpools and steam showers.

Covering the requirements of the first-class segment is the Villeroy & Boch brand, which focuses on superior innovations, a clearly recognisable brand quality and perfect harmony with the Villeroy & Boch ceramic products. Positioned in the medium-priced market segment is “VITAVIVA”. This brand appeals to a large consumer group which prefers a modern range of wellness products offering a perfect price-to-performance ratio.

Both brands have a unique, characteristic appearance which will now help to gain interest in previously inaccessible target groups. This brand strategy has, at the same time, made it possible to radically reduce the number of Wellness Division brands, which increased as a result of the various acquisitions. It also enables an optimised sales and marketing strategy.

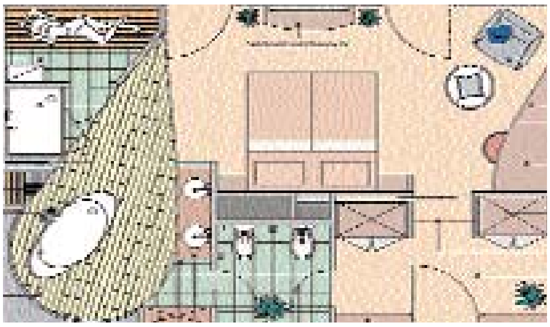
The reorganisation of production and also the logistics and distribution structure gives rise to cost benefits, while at the same time increasing flexibility and customer orientation.

Clear Increase in Capital Spending

A total of Euro 13.4 million was invested in 2003, as compared with Euro 8.6 million in the year 2002. Investment was not only made in the construction of a new distribution centre in Italy, but also concentrated on developing a great number of new products. The Division was able to launch several new and innovative products which met with a high level of demand. Investments in 2004 will focus on improving efficiency and developing new products, but will be considerably lower than those made in 2003 and remain behind depreciation.

A slight economic upturn is indicated for 2004, but there remains a great risk that this trend in economic activity will stagnate once again.

VITAVIVA was launched in 2003 with great success. The strategy of this brand is to cover the needs of the medium price category and support the Villeroy & Boch brand in the upper segments. This product range, which fulfils each and every wish, comprises baths, shower trays, whirlpools, shower partitions and multifunction shower cubicles.



Private spa concept at Hotel Auerhahn, the wellness hotel in Aha/Schluchsee. Installation and turn-key hand-over in March/April 2004.

The new Project Business Division's course of business in 2003 did not fulfil expectations. Fundamental reasons are found in the relatively difficult international market environment for building investments and the long lead times required to acquire projects. The new organisation's concepts – which centre around marketing complete turn-key solutions in direct dialogue with investors – are, however, broadly acknowledged and welcomed as progressive by market target groups. This applies just as much to the range of conventionally-prepared turn-key solutions, as to the prefabricated modular bathroom concept "e.motion". Both variants can be used equally well in new-building projects and in large-scale renovation projects – in the launch phase, this has been predominantly for high-quality hotel and resort bathrooms. The advantages of "e.motion" are found particularly in its modular structure, compounded method of construction and in the amount of time and costs saved by the investor. A further advantage is that the investor need deal only with one contact address for the entire period, from conception to the point of turn-key hand-over, and in all warranty matters – Villeroy & Boch.

Successful Launch of "e.motion" Bathroom Concept

Following the first large-scale project in Spain (the golf resort Mosa Trajectum in Murcia), where all bathrooms and also interior and exterior tiling are being performed conventionally by Villeroy & Boch, the first orders for "e.motion" have now also been received. The orders in question include a 4-star boarding house in Bremen, a "private spa concept" in a wellness hotel on the Schluchsee, a variety of reference projects – including concepts for Kempinski in Hamburg (Hotel Atlantic), Frankfurt (Gravenbruch) and Berlin (Hotel Bristol) – and other show bathrooms at various foreign locations.
Parallel to these undertakings, renowned hotel-sector planning offices are currently being made acquainted with "e.motion". In the scope of central events with a workshop character, representatives from leading planning offices elaborate their own concepts for superior-category hotel bathrooms on the basis of the modular system "e.motion".

Successive Tapping of Further Fields of Application

The level of acceptance which our hotel-bathroom concepts have achieved, and also the intensive dialogue conducted with investors, planners and large-scale project operators have made us even more de-

The Middle East – one of the focal points of international hotel construction activities. Villeroy & Boch products at the Madinat, Jumeirah; Grand Hyatt, Dubai and Kempinski, Ajman.

Swimming pool complex at Hotel Schloss Lerbach in Bergisch-Gladbach. Harmonious atmosphere created by Villeroy & Boch products, to the very last detail.

termined to open up further application segments as quickly as possible. A modular expansion concept based on "e.motion" is currently being developed for use in the field of industrial construction for staff sanitary facilities. This concept fulfils the highest demands for flexibility, time and cost-awareness, application safety and stylish appeal. Target groups for "e.motionindustry" are, for example, the motor vehicle groups. In these cases, when designing sanitary facilities in production halls, it is indispensable that implementation complies with time and cost requirements and that the proposed concept offers the exceptional benefits of function and design in a single-source turn-key solution. Here too, Villeroy & Boch will be the construction principal's direct partner, from the initial planning stages through to commissioning, and will cover all the essential services, subcontracting qualified specialist workshops to carry out installation and assembly work.

Best Western Hotel Schaper-Siedenburg in Bremen. All bathrooms equipped with "e.motion".

Growth With System Business

The provision of a comprehensive range of services for high-quality all-in solutions in the international project-business sector represents a great challenge for the new organisation. On the other hand, by grouping together ranges, assembly and support services, it is possible to exploit growth potential in each of the construction phases and at all levels. Whether implemented on a conventional basis, or using the modular "e.motion" concept, system business will be successively developed. We expect further large-scale contracts from the international hotel environment and also from the old-people's residence sector during the current year. New orders totalling well over Euro 10 million are planned for the year 2004.

Consolidated Financial Statements

of Villeroy & Boch AG

Assets

	Notes	31.12.2003 Euro '000	31.12.2002 Euro '000
Fixed assets	1		
Goodwill		40,773	53,782
Other intangible assets		6,137	6,888
Property, plant and equipment		292,364	292,696
Financial assets		10,899	9,844
		350,173	**363,210**
Current assets			
Inventories	2	236,545	250,080
Accounts receivable from trading	3	123,796	131,420
Remaining accounts receivable and other assets	3	40,551	37,557
Marketable securities	4	0	65
Liquid assets	5	37,028	53,629
		437,920	**472,751**
Deferred taxes	6	**51,394**	**40,866***
Deferred charges and prepaid expenses	7	**3,224**	**3,469**
		842,711	**880,296**

* Prior-year values have been adjusted in accordance with IAS 8.34

Liabilities and shareholders' equity

	Notes	31.12.2003 Euro '000	31.12.2002 Euro '000
Shareholders' equity	8		
Capital subscribed		71,909	71,909
Capital surplus		193,587	193,587
Earnings reserves		92,967	97,890*
Consolidated result		-26,064	10,031
		332,399	**373,417**
Minority interests	9	**2,613**	**2,750**
Provisions and accrued liabilities			
Provisions for pensions and similar obligations	10	194,177	193,954
Other provisions and accrued liabilities	11	61,237	57,831*
		255,414	**251,785**
Liabilities	12		
Financial debts		38,917	40,198
Trade accounts payable		83,289	76,474
Other liabilities		101,378	105,440
		223,584	**222,112**
Deferred taxes	6	**26,143**	**26,837**
Deferred charges	13	**2,558**	**3,395**
		842,711	**880,296**

* Prior-year values have been adjusted in accordance with IAS 8.34

1st January to 31st December 2003

	Notes	2003 Euro '000	2002 Euro '000
Sales	14	**948,573**	**977,452**
Costs of goods sold	15	- 596,725	- 591,029
Gross profit		**351,848**	**386,423**
Selling expenses, marketing and development costs	16	- 285,759	- 298,034
General and administrative expenses	17	- 56,458	- 53,636
Amortisation of goodwill	18	- 17,453	- 4,393
Other operating expense/income	19	- 10,048	- 6,465
Result from equity investment	20	239	3,152
Operating result (EBIT)		- **17,631**	**27,047**
Financial results	21	- 13,137	- 13,418
Result before taxes		- **30,768**	**13,629**
Taxes on income	22	5,372	- 3,345
Results for the year		- **25,396**	**10,284**
Minority interests	23	- 668	- 253
Consolidated result		- **26,064**	**10,031**
Net earnings per ordinary share in Euro	24	- 0.99	0.35
Net earnings per preference share in Euro	24	- 0.94	0.40

	2003 Euro '000	2002 Euro '000
Results for the year	- 25,396	10,284
Depreciation of fixed assets	70,613	60,872
Write-ups on security investments	- 1,368	-
Change in long-term provisions	- 10,904	- 9,751 [1)]
Result from disposal of fixed assets	- 787	- 1,549
Change in inventories, accounts receivable and other assets	7,032	9,837
Change in liabilities, short-term provisions and other liabilities	9,494	1,894 [1)]
Taxes paid in business year	- 4,344	- 4,748 [2)]
Interest paid/collected in business year	- 1,157	- 1,164
Other income/expense without effect on liquid assets	9,151	5,361 [2)]
Cash flow from operating activities	**52,334**	**71,036**
Investment in intangible and tangible fixed assets	- 59,444	- 66,064
Investment in financial assets and payments for the acquisition of consolidated companies	- 2,703	- 580
Deposits from disposals of fixed assets	3,700	33,253
Cash flow from investing activities	**- 58,447**	**- 33,391**
Change in financial liability	4,148	5,567
Deposits from sale of/payment for the acquisition of treasury stocks	32	159
Withholding tax paid	- 525	- 819
Dividend payments	- 14,208	- 14,199
Cash flow from financing	**- 10,553**	**- 9,292**
Change in balance of funds	**- 16,666**	**28,353**
Balance of funds as of 1.1.	53,694	25,341
Changes ensuing from consolidated companies	-	-
Change in balance of funds	- 16,666	28,353
Balance of funds as of 31.12.	**37,028**	**53,694**

The balance of funds includes liquid assets and security investments.

1) In the previous business year, reclassification took place of the allocation of interest expense without effect on liquid assets resulting from pensions (Euro 10.282 million). Furthermore in the 2003 business year, provisions for environmental risks were included in the definition for long-term provisions: in the 2002 Cash Flow Statement, this brought about a change in the amount of Euro 0.881 million.

2) Corrections have been made to income from the reversal of tax provisions, the reclassification of which was too high in the previous year.

	Capital subscribed Euro '000	Capital surplus Euro '000	Earnings reserve Euro '000	Consolidated result Euro '000	Total shareholders' equity Euro '000	Minority interests Euro '000
As per 1.1.2002	**71,909**	**193,587**	**103,465**	**9,446**	**378,407**	**2,650**
Dividend				-14,199	-14,199	
Reclassification of prior-year consolidated result			-4,753	4,753	0	
Consolidated result				10,031	10,031	253
Subsequent valuation IAS 39			-974		-974	
Currency change			4,496		4,496	-85
Other changes in shareholders' equity			-967		-967	-68
As per 31.12.2002	**71,909**	**193,587**	**101,267**	**10,031**	**376,794**	**2,750**
As per 1.1.2003	**71,909**	**193,587**	**101,267**	**10,031**	**376,794**	**2,750**
Fundamental error - IAS 8.34			-3,377		-3,377	
As per 1.1.2003	**71,909**	**193,587**	**97,890**	**10,031**	**373,417**	**2,750**
Dividend				-14,208	-14,208	-42
Reclassification of prior-year consolidated result			-4,177	4,177	0	
Consolidated result				-26,064	-26,064	668
Subsequent valuation IAS 39			400		400	
Currency change			-745		-745	-75
Acquisition of additional shares					0	-695
Other changes in shareholders' equity	0	0	-401		-401	7
As per 31.12.2003	**71,909**	**193,587**	**92,967**	**-26,064**	**332,399**	**2,613**

General

The consolidated financial statements of Villeroy & Boch AG, Mettlach, have been prepared in accordance with the valid regulations of the International Accounting Standards Board (IASB), London, applying the interpretations of the Standard Interpretations Committee (SIC). In so doing, all IFRS accounting principles which are to be applied for the business year commencing 01.01.2003, have been considered.
Furthermore, all requirements stipulated under § 292a HGB (German Commercial Code) have been fulfilled. In this respect, the consolidated financial statements prepared in accordance with International Financial Reporting Standards have a discharging effect. The requirements for fulfilling the discharging effect, which are defined under § 292a HGB, are based on the German Accounting Standard No. 1 (DRS 1), published by the Deutscher Standardisierungsrat DRSC e.V. [German Standardisation Council].

Valuation and accounting methods which differ from German law
The Consolidated Financial Statements on hand, prepared according to IAS, differ from German law, essentially in the following points:
- In accordance with IAS 16 property, plant and equipment are to be reported at original cost, minus accumulated depreciation and the expense for decline in value. The volume of depreciation is to be distributed systematically over the appropriate period of useful life. Depreciation in the Villeroy & Boch Group has been calculated according to the straight-line method since changing over from HGB accounting to that of the IFRS.
- In accordance with IAS 17 leased fixed assets are to be capitalised and the resulting liabilities set up as liabilities, in so far as the beneficial ownership of the assets is to be allocated to the lessee.
- In accordance with IAS 19 pension provisions and similar obligations are calculated according to the pension rights present value method (Project Unit Credit Method), taking into account future salary and pension increases.
- Assets and liabilities arising from future income-tax relief and burdens are to be calculated in accordance with the balance-sheet oriented liabilities method, as stipulated under IAS 12, applying the tax rates relevant for their anticipated realisation. This also includes the duty to report deferred tax claims which ensue from offsetting tax loss carry forwards with expected future profits, this, however, only in so far as their realisation is guaranteed with adequate certainty.
- In accordance with IAS 39 self-generated and derivative financial instruments are reported in the balance sheet as assets and debts, and in the process are partially to be valuated at fair value, depending on how they are classified. In addition, IAS 39 provides for separate balance-sheet treatment of qualified security/hedging arrangements, which partly leads to fluctuations in value being entered in shareholders' equity without affecting operating result.
- Minority interests are shown in a separate position on the liabilities side of the balance sheet, outside shareholders' equity.

The relief accorded under § 264 subsection 3 HGB as regards auditing and disclosure has been made use of for Villeroy & Boch Creation GmbH, Mettlach.
If attention is not drawn to the contrary, all amounts shown are in units of a thousand Euro (Euro '000).

Consolidated Companies

In addition to Villeroy & Boch AG, the consolidated financial statements include 15 domestic (previous business year: 15) and 56 (previous business year: 57) foreign subsidiaries, in which – directly or indirectly – majority voting rights are held.
Reasons for the changes are the concluded liquidation proceedings of two inactive foreign companies, the merger of one company with Villeroy & Boch AG and the new foundation of two holding companies, in order to generate tax benefits.
On the date of reporting, only insignificant influences on the structure of the Consolidated Balance Sheet and the Consolidated Profit and Loss Statement result from these changes.

The company in Spain, which was acquired towards the end of the 2002 business year, was sold in this business year. All subsidiary companies have, therefore, been included in the Consolidated Financial Statements of Villeroy & Boch AG. The shares in this company were reported in the balance sheet at net original cost in the previous business year.
As already in the previous year, one company is reported in the balance sheet in accordance with the equity method. The shares in the voting rights of this company amount to 50 %.
A complete list of share ownership will follow separately and be deposited with the Central Commercial Register at Amtsgericht Saarbrücken, Heidenkopferdell Offices, 66104 Saarbrücken, under HRB 63610.

The following companies have been consolidated for the first time:

Name of the company consolidated for the first time	Reporting date	Shares	Original cost value in Euro '000
Villeroy & Boch Asset Holding GmbH & Co. KG	27.08.2003	100 %	8,101
Villeroy & Boch Holding Ungarn Kft.	23.12.2003	100 %	60,241

Consolidation Principles

The annual financial statements of the companies included in the Villeroy & Boch Group Consolidated Financial Statements are consolidated in accordance with the methods of valuation and accounting methods stipulated under IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries), which are uniform throughout the Group. The consolidated companies' balance sheet date corresponds to that of the parent company. The participation reported in the balance sheet using the equity method maintains its own principles of valuation; revaluation is dispensed with owing to the insignificant influence of revaluation measures.
Capital consolidation for the included companies is carried out in accordance with IAS 22 (Business Combinations). In this respect, the participation book values of the subsidiary companies at the time of their acquisition are offset against the newly-evaluated equity ratio allotted to them.
Following the allocation of existing, hidden reserves and hidden burdens, the goodwill thus resulting is capitalised, and amortised with an effect on net income, using the straight-line method. In so doing, the period of amortisation relates to the economic life in each case.
Sales, expenses and income, as well as accounts receivable and liabilities between the included companies are eliminated. Intercompany results in fixed assets and also inventories are eliminated, if they are not of secondary importance.
Deferred taxation in accordance with IAS 12 (Income Taxes) is carried out on consolidation measures affecting net income, provided the varying tax expense is expected to balance itself in later business years.

Currency Translation

Taking individual company financial statements as a basis, all business transacted in foreign currency is valuated at the rate applicable at the time of its initial entry. Valuation on the respective balance sheet date is carried out at the current rate.
In accordance with IAS 21, the individual company balance sheets of the consolidated companies, which are prepared in foreign currency, are translated to Euro following the concept of functional currency. Companies which transact business independently as regards finance, commerce and organisation, are defined as a "foreign entity". This applies to all companies of the Villeroy & Boch Group with the exception of S.C. Mondial S.A, Lugoj – Romania. In the case of the aforementioned company group, assets and debts are translated to the spot

rate on the balance sheet date and all items of the Profit and Loss Statement to average rates. Differences arising as a result of translating the financial statements of foreign subsidiary companies are treated as not affecting operating result and reported within the earnings reserves. If companies which were formerly consolidated leave the circle of consolidated companies, the translation differences which have been treated as not affecting operating result, are then reversed with an effect on result.
Owing to the great loss of purchasing power, the annual financial statements of the Romanian company S.C. Mondial S.A., Lugoj – which is included in the consolidation – are prepared giving due consideration to IAS 29 (Financial Reporting in Hyperinflationary Economies). In this case, valuation of non-monetary items is based on historical costs and historical production costs, while the currency of monetary items is translated at the average rate valid on the balance sheet date.

Notes to Balance Sheet

1. Fixed Assets

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

	Intangible assets Euro '000	Property, plant and equipment Euro '000	Financial assets Euro '000	Total Euro '000
Accumulated cost values on 1.1.2003 (IAS)	**82,647**	**954,746**	**13,281**	**1,050,674**
Currency adjustment	-38	-5,909	279	-5,668
Adjustment of financial assets to market values, without affecting operating result	0	0	133	133
Changes in consolidated companies	0	0	0	0
Additions	5,997	53,447	2,008	61,452
Disposals	-716	-26,244	-1,798	-28,758
Transfers	1,030	-297	-763	-30
Accumulated cost values on 31.12.2003	**88,920**	**975,743**	**13,140**	**1,077,803**
Accumulated depreciation on 1.1.2003	**21,977**	**662,050**	**3,437**	**687,464**
Currency adjustment	-45	-3,154	-5	-3,204
Changes in consolidated companies	0	0	0	0
Scheduled depreciation	7,268	49,763	698	57,729
Non-scheduled depreciation	12,884	0	0	12,884
Disposals	-129	-25,280	-466	-25,875
Write-ups	0	0	-1,368	-1,368
Transfers	55	0	-55	0
Accumulated depreciation on 31.12.2003	**42,010**	**683,379**	**2,241**	**727,630**
Net book value on 31.12.2003	**46,910**	**292,364**	**10,899**	**350,173**
Net book value on 31.12.2002	60,670	292,696	9,844	363,210

1.1. Intangible Assets

	Franchises, patents, licences and similar rights Euro '000	Goodwill Euro '000	Advances paid on intangible assets Euro '000	Total Euro '000
Accumulated cost values on 1.1.2003	**15,987**	**66,660**	**0**	**82,647**
Currency adjustment	-38	0	0	-38
Changes in consolidated companies	0	0	0	0
Additions	990	5,007	0	5,997
Disposals	-153	-563	0	-716
Transfers	1,030	0	0	1,030
Accumulated cost values on 31.12.2003	**17,816**	**71,104**	**0**	**88,920**
Accumulated depreciation on 1.1.2003	**9,099**	**12,878**	**0**	**21,977**
Currency adjustment	-45	0	0	-45
Changes in consolidated companies	0	0	0	0
Scheduled amortisation	2,699	4,569	0	7,268
Non-scheduled amortisation	0	12,884	0	12,884
Disposals	-129	0	0	-129
Write-ups	0	0	0	0
Transfers	55	0	0	55
Accumulated depreciation on 31.12.2003	**11,679**	**30,331**	**0**	**42,010**
Net book value on 31.12.2003	**6,137**	**40,773**	**0**	**46,910**
Net book value on 31.12.2002	6,888	53,782	0	60,670

Acquired intangible assets are calculated at original cost. They are reduced by scheduled amortisation carried out using the straight-line method, in accordance with their course of useful life. With the exception of goodwill, useful life is mainly between three and five years. Non-scheduled amortisation is carried out when the recoverable amount is below the net original cost or net cost of production. Should the grounds for impairment amortisation undertaken in previous business years cease to exist on a permanent basis owing to the impairment test which is to be implemented, an appropriate write-up will be undertaken. Goodwill is amortised as stipulated under IAS 22 on the basis of a useful life of 15 years. Negative goodwill does not exist.
The value of goodwill is regularly reviewed. In the event of a sustained reduction in value being ascertained, a corresponding amortisation will be undertaken.
Owing to an existing put-option, shares in Villeroy & Boch Wellness N.V., Roeselare were increased from 75 % to 100 % in the 2003 business year. The goodwill apportioned to this company, in the amount of Euro 5.530 million, has been fully amortised on the basis of an impairment test. The same applies to Ceramica Ligure S.r.L., Ponzano Magra, where valuation of the goodwill had to be adjusted by Euro 7.354 million.
Amortisation on intangible assets is included in the Profit and Loss Statement, essentially under general and administrative expenses. Amortisation on goodwill is shown in the Profit and Loss Statement as a separate line.
As in the previous business year, no fundamental restraints exist on ownership or disposal of intangible assets.
Intangible assets constructed by the company for its own use are not capitalised.

1.2. Property, Plant and Equipment

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

	Land and buildings Euro '000	Technical equipment, plant and machinery Euro '000	Other equipment, fixtures, fittings and equipment Euro '000	Advance payments and plant and machinery in process of construction Euro '000	Total Euro '000
Accumulated cost values on 1.1.2003	**332,171**	**447,536**	**146,518**	**28,521**	**954,746**
Currency adjustment	-1,336	-2,063	-2,392	-118	-5,909
Changes in consolidated companies	0	0	0	0	0
Additions	5,416	17,363	11,743	18,925	53,447
Disposals	-3,795	-14,698	-7,721	-30	-26,244
Transfers	5,812	18,574	445	-25,128	-297
Accumulated cost values on 31.12.2003	**338,268**	**466,712**	**148,593**	**22,170**	**975,743**
Accumulated depreciation on 1.1.2003	**204,425**	**344,364**	**113,261**	**0**	**662,050**
Currency adjustment	-347	-830	-1,977	0	-3,154
Changes in consolidated companies	0	0	0	0	0
Scheduled depreciation	8,110	27,832	13,821	0	49,763
Disposals	-3,581	-14,462	-7,237	0	-25,280
Write-ups	0	0	0	0	0
Transfers	139	-8	-131	0	0
Accumulated depreciation on 31.12.2003	**208,746**	**356,896**	**117,737**	**0**	**683,379**
Net book value on 31.12.2003	**129,522**	**109,816**	**30,856**	**22,170**	**292,364**
Net book value on 31.12.2002	127,746	103,172	33,257	28,521	292,696

Property, plant and equipment are reported in the balance sheet at original cost or cost of production, minus scheduled depreciation. Subsequent original costs are capitalised.
There are no restraints on rights of disposal for property, plant and equipment. The status of secured obligations on property, plant and equipment on the balance-sheet date amounted to Euro 0.000 million.
Where public grants and subsidies for acquiring or producing assets (investment grants/subsidies) are concerned, original costs and cost of production are reduced by the amount of the grant, in accordance with IAS 20, in so far as they can be allocated to the individual assets. If this is not possible, they are accrued and then appropriated with effect on the current-period result, depending on the degree to which they have been performed.
Tangible fixed assets are depreciated using the straight-line method, in accordance with their course of useful life. The following periods of useful life are used as a uniform basis throughout the Group:

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

Low-value items are written-off completely in the year of acquisition.
If necessary, non-scheduled depreciation, as stipulated under IAS 36, will take place, which will be reversed should the grounds for depreciation cease to exist on a permanent basis at a later date. In the year under review, as in the previous business year, no non-scheduled depreciation (Impairment) of property, plant and equipment took place.
If fixed assets are rented or leased, and if beneficial ownership – as stated under IAS 17 ("finance lease") – is held by the respective Group company, the aforementioned fixed assets are allocated to the lessee and in consequence, capitalised at their fair value or lower cash value. Depreciation is carried out on the basis of the appropriate useful life or, if shorter, the term of the leasing agreement. The appropriate financial obligations arising from the future leasing instalments are set up as a liability.
Capitalised leased assets have a total value of Euro 5.830 million (previous business year: Euro 6.650 million) and can be subdivided as follows:

	31.12.2003	31.12.2002
Land	3,967	4,162
Buildings	1,554	1,804
Machinery	309	684
Total	**5,830**	**6,650**

Obligations arising from finance leasing and operating leasing relationships are due for payment in the subsequent years as follows:

	Up to 1 year Euro '000	1 to 5 years Euro '000	More than 5 years Euro '000
Finance Leasing			
Leasing payments to be paid in future	1,947	1,430	1,751
Discounting	-3	-242	-618
Cash value	1,944	1,188	1,133
Operating Leasing			
Leasing payments to be paid in future	14,613	25,112	3,731

In accordance with IAS 40, land and buildings are designated as investment properties in so far as they serve the purpose of earning rent or other regular income or of increasing in value correspondingly. This definition excludes properties falling under operating assets, i.e. properties used for production, for marketing goods or services or for administrative purposes, and properties that are kept for selling within the scope of ordinary business activities.

Within the scope of follow-up development programmes properties that are not necessary for business will, if at all possible, constantly be improved with a view to selling or letting them, thus allowing currently unused space to contribute to improving the Group cash flow in the medium to long term. Properties improved in this way fall under facts to be reported according to IAS 40. These investment properties are carried in the balance sheet according to the original cost model, which specifies that all original costs are reported at historical original cost minus scheduled depreciation. The period of depreciation is based on the useful life given in the fixed asset class table.

Three properties are currently being improved, and their capitalised book value in the Consolidated Financial Statements amounts to Euro 0.6 million as opposed to a current market value of Euro 8.1 million. The current market values shown have been determined by using official maps of estimated land values (base year: 2001) and taking account of surcharges and deductions relevant for the property in question. Committees of experts at the competent cadastral office calculate the values shown in the maps for estimated land values annually on the basis of prices obtained from land sales in the respective area. Expert opinions drawn up by third parties are not obtained for reasons of cost. Rent in the sum of Euro 0.219 million is currently being earned from letting the properties to be improved to affiliated companies. Maintenance and management expenses are assumed by the tenant.

1.3. Financial Assets

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

	Shares in: affiliated companies Euro '000	associated under-takings Euro '000	other investments Euro '000	Security investments Euro '000	Loans Euro '000	Total Euro '000
Accumulated cost values on 1.1.2003	**107**	**268**	**14**	**9,573**	**3,319**	**13,281**
Currency adjustment	0	0	1	0	278	279
Adjustment of financial assets to market values, without affecting operating result	0	0	0	133	0	133
Changes in consolidated companies	0	0	0	0	0	0
Additions	0	122	18	1,618	250	2,008
Disposals	-107	0	0	-811	-880	-1,798
Transfers	0	0	0	-30	-733	-763
Accumulated cost values on 31.12.2003	**0**	**390**	**33**	**10,483**	**2,234**	**13,140**
Accumulated depreciation on 1.1.2003	**0**	**0**	**0**	**2,851**	**586**	**3,437**
Currency adjustment	0	0	0	0	-5	-5
Changes in consolidated companies	0	0	0	0	0	0
Scheduled depreciation	0	0	0	609	89	698
Non-scheduled depreciation	0	0	0	0	0	0
Disposals	0	0	0	0	-466	-466
Write-ups	0	0	0	-1,368	0	1,368
Transfers	0	0	0	0	-55	-55
Accumulated depreciation on 31.12.2003	**0**	**0**	**0**	**2,092**	**149**	**2,241**
Net book value on 31.12.2003	**0**	**390**	**33**	**8,391**	**2,085**	**10,899**
Net book value on 31.12.2002	107	268	14	6,722	2,733	9,844

Depending on how they are qualified, financial assets are to be valuated at net original cost or market value. Financial assets available for sale are always to be calculated at market value. As the financial assets concerned here are essentially shares in listed companies, the market value is the equivalent of stock-exchange value. Changes in market value are taken into account in shareholders' equity without affecting result. Permanent impairments determined on the basis of an impairment test in accordance with IAS 39 are taken into account with an effect on result. Changes in the value of marketable securities classified as impaired in the previous year were treated as having an effect on result in the year under review. Any necessary write-ups are made to a maximum of the declines in value undertaken in previous years.

Valuation reserves stemming from the market valuation of marketable securities classified as impaired in the previous year, amounting to Euro 0.609 million, have been taken account of in net interest income. Special depreciation allowances in accordance with IAS 39.117, which have been taken account of in net interest income, were compensated for by write-ups in the sum of Euro 1.368 million, with effect on result. In addition, market value changes amounting to Euro 0.133 million, with effect on result (Euro 1.368 million in the previous year), are accounted for in earnings reserves.
In so far as a market value cannot be reliably determined, valuation is carried out on the basis of original cost and, if necessary, reduced by the required valuation reserves. This is the case for participations reported in the consolidated balance sheet.
Shares in associated undertakings are balanced in accordance with the equity method. Owing to their qualification as credits extended by the company, loans are valuated at net original cost.

2. Inventories

	31.12.2003 Euro '000	31.12.2002 Euro '000
Raw materials and supplies	38,086	40,045
Work-in-process	30,762	33,427
Finished goods	167,538	176,536
Advance payments	159	72
	236,545	**250,080**

In the case of inventories, raw materials and supplies, as well as merchandise are valuated at original cost. Goods are valuated at cost of production unless the net value on sale is lower. In this connection, the lowest of the amounts on the balance sheet date for either original cost or net value on sale is the one which is taken into account. Net value on sale is calculated as the sales revenues which are expected to be recovered, minus any costs incurred up to the time of sale.
In accordance with IAS 2, cost of production includes the directly allocable unit costs (direct material and labour) and the overhead expenses which are to be allocated to the production process. Costs of financing are not taken into account. Write-downs are undertaken to an appropriate and adequate extent for inventory risks ensuing from the period of storage and diminished usability. Inventories existing on the balance sheet date are reported at the lower net value on sale.

Inventories are divided between the individual business segments as follows:

	31.12.2003 Euro '000	31.12.2002 Euro '000
Tiles	78,162	88,455
Bathroom and Kitchen	64,991	66,309
Tableware	73,295	76,597
Wellness	20,097	18,719
	236,545	**250,080**

There are no restraints on ownership or disposal.

3. Accounts receivable and other assets

	31.12.2003 Euro '000	of which due after more than 1 year Euro '000	31.12.2002 Euro '000	of which due after more than 1 year Euro '000
Accounts receivable from trading	**123,796**	**-**	**131,420**	**-**
Remaining accounts				
accounts due from associated undertakings and other Group companies	654	-	500	-
Other assets:	39,897	4,549	37,057	2,137
accounts due from tax refunds	21,183	1,315	18,782	417
- thereof income tax	(10,643)	(-)	(9,657)	(417)
- thereof other taxes	(10,540)	(1,315)	(9,125)	(-)
Remaining other assets	18,714	3,234	18,275	1,720
	40,551	**4,549**	**37,557**	**2,137**
	164,347	**4,549**	**168,977**	**2,137**

Accounts receivable from trading are balanced at par value. Where default or transfer risks exist, debts are calculated at the lower realisable amount. This is reflected in the form of implemented individual valuation reserves and bad-debt allowances. In the business year under review, valuation reserves were formed in the sum of Euro 5.403 million (previous business year: Euro 2.843 million).
The remaining accounts are balanced at par value. In so far as default risks or other risks exist, adequate valuation reserves have been formed. As in the previous business year, no restraints exist on ownership or disposal.
The item "Remaining Other Assets" includes a receivable from the market valuation of the derivative financial instruments, a receivable from the sale of the former associated company Burton Apta Kft., receivables due from interest, bonus debts, rent deposits, creditors with debit balances, receivables due from the workforce and also a multitude of smaller individual items.

4. Marketable Securities

The marketable securities reported in the previous business year in marketable securities have been reclassified in the year under review under security investments following liquidation of the holding company and acquisition of the securities by the Villeroy & Boch AG (previous business year: Euro 0.065 million).

5. Liquid Assets

	31.12.2003 Euro '000	31.12.2002 Euro '000
Cheques and cash on hand	748	1,892
Cash in banks	36,280	51,737
	37,028	**53,629**

Cash on hand and in banks is balanced at par value. Accounts receivable due from banks and liabilities due to banks are reported as having been netted out in the sum of Euro 5.284 million (previous business year: Euro 6.864 million), for which there are offsetting terms or the intention of net settlement (IAS 32.70).

6. Deferred Taxes

Deferred tax assets and liabilities are balanced in accordance with IAS 12 (Income Taxes). Deferred taxes consequently result from various valuations of the book values reported in the consolidated balance sheet and the valuations of assets and debts calculated for tax purposes, which will be offset again in the future.

Deferred taxes concern the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
	31.12.2003 Euro '000	31.12.2002 Euro '000	31.12.2003 Euro '000	31.12.2002 Euro '000
Intangible fixed assets	138	253	157	75
Property, plant and equipment	3,601	3,556	12,419	13,254
Financial assets	409	1,581	59	0
Inventories	11,778	8,406	631	89
Remaining accounts receivable, other assets, short-term security investments	917	865	1,280	971
Special tax items	0	0	11,485	12,299
Accruals/provisions[1)]	20,899	20,033	107	149
Liabilities	1,577	950	5	0
Accumulated deficits	12,075	5,222	0	0
Balance sheet items	**51,394**	**40,866**	**26,143**	**26,837**

[1)] Prior-year correction by Euro 1.314 million in accordance with IAS 8.34 (please see explanation 8.3).

Deferred taxes in the sum of Euro -0.941 million (previous business year: Euro -0.366 million) have been absorbed in shareholders' equity without affecting operating result.
While the accumulated domestic deficits can be carried forward without limitation, time limitations, specific to the respective country often apply to accumulated foreign deficits. The latter have been appropriately taken into account in the valuation.
Potential tax savings resulting from as yet unused tax losses totalling Euro 15.217 million (previous business year: Euro 16.659 million) have not been capitalised.
For further explanatory comments, see Point 22 Taxes on Income and Earnings.

7. Deferred Charges and Prepaid Expenses

Deferred charges and prepaid expenses include the usual deferrals.

8. Shareholders' Equity

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

8.1. Capital Subscribed

Share capital is divided into 14,044,800 individual ordinary-share certificates and 14,044,800 nonvoting individual preference-share certificates, each having a calculated share in the share capital of Euro 2.56. The ordinary shares and preference shares are in the name of the holder and share capital is divided into equal numbers of each share.

The company's share capital amounts to Euro 71,909,376 (previous business year: Euro 71,909,376).

8.2. Capital Reserves

As in the previous business year, capital reserves amount to Euro 193.587 million.

8.3. Earnings Reserves

Other Group earnings reserves, in the sum of Euro 92.967 million (previous business year: Euro 97.889 million[1)]), include those of Villeroy & Boch AG and the proportional profits of the consolidated subsidiaries – produced since belonging to the Group. In 2003 there was no appropriation of earnings to the earnings reserve at Villeroy & Boch AG. In addition, this item includes consolidation measures, currency influences and also treasury stock held by Villeroy & Boch AG in the sum of Euro 11.275 million (previous business year: Euro 9.273 million). Treasury stock totalling Euro 2.034 million was acquired during the business year under review. Treasury stock totalling a sum of Euro 0.032 million (previous business year: Euro 0.159 million) was sold to executive staff within the scope of a stock option programme.
During the course of the 2003 business year it was determined that a provision for guarantee obligations in the sum of Euro 3.506 million and a provision for recultivating a waste dump in the sum of Euro 1.184 million for the Swedish company AB Gustavsberg had not been carried as a liability at the time of initial consolidation, nor was the tax deferral of Euro 1.314 million taken into consideration. Adjustments were made in accordance with IAS 8.34 by adjusting the carry-forward figures of the earnings reserves as per 1st January 2003, and thus presented in the sum of Euro 3.376 million as decreasing equity and not affecting result.

8.4. Stock Option Plan

In accordance with a resolution passed at the General Meeting of Shareholders on 25th June 1999, a total of 1,058,023 (3.77 % of share capital) no-par individual preference-share certificates were acquired in the business year 2000. They represent a proportionate share capital of Euro 2,708,539.00.
In 2003, a total of 282,591 (1.00 % of share capital; Euro 723,433 prorata share capital) no-par-value individual preference-share certificates were acquired following a resolution passed at the General Meeting of Shareholders on 23rd May 2003.

[1)] after correction of fundamental error – IAS 8.34

A total of 82,965 shares have been sold to executive staff of Villeroy & Boch AG and its subsidiary companies during the last four years, within the scope of a stock option programme. The following table shows the tranches issued in the respective years.

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

Revenue from the sale in 2003 totalled Euro 0.036 million (previous business year: Euro 0.178 million).

Management Board members had to acquire one share from the Villeroy & Boch portfolio for every nine warrants, and other executive staff had to acquire one share for every eight warrants. The shares are to be kept for the entire term of the option. Share options cannot be exercised until at least three years after their issue. A condition is that the share price has increased by at least 20 % since the time of issue and is valued at more than Euro 12.00. Since these criteria were not fulfilled in 2003, the stock options from the initial tranche in 2000 could not be exercised. 93,464 option rights were issued to executive staff in the 2003 business year. The total portfolio of option rights at the end of the year amounted to 420,027.
When options are exercised, the purchase price for the total share options issued to date exceeds the original costs (Euro 9.46) and book values (Euro 7.25) for the shares, with the effect that Villeroy & Boch AG will not incur any expense. The total shares required when the share option is exercised can be covered by the company's own portfolio. The portfolio totalled 1,257,649 shares on the balance-sheet date 31.12.2003. This is the equivalent of a prorata share capital of Euro 3,219,581.00.

9. Minority Interests

Third-party shares in the shareholders' equity of consolidated subsidiary companies is shown under the item "Minority Interests". On the balance sheet date the latter total Euro 2.613 million (previous business year: Euro 2.750 million) and originate essentially from Wellness Division companies. The change reflects the disposals resulting from the increase of shares in the company Villeroy & Boch Wellness N.V., Roeselare (Euro -0.659 million), which almost compensates for the capital equity increase of Vagnerplast spol. S.r.o., Unhost (Euro +0.535 million) as a result of the positive result obtained.
Minority interests are calculated on the basis of the shareholders' equity reported in the balance sheets of the companies concerned.

10. Provisions for Pensions and Similar Obligations

The provisions for pensions and similar obligations include old-age protection for Villeroy & Boch Group employees, the overwhelming majority of whom are resident in the European Economic Area. Depending on the legal, economic and fiscal conditions which apply in the respective country, provision valuation is carried out using IAS 19 and the Projected Unit Credit Method. The various old-age protection systems are based, as a rule, on the employee's length of employment and remuneration. The schemes concerned are predominantly performance-oriented pension organisations.

Valuation of pension obligations is carried out using an interest rate for accounting purposes in the sum of 5.25 % and 6.0 % and a wage and salary trend of 2.0 %, 2.5 % and 3.5 %. In the case of employee pension-scheme settlements, calculations are carried out on the basis of a retirement pension trend of 1.5 % and 2.0 % and an employee turnover specific to the company. Valuation is carried out on the basis of mortality tables which are specific to the country. The actuarial profits/losses are entered using the 10 % corridor rule. An expected return of 4 % was assumed when determining the plan assets.
Provisions for pensions and similar obligations are made up as follows on the balance sheet date:

	31.12.2003 Euro '000	31.12.2002 Euro '000
Provisions for pensions	178,829	183,648
Provisions for similar obligations	15,348	10,306
As per 31.12.	**194,177**	**193,954**

The change in pension provisions is essentially due to a contractual adjustment at V&B Wellness B.V., meaning that it was possible to partially reverse the provision.
The provisions for similar obligations take into account future expenses for anniversaries and for part-time employment before retirement age. The increase in these provisions arises due to the allocation made to provisions for part-time employment before retirement age.

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

	31.12.2003 Euro '000	31.12.2002 Euro '000
Expense for period of service	2,622	3,782
Return on plan assets	-668	-375
Interest expense	10,864	10,007
Sum of entered amounts affecting operating result	**12,818**	**13,414**

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

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

	31.12.2003 Euro '000	31.12.2002 Euro '000
Present value of pension rights		
as per 01.01.	194,879	192,558
Currency fluctuations	4	0
Reversal of V&B Wellness B.V.	-6,259	-
Interest expense	10,864	10,007
Expense for period of service	2,622	3,782
Annuity payments	-11,812	-11,468
Actuarial losses/profits	-158	0
as per 31.12.	**190,140**	**194,879**
Change in plan assets		
as per 01.01.	11,231	9,736
Reversal of V&B Wellness B.V.	-1,771	-
Return on plan assets	668	375
Employer contributions	1,183	1,120
as per 31.12.	**11,311**	**11,231**
Financing situation		
as per 31.12.	193,106	186,554
Actuarial losses not yet taken into account	-14,277	-2,906
Provision as per 31.12.	**178,829**	**183,648**

11. Other Provisions

	Provisions for: Tax commitments in Euro '000	Personnel sector in Euro '000	Guarantee obligations in Euro '000	Restructuring in Euro '000	Other in Euro '000	Total in Euro '000
As per 01.01.2003	**4,868**	**11,993**	**13,023**	**5,307**	**22,640**	**57,831**
Currency	-157	-49	45	27	-446	-580
Consumption	-2,085	-5,268	-2,558	-4,054	-6,709	-20,674
Reversal	-229	-363	-2,293	-1,716	-4,002	-8,603
Allocation	2,676	6,599	1,178	14,826	8,847	34,126
Transfer	-16	-1,917	0	2,650	-1,580	-863
Change in consolidated companies	0	0	0	0	0	0
As per 31.12.2003	**5,057**	**10,995**	**9,395**	**17,040**	**18,750**	**61,237**
Of which due within 1 year	5,057	6,128	9,395	17,040	13,381	51,001

Provisions are set up in accordance with IAS 37 for legal or de facto commitments to third parties, where the outflow of funds for settling the existing commitment must be probable and reliably estimable. Valuation is carried out at the future settlement amount. Discounting is undertaken where necessary.
Provisions for the personnel sector show provisions for outstanding management bonus, severance payments owing to personnel layoffs, contributions to the Mutual Benefit Association for Pension Security and provisions for customs clearance (Austria and Italy). As of 1.1.2003 provisions for customs clearance in the sum of Euro 2.591 million were removed from other provisions and reclassified for allocation reasons. As already explained under 8.3., prior-year values of other provisions were adjusted in the process of correcting a fundamental error. The carry-forward figures of guarantee reserves and other provisions (including a reserve for recultivation) were likewise adjusted in the provisions index on 1st January 2003 in the sum of Euro 3.506 million and Euro 1.184 million respectively. Provisions for restructuring take into account measures for restructuring the Bathroom, Kitchen and Tile Division.
Other provisions essentially include provisions for environmental protection and recultivation, the risks of lost lawsuits, insurance contributions, commission and also a multitude of individual items.

12. Liabilities

Liabilities are always stated at the amount repayable. As in the previous business year, liabilities are mainly due within a period of one year.

	Total 31.12.2003 Euro ‘000	Thereof with a remaining term of up to 1 year Euro ‘000	1 to 5 years Euro ‘000	more than 5 years Euro ‘000	Total 31.12.2002 Euro ‘000	Thereof with a remaining term of up to 1 year Euro ‘000
Liabilities						
Financial Debts						
Liabilities due to banks	30,601	20,739	9,809	53	31,361	22,570
Notes payable	4,051	4,051	-	-	3,932	3,932
Liabilities from finance leasing	4,265	1,944	1,189	1,132	4,905	2,328
	38,917	**26,734**	**10,998**	**1,185**	**40,198**	**28,830**
Trade accounts payable	**83,289**	**83,289**	**-**	**-**	**76,474**	**76,474**
Other liabilities:						
Advances received on purchase orders	1,269	1,269	-	-	693	693
Payroll accounting	36,687	36,687	-	-	33,293	33,293
Bonuses and rebates	35,530	35,530	-	-	40,442	40,442
Tax liabilities	10,455	10,455	-	-	10,799	10,477
- thereof for income taxes	(1,095)	(1,095)	(-)	(-)	(1,351)	(1,029)
- thereof for other taxes	(9,360)	(9,360)	(-)	(-)	(9,448)	(9,448)
Other liabilities	17,437	13,795	1,756	1,886	20,213	13,266
	101,378	**97,736**	**1,756**	**1,886**	**105,440**	**98,171**
	223,584	**207,759**	**12,754**	**3,071**	**222,112**	**203,475**

Other liabilities essentially include liabilities due to shareholders, liabilities ensuing from the acquisition of shareholders' shares, customers with credit balances and changes in market value arising from the valuation of covering transactions as well as a multitude of individual items.
In the case of liabilities due to banks, collateral is provided in the form of a mortgage lien in the sum of Euro 0.213 million (previous business year: Euro 0.213 million). There are no provisions of collateral by way of other liens.

13. Deferred Charges and Prepaid Expenses

The deferred charges essentially include investment subsidies in Romania, Italy and Germany, which will be appropriated according to the degree of performance.

Notes to Profit and Loss Statement

14. Sales

Sales are entered when deliveries or services that are due have been performed and the price risk has been passed to the purchaser.

Sales (net) are made up as follows:

	2003 Domestic Euro million	2003 Foreign Euro million	2003 Total Euro million
Tiles	98.9	153.9	252.8
Bathroom and Kitchen	91.2	216.3	307.5
Tableware	86.3	199.4	285.7
Wellness	12.9	89.7	102.6
	289.3	**659.3**	**948.6**

	2002 Domestic Euro million	2002 Foreign Euro million	2002 Total Euro million
Tiles	102.7	165.9	268.6
Bathroom and Kitchen	91.8	213.5	305.3
Tableware	89.2	207.3	296.5
Wellness	12.6	94.5	107.1
	296.3	**681.2**	**977.5**

The movement in regional sales is presented within the scope of segment reporting.

15. Costs of Goods Sold

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

16. Selling Expenses, Marketing and Development Costs

This item includes the costs of marketing and distribution, of the field sales force, advertising and logistic costs, licence expenses and the costs of research and development.
Expenses in the sum of Euro 12.522 million (previous business year: Euro 13.238 million) are included for research and development.
The latter are divided as follows between the individual Divisions:

	2003 Euro'000	2002 Euro'000
Tiles	2,999	3,919
Bathroom and Kitchen	5,689	5,848
Tableware	2,597	2,310
Wellness	1,237	1,161
	12,522	**13,238**

Development costs are not capitalised.

17. General and Administrative Expenses

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

18. Amortisation of Goodwill

Amortisation of goodwill is made up as follows for each Division:

	2003 Euro'000	2002 Euro'000
Tiles	8,228	844
Bathroom and Kitchen	2,203	2,189
Tableware	-	-
Wellness	7,022	1,360
	17,453	**4,393**

The amortisation of goodwill resulting from the acquisition of consolidated companies is carried out regularly over a period of 15 years. When assessing useful life, strategic criteria were decisive, as were others which specifically take into account the cash flow attained by the acquired companies. In the case of additions arriving during the course of the year, amortisation is taken into account pro rata temporis.
In the year under review, the goodwill on Villeroy & Boch N.V., Roeselare (Wellness Division) in the sum of Euro 5.530 million was fully amortised on the basis of an impairment test. The same applies to the existing goodwill of Ceramica Ligure S.r.L., Ponzano Magra, the valuation of which had to be adjusted in the sum of Euro 7.354 million. No impairment-test-based amortisation was necessary in the previous year.

19. Other Operating Income/Expenses

Other operating income and other operating expenses are presented netted out in this item. Included in the other operating income are essentially rentals, exchange profits and income ensuing from the reversal of provisions no longer required. Also included are income from the reversal of allowances and income from the disposal of fixed assets.
Included in the other operating expenses are essentially exchange losses, expenses for the current restructuring of the Bathroom, Kitchen and Tile Division, expenses ensuing from the transfer of allowances for doubtful accounts and expenses ensuing from the disposal of fixed assets.

20. Equity Investments Result

The equity investments result in the Villeroy & Boch Group includes income from equity investments in an associated undertaking in the sum of Euro 0.239 million (previous business year: Euro 3.152 million). In the previous business year, revenue was essentially included from the sale of the participation in Burton Apta.

21. Net Interest Income

	2003 Euro ‘000	2002 Euro ‘000
Other interest and similar income	2,534	3,562
Interest and similar expenses	-5,179	-6,698
Interest share in the change in provisions for pensions and similar obligations	-10,548	-10,282
Total of net interest income	-13,193	-13,418
Remaining financial results	56	0
	-13,137	**-13,418**

Cost of debt is entered with an effect on expenses in the year of its origin. Included in the interest expense is Euro 0.457 million (previous business year: Euro 0.516 million) as a proportionate interest share of the leasing instalments arising from the finance leasing agreements, entered in accordance with IAS 17 (Leases).
Included in the interest share resulting from the change in provisions for pension and similar obligations is income from an investment company dividend, in the amount of Euro 0.668 million.

22. Taxes on Income

Taxes on income which are paid and due in the individual countries, as well as deferred taxation are shown as taxes on income and earnings. German companies in the Villeroy & Boch Group are subject to an average municipal trade tax on income, amounting to roughly 15 % of the trading profit, which is deductible when determining corporate income tax. The rate of corporate income tax is 25 %, plus a reunification charge of 5.5 % on corporate income tax.
The determination of deferred taxes is based on tax rates expected in the individual countries at the time of realisation. These tax rates are always based on the legal regulations applying or passed on the balance sheet date. Foreign income taxes are calculated on the basis of valid laws and orders in the individual countries. The applied income-tax rates for foreign companies vary from 16.0 % to 40.0 %.

	2003 Euro '000	2002 Euro '000
Taxes paid or due	6,791	7,083
thereof domestic thereof foreign	(28) (6,763)	(-21) (7,105)
Deferred taxes	-12,163	-3,738
Taxes on income	**-5,372**	**3,345**

The effective rate of tax is 17.86 %. The transition to the German rate of income tax, which totalled 37.7 % in the year 2003, is as follows:

Transition from the expected to the actual tax expense:

	2003 Euro '000	2002 Euro '000
Result before tax on income	-30,768	13,629
Expected tax on income (EBT x tax rate of 37.7 %)	-11,600	5,138
Differences arising from foreign tax rates	-3,369	-3,717
Tax effects arising from:		
Amortisation of goodwill	6,580	1,656
Expenses disallowable against tax	1,713	869
Other variances	1,304	-601
Actual expense of taxes on income	**-5,372**	**3,345**
Actual tax rate in %	**17.46 %**	**24.54 %**

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

	2003 Euro '000	2002 Euro '000
Change in deferred tax assets in accordance with balance sheet	10,528	2,817
Change in deferred tax liabilities in accordance with balance sheet	694	555
Change in deferred tax assets and liabilities formed without affecting operating result	941	366
Deferred taxes in accordance with Profit and Loss Statement	**12,163**	**3,738**

23. Minority Interests

Third-party shares in the result, in the sum of Euro -0.668 million (previous business year: Euro -0.253 million), essentially include the minority interests in the Czech company Vagnerplast spol. s.r.o., Unhost.

24. Net Earnings per Share

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

Ordinary shares	2003	2002
Number of individual share certificates issued	14,044,800	14,044,800
Proportionate consolidated results for the year (in Euro '000)	-13,900	4,858
Net earnings per share (in Euro)	-0.99	0.35
Preference shares		
Number of individual share certificates issued	12,945,080	13,064,890
Proportionate consolidated results for the year (in Euro '000)	-12,164	5,173
Net earnings per share (in Euro)	-0.94	0.40

These net earnings per share relate to a ratio determined in accordance with IAS 33 (Earnings per Share).
A share dilution effect did not exist either in the year under review, or in the previous business year. For the ordinary shares a weighted number of 14,044,800 shares was taken as a basis for the calculation. The weighted treasury stock portfolio was not taken into consideration in the case of preference shares.

25. Depreciation and Amortisation

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

	2003 Euro '000	2002 Euro '000
Scheduled depreciation of property, plant, equipment and amortisation of intangible assets, including goodwill	57,031	58,748
Non-scheduled amortisation of goodwill	12,884	-
Depreciation of financial assets	698	2,124
	70,613	**60,872**

In connection with valuating the shares held in accordance with IAS 39, depreciation was necessary in the 2003 business year on the lower recoverable value in the sum of Euro 0.605 million. In the previous business year Euro 1.972 million were depreciated. The expense is shown in the net interest income.

26. Cost of Materials

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

	2003 Euro '000	2002 Euro '000
Cost of raw materials and supplies (including primary products)	165,425	167,588
Cost of purchased goods	143,723	138,126
	309,148	**305,714**
Cost of purchased services	42,190	42,177
	351,338	**347,891**

27. Personnel Expenses

Personnel expenses are made up as follows:

	2003 Euro '000	2002 Euro '000
Wages and salaries[1]	292,803	286,944
Social security, pension and other benefit costs	74,331	71,259
thereof for pensions	(11,677)	(7,839)
	367,134	**358,203**

The interest share, in the sum of Euro 10.864 million (previous business year: Euro 10.007 million), included in the allocation to pension provisions, is shown in the net interest income; the costs of retirement benefits are reduced by these amounts.
When compared with the previous business year, wages and salaries are essentially marked by the special expenses arising in connection with the restructuring programme and the allocation to provisions for part-time employment before retirement age (Euro 5.041 million, previous business year: Euro 0.875 million).

Average number of persons employed:

Number of employees	2003	2002
Wage earners	6,461	6,648
Salaried employees	4,351	4,362
	10,812	**11,010**

Of the entire workforce, 3,964 persons (previous business year: 4,097) are employed in Germany and 6,848 (previous business year: 6,913) abroad.

Employees According to Division:	2003	2002
Tiles	2,212	2,314
Bathroom and Kitchen	4,063	4,150
Tableware	3,272	3,250
Wellness	859	870
Other	406	426
	10,812	**11,010**

[1] in the previous business year's value, an expense of Euro 2.478 million was shown in wages and salaries for loan workers employed in the production sector; this year's expense in the amount of Euro 2.268 million continues to be shown as an expense for loan workers in the costs of goods sold.

28. Other Taxes

Other taxes total Euro 6.795 million (previous business year: Euro 6.548 million). These are essentially taxes dependent on assets.

29. Notes to Cash Flow Statement

In accordance with IAS 7 (Cash Flow Statement), the Cash Flow Statement shows changes in the financial resources of the Villeroy & Boch Group in the course of the year under review. In so doing, the effects of acquisitions have been eliminated.
A difference is made between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.
The balance of financial resources includes liquid assets and marketable securities.

30. Notes to Segment Reporting

Segment reporting is prepared in accordance with IAS 14 (Segment Reporting). The latter states that segmentation can follow the Group's internal control and reporting. This is reflected in the product groups and regions presented. The product-oriented delimitation of these segments also ensues from the different production processes, sales/distribution channels and methods, which are in turn sub-divided into the four divisions: Tiles, Bathroom and Kitchen, Tableware and Wellness.

The segments produce and/or market the following products:

Tiles

Non-vitreous and glazed/unglazed vitreous wall and floor tiles;
tiles and natural stone purchased from external companies

Bathroom and Kitchen

Ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, fittings and technical accessories;
bathroom furniture, bathroom accessories, kitchen fittings and technical accessories purchased from external companies

Tableware

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

Wellness

Baths, shower trays, whirlpools, shower partitions, shower cubicles and steam cubicles

The segment data is determined in accordance with the balance-sheet valuations and methods of valuation in the underlying consolidated financial statements. The asset and debt items reported for the segments correspond with the expenses and income.

Asset and debt items, expenses and earnings are always directly allocated to the segments. The assets and debts, expenses and earnings of the central administrative and service sphere are allocated to the operating segments with the aid of keys.

Segment-spanning business is of secondary importance and is dealt with as for outside third parties.

The segments' **external sales** are added to consolidated sales. Internal sales between the segments are to be ignored due to the segments' vertical definition and product diversity.

The segments' **EBIT** (operating result) is defined as earnings before interest, extraordinary result and taxes on income. In addition, the EBIT is represented before deductions of various special expenses. Details of this can be found in the Management Report under "Result Trend in the Divisions".

Operating assets comprise intangible fixed assets and property, plant and equipment, shares in associated undertakings, inventories, accounts receivable from trade, accounts due from associated undertakings, contingent liabilities from notes discounted, other assets (excluding claims for refund of taxes on income) as well as deferred charges and prepaid expenses. Notes which have already been presented, but are not due on the reporting date will be added on again to operating assets. This affects the operating assets of the Tile Division in the sum of Euro 22.147 million (previous year: Euro 19.919 million).

Items included in the transition from operating assets to the balance-sheet total are those which are to be allocated to financial, tax and other non-operating sectors. These essentially concern financial assets without shares in associated undertakings, securities, liquid assets, deferred taxes and accounts due from affiliated companies.

Operating debts comprise other provisions, trade accounts payable, accounts due to associated undertakings, other liabilities (without liabilities for taxes on income) and deferred charges.

Items included in the transition from operating debts to outside capital are those which are to be allocated to the financial, tax and other non-operative sectors. These are essentially: provisions for taxation, liabilities due to banks, notes payable, accounts due to affiliated companies, pension provisions and the part of other provision not allocated to the segments.

The segmental capital expenditure relates to intangible fixed assets and property, plant and equipment.

Depreciation concerns assets allocated to the individual segments.

Details of employees are based on an annual average.

Segmentation according to Division

2003	Tiles	Bathroom & Kitchen	Table-ware	Wellness	Transition	Villeroy & Boch Group
External sales	252.8	307.5	285.7	102.6		948.6
Depreciation	24.1	17.7	14.2	14.0		70.0
- thereof non-scheduled	(7.4)			(5.5)		(12.9)
Income from equity investments	0.2					0.2
EBIT before special expense	-11.1	24.9	10.1	-1.2	-1.9	20.8
EBIT (after special expense)	-28.5	19.4	1.4	-8.1	-1.9	-17.7
Net interest income					-13.1	-13.1
Expense for tax on income					5.4	5.4
Net loss						-25.4
Operating assets	203.1	234.2	215.6	91.9	97.9	842.7
Operating debts	73.1	80.6	60.3	25.0	268.7	507.7
Net operating assets	130.0	153.6	155.3	66.9	-170.8	335.0
Other expenses without effect on liquid assets					-20.9	-20.9
Capital expenditure	8.1	15.4	22.5	13.4	0.0	59.4
Number of employees	2,212	4,063	3,272	859	406	10,812

2002	Tiles	Bathroom & Kitchen	Table-ware	Wellness	Transition	Villeroy & Boch Group
External sales	268.6	305.3	296.5	107.1		977.5
Depreciation	17.7	18.8	14.7	7.5		58.7
Income from equity investments	0.2					0.2
EBIT before special expense	-7.4	17.4	23.6	0.2		33.8
EBIT (after special expense)	-10.5	15.6	21.7	0.2		27.0
Net interest income					-13.4	-13.4
Expense for tax on income					-3.3	-3.3
Net income						10.3
Operating assets	237.2	237.3	215.7	93.7	95.1	879.0
Operating debts	79.8	79.4	57.6	26.3	256.4	499.5
Net operating assets	157.4	157.9	158.1	67.4	-161.3	379.5
Other expenses without effect on liquid assets					-12.3	-12.3
Capital expenditure	20.3	16.1	21.1	8.6		66.1
Number of employees	2,314	4,150	3,250	870	426[1]	11,010

(Values in Euro million; number of employees: annual average)
[1] Employees from the central administrative sector; in particular internal services

Segmentation according to Regions

2003	Germany	France	Rest of Europe	Rest of the World	Transition	Villeroy & Boch Group
External sales	289.2	177.5	385.0	96.9		948.6
Net operating assets	202.7	50.9	224.1	27.5	-170.2	335.0
Capital expenditure	18.9	3.0	36.3	1.2		59.4
2002						
External sales	296.3	178.0	395.2	108.0		977.5
Net operating assets	206.3	54.1	248.9	31.5	-161.3	379.5
Capital expenditure	33.9	7.1	24.6	0.5		66.1

(Values in Euro million)

Other notes

31. Contingent Liabilities and Commitments

	31.12.2003 Euro '000	31.12.2002 Euro '000
Contingent liabilities from notes discounted	21,911	19,836
Guarantee and endorsement obligations	64	573
Trustee obligations	380	368

There are no obligations due to associated undertakings.

32. Other Financial Obligations

	31.12.2003 Euro '000	31.12.2002 Euro '000
Obligations arising from orders placed for capital expenditure	5,191	10,152

Rental and leasing obligations are presented in detail under Point 1.2.

33. Financial Instruments

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

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

Self-generated financial instruments
These include the individual items that can be seen directly from the balance sheet. Please refer to explanations of the relevant items for their accounting and evaluation.

Derivative financial instruments

We employ derivative financial instruments to secure currency and interest items, in order to minimise or eliminate the exchange risks and financing costs caused as a result of fluctuations in exchange and interest rates. For this purpose we use marketable forward exchange contracts and interest rate swaps – so-called OTC products. Transactions are only concluded with banks that have a perfect credit standing. They are employed according to uniform guidelines, and their use is subject to strict monitoring and limited to covering operational transactions as well as the financial operations connected with such.

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

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

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

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

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

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

In the year under review, Euro 0.160 million (previous business year: Euro 0.759 million) from the market valuation of the derivative financial instruments was recorded in shareholders' equity, without affecting operating result, and Euro 1.289 million (previous business year: Euro 1.643 million) was recorded with effect on result.

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

		Fair Value	
	Nominal volume in Euro '000	Financial assets in Euro '000	Financial obligations in Euro '000
Interest rate swaps	26,414	-	3,396 [1]
Forward exchange contracts	57,458	3,380	228

[1] incl. accrued interest

The interest-hedging business concluded to secure against interest rate risks have a remaining term of up to one year in the amount of Euro 0.228 million and a remaining term of over 5 years in the amount of Euro 1.157 million. The forward exchange contracts concluded to guard against exchange risks fundamentally have a remaining term of up to one year.

Credit or loss risks

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

34. Supervisory Board and Management Board Remuneration

Supervisory Board remuneration totals Euro 0.171 million (previous business year: Euro 0.220 million), the remuneration of Management Board members totals Euro 2.670 million (previous business year: Euro 2.446 million). Pension provisions exist in the sum of Euro 9.720 million (previous business year: Euro 9.279 million) for former Management Board members, remuneration in the business year totals Euro 0.999 million (previous business year: Euro 0.920 million).
In the business year 2003, no stock purchase warrants (previous business year: 97,992) were issued to Villeroy & Boch AG Management Board members for the acquisition of individual preference-share certificates. The portfolio of stock purchase warrants issued to the Executive Board on 31.12.2003 totals 240,867 (previous business year: 437,157). The stock option plan is explained in point 8.4. “Stock Option Plan”.

35. Relationships to Affiliated Companies and Persons

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

36. Events Subsequent to the Balance Sheet Date

There are no essential events to report subsequent to the balance sheet date.

37. Proposed Appropriation of Villeroy & Boch AG Retained Earnings

Supervisory Board and Management Board propose using the retained earnings of Euro 9,116,715.42 to distribute a dividend of Euro 0.25 per individual ordinary-share certificate and Euro 0.30 per individual preference-share certificate. The proposed appropriation of retained earnings corresponds with a dividend of

Euro	
3,511,200.00	for the ordinary share capital
4,213,440.00	for the preference share capital
7,724,640.00	

The remaining amount of retained earnings in the sum of Euro 1,392,075.42 will be carried forward to new account.
If treasury stock is still in the possession of the company at the time of the resolution on the appropriation of retained earnings, the dividend payment for preference share capital is reduced by the sum allotted to the treasury stock. Retained earnings brought forward increase accordingly for the year 2004.

38. Corporate Governance Codex

In application of the Corporate Governance Codex, the corporate principles were revised and specified more precisely, and the declaration of conformity prescribed by § 161 AktG [German Public Limited Company Law] was made by the Executive and Supervisory Boards in 2003. A summarised presentation of the Corporate Governance principles can be found in the Annual Report as well as on the internet, where the shareholders’ declaration of conformity can also be accessed permanently (www.villeroy-boch.de, Investor Relations).

Mettlach. 23rd March 2004

Wendelin von Boch-Galhau	Manfred Finger	Peter von der Lippe
Ralf Mock	Dr. Bernard Wientjes	Richard Zimmermann

Audit Report

We have audited the **consolidated financial statements**, comprising the balance sheet, profit and loss statement, statement of shareholders' equity, cash flow statement and notes to the consolidated financial statements, prepared by **Villeroy & Boch Aktiengesellschaft, Mettlach**, for the financial year from 1st January to 31st December 2003. The preparation and contents of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) are the responsibility of the company's Executive Board. Our task is to submit an appraisal of the consolidated financial statements on the basis of the audit we have carried out.

We have carried out our statutory Group audit in accordance with German audit regulations and on observance of the generally accepted auditing standards determined by the Institute of German Certified Public Accountants (IDW). In accordance with these standards the audit is to be planned and executed in such a way that it is possible to judge with sufficient certainty whether the consolidated financial statements are free from any significant false statements. When determining the audit activities, knowledge of the business operations, the economic and legal environment of the Group, and the expectation of possible errors are taken into account. Within the scope of the audit, evidence of the valuations and details given in the consolidated financial statements are assessed on the basis of spot checks. The audit includes assessment of the applied accounting and consolidation principles and the essential assessments of the legal representatives, as well as the appraisal of the overall presentation of the consolidated financial statements. We are of the opinion that our audit provides a sufficiently sound basis for our assessment.

We are convinced that the consolidated financial statements convey a true picture of the net worth, financial and earnings position of the Group, and cash flow in the business year, in agreement with the International Financial Reporting Standards.

Our audit, which also included the Group management report prepared by the Executive Board for the business year dated 1st January to 31st December 2003, has not resulted in any objections. It is our conviction that the Group management report gives an appropriate presentation of the situation of the Group and presents the risks of future developments correctly. In addition, we certify that the consolidated financial statements and Group management report for the business year dated 1st January to 31st December 2003 meet the requirements necessary to release the company from preparing consolidated financial statements and a Group management report in accordance with German law.

Cologne. 23rd March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Reinke)	(Kohns)
Qualified auditor	Qualified auditor

Bathroom, Kitchen and Tile Division	Germany	Fliesenhandel an der Cristallerie GmbH, Wadgassen
		Fliesenhandel Merzig GmbH, Merzig
	France	Villeroy & Boch S.A.S., Paris
		Boch Frères S.A.S., Pantin
		Comar S.A., Lambersart
		Socatra S.A., Trans en Provence
	Italy	Ceramica Ligure S.r.l., Ponzano Magra
	Hungary	Villeroy & Boch Ungarn Rt., Hódmezövásárhely
	Netherlands	Villeroy & Boch Nederland B.V., Amsterdam
	Poland	Villeroy & Boch Polska Sp.z.o.o., Warszawa
	Austria	Villeroy & Boch Badmöbel GmbH, Salzburg-Plainfeld
	Romania	S.C. Mondial S.A., Lugoj
	Sweden	AB Gustavsberg, Gustavsberg
Tableware Division	Germany	Villeroy & Boch Creation GmbH, Mettlach
	Luxembourg	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines, Luxembourg
	France	Villeroy & Boch Arts de la Table S.A., Garges-les-Gonesse
	Italy	Villeroy & Boch Arti della Tavola S.r.l., Milano
	Switzerland	Villeroy & Boch CreaTable AG, Lenzburg
	Sweden	Villeroy & Boch Sverige AB, Stockholm
	Norway	Villeroy & Boch Norge AS, Oslo
	Netherlands	Villeroy & Boch Tableware B.V., Nijkerk
	Canada	Villeroy & Boch Tableware Ltd., Aurora
	Australia	Villeroy & Boch Australia Pty. Ltd., Frenchs Forest
	Hong Kong	Villeroy & Boch Tableware (Far East) Ltd., Hong Kong
	Japan	Villeroy & Boch Tableware Japan K.K., Tokyo
Wellness Division	Netherlands	Villeroy and Boch Wellness Holding B.V., Roden
	Sweden	AB Gustavsberg, Gustavsberg
		Villeroy & Boch Wellness AB, Växjö
	Belgium	Villeroy & Boch Wellness N.V., Roeselare
	Italy	Villeroy & Boch Wellness Italia S.r.l., Castelraimondo
	Czech Republic	Vagnerplast spol. s.r.o., Unhost
	Slovak Republic	Vagnerplast Slovensko s.r.o., Partizánske
Central and Division-Spanning Companies	France	S.D.P.C. S.A., Paris
	England	Villeroy & Boch United Kingdom Ltd., London
	Spain	Villeroy & Boch Hogar S.L., Barcelona
	Austria	Villeroy & Boch Austria Handelsgesellschaft m.b.H., Salzburg
	Denmark	Villeroy & Boch Denmark A/S, Roedovre
	Belgium	Villeroy & Boch Belgium S.A., Bruxelles
	Hungary	Villeroy & Boch Holding Ungarn GmbH, Budapest
	USA	Villeroy & Boch USA Inc., Princeton

	Share Capital	Villeroy & Boch AG Participation		
Currency	Million	direct %	indirect %	total %
EUR	0.26	100.00	-	100.00
EUR	0.36	100.00	-	100.00
EUR	9.27	100.00	-	100.00
EUR	0.69	-	100.00	100.00
EUR	0.25	-	100.00	100.00
EUR	0.16	-	100.00	100.00
EUR	11.60	70.00	30.00	100.00
HUF	2,289.00		99.59	99.59
EUR	0.05	100.00	-	100.00
PLN	0.05	-	100.00	100.00
EUR	2.20	-	100.00	100.00
ROL	170,195.21	99.24	-	99.24
SEK	20.00	100.00	-	100.00
EUR	0.05	100.00	-	100.00
EUR	15.00	100.00	-	100.00
EUR	3.14	-	100.00	100.00
EUR	0.03	0.20	99.80	100.00
CHF	0.50	-	100.00	100.00
SEK	2.00	-	100.00	100.00
NOK	0.10	-	100.00	100.00
EUR	0.10	100.00	-	100.00
CAD	2.20	-	100.00	100.00
AUD	0.52	-	100.00	100.00
HKD	7.00	-	100.00	100.00
JPY	97.50	-	100.00	100.00
EUR	1.62	100.00	-	100.00
SEK	20.00	100.00	-	100.00
SEK	1.00	-	100.00	100.00
EUR	7.60	100.00	-	100.00
EUR	8.00	-	100.00	100.00
CZK	92.93	-	67.00	67.00
SKK	0.20	-	60.00	60.00
EUR	2.13	97.15	2.85	100.00
GBP	1.10	-	100.00	100.00
EUR	0.27	44.44	55.56	100.00
EUR	1.24	100.00	-	100.00
DKK	1.50	33.33	66.67	100.00
EUR	0.06	99.90	0.10	100.00
HUF	3,000.00	100.00	-	100.00
USD	3.80	-	100.00	100.00

A complete list of share ownership will be deposited with the Commercial Register at Amtsgericht Saarbrücken.

Assets structure
Relationship between fixed assets and current assets

Capital employed
Employed capital yielding interest

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

Cash flow from financing
Cash balance resulting from a change in financial liabilities, deposits from sales, payments for acquiring treasury stock, withholding tax paid and dividend payments.

Cash flow from investing activities
Cash balance that the company has invested in acquiring financial assets and tangible fixed assets or has realised from selling financial assets and tangible fixed assets.

Cash flow from operating activities (Operating cash flow)
Cash surplus obtained from operative business.

Cash flow statement
Examination of the liquidity trend, taking into consideration the effects of the sources and application of funds within a business year.

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

Current assets
Current assets are assets that are not designed to serve business operations permanently.

Debt
Sum of the liability items shown in the balance sheet, namely: provisions, liabilities and deferred charges.

Debt-equity ratio
Relationship between debts and shareholders' equity

Debt ratio
Ratio of debt to total capital

Deferred charges and prepaid expenses
Payments during the period under review, the effects of which refer to a period after the balance sheet date as far the result is concerned.

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

Degree of property, plant and equipment depreciation
Ratio of accumulated depreciation on property, plant and equipment to historical original cost/cost of production of property, plant and equipment.

EBIT
Earnings Before Interest and Tax

EBITDA
Earnings Before Interest, Tax, Depreciation and Amortisation

EBIT margin
Ratio of EBIT to sales

EBITDA margin
Ratio of EBITDA to sales

EBT
Earnings Before Tax

Equity ratio
Ratio of shareholders' equity to total capital

Equity-to-fixed-assets ratio
Proportion of fixed assets covered by shareholders' equity.

Fixed assets
Fixed assets comprise assets that are destined to serve business operations on a permanent basis.

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

Free cash flow margin
Ratio of free cash flow to sales

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

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

Margins
Division of the ratio under examination by the sales figure

Percentage return on sales
The ratio of net income/loss to sales.

Return on Capital Employed (ROCE)
(see also "Return on total capital employed")

Return on equity
Yield on the funds made available by the owners of the company, as well as on the company's openly retained earnings.

Return on Investment (ROI)
Ratio of profit to average total capital

Return on total capital employed
Yield on the average total capital altogether available.

SDAX
Stock exchange index that shows the 100 strongest SDAX values on a daily basis.

Shareholders' equity
Funds which the company has permanently at its disposal, these coming from deposits or capital contributions made by the owners and from retained earnings.

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

Working capital
Difference between short-term assets and short-term liabilities

Balance sheet ratios (in %)	
Cash flow profitability	cash flow : total capital x 100
Equity ratio	shareholders' equity : total capital x 100
Percentage return on sales	profit : sales x 100
Asset situation ratios (in %)	
Degree of property, plant and equipment depreciation	accumulated depreciation on property, plant and equipment : historical original cost/ manufacturing cost of property, plant and equipment x 100
Asset structure	fixed assets : current assets x 100
Financial situation ratios	
Cash ratio (in %)	liquid assets : short-term liabilities x 100
Ratio of financial current assets to current liabilities (in %)	liquid assets + short-term receivables : short-term liabilities x 100
Current ratio (in %)	liquid assets + short-term receivables + inventories : short-term liabilities x 100
Debt ratio (in %)	debt : shareholders' equity x 100
Working capital (in Euro millions)	short-term assets – short-term liabilities
Earnings situation ratios (in %)	
Cash flow ROI (CFROI)	gross cash flow : gross investment basis x 100
EBIT margin	EBIT : sales x 100
EBITDA margin	EBITDA : sales x 100
EBT margin	EBT : sales x 100
Free cash flow margin	free cash flow : sales x 100
Operating cash flow margin	operating cash flow : sales x 100
Return on investment (ROI)	percentage return on sales x rate of turnover = (profit : sales) x (sales : total capital) x 100
Share ratios	
Dividend yield (in %)	dividend : average market price x 100
Price-cash flow ratio	market price per share : cash flow per share
Price-earnings ratio (PER)	market price per share : earnings per share
Operating cash flow per share	operating cash flow : number of shares
Yield ratios (in %)	
Return on equity (ROE)	profit : shareholders' capital x 100
Return on capital employed (ROCE)	EBIT : ((net) fixed assets + working capital) x 100

Asset situation ratios		2003	2002	2001
Fixed assets	Euro million	350.2	363.2	390.9
Change in comparison with previous year	percent	-3.6	-7.1	[1])
Current assets	Euro million	437.9	472.8	449.7
Change in comparison with previous year	percent	-7.4	5.1	[1])
Asset structure	percent	80.0	76.8	86.9
Degree of property, plant and equipment depreciation	percent	70.0	69.3	69.1
Balance sheet total	Euro million	842.7	880.3	880.9
Change in comparison with previous year	percent	-4.3	-0.1	[1])

[1]) No comparison with previous year possible, as balanced for the first time according to IAS

Financial situation ratios		2003	2002	2001
Shareholders' equity	Euro million	332.4	373.4	378.4
Debt	Euro million	510.3	506.9	502.5
Debt ratio	percent	153.5	135.7	132.8
Cash ratio	percent	20.5	30.7	13.9
Ratio of financial current assets to current liabilities	percent	88.8	106.0	88.8
Current ratio	percent	241.9	270.7	247.5
Working capital	Euro million	256.9	298.1	268.0

Earnings situation ratios		2003	2002	2001
EBITDA margin				
after special expense	percent	5.6	9.0	8.9
before special expense	percent	8.3	9.7	8.9
EBIT margin				
after special expense	percent	-1.9	2.8	2.8
before special expense	percent	2.2	3.5	2.8
EBT margin	percent	-3.2	1.4	1.6
Operating cash flow margin	percent	5.5	7.3	4.1
Free cash flow margin	percent	-0.6	3.9	-3.8
Return on investment (ROI)	percent	-3.0	1.2	1.1
Cash flow ROI (CFROI)	percent	4.1	5.9	5.7

Share ratios		2003	2002	2001
Annual closing price (Xetra)	Euro	7.35	6.80	10.00
Annual high (Xetra)	Euro	8.45	11.50	13.13
Annual low (Xetra)	Euro	6.46	6.50	8.30
Net earnings per ordinary share	Euro	-0.99	0.35	0.32
Net earnings per preference share	Euro	-0.94	0.40	0.37
Operating cash flow per share	Euro	1.86	2.53	1.42
Dividend per ordinary share	Euro	0.25	0.50	0.50
Dividend per preference share	Euro	0.30	0.55	0.55
Changes compared with previous year (ordinary share)	percent	-50.0	0	0
Changes compared with previous year (preference share)	percent	-45.5	0	0
Dividend yield per ordinary share	percent	3.35	5.56	4.67
Dividend yield per preference share	percent	4.02	6.11	5.13
Price-cash flow ratio	factor	3.82	3.43	7.27
Price-earnings ratio (PER) per ordinary share	factor	-7.5	25.7	33.5
Price-earnings ratio (PER) per preference share	factor	-7.9	22.5	29.0

Yield ratios		2003	2002	2001
Return on equity (ROE)	percent	-7.6	2.8	2.5
Return on capital employed (ROCE)	percent	-3.2	4.6	4.9

GeneralMeeting of Shareholders

26th May 2004
3 p.m.
Stadthalle Merzig

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

29th April 2004,

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

29th July 2004

and on
the first nine months of the year on

28th October 2004.

Dear shareholders,

If you are interested in further information, or in the German version
of the Annual Report for the year 2003, please contact:

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