Villeroy & Boch

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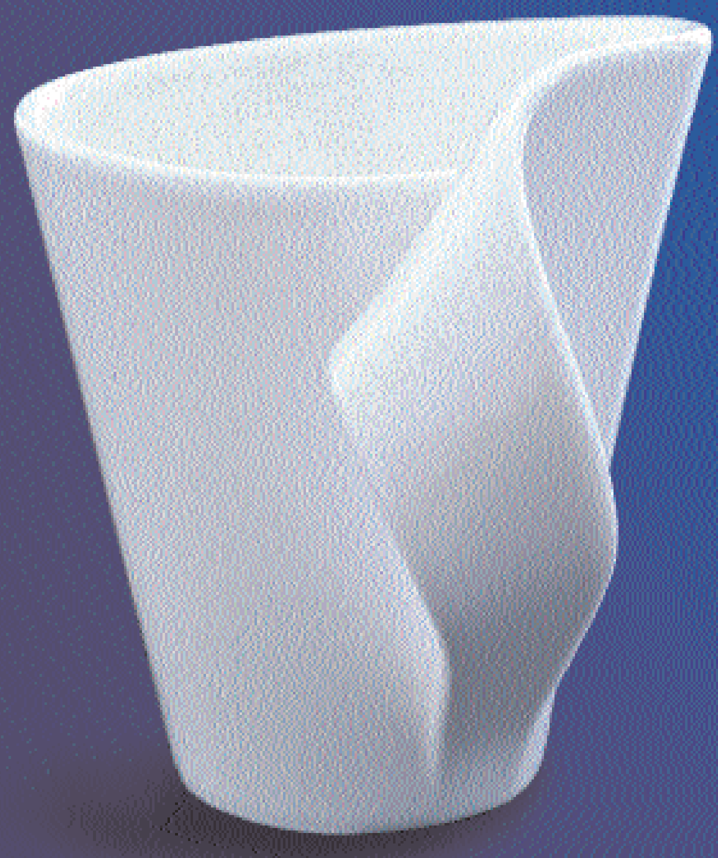

ANNUAL REPORT 2004

The Group at a Glance

		2004	2003	2002	2001
Sales	*Euro million*	959.9	948.6	977.5	975.2
EBITDA	*Euro million*	86.5	53.0	87.9	86.9
EBIT	*Euro million*	33.8	- 17.7	27.0	27.0
EBT	*Euro million*	23.6	- 30.8	13.6	15.2
Group results for the year	*Euro million*	16.7	- 25.4	10.3	9.6
Balance sheet total	*Euro million*	785.1	842.7	880.3	880.9
Cash flow from operating activities	*Euro million*	63.2	52.3	71.0	40.0
Capital expenditure	*Euro million*	51.9	59.4	66.1	54.3
Depreciation	*Euro million*	52.7	70.6	60.9	59.9
Employees	*number*	10,390	10,812	11,010	10,833
Percentage return on sales	*percent*	1.7	- 2.7	1.1	1.0
Equity ratio (incl. minority interests)	*percent*	44.0	39.8	42.7	43.3
Return on equity (ROE)	*percent*	4.8	- 7.6	2.7	2.5
Cash flow profitability	*percent*	6.6	5.5	7.3	4.1
Net earnings per ordinary share	*Euro*	0.58	- 0.99	0.35	0.32
Net earnings per preference share	*Euro*	0.63	- 0.94	0.40	0.37
Dividend per ordinary share	*Euro*	0.37	0.25	0.50	0.50
Dividend per preference share	*Euro*	0.42	0.30	0.55	0.55

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Management Board

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

Interview with Wendelin von Boch

In the following interview Wendelin von Boch, Management Board Chairman of Villeroy & Boch AG, gives information on the Group's strategic decisions and objectives, in particular the Divisions' trends and result trends, and also explains the general economic background.

Although 2004 started with a positive mood among consumers, the restraint in consumer spending, which has already persisted for years, finally gained the upper hand again in Germany. This muted buying mood also spread to other major European markets. How would you describe this economic environment?

Wendelin von Boch: The economic recovery which began in Germany in the first half of 2004 seemed to wane before it really got going, so the sluggishness experienced in the area of private consumption expenditure also continued in the year under review. Compared with prior-year figures, there was again a 0.3 % decline in propensity to consume. In contrast, the rest of Europe was able to record a slight growth of 1.3 %. The trend in overall construction activity was again particularly alarming with building investments declining a further 2.5 % in Germany. According to the latest forecasts by leading economic research institutes, there isn't a trend reversal visible in the construction industry in 2005 either. It's expected that building investments in 2005 will fall by 1.0 % and not stabilise at prior-year level until at least 2006.

How did this situation affect Villeroy & Boch in 2004?

Wendelin von Boch: On the sales side we were able to achieve a 1.2 % increase. If adjustments are made to allow for the sale of Boch Frères, which didn't have any effect until the end of 2004, the result is a sales increase of 3.7 %. This is quite certainly a good result, given the difficult conditions in the building and consumer environment. In the Bathroom and Wellness Division and also that of Tableware, we were not only able to increase sales by 2.5 % and 11 % respectively, but also gain market share and clearly improve the result. We again experienced a difficult year in the Tile Division, both with regard to the sales and result trends. The year was marked by the sale of four factories and a shift in product ranges. The Wellness Business Segment was occupied with integrating the newly-acquired factories, an undertaking which also had a negative effect on sales and result. This process has now been concluded and will likewise lead to better results in this Division in the coming year. The high, increasing share of foreign business, which accounts for 70 % of total sales, has again compensated for the weak domestic demand. This means that a decline of 0.6 % in Germany is contrasted by an increase of 5.7 % in the area of foreign business. Scandinavia, Great Britain, Spain and the overseas markets have proved attractive sales markets. The US market has also shown itself to be relatively stable, although the currency parity of the Dollar to the Euro has negative effects on result. After the difficult year experienced in 2003, it is possible to talk of a "turnaround" in result in 2004.

The year 2003 was characterised by adjustments to production and high special expenses for restructuring measures. Is it possible to recognise any initial effects of these measures in 2004?

Wendelin von Boch: After having implemented the "Tableware Master Plan", we are now able to clearly recognise positive effects. In 2004 we were able to solve the initial problems incurred in 2003 and improve productivity as planned, with the effect that a substantial result has been achieved. We were also able to realise further improvements in the high-income Bathroom and Kitchen Business Segment. Doubtlessly the most important measure of the year 2004 in the Tile Division was its re-dimensioning, that is the sale of four production locations and also of the French trading company "Boch Frères" to various trade partners.

At first glance, the sale of four foreign factories seems contrary to the general trend – particularly as two of them are in Eastern Europe. It's currently the normal practice among German groups to shift production to more cost-effective foreign countries.

Wendelin von Boch: The sale of our foreign factories is the logical response to the capacity adjustments already announced, and also to the new strategic policy. We have restructured and modernised our core locations in Merzig/ Saar and La Ferté Gaucher/France, so that we are able to manufacture products here from the medium and high-priced ranges. This means that we can offer the high quality which the discriminating market expects from us. The factories in Romania and Hungary focussed on the lowest price segment. In addition to this, the location advantages of low and high-wage countries are evened out where there is a high degree of automation. The utilisation of factory capacity has now been improved at Merzig since ranges previously manufactured at the sold factories have been shifted there. We should be able to notice these effects in 2005.

Which location advantages does Europe offer?

Wendelin von Boch: By acquiring "Gustavsberg" in Sweden, expanding the sanitary-ware factories in Hungary and Romania and taking over "Wellness" companies in Sweden, Italy, Belgium, the Czech Republic and Slovakia we have clearly strengthened our European presence. We are now represented at 19 production locations in 12 countries. As a result we are able to secure markets and increase market share. Before we can consider further globalisation, it is therefore necessary to produce and distribute close to the market in the single European market.

You intend to establish a secondary brand name which is positioned in a lower price category than the premium Villeroy & Boch brand.

Wendelin von Boch: Our aim is to offer products for the Tableware Division and that of Bathroom and Wellness on a Group-spanning basis under the uniform brand name "Gustavsberg". These products will be priced clearly below those of the "Villeroy & Boch" brand but are not to be compared with cheap imports. In some cases product series will undergo a change of company name, while in others, new series will be designed. Villeroy & Boch is positioned almost exclusively in the upper price segment in some foreign markets. We therefore aim to win market share in the medium and basic-price segments using the secondary brand. We expect to achieve additional growth here, in particular from the other European countries. Market analyses show that growth is more likely to take place in the lower price segments, that the upper segment will stagnate and the medium-price segment will also shrink in future. By introducing a secondary brand for the medium and lower-price segments, we also want to prevent the Villeroy & Boch brand from cannibalisation and damage and create more scope for ourselves in the area of distribution.

A revival in economic activity in Germany continues to be a long time coming. In addition, according to statements made by the Ifo-Institut, losses are to be expected in the area of exports, owing to changed underlying conditions in the USA and China. Finally, no real movement will be seen in overall construction activity again this year. How do you counteract these trends?

Wendelin von Boch: We can only maintain our market hold in this difficult environment if we achieve clear competitive superiority in some relevant areas. In addition to product leadership, we are also striving to achieve technological leadership in the Divisions which show the greatest growth potential for us. Having concluded the "Tableware Master Plan", we now have the most up-to-date technical plants at our fingertips. They enable us to manufacture high-quality tableware at a low cost, even at our Central European locations. The "Sanitary-Ware Master Plan" should be concluded in the year 2007 and have similar effects. Besides strengthening the production locations in Hungary and

"In recent years we have systematised and intensified our innovation efforts. In addition to product leadership, we are also striving to achieve technological leadership in the Divisions which show the greatest growth potential for us".

Wendelin von Boch, Management Board Chairman of Villeroy & Boch AG

Romania, where stylish series are manufactured using a high degree of personnel expense, large-scale production will be modernised at the high-wage locations. We expect this combination to create cost-cutting effects and competitive advantages. As regards the Wellness Division, we already have a good mixture of factories at high and low-wage locations and the most up-to-date plants. We expect growth here from innovation within the ranges. In the Tile Division, we expect the concentration of operations to give rise to cost-cutting effects and also improved utilisation of capacity at the locations in Merzig and La Ferté Gaucher. On the market side we shall increase our marketing and advertising budgets. By installing more of our own retail stores in the Tableware Division we aim to compensate for the decline in points of sale. In addition to product campaigns, internationalisation remains the first priority of all Divisions.

What role does innovation play within the Group's strategic policy?

Wendelin von Boch: In recent years we have systematised and intensified our innovation efforts, and have done so with considerable success. We are therefore proud to have won the highly coveted "German Business Innovation Award" in the "medium-sized business" category at the start of the year. It was awarded for "NewWave Caffè", an innovative design, which would not have been possible without innovative techniques. An innovation highlight is, without a doubt, the "PurAir" toilet, the first Villeroy & Boch toilet to eliminate odours.
Further examples of the key position now held by systematic innovation work at Villeroy & Boch can be found in "ceramicplus", "Activecare", "e.motion", "Magic Basin", "Light Tile", "Whisper Pool" and the baking dishes launched in 2005 which can be easily cleaned as a result of the "ceramicplus" effect.

You are starting this year with a changed management and new departmental responsibilities. Has this now also set a new course?

Wendelin von Boch: We have reduced the number of Management Board members from six to four and installed an executive level below Management Board level, who are to autonomously manage clearly-defined Business Segments. We expect this move to give rise to more own initiative, more transparency, more growth and, of course, improved results. With this objective in mind, the Business Segments "Bathroom and Kitchen" and "Wellness", and also the product field "Fittings and Furniture" has been assigned to the "Bathroom and Wellness" Division, and the Business Segments "Tableware", "Glass and Cutlery" and "Hotel" to the Tableware Division. "Tiles" have again been developed into an independent Division, which also integrates "Project Business".
Last but not least, we also wanted these measures and personnel decisions to rejuvenate the upper management levels and introduce a new generation.

Supervisory Board Annual Report

"The work of the Supervisory and Management Boards in 2004 related essentially to disinvestment in the Tile Business Segment and the execution of master plans."

Supervisory Board Chairman, Peter Prinz Wittgenstein

At the three meetings, the Supervisory Board gave in-depth consideration to the economic situation and to the further strategic development of the company and its business sectors – in particular to disinvestments in the Tile Business Segment. In addition, numerous current topics of individual interest were discussed with the Management Board, which also constantly involved the Supervisory Board Chairman in all major developments and matters awaiting decision.

CORPORATE GOVERNANCE

In its December meeting, the Supervisory Board dealt with questions on Corporate Governance. In joint meetings with the Management Board discussion took place on the subject of updating corporate policies and a new declaration of conformity was adopted, which differs only minimally from the rules laid down in the German Corporate Governance Code. The declaration is published on the Villeroy & Boch homepage under the heading "Investor Relations".

SUPERVISORY BOARD COMMITTEES

The Staff Committee convened three times in the 2004 business year. In addition to approving the contract extension of two Management Board members, it dealt with agreements on operational targets and bonus payments made to the Management Board. It was furthermore involved in the personnel changes which took place within the Management Board.
During its two meetings in the 2004 business year, the Investment Committee was not only concerned with planning capital expenditure and operating result for 2005, but also with investment and budget authorisations for 2004.

The Audit Committee convened twice in 2004, on which occasions discussion concentrated in particular on examining the auditor's independence, establishing the audit's main areas of focus, agreeing audit fees, awarding the audit assignment to the auditor, the method of preparing the consolidated balance sheet in accordance with IFRS, the progress report from the Group's auditing department and also on the organisation of the risk management system.
A meeting of the Conference Committee was not necessary in the 2004 business year.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

In September 2004 the Supervisory Board's Audit Committee awarded its audit assignment to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft – the auditing company elected at the Shareholders' General Meeting. The Villeroy & Boch AG annual financial statements, the consolidated financial statements of December 31st 2004 and also the Management Report have been audited by the statutory auditor and issued with an unqualified audit certificate. The financial statements were discussed thoroughly in the presence of the auditor at the Supervisory Board Meeting in April 2005. Based on the final result of our own audits, no grounds were found for objection, with the effect that we endorse the auditor's result. The annual financial statements of December 31st 2004 have, therefore, been approved. The Supervisory Board endorses the Management Board's proposal regarding the appropriation of retained earnings.

CHANGES IN PERSONNEL

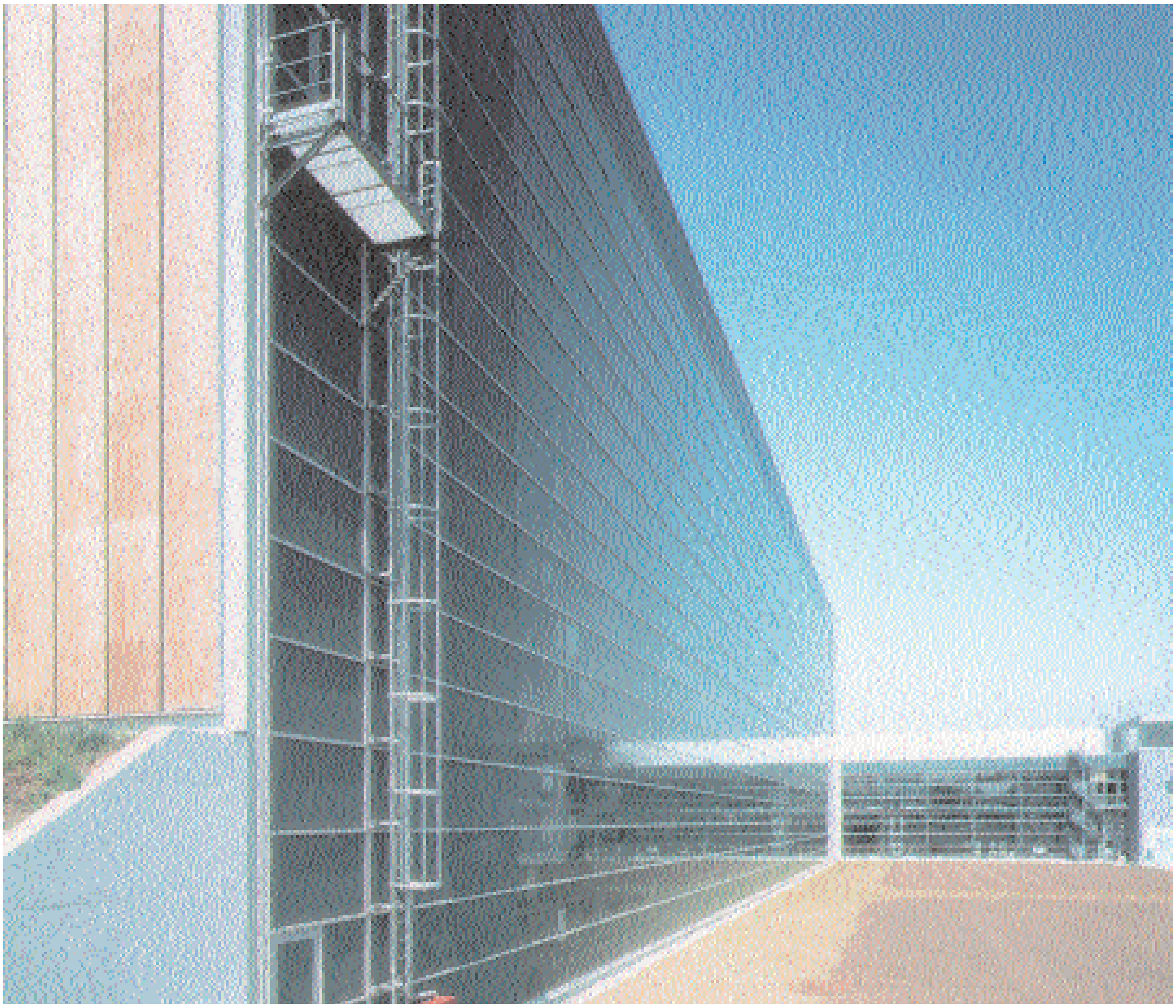
Having worked successfully for Villeroy & Boch for 29 years, Mr Richard Zimmermann retired from the Management Board of his own choice with effect from December 31st 2004. Management Board member Mr Ralf Mock, who was responsible for the Tableware Division, vacated his Management Board seat for personal reasons on December 31st 2004. The Supervisory Board would like to express its thanks to both of the retired Management Board members for their active, reliable cooperation and wish them every success for the future.
On January 1st 2005 Mr Wendelin von Boch-Galhau took over organisational responsibility for the Tableware Division, in addition to his position as Management Board Chairman. The Supervisory Board furthermore appointed Mr Frank Göring new Management Board member, with organisational responsibility for the Bathroom and Kitchen Division from January 1st 2005. Mr Peter von der Lippe, who was responsible for the Bathroom, Kitchen and Tile Division until separation of the Tile Business Segment on December 31st 2004, took over management of the newly established Tile Division from January 1st 2005.
The Supervisory Board would like to thank the employees, statutory employees' representatives and the Management Board for the work performed and great commitment shown in the 2004 business year.

Mettlach. April 2005

The Supervisory Board
Peter Prinz Wittgenstein
Chairman

Supervisory and Management Board Members

Tableware Logistic Centre, Merzig: fully-glazed facade of the high-bay storage warehouse with 23,000 drawers



SUPERVISORY BOARD MEMBERS

KARL GUSTAF RATJEN, Königstein
Honorary member

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
Chairman of the Fliesenwerke Saar Works Council

LUITWIN GISBERT VON BOCH-GALHAU, Mettlach
2nd Vice-Chairman
Entrepreneur
b) Banque CIAL, Strasbourg (Member of the Administrative Board)
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
Management Board Chairman of Süd-Chemie AG, Munich (until 30.06.2004)
Supervisory Board Chairman of Süd-Chemie AG, Munich (from 01.07.2004)
b) Dalli GmbH
Grünenthal GmbH

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

ULRICH KÜPPERS*, Ludwigshafen
Land Chairman and Land District Head of IG, Bergbau, Chemie, Energie, for the Länder Rhineland Palatinate /Saarland, in Mainz
a) BASF AG, Ludwigshafen
Saarenergie AG, Saarbrücken (Deputy Chairman)
Technische Werke Ludwigshafen AG (Deputy Chairman)
b) Verkehrsbetriebe Ludwigshafen GmbH (Deputy Chairman)
Klinikum Ludwigshafen (from 01.08.2004; Deputy Chairman)

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

RALF RUNGE*, Merzig
Chairman of the Faiencerie and Cristallerie Works Council
b) Merziger Verwaltungsgesellschaft für Wohnungswirtschaft mbH
(from 15.07.2004)

BERTHOLD SCHOLTES*, Merzig
Head of Production

KILIAN VON DER TANN, Tann/Rhön
Lawyer
b). R. Oldenbourg GmbH & Co. KG, Munich
(Chairman of the Administrative Board from 29.10.2004)

EMMANUEL VILLEROY DE GALHAU, Paris
Head of “Mergers and Acquisitions” at L’Oréal, Paris

MANAGEMENT BOARD MEMBERS

WENDELIN VON BOCH-GALHAU, Losheim-Britten
Chairman
Tableware Division (from 01.01.2005)
a) Gerling-Konzern Allgemeine Versicherungs-AG
b) Messe Frankfurt GmbH

MANFRED FINGER, Rehlingen
Finance and Personnel

PETER VON DER LIPPE, Petite-Rosselle/France
Bathroom, Kitchen and Tile Division (until 31.12.2004)
Tile Division (from 01.01.2005)
b) within the Group: Villeroy & Boch Magyarország Rt.

RALF MOCK, Königstein
Tableware Division (until 31.12.2004)

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

RICHARD ZIMMERMANN, Mettlach
Project Business Division (until 31.12.2004)

FRANK GÖRING, Saarlouis
(from 01.01.2005)
Bathroom and Kitchen Division (until 30.04.2005)
Bathroom and Wellness Division (from 01.05.2005)

* 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

Employees in a round of discussion

Permanent high levels of performance and commitment can be more easily achieved if an open exchange of thought and a willingness for constructive dialogue and new ideas exist on a broad basis. Creating the climate necessary to do this is a key management task.

Employees

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

Divisions	*2004*	*2003*	*Change 03/04*
Tile	1,068	2,170	- 1,102
Bathroom & Wellness	4,788	4,834	- 46
Tableware	3,315	3,305	+ 10
Other	479	504	- 25
Group as a whole	**9,650**	**10,813**	**- 1,163**

Countries	*2004*	*2003*	*Change 03/04*
Germany	3,872	3,911	- 39
Western Europe	3,192	3,996	- 804
Eastern Europe	1,841	2,233	- 392
Other	745	673	+ 72
Group as a whole	**9,650**	**10,813**	**- 1,163**

PERSONNEL MANAGEMENT AND STRATEGY

Personnel management in 2004 revolved entirely around "Management and Communication". In addition to the revised version of our corporate guidelines and management principles, a series of other initiatives was either continued or launched, with the aim of strengthening dialogue within the company. Ways of dealing with change, and the ability to inspire others for new goals are some of the areas in which management strength is displayed. It requires having a high degree of communication skill, a willingness to learn and being oriented towards practical business values.

GUIDELINES

Lasting success requires not only agreement on targets, but also on the ways they are to be achieved. If changes are to have a positive effect, they must be compared with established principles and brought into line with fixed values.

We have summarised what we regard as both our mission and obligation in five guideline values, which we also give to every employee.

1. Our success reflects customer enthusiasm for our products. We have to convince them with our competence and experience.
2. A strong market position needs committed employees, who we assist in achieving their goals.
3. We try to set trends by strengthening our innovative power.
4. We ensure our independence by way of growing income and reasonable dividend.
5. We are always aware of our responsibilities, not only as regards society, but also the environment and resources.

MANAGEMENT PRINCIPLES

In order to put Villeroy & Boch's newly formulated corporate guidelines into a concrete form, our management principles were revised and then communicated. High standards of performance and commitment can be more easily achieved if an open exchange of thought and a willingness for constructive dialogue and new ideas exist on a broad basis. Creating the climate necessary for this is a task of major concern to our management executives. The basic elements of our management principles can be summarised in eight core statements:

1. We are performance-oriented
2. We act in a solution-oriented manner
3. We communicate directly and openly
4. We encourage talks with employees
5. We lead by way of target agreements
6. We act exemplarily
7. We regard personnel development as our main task
8. We are prepared to make changes

All management executives give high priority to the application of these principles. It will contribute to the successful future of Villeroy & Boch.

"By implementing 'management appraisal' the company shows that it's interested in its employees and is attempting to coordinate employee interests and requests with company requirements and matters."

Bernd Schlümer on the subject of management appraisal

"Whenever I'm faced with a problem, I try to think of ways it could be solved. When I've found the solution, I submit a suggestion for improvement to the company's suggestion system."

Patrizia Schäfer on the subject of idea management

"We're really pleased that our advanced training series, 'Showroom Salesperson for Bathrooms & Home Furnishings', was presented with the 2004 'International Training Award in Gold in the Sales Category'."

Dagmar Schumacher on the subject of the Global Academy

" 'Leadership' can and must be learnt. By offering target and needs-oriented training, the Personnel Department has helped us progress a good way towards shaping and improving this management skill."

Thomas Ochs on the subject of executive training.

MANAGEMENT OF INNOVATION AND IDEAS

The wealth of ideas today determines the market share of tomorrow.
Villeroy & Boch's innovative competence was acknowledged by the public with the presentation of the German Business Innovation Award in January 2005.
This success was made possible in part by the work of our "innovation circle", in which all Group activities aimed at innovation are coordinated. There is equally as much demand in this circle for specialised knowledge and creativity, as there is for a willingness to make changes, and an openness for new ideas. We also generally expect these qualities from our employees in their everyday working life. In many sectors, more suggestions for improvement were submitted in the year under review than in the previous year.
Particular attention has also been earned in this connection by our training department, which carries out committed project and development work for commercial trainees, and has been able to operate in modern premises since 2004.

DEVELOPMENT OF EXECUTIVE PERSONNEL

In 2004 a two-year series of training was launched which aims to assist executive personnel in practically implementing the management principles. The basis for this training is a generally binding understanding of management, to whose main points our executive personnel is sensitised during the course of several seminars.
In the course of the year roughly 130 executive personnel completed the first two stages of the modular-structured programme, which is devoted to the main subject areas "Leadership Values" and "Employee Talks" in the scope of management with goals.

GLOBAL ACADEMY – 2004 GOLD TRAINING AWARD FOR SALES

The Villeroy & Boch Global Academy has made its mark as a specialised institution for employee and customer training with its wide range of training and advanced training programmes. In addition to an extensive programme of qualification in the scope of personnel development, the Global Academy also makes a major contribution in the area of customer training and advice – this often being at an international level.

2004 "International German Training Award in Gold in the Sales Category" for Villeroy & Boch

Developed jointly with the IHK, the series of advanced training for showroom salespersons in the bathroom and home-furnishings sector was recently given the 2004 "International German Training Award in Gold in the Sales Category", by the Berufsverband der Verkaufsförderer und Trainer e. V. (BDVT). This confirms in an exemplary way, the Global Academy's high demands for performance.

MANAGEMENT DIALOGUE

In cooperation with our executives, we have laid a further communication milestone. The "Villeroy & Boch Management Dialogue" event was staged for the first time in December 2004, and marks the start of a series of similar talks.
This event is intended to present an international discussion forum for current themes in the Villeroy & Boch company, particularly those in the areas of strategy and management. It has, therefore, created an institution which supports the exchange of information and knowledge beyond the confines of factories and countries, and promotes networking of knowledge and experience for the benefit of the whole concern.

Share

DISAPPOINTING SHARE MARKET PERFORMANCE IN 2004

Share markets were characterised by an upturn from March 2003. At the start of 2004, however, speculation on increases in interest rate in the USA already gave rise to consolidation. The mood during the entire 2004 calendar year was marked, above all, by the fear that economic revival would only be moderate, while the revival itself suffered adverse effects from the strong rise in oil prices. In addition, the continued strength of the Euro proved a burden for the entire European stock market.

Wendelin von Boch talks to a shareholder following the 2004 General Meeting of Shareholders

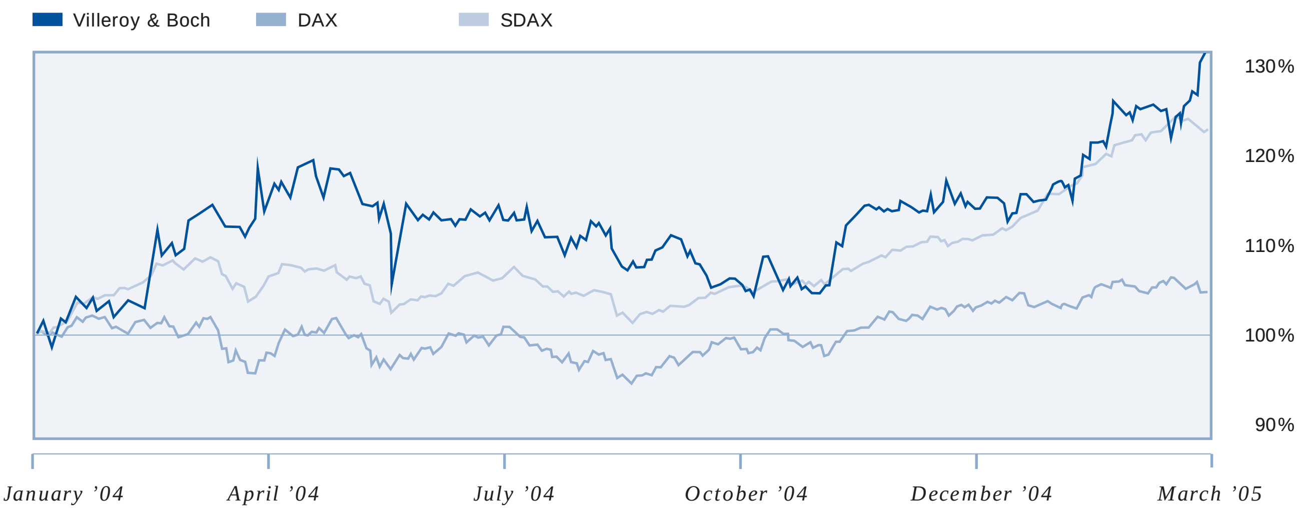
PLEASING PRICE MOVEMENT OF VILLEROY & BOCH SHARE IN 2004

Villeroy & Boch share movement in the course of 2004 was clearly better than that of the DAX and SDAX indices. Having started the year at a price of Euro 7.45, the share already reached its yearly low of Euro 7.25 by January and recorded its highest price of Euro 9.90 in March and April.
The share's closing price of Euro 9.26 at the end of 2004 was clearly above the price at the start of the year. Its price rise of 24.3 % clearly surpassed that of the SDAX Performance Index (21.8 %). During the same time period, the DAX recorded a plus of 7.2 % and the Dow Jones Index only 3.8 %.

SDAX POSITION REMAINS STABLE

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 Villeroy & Boch share

VILLEROY & BOCH SHARE TREND (INDEX LINKED)



KEY DATA ON THE VILLEROY & BOCH PREFERENCE SHARE

ISIN	DE0007657231
Class	no-par value bearer preference shares
Shareholder structure	88.0 % free float
Quotation	official trading Frankfurt/Main (Prime Standard), XETRA and unofficial dealing in Berlin, Bremen, Düsseldorf, Hamburg, Munich and Stuttgart
Selection index	SDAX
Designated Sponsor	Landesbank Hessen-Thüringen
Year high/low	Euro 9.90/7.25
Closing price on 30.12.04	Euro 9.26
Market capitalisation as of 30.12.04	Euro 114.47 million (free float of preference share)
PER H/L	16/12

experienced performance differences in the area of the two criteria decisive for membership in the SDAX, namely Market Cap and turnover. As regards turnover, Villeroy & Boch had to accept a fall in position from 99 to 105, while its Market Cap position stagnated at 77. According to the Index rules, these rankings signify an unchanged secure position in the German Small Cap Index.

PURCHASE OF TREASURY STOCK/ STOCK PURCHASE WARRANTS

Based on decisions made at the General Meetings of Shareholders on June 25th 1999, June 30th 2000 and May 23rd 2003, the company was able to purchase no-par value individual preference-share certificates up to 10 % of the Villeroy & Boch AG subscribed capital on the capital market.
In 2000 Villeroy & Boch AG introduced an executive share option programme, and has issued stock purchase warrants on a yearly basis. Stock purchase warrants could not be exercised in the years 2000 and 2001 as the respective premises to do so remained unfulfilled. Roughly 217,000 stock option warrants from the stock options programme still existed at the end of 2004.
A total of 425,380 treasury stocks were purchased in the 2004 business year, with the result that 1,683,029 treasury stocks (roughly 6 % of subscribed capital) were held by Villeroy & Boch AG on December 31st 2004.

HIGHER DIVIDEND DISTRIBUTION

The Supervisory Board and Management Board will propose a higher dividend than in the previous year to the General Meeting of Shareholders, namely Euro 0.42 per individual preference-share certificate and Euro 0.37 per individual ordinary-share certificate. An average dividend yield of 4.9 % per individual preference-share certificate therefore results for the year under review.

INVESTOR RELATIONS

In 2004, investor relations work again focussed on open, constant and up-to-date communication with capital-market operators and the media. At the annual conference for financial analysts and the press conference on financial statements, as well as in many one-to-one meetings, Villeroy & Boch Management gave financial analysts and business journalists comprehensive information on the business trend, and also on Villeroy & Boch prospects and potential. In so doing, the company not only cultivated existing contacts to our shareholders, but also formed valuable new contacts with investors.

- consolidated sales rise 3.7 % after structural adjustments

- operating result (EBIT) of Euro 33.8 mill. again clearly positive

- dividends increase to Euro 0.37 per individual ordinary-share certificate and Euro 0.42 per individual preference-share certificate

Management Report

UNDERLYING ECONOMIC CONDITIONS

Global Economy Loses Tempo

The extremely strong upturn in global economic activity has experienced a pace reduction since spring 2004. This deceleration was noticeable particularly in the USA, which despite everything, was again the major engine of global economic growth. Compared with prior-year figures the American gross domestic product (GDP) increased roughly 4 % in 2004. The American economy is still, therefore, growing clearly faster than that of the Euro zone. The slowdown in worldwide economic activity can be explained in part by the fact that the hitherto extremely expansive economic policy has been streamlined. Although underlying monetary conditions remained, on the whole, exceptionally favourable, financial stimuli in the USA, for example, came to a halt. In addition, global economic activity was depressed by the strong rise in oil prices. This in turn drained purchasing power, which dampened private consumption in particular. World trade in 2004 ultimately only increased by 4.0 %.

Weakened Economic Activity in Euro Region in Second Half Year

The economic recovery which began in the Euro region in 2003, continued throughout 2004. In real terms, however, the gross domestic product rose faster in the first half year than in the second. Private consumption within the European Union was curbed in particular by the considerable increase in energy prices, which slowed down the rise in real disposable income during the last months of 2004. The Euro region was nevertheless able to record a 1.3 % increase in the area of private consumption. Although the Euro countries' price competitiveness on the global market suffered as a result of the continuing, strong Euro revaluation, the company was able to increase its export business by a pleasing 6.2 %. Regarded as a whole, gross domestic product in the Euro region saw an increase of 1.9 % in the year 2004.

Slight Upward Trend in the German Economy

In 2004, following a period of stagnation lasting almost three years, the gross domestic product (GDP) rose again for the first time by 1.6 %. There were 4.7 workdays more in 2004 than in 2003, which resulted in an effect of 0.5 percentage points. After adjustments to exclude this effect a 1.1 % rate of change can be calculated in real terms for the gross domestic product. Exports were again the major engine of German economic growth. They increased 8.2 % in the year under review, and were thus clearly higher than imports (5.7 %).

Domestic demand remained weak. Compared with prior-year figures, private consumption saw a drop of 0.3 %. This trend can be attributed to the real 0.2 % reduction in the average disposable income of every inhabitant. Admittedly, disposable income increased 2.3 % in the first half year, mainly as a result of the reduced pressure of taxes and social contributions on income earned. This was contrasted, however, by a marked loss of purchasing power, brought about in particular by higher prices for energy and health services. Added to this was the fact that many employees were afraid they may lose their jobs and were, therefore, disinclined to purchase consumer durables. As a result, the personal savings ratio rose slightly above that of 2003.

The crisis in the construction industry continued in 2004, and the building trade had to face a 2.5 % decline in capital spending on new construction. Construction activity has experienced a decline in eleven of the fourteen years since 1990.

SALES AND RESULT

Rise in Consolidated Sales

Despite a persistently difficult market environment the Villeroy & Boch Group was able to realise a pleasing sales trend for the 2004 business year. As compared with prior-year figures of Euro 948.6 mill. Group sales recorded an absolute rise of 1.2 % to Euro 959.9 million. When the sales difference to the previous year is adjusted to exclude divestment carried out in the year under review (+2.5 %) and existing currency influences (+0.5 %) integral growth of +4.2 % results.

2004 Sales Trend

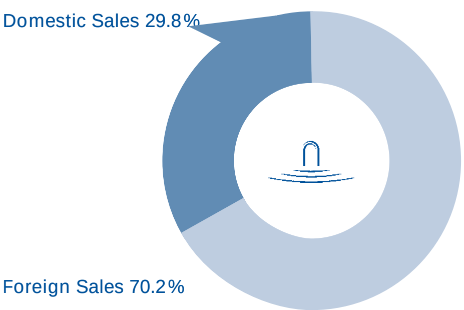
Change compared with prior year (absolute)	1.2%
+ adjustment for divestments	+ 2.5%
Integral growth after divestments	3.7%
+ adjustment for exchange-rate effects	+ 0.5%
Integral growth (total)	4.2%

Compared with prior-year figures, domestic sales in the Villeroy & Boch Group fell by a minimal 0.6 % to a total of Euro 285.7 million. Increases in foreign business, however, were able to compensate for this sales decline. Foreign sales totalled Euro 674.2 mill., showing a clear increase of 5.7 % on prior-year figures. It was possible to record sales increases in almost all foreign markets. Sales trends in Scandinavia (+9.1 %), Great Britain (+6.3 %) and overseas (+4.9 %) were particularly pleasing. Traditionally major foreign markets for Villeroy & Boch, France and the Netherlands, were able to achieve sales increases of 2.3 % and 2.9 % respectively. Sales of -4.4 % marked a further decline in the trend in Eastern Europe. Currency influences were responsible for the 1.7 % sales decline in the USA. As in the previous business year, foreign sales accounted for roughly 70 % of total sales. Villeroy & Boch AG secured sales of Euro 565.4 mill. in the 2004 business year, which is 5.7 % higher than prior-year sales of Euro 535.1 mill.

Strong Improvement in Result

A clear improvement was recorded in the Villeroy & Boch Group operating result (EBIT), which rose from Euro -17.7 mill. to Euro 33.8 mill. This positive trend is strengthened even more by the increased financial results, allowing the result from ordinary operations (EBT) to rise Euro 54.4 mill. from Euro -30.8 mill. in 2003 to Euro 23.6 mill. It must be taken into account here that prior-year EBT was burdened by special expenses for restructuring measures in the sum of Euro 38.5 million. Additional factors to be named for the improved result are on the one hand, the rise in contribution margins resulting from increased sales, and on the other, the cuts made in production costs per unit. Effects are seen here essentially from the production conversions initiated in the tableware factories at Merzig and Luxembourg in the

VILLEROY & BOCH GROUP SALES ACCORDING TO COUNTRY



Share in %	*Country*	*Euro mill.*
29.8	**Germany**	**285.7**
16.8	France	161.7
10.2	Scandinavia	97.8
5.1	USA	48.8
4.9	Great Britain	47.5
4.4	Italy	42.2
4.4	Netherlands	42.4
2.0	Austria	19.2
1.5	Switzerland	14.3
7.6	Rest of Western Europe	73.1
8.1	Eastern Europe	77.7
5.2	Overseas	49.5
70.2	**Total foreign sales**	**674.2**

STRUCTURE OF THE CONSOLIDATED PROFIT AND LOSS STATEMENT (IFRS)

Euro mill.	*2004*	*% of sales*	*2003*	*% of sales*
Sales	959.9	100.0 %	948.6	100.0 %
Costs of goods sold	- 581.9	- 60.6 %	- 596.8	- 62.9 %
Gross profit	**378.0**	39.4 %	**351.8**	37.1 %
Selling expenses, marketing and development costs	- 286.2	- 29.8 %	- 285.8	- 30.1 %
General and administrative costs	- 53.4	- 5.7 %	- 56.4	- 6.0 %
Other expense/income	- 4.6	- 0.5 %	- 27.3	- 2.9 %
EBIT	**33.8**	3.4 %	**- 17.7**	- 1.9 %
Financial results	- 10.2	- 1.0 %	- 13.1	- 1.4 %
Result from ordinary operations/EBT	**23.6**	2.4 %	**- 30.8**	- 3.3 %
Income tax	- 6.9	- 0.7 %	5.4	0.6 %
Results for the year	**16.7**	1.7 %	**- 25.4**	- 2.7 %

previous year, and the improved utilisation and specialisation of factory capacity in the Bathroom and Wellness Division. When compared with the previous business year, an improvement was also seen in the result situation of the Tile Division, which was characterised by the divestments of the 2004 business year.

The prior-year financial results improved from Euro -13.1 mill. to Euro -10.2 mill. in the year under review. In this case, a change of roughly Euro 2.1 mill. is attributable to the increased financial status of the Villeroy & Boch Group. In addition, there was a decline in the interest expense arising from provisions for pensions and similar obligations, amounting to roughly Euro 0.8 million. This is to be seen in connection with the lower discount rate allowed on advance payment of taxes.

Owing to the positive earnings contributions from abroad, the consolidated tax quota of 29.2 % is above the German income-tax rate .

Net Income of Villeroy & Boch AG

Villeroy & Boch AG reports net income of Euro 9.6 mill. (prior year: Euro 0.3 mill.) for the 2004 business year. This positive result trend was triggered by the 5.7 % rise in sales. Taking into consideration the increase in inventories, this positive result trend received slight support from an improved cost of materials ratio. An even more obvious effect was achieved, however, by a further reduction in personnel expenses, which were Euro 3.9 mill. lower than in the previous year.

The Euro 5.0 mill. result from investments was Euro 42.1 mill. less than in the previous year, when special expenses made their mark.

Villeroy & Boch AG net income is not burdened by income tax. This was achieved by tax-free income from abroad in the amount of Euro 12.8 million.

Dividend Proposal

As the result in 2004 improved greatly in comparison with prior-year figures the Management Board and Supervisory Board will propose a dividend which is higher than that of the previous year, namely

Euro 0.42	per individual preference-share certificate and
Euro 0.37	per individual ordinary-share certificate

to the General Meeting of Shareholders on June 3rd 2005.

The distribution volume, therefore, totals Euro 11.1 million. The amount named will change by the share of the dividend apportioned to the company's own holding of individual preference-share certificates at the time dividends are distributed. A total of Euro 0.4 mill. is, therefore, to be carried forward to a new account at Villeroy & Boch AG.

SALES AND RESULT IN THE DIVISIONS

Organisational Changes in the Divisions

Organisational changes in the Divisions accompanied the replacements and changes made to the Villeroy & Boch AG Management Board in December 2004. The Bathroom, Kitchen and Tile Division, which existed until this time, was divided into two Divisions. By separating off the Tile Division and enabling it to act independently, it is expected that a clearly improved result situation will ensue in future. When Management Board member Dr. Bernard Wientjes retires on April 30th 2005, the Wellness Division, which will have operated independently until then, will operate as a Business Segment. Together with the Bathroom and Kitchen Business Segment, the Wellness Business Segment will then form the new Bathroom and Wellness Division. Having existed until December 31st 2004, the Project Business Division will in future be integrated into the Tile Division as a Business Segment. The Management Report and the Annual Report were prepared on the basis of the new corporate structure.

Tile Division Divestments

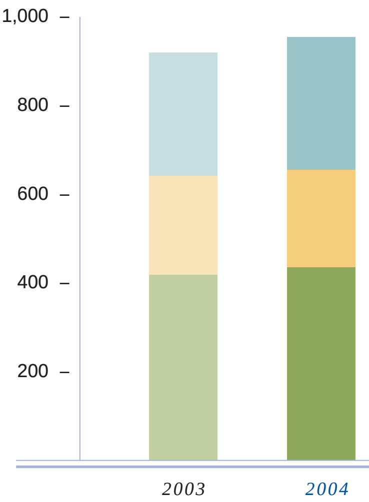
In addition to the French trading subsidiaries Boch Frères, Socatra and Comar, a total of four tile factories were sold in the year under review. This took place in the course of adjusting Tile Division capacity and introducing the Division's new strategic policy. Production capacity was thus cut by half. The reorganisation and restructuring of tile activities aim to achieve an improved utilisation of factory capacity at the two core locations at Merzig/Saar and La Ferté Gaucher/France, so as to attain better results in future. The sale of these factories did not have any essential effect on result in the year under review.

Sales Trend in the Divisions

A varied trend was experienced in the Business Segments of the Bathroom and Wellness Division.

CONSOLIDATED SALES 2003/2004

Distribution According to Division (in Euro mill.)

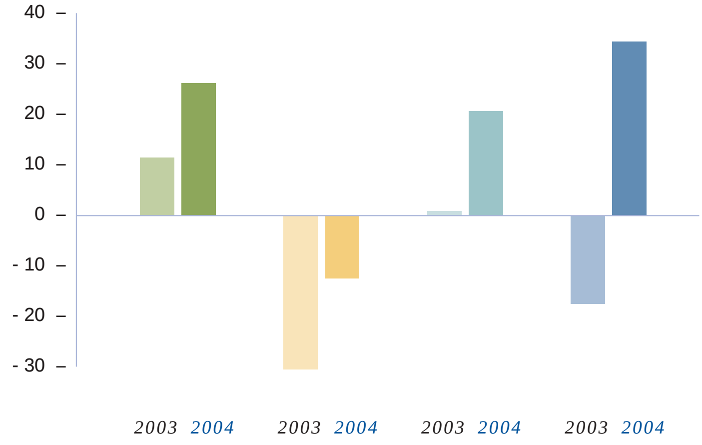


	2003*	2004	Change	
Bathroom and Wellness	410.6	421.0	+ 10.4	+ 2.5%
Tiles	229.1	221.8	- 7.3	- 3.2%
Tableware	285.7	317.1	+ 31.4	+ 11.0%
Total	**925.4**	**959.9**	**+ 34.5**	**+ 3.7%**

** Sales adjusted to exclude divestments.*

EBIT 2003/2004

(Euro mill.)



	2003	2004
Bathroom and Wellness	11.3	26.0
Tiles	- 30.4	- 12.4
Tableware	1.4	20.2
Total	**- 17.7**	**33.8**

Sales in the **Wellness Business Segment** declined by -1.5 % to a total of Euro 95.9 million. Recording a pleasing 3.0 % sales increase, the domestic sales trend proved more successful than that in foreign markets (-2.2 %). Further sales increases were realised in France (+6.0 %) and Italy (+3.1 %). These were contrasted, however, by sales declines, particularly in Eastern Europe (-10.4 %), Great Britain (-9.5 %) and the Business Segment's major sales market, the Netherlands (-6.5 %).

Compared with the same period of the previous year, sales in the **Bathroom and Kitchen Business Segment** rose in 2004 from Euro 313.2 mill. to Euro 325.1 million. The 5.7 % gain achieved on foreign markets was contrasted by a minimal decline of -0.8 % on the domestic market. Sales increases were attained in all foreign markets with the exception of Eastern Europe (-0.6 %). However, the greatest contribution towards the positive trend was made by the markets in the Netherlands (+11.8 %), Great Britain (+14.1 %) and Switzerland (+16.3 %).

Owing to a shift of products from the Wellness Business Segment to the Bathroom and Kitchen Business Segment, prior-year figures were adjusted by Euro 5.1 million.

Tile Division sales declined from Euro 252.8 mill. in 2003 to Euro 221.8 mill. in 2004, representing a drop of 12.3 %. To simplify comparability with the previous year, sales are to be adjusted to exclude the effects ensuing from divestments carried out in the year under review. The result is a structurally adjusted sales decline from Euro 229.1 mill. to Euro 221.8 mill., which is the equivalent of an adjusted sales decline of 3.2 %. While domestic sales declined 2.7 %, foreign sales decreased 3.6 %. Virtually every foreign market was affected by the sales declines.

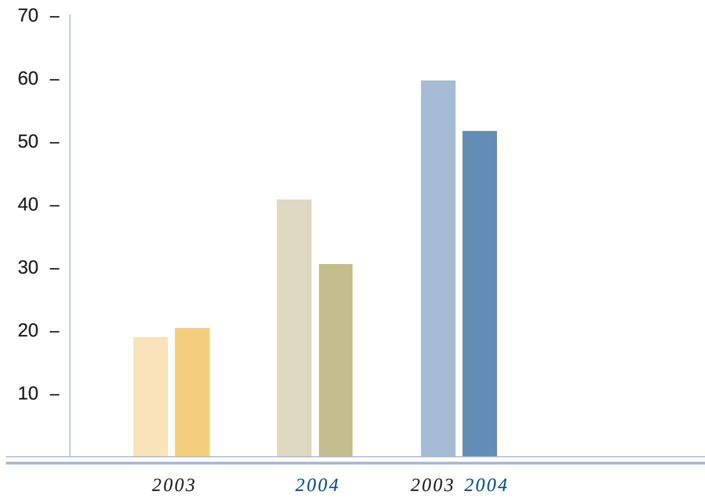
Tableware Division sales rose 11.0 % in 2004, bringing the total to Euro 317.1 million. In addition to the slight, 1.3 % increase in domestic sales, it was primarily the 15.2 % sales increase secured in foreign markets which helped the Division achieve its record sales level. Positive market trends were recorded in France (+12.7 %), the Netherlands (+16.9 %), Scandinavia (+22.5 %) and Eastern Europe (+10.6 %). The 72.0 % sales increase in the Rest of Western Europe was favourably influenced by a large-scale order for advertising media in Spain.

Result Trend in the Divisions

Compared with prior-year figures, the **Bathroom and Wellness Division** operating result (EBIT) increased Euro 14.7 mill. to total Euro 26.0 million. Both Business Segments contributed towards this improved performance.

VILLEROY & BOCH GROUP INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS 2003/2004

(in Euro mill.)



	2003	2004
Villeroy & Boch AG	18.6	20.2
Remaining Group	40.8	31.7
Total	**59.4**	**51.9**

In the year under review, EBIT in the **Wellness Business Segment** was still negative at Euro -2 mill. (prior year: Euro -8 mill.). Cost reductions achieved by restructuring production locations and also reducing the numbers of employees were not able to completely compensate for the slight decline in sales trend.

The **Bathroom and Kitchen Business Segment** was able to successfully increase its EBIT in the 2004 business year from Euro 19.4 mill. to Euro 28.0 million. This can be explained on the one hand by sales increases in foreign markets and the accompanying expansion of market share and, on the other, by the contribution made to improving performance by further optimising cost management.

The operating result (EBIT) in the **Tile Division**, including the Project Business Segment, rose Euro 18.0 mill. to total Euro -12.4 million. To be taken into account here are special expenses of Euro 17.4 mill. made in the previous year for restructuring measures. Positive effects are expected in future as a result of concentrating production at the existing locations in Merzig/Saar and La Ferté Gaucher/France and thus improving the utilisation of factory capacity.

The **Tableware Division's** operating result (EBIT) in the 2004 business year was characterised considerably by the high, 15.2 % sales increase in foreign markets. In addition, the personnel measures initiated at the Luxembourg factory in the previous business year brought about clear cost reductions. Furthermore, the conversion of production to fully-automated production processes gave rise to increased efficiency in the production sector. All in all, EBIT improved from Euro 1.4 mill. to Euro 20.2 million.

CAPITAL EXPENDITURE

Volume of Capital Expenditure Below Prior-Year Level

In the 2004 business year the Villeroy & Boch Group invested a total of Euro 51.9 mill. (prior year: Euro 59.4 mill.) in tangible and intangible fixed assets. When compared with the previous year, this constitutes a Euro 7.5 mill. reduction in the volume of capital expenditure. A 39.6 % share of total capital expenditure was allocated to domestic locations. Depreciation in the year 2004 amounted to Euro 51.9 mill., as compared with

VILLEROY & BOCH GROUP – ABRIDGED CASH FLOW STATEMENT

Euro mill.	*2004*	*2003*
Results for the year	16.7	- 25.4
Depreciation of fixed assets incl. write-up	52.4	69.2
Change in long-term provisions	- 12.3	- 10.9
Result from disposal of fixed assets	- 0.5	- 0.8
Changes in inventories, accounts receivable, liabilities and short-term provisions, as well as other assets and liabilities	2.3	11.0
Other income/expenses without effect on liquid assets	4.6	9.2
Cash flow from operating activities	**63.2**	**52.3**
Cash flow from investing activities	**- 9.0**	**- 58.4**
Cash flow from financing	**- 39.9**	**- 10.6**
Change in balance of funds	**14.3**	**- 16.7**
Balance of funds on 01.01.	**37.0**	**53.7**
Balance of funds on 31.12.	**51.3**	**37.0**

Euro 70.0 mill. in the previous business year (including special depreciation of Euro 12.9 mill.). Villeroy & Boch AG invested a total of Euro 20.2 mill. (prior year: Euro 18.6 mill.).

Capital expenditure in the Bathroom and Wellness Division declined from Euro 28.8 mill. to Euro 27.2 million. Capital expenditure in the Bathroom and Kitchen Business Segment was 38.3% higher than the prior-year value (Euro 15.4 mill.) and totalled Euro 21.3 mill. The majority of investments – 88.9 % (prior year: 84.4 %) – was carried out abroad and, in the year under review, concentrated essentially on purchasing a new production plant (Euro 5 mill.), acquiring casting benches (Euro 2.1 mill.) and expanding both the production and the logistic sheds (together roughly Euro 1.6 mill.) in Romania.

A total of Euro 5.9 mill. was invested in the Wellness Business Segment, as compared with Euro 13.4 mill. in the previous year. Investment here was made not only in expanding production, but also in rationalisation measures at the Belgian and Italian subsidiaries.

The Tableware Division concentrated its total volume of capital expenditure in the sum of Euro 15.8 mill. (prior-year: Euro 22.5 mill.) in the area of production technology, 69.8 % of which was invested in Germany. Production at the Torgau factory was adjusted to the latest production techniques for manufacturing asymmetrical products.

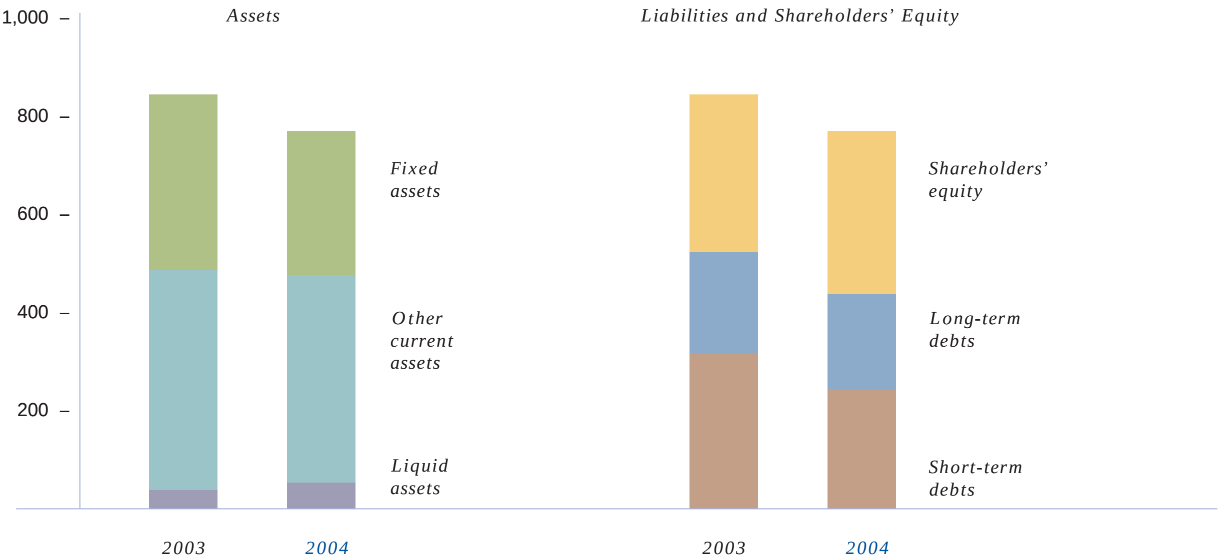
A total of Euro 8.9 mill. was invested in the Tile Division, as compared with Euro 8.1 mill. in the previous year. Roughly 79 % of this amount was invested in Germany (prior year: 45 %). Capital expenditure in 2004 essentially concerned the Merzig factory, for which new presses and application equipment for manufacturing fine stoneware tiles were acquired (Euro 3.1 mill.) and the central warehouse was expanded (Euro 1.6 mill.).

Cash Flow From Operating Activities Rises 20.7%; clearly improved liquidity

When compared with the previous business year, the inflow of funds from operating activities in 2004 increased Euro 10.9 mill. to Euro 63.2 mill. This increase can be attributed essentially to the distinct rise in net income, which is, however, adversely affected by lower depreciation and also the outflow of funds due to the reduction in trade accounts payable.

COMPARISON OF GROUP BALANCE SHEET STRUCTURE 2003/2004

(in Euro mill.)



Assets	*2003*	*2004*	*Liabilities and Shareholders' Equity*	*2003*	*2004*
Fixed assets	350.2	311.7	Shareholders' equity	335.0	345.6
Other current assets	455.5	422.1	Long-term debts	203.0	200.1
Liquid assets	37.0	51.3	Short-term debts	307.3	239.4
Total	**842.7**	**785.1**	**Total**	**842.7**	**785.1**

The cash flow from investing activities fell from Euro -58.4 mill. to Euro -9.0 million. This was brought about by the inflow of funds from divestments carried out in the Tile Division during the business year and totalling Euro 37.0 mill., and also from higher deposits resulting from the disposal of fixed assets.

The change in cash flow from financing essentially results from the reduction in liabilities to banks. This reduction was possible in particular as a result of the inflow of liquidity arising from divestments made in the Tile Division.

Balance Sheet Structure in 2004

Compared with the previous business year, the balance-sheet total of Euro 785.1 mill. on December 31st 2004 experienced a decline of Euro 57.6 million. The shareholders' equity ratio, including minority interests, increased from 39.8 % in 2003 to 44.0 % in the year under review.

Fixed assets decreased Euro 38.5 mill. to Euro 311.7 mill., Euro 22.4 mill. brought about by the deconsolidation of the five foreign companies in the Tile Business Segment. The 39.7 % share of fixed assets in the balance-sheet total declined accordingly (41.5 % in 2003). A decline of Euro 33.4 mill. was also seen in the other current assets, bringing the total to Euro 422.1 million. This is essentially substantiated by the initial consolidation. Long-term assets are covered completely by shareholders' equity (prior year: 95.7 %). This is mainly due to the positive result of the business year under review. Compared with prior-year figures, the balance sheet sum of Villeroy & Boch AG rose slightly .

Rise in Net Liquid Assets

As of December 31st 2004 liquid assets rose Euro 14.3 mill. in the Villeroy & Boch Group from Euro 37.0 mill. to Euro 51.3 million. The liabilities to banks and notes payable, including leasing liabilities, totalled Euro 4.8 mill. and are clearly below the prior-year level of Euro 38.9 million. The liabilities from finance leasing were transferred to the purchaser by the sale of the Ceramica Ligure S.r.l. and Boch Frères S.A.S. companies, with the effect that there was a remaining balance of only Euro 0.033 million. Notes payable were reduced as a result of adjustments made to French suppliers' payment policies. At the end of the 2004 business year, net liquidity therefore rose to Euro 46.5 mill., as compared with Euro -1.9 mill. in 2003. Contributions to this change were made essentially by the disinvestments made in 2004 in France, Italy, Hungary and Romania, which totalled around Euro 46 million. Further purchases of treasury stock in 2004, however, led to an outflow of liquidity of roughly Euro 3.7 million.

EMPLOYEES

The average number of persons employed in the Villeroy & Boch Group decreased 3.9 % in the year under review, from 10,812 to 10,390. Decisive factors here were, above all, the sale of subsidiaries in the Tile Division, where the number of persons employed fell by 384 to a total of 1,806. Following a reduction of 15 employees an average of 4,859 persons were employed in the Bathroom and Wellness Division. The number of persons employed in the Tableware Division recorded a slight rise of 21, bringing the current total to 3,249 employees.

Of the entire average number of persons employed, 6,529 are engaged abroad and 3,861 in Germany. Compared with the previous year, the number of persons employed abroad decreased 319 and in Germany, 103. Villeroy & Boch trained an average of 110 young people during the course of the year under review. This level of training is clearly higher than the company actually needs. By providing this training, the company aims to fulfil the social demands made on influential employers. With this objective in mind, young people are also given the opportunity of gathering experience nationally and internationally in practical training courses.

Personnel expenses in the Villeroy & Boch Group fell 5.6 % to Euro 346.6 million. It was also possible to attain a lasting reduction of 2.6 % in the personnel expenses ratio – personnel expenses to sales – bringing the current total to 36.1 %.

PROCUREMENT

Variation was seen in price trends in the 2004 business year. While the price level for ceramic raw materials stagnated, prices for gas and packaging experienced reductions of 3.5 % and 2.0 % respectively. These price reductions, however, were clearly overcompensated by the 10.6 % increase in electricity prices. In the 2004 business year Villeroy & Boch was confronted with purchasing prices rising on average 2 %.

RESEARCH AND DEVELOPMENT

A total of Euro 10.8 mill. was spent on research and development in the Villeroy & Boch Group in 2004, as compared with Euro 12.5 mill. in 2003. The largest share of research and development costs – roughly 60 % – was expended in the Bathroom and Wellness Division, while 22 % of the remaining costs were expended in the Tile Division and 18 % in the Tableware Division.

Villeroy & Boch's research and development activities concentrate particularly on the following areas: gaining market and competitive leads by using innovative production technologies, such as die-cast technology, designing new products which are closely related to consumer needs, and constantly improving productivity with the aim of achieving further cost reductions. In 2004 Villeroy & Boch demonstrated in a remarkable way that an increase in innovative performance can also be accompanied by a reduction in expenses. Although expenditure for research and development was cut by roughly 13.6 % compared with the previous year, Villeroy & Boch won the coveted "German Business Innovation Award" for its innovative "NewWave" tableware design in the year under review.

RISK REPORT

Risk Management System in the Villeroy & Boch Group

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

Risks from the Economic and Industrial Environment

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

Procurement Market Risks

A 5 % increase in purchasing prices is expected for 2005. Besides electricity prices, the main price boosters will be the crude oil price and the motorway toll in Germany. In order to offset these price increases, Villeroy & Boch has launched various cost-cutting projects which are expected to show initial positive effects in 2005. The main goal will be to realise cost-cutting potential by improving production processes.

Foreign Currency Risks

The company's risk management system pursues the goal of excluding the exchange risks which arise due to prescribed foreign currency relations, using appropriate hedging transactions.
Hedging transactions are concluded to limit the exchange risks which arise from surplus or inadequate cover following a Group-wide process of netting the various foreign currencies. Experience gained in recent years shows that the probability of completely hedging the foreign currency positions is given when roughly 70 % of the surplus or inadequate cover is hedged.
The positions in the various foreign currencies are therefore virtually closed on December 31st 2004.
The exchange-rate policy following the 70 %-rule will be continued in 2005. As a result, only minimal residual amounts currently arise which require further hedging. This applies in particular for the major foreign currencies, such as USD, GBP, CHF and AUD.
The USD was hedged at an average rate of Euro 1 = USD 1.12 for 2004. No external hedging is necessary for 2005 as an almost balanced foreign currency position results from capital measures in the USD sector after netting was carried out up until December 31st 2005. Major sales in GBP were hedged at an average rate of Euro 1 = GBP 0.703 for 2004. For 2005, the first part of hedging was carried out at an average rate of Euro 1 = GBP 0.6893.

Overall Estimation of the Risk Situation

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

OCCURRENCES OF PARTICULAR SIGNIFICANCE AFTER CONCLUSION OF THE 2004 BUSINESS YEAR

There are no events of essential importance which occurred after the end of the 2004 business year.

OUTLOOK

Relatively Cautious Economic Forecasts for 2005

The Ifo-Institut für Wirtschaftsforschung at the University of Munich expects the pace of global economic activity to slow down in the year 2005, but does not envisage this will cause an immediate downturn. In its press release on the economic forecast for 2005 the Institute announced that the global economy would continue to grow rapidly, but at a reduced pace. Seen in relation to 2004, the United Nations expect a 3.5 % increase in global economic activity. Leading economic research institutes expect a 2.0 % rise in gross domestic product for the Euro region. Private consumption will continue to expand slowly and at 1.6 % will be minimally higher than the prior-year level. This is mainly attributable to the slow rise in real income.

Although the underlying, global economic conditions are relatively favourable for the German economy, the Institut der deutschen Wirtschaft (IW) forecasts a rise in gross domestic product (GDP) of merely 1.5 %. An even less significant rise in gross domestic product (1.2 – 1.4 %) is expected by other economic research institutes. As the basic trend for private consumption was negative at the start of the year, a 0.8 % rise in private consumption expenditure is nevertheless anticipated. A trend reversal of this kind is determined essentially by the length of time the high unemployment figures continue to burden consumer sentiment, and whether the new tax relief measures have an effect on private consumption.

There are still no signs of a turnaround in the construction industry in 2005. According to Karl Robl, Director of the Bundesvereinigung Bauwirtschaft ((BVB) German national union of builders), a further decline is expected in the areas of capital expenditure, sales and employment. Capital spending on new construction is also expected to fall 1 % in 2005, and there is little hope of stabilisation at the prior-year level before 2006.

Sales and Result

As the economic outlook remains strained, Villeroy & Boch does not expect an easy business year in 2005. Main objectives will be to achieve profitability in the Tile Division and optimise the cost structure. Although measures to achieve profitability have been initiated, this Division cannot be expected to return to a profitable phase until 2006.

A sales decline of at least 30 % is expected in the Tile Division. This trend is to be attributed in the main to the sale of trading operations in France which took place from the third quarter of 2004, resulting in a turnover in 2004 of approximately Euro 60 million. This means that the overall group sales are also expected to be below the prior-year level.

An improved group result is targeted again for the 2005 business year, assuming there is no further deterioration in market conditions.

Capital expenditure

An investment volume of roughly Euro 46.0 mill. is planned for the current business year 2005, 50 % of which will be allocated to the Bathroom and Wellness Division. Investment will concentrate primarily on expanding automation technology in the Bathroom and Wellness Division and further developing retail operations in the Tableware Division.

2004 “German Business Innovation Award” for Villeroy & Boch

As winner of this year’s “German Business Innovation Award”, Villeroy & Boch is in the best of company. Its engraved name continues the ranks of award-winners from the last 25 years. This aluminium and steel sculpture was designed by sculptor Bernd Fischer.

2004 German Business Innovation Award

NewWave Caffè: its unconventional design and specially-developed production technique were decisive for the jury

Former Federal Chancellor Dr. Helmut Kohl congratulates Wendelin von Boch

VILLEROY & BOCH RECEIVES THE COVETED GERMAN BUSINESS INNOVATION AWARD FOR 2004

The design and production techniques of the “NewWave Caffè” cup have been acknowledged as innovative: Villeroy & Boch received the 2004 “German Business Innovation Award” in the “medium-sized business” category at a function held at the Alte Oper in Frankfurt. This coveted award was presented by former Federal Chancellor Dr. Helmut Kohl, who also made the presentation speech.

The award’s initiator and organiser is the Wirtschaftsclub Rhein-Main e.V., whose top-class plenum is composed of renowned personalities from the areas of politics, business and science and also of Nobel prizewinners. The Wirtschaftsclub joined with the “Wirtschaftswoche” magazine to organise this innovation award, whose intention it is “to stimulate business performance”. Evaluation is based on “the level of innovation, the market launch, innovation management, economic efficiency and benefits for society and the environment”. Attention focuses on innovations which show that they can bring about change in the markets. The sustained sales success of the “NewWave” design is now accompanied by a considerable image boost resulting from the presentation of this globally unique innovation award.

This award confirms the appropriateness of a corporate strategy which establishes innovative abilities in all its Divisions, and groups them together in an integral system of innovation management. The aim is to gain market and competitive leads using new products and concepts which are closely related to consumer needs, to strengthen the international brand and open up further consumer circles. This has been achieved in an exceptional way with the trendsetting “NewWave” series.

"NEWWAVE CAFFÈ"– THE CHALLENGE OF INNOVATIVE DESIGN

A decisive factor for the eminent award was the innovative content of the “NewWave Caffè” product, which is seen both in its unconventional design and in the technique developed specially for its production.

The cup’s unusual, highly exciting shape departs from the expected symmetry, in particular from the circular tableware shape. This is replaced by the asymmetry of a wavy shape, which is equally as ergonomic as practical. Its flatly-worked, curved handle is pleasant to hold, and the cup itself is securely held in a deep hollow in the “saucer”. Thanks to the adequate room on the saucer, Innovative interior design: LIGHT TILE in the bathroom, living area or project business sector – LIGHT TILE blue with CARDESIO black

coffee-lovers are able to "tastefully enhance" their coffee delight with croissants, cookies, etc.

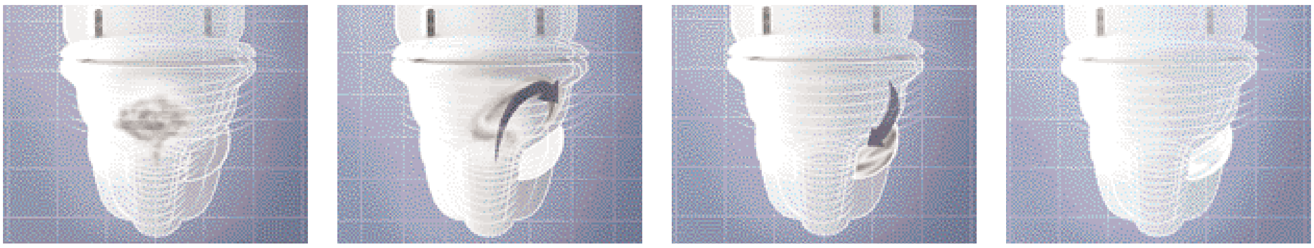
It would not have been possible, however, to realise a design of this kind using conventional production methods. The company therefore tried to find an appropriate means of production, which resulted in the successful development of an innovative die-casting method for manufacturing asymmetrical shapes in the tableware sector. Villeroy & Boch enjoys technological leadership at an international level with this revolutionary, partly patented production technique. Its unique position, and that of the design it produces, guarantees the company a considerable competitive lead. This in turn has the effect of strengthening the production locations at Torgau in Saxony, Merzig/Mettlach and Luxembourg and also safeguarding their future.

A design idea started the ball rolling. What resulted was the universally innovative product, "NewWave", whose emotional purchase appeal led to a significant increase in global sales. But the scale of this product's success could not possibly be predicted. It was also necessary, therefore, to show the same courage to take risks, which is part of every business decision in favour of innovation, and which motivates the investment associated with such an undertaking.

INNOVATION AS PART OF CORPORATE CULTURE

Innovations are part of the Group's strategic orientation and the ideal way to gain competitive advantages in glutted markets. For this reason the company introduced its

A spectacular highlight at ISH 2005 trade fair in Frankfurt PurAir – the first pure air toilet from Villeroy & Boch which actively controls the odours arising with toilet use



HOME ELEMENTS with the “ceramicplus” surface treatment

Innovation Management Department – under the direction of Management Board Chairman Wendelin von Boch – four years ago. All Divisions and levels of the hierarchy are involved in the innovation process by way of “innovation circles”. In this way, creative potential existing within the company is activated. The clear structures and methodical approach which lead to the realisation of an innovation always allow a lot of freedom of thought, and discussions and suggestions which are free from the constraints of daily life.

During its 256-year history, Villeroy & Boch has often taken new paths and new directions. It has also strengthened and built up its position using innovative processes, products and concepts. Sensibility, an observant eye and creativity, a feeling for the market opportunities a new idea offers, the ability to look further afield and act in a future-oriented manner – these are all requirements for the success of a business which loves innovation. Villeroy & Boch continues to develop this sensitivity towards consumers and their currently unfulfilled needs, and translates it in the company’s strategic product development. One example of this is the exceptionally easy-to-clean ceramic surface, “ceramicplus”, which is based on nanotechnological principles. This was later developed to include bacteriostatic qualities in the form of “ActiveCare”. In addition, the company was able to successfully transfer this pioneering surface finish to ovenproof baking dishes in its “Home Elements” tableware series.

Electronics and ceramic are combined in the innovative “Magic Basin” wash-basin, whose fittings are replaced by a new sensory mechanism. The innovative lighting concept, “Light Tile”, uses the most modern light-emitting diodes (LEDs) to turn the tile into an expressive source of light. One of the spectacular highlights at this year’s “ISH” trade fair in Frankfurt was the “PurAir” toilet. Villeroy & Boch has created the first toilet to automatically eliminate toilet odours. In the project sector, Villeroy & Boch created the modular, prefabricated bathroom concept “e.motion”, which guarantees fast, easy and individual fitting.

A feeling of comfort with natural materials and shapes: PURE STONE

As regeneration rooms par excellence, bathrooms today offer more than just an appealing appearance. They fulfil the highest demands on all functional levels. From silent whirlpool jets and the individual light effects created by furniture and tiles, to easy-care surfaces and the elimination of odour problems. Villeroy & Boch always offers an innovative solution.

Bathroom and Wellness Division

BATHROOM & WELLNESS DIVISION KEY DATA

		2004	2003
Sales	*Euro million*	421.0	410.6
EBIT	*Euro million*	26.0	11.3
Return on sales	*Percent*	6.1	2.7
Capital expenditure	*Euro million*	27.2	28.8
Depreciation	*Euro million*	25.4	31.7
Employees (annual average)	*Number*	4,859	4,874

BATHROOM AND KITCHEN BUSINESS SEGMENT

INNOVATIONS ACCELERATE GROWTH

In contrast to the sustained weaknesses experienced generally in the branch, the Bathroom and Kitchen Business Segment recorded a positive trend both in sales and result from the start of 2004. All product fields contributed to this profitable growth, but a decisive role was played above all by “Aveo”, “Subway” and “Loop & Friends”, the three product launches/extensions presented at “ISH” 2003 which were equally successful in Germany and all markets. The high level of attention was gained particularly in foreign markets by the “Aveo” bathroom collection, which was developed in cooperation with the internationally renowned design office “Conran & Partners”. As a result it was possible to further develop international business in the high-price segment. With its appealing shape and colour concepts, the “Loop & Friends” series successfully progressed beyond the confines of the private sector and met with a strong, positive response from architects. Offering lots of innovative details, such as a “Quick Release” and “Soft-Closing” toilet seat, the successful, new “mainstream” collection “Subway” exceeded all expectations and shows a long-term, positive sales trend.

POSITIVE TREND IN DOMESTIC AND FOREIGN MARKETS

The Bathroom and Kitchen Business Segment was able to build up its position in Germany and virtually all European markets. Contrary to the general economic trend it was possible to win market share – even in the difficult German market – thanks to active market cultivation and the extensive support of partners in the retail and manual sectors. According to the Trade Association of the Ceramic Sanitary-Ware Industry, market share rose from 35.5 % to 36.8 % and created a 1 % sales increase.
Improved results were achieved, even in foreign markets, by a consistent process of market cultivation based on the specific requirements of each country, optimising marketing structures and strengthening brand awareness. Clear sales increases also characterised the Northern European territory, where Villeroy & Boch is represented predominantly by the Gustavsberg brand and products from the top-quality sector.
A clear effect on sales and brand awareness was seen as a result of the new distribution network which was successively built up on the Australian market. The company established its own branch in Shanghai to cultivate the highly promising Chinese market. A stratum with high purchasing power has developed in this economically dynamic country. Although only small in relation to the overall population figures, this stratum is interesting for us as regards volume. This self-confident group of

The best recipe – SOLO kitchen sink and TALO fittings

Mix and match: CERAWOOD ELEMENTS; SOHO N.Y and CITY LIFE

consumers associates high demands for quality with increased brand esteem. An internationally outstanding team also represents Villeroy & Boch in Dubai, a region whose economic power and sustained building boom have led to increased activities and success of the Bathroom and Kitchen Business Segment.

DIVERSIFICATION STRATEGY LEADS TO MARKETING SUCCESS

The brand's strength and its market prestige directly benefits the fittings sector, where Villeroy & Boch has been cooperating with Dornbracht for more than three years. The superior range of Villeroy & Boch fittings blends perfectly with the harmoniously-designed bathroom collections. A distinct increase in sales was seen above all in the luxury segment in Russia.

Being an integral element of the "single-source bathroom" core business, bathroom furniture is equally indispensable, even if it does have a totally different status depending on the market. Newly launched at "ISH" 2003, success was enjoyed particularly by the "City Life" range. It is a real-wood range with innovative technical extras whose concealed illuminating glass shelves and edges make it possible to create a stylish bathroom light presentation.

An exceptional step was taken to round off the complete range by including a series of design radiators. These are manufactured under licence and were successfully launched onto the German-language markets in 2004. Thanks to this innovation the radiator is no longer regarded as a "foreign body", but instead fits perfectly into the harmonious bathroom setting. This series constitutes a unique concept in the international sanitary-ware industry and it is planned to develop it internationally in 2005.

At the trade fair "Focus Küche und Bad 2004" the Kitchen Segment experienced a positive response to its new, attractive colour concept for kitchen sinks, which was developed to coordinate with the trends in the kitchen furniture industry. Kitchen fittings were also offered here for the first time under the Villeroy & Boch brand.

MARKET ESTABLISHMENT OF NEW "BATHROOM ATELIER" FRANCHISE CONCEPT

In March 2004, Villeroy & Boch launched a new cooperative franchise concept, the "Villeroy & Boch Bathroom Atelier" in addition to its "Houses of Villeroy & Boch". The aim of this concept is to exploit the spending power existing particularly in the renovation sector, using an innovative additional service in an excellent showroom

NewWave: also on course for success in the bathroom

where professional advice is given. The franchisee is responsible for the complete coordination of all trades and provides the customer with individual bathroom planning, a guarantee for deadlines and costs and reliable brand quality, including fitting and after sales.
The good start made with four "Bathroom Ateliers" in Germany showed the market relevance of this concept. The customers are enthusiastic. A clear increase in accessory sales was secured as a result of the favourable location of the "Bathroom Ateliers", which are either in city centres or centres with high purchasing power.
It is planned to open further "Bathroom Ateliers" in Germany during 2005, with the aim of bringing the Villeroy & Boch brand even closer to end consumers with the help of trade partners.

OUTLOOK

A systematic conversion and expansion of the Eastern European production locations will bring about a reduction in the industrial cost structure. Villeroy & Boch will continue to build up its position on the growth markets of Great Britain, Italy and Switzerland and in the Scandinavian countries by increasing its activities, which will further promote the strategy of brand internationalisation. A decisive contribution will be made to this goal by actively tapping new, progressive markets, particularly those in China, the Middle East and Far East. Potential on the established markets will be more strongly exploited by launching the secondary brand, "Gustavsberg" and introducing innovative products.
In 2005, the Bathroom and Kitchen Division's latest innovations met with an extremely positive response at the "ISH" in Frankfurt, the most important international trade fair for this Division. On this occasion the branch's unique innovation, "PurAir toilet", caused a great sensation both among market partners and the press. It has provided a solution to a problem which has long been unmentionable, namely the generation of smells on the toilet, a solution which has created a new category of product comfort. "PurAir toilet" offers convenience, which is important for consumers, and will, therefore, give new impetus to the entire branch.
A new series has arisen from among the bathroom products. Its name is "Bellevue". This bathroom design, displaying sophistication and superior lifestyle, has been designed for a target group with high purchasing power. The new product introduction "Private Lounge" – a "Premium" edition with an unconventional double vanity unit and unusual colour concept – appeals just as much to modern individualists as to the architects and planners.

Luxury steam bath, massage centre and comfort shower all in one: the new Steam Tower™ cubicles

The Bathroom and Kitchen Business Segment expects an increase in sales and further improvement in result for the 2005 business year as a whole.

WELLNESS BUSINESS SEGMENT

VARIED FOREIGN-MARKET TRENDS

The sales trend in the Wellness Business Segment has remained roughly the same as in the previous year. When compared with the targets set, this trend is not satisfactory, but can be clearly attributed to certain causes. One of the major sales markets for products from Villeroy & Boch's Wellness Division is the Netherlands, which is looking back on an extremely poor economic year. The latest economic data shows, however, that the pit of the slump is behind us. Given a background of general economic recovery, the Villeroy & Boch brand should start to build up again in 2005.
The Wellness Business Segment also continues to concentrate strongly on European markets. Intensive market cultivation has been carried out, for example, in the Italian market where the Villeroy & Boch brand name has now successfully been given a strong profile: sales rose 3 %. Even on the French market, where bathing culture is rather more specific than in other European countries, Villeroy & Boch continues to enjoy new impetus.

PLEASING SALES TREND IN GERMANY

A positive trend was experienced on the German market, where the 3 % sales increase led to a considerable improvement in the Wellness Division's market share. Positioned in the upper price segment, the Villeroy & Boch lifestyle brand is particularly attractive for the quality-orientated consumer in Germany. The successful launch of the secondary brand has doubtlessly also made a contribution to this positive trend.

RESTRUCTURING BY SPECIALISING FACTORIES AND REORGANISING DISTRIBUTION

Initiated three years ago, the measures to restructure and specialise factories as a condition for cost-effective production and a diversified wellness range, were concluded in the year 2004. The highly-automated factories in Italy and Belgium concentrate on baths, shower trays and whirlpools in the low-level price segments, while the factories in the Netherlands and Czech Republic produce luxury baths, and high-quality whirlpools and steam

LuXXus with teak apron and head rest, colour Pure Grey

Aquagate™ in teak version

showers to order. Production in Sweden is concentrated solely on high-quality whirlpools.
This specialisation was coupled with a reorganisation of the distribution centres. The centres located in the Netherlands, Italy and the Czech Republic, form the link between the production plant and the market. They ensure the full service, which is so decisive for success, and the Wellness Division's closeness to customers in international territories.

OUTLOOK

According to company estimations, there will continue to be a trend away from conventional bathtubs and towards whirlpools. Great variation exists in the demands made on the product in the different sales markets. The Wellness Business Segment has prepared itself for these differences by developing product concepts which conform with market trends.
The internationally positive trend experienced by the new "Aveo" series has far exceeded expectations. Following the response from market partners, the newly-launched products at "ISH" 2005 in Frankfurt are also equally promising. A highly positive rating was enjoyed by the "NewWave" series, which consists of baths, whirlpools and wash-basins whose wavy design has been borrowed from the Tableware Division product of the same name.
A new, innovative whirlpool technique has been developed in response to market demands for greater emphasis on preserving good health in everyday life. The whirlpool not only has a massaging effect, but also unfolds the regenerating effect created by the essential oils in the steam on the water's surface.
The "ISH" exhibition hit was "Aquagate", a steam cubicle which displays an extremely minimal design, and flush-integrated functions. It was created by the international designer Matteo Thun. The aesthetic emphasis of this innovative wellness product is on the portal, which is available to the consumer in a choice of aluminium, teak or Italian limestone.
At the "ISH", the launch of the "Gustavsberg" brand as an extension to the premium brand "Villeroy & Boch" met with a high degree of acceptance from our trading partners. With this secondary brand, the Wellness Business Segment has an instrument now and in future, with which to exploit the important market potential of the medium to lower price segment.
Owing to improved underlying conditions and successful product launches, the Wellness Business Segment expects to achieve overall sales growth and a positive result trend for the year 2005.

The WHITE ENERGY wall concept with SENSUAL pattern, perfectly combined with the varied floor concept COMBINA

Innovative Villeroy & Boch tile design creates highlights in the area of interior design. Cleverly-thought-out concept series offer a broad spectrum of individual design alternatives for both the private and the project-business sector.

Tile Division

TILE DIVISION KEY DATA

		2004	2003
Sales	Euro mill.	221.8	229.1*
EBIT	Euro mill.	- 12.4	- 30.4
Return on sales	Percent	- 5.6	- 12.0
Capital expenditure	Euro mill.	8.9	8.1
Depreciation	Euro mill.	10.5	24.1
Employees (annual average)	Number	1,806	2,190

* Adjusted to exclude divestment

TILE DIVISION UNDER EXCEPTIONAL MARKET PRESSURE

In the year 2004, the Tile Division was exceptionally hit by the low level of overall construction activity caused by the strong decline in new building activity in the private building sector and especially in the project-business market. This trend also affected the majority of European sales markets of relevance to Villeroy & Boch. Comparable sales declined by a total of 3.2 % to Euro 221.8 million. It was therefore not possible to maintain the prior-year result. The major markets of Germany and France recorded a decline of 2.8 % and 0.7 % respectively. In France, however, the sale of the trade subsidiary Boch Frères to various trade partners had an additional effect on the sales decline.
In the medium term, though, the sale of this trade subsidiary will have a positive effect on the French market. The strategic conflict which existed between Villeroy & Boch and French dealers due to the competitive situation, has thus been resolved. The way is now clear for increased cooperation with market partners who can open up important, new sales opportunities for the Tile Division. There were also sales declines in several international markets, in particular during the first half of the year. Major regions such as Benelux, Great Britain and Scandinavia were already able, however, to record distinct improvements in the second half of the year. Business remains difficult in the major Eastern markets of Poland and Russia. This is not only because of the economic situation, but also due to the extreme competition and high level of customs duties.

REDUCTION IN PRODUCTION CAPACITY COMPLETED AS SCHEDULED

Besides the sale of Boch Frères, the most strategically important and far-reaching decision in the year under review was the sale of four foreign tile factories and also the simultaneous modernisation of the factories at Merzig / Mettlach and La Ferté Gaucher. By so doing, conditions have been created at production level, product, brand and innovation strategy level and the logistics level, to return the Tile Division to a profitable phase. The positive effects of this fundamental course regulation are expected already in 2005.

MODERNISATION OF MERZIG TILE FACTORY

Production in Merzig concentrates on tile series of the medium and semi luxury genres, which comply with the quality statement of the international Villeroy & Boch brand. Following the investments made in the Merzig tile factory, it is now one of the most modern in Europe. At the heart of production is the highly-efficient body preparation plant, which provides the basis for the new dry colouring technique. In addition to this there are new

SPECTRUM – a modern tile concept for walls and floors

An “e.motion Suite” at the “Ferienhotel Auerhahn” in Schluchsee

systems for printing technology which make a broad spectrum of functional and artistic applications and surface designs possible. In view of the complexity of the great variety of articles, the new plant has proved itself to be extremely adaptable. It also enables fast conversions to different articles.

The “Ceramic Development” department has also increased its number of staff and been further developed. This department is concerned with the development of new qualities of ceramic material, glazes, surface appearance etc. and their implementation in the area of design. In this way, the distinctive style of the Villeroy & Boch brand is to be additionally emphasised on tiles, thus making it more easily recognisable. With the help of innovative products, such as the “Light Tile”, which was launched at the “BAU” trade fair, Villeroy & Boch secures its market partners a decisive competitive lead.

The thoroughly modernised Logistics Centre in Merzig has been developed into the central warehouse from which tiles are supplied throughout the world. This new Logistics Centre makes it possible to optimise product availability and achieve shorter periods of delivery.

DECLARATION OF BELIEF IN GERMANY AS AN ECONOMIC LOCATION

By extending its Merzig factory, Villeroy & Boch has remained totally consistent with its brand strategy and declared its belief in Germany as an economic location. This does not, however, only mean the safeguarding of jobs. It also means an extensive product quality, where – in contrast to many cut-price imports – maximum consideration is given to environmental aspects. This applies to the ceramic-material composition, to waste water treatment, recycling, emission protection and the entire field of process-integrated environmental protection. These measures to improve quality of life, both for the consumer and all persons involved in the manufacturing process, exert their influence on every product from Villeroy & Boch.

High value and a high standard of quality will continue to be decisive factors for the tile concepts, which are always shaped by the integral approach of the “House of Villeroy & Boch”. Together with market partners, Villeroy & Boch is employing this strategy to help prevent the trivialisation of the tile product, which is currently becoming evident in margin-destructive price wars in many markets throughout the world. Additional “Houses of Villeroy & Boch” were opened in the year

CALCARA – a limestone structure in the established Vilbostone fine stoneware quality, for a timelessly modern ambience

2004 thus continuing development of the distribution network.
Demand for full-range bathrooms is growing, not only in the private sector, but also that of project business. Consequently, the full-range bathroom solution "e.motion" has been designed for this area of stylish hotels, holiday parks and homes for the elderly. It can be installed totally individually in a short time, at low cost, and in complete accordance with the architect's planning ideas. Villeroy & Boch plays a decisive, trendsetting role with these prefabricated bathroom solutions. One of the most spectacular pilot projects of 2004 was the "Ferienhotel Auerhahn" with its luxurious wellness offer – the "e.motion Suite".

POSITIVE RESPONSE TO NEW PRODUCT INTRODUCTIONS

At "Cersaie" in Bologna and "BAU" in Munich – the two principal tile-industry exhibitions – outstanding acceptance was shown for the new tile concepts and product innovations, and also the relaunch of "Pro Architectura", one of the architectural sector's most important series. Since 1982 it has been almost impossible to imagine the area of stylish, distinctive architectural concepts without this modular tile system, which is consistently tailored to the specific requirements of architects and planners. It has now been extended to include new tile colours in keeping with interior-design trends and also further functional elements.
Market partners responded particularly enthusiastically to the "Light Tile" series, in which functional light-emitting diodes (LEDs) are integrated into high-quality tiles. These can be used as exclusive design elements or, seen from a functional aspect, as a guidance system to light the way. A very good rating was also received by the new, fine stoneware series, which shows particularly authentic adaptations of various natural stones.

OUTLOOK

A strong basis for a lasting improvement in result is provided not only by the effects arising from the named restructuring measures, but also by the innovative and attractively-priced tile assortment which concentrates completely on the needs and marketing aspects of partners from the retail and manual sectors. The portfolio strategy plans to further step up product development both in the mainstream and high-value design segment. The reorganisation and specialisation of tile sales, both in Germany and on international markets, will have a stimulating effect on sales figures.

2005 campaign motif

This picture is the motif of one of the largest advertising and communication campaigns ever launched by Villeroy & Boch in the media and specialised retailing sector. Implemented consistently throughout Europe for the first time ever, this campaign will additionally strengthen the already outstanding interest in the four asymmetrical tableware designs and support their sale.

Tableware Division

TABLEWARE DIVISION KEY DATA

		2004	2003
Sales	*Euro mill.*	317.1	285.7
EBIT	*Euro mill.*	20.2	1.4
Return on sales	*Percent*	6.4	0.5
Capital expenditure	*Euro mill.*	15.8	22.5
Depreciation	*Euro mill.*	16.0	14.2
Employees (annual average)	*Number*	3,249	3,228

The Tableware Division can look back on a generally successful year in 2004. An 11 % sales increase (+/- 0 % for the German porcelain industry as a whole) confirms the appropriateness of a sales and marketing concept and also a brand strategy based on target-group requirements. Our market relevance has been strengthened by conversions to further automate production and a globally unique technique developed by Villeroy & Boch for the competitively superior manufacture of asymmetrical shapes. The Division was even able to achieve a 1.3 % sales increase on the German market, which continues to suffer from a dampened demand for high-quality consumer durables. Foreign sales rose 15.2 % with the effect that they now account for 72.5 % of total sales.

SALES AND MARKETING CAMPAIGN

Villeroy & Boch is implementing a sales and marketing campaign to meet the challenges of the situation in Germany, which is characterised by a drastic decline in the number of specialised retail stores. The company has been able to further establish itself in the specialised retail sector and in departmental and furniture stores under the umbrella of the "House of Villeroy & Boch" strategy. The directly controlled retail sector is of particular importance, as it concentrates on the Villeroy & Boch brand and therefore best exploits its potential. Four of the 20 new "House of Villeroy & Boch" shops were opened in Germany.
By developing the company's own retail sector and a consistent product and innovation strategy, Villeroy & Boch has successfully gained market share. According to an analysis carried out among brand suppliers by the Consumer Research Society (GfK) in Nuremberg, market share in Germany increased by 1 % to almost 32 %. Five of the GfK's top patterns come from Villeroy & Boch.

POINT OF SALE OPTIMISATION IN FRANCE

An above-average trend was experienced in the French market (13 % sales rise), where the number of "shops" in retail and departmental stores increased, and the expansion of franchise stores was stepped up. A positive influence was exerted on product sales and brand perception by the opening of the prestigious showroom on the Boulevard du Montparnasse in Paris. In addition, a new outlet centre was developed at Disneyland in Paris, where high sales expectations were even exceeded. Point of sale optimisation was also one of the main activities in France.

Oven-proof dishes with “ceramicplus”

The new “Party” concept believes in unconventional table habits

INCREASED COMPETITIVENESS DUE TO RESTRUCTURING

A total of Euro 50 mill. was invested in the three tableware locations, Mettlach/Merzig, Torgau and Luxembourg, in the last five years in view of the lifting of import restrictions for China and rising imports from low-wage countries. The high level of productivity and adaptability at the three Western European production locations, the preservation of a constantly high standard of quality and the proximity to customers will guarantee the Tableware Division’s competitiveness and earning power in coming years.

POSITIVE TREND IN THE HOTEL BUSINESS SEGMENT

Owing to adjustments in production capacity, the hotel segment has also profited from the improved supply capability. The Tableware Division’s Hotel Business Segment recorded a sales increase in double figures and was even able to differentiate itself from the negative trend which still prevails in the strongly contested German market.

This Business Segment, which cultivates the markets with its own team of specialists, has its own structures and supplies its own collections designed specifically for hotels, has acquired prestigious new projects throughout the world. These include the Hilton Arc de Triomphe in Paris, the Kempinski Conference Palace AbuDhabi, the Hotel Colosseo Europa-Park Rust in Germany and Le Meridien Cyberport in Hong Kong.

INCREASE IN INTERNATIONAL SALES

Villeroy & Boch has taken advantage of the opportunities offered by the globalised market with increasing success. It has done so using its well-positioned marketing companies, professional communication and high degree of customer orientation. The international sale of tableware products is to be increased from 72 % to 75 % in the coming year.

In addition to a series of European markets, such as the Benelux countries, (+13 %), Italy (+6 %), Great Britain (+9 %) and Spain (+195 %), Australia (5 %) and the USA have also gained importance for Villeroy & Boch, though the effect of the dollar here had an inhibiting and negative effect on sales. The majority of new EU countries recorded growth of a previously unexpected magnitude. It is the Division’s medium-term objective to further exploit the highly rated potential in these countries using business establishments and branches and above

"NewWave Premium Gold" with matching ELLA cutlery

all, our own stores. Villeroy & Boch is active in this respect in Hungary and the Czech Republic and an excellent business trend is also recorded on the Polish market, where the company set up one of its own subsidiaries in 2004.

Although it continues to require costly cultivation, the Japanese market showed a good sales trend. The aim here is to secure clear growth, in order to fully exploit the potential of this country with its high degree of brand-orientated consumption behaviour.

In China Villeroy & Boch is concentrating its efforts on establishing the "House of Villeroy & Boch" in large, prospering centres with considerable purchasing power. It is, above all, necessary to launch the brand onto the Chinese mega market, as this country's new and extremely wealthy upper class is eager to buy and is attracted to western lifestyles and designs.

In markets as important as Russia and the Arab States, where Villeroy & Boch is represented by sales agencies, the purchase decision is influenced equally by the attributes of brand and luxury. In view of the tastes in the individual countries – which sometimes vary considerably – it has proved a great advantage to have a stylistically diversified range of products, which is aligned with particular lifestyles.

OUTLOOK

Villeroy & Boch's product and marketing strategy was confirmed at the world's major trade fairs for consumer goods. A particularly positive response was achieved not only by the company's new, highly-fashionable designs, but above all by its functional and innovative products. Strategic planning in 2005 will concentrate mainly on consistently stepping up our own retail business in places where traditional trading is hardly represented, on tapping new markets in the hotel sector and on an even greater involvement in the USA.

In 2005 and 2006, high priority will be given to developing the "Glass and Cutlery" Business Segment and extending the asymmetrical product range. When restructuring measures have been concluded and factories modernised, the Tableware Division plans to achieve profitable growth. Having returned to a high degree of earning power in 2004, a good result is also expected in 2005. The increasing number of imports from the East Asian region are a great challenge for porcelain manufacturers in the West. Owing to the strength of its brand and sales, its innovative ability and a competitively superior technology Villeroy & Boch regards itself fit to face this challenge.

Consolidated Financial Statements of Villeroy & Boch AG

Assets

Euro '000	*Notes*	*31.12.2004*	*31.12.2003*
FIXED ASSETS	*1*		
Goodwill		35,343	40,773
Other intangible assets		6,350	6,137
Property, plant and equipment		259,392	292,364
Financial assets		10,602	10,899
		311,687	**350,173**
CURRENT ASSETS			
Inventories	*2*	223,666	236,545
Accounts receivable from trading	*3*	113,937	123,796
Remaining accounts receivable and other assets	*3*	39,033	40,551
Liquid assets	*4*	51,334	37,028
		427,970	**437,920**
DEFERRED TAXES	*5*	**42,895**	**51,394**
PREPAID EXPENSES	*6*	**2,574**	**3,224**
		785,126	**842,711**

Liabilities and Shareholders' Equity

Euro '000	Notes	31.12.2004	31.12.2003
SHAREHOLDERS' EQUITY	7		
Capital subscribed		71,909	71,909
Capital surplus		193,587	193,587
Earnings reserves		60,638	92,967
Consolidated result		15,995	-26,064
Shareholders' equity before minority interests		**342,129**	**332,399**
Minority interests		**3,458**	**2,613**
Sharholders' equity incl. minority interests		**345,587**	**335,012**
PROVISIONS AND ACCRUED LIABILITIES			
Provisions for pensions and similar obligations	8	191,034	194,177
Other provisions and accrued liabilities	9	62,229	61,237
		253,263	**255,414**
LIABILITIES	10		
Financial debts		4,810	38,917
Trade accounts payable		68,355	83,289
Other liabilities		96,067	101,378
		169,232	**223,584**
DEFERRED TAXES	5	**13,926**	**26,143**
DEFERRED CHARGES	11	**3,118**	**2,558**
		785,126	**842,711**

Villeroy & Boch Consolidated Profit and Loss Statement

Euro'000	*Notes*	*2004*	*2003*
SALES	*12*	**959,881**	**948,573**
Costs of goods sold	*13*	- 581,880	- 596,725
GROSS PROFIT		**378,001**	**351,848**
Selling expenses, marketing and development costs	*14*	- 286,204	- 285,759
General and administrative expenses	*15*	- 53,380	- 56,458
Amortisation of goodwill	*16*	- 3,555	- 17,453
Other operating expense/income	*17*	- 1,394	- 10,048
Result from equity investment	*18*	295	239
OPERATING RESULT (EBIT)		**33,763**	**- 17,631**
Financial results	*19*	- 10,203	- 13,137
RESULT BEFORE TAXES		**23,560**	**- 30,768**
Taxes on income	*20*	- 6,878	5,372
NET INCOME/NET LOSS (+/-)		**16,682**	**- 25,396**
Minority interests	*21*	- 687	- 668
CONSOLIDATED RESULT		**15,995**	**- 26,064**
Net earnings per ordinary share in Euro	*22*	0.58	- 0.99
Net earnings per preference share in Euro	*22*	0.63	- 0.94

Euro ’000	*2004*	*2003*	*Change*
Results for the year	16,682	- 25,396	42,078
Depreciation of fixed assets	52,653	70,613	- 17,960
Write-ups on security investments	- 288	- 1,368	1,080
Change in long-term provisions	- 12,260	- 10,904	- 1,356
Result from disposal of fixed assets	- 459	- 787	328
Change in inventories, accounts receivable and other assets	2,198	7,032	- 4,834
Change in liabilities, short-term provisions and other liabilities	7,654	9,494	- 1,840
Taxes paid in business year	- 6,836	- 4,344	- 2,492
Interest paid/collected in business year	- 764	- 1,157	393
Other income/expense without effect on liquid assets	4,607	9,151	- 4,544
CASH FLOW FROM OPERATING ACTIVITIES	**63,187**	**52,334**	**10,853**
Investment in intangible and tangible fixed assets	- 51,859	- 59,444	7,585
Deposits from disposals of fixed assets	20,650	3,700	16,950
Deposits from change in consolidated companies	28,095	–	28,095
Investment in financial assets and payments for the acquisition of consolidated companies	- 5,868	- 2,703	- 3,165
CASH FLOW FROM INVESTING ACTIVITIES	**- 8,982**	**- 58,447**	**49,465**
Change in financial liability	- 28,824	4,148	- 32,972
Deposits from sale of/payment for the acquisition of treasury stocks	- 3,724	32	- 3,756
Withholding tax paid	- 93	- 525	432
Dividend payments	- 7,258	- 14,208	6,950
CASH FLOW FROM FINANCING	**- 39,899**	**- 10,553**	**- 29,346**
CHANGE IN BALANCE OF FUNDS	**14,306**	**- 16,666**	**30,972**
Balance of funds as of 01.01.	37,028	53,694	- 16,666
Change in balance of funds	14,306	-16,666	30,972
BALANCE OF FUNDS AS OF 31.12.	**51,334**	**37,028**	**14,306**

The balance of funds includes liquid assets.

Statement of Shareholders' Equity

Euro '000	*Capital subscribed*	*Capital surplus*	*Earnings reserve*	*Consolidated result*	*Shareholders' equity before minority interests*	*Minority interests*	*Shareholders' equity incl. minority interests*
As per 01.01.2003	**71,909**	**193,587**	**97,890**	**10,031**	**373,417**	**2,750**	**376,167**
Dividend				- 14,208	- 14,208	- 42	- 14,250
Reclassification of prior-year consolidated result			- 4,177	4,177	0		0
Consolidated result				- 26,064	- 26,064	668	- 25,396
Subsequent valuation IAS 39			400		400		400
Currency change			- 745		- 745	- 75	- 820
Acquisition of additional shares					0	- 695	- 695
Other changes in shareholders' equity			- 401		- 401	7	- 394
As per 31.12.2003	**71,909**	**193,587**	**92,967**	**- 26,064**	**332,399**	**2,613**	**335,012**
As per 01.01.2004	**71,909**	**193,587**	**92,967**	**- 26,064**	**332,399**	**2,613**	**335,012**
Dividend				- 7,258	- 7,258	- 41	- 7,299
Reclassification of prior-year consolidated result			- 33,322	33,322	0		0
Consolidated result				15,995	15,995	687	16,682
Subsequent valuation IAS 39			752		752		752
Currency change			4,128		4,128	199	4,327
Acquisition of treasury stock			- 3,724		- 3,724		- 3,724
Other changes in shareholders' equity			- 163		- 163		- 163
As per 31.12.2004	**71,909**	**193,587**	**60,638**	**15,995**	**342,129**	**3,458**	**345,587**

GENERAL

The consolidated financial statements of Villeroy & Boch AG, Mettlach, have been prepared in accordance with the valid regulations of the International Accounting Standards Board (IASB), London, applying the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). In so doing, all IFRS accounting principles have been considered whose application is compulsory for the business year commencing 01.01.2004. Furthermore, IAS 27.33, in the version dated December 2003, was applied prematurely (reporting of minority interests within shareholders' equity) and the prior-year adjusted accordingly.
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].
The relief accorded under § 264 subsection 3 HGB as regards auditing and disclosure has been made use of for Villeroy & Boch Creation GmbH, Mettlach.

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 11, long-term production orders are balanced according to the percentage of completion method.
- 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.

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 51 (previous business year: 56) foreign subsidiaries, in which – directly or indirectly – majority voting rights are held.
The changes are due to the completed sale of 5 companies.

- Ceramica Ligure S.r.l., Ponzano Magra	sold 01.07.2004
- Socatra S.A., Trans en Provence	sold 01.09.2004
- Boch Frères S.A.S., Pantin	sold 02.11.2004
- Comar S.A., Lambersart	sold 02.11.2004
- SCI GH, Longeau	sold 02.11.2004

At the time of the deconsolidation measures, the sale of the above companies was to effect a decrease in the Villeroy & Boch Group assets and debts resulting in the values shown in the following table:

Euro ’000	*2004*	*2003*
Fixed assets	22,371	25,158
Current assets	31,265	31,566
Financial debts	4,178	5,478
Other debts	18,571	18,741

The Profit and Loss Statements of the deconsolidated companies were included in the consolidation in the business year 2004 up to the respective date of sale. Owing to the results of deconsolidation, the earnings position of the Group improved by a total of Euro 10.534 million. These results have almost been compensated by expenses incurred in connection with the disinvestment in the Tile Division. As the sale transactions of the companies were conducted over the course of the year, the values recorded are only comparable to a limited extent. Due to the deconsolidation measures, the liquid assets of the Group have increased compared to the previous business year by approximately Euro 28 million.
All the subsidiaries are included in the Villeroy & Boch AG Consolidated Financial Statements.
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.

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.
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. The 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 monthly rates. Differences arising as a result of translating the financial statements of foreign subsidiary companies are treated as not affecting operating result and reported 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 existing 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:

Euro '000	*Intangible assets*	*Property, plant and equipment*	*Financial assets*	*Total*
Accumulated cost values on 01.01.2004	**88,920**	**975,743**	**13,140**	**1,077,803**
Currency adjustment	13	2,805	0	2,818
Adjustment of financial assets to market values, without affecting operating result	0	0	- 5	- 5
Changes in consolidated companies	- 13,723	- 54,704	- 49	- 68,476
Additions	2,108	49,751	5,868	57,727
Disposals	- 1,960	- 72,568	- 7,966	- 82,494
Transfers	0	0	- 33	- 33
Accumulated cost values on 31.12.2004	**75,358**	**901,027**	**10,955**	**987,340**
Accumulated depreciation on 01.01.2004	**42,010**	**683,379**	**2,241**	**727,630**
Currency adjustment	37	1,313	0	1,350
Changes in consolidated companies	- 12,415	- 33,690	0	- 46,105
Scheduled depreciation	5,129	46,772	31	51,932
Non-scheduled depreciation	0	0	721	721
Disposals	- 1,096	- 56,139	- 2,352	- 59,587
Write-up	0	0	- 288	- 288
Transfer	0	0	0	0
Accumulated depreciation on 31.12.2004	**33,665**	**641,635**	**353**	**675,653**
Net book value on 31.12.2004	**41,693**	**259,392**	**10,602**	**311,687**
Net book value on 31.12.2003	46,910	292,364	10,899	350,173

1.1 Intangible Assets

Euro '000	*Franchises, patents, licences and similar rights*	*Goodwill*	*Advances paid on intangible assets*	*Total*
Accumulated cost values on 01.01.2004	**17,816**	**71,104**	**0**	**88,920**
Currency adjustment	13	0	0	13
Changes in consolidated companies	- 937	- 12,786	0	- 13,723
Additions	2,018	0	90	2,108
Disposals	- 1,367	- 593	0	- 1,960
Transfers	0	0	0	0
Accumulated cost values on 31.12.2004	**17,543**	**57,725**	**90**	**75,358**
Accumulated depreciation on 01.01.2004	**11,679**	**30,331**	**0**	**42,010**
Currency adjustment	37	0	0	37
Changes in consolidated companies	- 911	- 11,504	0	- 12,415
Scheduled amortisation	1,574	3,555	0	5,129
Non-scheduled amortisation	0	0	0	0
Disposals	- 1,096	0	0	- 1,096
Write-ups	0	0	0	0
Transfers	0	0	0	0
Accumulated depreciation on 31.12.2004	**11,283**	**22,382**	**0**	**33,665**
Net book value on 31.12.2004	**6,260**	**35,343**	**90**	**41,693**
Net book value on 31.12.2003	6,137	40,773	0	46,910

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 six 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.

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 restraints exist on ownership or disposal of intangible assets.

Intangible assets were not pledged as security for liabilities.

Provided the requirements stipulated by IAS 38 for capitalisation are fulfilled, values of internally produced intangible assets are included under assets. This concerns exclusively internally produced software. In addition to the unit costs, the cost of production includes reasonable charges for overhead expenses. The cost of financing is not capitalised. Depreciation is calculated as scheduled via the fixed period of useful life, which corresponds to that of equivalent purchased software.

1.2 Property, plant and equipment

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

Euro '000	*Land and buildings*	*Technical equipment, plant and machinery*	*Other equipment, fixtures, fittings and equipment*	*Advance payments and plant and machinery in process of construction*	*Total*
Accumulated cost values on 01.01.2004	**338,268**	**466,712**	**148,593**	**22,170**	**975,743**
Currency adjustment	1,170	2,179	- 634	90	2,805
Changes in consolidated companies	- 18,324	- 29,409	- 6,861	- 110	- 54,704
Additions	2,581	15,874	10,578	20,718	49,751
Disposals	- 13,496	- 44,379	- 14,257	- 436	- 72,568
Transfers	5,710	22,060	- 6,683	- 21,087	0
Accumulated cost values on 31.12.2004	**315,909**	**433,037**	**130,736**	**21,345**	**901,027**
Accumulated depreciation on 01.01.2004	**208,746**	**356,896**	**117,737**	**0**	**683,379**
Currency adjustment	303	1,629	- 619	0	1,313
Changes in consolidated companies	- 10,647	- 17,434	- 5,609	0	- 33,690
Scheduled depreciation	7,699	27,568	11,505	0	46,772
Disposals	- 8,451	- 35,277	- 12,411	0	- 56,139
Write-ups	0	0	0	0	0
Transfers	901	4,078	- 4,979	0	0
Accumulated depreciation on 31.12.2004	**198,551**	**337,460**	**105,624**	**0**	**641,635**
Net book value on 31.12.2004	**117,358**	**95,577**	**25,112**	**21,345**	**259,392**
Net book value on 31.12.2003	129,522	109,816	30,856	22,170	292,364

Property, plant and equipment are reported in the balance sheet at original cost or cost of production, minus scheduled depreciation. Costs of financing are not capitalised as an integral part of original cost or cost of production. Subsequent original costs are capitalised.

There are no restraints on rights of disposal for property, plant and equipment. The book value of tangible fixed assets pledged as security for liabilities on the balance sheet date amounted to Euro 0.0 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. In the year under review, Euro 3.945 mill. from the public grants received was deducted from the original costs as an asset, whilst Euro 1.465 mill. is included as a liability in the item for deferred charges and prepaid expenses. All requirements with respect to the awarding of these grants have been fulfilled, and there is currently no risk of failure in performance.

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.

Leasing
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. Capitalisation takes place at their fair value or the lower cash value of the leasing instalments. Depreciation is carried out on the basis of the appropriate useful life or, if shorter, the term of the leasing agreement. The appropriate financial obligations arising from the future leasing instalments are set up as a liability.
The total value of capitalised leased assets can be subdivided as follows:

	31.12.2004	*31.12.2003*
Land	–	3,967
Buildings	–	1,554
Machinery	256	309
Total	**256**	**5,830**

The reduction compared to the previous year is a result of the sale of the subsidiaries from the Tile Division.
In the Tile Business Segment, the Group rents or leases from finance leasing agreements a variety of property and facilities for production and administration, which left the group in the course of the business year 2004 due to the disinvestment measures. For this reason, the future leasing liabilities from finance leasing have dropped to the amount of Euro 0.035 mill. (previous business year: Euro 5.128 mill.). The net book values total Euro 0.256 mill. (previous business year: Euro 5.830 mill.).
In the business year 2004, the costs related to rent and leasing totalled Euro 31.523 mill. (previous business year: Euro 29.679 mill.). The Group rents or leases salesrooms, warehouses, office premises and other facilities or tangible assets. The contracts are based on a rental or leasing term of between 6 months and 32 years.

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

Euro ’000	*Up to 1 year*	*1 to 5 years*	*More than 5 years*
Finance Leasing			
Leasing payments to be paid in future	24	11	–
Discounting	- 1	0	–
Cash value	23	- 11	–
Operating Leasing			
Leasing payments to be paid in future	19,771	27,912	4,880

Investment Properties

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 mill. (previous business year: Euro 0.6 mill.), which accords with historical cost, as opposed to a current market value of Euro 7.7 mill. (previous business year: Euro 8.1 mill.). The reduction in current market value is based on the reincorporation of part of a plot of land into operational use. The current market values shown have been determined by using official maps of estimated land values (base year: 2001) and taking account of surcharges and deductions relevant for the property in question. Committees of experts at the competent cadastral office regularly calculate the values shown in the maps for estimated land values on the basis of prices obtained from land sales in the respective area. Expert opinions drawn up by third parties are not obtained for reasons of cost. Rent in the sum of Euro 0.22 mill. (previous business year: Euro 0.219 mill.) 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:

Euro '000	Shares in: affiliated companies	Shares in: associated under-takings	other invest-ments	Security invest-ments	Loans	Total
Accumulated cost values on 01.01.2004	**0**	**390**	**33**	**10,483**	**2,234**	**13,140**
Currency adjustment	0	0	0	0	0	0
Adjustment of financial assets to market values, without affecting operating result	0	0	0	- 5	0	- 5
Changes in consolidated companies	0	0	- 3	0	- 46	- 49
Additions	0	0	0	5,686	182	5,868
Disposals	0	0	0	- 7,645	- 321	- 7,966
Transfers	0	0	0	0	- 33	- 33
Accumulated cost values on 31.12.2004	**0**	**390**	**30**	**8,519**	**2,016**	**10,955**
Accumulated depreciation on 01.01.2004	**0**	**0**	**0**	**2,092**	**149**	**2,241**
Currency adjustment	0	0	0	0	0	0
Changes in consolidated companies	0	0	0	0	0	0
Scheduled depreciation	0	0	0	0	31	31
Non-scheduled depreciation	0	0	0	721	0	721
Disposals	0	0	0	- 2,237	- 115	- 2,352
Write-ups	0	0	0	- 288	0	- 288
Transfers	0	0	0	0	0	0
Accumulated depreciation on 31.12.2004	**0**	**0**	**0**	**288**	**65**	**353**
Net book value on 31.12.2004	**0**	**390**	**30**	**8,231**	**1,951**	**10,602**
Net book value on 31.12.2003	0	390	33	8,391	2,085	10,899

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 affecting net income 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 0.721 mill. (previous business year: Euro 0.609 mill.) 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 0.288 mill. (previous business year: Euro 1.368 mill.), with effect on result. In addition, market value changes amounting to Euro -0.005 mill. (previous business year: Euro 0.133 mill.), are accounted for in earnings reserves without effect on result.

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

Euro '000	*31.12.2004*	*31.12.2003*
Raw materials and supplies	34,989	38,086
Work-in-process	34,180	30,762
Finished goods	154,455	167,538
Advance payments	42	159
	223,666	**236,545**

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. If necessary, inventories existing on the balance sheet date are reported at the lower net value on sale.

Inventories are divided between the individual Divisions as follows:

Euro '000	*31.12.2004*	*31.12.2003*
Tiles	56,348	78,162
Bathroom and Wellness	85,068	85,088
Tableware	82,250	73,295
	223,666	**236,545**

There are no restraints on ownership or disposal. None of the inventories was pledged as security for obligations.

Production orders

Due to the existing structure of business activities in the Project-Business Segment the production orders outstanding on the balance sheet date are reported on the balance sheet in accordance with IAS 11. In this case, each individual production order is valuated separately using the percentage of completion method. This means that sales, corresponding costs and consequently the proportionate result are shown for orders which have not been completed by the balance sheet date, taking the stage of production of the respective orders into consideration. External companies with the necessary expertise are appointed to determine the stage of production. Anticipated loss of orders is covered by write-downs or provisions and accounted for in the order result. This did not apply in the business year 2004.

The current position of outstanding orders is as follows:

	Euro '000
Details on outstanding production orders	
Recorded profit from orders in the business year/total	2,053
Accrued costs up until balance sheet date	- 1,687
Recorded profit/loss	366
Advances received	268

The volume of production orders with a credit balance amounts to Euro 0.481 million. There are no orders with a debit balance. Partial accounting is not applied to the processing of outstanding production orders.

3. Accounts receivable and other assets

Euro '000	*31.12.2004*	*of which due after more than 1 year*	*31.12.2003*	*of which due after more than 1 year*
Accounts receivable from trading	**113,937**	**85**	**123,796**	**–**
Remaining accounts				
accounts due from associated				
undertakings and other Group companies	732	–	654	–
Other assets:	38,301	235	39,897	4,549
accounts due from tax refunds	17,012	–	21,183	1,315
- thereof income tax	(10,048)	(–)	(10,643)	(–)
- thereof other taxes	(6,964)	(–)	(10,540)	(1,315)
Remaining other assets	21,289	235	18,714	3,234
	39,033	**235**	**40,551**	**4,549**
	152,970	**320**	**164,347**	**4,549**

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 2.367 mill. (previous business year: Euro 5.403 mill.).

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 sale of fixed assets, a receivable from the sale of the former associated company Burton Apta Kft., receivables from the market valuation of the derivative financial instruments, rent deposits, bonus debts and creditors with debit balances, receivables due from the workforce and also a multitude of smaller individual items.

4. Liquid Assets

Euro '000	*31.12.2004*	*31.12.2003*
Cheques and cash on hand	603	748
Cash in banks	50,731	36,280
	51,334	**37,028**

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 14.561 mill. (previous business year: Euro 5.284 mill.), for which there are offsetting terms and the intention of net settlement (IAS 32.70).

5. 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*	
Euro '000	*31.12.2004*	*31.12.2003*	*31.12.2004*	*31.12.2003*
Intangible fixed assets	92	138	291	157
Property, plant and equipment	4,247	3,601	7,996	12,419
Financial assets	452	409	- 37	59
Inventories	1,116	11,778	- 6,234	631
Remaining accounts receivable, other assets, short-term security investments	- 19	917	645	1,280
Special tax items	0	0	11,117	11,485
Accruals/provisions	20,470	20,899	90	107
Liabilities	704	1,577	58	5
Accumulated deficits	15,833	12,075	0	0
Balance sheet items	**42,895**	**51,394**	**13,926**	**26,143**

Deferred taxes in the sum of Euro 0.82 mill. (previous business year: Euro -0.941 mill.) have been absorbed in shareholders' equity without affecting operating result.
While the accumulated domestic deficits can be carried forward without limitation with regard to minimum taxation, time limitations specific to the respective country often apply to accumulated foreign deficits. The latter have been appropriately taken into account in the valuation.
Potential tax savings resulting from as yet unused tax losses totalling Euro 10.899 mill. (previous business year: Euro 15.217 mill.) have not been capitalised.
For further explanatory comments, see Point 20 Taxes on Income and Earnings.

6. Prepaid Expenses
Prepaid expenses include the usual deferrals.

7. 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
- effects of consolidation measures
- minority interests in capital

7.1. 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)

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

7.3. Earnings Reserves
Other Group earnings reserves, in the sum of Euro 60.638 mill. (previous business year: Euro 92.967 mill.), include those of Villeroy & Boch AG and the proportional profits of the consolidated subsidiaries – produced since belonging to the Group. In addition, this item includes consolidation measures, currency influences and also treasury stock held by Villeroy & Boch AG in the sum of Euro 14.999 mill. (previous business year: Euro 11.275 mill.). Treasury stock totalling Euro 3.724 mill. was acquired during the business year (previous business year: Euro 2.034 mill.). No stock purchase warrants were sold to executive staff in the year under review (previous business year: Euro 0.032 mill.).

7.4. Minority Interests
Third-party shares in the shareholders' equity of consolidated subsidiary companies are shown under the item "Minority Interests". On the balance sheet date the latter total Euro 3.458 mill. (previous business year: Euro 2.613 mill.) and originate essentially from Wellness Division companies. The increase compared to the previous year is largely due to the capital equity increase arising from the positive result obtained by Vagnerplast spol. S.r.o., Unhost.
Minority interests are calculated on the basis of the shareholders' equity reported in the balance sheets of the companies concerned on the balance sheet date.

7.5. Stock Option Plan
In accordance with a resolution passed at the General Meeting of Shareholders on June 25th, 1999, a total of 1,058,023 (3.77 % of share capital) no-par individual preference-share certificates were acquired in the business year 2000. They represent a proportionate share capital of Euro 2,708,539.
In 2003, a total of 282,591 (1.00 % of share capital; Euro 723,433 prorata share capital) no-par-value individual preference-share certificates were acquired following a resolution passed at the General Meeting of Shareholders on May 23rd, 2003. In the business year 2004 a further 425,380 (1.51 % of share capital, Euro 1,088,973 prorata share capital) no-par individual preference-share certificates arising from this were acquired.
A total of 82,965 shares have been sold to executive staff of Villeroy & Boch AG and its subsidiary companies during the last four years, within the scope of a stock option programme. The following table shows the tranches issued in the respective years.

	Proportion of share capital			Strike price
Business year	*in shares*	*in %*	*in Euro*	*in Euro*
2000	35,548	0.13	91,003	10.25
2001	25,755	0.10	65,933	12.23
2002	16,810	0.06	43,034	10.58
2003	4,852	0.02	12,421	7.40
2004	–	–	–	–

Management Board members had to acquire one share from the Villeroy & Boch portfolio for every nine warrants, and other executive staff had to acquire one share for every eight warrants. The shares are to be kept for the entire term of the option. Share options cannot be exercised until at least three years after their issue and no later than three months after the fifth stock exchange trading day following the 2006 General Meeting of Shareholders. 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 and 2004, the stock options from the second tranche of 2001, as with the initial tranche of the previous year, could not be exercised. In accordance with the resolution passed at the General Meeting of Shareholders the issue of new stock purchase warrants was to be effected by 31.12.2003. In the previous year revenue from the sale of shares totalled Euro 0.036 million. The total portfolio of stock purchase warrants at the end of the year amounted to 216,939. In the business year under review a total of 184,115 of the stock purchase warrants issued expired due to failure to exercise the option.
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 9.26) 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 1,683,029 shares on the balance-sheet date 31.12.2004. This is the equivalent of a prorata share capital of Euro 4,308,555.

8. 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 5.10 % and a wage and salary trend of 2.0 %, 2.5 % and 3.5 %. In the case of employee pension-scheme settlements, calculations are carried out on the basis of a retirement pension trend of 1.5 % and 2.0 % and the employee turnover specific to the company. Valuation is carried out on the basis of mortality tables which are specific to the country. The actuarial profits/losses are entered using the 10 % corridor rule. An expected return of 5.7 % was assumed when determining the plan assets.

Provisions for pensions and similar obligations are made up as follows on the balance sheet date:

Euro '000	*31.12.2004*	*31.12.2003*
Provisions for pensions	176,551	178,829
Provisions for similar obligations	14,483	15,348
As per 31.12.	**191,034**	**194,177**

The provisions for similar obligations take into account future expenses for anniversaries and for part-time employment before retirement age.
In the business year under review, pension expenses were made up as follows:

Euro '000	*31.12.2004*	*31.12.2003*
Expense for period of service	2,902	2,622
Return on plan assets	- 696	- 668
Interest expense	10,374	10,864
Sum of entered amounts affecting operating result	**12,580**	**12,818**

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:

Euro '000	*31.12.2004*	*31.12.2003*
Present value of pension rights		
as per 01.01.	190,140	194,879
Change in consolidated companies	- 642	–
Currency fluctuations	7	4
Adaption of contract – pension commitment	–	- 6,259
Interest expense	10,374	10,864
Expense for period of service	2,902	2,622
Annuity payments	- 11,909	- 11,812
Actuarial losses/profits	- 1,026	- 158
as per 31.12.	**189,846**	**190,140**
Change in plan assets		
as per 01.01.	11,311	11,231
Adaption of contract – pension commitment	–	- 1,771
Return on plan assets	696	668
Employer contributions	1,288	1,183
as per 31.12.	**13,295**	**11,311**
Financing situation		
as per 31.12.	192,745	193,106
Actuarial losses not yet taken into account	- 16,194	- 14,277
Provision as per 31.12.	**176,551**	**178,829**

Following the sale of the Oiry factory and the subsequent transfer of its employees to the acquiring company the pension provision has dropped by Euro 0.259 mill.; this is represented in the line "Change in consolidated companies".

9. Other Provisions and Accrued Liabilities

	Provisions for:					
Euro '000	*Tax commitments*	*Personnel sector*	*Guarantee obligations*	*Restructur-ing*	*Other*	*Total*
As per 01.01.2004	**5,057**	**10,995**	**9,395**	**17,040**	**18,750**	**61,237**
Currency	32	- 88	34	24	19	21
Consumption	- 1,839	- 5,276	- 710	- 13,475	- 5,812	- 27,112
Reversal	- 86	- 72	- 1,030	- 383	- 2,010	- 3,581
Allocation	846	8,260	8,853	7,131	9,960	35,050
Transfer	58	- 368	0	344	- 673	- 639
Change in consolidated companies	- 8	- 2,292	0	0	- 447	- 2,747
As per 31.12.2004	**4,060**	**11,159**	**16,542**	**10,681**	**19,787**	**62,229**
Of which due within 1 year	4,060	7,375	16,542	10,681	14,482	53,140

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 bonuses, provisions for customs clearance (Austria, Italy and Australia), contributions to the Mutual Benefit Association for Pension Security and severance payments owing to personnel layoffs. The guarantee provisions take liabilities for the usual product guarantees into account and also covers the risks from guarantees connected to the as yet incomplete disinvestment in the Tile Business Segment.
Other provisions essentially include provisions for environmental protection and re-cultivation, the risks of lost lawsuits, insurance contributions, commission and also a multitude of individual items.

10. 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.

Euro '000	Total 31.12.2004	Thereof with a remaining term of up to 1 year	1 to 5 years	more than 5 years	Total 31.12.2003	Thereof with a remaining term of up to 1 year
LIABILITIES						
Financial Debts						
Liabilities due to banks	4,720	4,242	478	–	30,601	20,739
Notes payable	57	57	–	–	4,051	4,051
Liabilities from finance leasing	33	22	11	–	4,265	1,944
	4,810	**4,321**	**489**	**–**	**38,917**	**26,734**
Trade accounts payable	**68,355**	**68,355**	**–**	**–**	**83,289**	**83,289**
Other liabilities:						
Advances received on purchase orders	1,537	1,537	–	–	1,269	1,269
Payroll accounting	31,423	31,423	–	–	36,687	36,687
Bonuses and rebates	36,976	36,976	–	–	35,530	35,530
Tax liabilities	13,078	13,078	–	–	10,455	10,455
- thereof for income taxes	(4,763)	(4,763)	–	–	(1,095)	(1,095)
- thereof for other taxes	(8,315)	(8,315)	–	–	(9,360)	(9,360)
Other liabilities	13,053	9,327	2,347	1,379	17,437	13,795
	96,067	**92,341**	**2,347**	**1,379**	**101,378**	**97,736**
	169,232	**165,017**	**2,836**	**1,379**	**223,584**	**207,759**

Other liabilities essentially include liabilities arising from changes in market value from the valuation of hedging transactions, liabilities ensuing from the acquisition of shareholders' shares, from customers with credit balances and liabilities due to shareholders, as well as a multitude of individual items.

In the case of liabilities due to banks, collateral was provided in the previous business year in form of a mortgage lien in the sum of Euro 0.213 mill., which is passed on through the sale of a company in the year under review to the purchaser. There are no provisions of collateral by way of other liens.

11. Deferred Charges

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

12. Sales

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

Sales (net) are made up as follows:

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

Euro mill.	*2003 Domestic*	*2003 Foreign*	*2003 Total*
Tiles	98.9	153.9	252.8
Bathroom and Wellness	104.1	306.0	410.1
Tableware	86.3	199.4	285.7
	289.3	**659.3**	**948.6**

The percentage of completion method was applied to the accounting of the production orders for the Project-Business Segment, rendering sales in the sum of Euro 2.053 mill. (previous business year: Euro 0 mill.).
The movement in regional sales is presented within the scope of segment reporting.

13. Costs of Goods Sold

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

14. Selling Expenses, Marketing and Development Costs

This item includes the costs of marketing and distribution, of the field sales force, advertising and logistic costs, license expenses and the costs of research and development.
Expenses in the sum of Euro 10.849 mill. (previous business year: Euro 12.522 mill.) are included for research and development. The latter are divided as follows between the individual Divisions:

Euro ’000	*2004*	*2003*
Tiles	- 2,388	- 2,999
Bathroom and Wellness	- 6,495	- 6,926
Tableware	- 1,966	- 2,597
	- 10,849	**- 12,522**

Development costs are not capitalised in the area of product development as the criteria of IAS 38 have not been fulfilled.

15. General and Administrative Expenses

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

16. Amortisation of Goodwill

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

Euro ’000	*2004*	*2003*
Tiles	- 79	- 8.228
Bathroom and Wellness	- 3,476	- 9,225
Tableware	–	–
	- 3,555	**- 17,453**

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 previous business year, the goodwill on Villeroy & Boch N.V., Roeselare (Wellness Division) in the sum of Euro 5.530 mill. was fully amortised on the basis of an impairment test. The same applied to the existing goodwill of Ceramica Ligure S.r.L., Ponzano Magra, the valuation of which was adjusted in the sum of Euro 7.354 million. No impairment-test-based amortisation was necessary in the year under review.

17. Other Operating Expenses/Income

Other operating income and other operating expenses are presented netted out in this item. Included in the other operating income are essentially the deconsolidation result from the sale of companies in the Tile Business Segment, exchange profits, a settlement payment of the Reconstruction Loan Corporation, income from the disposal of fixed assets and from licences. Also included is income from the reversal of valuation reserves and from the reversal of provisions no longer required.
Included in the other operating expenses are essentially expenses for anticipated guarantee risks related to the disinvestments in the Tile Business Segment, exchange losses, expenses for essential restructuring measures in the Divisions, expenses ensuing from the allocation of valuation reserves, receivables and expenses from the disposal of fixed assets and consulting expenses.

18. Result from Equity Investments

The equity investments result in the Villeroy & Boch Group includes income from equity investments in an associated undertaking in the sum of Euro 0.295 mill. (previous business year: Euro 0.239 mill.).

19. Financial Results

Euro ’000	*2004*	*2003*
Other interest and similar income	2,958	2,534
Interest and similar expenses	- 3,603	- 5,179
Interest share in the change in provisions for pensions and similar obligations	- 9,755	- 10,548
Total of net interest income	- 10,400	- 13,193
Remaining financial results	197	56
	- 10,203	**- 13,137**

Cost of debt is entered with an effect on expenses in the year of its origin. Included in the interest expense is Euro 0.152 mill. (previous business year: Euro 0.457 mill.) 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 is income from an investment company dividend, in the amount of Euro 0.696 mill. (previous business year: Euro 0.668 mill.).

20. Taxes on Income and Earnings

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 %.

Euro '000	*2004*	*2003*
Taxes paid or due	- 9,776	- 6,791
thereof domestic	(- 34)	(- 28)
thereof foreign	(- 9,742)	(- 6,763)
Deferred taxes	2,898	12,163
Taxes on income	**- 6,878**	5,372

The effective rate of tax is 29.19 %. The transition to the German rate of income tax, which remained unchanged at 37.7 % in the year 2004, is as follows:

Transition from the expected to the actual tax expense:

Euro '000	*2004*	*2003*
Result before tax on income	23,560	- 30,768
Expected tax on income (EBT x tax rate of 37.7%)	- 8,882	11,600
Differences arising from foreign tax rates	5,251	3,369
Tax effects arising from:		
- amortisation of goodwill	- 1,340	- 6,580
- expenses disallowable against tax	- 1,164	- 1,713
- other variances	- 743	- 1,304
Actual expense of taxes on income	**- 6,878**	**5,372**
Actual tax rate in %	**29.19**	**17.46**

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

Euro ’000	*2004*	*2003*
Change in deferred tax assets	- 8,499	10,528
Change in deferred tax liabilities	12,217	694
Change in deferred tax assets and liabilities formed without affecting operating result	- 820	941
Deferred taxes in accordance with Profit and Loss Statement	**2,898**	**12,163**

21. Minority Interests

Third-party shares in the result, in the sum of Euro -0.687 mill. (previous business year: Euro -0.668 mill.), essentially include the minority interests in the Czech company Vagnerplast spol. s.r.o., Unhost.

22. 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	*2004*	*2003*
Number of individual share certificates issued	14,044,800	14,044,800
Proportionate consolidated results for the year (in Euro ’000)	8,089	- 13,900
Net earnings per share (in Euro)	0.58	- 0.99

Preference shares	*2004*	*2003*
Number of individual share certificates issued	12,631,324	12,945,080
Proportionate consolidated results for the year (in Euro ’000)	7,906	- 12,164
Net earnings per share (in Euro)	0.63	- 0.94

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.

23. Depreciation and Amortisation

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

Euro ’000	*2004*	*2003*
Scheduled depreciation of property, plant, equipment and amortisation of intangible assets, including goodwill	51,901	57,031
Non-scheduled amortisation of goodwill	0	12,884
Depreciation of financial assets	752	698
	52,653	**70,613**

In connection with valuation of the shares held, depreciation of Euro 0.721 mill. (previous business year: Euro 0.605 mill.) was necessary in the 2004 business year on the lower recoverable value in accordance with IAS 39. The expense is shown in the net interest income.

24. Cost of Materials

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

Euro '000	*2004*	*2003*
Cost of raw materials and supplies (including primary products)	162,954	165,425
Cost of purchased goods	124,325	143,723
	287,279	**309,148**
Cost of purchased services	42,235	42,190
	329,514	**351,338**

25. Personnel Expenses

Personnel expenses are made up as follows:

Euro '000	*2004*	*2003*
Wages and salaries	275,278	292,803
Social security, pension and other benefit costs	71,309	74,331
thereof for pensions	(5,444)	(11,677)
	346,587	**367,134**

The interest share, in the sum of Euro 10.374 mill. (previous business year: Euro 10.864 mill.), included in the allocation to pension provisions, is shown in the net interest income; the costs of retirement benefits are reduced by these amounts.

The reduction in wages and salaries when compared with the previous business year is essentially a result of the expenses arising in the previous year from the restructuring programme and from the sale of the subsidiaries in the Tile Business Segment.

Average number of persons employed:

Number of employees	*2004*	*2003*
Wage earners	6,110	6,461
Salaried employees	4,280	4,351
	10,390	**10,812**

Of the entire workforce, 3,861 persons (previous business year: 3,964) are employed in Germany and 6,529 (previous business year: 6,848) abroad.

Employees According to Division:	*2004*	*2003**
Tiles	1,806	2,190
Bathroom and Wellness	4,859	4,874
Tableware	3,249	3,228
Other	476	520
	10,390	**10,812**

** The prior-year figures have been adjusted owing to a change in organisation.*

26. Other Taxes

Other taxes total Euro 6.245 mill. (previous business year: Euro 6.795 mill.). These are essentially taxes dependent on assets.

27. 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 company acquisitions and sales have been eliminated.

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

Compared to the previous year, an increase of Euro 10.9 mill. in the inflow of funds was generated from operating activities in the business year 2004. This improvement was essentially due to EBT rising in comparison to the previous year by Euro 54.3 mill. to Euro 23.6 mill., with a corresponding offset from the tax result to the amount of Euro -12.2 million. This effect was offset further by a reduction of Euro 17.9 mill. in depreciation and of Euro 8.7 mill. in the inflow of funds from other items relating to net assets. The change in other income/expenses not affecting payment is essentially due to expenses from deferred taxes. The disinvestment measures in the Tile Business Segment generated an inflow of funds in the sum of Euro 7.8 million.

In the year under review, the cash flow from investing activities shows an outflow of funds totalling Euro 9.0 mill. (previous business year: Euro 58.4 mill.). The change compared to the previous year is marked by incoming payments amounting to Euro 28.1 mill. (netted out with a reduction of Euro 2.1 mill. in liquid assets) connected to the sale of the deconsolidated companies in the Tile Business Segment (total purchase price Euro 39.6 mill.). In the general context of the disinvestment measures, a further Euro 8.9 mill. in France, Hungary and Romania is included in the deposits received from the disposal of fixed assets. The remaining change is essentially due to a slight decrease in investing activities in the Tableware Division. In terms of the deposits from the disposal of fixed assets, the value resulting from upgrading the securities held is almost on a par with the outflow of funds from investments in financial assets.

In the year under review, the cash flow from the financing activities shows an outflow of funds amounting to Euro 39.9 mill. (previous business year: Euro 10.6 mill.), which is predominantly a result of the diminution in bank liabilities. In particular, this was made possible through the inflow of liquid assets from the disinvestment measures in the Tile Business Segment. The distribution of dividends in the sum of Euro 7.3 mill. and the additional purchase of treasury stock in the sum of Euro 3.7 mill. offset this.

28. 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. Towards the end of the business year 2004 a report was published on the change resolved by the Supervisory Board in the members of the Villeroy & Boch AG Management Board. The change concerns the reorganisation of the spheres of responsibility. As a consequence of this new policy, the segment reporting system has already been adapted to the new organisational structure for the business year 2004. The values from the previous year are shown correspondingly to enable better comparability.

Segmentation takes place in three Divisions: Tiles, Bathroom and Wellness and Tableware. The segments produce and/or market the following products:

Tiles

Tile Business Segment

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

Project-Business Segment

Turnkey solution for projects of medium or luxury category applying conventional methods of construction and as a prefabricated modular bathroom concept “e.motion”, e.g. bathrooms for hotels or resorts

Bathroom and Wellness
Bathroom and Kitchen Business Segment
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
Wellness Business Segment
Baths, shower trays, whirlpools, shower partitions, shower cubicles and steam cubicles

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

The segment data is determined in accordance with the balance-sheet valuations and methods of valuation in the underlying consolidated financial statements. The asset and 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 **external sales** of the segments are differentiated according to sales with external companies and to segment-spanning internal sales. The effects of the disinvestment measures in the business year 2004 in the Tile Division were not validated in the segment reporting.
The segments' **EBIT** (operating result) is defined as earnings before interest, extraordinary result and taxes on income. Details of this can be found in the Management Report under “Result Trend in the Divisions”.
The **EBITDA** of the segments is expressed in terms of the result before interest and depreciation, the extraordinary result and result and taxes on income.
Operating assets comprise intangible fixed assets and property, plant and equipment, shares in associated undertakings, inventories, accounts receivable from trade, accounts due from associated undertakings, contingent liabilities from notes discounted, other assets (excluding claims for refund of taxes on income) as well as 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 16.893 mill. (previous year: Euro 22.147 mill.).
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.

SEGMENT REPORTING ACCORDING TO DIVISION – PRIMARY SEGMENTS

Euro mill.	Tiles 2004	Tiles 2003	Tiles Difference	Bathroom and Wellness 2004	Bathroom and Wellness 2003	Bathroom and Wellness Difference
External sales (net)	221.8	252.8	- 31.0	421.0	410.1	10.9
Segment-spanning internal sales	0.1	0.1	0.0	3.1	2.1	1.0
Sales (net)	221.9	252.9	- 31.0	424.1	412.2	11.9
EBITDA	- 1.9	- 6.3	4.4	51.4	43.0	8.4
Depreciation (intangible/tangible fixed assets)	10.5	24.1	- 13.6	25.4	31.7	- 6.3
- thereof non-scheduled	(–)	(7.4)	(- 7.4)	(–)	(5.5)	(- 5.5)
Depreciation of financial assets						
EBIT	- 12.4	- 30.4	18.0	26.0	11.3	14.7
Financial result						
Capital expenditure	8.9	8.1	0.8	27.2	28.8	- 1.6
Operating assets	122.0	203.4	- 81.4	327.2	326.1	1.1
Operating debts	44.0	74.0	- 30.0	107.7	105.6	2.1
Net operating assets	78.0	129.4	- 51.4	219.5	220.5	- 1.0
Other expenses without effect on liquid assets						
Result from associated companies	0.3	0.2	0.1	–	–	–
Number of employees (annual average)*	1,806	2,190	- 384	4,859	4,874	- 15

* The prior-year figures have been adjusted owing to a change in organisation in the allocation to the Divisions.

SEGMENT REPORTING ACCORDING TO REGION – SECONDARY SEGMENTS

Euro mill.	Germany 2004	Germany 2003	Germany Difference	France 2004	France 2003	France Difference	Rest of Western Europe 2004	Rest of Western Europe 2003	Rest of Western Europe Difference
External sales (net)	285.7	289.3	- 3.6	161.7	177.5	- 15.8	336.6	302.3	34.3
Segment-spanning internal sales	1.5	0.0	1.5	1.5	2.3	- 0.8	0.2	0.0	0.2
Sales (net)	287.6	289.3	- 2.0	163.2	179.8	- 16.6	336.8	302.3	34.5
Capital expenditure	20.6	18.9	1.7	3.6	3.0	0.6	11.8	28.5	- 16.7
Operating assets	323.6	323.7	- 0.1	38.1	76.8	- 38.7	207.7	244.3	- 36.6
Operating debts	118.7	121.0	- 2.3	18.6	25.9	- 7.3	56.6	80.8	- 24.2
Net operating assets	204.9	202.7	2.2	19.5	50.9	- 31.4	151.1	163.5	- 12.4
Number of employees (annual average)	3,861	3,964	- 103	1,127	1,274	- 147	2,524	2,770	- 246

Tableware			*Transition / Consolidation*			*Villeroy & Boch Group*		
2004	*2003*	*Difference*	*2004*	*2003*	*Difference*	*2004*	*2003*	*Difference*
317.1	285.7	31.4	0.0	0.0	0.0	959.9	948.6	11.3
0.0	0.1	- 0.1	- 3.2	- 2.3	- 0.9	0.0	0.0	0.0
317.1	285.8	31.3	- 3.2	- 2.3	- 0.9	959.9	948.6	11.3
36.2	15.6	20.6	0.8	0.7	0.1	86.5	53.0	33.5
16.0	14.2	1.8	–	–	–	51.9	70.0	- 18.1
(–)	(–)	(–)	(–)	(–)	(–)	(–)	(12.9)	(- 12.9)
			0.8	0.6	0.2	0.8	0.6	0.2
20.2	1.4	18.8				33.8	- 17.7	51.5
			- 10.2	- 13.1	2.9	- 10.2	- 13.1	2.9
15.8	22.5	- 6.7				51.9	59.4	- 7.5
220.7	215.6	5.1	115.2	97.6	17.6	785.1	842.7	- 57.6
54.4	60.3	- 5.9	233.4	267.8	- 34.4	439.5	507.7	- 68.2
166.3	155.3	11.0	- 118.2	- 170.2	52.0	345.6	335.0	10.6
–	–	–	- 20,4	- 20,9	0,5	- 20,4	- 20,9	0,5
–	–	–	–	–	–	0.3	0.2	0.1
3,249	3,328	21	476	520	- 44	10,390	10,812	- 422

Eastern Europe			*Rest of the World*			*Transition/Consolidation*			*Villeroy & Boch Group*		
2004	*2003*	*Difference*	*2004*	*2003*	*Difference*	*2004*	*2003*	*Difference*	*2004*	*2003*	*Difference*
77.6	82.7	- 5.1	98.3	96.8	1.5	0.0	0.0	0.0	959.9	948.6	11.3
0.0	0.0	0.0	0.0	0.0	0.0	- 3.2	- 2.3	- 0.9	0.0	0.0	0.0
77.6	82.7	- 5.1	98.3	96.8	1.5	- 3.2	- 2.3	- 0.9	959.9	948.6	11.3
14.4	7.8	6.6	1.5	1.2	0.3	–	–	–	51.9	59.4	- 7.5
69.2	68.9	0.3	31.3	31.2	0.1	115.2	97.8	17.4	785.1	842.7	- 57.6
8.2	8.3	- 0.1	4.0	3.7	0.3	233.4	268.0	- 34.6	439.5	507.7	- 68.2
61.0	60.6	0.4	27.3	27.5	- 0.2	-118.2	- 170.2	52.0	345.6	335.0	10.6
2,221	2,196	25	657	608	49	–	–	–	10,390	10,812	- 422

OTHER NOTES

29. Contingent Liabilities and Commitments

Euro '000	*31.12.2004*	*31.12.2003*
Contingent liabilities from notes discounted	16,623	21,911
Guarantee and endorsement obligations	49	64
Trustee obligations	422	380

The reduction in the obligation from notes discounted is essentially a result of the disposal of Boch Frères SA.

There are no obligations due to associated undertakings.

30. Other Financial Obligations

Euro '000	*31.12.2004*	*31.12.2003*
Obligations arising from orders placed for capital expenditure	1,657	5,191

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

31. 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. Unless further details are reported, book values correspond to fair values.

Derivative financial instruments

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

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

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

The derivative financial instruments are valuated at fair value, in accordance with IAS 39. They are disclosed in other assets and other liabilities.
Cash flow hedges are used to secure against the 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 0.063 mill. (previous business year: Euro 0.160 mill.) from the market valuation of the derivative financial instruments was recorded in shareholders' equity, without affecting operating result, and Euro 2.182 mill. (previous business year: Euro 1.289 mill.) was recorded with effect on result.
On the balance sheet date, the following derivative financial instruments are employed to minimise risks:

		Fair Value	
Euro '000	*Nominal volume*	*Financial assets*	*Financial obligations*
Interest rate swaps	26,472	–	3,481 [1]
Forward exchange contracts	41,729	1,084	87

[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 0.087 mill. (previous business year: Euro 0.288 mill.) and a remaining term of over 5 years in the amount of Euro 0.603 mill. (previous business year: Euro 1.157 mill.). 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 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.

32. Supervisory Board and Management Board Remuneration

Supervisory Board remuneration totals Euro 0.190 mill. (previous business year: Euro 0.171 mill.). Management Board remuneration totalling Euro 4.408 mill. (previous business year: Euro 2.670 mill.) is composed of Euro 2.695 mill. in fixed and Euro 1.713 mill. in variable salaries. With respect to former members of the Management Board, pension provisions amount to Euro 10.536 mill. (previous business year: Euro 9.720 mill.), while remuneration in the year under review totals Euro 1.015 mill. (previous business year: Euro 0.999 mill.).

In the business year 2004, as in the previous year, no stock purchase warrants were issued to Villeroy & Boch AG Management Board members for the acquisition of individual preference-share certificates. The portfolio of stock purchase warrants issued to the Management Board on 31.12.2004 totals 84,627 (previous business year: 240,867). The stock option plan is explained in point 7.5. “Stock Option Plan”.

33. 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.

34. Events Subsequent to the Balance Sheet Date

There are no essential events to report subsequent to the balance sheet date. The Consolidated Financial Statements were released for publication on 25.02.2005.

35. Proposed Appropriation of Villeroy & Boch AG Retained Earnings

Supervisory Board and Management Board propose using the retained earnings of Euro 11,477,169.51 to distribute a dividend of Euro 0.37 per individual ordinary-share certificate and Euro 0.42 per individual preference-share certificate. The proposed appropriation of retained earnings corresponds with a dividend of

	Euro
for the ordinary share capital	5,196,576.00
for the preference share capital	5,898,816.00
	11,095,392.00

The remaining amount of retained earnings in the sum of Euro 381,777.51 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.

36. Corporate Governance Codex

In application of the Corporate Governance Codex, the corporate principles were updated in 2004, and a new declaration of conformity as prescribed by § 161 AktG [German Public Limited Company Law] was made by the Management and Supervisory Boards. 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. March 11th, 2005

Wendelin von Boch-Galhau   Manfred Finger

Frank Göring   Peter von der Lippe   Dr. Bernard Wientjes

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 January 1st to December 31st 2004. 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 Management 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 Management Board for the business year dated January 1st to December 31st 2004, 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 January 1st to December 31st 2004 meet the requirements necessary to release the company from preparing consolidated financial statements and a Group management report in accordance with German law.

Cologne. 11th March, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Reinke)	(Kohns)
Qualified auditor	Qualified auditor

Major Group Companies

Affiliated Companies:

Bathroom & Wellness Division	Belgium	Villeroy & Boch Wellness N.V., Roeselare
	France	Villeroy & Boch S.A.S., Paris
	Italy	Villeroy & Boch Wellness Italia S.r.l.,Castelraimondo
	Netherlands	Villeroy & Boch Nederland B.V., Amsterdam
		Villeroy & Boch Wellness Holding B.V., Roden
	Austria	Villeroy & Boch Badmöbel GmbH., Salzburg-Plainfeld
	Poland	Villeroy & Boch Polska Sp.z o.o., Warszawa
	Romania	S.C. Mondial S.A., Lugoj
	Sweden	AB Gustavsberg, Gustavsberg
		Villeroy & Boch Wellness AB, Växjö
	Slovak Republic	Vagnerplast Slovensko s. r.o., Partizánske
	Czech Republic	Vagnerplast spol. s r.o., Unhost
	Hungary	Villeroy & Boch Ungarn Rt., Hódmezövásárhely
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
Tile Division	Germany	Fliesenhandel an der Cristallerie GmbH, Wadgassen
		Fliesenhandel Merzig GmbH, Merzig
	France	Villeroy & Boch S.A.S., Paris
Division- Spanning Companies	France	S.D.P.C. S.A., Paris
	England	Villeroy & Boch 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	7.56	100.00	–	100.00
EUR	9.27	100.00	–	100.00
EUR	8.00	–	100.00	100.00
EUR	0.05	100.00	–	100.00
EUR	1.62	100.00	–	100.00
EUR	2.20	–	100.00	100.00
PLN	0.50	–	100.00	100.00
ROL	170,099.98	99.24	–	99.24
SEK	20.00	100.00	–	100.00
SEK	1.00	–	100.00	100.00
SKK	0.20	–	60.00	60.00
CZK	92.93	–	67.00	67.00
HUF	2,289.30		99.59	99.59
EUR	0.05	100.00	–	100.00
EUR	15.00	100.00	–	100.00
EUR	3.14	–	100.00	100.00
EUR	0.03	0.20	99.80	100.00
CHF	0.50	–	100.00	100.00
SEK	2.00	–	100.00	100.00
NOK	0.10	–	100.00	100.00
EUR	0.10	100.00	–	100.00
CAD	2.20	–	100.00	100.00
AUD	0.52	–	100.00	100.00
HKD	7.00	–	100.00	100.00
JPY	97.50	–	100.00	100.00
EUR	0.26	100.00	–	100.00
EUR	0.36	100.00	–	100.00
EUR	9.27	100.00	–	100.00
EUR	2.13	97.15	2.85	100.00
GBP	1.10	–	100.00	100.00
EUR	0.27	44.44	55.56	100.00
EUR	1.24	100.00	–	100.00
DKK	1.50	33.33	66.67	100.00
EUR	0.06	99.90	0.10	100.00
HUF	3.00	100.00	0.00	100.00
USD	3.80	–	100.00	100.00

Glossary

Assets structure
Relationship between fixed assets and current assets

Capital employed
Employed capital yielding interest

Capital Structure
Relationship between shareholders' equity and debt

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 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

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

EBIT
Earnings Before Interest and Tax

EBITDA
Earnings Before Interest, Tax, Depreciation and Amortisation

EBIT margin
Ratio of EBIT to sales

EBITDA margin
Ratio of EBITDA to sales

EBT
Earnings Before Tax

Equity ratio
Ratio of shareholders' equity to total capital

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

EVA – Economic Value Added
EVA is a system developed by Stern Stewart for controlling business. It is based on the premise that a company does not generate value for the investor until the return on capital employed exceeds a company’s cost of capital (excess return)

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

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

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

SDAX (stock exchange index)
Index of the 50 largest companies of the classic Prime Standard branches grouped directly below those of MDAX

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

Multi-Year Comparison of Ratios

Asset situation ratios:		2004	2003	2002	2001
Fixed assets	Euro million	311.7	350.2	363.2	390.9
Change in comparison with previous year	percent	- 11.0	- 3.6	- 7.1	[1]
Current assets	Euro million	428.0	437.9	472.8	449.7
Change in comparison with previous year	in Prozent	- 2.3	- 7.4	5.1	[1]
Asset structure	percent	72.8	80.0	76.8	86.9
Degree of property, plant and equipment depreciation	percent	71.2	70.0	69.3	69.1
Balance sheet total	Euro million	785.1	842.7	880.3	880.9
Change in comparison with previous year	percent	- 6.8	- 4.3	- 0.1	[1]

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

Financial situation ratios:		2004	2003	2002	2001
Shareholders' equity (incl. minority interests)	Euro million	345.6	335.0	376.2	381.1
Debt	Euro million	439.5	507.7	504.1	499.8
Debt ratio	percent	127.2	151.5	134.0	131.2
Cash ratio	percent	31.9	20.5	30.7	13.9
Ratio of financial current assets to current liabilities	percent	102.8	88.8	106.0	88.8
Current ratio	percent	266.3	241.9	270.7	247.5
Working capital	Euro million	267.3	256.9	298.1	268.0

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

Share ratios		2004	2003	2002	2001
Annual closing price (Xetra)	Euro	9.26	7.35	6.80	10.00
Annual high (Xetra)	Euro	9.90	8.45	11.50	13.13
Annual low (Xetra)	Euro	7.25	6.46	6.50	8.30
Net earnings per ordinary share	Euro	0.58	-0.99	0.35	0.32
Net earnings per preference share	Euro	0.63	-0.94	0.40	0.37
Operating cash flow per share	Euro	2.39	1.95	2.62	1.47
Dividend per ordinary share	Euro	0.37	0.25	0.50	0.50
Dividend per preference share	Euro	0.42	0.30	0.55	0.55
Changes compared with previous year (ordinary share)	percent	48.0	-50.0	0	0
Changes compared with previous year (preference share)	percent	40.0	-45.5	0	0
Dividend yield per ordinary share	percent	4.31	3.35	5.56	4.67
Dividend yield per preference share	percent	4.90	4.02	6.11	5.13
Price-cash flow ratio	factor	3.58	3.82	3.43	7.27
Price-earnings ratio (PER) per ordinary share	factor	14.8	-7.5	25.7	33.5
Price-earnings ratio (PER) per preference share	factor	13.6	-7.9	22.5	29.0

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

Explanation of Ratios

Balance sheet ratios (in %)	
Cash flow profitability	cash flow : total capital x 100
Equity ratio	shareholders' equity : total capital x 100
Percentage return on sales	profit : sales x 100
Asset situation ratios (in %)	
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 mill.)	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	
Distribution ratio (in %)	distribution to shareholders : net profit for the year x 100
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

Company Calendar

General Meeting of Shareholders

June 3rd, 2005
3 p.m.
Stadthalle Merzig

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

April 28th, 2005,

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

July 28th, 2005

and on
the first nine months of the year on

October 27th, 2005.

Dear shareholders,

If you are interested in further information, or in the German version of the Annual Report for the year 2004, please contact:

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