Villeroy & Boch

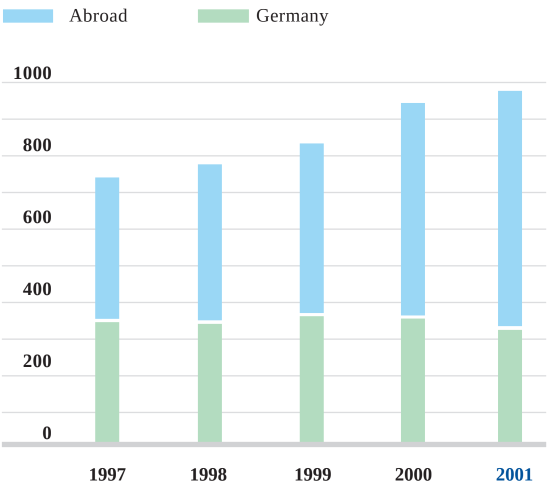
1748

ANNUAL REPORT 2001

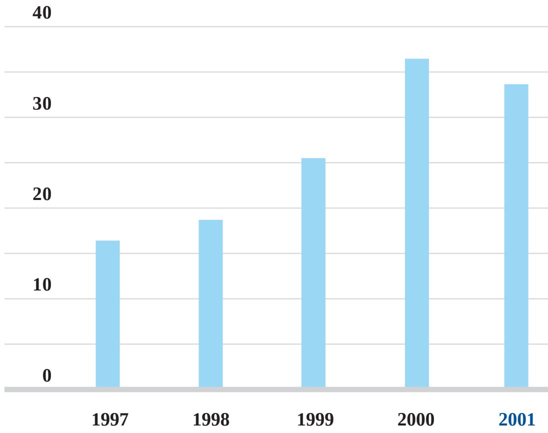
		1997	1998	1999	2000	2001
Sales	Euro million	736.5	772.3	834.2	939.6	975.2
Result from ordinary operations	Euro million	16.1	18.4	25.8	36.3	33.6
Net retained profit/ accumulated net loss	Euro million	19.6	11.4	24.4	24.8	22.5
Investments in tangible and intangible fixed assets	Euro million	77.9	46.1	46.2	54.7	54.3
Depreciation	Euro million	42.7	47.8	47.6	50.3	52.9
Cash flow from operating activities	Euro million	43.0	18.9	38.4	71.9	40.7
Employees (average)		10,397	10,252	10,130	10,546	10,833
Dividends per individual preference-share certificate	Euro	0.64[1)]	0.41	0.55	0.55	0.55
per individual ordinary-share certificate	Euro	0.46[2)]	0.36	0.50	0.50	0.50

[1)] *including bonus of Euro 0.10 and Euro 0.13 payment in retrospect for 1996*
[2)] *including bonus of Euro 0.10*

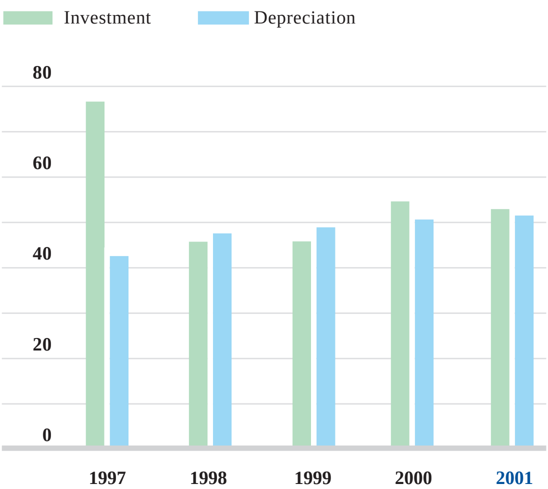
Consolidated Sales in Euro Million



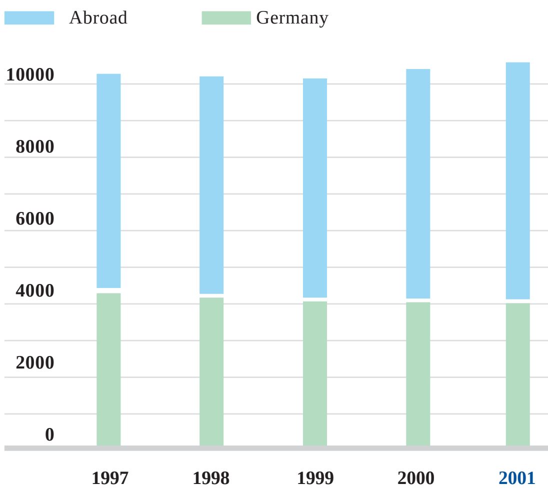
Result from Ordinary Operations in Euro Million



Investment and Depreciation in Euro Million



Average Number of Persons Employed - Group



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Supervisory Board Chairman: Peter Prinz Wittgenstein

In the course of four meetings held during the financial year 2001, the Supervisory Board was informed by the Executive Board about the situation and development of business within the Villeroy & Boch Group. Even beyond the confines of formal meetings, the Supervisory Board continually received comprehensive information on the corporate situation in the course of regular reporting. In addition, regular talks were conducted between the Supervisory Board Chairman and the Executive Board Chairman on all essential matters relating to corporate policy and business development. Besides monitoring daily business operations, the Supervisory Board followed acquisitions made and looked intensively into the matters of strategic orientation, planning, the company's financial situation and the conversion of balance sheet preparation to IAS.

The Supervisory Board elected one new member to the Conference Committee, in accordance with § 27 III MitbestG [Codetermination Law] and one to the Committee for Executive Board Personnel Affairs and Credit Extension, in accordance with § 89 IV AktG [German Public Limited Company Law] (Staff Committee). The Staff Committee convened three times in the year 2001, dealing on these occasions with the matters of salary and bonus payments, as well as with the resignation of an Executive Board member.

In September 2001, the Supervisory Board issued its audit assignment to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft – the auditing company elected at the General Shareholders' Meeting. The Villeroy & Boch AG annual financial report, the consolidated financial statements of 31.12.2001 and also the Situation Report, in combination with the Group Situation Report, have been audited, including all accounting, and an unqualified auditor's certificate has been issued.

The financial statements, Situation Report and auditor's reports have already been submitted to the Supervisory Board members. These reports were discussed in the presence of the respective auditor during the Supervisory Board Meeting in March 2002. Based on the final result of our own audits, there were no objections to be raised and the Supervisory Board consequently endorsed the auditor's result. The annual financial report of 31.12.2001 has, therefore, been approved. The Supervisory Board endorses the proposal made by the Executive Board regarding appropriation of the net retained profit.

On 28 February 2002, Mr Philippe Schaus left the Executive Board at his own request. The Supervisory Board would like to thank him for the committed and reliable work he performed. Management of the Tableware Division has been temporarily assumed by Wendelin von Boch-Galhau.

The Supervisory Board would like to thank both the Executive Board and all employees for their services and great commitment during the financial year 2001.

Mettlach. April 2002

Peter Prinz Wittgenstein
Supervisory Board Chairman

The Supervisory Board

KARL GUSTAF RATJEN, KÖNIGSTEIN
Honorary member of the Supervisory Board

PETER PRINZ WITTGENSTEIN, DÜSSELDORF
Chairman
Management Consultant
Former member of the Executive Board of
Mannesmann AG, Düsseldorf
a) Mannesmann Röhrenwerke AG
b) Gottfried Schultz GmbH & Co. (Chairman of the Administrative Board)

ROSEMARIE GATTUSO*, METTLACH
1st Vice-Chairwoman
Chairwoman of Works Council at the Faiencerie Mettlach/Merzig

LUITWIN GISBERT VON BOCH-GALHAU, METTLACH
2nd Vice-Chairman
Entrepreneur
a) Deutsche Bank Saar AG
Gerling-Konzern Globale Rückversicherungs-AG
b) Groupe Jacques Parisot
within the Group:
Villeroy & Boch Magyarország Rt. (Chairman)

JOSEF BALLE*, MERZIG
Chairman of the Fliesenwerke Saar Works Council

GISELA HANNACK*, HANOVER
Head of the Business Management Department of the
IG Bergbau, Chemie, Energie, Hanover

WALTER RABER*, NALBACH
Head of Tableware Division Controlling

INA RAULS*, PERL
Deputy Chairwoman of the Sanitärfabrik Mettlach
Works Council

ANTOINE DE SCHORLEMER, LUXEMBOURG
Businessman
b) Automobile Club du Grand Duché de Luxembourg
SOS-Interfonds

KILIAN VON DER TANN, TANN/RHÖN
Lawyer

CLAUDE VILLEROY DE GALHAU, WALLERFANGEN
Bachelor of Commerce
b) Japan Pacific Fund Luxembourg
Japacic (SICAV)

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

GERD ZIBELL*, GAU-ODERNHEIM
Land District Head of the Industrial Union Bergbau, Chemie,
Energie, for the Länder Rhineland Palatinate /Saarland,
in Mainz
a) RAG Saarberg AG
BASF AG

The Executive Board

WENDELIN VON BOCH-GALHAU, LOSHEIM-BRITTEN
Chairman
a) Messe Frankfurt GmbH
b) within the Group:
Villeroy & Boch Magyarország Rt. (until 31.03.2001)
Villeroy & Boch Wellness Holding B.V.

MANFRED FINGER, REHLINGEN
Finance and Personnel
b) within the Group:
Villeroy & Boch Wellness Holding B.V. (until 04.09.2001)

PETER VON DER LIPPE,
PETITE-ROSSELLE/FRANCE
Bathroom and Kitchen Division
b) within the Group:
Villeroy & Boch Magyarország Rt. (since 05.04.2001)

PHILIPPE SCHAUS, LUXEMBOURG
Tableware Division
(Deputy Executive Board Member)
(until 28.02.2002)

DR. BERNARD WIENTJES,
OMMEN/THE NETHERLANDS
Wellness Division
b) Wientjes Kunststoffen Holding bv

RICHARD ZIMMERMANN, METTLACH
Tile Division

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

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

Dear shareholders and business associates,

In this report, we shall inform you of a financial year which – according to advance forecasts by economic experts – should have taken a fundamentally different course than that which actually resulted. Instead of the forecasted recovery in overall construction activity and increase in consumer spending, a conflicting trend became apparent during the course of the year in Germany – Villeroy & Boch's most important market: a further decline in the amount of building permission granted and no reversal in the poor demand experienced in the retail sector for products for the laid table.

Strategic Reorientation

Against this unfavourable economic background, the course chosen by the Group for the purpose of strategically reorienting Villeroy & Boch has proved to be both correct and successful. In the financial year 2001, following vigorous promotion, the continued internationalisation of our business – which has reported double-figure growth rates in recent years – ensured a certain compensation in the areas of sales and operating result, for the decline in domestic business.

Growth by Way of Internationalisation

As the market situation worsened during the course of the year, it became necessary to adjust our ambitious planning, with the result that we were not quite able to achieve our original sales and result targets. Group sales in 2001 consequently totalled Euro 975 million (previous year: Euro 940 million), roughly 66 % of which being accounted for by our foreign activities (previous year: 62 %). The aforementioned increase is based essentially on acquisitions made in the year 2000 in France and Sweden, as well on those made in the year 2001 in the Czech Republic, Belgium and Italy, for the purpose of further diversifying and completing our range of bathroom furnishings.

The course chosen by the Group for the purpose of strategically reorienting Villeroy & Boch, has proved to be both correct and successful.

These developments provide further confirmation that our corporate strategy is the right one.

Totalling Euro 40.8 million, the operating result (EBIT) in the year under review was only slightly lower than that of Euro 43.3 million reported in the previous financial year. While the two Divisions Bathroom and Kitchen and Tableware, were able to improve on their operating results of the previous financial year – despite the difficult economic environment – this was not the case for either the Tile or the Wellness Division, which both reported poorer results. In the year 2001, the Tile Division was, therefore, not able to successfully compensate for the restructuring measures carried out in the USA and Italy, by way of improvements in day-to-day business performance. The operating result reported by the Wellness Division was burdened by acquisitions made, by marketing expenses incurred for conversion to the Villeroy & Boch brand and by measures for integrating four newly-acquired companies.

Technical Structure With Optimised Costs

One of the reasons why Villeroy & Boch was able to assert itself on the whole better than its competitors in the negatively influenced economic environment, can be found in the additional steps of the successfully implemented corporate strategy. Despite increases in energy and transport costs, the already existing, highly-efficient technical structure, the concentration on fewer production locations and optimisation of organisation and logistics, all contributed towards easing the strain on costs.

Effective Innovations

Particularly in the financial year 2001, the innovation campaign launched in 1998 gave rise to further

effective new products in all Divisions, which found a high level of acceptance among users and consumers at the international trade fairs. We are particularly proud of special prizes for products and application solutions, which Villeroy & Boch has been awarded not only by design experts, but also by its market partners from the retailing and manual sectors.

Brand Appeal

Villeroy & Boch achieves a distinct competitive superiority in its brand development by adapting products and complete solutions to suit the tastes of four leading lifestyles. This complete, emotionally-presented range creates a desire among consumers, which in turn stimulates sales – a fact shown by surveys carried out on Villeroy & Boch brand awareness and appeal. In the aforementioned surveys, Villeroy & Boch is shown to be the unchallenged leader in the building sector and for consumer articles in the tableware sector.

The innovation campaign gave rise to further effective new products in all Divisions, which found a high level of acceptance among users and consumers at the international trade fairs.

Investments Aimed at Diversifying and Completing the Range

Consistently pursuing our strategy, the fundamental investments made in 2001 were geared towards promoting range diversification and completion, both nationally and internationally. Strategic acquisitions in the relatively new Wellness Division represented the main areas of investment concentration. Following integration of the Swedish company Svenska Badkar and Czech company Vagnerplast – both manufacturers of baths, bathroom and shower systems – in the year 2000, the companies Acomo in Belgium and Itema in Italy, who also both operate in the aforementioned sector, were taken-over in autumn 2001. Reporting a sales volume of approximately Euro 120 million, the Wellness Division – which was only set up in 1999 – will be one of Europe's top three suppliers of synthetic baths and shower trays, whirlpools, shower systems and further high-quality furnishing elements for the bathroom and fitness sector.

Investments were also made in the bathroom furniture business. With the complete take-over of db.Das Bad – the highly-skilled Austrian manufacturer of bathroom furniture – and the formation of Villeroy & Boch Badmöbel GmbH, this indispensable product group for the complete bathroom concept will contribute towards the Group's intended inner growth on its target markets.

The financial year 2001 saw high-quality fittings presented for the first time ever under the Villeroy & Boch brand name. Inclusion of this product group in our range of goods and services is also proof of the bathroom furnisher's claim to being a complete supplier.

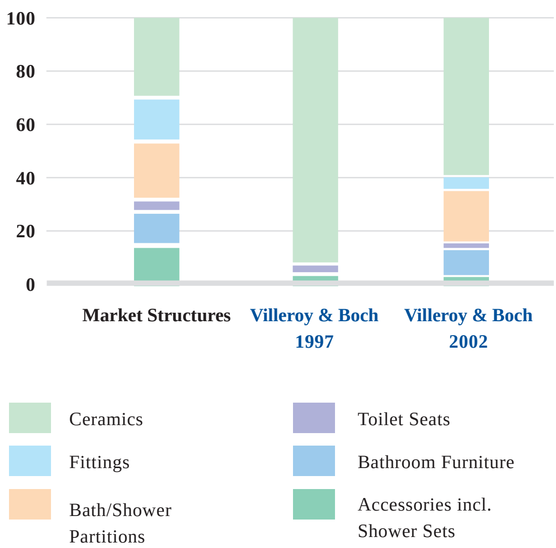
Villeroy & Boch achieves a distinct competitive superiority in its brand development by adapting its product range to suit the tastes of four leading lifestyles.

Change in Product Portfolio in Bathroom Furnishings Sector

Ceramic products account for only a 30 % share of the Western-European bathroom furnishings market. In 1997, Villeroy & Boch's product portfolio in this segment still, however, accounted for 96 %, while non-ceramic products accounted for a mere 4 %. As a result of the endeavours Villeroy & Boch has made to diversify in the last four years, non-ceramic products are expected to account for a 40 % share of the product portfolio in the year 2002, with synthetic baths, bath and shower systems accounting for significant market shares. By adopting these fundamental re-orientation measures, we are following market needs and consistently implementing our "single-source bathroom" strategy.

Villeroy & Boch in the Bathroom Furnishings Segment (Western Europe):

(in %)



Further Objectives

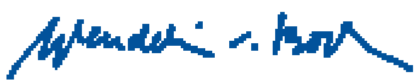
For the coming financial year and beyond, we have above all set ourselves the following goals:

- to integrate acquisitions into the Group,
- to build up Wellness Division market share
- to expand the profitable Bathroom and Kitchen Division by means of further internationalisation.
- to achieve profitability within the Tile Division
- to develop the Tableware Division's "Metropolitan" product segment
- to develop the construction project sector
- to step up cultivation of Eastern-European markets

Villeroy & Boch feels it is following the right path to become a European lifestyle supplier. It is our aim to offer market partners from the retail and manual sectors the best possible opportunities for a lucrative cooperation, by using stylish products and efficient problem solutions. The company will continue to develop high-quality, aesthetically-stylish home and lifestyle products for end customers and users. We want our shareholders to receive an appropriate stake in the corporate success.

May I thank you, our business associates and shareholders, for the confidence you have shown in our work and also thank our employees and employee representatives for the contribution you have made towards our mutual success.

Mettlach. April 2002



Wendelin von Boch-Galhau
Executive Board Chairman

Villeroy & Boch: creating lifestyle environments

A person's attitude to life can frequently be determined by looking at the style of furnishing he or she prefers. Unlike fashion, for example – which opens up an endless variety of ways for its wearers to present themselves, depending on the occasion and mood – the way one's own four walls are furnished makes an authentic statement about those living within them. One's own home is instinctively designed and furnished as a zone of personal protection against a world, which is increasingly felt to be hectic and threatening.

In its corporate strategy, Villeroy & Boch has set itself the objective of fulfilling people's desire for a totally individual home-environment design, by offering them complete furnishing concepts. Before a range of comprehensive solutions could be developed to suit the prevailing design trends – solutions which were not only of convincing quality, but also emotionally appealing – it was necessary to carry out a thorough analysis. What resulted was the identification of predominant lifestyle, home and furnishing trends among consumers and users in western industrial nations and other technically-advanced countries.

Western-World Trends

The results showed above all the following characteristic attitudes, which are expressed in a few distinctly marked “lifestyles”:

“Classic Life”

A strong consumer preference is seen in the propensity towards traditional concepts and values. Furnishings, home textiles, colours and materials in the living area, as well as fittings in the bathroom and kitchen, all mirror the penchant for “classics”, which is confirmed just as much in the high quality of materials used, as in the traditional and timeless styling. The name Villeroy & Boch gives to this stylistic orientation is “Classic Life”.

“Country Life”

“Country Life” is the name we give to another attitude to life and furnishing, which above all seeks to achieve a feeling of cosiness and protection in a “warm”, romantically rustic home life. Villeroy & Boch traditionally enjoys strong representation in this sector with the product ranges from its Tile, Bathroom and Kitchen and also Tableware Divisions and consequently complies with people's yearning for naturalness, evolved traditions and idylls.

“Family Life”

A loving, uncomplicated togetherness and practically-oriented demands are the characteristics of a predominantly informal lifestyle. This means that objects surrounding us in our everyday lives can be used in a purposeful and direct way . “Family Life” meets these requirements by offering products which possess colour, durability and easy-care qualities.

In addition, a person's preferences for the most varied of furnishing elements from other cultures and areas of life naturally also play an illustrative role in the home environment he has chosen for himself. Holiday experiences, nostalgia and the yearning for a lifestyle which clearly differs from one's own environment, are frequently then found quoted in furnishings, pictures, room decoration and home textiles. But these “external influences” are, for the most part incorporated into one of the lifestyle environments outlined above.

“The House of Villeroy & Boch”

Classic, romantic, or informal – this is how the respective stylistic and design preferences can be realised in the private surroundings of an apartment or house. Oriented towards these fundamental lifestyles, the “House of Villeroy & Boch” range offers the necessary decoration products and furnishing solutions. These include a striking complete range of products – not only for all aspects of the laid table, but also for the bathroom sector –

With its new "Metropolitan style" furnishing solutions Villeroy & Boch is addressing an international, unprejudiced, modern-thinking public, whose taste has an urbane, puristic character.

equipped with virtually all elements for personal hygiene, wellness and fitness. Complementing and completing these products is a tile range, designed for all conceivable areas of wall and floor-design in the home and construction project sector.

A New Trend: "Metropolitan Style"

In recent years, a further trend has developed principally in large cities and capitals. A particular contribution has been made towards this trend by global communication, which extends beyond culturally-determined limitations. What has resulted is a typically urbane, puristic, yet freely associating style of furnishing which is constantly gaining popularity. Its characteristics seem to establish the identity for modern, unprejudiced people, who in addition, frequently combine living and working in the same surroundings. Villeroy & Boch serves this young, yet extremely "adult" lifestyle with products and decoration solutions under the collective term of "Metropolitan".

Living and Working in the "Loft"

Let's imagine, for example, a loft: perhaps formerly an atelier, or a workshop with large windows and spacious rooms. This setting provides adequate space for both creative working and the desired brief periods of seclusion. Such surroundings also, however, offer the ideal basic conditions for concentrated talks with business partners, or stimulated conversation and cheerful celebrations with friends.

When furnishing a loft of this kind, scope is given for completely unconventional arrangements of furniture items, which are totally aligned with the wishes and needs of the occupant. One example is "SoHo N.Y.". This ceramic vanity unit developed by Villeroy & Boch looks like a water-dispensing "fountain" and displays a simple, clear styling. When integrated into the living or working area, such an object surprisingly, yet at the same time convincingly, links the functions of usefulness and beauty. Top-class international design-awards are proof of this effective synthesis.

New Kind of Tableware

Tables presented in the Villeroy & Boch "Metropolitan Style" also display a new and specific kind of tableware, which stands out from the common, standard range in a way which is not only surprising, but also arouses attention. The unusual, puristic design of plates, dishes, bowls and platters takes into account new eating habits involving food combinations. "Metropolitan" turns serving and eating this "fusion food" into an enjoyable, small event. European, regional and Far-Eastern foods "fuse" to produce creative meals, which in turn reflect the philosophy of life of those eating them – namely their constant longing to experience something new.

The "discovery" of this current, global urbane trend in lifestyles and furnishing – which is still increasing in strength and thus provides the basis for assuming a certain duration – sparked off a typical reaction at Villeroy & Boch. During the course of its history, spanning more than 250 years, the highly traditional company repeatedly recognised the importance of determining trends as early as possible and occupying this sector of the market with a range of coordinated, high-quality products and services.

Today, the strategic orientation of the Villeroy & Boch brand unites the competence of four corporate Divisions. These demonstrate the high demands of the progressive lifestyle supplier, who regards itself as a customer-oriented designer of lifestyle environments, conveyed in an exemplary way using an emotionally effective presentation.

A puristic-urbane furnishing trend is currently taking in particular cosmopolitan cities by storm. Villeroy & Boch has named this style direction, which is displayed in the most varied of furnishing elements, "Metropolitan Life".

NEWWAVE, a tableware series which uses a new kind of eye-catching design (above left) and the award-winning, free-standing, SOHO N.Y. vanity unit, are just two examples from this ultramodern lifestyle segment.

- *Sales Rise of 3.8 %*
- *4.2 % EBIT/Yield Slightly Below Level in Year 2000*
- *Dividend Proposal As in Previous Year: Euro 0.50 per Individual Ordinary-Share Certificate, Euro 0.55 per Individual Preference-Share Certificate*
- *Expectations for 2002: Sales Increase to Well Over Euro 1 Billion, Together with Improvement in Result*

New Acquisitions in the Financial Year 2001

Villeroy & Boch consistently pursued its acquisition policy in the financial year 2001, with the strategic objective of becoming a "complete-bathroom" supplier.

At the start of the year 2001, the Bathroom and Kitchen Division acquired the remaining 50 % of shares in the Austrian bathroom-furniture manufacturing company, db.Das Bad (which consequently changed its corporate name to Villeroy & Boch Badmöbel GmbH). In addition, a new marketing company was founded in Poland, for the purpose of strengthening business in Eastern Europe.

Further consistent reinforcements were made to the Wellness Division as a result of purchasing production companies for baths, whirlpools and shower cubicles in the Czech Republic (Vagnerplast spol. s r.o.), in Slovakia (Vagnerplast Slovensko S r.o.), in Belgium (Acomo Belgium N.V.) and in Italy (Itema S.r.l. – whose corporate name has changed to Villeroy & Boch Wellness Italia S.r.l.).

The Tile Division acquired the remaining 30 % of shares in Ceramica Ligure S.r.l., the Italian fine stoneware production company.

General Economic Environment

Restrained Economic Trend

Contrary to expectations, a clear deterioration was experienced in the economic situation in the financial year 2001. Growth, which had already slowed down in the USA in the year 2000, continued this trend during the course of 2001. A marked slowdown in economic growth was similarly reported in the other major industrial countries. Restrained consumer buying was affected even more adversely by the terrorist attacks in the USA in September 2001. Recording a total of just 0.6 %, economic growth in Germany was not only clearly less than in the year 2000 (3 %), but also the lowest for seven years.

Overall Construction Activity in Germany Remains Weak

A sharp drop in new-building activity, coupled with a decline in renovation activity determined the trend in the construction sector in the year 2001, with the effect that the demand for tiles and sanitary-ware products fell. A somewhat more satisfying situation was experienced in the majority of other European countries, where a slight revival was reported in overall construction activity. Consumption stabilised at a high level in our second most important sales market, France.

Stagnating Demand for Porcelain and Glass

Despite the prevailing "home life trend", the demand for porcelain and glassware in Germany did not recover in the year 2001. Accordingly, the sales decline experienced by the German specialist retail sector continued. Neither was it possible to report a significant revival in demand for products for the laid table in major foreign markets – in fact, distinctly weak trends were particularly apparent in the US market.

Sales and Incoming Orders

Rise in Group Sales

Villeroy & Boch successfully maintained its position in the financial year 2001 and was able to increase Group sales by a further 3.8 %, bringing the total to Euro 975.2 million, as compared to Euro 939.6 million in the previous financial year.

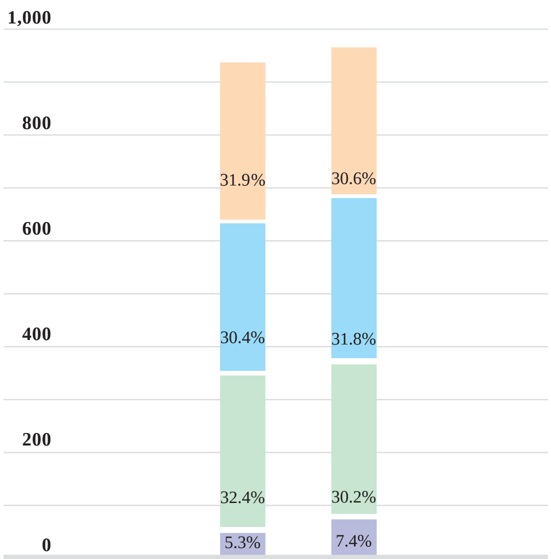
Despite the distinctly weak demand in the domestic market, sales achieved by Villeroy & Boch AG in the same period fell only slightly, reporting a total of Euro 561.7 million. When sales of the newly-acquired companies are excluded, the resulting Group sales of -1.9 % were roughly on the same level as in the previous financial year.

Decline in Domestic Sales

Villeroy & Boch Group domestic sales fell by 7.5 %, this loss, however, being fully compensated by sales increases secured abroad. Sales rose by 10.3 % in France, 18.0 % in the remaining EU countries and by 15.9 % in the other European countries. A decline of 6.6 % was recorded outside Europe, being caused in particular by the closure of deficit-ridden Tile Division sales branches in the USA.

2000/2001 Group Sales

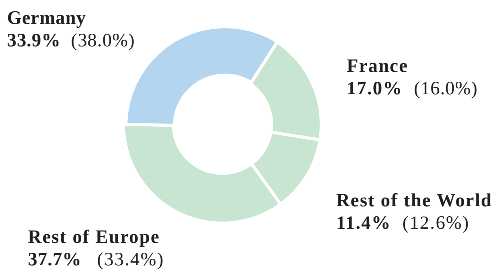
Distribution According to Division (in Euro million)



	2000	2001	Change	
Tiles	300.1	298.6	-1.5	-0.5 %
Bathroom and Kitchen	286.0	309.9	23.9	8.4 %
Tableware	304.2	294.3	-9.9	-3.3 %
Wellness	49.3	72.4	23.1	46.9 %
Total	**939.6**	**975.2**	**35.6**	**3.8 %**

Group Sales for the Year 2001

Regional Distribution
(Previous year's figures in brackets)



Rise in Volume of Orders

A welcome trend is to be reported in the rise in order volume. When compared to values achieved in the previous financial year, this figure had risen by Euro 5.4 million in the Villeroy & Boch Group on 31 December 2001, bringing the total to Euro 44.9 million. This increase is essentially attributable to the Bathroom and Kitchen Division.

Sales Trend in the Divisions

Having secured sales of Euro 298.6 million in the financial year 2001, the Tile Division was almost able to achieve the level of Euro 300.1 million which it reported in the previous year. When adjusted to exclude acquisitions, sales were a minimal 2.3 % below the previous year's value. A distinct sales loss of 5.4 % was reported on the domestic market and also beyond Europe, in particular, in the USA. In contrast, growth was achieved in Europe, with sales in France – the Division's second most important market – increasing by an extraordinary 11.6 %.

When compared to the previous financial year (Euro 286.0 million) the Bathroom and Kitchen Division was able to report a sales increase of 8.4 % in the financial year 2001, bringing the total to Euro 309.9 million, 65 % of which was obtained abroad. This rise can firstly be attributed to sales made by the Swedish subsidiary company AB Gustavsberg, which was acquired in the year 2000 and whose complete year's figures were included for the first time in the consolidated finan-

Structural Group Profit and Loss Account

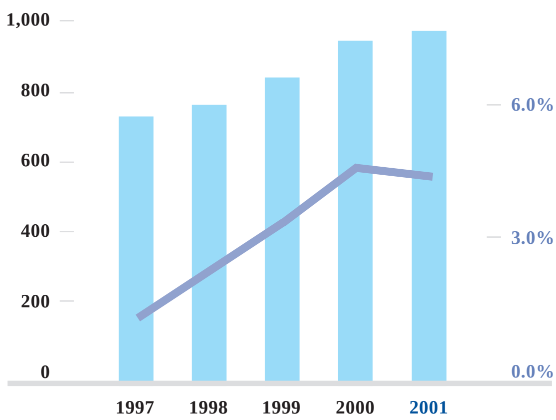
In Euro million	2001	% of TVP	2000	% of TVP
Sales	975.2	100.0	939.6	100.6
Total value of production (TVP)	**975.2**	**100.0**	**934.2**	**100.0**
Cost of materials	- 334.1	- 34.3	- 312.2	- 33.4
Gross Yield	**641.1**	**65.7**	**622.0**	**66.6**
Personnel expenses	- 342.0	- 35.1	- 320.5	- 34.3
Depreciation (of fixed assets)	- 52.9	- 5.4	- 50.3	- 5.4
Other expenses/income	- 205.4	- 21.0	- 207.9	- 22.3
EBIT	**40.8**	**4.2**	**43.3**	**4.6**
Net interest	- 7.2	- 0.8	- 7.0	- 0.7
Result from ordinary operations /EBT	**33.6**	**3.4**	**36.3**	**3.9**
Taxes on income	- 11.1	- 1.1	- 11.5	- 1.2
Net retained profit	**22.5**	**2.3**	**24.8**	**2.7**

cial statements. Secondly, these figures also include sales made by the new subsidiary, Villeroy & Boch Badmöbel GmbH, which was fully consolidated for the first time. When the sales increases arising from acquisitions are excluded, the Division was able to attain its previous year's level. Trends in domestic and foreign markets, however, differed. While a 7.4 % sales decline was reported in Germany, this was contrasted by corresponding sales increases in Europe.

Sales in the Tableware Division fell from Euro 304.2 million in the year 2000, to Euro 294.3 million in the financial year 2001, representing a fall of 3.3 %, or Euro 9.9 million. This decline corresponds to the decrease in domestic-market sales, the cause of which can be seen in the greater degree of restraint in consumer spending where products for the laid table are concerned. Sales increases were secured on foreign markets, in particular in France and European countries outside the EU. The sum of these increases was not, however, sufficient to offset the decline in Germany. Foreign sales accounted for 68 % of total sales in the Tableware Division in the year under review,

EBIT in % of Sales

(in Euro Million)



	Sales in Euro million	EBIT in %
1997	737	1.6
1998	772	2.5
1999	834	3.4
2000	940	4.6
2001	**975**	**4.2**

having risen once again from 66 % in the year 2000.

The Wellness Division's sales trend in the year 2001 was fundamentally characterised by its latest acquisitions. Having secured sales of Euro 49.3 million in the year 2000, the Division was able to achieve an increase of 46.9 %, bringing the total in the year 2001 to Euro 72.4 million. If sales made by the newly acquired companies were to be disregarded, the sales level reported in the previous financial year would have been achieved. Compared to the industry as a whole, the 10.1 % sales decline experienced in Germany was minimal. Sales increases were achieved, for the most part, in the European countries.

Result

EBIT and EBT Slightly Lower than in Previous Year

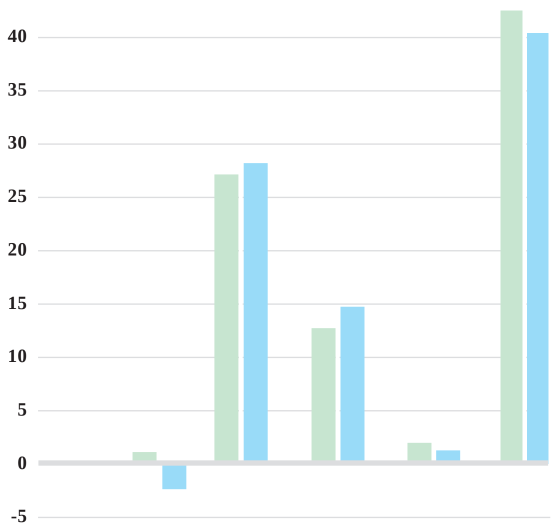
The Villeroy & Boch Group operating result (EBIT) fell by 5.8 % to a total of Euro 40.8 million in the year under review. Having reached a total of Euro 36.3 million in the year 2000, the result from ordinary operations decreased to Euro 33.6 million in the year under review.

Despite an absolute rise in relation to total value of production, both the cost of materials and personnel expenses increased only minimally. This also applies to depreciation, which is unchanged in relation to total value of production. The absolute increase in depreciation is attributable to the high volume of investment made in recent years. An opposing trend was reported in other expenses and income.

A positive net interest income, in the sum of Euro 1.2 million (Euro 1.5 million in the previous year) and the share of interest resulting from allocations to pension provisions, in the sum of Euro 8.4 million (Euro 8.5 million in the previous year) gave rise to a financial result of Euro -7.2 million. Interest income declined owing to the diminished net liquid assets and lower interest rates. Earnings include a distribution of dividends in the sum of Euro 2.5 million from a specialised fund set up in 1998.

EBIT 2000/2001

According to Division (in Euro million)



	Tiles	Bathroom and Kitchen	Table-ware	Wellness	Total
2000	1.1	27.1	13.0	2.1	43.3
2001	-2.5	28.0	15.0	0.3	40.8

Result Trend in the Divisions

Owing to the negative market trend, it was not possible for the Tile Division to continue the positive earnings trend it reported in the previous financial year. The negative operating result (EBIT) of Euro -2.5 million was Euro 3.6 million lower than in the previous financial year. Greater orientation towards the middle and luxury-class tile segments brought about a planned increase in average net proceeds, but was also accompanied by a reduction in volume. The Division's earnings position was furthermore burdened by additional expenses incurred for reorganising the US marketing company and also for adapting production to higher-value products in the Italian production company. In the year 2001, measures were implemented in the French factories to ease the strain on costs. These, for the most part, involved measures to achieve greater production flexibility.

Having reported a total of Euro 27.1 million in the year 2000, the Bathroom and Kitchen Division's operating result (EBIT) rose to a total of Euro 28.0 million in the year 2001. In view of the poor underlying conditions, it is extremely pleasing to report that the result has stabilised at a high level. Having made a considerable contribution to the good earnings situation, the consistently growing amount of foreign business is also gaining significance in the Bathroom and Kitchen Division. Mention must also be made here of gains made in Scandinavia and the countries of North-Eastern Europe, as a result of targeted marketing activities carried out by the new subsidiary company, AB Gustavsberg.

The Tableware Division was able to further increase its EBIT to a total of Euro 15.0 million in 2001, as compared to Euro 13.0 million in the previous financial year. Given a decline in sales, this success is to be attributed to modernisation and rationalisation in the production sector, as well as to improvements in procurement. A further contribution was made to this result by consistently focussing sales and marketing activities on optimising contribution margins, by successful new product launches and constant sales growth in the hotel and catering sector. Owing to the extremely high proportion of sales accounted for by foreign business (68.4 %), the Tableware Division has become less dependent on trends in the weak German market.

A decline was reported in the Wellness Division EBIT, which fell from Euro 2.1 million in the previous financial year, to Euro 0.3 million in 2001. Currently in the process of building up, the Division implemented measures in the financial year 2001 aimed at integrating the newly acquired companies in a way which would achieve the best possible benefits from synergy effects. High costs were incurred in the course of developing the necessary organisational structures, thus causing a strong decline in the Division's result. In addition, an increase in non-recurring marketing expenses was brought about by measures to convert the “Ucosan” brand to that of “Villeroy & Boch”.

Slight Decline in Group Net Retained Profit

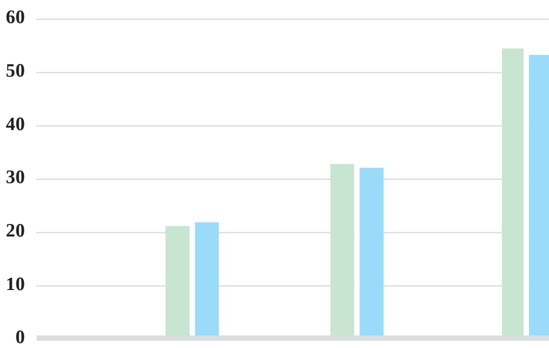
Owing to the fall in operating result (EBIT), the Villeroy & Boch Group net retained profit was lower than the value reported in the previous financial year. A slight rise was recorded in the quota of taxes on income, which totalled 33.0 %. Tax optimisation reduced the current taxes on income included in the tax expenditure, from Euro 11.3 million to Euro 8.8 million, while expenditure on deferred taxation rose slightly.

A series of changes to the German law on corporate income tax became effective at the start of the year 2001. The imputation system, with split rates for distributed and non-distributed dividends, which was in force until the end of the year 2000, made way for the so-called half-income procedure with a fixed 25 %-rate of corporate income tax, plus a solidarity surcharge, currently amounting to 5.5 %.

One of the requirements arising as a consequence of the reduced tax rate was the necessity for Villeroy & Boch to re-value deferred taxes. This adjustment gave rise to a deferred tax expenditure of around Euro 3.6 million. In addition, deferred tax expenditure was increased by the tax credit on the appropriation of the 6b reserves, which was effected in the financial year for the purpose of adjusting to international accounting principles. According to HGB [German Commercial Code]

Investments in Tangible and Intangible Fixed Assets 2000/2001

(in Euro million)



	AG	Remaining Group	Total
2000	21.2	33.5	54.7
2001	**21.8**	**32.5**	**54.3**

deferred taxes on losses carried forward may not be reported.

Rise in Villeroy & Boch AG Net Retained Profit

The Villeroy & Boch AG reports an increase in its result before taxes on income (EBT), which rose from Euro 29.1 million in the previous financial year, to Euro 30.9 million in the year under review. Given the decline in sales, this development is to be attributed to the higher dividend distributions made by foreign companies. Dividend distributions also exerted a positive effect on the burden of taxes on income, since 95 % of the dividend amounts are exempt from German taxation. As a consequence, the burden of taxes on income in the Villeroy & Boch AG fell from Euro 4.5 million to Euro 3.0 million.

Dividend Proposal

As in the previous financial year, both the Executive Board and the Supervisory Board will propose a dividend distribution of

Euro 0.55	for individual preference-share certificates and
Euro 0.50	for individual ordinary-share certificates

to the General Meeting of Shareholders. In accordance with § 58 section 2 AktG, an amount of Euro 11 million has been allocated to revenue reserves from the Villeroy & Boch AG net retained profit for the year 2001. Of the sum still remaining after this allocation, Euro 14.7 million is to be distributed and Euro 6.5 million carried forward to a new account. These amounts will be changed by the share of the dividend apportioned to the company's own holding of individual preference-share certificates at the time dividends are distributed. Following conversion from the imputation system to the half-income procedure, from the year 2002, the payment of dividend distributions is no longer linked to a tax credit.

INVESTMENTS

Investments in Tangible and Intangible Fixed Assets

Totalling Euro 54.3 million in the year 2001, investments in tangible and intangible fixed assets in the Villeroy & Boch Group were roughly on a level with those reported in the previous financial year (Euro 54.7 million). Depreciation in the year under review totalled Euro 52.9 million, as compared to Euro 50.3 million in the year 2000. Roughly 59 % of the Villeroy & Boch Group's total investment concerned foreign activities. Investments made by Villeroy & Boch AG in the sum of Euro 21.8 million, were roughly on the same level as in the previous financial year (Euro 21.2 million).

Investments in the Villeroy & Boch Group were allotted to the four Divisions as follows:

	%	Euro million
Tiles	25	13.5
Bathroom and Kitchen	33	17.8
Tableware	29	15.8
Wellness	13	7.2

63 % of the Tile Division's investment volume was expended abroad, a large proportion of which being allocated to capacity adjustments at the Oiry works. Investment was furthermore made in the Italian works, in measures to achieve greater production flexibility, and also in the company's own retail showrooms in France. Investments in Germany concentrated for the most part on construction of the new mass preparation plant in Merzig.

In the year 2001, Bathroom and Kitchen Division investment measures were implemented predominantly abroad and accounted for 78 % of total investments. This investment was concentrated primarily on modernising production facilities abroad – in factories in Hungary and Romania – as well as in the Mettlach works in Germany.

64 % of investments made in the Tableware Division were allotted to locations within Germany. These investments served to rationalise production and improve logistics at the German works in Mettlach, Merzig and Torgau. In addition, new

Villeroy & Boch Group – Abridged Cash Flow Statement

(in Euro million)

	2001	2000
Net retained profit	22.5	24.8
Depreciation on fixed assets	52.9	50.3
Changes in long-term provisions	0.5	0.9
Changes in special reserves	- 9.9	- 3.4
Result from disposal of fixed assets	- 1.2	- 1.3
Other income without effect on liquid resources and payments received without effect on operating result	- 0.3	2.2
Changes in inventories, receivables, liabilities, short-term provisions as well as other assets and liabilities	- 23.8	- 1.6
Cash flow from operating activities	**40.7**	**71.9**
Cash flow from investment activities	**- 74.3**	**- 114.2**
Cash flow from financing activities	**- 21.3**	**- 154.9**
Change in balance of funds affecting liquid resources	**- 54.9**	**- 197.2**
Changes ensuing from companies consolidated	8.6	3.2
Balance of funds on 1.1.	**74.2**	**268.2**
Balance of funds on 31.12.	**27.9**	**74.2**

retail outlets were opened, in particular in the form of shop-in-shop models.

The greatest proportion of investments made by the Wellness Division served to improve production at its Ucosan works, in the Netherlands. Large-scale investment was also made in measures to adapt production at the subsidiary company, Vagnerplast, in the Czech Republic.

Group Financing

Fall in Cash Flow From Operating Activities

The cash flow from operating activities fell from Euro 71.9 million to Euro 40.7 million. This reduction was brought about by the higher appropriation of special reserves included in the net retained profit, as well as by the reduction in liabilities and short-term provisions, which was greater than in the previous financial year.

Further Reduction in Net Liquid Assets as a Result of Acquisitions

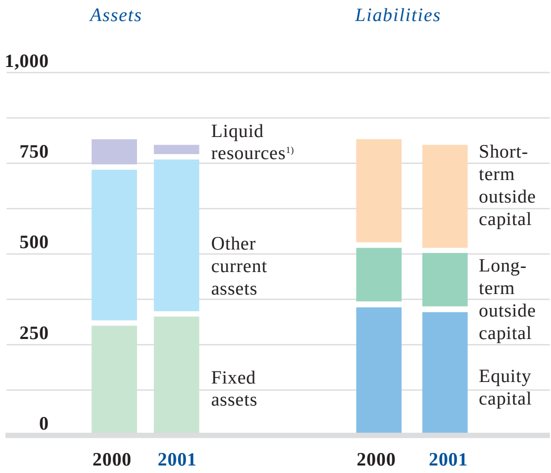
A further reduction in net liquid assets resulted from the forceful acquisition policy, aimed at internationalising the Villeroy & Boch Group. Having reached a total of Euro 36.1 million in the year 2000, it fell to Euro -11.3 million in the year under review. The reduction in liquid assets is based on a decline in liquid resources, including investments held as current assets (excluding own shares), which fell from Euro 74.2 million to Euro 27.9 million. This decline is contrasted by a Euro 1.1 million rise in liabilities to banks and bills payable, bringing the total to Euro 39.2 million. Taking into account shares to the value of Euro 35.8 million in a specialised fund, which are shown in the financial assets, as well as own shares in the sum of Euro 9.4 million, a positive level of net liquid assets results.

Balance Sheet Structure in 2001: Equity Ratio Remains High

The decline in liquid assets led to a reduction in balance sheet total, which fell from Euro 820.4 million in the previous financial year, to Euro 804.6 million by the balance sheet date of 31.12.2001. A reduction was reported in equity capital and in the special reserve account on the liabilities side while the equity ratio of 43.5 %

Group Balance Sheet Structure

(in Euro million)



Assets	2000	2001
Fixed assets	293.2	313.8
Other current assets	443.3	453.5
Liquid resources[1)]	83.9	37.3
Balance sheet total	**820.4**	**804.6**
Liabilities		
Equity capital	362.2	350.0
Long-term outside capital	162.5	164.2
Short-term outside capital	295.7	290.4
Balance sheet total	**820.4**	**804.6**

[1)] Including investments held as current assets

remained virtually unchanged (previous year: 44.1 %).

Owing to the decrease in balance-sheet total, the share of the latter accounted for by fixed assets – which themselves increased by Euro 20.6 million, predominantly as a result of acquisitions – rose from 35.7 % to 39.0 %. Current assets (including liquid resources) were therefore reduced proportionally from 64.3 % to 61.0 %.

When compared with the year 2000, the long-term fixed-assets-to-net-worth ratio remained unchanged in 2001. Equity capital continued to fully cover long-term assets and in addition around 8 % (14 % in the previous financial year) of current assets. When long-term outside capital is taken into account, this cover ratio is increased to 44 %.

Employees

On the balance-sheet date of 31.12.2001, a total of 11,089 persons were employed in the Villeroy & Boch Group, which represents a rise of 6.6 % (previous year: 10,408). When adjusted to exclude changes in the area of participation, the number of persons employed fell by 0.2 %. A total of 3,823 persons were employed by Villeroy & Boch AG at the end of the financial year 2001, as compared to 3,737 on 31.12.2000.

Additions were recorded within the Group as a result of the initial consolidation and newly acquired companies: Villeroy & Boch Badmöbel (+103), Vagnerplast (+279), Acomo (+140) and Villeroy & Boch Wellness Italia (+144). In Villeroy & Boch AG, additions were recorded in the production sectors of both the Bathroom and Kitchen and the Tableware Division. There was a slight drop in the number of persons employed in the Tile Division in Germany. Further reductions in the numbers of persons employed were also reported at foreign Tile Division locations in France – at the factories in Oiry and La Ferté-Gaucher – and also in the USA.

Product Development

Development Costs

A total of Euro 14.0 million was spent in the Villeroy & Boch Group on research and development in the year 2001, as compared to Euro 13.5 million in the year 2000.

Within its scope of research and development Villeroy & Boch concentrates particularly on the following areas: securing leads within the industry where the use of innovative manufacturing techniques and logistics are concerned, increasing utility and user benefit and the quality of products and solutions as well as consistently improving productivity, with the aim of cutting costs.

Reorientation of Construction Project Sector

The construction project sector (e.g. construction projects for international hotel chains) represents additional business potential for Villeroy & Boch. Particularly as a result of having pursued its "single-source bathroom" diversification strategy, Villeroy & Boch is now able to offer integral system solutions for the construction project sector. The aim of reorientation is to competently appeal to professional investors, planners and general contractors, as well as to other decision-making units. Large-scale projects often have an extremely complex decision-making structure, which frequently spans sectors and countries. Professional construction-work principals and planners think less in terms of product categories and more in terms of spatial concepts. In order to be able to exploit this great market potential, construction-project business at Villeroy & Boch has undergone re-orientation which spans both divisions and countries and has led to the establishment of a new "International Project Management" department. As a result, the good construction-project work already carried out in the Divisions will be better coordinated and synergies used to further develop this interesting business. Based on analyses carried out on construction project business, the "complete bathroom" concept was prepared in the financial year 2001 and is currently being implemented.

Risk Management

Risk management is an integral part of business administration at Villeroy & Boch. Corporate planning and decision processes are geared towards consistently using opportunities and recognising risks early, so as to be able to secure the long-term continued existence of the company. The basic elements of the risk management system are detailed in a special manual. For assessing, monitoring and controlling risks we employ information systems which have been built up and developed on the existing reporting system. These are then supplemented by a standard Group strategic, planning and budgeting process, as well as by analyses of markets and competitive situations. Within the scope of the additionally founded risk reporting system, all risks relevant to the Group are recorded in respect of the amount of damage possible, as well as the probability of their occurrence, taking into consideration the existing safety systems. Existing systems enable the Executive and Supervisory Boards of Villeroy & Boch to receive timely information on fundamental risks.

A system of internal inspection examines whether guidelines within the Group are observed. In addition, the statutory auditor examines the "early risk recognition system" integrated in the risk management system, to check its suitability for recognising developments in good time, which can jeopardise the company's continued existence.

Business Risks

Fundamental risks for Villeroy & Boch's business development can ensue from changes in the economic environment, in the competitive situation and, as a result, in the market acceptance of new products and product fields. In so far as these risks are foreseeable, they will already be taken into account in the planning process and in balance-sheet preparation.

As the company's business operations continue to become more internationalised, Villeroy & Boch is increasingly exposed to changes in currency parity. Added to this are the risks of interest-rate changes. For the purpose of minimising risks, the central treasury operates a foreign currency netting system throughout the Group and in addition makes use of derivative financial instruments. Constant monitoring and regular reports to the Executive Board are guaranteed within the framework of stipulated procedural guidelines.

Risks also arise from integrating the newly acquired companies. In order to avert these risks, Division-spanning project groups have been set up to aid incorporation of the new companies. Additionally, within the scope of progressive internationalisation, Villeroy & Boch has stepped up its affiliated-company controlling.

Continuous market surveillance is carried out by the central purchasing management office to reduce operating result risks arising from unforeseen fluctuations in commodity prices. In addition, attention is also given to avoiding dependence on individual suppliers.

Outlook

Restrained Future Business Conditions Expected

No radical trend reversal is expected in Germany. Economic activity should continue to remain at a low level during the first half year. If any upturn should take place at all, it is not expected before the middle of the year 2002, as in the other Euro countries. At the start of the year 2002, the US economy showed slight signs of gaining ground once again. It is, however, extremely difficult to judge, whether this slight upward trend will continue and become stronger in the year 2002, or whether a further setback will take place.

Business Expectations in the Divisions

The **Tile Division** aims to achieve a positive result once again in the financial year 2002. As a result of closing four branches in the USA in 2001, reducing surplus capacity in Italy and repositioning the fine stoneware range, the essential sources of loss have been eliminated. This aim is furthermore supported by a programme of rationalisation and saving measures, which is in effect throughout the Division. As a consequence of branch closures in the USA, sales will not completely achieve the level of the previous year.

Despite sustained stagnation on the main market, Germany, the **Bathroom and Kitchen Division** anticipates sales growth for the current financial year and a corresponding improvement in result. The most important stimuli are expected to come from the export markets, where Villeroy & Boch's share has been consistently built up in certain target markets during recent years, as a result of a market-adjusted sales and marketing policy. It is furthermore planned to expand business in the bathroom-furniture and fittings sector.

The **Tableware Division** is confident that it will be able to continue the good level of sales and result in the financial year 2002, which it achieved in 2001. Success of the “Metropolitan” segment is to be secured by additional products and the glass/cutlery ranges, as well as the gift article range, will be further developed. At the end of 2001, the Division furthermore launched an extensive programme of measures to rationalise and modernise its own production group. Starting at the Saar location, by the end of 2002, essential stages will already have been implemented and the subsequent steps initiated in Luxembourg and Torgau.

The **Wellness Division** will continue its expansion strategy as scheduled in the financial year 2002. With the help of the acquisitions made in Belgium and Italy at the end of 2001, as well as additional internal growth, it is aimed to secure a sales leap of more than Euro 40 million, bringing the total to over Euro 115 million. A considerable improvement in performance and, therefore, a return to a good yield level is expected, as a result of the increasing use of synergy potential from the acquisitions of the last two years, the high level of acceptance experienced by new product launches in 2001 and also thanks to the elimination of the special burden managed in 2001.

Overall Outlook for the Year 2002

As market conditions in Germany will continue to remain difficult, we do not anticipate any revival in the business climate. Positive influences will, however, be exerted in particular by foreign business, which has increased continuously in recent years. Given that the share of sales accounted for by the German market is now less than 35 %, dependency on this market has been further reduced. Despite the sustained weakness of economic activity in Germany, it will therefore be possible to exceed the Euro 1.0 billion sales mark in the financial year 2002. The course of sales at the start of the year has so far confirmed these expectations. This sales growth will be profitable, owing to further concentration on the higher-priced product segments, while pushing ahead with the programme of rationalisation. Measures aimed at reducing the amount of capital tied up in operations – which are being carried out in all Divisions – are to contribute towards improving asset yield.

General Meeting of Villeroy & Boch Shareholders on 8 June 2001 in the Stadthalle Merzig.

Distinct Price Losses On Stock Exchanges

With distinct price losses reported throughout the world, the stock-exchange year 2001 was the second extremely negative year in succession for shareholders. Almost all major indices suffered losses in double-figures and branches particularly sensitive to cyclical trends were found at the bottom of the list.

Besides the negative performance from the American business front and the weak economic trend in Europe, particular responsibility for the extremely negative stock-exchange performance lay with the constantly lowered profit and sales forecasts from technology companies.

The range of fluctuation in shares and indices also increased considerably. A peak difference of more than 3,000 points was noted between the DAX all-year high and low.

Stability in Extremely Tough Environment

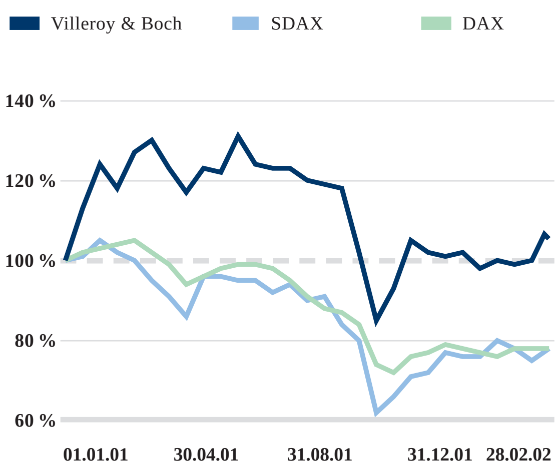
During the year, movements in the Villeroy & Boch share followed the general stock-exchange trend. Initially rising under heavy trading from Euro 10.00 to Euro 12.75 on 4 July 2001, the value then fell to the previous year's level, as a result of profit taking and the generally weak market. The closing price on 28 December 2001 was Euro 10.00.

All Major Indices Beaten

In the difficult stock-exchange climate, the Villeroy & Boch share proved itself to be a safe, good investment. While the Villeroy & Boch share closed at the level achieved in 2000, the DAX lost a total of 18 % and the NEMAX 50 as much as 54 % during the course of the year. Even the company-relevant SDAX index reported losses of more than 23 % during the course of the year.

Villeroy & Boch Share Trend

from January 2001 to February 2002 in %



Stock Options / Own Share Acquisition

In the year 2001, the second tranche of the Villeroy & Boch stock options programme was issued. The authorised persons subscribed for a total of 25,755 shares and thus acquired roughly 224,000 option rights.

Villeroy & Boch AG holds roughly one million own shares for the stock options programme.

High Level of Dividend Yield Continues

Both the Executive and Supervisory Boards propose an unchanged dividend distribution of Euro 0.55 for individual preference-share certificates and Euro 0.50 for individual ordinary-share certificates to the General Meeting of Shareholders for the financial year 2001.

Based on a market price of Euro 10 per preference share, a relatively high dividend yield of 5.5 % results.

Consistent Development of Investor-Relations Activities

Villeroy & Boch permanently works on improving and strengthening its activities in the investor relations sector.

Already completely re-structured in the year 2000, the company's investor-relations Internet presentation underwent further development in the year under review and its inclusion in the reworked Villeroy & Boch-Homepage was optimised.

Surveys show that the reworked presentation has met with an extremely positive response, both in professional circles and among the general public. This is confirmed by the high access-frequency recorded on our Internet pages.

Detailed presentations of the corporate trend and strategy were given by the Executive Board at very well-attended analyst conferences. In addition, numerous one-to-one talks were conducted with financial analysts, fund managers and journalists. The increased equity research carried out on the Villeroy & Boch share during 2001, confirms our work to be correct and is a further sign of growing interest in the Villeroy & Boch share.

Reference Figures for Villeroy & Boch Preference Share

in Euro

CUSIP Numbers	765723
Class:	no-par-value bearer individual preference-shares certificates
Shareholder structure:	92.9 % free float
Quotations:	official trading Frankfurt/Main, XETRA and also OTC market in Stuttgart, Düsseldorf, Berlin, Hamburg, Munich and Bremen
Indices:	CDAX, CDAX Construction, SDAX
Dividend:	0.55
Result in accordance with DVFA:	0.66
Cash flow from operating activities:	40.7 million
Equity capital:	329.2 million
Yearly high/low:	13.13 / 8.30
Closing price on 28.12.01:	10.00
Market capitalisation on 28.12.01:	140.45 million

Company Remains in SDAX

We feel it is extremely important for Villeroy & Boch to remain in the SDAX. It has long been known that plans exist to convert this index from 100 to 50 companies on 24 June 2002, so as to achieve concentration on the more liquid values. During the year 2001, we have, without fail, clearly fulfilled the criteria for remaining in this index and thus assume that Villeroy & Boch will continue to be part of SDAX in future.

We aim to strengthen our investor relations during the financial year of 2002. The message we shall convey in so doing is clear. In recent years, Villeroy & Boch has successfully realised the change to a leading lifestyle company in the home-interior sector. We have a clear strategy, enjoy a high degree of international awareness, have excellently-launched brands and a great deal of substance. Owing to these strengths, we not only offer the investors an extremely attractive dividend yield, but also security and potential for the future.

Motivated and technically-experienced employees ensure the success of Villeroy & Boch's range of goods and services with consumers and users. All corporate training and advanced training measures for the workforce are structured with this in mind. Proof of the consistently high standards achieved in this area was provided yet again in the financial year 2001 by the impressive examination results. Of the 46 trainees, 26 attained a grade of good to very good. Among this year's top five students at the Akademie der Saarwirtschaft (BA) three had trained at Villeroy & Boch.

Successful Employee Qualification

In the year 2001, intensive use was made of the programme of advanced training offered for qualifying employees. One area on which the programme concentrated was that of communications technology – this being verified, for example, by the successful launch of SAP Retail in the Tableware Division. It must also be mentioned here, however, that a contribution was made to this success by the effective cooperation between committed newcomers to the job and their experienced colleagues. Here, Villeroy & Boch's training system – which introduces juniors to the working world in a practical way at an early stage – has proved to be extremely efficient.

Focus on Occupational Promotion

The opportunities offered by the company for advanced vocational training also aroused interest among juniors. Six trainees, for example, who took their final exams in the year 2001, decided in favour of attending advanced schools and colleges. The company's fund for occupational promotion provides extensive support when studying.

Employee competence and commitment are of fundamental importance for the quality of products and service.

Support from Fund for Occupational Promotion

Last year, Villeroy & Boch's fund for occupational promotion provided support for a total of 40 students of economics, business data processing, mechanical engineering and other study courses in the areas of technology and social science. This financial and non-material support is provided until the course graduates later return to the company as junior technical and management staff.

Innovative Ideas Cut Costs

Innovative thinking is both required and supported at Villeroy & Boch. Once again therefore in the year under review, the idea and innovation management incentives for developing own creativity gave rise to hundreds of suggestions and concrete proposals for improving production and organisation. As a result of implementing this potential, it was possible to reduce costs and make savings totalling more than Euro 500,000 in the year 2001.

Progressing Internationalisation

In the course of progressing internationalisation, an increasingly significant role is played by the ability and willingness of junior management members at all levels of the hierarchy to also assume responsibility at Group locations outside Germany. This presupposes such important requirements as knowledge of appropriate languages and the ability to fit in to an unfamiliar cultural environment. Accordingly, our employee qualifications and the range of advanced training courses offered are geared to the demands of an internationally active company.

"Guideline on Corporate Ethics"

In this connection, a transnationally effective guideline on ethical responsibility is becoming increasingly significant. Drawn up in the year 2001, the "Guideline on Corporate Ethics" outlines the fundamental values which the company aims to uphold: regard for the personality and potential of individuals, respect for social standards and laws, responsibility for safety and environmental protection, fairness in relationships with customers, suppliers and competitors, as well as preservation of independence and protection of confidential information and corporate assets. All Villeroy & Boch employees throughout the world are obliged to maintain these values.

By offering a reliable range of training opportunities, targeted programmes for advanced training and consistent career development promotion, Villeroy & Boch is developing a potential of committed employees, preparing them for future challenges.

Development of the Average Number of Persons Employed within the Group

	2001	**2000**	Change **00/01**
Divisions			
Tiles	2,480	2,703	-223
Bathroom and Kitchen	4,095	3,985	110
Tableware	3,177	3,159	18
Wellness	658	295	363
Other	423	404	19
Group as a whole	**10,833**	**10,546**	**287**
Countries			
Germany	4,003	4,082	-79
France	1,369	1,433	-64
Luxembourg	742	775	-33
Other	4,719	4,256	463
Group as a whole	**10,833**	**10,546**	**287**

Intensified Competitive Conditions

Heading the list of Group priorities in the financial year 2001 was the stabilisation of Tile Division profitability. This was – and still is – the aim of all measures to further concentrate and modernise production, streamline the organisation and develop higher-quality product segments. The upward trend recorded by the Division in particular from mid 1999 onwards, was stalled in the year 2001 by the unexpectedly strong drop in sales in the German construction industry.

As a result of these negative underlying conditions, the competitive situation in the ceramic wall and floor tile business became more intensive, with the effect that an extreme pricing pressure was recorded in the industry. In addition to this deterioration in market conditions, the operating result was also burdened by the noticeable increase in the price of primary energy and its negative effects on production and transport costs.

Decline in Sales and Result

Despite this difficult economic environment, Villeroy & Boch's Tile Division nevertheless succeeded in raising its average net proceeds by way of an increased orientation towards the medium and superior-quality tile segments. This achievement was, however, accompanied by a further decline in volume.

Even if the situation on some foreign markets proved more favourable, Group sales in the Tile Division fell from Euro 300.1 million in the year 2000 to a total of Euro 298.6 million in the year under review. Against the economic background, it was not possible to achieve the planned positive result. Matters were further compounded by restructuring expenses incurred in connection with the closing of deficit-ridden branches in the USA, as well as production adjustments carried out in consideration of higher-quality products at Ceramica Ligure (Vaccari) in Italy. Reporting a negative operating result of Euro -2.5 million, the Division's figures totalled Euro 3.6 million below that of Euro 1.1 million, reported in the previous financial year.

The upward trend noticeable in the Tile Division since mid 1999, was stalled in the year 2001 by the unexpectedly strong drop in sales in the German construction industry.

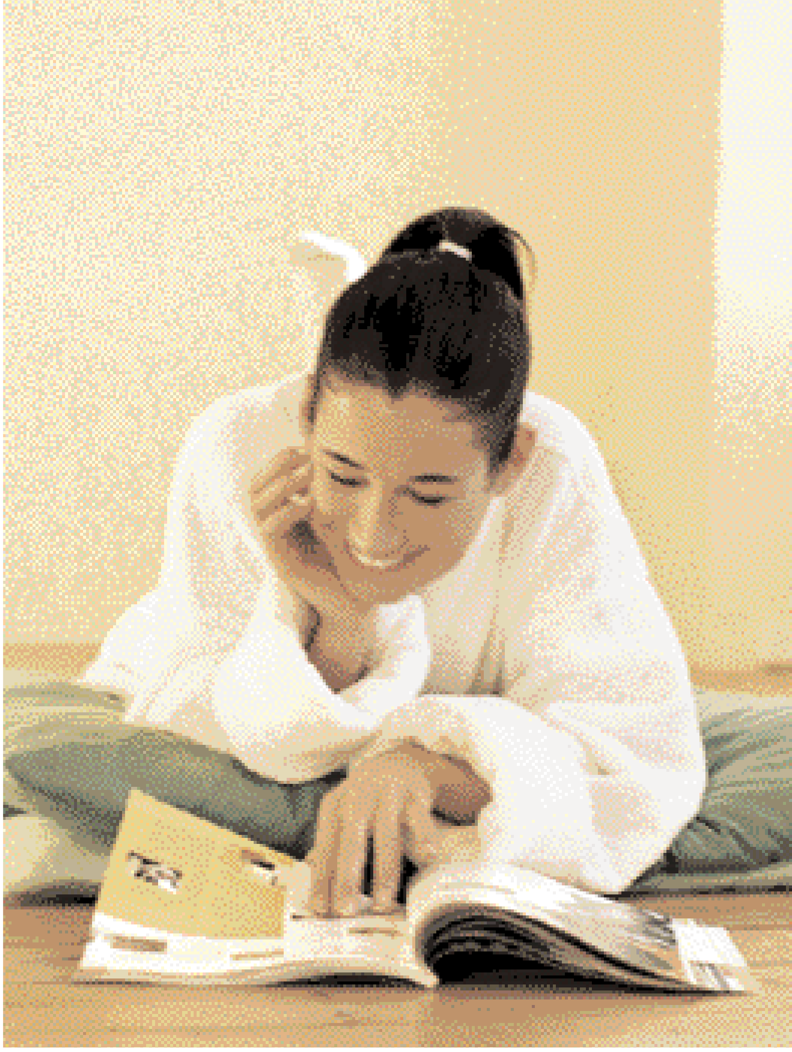
Improved Technical Configuration

Improvements made to the technical configuration during the year under review promoted favourable conditions for a positive trend in the year 2002. Measures aimed at easing the strain on costs were, therefore, implemented by restructuring the French floor-tile works at Oiry and starting up some highly efficient new plant facilities at the wall-tile works in La Ferté-Gaucher. A rise in productivity was brought about at La Ferté-Gaucher as a result of increased capacity, achieved by investing in new plant and equipment.

In the Saar region, production continued to be concentrated at the tile works in Merzig, with the effect that the entire small-format production will also take place here from this year. 2.5 x 2.5 cm mosaic tiles were also newly introduced to the range of supply here, as extensions to the “Pro Architectura” and “Look” tile concepts. Construction work on the new raw-materials processing plant in Merzig, which commenced in the year 2001, will be completed in 2002.

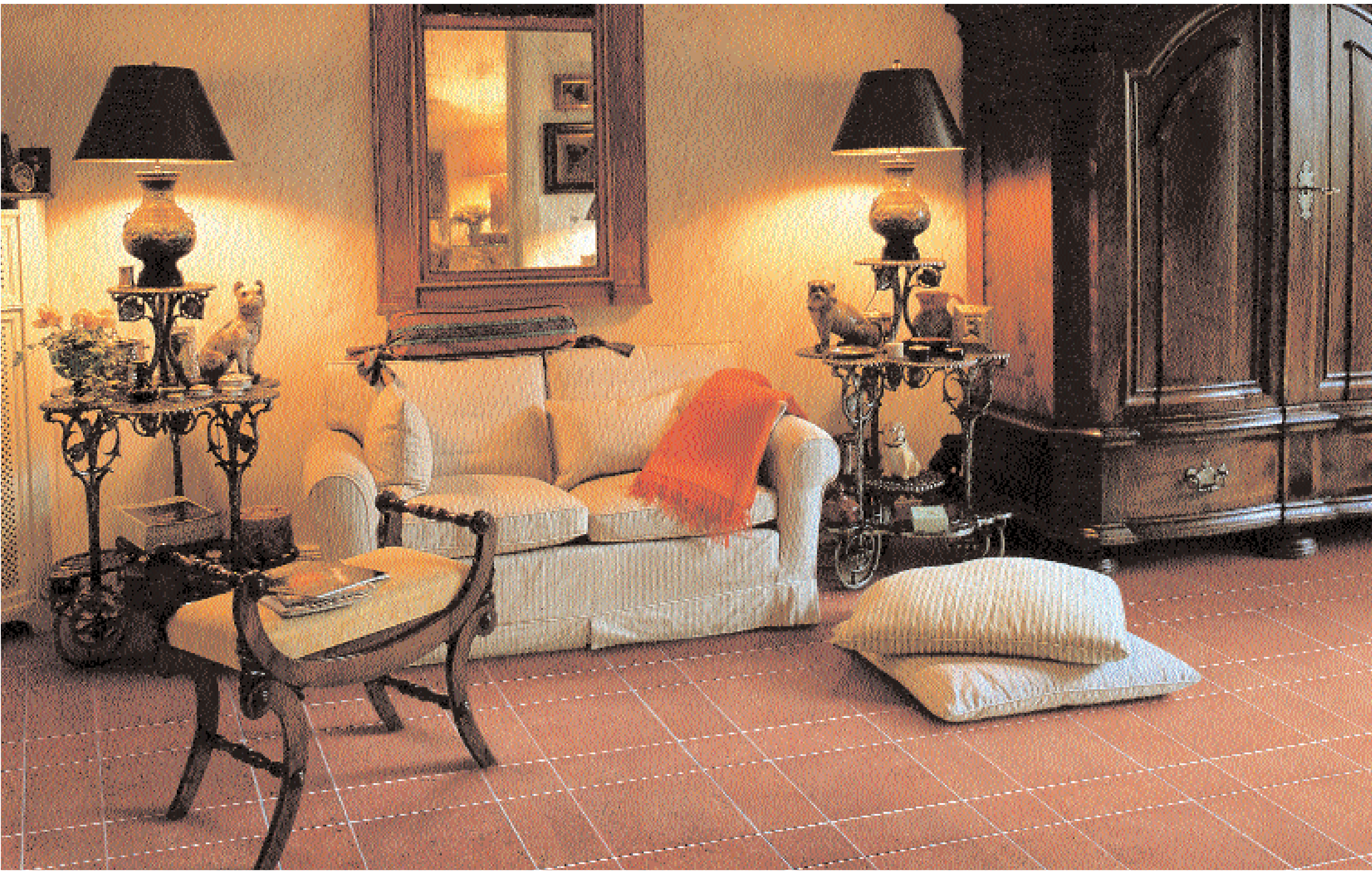
Investment resources were employed at the Italian production company for the purpose of achieving more flexible production.

In the year 2001, the Tile Division invested a total of Euro 13.5 million as compared with



Above: the generous tiling arrangement of fine stoneware tiles from the new PIETRA DI MARE series creates a classical appearance.

Below: the cotto appearance of tiles from the GALESTRO series conveys a feeling of cosy warmth in the "country cottage style".



Euro 20.9 million in the previous financial year. Investment concentrated mainly on the above-stated measures at locations in Germany, France and Italy. Investment was also made to a lesser extent in technical improvements at the works in Hungary and Romania.

Two Product Campaigns in One Year

The Tile Division strengthened its campaigns to develop promising new product introductions. As a result, further new products were added to the Vaccari tile range of unglazed floor tiles in the year 2001, in the course of continued integration of Ceramica Ligure, the Italian fine stoneware production company (Vaccari), into the Group. From the start of the year 2002 products from the Italian production company will be supplied completely under the Villeroy & Boch brand name.

Villeroy & Boch presented an extensive range of new tile introductions at the internationally significant ceramics trade fair “Cersaie” in Bologna in autumn. Following “BAU” at the start of the year, this was the second product campaign in one year, which thus underlined a strategically important market initiative in particular for future business with high-quality, fine stoneware floor tiles.

In order to make market partners and users even more aware of this important product group's

Elegant style is introduced into the bathroom with the COLLECTION CREATIVA. This comprehensive design concept, combining wall tiles in ceramicplus quality, superior borders and matching floor tiles, conveys a strikingly classical look.

All tile ranges produced by the Italian fine-stoneware manufacturer Ceramica Ligure (Vaccari) are now available under the Villeroy & Boch brand name.

benefits, a new generic name was created. "Vilbostone" is the name which will be used from now on to describe this attractive assortment of ceramic covering material, whose effective visual and functional qualities make it equally suitable for use both in private homes and the construction project sector. In addition, "Vilbostone" enjoys the exceptional benefits of "Vilboguard" – namely a slip-resistant surface of the kind which plays an essential part in ensuring sure footing in wet areas and heavily-frequented rooms.

User-friendliness also continued to represent an essential criterion in the development of further tile innovations in the year 2001. Examples of this are to be found in additions made to such successful design concepts as the "Collection Creativa" and the easy-care ceramic surface "ceramicplus".

Marketing Initiatives

In the financial year 2001, the Tile Division developed and perfected its range of measures aimed at providing market partners with support for their business activities. A further 36 "Houses of Villeroy & Boch" were thus set up in the showrooms of market partners from the retail and manual sectors, both in Germany and abroad. As a result, a total of 150 such "Houses" currently exist as marketing instruments with which to appeal to customers.

Since 2001, new planning and advisory services have been offered to planners, market partners and architects. As a result of innovative CAD-supported programs and data interchange with the architects, Villeroy & Boch products can be worked directly into their planning and tenders. During the year under review, incoming orders for these services saw an increase of 20 %. This comprehensive service has secured Villeroy & Boch a competitive status, which is of particular significance in the construction project sector, including swimming pool construction.

Since discussion with market partners has been intensified, the frequency of customer training at the Villeroy & Boch Academy in Mettlach has been increased and further specially-designed theme concepts added to the range of seminars during the current year.

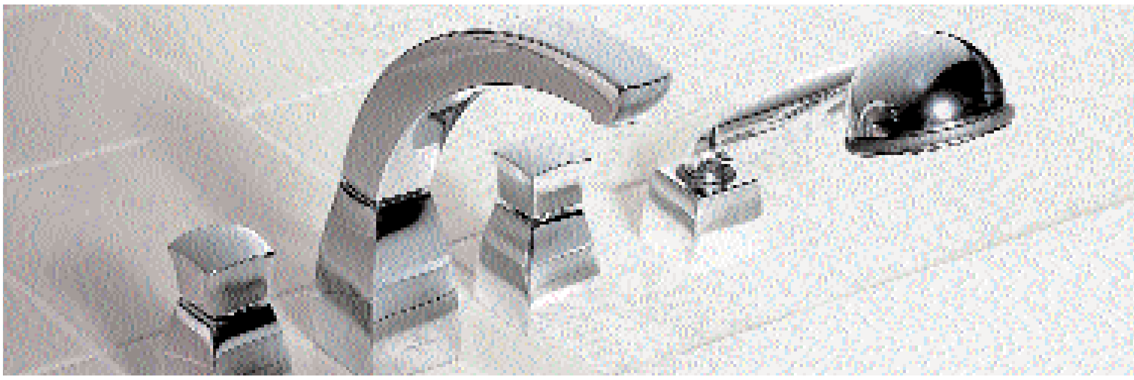
Objectives and Outlook

For the Division as a whole in the year 2002, we anticipate achieving a sales level which is below that of the previous financial year. The closure of some sales branches in the USA during the year 2001 will lead to a scheduled decline in this market's sales.

In contrast, business will continue to be stepped up in the Eastern European markets. The profitably working tile factories in Hungary and Romania hold an excellent position in their respective markets. In addition, the use of synergies existing between the Tile, Bathroom and Kitchen and Wellness Divisions will be intensified. We also assume that business activities will continue to be expanded in Italy, though do not anticipate any economic revival in the domestic market.

A further increase in average net proceeds will be achieved by the consistently implemented shift in product assortment to higher-quality segments. This rise in net proceeds, linked with continued optimisation of production sequences, increased production flexibility, adjustments to the number of employees, as well as strict cost management, should all contribute towards achieving a better level of performance than in the year 2001 under review.

The Tile Division once again anticipates a positive result for the year 2002 as a whole.



For the first time, high-quality fittings and accessories are available under the Villeroy & Boch brand name. The use of clear forms in SQUARE highlights the idea of "Classic Style" bathroom furnishings.

The economic course of the year 2001 gave rise to greatly differing market trends for the sanitary ware industry. While a distinct fall in demand was experienced in Germany – contrary to forecasts made by economic experts – some of Villeroy & Boch's major foreign markets in particular reported extremely marked growth rates. In a competitive environment which continued to prove extremely difficult, the Bathroom and Kitchen Division was not only able to maintain its market position, but even slightly improve it.

Increase in Sales and Result

Following sales of Euro 286.0 million in the previous financial year, the Division was able to secure an 8.4 % increase in the financial year 2001, bringing the total to Euro 309.9 million. Included in these figures are sales by db.Das Bad GmbH, the Austrian bathroom furniture manufacturing company, in which Villeroy & Boch increased its shares from 50 % to 100 % at the end of the year 2000. Since mid 2001, this bathroom furniture specialist has carried on business under the name of Villeroy & Boch Badmöbel GmbH. After structural adjustment, Division sales totalled Euro 285.1 million and were thus roughly on the same level as those reported in the previous financial year. The Bathroom and Kitchen Division's operating result of Euro 27.1 million in the year 2000, increased by 3.3 % in the year under review, bringing the total to Euro 28.0 million.

In so doing, Villeroy & Boch was once again able to continue its excellent sales trend in the major Western and Eastern European target markets. Gains in market share and a further improvement in the level of earnings were the result of the Division's sales growth in France, which was clearly above market average. In Germany, however, the operating result is essentially influenced by the continued, extremely poor level of economic activity in the building sector. In addition, growing consumer restraint is to be reported in the area of renovation. There is as yet no sign of the improvement in underlying conditions which was originally forecast.

Further Increase in Foreign Business

Foreign business is becoming increasingly important for the Bathroom and Kitchen Division. It was therefore possible to increase the share of sales effected outside Germany in the financial year 2001 to 65 % (60 % in the year 2000). In addition to a welcome, positive sales trend in the Benelux market, in Great Britain, Italy and France, particular mention must also be made of the distribution gains in Scandinavia and the countries of North Eastern Europe. This trend was significantly promoted by the systematic marketing activities of AB Gustavsberg – the Swedish manufacturer of ceramic sanitary ware and fittings which was acquired in the year 2000.

An essential contribution to the success in recent years has been made by the consistent internationalisation of the Villeroy & Boch brand. Villeroy & Boch's market share position has been strengthened both by the expanding sales organisation and the target-oriented development of ranges to suit specific tastes in major foreign markets. At the same time, strategic acquisitions – such as AB Gustavsberg – have not only supported internationalisation, but also contributed towards the Division's endeavours to diversify.

BANDITOS, the innovative, "growing", children's bathroom, can easily be converted into either a teenagers' bathroom, a second, or a guest bathroom.

Cleverly-thought-out bathroom concepts, such as the guest bathroom "Oblic" and the "growing" children's bathroom "Banditos", have been welcomed with enthusiasm by the retail and manual sectors.

Diversification and Product Portfolio

Expansion of the Division's product portfolio has made clear progress, following the "House of Villeroy & Boch" strategy. "Square" and "Circle", the series of fittings and accessories launched at ISH 2001, have been accepted with considerable success both nationally and internationally. Further series will follow. Newly developed bathroom furniture, which is geared to consumer lifestyle expectations, has similarly brought the possibility of realising a complete bathroom with the Villeroy & Boch brand a step closer.

Kitchen Ceramics Totally in Fashion

Kitchen ceramics represent a speciality in the Bathroom and Kitchen Division's range. Villeroy & Boch is the leading supplier of appealing, stylised, ceramic kitchen sink solutions for the modern household. The successful sales figures reported in the previous financial year were once again exceeded in the financial year 2001 and their high level of profitability contributed towards the Division's result. A significant reason why Villeroy & Boch's high-quality kitchen ceramics, with their positive hygienic, resistant, colourfast and easy-care qualyities, are totally in fashion, is to be found in their clear design and functional advantages. Despite a decline in kitchen business in Germany, brought about as a result of economic factors, Villeroy & Boch was able to report a 17 % sales rise in this sector in the year 2001.

Above: an extremely puristic, "Metropolitan Style" furnishing solution has been achieved using EDITIONALS bathroom items and the creative LOOP vanity-unit solution.

Below: the HELIOS collection's tranquil bathroom ambience and niche bath solution depict a zone of calmness with an almost contemplative character. Floor tiles: SYMPHONY

The "House of Villeroy & Boch" Point-of-Sale concept enables market partners to display their products in an emotional, perfectly coordinated presentation.

Innovations and New Products

The "ISH 2001" in Frankfurt provided an international forum where the Division was once again able to present a great variety of new products. The range extended from stylishly designed ceramic and bathroom-furniture collections – "Hommage", "Nagano", "Pure Basic" – to innovative spatial-solution concepts, such as "Oblic", through to highly-exclusive, innovative, metallic colours, such as silver and gold effects.

Our market partners from both the retail and manual sectors were particularly impressed by the newly presented bathroom furnishing solutions, "Oblic" – the space-saving collection for guest bathroom and WC – and "Banditos" – the "growing" children's bathroom – as these provide all-round convincing responses to extremely special consumer and user demands.

Accurately Targeted Market Cultivation

All products without exception have been extremely well accepted in the markets and achieve our objective of making it possible for people to individually furnish and design their own qualitative and aesthetically-appealing bathroom. The emotionally-appealing product range presentation now installed in 150 "Houses of Villeroy & Boch" throughout Europe, offers market partners from the retail and manual sectors ideal opportunities to carry out market cultivation, which is closely related to both user and consumer needs. During the financial year 2001, marketing and sales were able to convince above all the plumbing trade – the final customer's direct contact – of our range by using accurately targeted management. For this purpose, organisational requirements have been further refined.

Investments

The main targets for the Euro 17.8 million investment resources employed in the year 2001 (previous year Euro 18.1 million) were to achieve flexibility of manufacturing operations in our German factories and further rationalisation at all of the Division's production locations. Considerable amounts were also made available for modernising both factories of the Swedish company, AB Gustavsberg.

Outlook

In the year 2002, only an insignificant improvement will be seen in the underlying economic conditions in Germany, which continues to be the major single market. As a result of intensified internationalisation and a consistently pursued diversification policy, the Division as a whole nevertheless expects to see an increase in market share, sales and earnings.

A characteristic eye-catcher is created in modern kitchens by the high-quality LAGOR 50 ceramic kitchen sink in the new, silver-metallic colour.

Despite the difficult market environment in Germany, Europe and North America and the sales decline involved, the year 2001 was marked by a further increase in result. Products for the laid table suffered the consequences arising from the restraint in consumer spending, which was already apparent at the start of the year. Particularly in mainland Europe, dealers in many places reported sales declines in double figures, which had a negative influence on sales within the industry. As a result, the German porcelain industry once again had to accept a sales decline of roughly 6 % in the year 2001. The segment for medium and high-quality tableware was particularly affected, suffering losses of roughly 9 %.

When compared with its German competitors, Villeroy & Boch was able to assert itself well in this unfavourable economic situation. Reporting a sales decline of 3.3 %, both on the domestic and export markets, the Tableware Division came off clearly better. What is really remarkable, is the fact that foreign business continues to grow, with a significant part in Villeroy & Boch's tableware business being played in particular by the USA, Great Britain, France, Spain and Italy. The Division was therefore able to increase its foreign sales to a total of 68 % in 2001, following 66 % in the previous financial year.

Tableware Division annual sales totalled Euro 294.3 million in 2001, thus 3.3 % lower than those of Euro 304.2 million reported in the previous financial year. On the other hand, the Division was able to increase its year-2000 operating result of Euro 13.0 million, to Euro 15.0 million in the financial year 2001.

Operating Result at High Level

Despite the declining market environment and the drop in sales brought about as a result, it was consequently possible to improve the Division's percentage return on sales to more than 5 %. This success is to be attributed to progress made in the areas of production and procurement. A further role was played in this welcome result by focussing marketing and sales on optimised contribution margins in all distribution channels and marketing activities.

Newly introduced by the Tableware Division, the "Metropolitan" style trend found an extremely high degree of acceptance among retailers and end consumers, not only in Germany, but also on foreign markets.

Successful Start in the "Metropolitan" Market Segment

Further product-related successes are also to be reported in the financial year 2001. Spring saw the introduction of Villeroy & Boch's "Metropolitan Collection", which supplements the existing "House & Garden", "Château" and "Switch" collections. The new style trend, launched in the Tableware Division by "Metropolitan" is directed above all at urbane consumers, who attach importance to a puristic, reduced design, without being slaves to modernism. Consisting of three tableware series, as well as complementing sets of cutlery, glass articles and accessories, the "Metropolitan Collection" has been positioned and sold with exceptional success. This high degree of acceptance was not only confined to the European continent: the "Metropolitan Collection" also aroused enthusiasm among retailers and end consumers in the major overseas markets.

Continuous Sales Growth in Hotel and Catering Business

Providing tableware, glass and cutlery to superior-quality hotels and restaurants, Villeroy & Boch's hotel and catering business – in contrast to market trend – recorded a further 8 % sales growth in the year under review. Decisive factors for this success were to be found in the high degree of

The stunning new way to lay tables, using NEW WAVE from the "Metropolitan Collection", complemented here by the appropriately styled KENSINGTON cutlery series with its typically puristic, urbane design.

acceptance gained for the “Metropolitan Collection”, which was also launched in the hotel sector, as well as in further strengthening of the international organisation. It is planned to continue expanding the hotel business sector in the year 2002, so as to make it one of the Division's supporting pillars.

Investments in Technology, Organisation and the Market

In the financial year 2001, the Tableware Division invested a total of Euro 15.8 million, as compared with Euro 9.8 million in the previous financial year. These resources were used, in particular, for achieving greater degrees of automation and flexibility in the area of production, for optimising logistic organisation and for creating a highly-efficient system of information processing. As a result, further improvements will be achieved in the cost structure and market cultivation intensified by way of customer-oriented solutions.

Further Automation and Flexibility in Production

The challenge to ensure competitive manufacturing costs and keep inventory costs to a minimum using the most flexible production possible, is one which the Tableware Division also took up in the year 2001 by investing in automated hollowware production. Being carried out in the Faiencerie in Mettlach, this project – which will be concluded in the first half of the year 2002 – allows production run-through times to be considerably reduced, thus facilitating a more flexible market supply, while at the same time limiting inventories of finished and semi-finished products.

Simple restraint with a slight Far-Eastern look. These are the characteristic features of the CITYPARK tableware series from the new “Metropolitan Collection”.

Integration of Dispatch Activities

Having already successfully carried out integration of European regional dispatch activities into the central warehouse, the year under review also saw the start of conversions of deliveries intended for the British market. Following the conclusion of these measures in the first quarter of 2002, the Division will then supply all customers and sales partners in the European markets directly from the central warehouses in Merzig and Luxembourg.

Optimising Information Processing

By successfully converting its order management at European locations to SAP Retail standard software, the Division has successfully taken clear steps towards employing modern IT applications, without which the process management, decisive for future success, such as global supply chain management, would not be possible.

A further step was taken in this direction at the start of 2002. For the first time the Tableware Division was able to offer its trading partners the chance of placing their orders quickly and comfortably using an Internet-based B2B solution. In so doing, the customer is given important information on availability or delivery of the requested goods while online. By including the solution in a sector portal, developed jointly with other renowned companies in the industry, benefits for our trade partners are thus increased.

Outlook

In a time marked by stagnating consumption expenditure in our major markets, the Tableware Division is not able to anticipate achieving any distinct sales increases in the year 2002. Optimisation of business processes and the sustained increase in efficiency is, therefore, to bring about an improvement in both result and asset yields. A considerable contribution will be made towards improving processes during the course of the year, by a further increase in production control using IT-aided techniques. This undertaking aims to reduce the amount of goods in process. Villeroy & Boch has the ambition of becoming Europe's leading brand for stylish home design. Attention is currently being focussed on also stimulating greater brand interest among young consumers and on increasing brand awareness.

In view of stagnating consumption in Germany, foreign business is becoming increasingly important. In the year under review, it accounted for 68 percent of sales.

TWIST CANDY: an uncomplicated brightly-coloured mixture expressing a carefree, informal togetherness.

As a result of future-oriented acquisitions, the Wellness Division was able to almost treble its sales volume in the year 2001, and in so doing, occupies third place in the ranks of European suppliers.

The financial year 2001 proved to be particularly important for the relatively young Wellness Division. In a year marked by economic decline in the major markets for bathroom furnishing products, this Division was able to almost treble its sales volume, as a result of future-oriented acquisitions.

Owing to the market situation, the Division was not able to realise the level of independent growth planned, without including acquisitions. By offering a large number of effective, innovative products and implementing a clear marketing concept the Division was nevertheless able to successfully participate in a generally growing demand for wellness products.

Acquisitions Strengthen Market Position

In addition to incorporating the bathroom and shower-tray business of the Swedish companies Gustavsberg and Svenska Badkar, as well as that of Vagnerplast (in the Czech Republic and Slovakia), the Division made a further two acquisitions at the end of the year 2001, namely the companies Acomo in Belgium and Itema in Italy.

Founded ten years ago, the Belgian company has rapidly become the market leader for synthetic bathtubs on its home market. Acomo furthermore holds a strong position in the neighbouring countries of France, the Netherlands and Great Britain. Bath production is carried out using the latest techniques. In addition, an attractive range of shower cubicles is also offered. By taking over Acomo, the Wellness Division has strengthened its market position in Western Europe.

Total fitness in your own wellness area: after a steam bath in the STEAMFIT™, enjoy a refreshing, cold, gushing shower.

In Italy, Itema is regarded as the market leader for synthetic baths. It also holds a strong position in the markets for whirlpools and shower cubicles. Innovative products and a highly-efficient product organisation are characteristic of this company, which now trades under the name of Villeroy & Boch Wellness Italia S.r.l. and strengthens the Division's market activities in Southern Europe.

Sales Trebled

Within the shortest time, the Wellness Division sales volume trebled as a result of the aforementioned take-overs. Having achieved sales of Euro 49.3 million in the year 2000, the Division increased this figure to a total of Euro 72.4 million in the financial year 2001, and in so doing, occupied third place in the ranks of European wellness product suppliers.

Integration Burdened Result

It is now necessary to effectively integrate the newly acquired companies into the Wellness

Available in such a wide variety of shapes and sizes, the PARANA acrylic bathtub provides a fitting solution for every size of bathroom.

Division, so as to be able to make the best possible use of the desired synergy effects. The high costs incurred for developing the necessary organisational structure heavily burdened the Division's operating result in the financial year under review. Conversion of the “Ucosan” brand to that of “Villeroy & Boch” also required extraordinary expenditure for an effective marketing concept. Having reported an operating result of Euro 2.1 million in the year 2000, the Division's result in the year under review totalled merely Euro 0.3 million.

Investments made in the financial year 2001 for the purpose of acquiring the newly-added companies and for carrying out successive improvements and adaptations to the corporate structure, accounted for Euro 7.2 million, as compared with Euro 5.9 million in the year 2000.

The resources employed served to develop Villeroy & Boch's position on the European wellness market. Highest priority was given to the fastest possible realisation of synergies existing between the acquired companies, so as to be able to achieve a clearly positive profit contribution from the rapidly-growing Wellness Division.

Sights Set on Lucrative Growth

The objective for this current year is to ensure the necessary requirements for lucrative Wellness Division growth. Priority is placed here on reorganisation, brand cultivation and on the development and marketing of innovative products. The most significant marketing instrument is the “Villeroy & Boch” brand itself, which is to be launched as soon as possible for wellness products on the newly gained markets. Provided that the acquired companies' established brands represent additional value, they are to be launched on these markets alongside the Villeroy & Boch brand, using a second marketing strategy.

Marked by a high degree of innovative ability, the Wellness Division concentrates on developing new, superior products and manufacturing them in accordance with the most highly-efficient technical processes. Even more progressive, innovative know-how has been introduced into the Division by way of new acquisitions. In this current year, the Division faces a particular challenge. Its objective is to combine existing and newly acquired know-how and apply it within the Group as a whole to create new knowledge.

OUTLOOK

Despite the unfavourable economic environment, the new product innovations presented by the Wellness Division at the international trade fair "ISH" in Frankfurt during the financial year under review, found a very high level of market acceptance. A particular impact was created by the whirlpool system "Whisperpool", which operates almost without a sound and also the unique, flush-fitting jets in baths made of Quaryl® – the material developed within the Division. In addition, the "Steam Fit™" steam cubicles, made of Quaryl® and glass enjoyed a good deal of popularity and also aroused the appropriate purchasing interest. A great amount of attention was paid not only to the high degree of functionality, but also to the product design of these new introductions. This was expressed, for example, by design awards such as the "iF Award" received from the "International Forum Design" in Hanover.

A sound basis for positive expectations for the current year is provided by the undiminished increase in interest for wellness products, by the consequences of progressive integration and the clearly resulting synergy effects. Despite the uncertain prospects where the economic trend is concerned, Villeroy & Boch still judges Division prospects for the year 2002 optimistically, anticipating a rise in sales and a clearly improved operating result.

Highest priority is given to quickly utilising synergies which exist between the acquired companies, so as to be able to achieve a clear improvement in performance in this rapidly-growing Division.

QUARYL® – A VILLEROY & BOCH INNOVATION

Newly developed by the Wellness Division, the material Quaryl® is a combination of acrylic – which has already been used for many years in sanitary-ware production – and the hard, natural mineral, quartz. Owing to its outstanding material qualities, Quaryl® makes it possible to carry out precision manufacture of even complicated sanitary-ware objects, such as bathtubs and shower trays, with particularly steep sides, awkward radii, corners and edges. Since the sanitary-ware objects are so accurately manufactured, assembly is considerably easier.

Displaying perfectly-adapted anatomical design and striking beauty, the baths also provide the user with functional benefits arising from the material's heat storage and sound-absorbing qualities, as well as its easy-clean, sealed, smooth surfaces. Since jets are now flush-fitted, reclining comfort is increased, even when the bath is used as an "aqua" or "air pool". No uncomfortable pressure detracts from the feeling of well-being. "Sheer wellness" is the result, which has been achieved using highly-innovative technology and designs created in perfect harmony with body shape.

QUARYL® UNIQUE's aqua and air jets are sunk into the bathtub and flush with its surface, which contributes towards increased comfort for bathers.

Consolidated Financial Statements
of Villeroy & Boch AG

Assets

	31.12.2001 Euro '000	31.12.2001 Euro '000	31.12.2000 Euro '000	31.12.2000 Euro '000
Fixed Assets				
Intangible assets	7,245		4,850	
Tangible assets	264,878		245,598	
Financial assets	41,647	**313,770**	42,760	**293,208**
Current Assets				
Inventories		**252,520**		**244,170**
Receivables and other assets				
Trade accounts receivable	135,970		137,354	
Other receivables and assets	43,621	**179,591**	40,064	**177,418**
Securities		**9,734**		**10,043**
Cash and bank balances		**27,586**		**73,860**
		469,431		**505,491**
Prepaid Expenses		**21,448**		**21,735**
		804,649		**820,434**

LIABILITIES

	31.12.2001 Euro '000	31.12.2001 Euro '000	31.12.2000 Euro '000	31.12.2000 Euro '000
Shareholders' Equity				
Subscribed capital	71,909		71,909	
Capital reserve	193,587		193,587	
Revenue reserves	38,089		39,890	
Consolidated profits	22,606		26,296	
Minority interests	3,032	**329,223**	3,998	**335,680**
Special Reserve Account		**33,518**		**42,815**
Provisions				
Provisions for pensions and similar obligations	152,760		151,725	
Other provisions	122,302	**275,062**	123,012	**274,737**
Liabilities				
Due to banks	35,317		31,617	
Trade accounts payable	53,159		58,575	
Other liabilities	77,807	**166,283**	76,294	**166,486**
Deferred Income		**563**		**716**
		804,649		**820,434**

1 January to 31 December 2001

	2001 Euro '000	2000 Euro '000
Net Sales	**975,193**	**939,594**
Change in inventories and own work capitalised	+ 60	- 5,421
Total Value of Production	**975,253**	**934,173**
Other operating income	41,464	39,984
Cost of materials	334,109	312,189
Personnel expenses	342,022	320,537
Depreciation of intangible and tangible fixed assets	52,947	50,343
Other operating expenses	247,456	248,658
Income from investments	+ 617	+ 883
Net interest	- 7,220	- 6,981
Result from Ordinary Operations	**33,580**	**36,332**
Extraordinary result	0	0
Taxes on income and earnings	11,111	11,511
Net Retained Profit	**22,469**	**24,821**
Loss attributable to minority interests	- 107	+ 1,139
Withdrawals from reserve for own shares	244	336
Consolidated Profits	**22,606**	**26,296**

Extract from the Notes to the Consolidated Financial Statements

General

The consolidated financial statements of Villeroy & Boch AG have been prepared in accordance with the regulations stipulated in the German Commercial Code (HGB) and the supplementary provisions of the Companies Act (AktG).

Companies Consolidated

In addition to Villeroy & Boch AG, the consolidated financial statements include eleven domestic and fifty-four foreign subsidiaries, in which – directly or indirectly – majority voting rights are held.

Nine subsidiaries have been included for the first time ever in the full consolidation. The fundamental new acquisitions include the Vagnerplast group (two companies) acquired at the start of 2001, as well as the companies Acomo Belgium N.V., Techneau N.V. and Villeroy & Boch Wellness Italia S.r.l. (previously Itema S.r.l.), which were acquired in November 2001. In addition, following acquisition of the remaining 50 % of shares, Villeroy & Boch Badmöbel GmbH (previously db.Das Bad GmbH) has been fully consolidated for the first time. In the previous financial year, valuation was carried out in accordance with the equity accounting method.

Three subsidiary companies have been excluded from the companies consolidated owing to their merger with other subsidiaries.

Full consolidation of three companies formed in the financial year under review was dispensed with in accordance with § 296 section 2 II HGB, as they will not assume business activities until 2002.

The subsidiaries fully consolidated for the first time in the consolidated financial statements essentially had an effect on the following items in the balance sheet and the profit and loss account:

	Euro '000
Fixed assets	19,120
Inventories	9,673
Trade accounts receivable	8,137
Provisions	3,988
Trade accounts payable	7,045
Net sales	22,978
Cost of materials	15,627
Personnel expenses	7,520
Result from ordinary operations	1,146

The effects on equity capital will be explained in the Notes to the Balance Sheet, 8. Revenue reserves.

A complete list of share ownership, prepared in accordance with § 313 section 2 HGB, will follow separately and be deposited with the Commercial Register at the Amtsgericht Merzig.

Consolidation principles

The annual financial statements of the affiliated companies are consolidated in accordance with the legal requirements, uniform within the Group, for the classification of financial statements. The balance-sheet date of the consolidated companies corresponds to that of the parent company.

Intermediate results, sales, expenses and income, as well as accounts receivable and liabilities between the included companies are eliminated.

Tax accruals and deferrals are made on consolidation measures that affect net income, insofar as the varying tax expenditure is expected to balance itself in later financial years.

Capital consolidation for the included companies is carried out according to the book value method in accordance with § 301 section 1 sub-section 1 HGB. In this respect the original costs of the subsidiaries are offset against the equity ratio allotted to them at the time of acquisition – for eight subsidiaries, at the time of their first inclusion in the consolidated financial statements.

The differential amounts thus resulting on the assets side are first recorded as goodwill in accordance with § 301 section 3 HGB and offset against the revenue reserves in the year of initial consolidation (§ 309 section 1 sentence 3 HGB).

Currency conversion

The asset and liability items of the foreign subsidiaries included in the consolidated financial statements are categorically stated at the reporting date exchange rate (exception: the fixed assets assessed at historical rates of Villeroy & Boch Magyarország Rt., Hódmezövásárhely and S.C. Mondial S.A., Lugoj). If conversion differences exist in comparison with the previous financial year, these are offset against the revenue reserves. The expenses and income are (with the exception of the depreciation stated at historical rates in the annual financial statements of the above-mentioned companies) converted at the annual average exchange rate. The annual result and depreciation are stated at the reporting date exchange rate. Differences arising from the use of different exchange rates in the profit and loss account are recorded under “Other operating expenses”.

Principles of accounting and valuation

The accounting and valuation methods of Villeroy & Boch AG are, in principle, uniformly applied in the Group. The companies assessed according to the equity accounting method take these valuation methods as a basis; adjustment is dispensed with. If a change was made to the principles of accounting and valuation during the year under review, this will be reported under the relevant balance-sheet item.

The expenditure type of presentation is used for the profit and loss account. The share of interest included in the allocation to the provisions for pensions is shown in the net interest; the expenditure for old-age pensions is reduced by these amounts. Other taxes are shown in "Other operating expenses".

Intangible fixed assets, insofar as they have been acquired against payment, are capitalised at original cost and written off for the most part in five years.

Tangible assets are stated at original cost or production cost minus regular depreciation or at the lower value to be given.

Tangible fixed assets are, insofar as this is possible in terms of tax, written off at the highest rates permitted using the declining balance method. The straight-line method of depreciation is used as soon as this results in higher depreciation. The rates of depreciation are categorically set according to useful life expectancy, which is a maximum of fifty years for buildings, eight years for the most part for plant and machinery, and five years for the most part for other fixed assets and office and plant equipment. Low-value capital assets are written off in full in the year of acquisition.

Tax-based depreciation is shown in the special reserve account in accordance with § 281 HGB.

In the consolidated financial statements the **participating interests in associated companies** are assessed at the proportionate equity capital in accordance with the book value method. The differential amounts are determined at the time of the first inclusion in accordance with the equity accounting method and offset against the revenue reserves. The remaining participating interests are stated at original cost.

Investments held as fixed assets and loans are stated at original cost or at the lower value to be given on the balance-sheet date.

Under **inventories**, raw materials and supplies and merchandise are stated at original cost or production cost or at the lower current value. Products are valued at production cost. Production costs at Villeroy & Boch AG comprise direct and indirect material, direct labour and materials handling and factory overheads, which are to be capitalised in accordance with tax regulations. In addition, the expenses of company social facilities, voluntary social security contributions, the employee pension scheme and proportionate administrative costs are included in production costs in the Villeroy & Boch Group. Depreciation is undertaken to an appropriate and sufficient extent for inventory risks resulting from period of storage and diminished usability.

In the Villeroy & Boch Group **receivables and other assets and investments held as current assets** are balanced at original cost or at the lower current value. Risks are taken account of by appropriate individual value adjustments and general bad-debt provisions.

Deferred tax assets and liabilities are shown combined in the Villeroy & Boch Group. For the purpose of adjusting to international accounting principles, deferred tax assets have been reported in the consolidated financial statements for the first time, in accordance with § 274 section 2 HGB, in the sum of Euro 5.553 million. The rate of tax for determining deferred taxation was lowered in the financial year, to an average of 38 %. This gives rise to tax expenditure in the sum of Euro 3.666 million.

For the purpose of adjusting to international accounting standards, the **special reserve account** in accordance with § 6b EStG (untaxed reserves in accordance with § 273 HGB) – made up of profits from the disposal of fixed assets upon the sale of the German mining operations, which have not yet been transferred to replacement assets – has been appropriated in the consolidated financial statements, taking into account deferred taxation. The effect on net retained profit totalled Euro 3.877 million.

Provisions are set up according to sound business judgement for recognisable risks, contingent obligations and impending losses. Pension provisions are stated at the going-concern or present value in accordance with actuarial principles. The pension provisions of the domestic companies are set up – to the full extent – in accordance with the "guiding tables of 1998" drawn up by Dr. Klaus Heubeck.

Liabilities are carried as a liability at their repayable amounts.

Accounts receivable and liabilities in currencies of the countries participating in the EECU are stated at the official conversion rates. Accounts receivable and liabilities in other currencies are stated at the secured rate with cover provided by a hedging transaction. In addition, foreign currency receivables which stand in relation to liabilities of equivalent cover and vice versa within the Group are stated at the mean price of buying and selling foreign exchange on the balance-sheet date, insofar as this does not concern an EECU country.

Individual items in the consolidated financial statements are combined, in order to improve presentational clarity. These items are shown separately in the appendix.

The consolidated financial statements of Villeroy & Boch AG are drawn up in Euro.

Notes to Balance Sheet

Inventories

	31.12.2001 Euro '000	31.12.2000 Euro '000
Raw materials and supplies	40,044	32,182
Work in progress	34,671	31,726
Finished goods	177,634	179,961
Payments on account	171	301
	252,520	**244,170**

Receivables and other assets

	31.12.2001 Euro '000	of which due after more than 1 year Euro '000	31.12.2000 Euro '000	of which due after more than 1 year Euro '000
Trade accounts receivable	**135,970**	**-**	**137,354**	**-**
Other receivables and assets:				
due from associated companies	28	-	16	-
Other assets	43,593	556	40,048	433
	43,621	**556**	**40,064**	**433**
	179,591	**556**	**177,418**	**433**

Securities

Securities are made up as follows:

	31.12.2001 Euro '000	31.12.2000 Euro '000
Own shares	9,432	9,676
Other securities	302	367
	9,734	**10,043**

In accordance with a resolution adopted at the General Meeting of Shareholders on 25 June 1999, a total of 1,058,023 (3.77 % of equity capital) no-par-value individual preference-share certificates were purchased in the financial year 2000. They represent a proportionate equity capital of Euro 2,708,539.00.

Within the scope of a stock option programme, a total of 35,548 shares (0.13 % of equity capital, the equivalent of Euro 91,003.00) were sold at a price of Euro 10.25 per share in the year 2000 and 25,755 shares (0.10 % of equity capital, the equivalent of Euro 65,933.00) were sold at a price of Euro 12.23 per share in the year under review to executive personnel at Villeroy & Boch AG and its subsidiary companies. Net proceeds resulting from the sale in the year 2001 totalled Euro 0.315 million.

Prepaid expenses

Included under the Group's prepayments and accrued income are:

	31.12.2001 Euro '000	31.12.2000 Euro '000
Deferred taxes	17,935	18,692
Other prepaid expenses	3,513	3,043
	21,448	**21,735**

The deferred taxes in the Villeroy & Boch Group concern both tax accruals and deferrals from the annual financial reports (Euro 8.511 million) as well as those from consolidation measures (Euro 9.424 million).

Subscribed capital

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

The company's equity capital amounts to Euro 71,909,376.00.

Revenue reserves

	31.12.2001 Euro '000	31.12.2000 Euro '000
Reserve for own shares	9,432	9,676
Other revenue reserves	28,657	30,214
	38,089	**39,890**

Other revenue reserves include those of Villeroy & Boch AG and the proportional profits of the consolidated subsidiaries – made since belonging to the Group. Accordingly, Group profits of the previous financial year, which are in excess of the Villeroy & Boch AG dividend distribution – including profit carryover – in the amount of Euro 12.111 million, are reported as revenue reserves in 2001. In addition, consolidation measures are offset in this item. During the year under review, accrued differential amounts of Euro 12.029 million resulting from the initial consolidation have been offset against revenue reserves.

In the year under review, a total of Euro 11.0 million (previous year: Euro 9.0 million) was allocated to other revenue reserves in the Villeroy & Boch AG. Following the sale of own shares to executive personnel, a total of Euro 0.244 million was withdrawn from the reserve for own shares.

In the year under review, shareholders' equity in the Villeroy & Boch Group developed as follows:

	Subscribed capital Euro '000	Capital reserve Euro '000	Revenue reserves Euro '000	Consolidated profits Euro '000	Minority interests Euro '000	Total Euro '000
01.01.2001	71,909	193,587	39,890	26,296	3,998	**335,680**
Villeroy & Boch AG dividend for previous financial year	-	-	-	- 14,185	-	**- 14,185**
Reclassification of prior-year result	-	-	12,111	- 12,111	-	**-**
Withdrawals from reserve for own shares	-	-	- 244	244	-	**-**
Net retained profit	-	-	-	22,362	107	**22,469**
Absorption of goodwill	-	-	- 12,029	-	-	**- 12,029**
Changes in currency	-	-	- 1,578	-	6	**- 1,572**
Other	-	-	- 61	-	- 1,079	**- 1,140**
31.12.2001	**71,909**	**193,587**	**38,089**	**22,606**	**3,032**	**329,223**

Special reserve account

	31.12.2001 Euro '000	31.12.2000 Euro '000
Valuation adjustments of fixed assets in accordance with § 281 HGB (additional depreciation in accordance with §§ 6b, 7d EStG, § 82d EStDV, § 3 ZonenRFG, § 4 FördergebietsG)	29,401	32,854
Untaxed reserves under § 273 HGB, in accordance with § 6b EStG, foreign law	4,117	9,961
	33,518	**42,815**

During the year under review, no tax-based depreciation of fixed assets in Villeroy & Boch AG was allocated to the valuation adjustments in accordance with § 281 HGB without affecting the operating result – transfer from untaxed reserves in accordance with § 6b EstG (previous year: Euro 8.190 million).

Earnings in the amount of Euro 9.810 million result in the Villeroy & Boch Group from re-transferring the special reserve account.

Provisions

Full appropriation has been made to pension provisions.
The remaining provisions concern:

	31.12.2001 Euro '000	31.12.2000 Euro '000
Provisions for taxes	11,264	9,462
Other provisions	111,038	113,550
	122,302	**123,012**

Other provisions essentially include liabilities of unknown amount and/or existence for deliveries and other performances not yet charged, for warranty claims, liabilities arising from restructuring three operative company divisions, for customer bonuses, for liabilities arising from the marketing budget, for employee holiday entitlements, flexi-time credits and jubilee remuneration, for compensating staff leaving the company and also for expenditure reserves for the dismantling and maintenance of fixed assets and the disposal / recovery of environmentally-polluted plant.

Liabilities

Remaining Terms and Securities:

	Total	of which due within			Mortgage security	Total	of which due within 1 year
	31.12.2001	1 year	1 to 5 years	more than 5 years		31.12.2000	
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Liabilities							
due to banks	**35,317**	**35,317**	**-**	**-**	**292**	**31,617**	**31,617**
trade accounts payable	**53,159**	**53,159**	**-**	**-**	**-**	**58,575**	**58,575**
Miscellaneous liabilities:							
Advance payments received	793	793	-	-	-	731	731
Notes payable	3,899	3,899	-	-	-	6,487	6,487
due to liabilities towards associated companies	114	114	-	-	-	150	150
Other liabilities	73,001	71,677	351	973	-	68,926	67,571
of which from taxes:	(10,199)					(9,883)	
of which within the framework of social security:	(10,791)					(11,279)	
	77,807	**76,483**	**351**	**973**	**-**	**76,294**	**74,939**
	166,283	**164,959**	**351**	**973**	**292**	**166,486**	**165,131**

Contingent Liabilities

	2001 Euro '000	2000 Euro '000
Liabilities on bills discounted	17,468	6,060
Guarantee obligations	164	217
Trustee liabilities	322	307
Euro sub-frontloading	821	-

Other financial liabilities

	Euro '000
Liabilities resulting from rental and leasing agreements	
due 2002	17,002
due 2003 - 2006	37,035
due after 2006	10,189
Liabilities resulting from orders placed for investment	6,694

Derivative Financial Instruments

Villeroy & Boch uses forward exchange dealings to hedge against currency risks and to a limited extent interest rate swaps for raising loans from business operations.

Notes to Consolidated Profit and Loss Account

Cost of materials

	2001 Euro '000	2000 Euro '000
Costs of raw materials and supplies (including intermediate products)	148,190	133,444
Costs of purchased materials	139,153	136,514
	287,343	**269,958**
Costs of purchased services	46,766	42,231
	334,109	**312,189**

The services purchased essentially concern energy.

Personnel expenses

	2001 Euro '000	2000 Euro '000
Wages and salaries	271,935	254,691
Social security and pension costs	70,087	65,846
(of which in respect of old-age pensions)	(6,904)	(5,490)
	342,022	**320,537**

The share of interest in the amount of Euro 8.399 million (previous financial year: Euro 8.527 million) contained in the allocation to pension provisions, is reported in net interest income; the costs for old-age pensions are reduced by these amounts.

Average number of persons employed:

According to Division:	2001	2000
Tiles	2,480	2,703
Bathroom and Kitchen	4,095	3,985
Tableware	3,177	3,159
Wellness	658	295
Other	423	404
	10,833	**10,546**

Other operating expenses

This item essentially contains maintenance, administrative expenses such as consulting costs, travelling expenses, postal expenses, rentals and leasing charges, selling expenses such as commission, advertising expenses and freight, as well as other taxes in the amount of Euro 6.218 million (previous financial year: Euro 6.592 million).

Net interest

	2001 Euro '000	2000 Euro '000
Income		
Income from other securities and long-term loans	2,984	521
Other interest and similar income	5,556	8,190
	8,540	**8,711**
Expenses		
Interest and similar expenses	- 7,361	- 7,165
Share of interest in the changed provisions for pensions	- 8,399	- 8,527
	- 15,760	**- 15,692**
	- 7,220	**- 6,981**

Influence of tax measures

As a result of tax measures, which are reflected in the changes to the special reserve account, net retained profit rose by Euro 2.205 million in the Villeroy & Boch Group during the financial year under review, when tax effects are taken into consideration.

The future burdens resulting from re-transferring the special reserve account broadly correspond to taxes previously saved.

Cash Flow Statement

The cash flow statement shows changes in the balance of Villeroy & Boch Group funds during the course of the year under review. In so doing, the effects of acquisitions are eliminated.

A differentiation is made between cash flow from operating activities, cash flow from investment activities and cash flow from financing activities.

The financial resources portfolio consists of cash resources and investments held as current assets, without Villeroy & Boch AG own shares.

Cash Flow Statement (in Euro million)	2001	2000
Net retained profit	22.5	24.8
Depreciation on fixed assets	52.9	50.3
Changes in long-term provisions	0.5	0.9
Changes in special reserves	- 9.9	- 3.4
Changes in inventories, receivables and other assets	- 0.7	- 4.6
Changes in liabilities, short-term provisions and other liabilities	- 23.1	3.0
Result from disposal of fixed assets	- 1.2	- 1.3
Other income/expenses without effect on liquid resources	- 0.3	0.0
Other payments received without effect on result	0.0	2.2
Cash flow from operating activities	**40.7**	**71.9**
Investments in intangible and tangible fixed assets	- 54.3	- 54.7
Investments in financial assets and payments for the acquisition of consolidated companies	- 24.5	- 68.3
Deposits from the disposal of fixed assets	4.5	8.8
Cash flow from investment activities	**- 74.3**	**- 114.2**
Change in financial liabilities	- 7.1	- 131.0
Deposits from the sale/payment for the acquisition of own shares	0.3	- 9.7
Dividend payments	- 14.5	- 14.2
Cash flow from financing activities	**- 21.3**	**- 154.9**
Change in balance of funds affecting liquid resources	**- 54.9**	**- 197.2**
Balance of funds on 1.1.	**74.2**	**268.2**
Effects on balance of funds due to changes in companies consolidated	8.6	3.2
Change in balance of funds affecting liquid resources	- 54.9	- 197.2
Balance of funds on 31.12.	**27.9**	**74.2**

Segment reporting

In accordance with regulations laid down in the German Accounting Standards No. 3, individual items of consolidated financial statement data are segmented on the basis of product groups and regions, the divisions of which are oriented to the company's internal and reporting structure.

The product-oriented delimitation of these segments also ensues from the different production processes, sales/distribution channels and methods, which are in turn sub-divided into the four divisions: Tile, Bathroom and Kitchen, Tableware and Wellness.

The segments produce and/or market the following products:

Tiles

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

Bathroom and Kitchen

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

Tableware

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

Wellness

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

The segment data is determined in accordance with the balance-sheet items 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 categorically allotted directly to the segments. The assets and debts, expenses and earnings of the central administrative and service sphere are allotted to the operating segments with the aid of keys.

Operations which overlap the segments are of secondary importance and are dealt with as for outside third parties.

The segments' **net sales** are added to Group sales. Internal net sales between the segments are to be ignored due to the segments' vertical delimitation and the diversity of the products.

The segments' **EBIT** (operating result) is defined as the result before interest, extraordinary result and taxes on income.

Operating assets comprise intangible assets and tangible fixed assets, participating interests in associated companies, inventories, trade accounts receivable, debts due from associated companies, notes payable, other receivables and assets, as well as prepayments and accrued income.

Items included in the transition from operating assets to the balance-sheet total are those which are to be allocated to finance, tax and other non-operating areas. These essentially concern: financial assets without participating interests in associated companies, securities, liquid resources, deferred taxes and debts due from associated companies.

The essential items here are the liquid resources, totalling Euro 27.6 million (previous year: Euro 73.9 million) and investments held as fixed and current assets, totalling Euro 46.9 million (previous year: Euro 46.6 million).

Operating debts comprise expenditure reserves, trade accounts payable, liabilities due to associated companies, miscellaneous liabilities and accruals and deferred income.

Items included in the transition from operating debts to outside capital are those which are to be allotted to finance, tax and other non-operating areas. These are essentially: special reserve account, provisions for taxation, liabilities due to banks, bills payable, liabilities due to affiliated companies, pension provisions and the part of other provisions not allotted to the segments.

The essential items here are bills payable, totalling Euro 3.9 million (previous year: Euro 6.5 million), liabilities due to banks, totalling Euro 35.3 million (previous year: Euro 31.6 million) and the pension provisions, totalling Euro 152.8 million (previous year: Euro 151.7 million).

Segmentation according to region

2001	Germany	France	Rest of Europe	Rest of the world	Transition	Villeroy & Boch Group
Sales	330.7	165.5	368.3	110.7		975.2
Operating net assets	200.4	57.4	202.0	33.6	- 164.2	329.2
Investments	22.2	4.8	25.7	1.6		54.3
2000						
Sales	357.4	150.1	313.6	118.5		939.6
Operating net assets	195.9	59.1	172.1	27.9	- 119.3	335.7
Investments	21.5	7.5	23.1	2.6		54.7

(Value in Euro million)

Segmentation according to Division

2001	Tiles	Bathroom & Kitchen	Table-ware	Wellness	Transition	Villeroy & Boch Group
Sales	298.6	309.9	294.3	72.4		975.2
Depreciation	18.1	16.0	14.4	4.4		52.9
Other operating result without effect on liquid resources	0.2	0.1				0.3
EBIT	- 2.5	28.0	15.0	0.3		40.8
Net interest					- 7.2	- 7.2
Taxes on income and earnings					11.1	11.1
Net retained profit						22.5
Operating assets	241.7	204.5	202.7	75.1	80.6	804.6
Operating debts	85.3	72.3	49.3	23.7	244.8	475.4
Operating net assets	156.4	132.2	153.4	51.4	- 164.2	329.2
Investments	13.5	17.8	15.8	7.2		54.3
Number of employees	2,480	4,095	3,177	658	423 [1]	10,833

2000	Tiles	Bathroom & Kitchen	Table-ware	Wellness	Transition	Villeroy & Boch Group
Sales	300.1	286.0	304.2	49.3		939.6
Depreciation	17.8	15.2	14.1	3.2		50.3
Other operating result without effect on liquid resources						0.0
EBIT	1.1	27.1	13.0	2.1		43.3
Net interest					- 7.0	- 7.0
Taxes on income and earnings					11.5	11.5
Net retained profit						24.8
Operating assets	260.5	193.9	192.9	31.5	141.6	820.4
Operating debts	82.3	77.1	52.6	11.8	260.9	484.7
Operating net assets	178.2	116.8	140.3	19.7	- 119.3	335.7
Investments	20.9	18.1	9.8	5.9		54.7
Number of employees	2,703	3,985	3,159	295	404 [1]	10,546

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

Audit Report

We have audited the consolidated financial statements prepared by **Villeroy & Boch Aktiengesellschaft, Mettlach**, and its report on the situation of the company and Group for the financial year from 1 January to 31 December 2001. Preparation of the consolidated financial statements and the Group management report in accordance with the German commercial regulations is the responsibility of the company's Executive Board. Our task is to submit an appraisal of the consolidated financial statements and Group management report, on the basis of the audit we have carried out.

We have carried out our statutory Group audit in accordance with § 317 HGB, observing 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 misrepresentations and violations, which have a significant effect on the presentation of the picture of the net worth, financial and earnings position conveyed by the consolidated financial statements on observation of the principles of orderly accounting and by the Group management report, can be recognised with sufficient certainty. When determining the audit activities, knowledge of the business activity and of the economic and legal environment of the Group and the expectation of possible errors are taken into account. Within the scope of the audit, the effectiveness of the accounting-related internal controlling system and evidence of the details given in the consolidated financial statements and Group management report are assessed for the most part on the basis of spot checks. The audit includes assessment of the annual financial statements of the companies included in the consolidated financial statements, delimitation of the consolidated Group, the accounting and consolidation principles applied and the essential assessments of the Executive Board as well as the appraisal of the overall presentation of the consolidated financial statements and the Group management report. We are of the opinion that our audit provides a sufficiently sound basis for our assessment.

Our audit has not resulted in any objections.

It is our conviction that the consolidated financial statements, on observation of the principles of orderly accounting, convey a picture of the net worth, financial and earnings position of the Group that corresponds with the actual circumstances. As a whole, the Group management report gives an appropriate presentation of the situation of the Group and presents the risks of future development correctly.

Cologne. 8 March 2002

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Reinke)	(Kohns)
Qualified auditor	Qualified auditor

TILE/ BATHROOM AND KITCHEN DIVISIONS	***Germany***	Fliesenhandel an der Cristallerie GmbH, Wadgassen[1)]
		Fliesenhandel Merzig GmbH, Merzig[1)]
	France	Villeroy & Boch S.A.S., Paris
		Boch Frères S.A.S., Pantin
		Comar S.A., Lambersart
		Socatra S.A., Trans en Provence
	Italy	Ceramica Ligure S.r.l., Ponzano Magra
	Hungary	Villeroy & Boch Magyarország Rt., Hódmezövásárhely
	Netherlands	Villeroy & Boch Nederland B.V., Amsterdam
	Poland	Villeroy & Boch Polska Sp.z o.o., Warszawa
	Austria	Villeroy & Boch Badmöbel GmbH, Salzburg-Plainfeld
	Romania	S.C. Mondial S.A., Lugoj
	Sweden	AB Gustavsberg, Gustavsberg
TABLEWARE DIVISION	***Germany***	Villeroy & Boch Creation GmbH, Mettlach[1)]
	Luxembourg	Villeroy & Boch S.à r.l., 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 Wooncultuur B.V., Nijkerk
	Canada	Villeroy & Boch Tableware Ltd., Aurora
	Australia	Villeroy & Boch Australia Pty. Ltd., Frenchs Forest
	Hong Kong	Villeroy & Boch Tableware (Far East) Ltd., Hong-Kong
	Japan	Villeroy & Boch Tableware Japan K.K., Tokyo
WELLNESS DIVISION	***Netherlands***	Villeroy and Boch Wellness Holding B.V., Roden
	Sweden	AB Gustavsberg, Gustavsberg
		Svenska Badkar AB, Växjö
	Belgium	Acomo Belgium N.V., Roeselare
	Italy	Villeroy & Boch Wellness Italia S.r.l., Castelraimondo
	Czech Republic	Vagnerplast spol. s r.o., Unhost
	Slovak Republic	Vagnerplast Slovensko s r.o., Partizánske
CENTRAL 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
	USA	Villeroy & Boch USA Inc., Princeton

[1)] Profit and loss transfer agreement

Share Capital		Villeroy & Boch AG Participation		
Currency	Million	direct	indirect	total
		%	%	%
EUR	0.26	100.00	-	100.00
EUR	0.36	100.00	-	100.00
EUR	9.27	100.00	-	100.00
EUR	0.69	-	100.00	100.00
EUR	0.25	-	100.00	100.00
EUR	0.16	-	100.00	100.00
EUR	11.60	70.00	30.00	100.00
HUF	2,289.30	99.59	-	99.59
EUR	0.05	100.00	-	100.00
PLN	0.05	-	100.00	100.00
EUR	2.20	-	100.00	100.00
ROL	170,099.98	99.04	-	99.04
SEK	20.00	100.00	-	100.00
EUR	0.05	100.00	-	100.00
EUR	15.00	100.00	-	100.00
EUR	4.06	-	100.00	100.00
EUR	0.03	0.20	99.80	100.00
CHF	0.50	-	100.00	100.00
SEK	2.00	-	100.00	100.00
NOK	0.10	-	100.00	100.00
EUR	0.10	100.00	-	100.00
CAD	2.20	-	100.00	100.00
AUD	0.52	-	100.00	100.00
HKD	7.00	-	100.00	100.00
JPY	97.50	-	100.00	100.00
EUR	1.62	100.00	-	100.00
SEK	20.00	100.00	-	100.00
SEK	0.10	-	100.00	100.00
EUR	7.56	75.10	-	75.10
EUR	8.00	-	100.00	100.00
CZK	92.93	-	67.00	67.00
SKK	0.20	-	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
USD	3.80	-	100.00	100.00

The complete list of share ownership, in accordance with § 313 section 2 HGB, will be deposited at the Commercial Registry of Merzig Local Court.

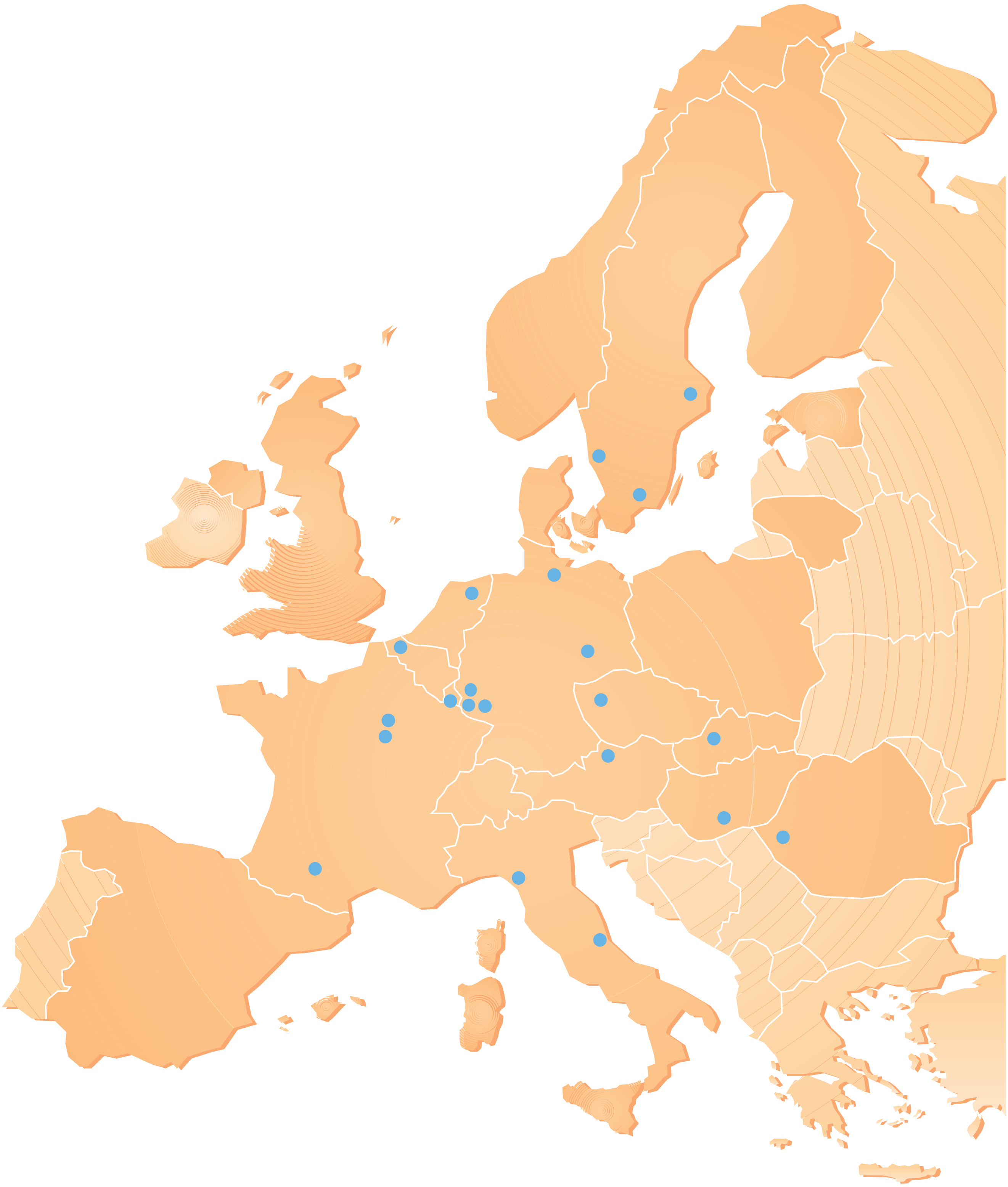
Internationality Strengthens Market Position

Continued internationalisation of Villeroy & Boch is an important strategic goal for the Group. In 2001, the year under review, its foreign share in total sales amounted to as much as 66 %, compared with 62 % in the previous year.

Development of the Wellness Division was purposefully continued, in order to benefit from international market opportunities for the innovative product range in this field. Thanks to acquisitions made in Belgium and Italy in 2001, Villeroy & Boch now ranks third in this market segment in Europe.

A marked increase in sales on export markets was also partially achieved for the other Divisions, particularly in Europe. Villeroy & Boch is thus intentionally reducing its dependence on the German market, which proved unable to abandon the economic low it had reached not only in the field of construction and renovation but also in the consumer sector.

Villeroy & Boch is represented in over 125 countries with its products and services. Internationalisation contributes significantly to increasing brand awareness on the target markets defined and, in doing so, secures the company's market position.



● *Production*

● *Countries with marketing companies*

General Meeting of Shareholders

31 May 2002
3 p.m.
Stadthalle Merzig

Villeroy & Boch will report on
the first six months of the current financial year,
with the interim accounts on

31 July 2002

and on

the first nine months of the year on
30 October 2002.

Dear Shareholders

If you are interested in further information,
or in the German version of the Annual Report for the year 2001,
please contact:

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