



Villeroy & Boch

1748



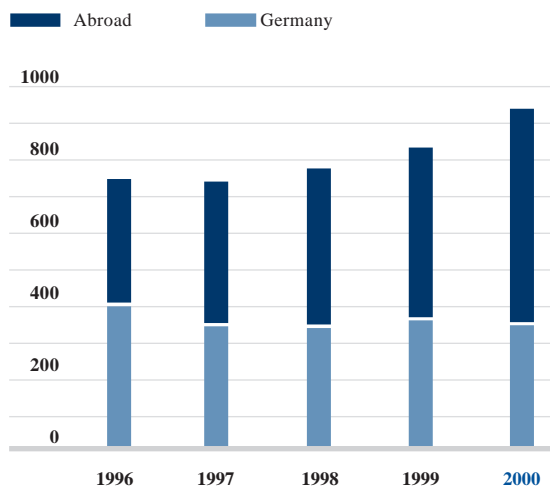
ANNUAL REPORT 2000

		1996	1997	1998	1999	2000
SALES	Euro million	743.0	736.5	772.3	834.2	939.6
RESULT FROM ORDINARY OPERATIONS	Euro million	6.6	16.1	18.4	25.8	36.3
NET RETAINED PROFIT/ ACCUMULATED NET LOSS	Euro million	- 52.7	19.6	11.4	24.4	24.8
INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS	Euro million	41.9	77.9	46.1	46.2	54.7
DEPRECIATION	Euro million	58.5	42.7	47.8	47.6	50.3
CASH FLOW FROM OPERATING ACTIVITIES	Euro million	47.1	43.0	18.9	38.4	71.9
EMPLOYEES (AVERAGE)		9,844	10,397	10,252	10,130	10,527
DIVIDENDS PER INDIVIDUAL PREFERENCE- SHARE CERTIFICATE	Euro million	-	0.64 ¹⁾	0.41	0.55	0.55
PER INDIVIDUAL ORDINARY- SHARE CERTIFICATE	Euro million	-	0.46 ²⁾	0.36	0.50	0.50

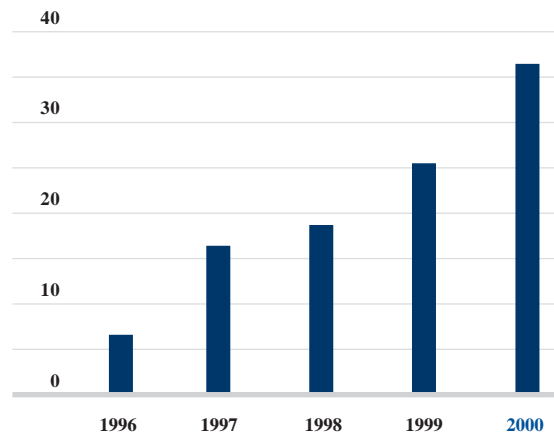
¹⁾ including bonus of Euro 0.10 and Euro 0.13 payment in retrospect for 1996

²⁾ including bonus of Euro 0.10

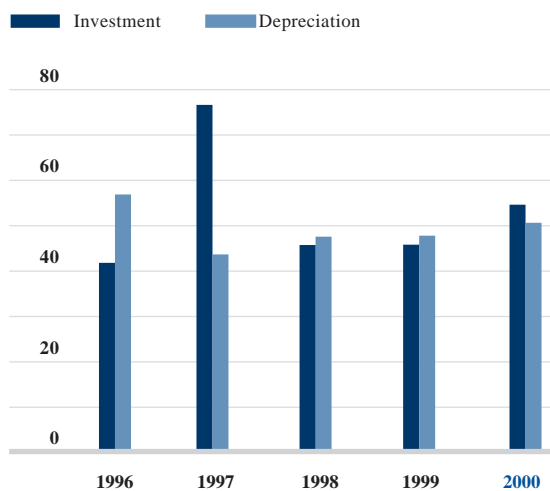
CONSOLIDATED SALES IN EURO MILLION



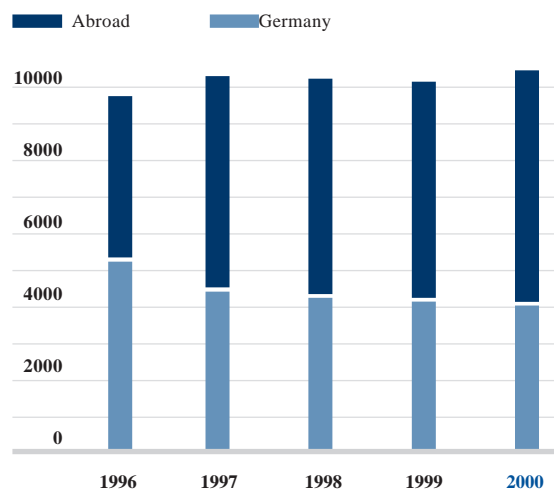
RESULT FROM ORDINARY OPERATIONS IN EURO MILLION



INVESTMENT AND DEPRECIATION IN EURO MILLION



AVERAGE NUMBER OF PERSONS EMPLOYED - GROUP



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Throughout the financial year 2000, the Supervisory Board monitored company management and followed the development of the company, its subsidiaries and associated companies in an advisory capacity. During the course of four rotational meetings, the Supervisory Board received comprehensive information from the Executive Board on the general development within each of the company Divisions. Discussion at the aforementioned meetings concentrated essentially on quarterly sales analyses, the result trend and the company's financial situation. Contact was also maintained between the Supervisory Board Chairman and the Executive Board beyond the confines of Supervisory Board Meetings. The Supervisory Board therefore duly discharged those duties for which it is responsible according to the law and the Memorandum and Articles of Association.

Three meetings were also held by the Staff Committee (Committee for Executive Board Personnel Affairs and Credit Extension in accordance with § 89 IV AktG), which was set up by the

Supervisory Board. Matters discussed included bonus payments, introduction of a stock-option programme, the appointment of a new Executive Board member and extending the contracts of two existing Executive Board members.

In September 2000, the Supervisory Board issued the audit assignment to KMPG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft – the auditing company elected at the General Shareholders' Meeting. The Villeroy & Boch AG annual financial report, the consolidated financial statement of 31.12.2000 and also the Situation Report, in combination with the Group Situation Report, have been audited, including all accounting, and an unqualified auditor's certificate issued. Following examinations also carried out within the scope of the statutory balance-sheet audit, it was confirmed that the early risk recognition system adequately fulfils its tasks.

Having carried out its own audit of the annual financial report and Situation Report, the Supervisory Board does not raise any objections and endorses both the result of the statutory balance-sheet audit and the proposal made by the Executive Board regarding appropriation of the net retained profit. The annual financial report of 31.12.2000 has, therefore, been approved.

On 31 December 2000 Mr Richard Narr and Mr Andreas Rodust retired from the Supervisory Board. Since 1 January 2001, these gentlemen have been succeeded as Supervisory Board members by Ms. Ina Rauls and Mr. Gerd Zibell. The Supervisory Board would like to thank Mr Narr and Mr Rodust for the work they performed and also wish the new members every success.

The Supervisory Board would like to express its thanks and appreciation both to the Executive Board and all employees in the Villeroy & Boch Group for work performed during the financial year 2000.

Mettlach, April 2001

Peter Prinz Wittgenstein
Supervisory Board Chairman



SUPERVISORY BOARD

KARL GUSTAF RATJEN, KÖNIGSTEIN

Honorary member of the Supervisory Board

PETER PRINZ WITTGENSTEIN, DÜSSELDORF

Chairman

Former member of the Executive Board of
Atecs Mannesmann AG, Düsseldorf

- a) Mannesmann Rexroth AG
Mannesmann Demag Krauss-Maffei AG
Mannesmann Sachs AG
Mannesmannröhren-Werke AG (Chairman up to 02.11.2000)
Mannesmann Plastics Machinery AG
Mannesmann VDO AG (since 01.08.2000)
- b) Mannesmann Corporation (President)
Mannesmann (China) Ltd. (President)
Mannesmann Japan Corporation (President)
Gottfried Schultz GmbH & Co. (Chairman of the
Administrative Board since 21.11.2000)

ROSEMARIE GATTUSO*, METTLACH

1st Vice-Chairwoman

Chairwoman of Works Council at the Mettlach/ Merzig Faïencerie

LUITWIN GISBERT VON BOCH-GALHAU, METTLACH

2nd Vice-Chairman

Entrepreneur

- a) Deutsche Bank Saar AG
Gerling-Konzern Globale
Rückversicherungs-AG
- b) Groupe Jacques Parisot (since 21.09.2000)
within the Group:
Villeroy & Boch Magyarország Rt. (Chairman)
Société pour le Développement des Produits Céramiques
(S.D.P.C.) S.A.

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

RICHARD NARR*, HANOVER

Union Secretary of the IG Bergbau, Chemie, Energie, Hanover
(until 31.12.2000)

WALTER RABER*, NALBACH

Head of Tableware Division Controlling

INA RAULS*, PERL

Deputy Chairwoman of the Sanitärfabrik Mettlach Works
Council (since 01.01.2001)

ANDREAS RODUST*, RATEKAU

Former Chairman of Dänischburg Works Council
(until 31.03.2000)

ANTOINE DE SCHORLEMER, LUXEMBOURG

Businessman

- b) Audiofina S.A. (until 24.07.2000)
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
Japac (SICAV)
within the Group:
Société pour le Développement des Produits Céramiques
(S.D.P.C.) S.A.

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 (since 01.01.2001)

- a) RAG Saarberg AG
BASF AG

EXECUTIVE BOARD

WENDELIN VON BOCH-GALHAU, LOSHEIM-BRITTEN

Chairman

Bathroom and Kitchen Division (until 14.04.2000)

- a) Messe Frankfurt GmbH
- b) within the Group:
Villeroy & Boch Arts de la Table S.A.
Villeroy & Boch Magyarország Rt. (since 29.03.2000)
Ucosan Holding B.V.
db.Das Bad Gesellschaft m.b.H.

MANFRED FINGER, REHLINGEN

Finance

- a) World of Internet.com AG (since 27.09.2000)
- b) within the Group:
Ucosan Holding B.V.
db.Das Bad Gesellschaft m.b.H.
AB Gustavsberg (seit 02.05.2000)

PETER VON DER LIPPE,

PETITE-ROSSELLE/FRANCE

Bathroom and Kitchen Division (since 15.04.2000)

- b) within the Group:
AB Gustavsberg (since 02.05.2000)

PHILIPPE SCHAUS, LUXEMBOURG

Tableware Division

(Deputy Executive Board Member)

- b) within the Group:
Villeroy & Boch Arts de la Table S.A.
Villeroy & Boch CreaTable AG

DR. BERNARD WIENTJES, OMMEN/THE NETHERLANDS

Wellness Division

- b) Wientjes Kunststoff Holding bv
within the Group:
AB Gustavsberg (since 02.05.2000)
Svenska Badkar AB (Chairman since 30.11.2000)

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

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

We are pleased to be able to inform you in this report of the positive Villeroy & Boch trend experienced in the financial year 2000, a trend which – despite the extremely difficult market environment – is characterised by increased sales and a distinctly improved result. This success firstly shows the desired effects of our strategic reorientation, which was introduced in 1998. We see the existence of a second fundamental criterion in the important acquisitions made during the financial year. Last but not least, our innovative power has given rise to new products and problem solutions for users and consumers, with which we have been able to secure a decisive competitive superiority for ourselves.

Our strategic reorientation essentially covers six areas, which I would like to briefly outline here.

CONCENTRATION AND MODERNISATION OF TRADITIONAL FACTORY LOCATIONS

In the last three years we have closed or “re-dimensioned” eight of our sixteen Central European production locations and invested considerable amounts in modernising the remaining eight. This has led to a significant improvement in the industrial configuration and also, therefore, to improved international competitiveness.

ORIENTATION TOWARDS MIDDLE AND UPPER MARKET SEGMENTS

Following the principle of “class not mass”, we endeavoured to discontinue series with low contribution margins in all company Divisions, to improve the product mix and range and in this way, achieve higher average net proceeds. In so doing, we consciously accepted idle capacity. Since 1998, the consequences of this policy can be seen in a distinct rise in average net proceeds, one which is particularly marked in the tile sector.

By aligning price and product-range positioning in the superior-quality sector, it was possible to strengthen the Villeroy & Boch brand image and

ensure a “consistent appearance” which covered all four company Divisions.

NATIONWIDE IMPLEMENTATION OF “THE HOUSE OF VILLEROY & BOCH” CONCEPT

Having already been realised in almost 1,000 “shop-in-shop” outlets in the Tableware Division and over 100 showrooms in the construction-oriented Divisions, the “House of Villeroy & Boch” concept is asserting itself on an ever broader scale. In so doing, we have strengthened our point-of-sale position and at the same time presented consumers and users with true-to-life home environments.

DIVERSIFICATION STRATEGY

Supplying the integral product range contemplated by “The House of Villeroy & Boch” is probably the greatest challenge ever faced in the history of our company. Until now, either the consumer or the architect has had to wrangle with the complexity of the various bathroom ranges where tiles, sanitary ware, baths, showers, bathroom furniture and fittings were concerned. By acquiring the bath and shower-system supplier “Ucosan” and the bathroom-furniture manufacturer “db.Das Bad” and by introducing a range of bathroom fittings under the Villeroy & Boch brand name, Villeroy & Boch is taking over this coordinating function for both the user and consumer.

In this way, the diversification strategy is bringing us closer to the consumer. Our brand potential is being fully exploited and new growth prospects are arising.

INTERNATIONALISATION

Not only high investments in export markets, but also the strong dollar and company acquisitions, have led to a double-figured increase in our foreign sales for the third year in succession. This has resulted in an increase in foreign share from 46 % to 62 % in the last four years. More information is provided on this subject in our special article on internationalisation on pages 8 to 10.



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

ORIENTATION TO ASSET YIELD

In addition to a 12.6 % rise in sales, the company was also able to increase its 1999 result from ordinary operations by 41 % in the financial year 2000. This is double the percentage achieved in 1998. In view of the acquisitions planned, the operating asset yield (operating result in relation to operatively fixed capital) has gained particular significance. It has risen consistently from 3.5 % in 1998 to 5.8 % in 1999 and to 9 % in the financial year 2000. Despite an increase in sales and the take-over of Gustavsberg, improved management

of inventories and debts led to a reduction in fixed capital. We were particularly pleased by the fact that the Tile Division was able to operate in the black for the first time since 1990 and that its superior product range shows potential for positive earnings prospects in the future.

ACQUISITIONS IN THE YEAR 2000

The integration and result trend of AB Gustavsberg Sweden are running according to plan, with the effect that this important step to further internationalise and strengthen the company's most



The welcome sales and result trends show the desired effects of Villeroy & Boch's strategic reorientation, which was introduced in 1998.

profitable Division – Bathroom and Kitchen – can already be regarded as a success today.

Pursuing the strategy of diversification and internationalisation, the Swedish whirlpool manufacturer Svenska Badkar and the Czech market leader and manufacturer of synthetic baths and shower trays, whirlpool systems, shower cubicles and partitions “Vagnerplast”, were taken over at New Year. Our company's 50 % holding in the bathroom furniture company “db.Das Bad” in Austria and its 70 % majority interest in Ceramica Ligure were each increased to 100 %.

Enjoying above-average internal and external growth, we aim to continue strengthening our image as a supplier of comprehensive furnishing concepts for a single-source bathroom.

SUCCESSFUL INNOVATIONS

An already outstanding, historical innovation – namely intarsiate stoneware, of the kind developed by Eugen Boch during the mid 19th century and made at that time by hand – is now being industrially manufactured for the very first time by Villeroy & Boch, as a unique global novelty. In this way, home-owners and architects are provided with a decorative, attrition-free and, therefore, durable ceramic floor-covering material, whose beauty and functionality are unsurpassed, particularly in the construction-project sector and where stylish renovation of cultural property is required.

The market has been given significant stimuli by three further revolutionary innovations: the



dirt-repellent glaze “ceramicplus”, “activecare” – a ceramic surface which prevents the formation of bacteria – and “VILBOguard”, the anti-slip, polished fine stoneware tile.

By setting up an innovation management system and perfecting the company suggestion system, the aim is to bundle together innovative powers and guarantee a fast realisation of ideas.

Major international trade fairs at the start of the year 2001 gave us the opportunity to provide proof of the company's regained innovative power. Experts at the BAU in Munich, and at Ambiente and the ISH in Frankfurt were able to convince themselves of the high level of performance within the Group's four Divisions. “At Home With Villeroy & Boch” portrays the four fundamental lifestyles to which the Divisions not only contribute new products, but also new applications and solutions.

We are entering the new year with optimism, thanks to the support of our market partners – who are increasingly making use of our “House

of Villeroy & Boch” service range – and also our own team of employees, both at home and abroad.

We owe our thanks to all of you, our market partners, shareholders, employees and employee representatives, for the work you have performed.

Mettlach. April 2001

Wendelin von Boch-Galhau
Executive Board Chairman

An international orientation can be recognised in the business activities undertaken by the company's founders and their descendants, from the very start of the company's history in François Boch's small potter's workshop in the village of Audun-le-Tiche, Lorraine, in the year 1748, through to the present day. It was almost certainly not insignificant for such an orientation that German and French tradition was united in a creative and cosmopolitan symbiosis at the intersection of the most powerful political areas existing at that time in Europe, namely France, Habsburg and Germany, a factor which was to play a vital part in the company's future.

Belonging, so-to-speak, to "the first generation of Europeans", the Franco-German identity of the families Villeroy and Boch also proved to be an extremely valuable asset, in particular during the national conflicts of the 19th and first half of the 20th centuries, when it served as an element of flexible adjustment to the constantly changing political and economic conditions. The courage to risk changes and a readiness to seek solutions beyond national

frontiers were good prerequisites for inventive genius and a delight in experimenting, which was always oriented towards the domestic and international need for new kinds of ceramic products.

THE BRAND NAME FOR ARCHITECTU- RALLY-APPLIED CERAMIC

It was therefore possible to find Villeroy & Boch products on all of the world's continents by as early as the second half of the 19th century. Villeroy & Boch became a brand name thanks to a revolutionary development made by Eugen von Boch, whose "Mettlacher Platte" was created as an imitation of Roman ceramic mosaics. From the mid-19th century onwards, these stoneware tiles were employed, particularly in prestigious buildings throughout the world, as a decorative, extremely durable floor-covering material. They not only popularised the company's name far beyond European frontiers, but at the same time, turned it into an international term for quality.

At the World Exhibitions in Europe, Australia and America, Villeroy & Boch aroused considerable public attention by presenting its range of achievements in its own spectacular pavilions. The

901, Broadway, New York: "The House of Villeroy & Boch" is showing the flag at one of the international centres of consumption.

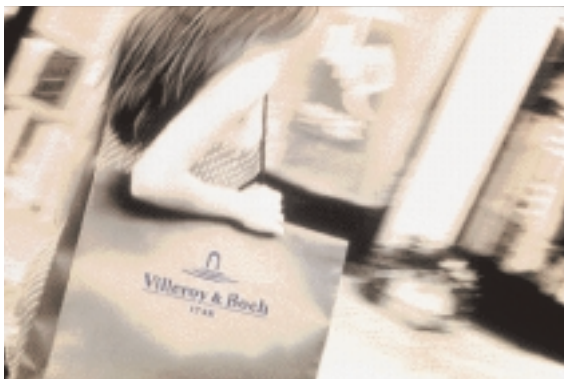


highest international awards were won by a whole series of products, such as decorative ornamental ceramic, which was made of terracotta and used to create artistic features on buildings. During the remainder of the 19th century, marketing branches were set up in numerous countries.

In so doing, this company of European origin had penetrated into international markets, though could not, at that time, be regarded as an international company in today's sense. Being active in foreign markets meant above all prestige, and this was certainly communicated by numerous buildings throughout the world, which displayed ceramic items from the factories in Mettlach. Some of the items have withstood the dramatic course of time and still bear witness as listed historical monuments today, not only to the skills of architects and builders of the past, but also to the ingenuity and technical knowledge of Villeroy & Boch employees.

PRESENCE IN 125 COUNTRIES

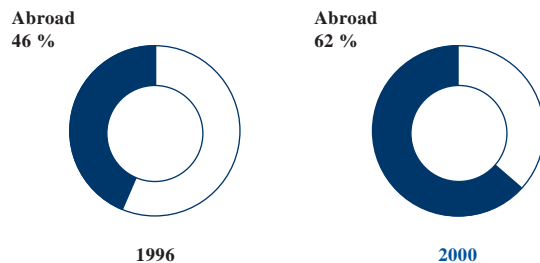
Today we are represented by our products in more than 125 countries which span every continent – an international presence which has seen consid-



erable development particularly in the last four years, increasing the share in sales to 62 %.

The Group's international orientation is seen particularly clearly by its first strong appearance in Scandinavia. By taking over the Swedish bathroom ceramics and fittings manufacturer AB Gustavsberg, Villeroy & Boch has ventured into new markets which, owing to Gustavsberg's Eastern European business activities, also include

DEVELOPMENT IN SHARES OF FOREIGN BUSINESS



important littoral states on the Baltic, namely Russia, Estonia, Latvia and Lithuania.

By effecting its 100 % take-over of the associated company Ucosan, in the Netherlands – which gave rise to a fourth company Division, “Wellness” – the company is providing a further indication of its intensified internationalisation of business activities in the bathroom furnishings and fittings sector. Strengthened links with the Italian floor-tile manufacturer Ceramica Ligure during the financial year under review have extended the Villeroy & Boch “axis” in the direction of Southern Europe.

The Group currently operates 22 factories in 10 European countries, which apart from Germany include France, Luxembourg, the Netherlands, Austria, Italy, Hungary, Romania, Sweden and, most recently, the Czech Republic, where Vagnerplast – the leading manufacturer of synthetic baths, shower partitions and whirlpools – was taken over at the start of 2001.

DIRECTION SET BY WORLD-WIDE TRENDS

The company regards the development of products which comply with international demands and requirement, as a particular challenge. Lifestyles are more international today than ever before. Trends drift around the world, establishing themselves wherever appropriate, receptive, target groups are found. The role played by national tastes and design preferences is becoming less and less significant where decisive lifestyle trends are concerned. People's tastes are increasingly influ-

In the earliest stage of the company's history, German and French tradition was united in a creative and cosmopolitan symbiosis. Today, Villeroy & Boch tracks down trends and tendencies throughout the world, so that it is able to use them to derive its own internationally successful products and concepts.

enced by travel to far-off countries, the experience of foreign cultures and also a world-spanning means of communication.

It is therefore necessary for Villeroy & Boch to track down and recognise international trends and tendencies early enough, so that it is able to use them to derive its own products and concepts. The company's product managers, product developers and designers take their direction from the international centres of fashion, architecture and interior design, in fact, from every location where new lifestyles are created and formed. It has become quite obvious that Villeroy & Boch possesses the high degree of sensibility and openness necessary to translate the stimuli generated from these sources into an internationally successful product range.

Where orientation is focused to such an extent on international taste, the logical consequence for market cultivation can only involve intensifying business activities beyond the confines of Germany, in the major European markets and selected overseas countries. This is also an area in which the company is showing its flag more intensively. Its Tableware Division currently operates almost 1,000 "shop-in-shop" outlets throughout Europe, America, the Middle and Far East and also Australia. These are just as much a shop window for the brand as the roughly 100 "Houses of Villeroy & Boch" existing to date for the construction-oriented Divisions, which present true-to-life, emotionally appealing home environments, particularly in Europe, to consumers and users at Point of Sale.

EVERY STRENGTH IN ONE BRAND

Large, internationally successful brand manufacturers have already recognised that only a very

few brands are able to also gain global acceptance. Mass market force can be best achieved by concentrating on a single brand. We are taking this knowledge into consideration by concentrating on the single Villeroy & Boch brand. Only a strong brand can provide the opportunity to arouse attention and stimulate purchasing interest in an internationally competitive environment, where brands are an even more decisive factor of orientation for consumers than in the domestic market.

On his visits abroad, the well-travelled consumer is able to recognise the one brand in the most varied of locations. On the other hand, he becomes acquainted with and comes to appreciate products and brands from foreign countries, which he looks for and would like to find in his home country. In this way, impressions gained while travelling also lead to a trend in taste, which is coloured to an increasing extent by international influences. The needs and expectations of end consumers become more similar. Villeroy & Boch is adapting itself to these developments by creating quality branded products with a high degree of emotional value, as well as solutions and concepts closely related to the needs of consumers and users.

INTERNATIONAL ESPRIT DE CORPS

Villeroy & Boch is able to withstand the challenges of internationality not least as a result of an esprit de corps, which is characterised by cosmopolitanism and a willingness to accept stimuli originating from far beyond national frontiers. Our marketing policy is oriented towards operations in many national markets, in close proximity to our customers. The various cyclical movements taking place in this variety of markets are offset by foreign business as a whole, which is showing an above-average positive trend in our company.

Our internal structure is constantly adapting to this dynamic trend. Over 10,000 employees in factories, marketing organisations and administration around the world communicate among themselves with the aim of achieving mutual success. They speak the language of the local market partners and convey the image of the Villeroy & Boch brand to a world which is constantly moving closer and closer together.

- *1999 Sales Increased by 12.6 %*
- *Distinct Rise of 53 % in EBIT*
- *Systematic Acquisitions to Implement Growth Strategy*
- *Dividend Proposal: Euro 0.50 per Individual Ordinary-Share Certificate / Euro 0.55 per Individual Preference-Share Certificate*
- *Further Growth in Sales and Result Expected for 2001*

GENERAL ECONOMIC ENVIRONMENT

More Restrained Economic Trend World-Wide

A positive economic environment was experienced once again on world markets in the year 2000, even if the resulting rates of growth were lower than in the previous financial year – a situation which was brought about in part by the rise in oil prices. Although only slight in Western Europe, the slowdown in economic growth was marked in Japan and the USA. A favourable influence was also exerted on the economic trend in Germany owing to the low Euro exchange rate in the year 2000.

Varied Trends in Overall Construction Activity in Europe

It was possible to ascertain at least a slight upturn in overall construction activity in the majority of European countries. In contrast, however, this sector also continued to be the “problem child” in Germany's economic trend in the year 2000.

A corresponding reduction in the demand for tiles and sanitary-ware products was, therefore, experienced on the domestic market while in France, consumption of both product groups stagnated at a high level.

Rising Demand in USA for Porcelain and Glass

The year 2000 saw a continuation of the weak purchasing interest for porcelain and glassware on the German market. Having already been experienced in the previous financial year, the trend of declining sales in the specialist retailing sector continued unabatedly.

Neither was it possible to record any significant market recovery for porcelain and glass tableware products on the major foreign markets. Villeroy & Boch was, however, able to increase its market share in these markets, in particular in the USA.

SALES AND INCOMING ORDERS

Continued Rise in Group Sales

The Villeroy & Boch Group was able to further increase its sales by 12.6 % in the financial year 2000, bringing the total to Euro 939.6 million, as compared to Euro 834.2 million in the previous financial year. Sales totalling Euro 570.3 million were achieved by Villeroy & Boch AG. Based on a Group structure comparable with that of the previous financial year, (excluding AB Gustavsberg, Svenska Badkar AB, Comar S.A., Socatra S.A. etc.) the increase in the year 2000 totalled 2.7 %. Changes in currency parities (US, Canadian and Australian Dollar, as well as the Pound Sterling) exerted a positive influence on sales and accounted for a total of Euro 12.6 million.

Totalling a value of approximately Euro 35 million at the end of the year 2000, the volume of Villeroy & Boch Group orders was roughly the same as in the previous financial year.

Sales Trend in the Divisions

Tile Division sales rose by 6.4 % from Euro 282.1 million in the previous financial year, to Euro 300.1 million in the year under review. When sales of the new French subsidiaries are discounted, an increase of 1.1 % results. While sales on the German market remained on a level with

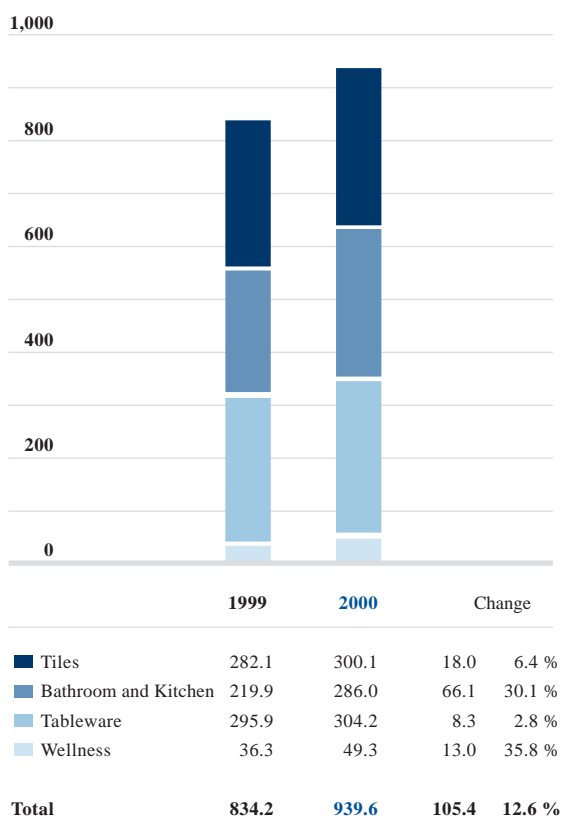
those in the previous financial year, gains were made particularly in Europe. These were contrasted, however, by declines in the non-European countries – in particular in the USA, owing to branch streamlining measures undertaken during the previous financial year.

The Bathroom and Kitchen Division was able to increase its sales from Euro 219.9 million in the previous financial year, to Euro 286.0 million in the year under review. This represents a rise of 30.1 %, which ensued predominantly from incorporating the new company, AB Gustavsberg. When the latter's sales are discounted, a rise of 4.3 % results. Varying degrees of growth were achieved in all markets. A contribution was also made to these improvements by the rise in the volume of ceramicplus products sold in the year 2000.

Having achieved sales in the sum of Euro 304.2 million in the financial year under review, the Tableware Division was able to increase its 1999

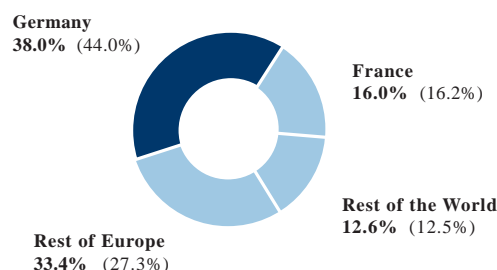
1999/2000 GROUP SALES

Distribution According to Division (in Euro million)



GROUP SALES FOR THE YEAR 2000

*Regional Distribution
(Previous year's figures in brackets)*



sales figure of Euro 295.9 million by 2.8 %. An influence was exerted on this trend by the weak German market. The aforementioned decline in domestic sales was more than compensated, however, by increased sales in the remaining European countries and strong growth in the non-European markets – particularly in the USA.

The Wellness Division was able to secure a 35.8 % increase in its 1999 sales of Euro 36.3 million, bringing the total to Euro 49.3 million in the financial year 2000. A contribution was made to this rise in particular by the new companies AB Gustavsberg and Svenska Badkar AB, without whose sales, growth of 5.5 % would have been reported.

Distinct Rise in Foreign Sales

When compared with figures for the previous financial year, the company was able to increase its foreign share of total Villeroy & Boch Group sales from 56 % to 62 % in the financial year 2000. The 3 % decline reported on the domestic market was contrasted by a 25 % increase in foreign sales.

Villeroy & Boch was able to achieve profit gains on all of its major foreign markets. A distinct sales rise was reported in France, where figures improved by 11 % on those achieved in the previous financial year. This result was brought about in the main by the newly acquired companies in the Tile Division. When the performance of the new subsidiary, AB Gustavsberg, is

STRUCTURAL GROUP PROFIT AND LOSS ACCOUNT

<i>in Euro million</i>	2000	% of TVP	1999	% of TVP
Sales	939.6	100.6	834.2	98.5
Total value of production (TVP)	934.2	100.0	846.9	100.0
Cost of materials	- 312.2	- 33.4	- 279.6	- 33.0
Gross Yield	622.0	66.6	567.3	67.0
Personnel expenses	- 320.5	- 34.3	- 291.1	- 34.4
Depreciation (of fixed assets)	- 50.3	- 5.4	- 47.6	- 5.6
Other expenses / income	- 207.9	- 22.3	- 200.4	- 23.6
EBIT	43.3	4.6	28.2	3.4
Financial result	- 7.0	- 0.7	- 2.4	- 0.3
Result from ordinary operations	36.3	3.9	25.8	3.1
Extraordinary result	0.0	0.0	+ 0.2	0.0
EBT	36.3	3.9	26.0	3.1
Taxes on income	- 11.5	- 1.2	- 1.6	- 0.2
Net retained profit	24.8	2.7	24.4	2.9

taken into account, sales in the remaining European countries rose by 39 % from Euro 226.2 million in the previous financial year, bringing the total to Euro 313.6 million in the year under review. Sales in non-European markets rose by 13 % to a total of Euro 118.5 million, with a positive influence being exerted here in particular by Tableware Division business in the USA.

RESULT

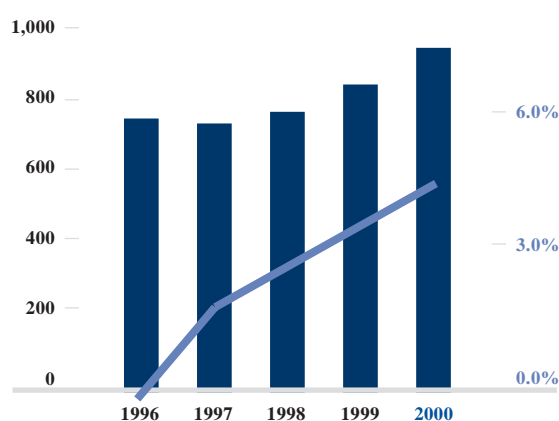
53 % Rise in EBIT

A distinct 53 % rise in EBIT (operating result) was achieved by the Villeroy & Boch Group, increasing the total from Euro 28.2 million to Euro 43.3 million. The result from ordinary operations improved by 41 %, rising from Euro 25.8 million in the previous financial year, to Euro 36.3 million in the year 2000.

The initial consolidation of the newly added Group companies is to be taken into account in the absolute change in the income and expense

EBIT IN % OF SALES

(in Euro Million)



	Sales in Euro million	EBIT in %
1996	743	-0.1
1997	737	1.6
1998	772	2.5
1999	834	3.4
2000	940	4.6

items. Regarded in relation to the total value of production, the share of material and personnel expenses remained on the same level as in the previous financial year, while both depreciation and other expenses and income were lower. Rising energy costs, DP projects carried out in the area of distribution and procurement logistics, increased marketing expenses incurred for the purpose of strengthening the Villeroy & Boch brand and advertising measures relating to product innovations all made a noticeable impression on the absolute increase in expenses in the year under review.

The reported financial result of Euro -7.0 million takes into consideration positive net interest income in the sum of Euro 1.5 million (previous year: Euro 6.0 million) and the share of interest arising from allocations to provisions for pensions, in the sum of Euro 8.5 million (previous year: Euro 8.5 million). Lower levels of interest income were brought about by a decline in net liquid assets and the expiry of long-term, higher-yielding fixed deposits.

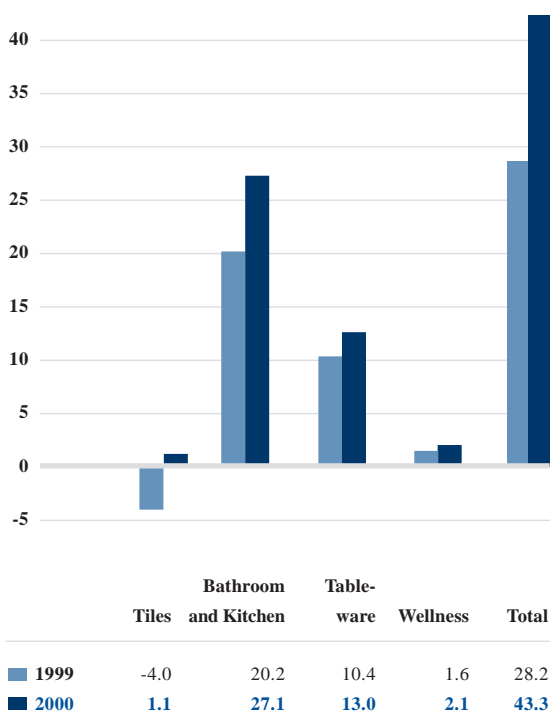
Improved EBIT in all Divisions

For the first time in years, a positive contribution was made to the Group result by the Tile Division in the year 2000. The contribution amount totalled Euro 1.1 million, as compared with Euro -4.0 million in the previous financial year. These figures reflect the consistent improvement in productivity brought about not only by rationalisation measures, but also by a successfully reoriented product-range policy. Once again in the year 2000, the shift in product-mix towards higher-valued products resulted in improved average net proceeds.

In 2000, the Bathroom and Kitchen Division was again able to repeat the high increase in operating result it achieved in the previous financial year. EBIT figures rose distinctly from Euro 20.2 million in the previous financial year, to Euro 27.1 million in the year 2000. Besides the new acquisition of AB Gustavsberg, this trend is also to be attributed to the improvement in average net proceeds achieved as a result of orientation towards high-earning products, in conjunction

EBIT 1999/2000

According to Division (in Euro million)



with a higher proportion of ceramicplus products, which have continued to be extremely successful on the market. Furthermore, performance was improved as a result of the success achieved in foreign markets.

The Tableware Division increased its EBIT from Euro 10.4 million in the previous financial year, to Euro 13.0 million in the year 2000. Rising sales, production-sector rationalisation, the positive product-mix change and the successful market launch of new products all contributed towards this increase. Clear reductions in costs were successfully achieved by the company's own retailing sector – in particular, that in Germany.

The Wellness Division increased its EBIT from Euro 1.6 million in the previous financial year, to Euro 2.1 million in the year 2000. This trend can be explained firstly by the success of the new sales concept and its development of the Villeroy & Boch brand and secondly, by the fact that the newly-acquired companies have contributed to improvements in performance.

Group Net Retained Profit on Previous Financial Year's Level

Despite the clear rise in EBT (Earnings Before Tax) the Villeroy & Boch Group net retained profit of Euro 24.8 million in the year 2000 is only slightly higher than that of Euro 24.4 million reported in the previous financial year. This is attributable to taxes on income, which rose from Euro 1.6 million to Euro 11.5 million.

Losses carried forward could only be used in Villeroy & Boch AG on trade tax in the year 2000. An increased burden of taxes on income was brought about once again in the Villeroy & Boch Group, owing to the higher corporate income tax ensuing from the rise in operating result, the completed losses carried forward and deferred taxation.

Rise in Villeroy & Boch AG Net Retained Profit

The Villeroy & Boch AG operating result also rose parallel to that of the Group. Despite increased sales, the total value of production at Villeroy & Boch AG fell by roughly Euro 8 million, owing to the reduction in inventories. Although there was a slight in-

crease in personnel expenses, the reduction in costs of materials, together with the rise in income from investments and other income were more than able, however, to compensate for this decline. Net retained profit totalling Euro 24.6 million is reported for the financial year 2000, as compared with Euro 20.7 million in the previous financial year.

Dividend Proposal

Both the Executive Board and Supervisory Board will propose a dividend distribution of

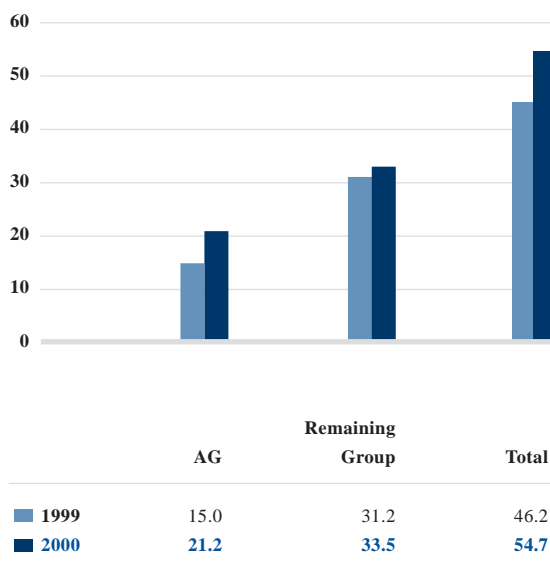
- Euro 0.55 for individual preference-share certificates and
- Euro 0.50 for individual ordinary-share certificates

to the General Meeting of Shareholders. A tax credit of approximately Euro 0.12 per ordinary share and approximately Euro 0.13 per preference share is linked to the distribution for domestic tax-paying shareholders, thus resulting in a taxable gross dividend of Euro 0.62 per individual ordinary-share certificate and Euro 0.68 per individual preference-share certificate for these shareholders. When compared with figures for the previous financial year, this represents an increase of roughly 24 %.

In accordance with § 58 Section 2 AktG, an amount of Euro 9 million has been allocated to revenue reserves from the Villeroy & Boch AG net retained profit for the year 2000. The Euro 14.7 million still remaining after this allocation is to be distributed and Euro 3.5 million carried forward to a new account. These amounts are changed by the share of the dividend apportioned to the company's own holding of individual preference-share certificates at the time dividends are distributed.

INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS 1999/2000

(in Euro million)



INVESTMENTS

Investments in Tangible and Intangible Fixed Assets

In the year 2000, Villeroy & Boch AG invested Euro 21.2 million, as compared with Euro 15.0 million in the previous financial year. The

Villeroy & Boch Group invested approximately 18 % more in tangible and intangible fixed assets, increasing its total from Euro 46.2 million in the previous financial year, to Euro 54.7 million in the year under review. These investments were contrasted by depreciation amounting to Euro 50.3 million. Roughly 60 % of the total Villeroy & Boch Group investment concerned foreign activities.

They were allotted to the individual Divisions as follows:

Tiles	38.3 %
Bathroom and Kitchen	33.0 %
Tableware	17.9 %
Wellness	10.8 %

The majority of Tile Division's Euro 20.9 million investment volume – namely 55 % – was expended abroad. Investment was concentrated on measures at the subsidiaries in France, Italy and Hungary, where it was employed for modernising and using new manufacturing technology to increase productivity. In Germany, measures aimed at concentrating tile production were implemented on schedule with the factory for small-format vitreous tiles being completed at the Merzig location.

Investment measures in the Bathroom and Kitchen Division were also implemented primarily abroad and accounted for approximately 58 % of total investments in the sum of Euro 18.1 million. Roughly half of the amount invested was allotted to the new subsidiary company AB Gustavsberg, with additional investment being concentrated on the production facilities in France, Hungary and Romania. Investments in Germany involved further expansion of the effective die-casting technology, new grinding techniques and also measures to reduce baking times. Investments made abroad served to develop ceramicplus production and rationalise production technology.

53 % of the Euro 9.8 million invested in the Tableware Division also concentrated on measures implemented abroad. These investments were made particularly at the production facility in Luxembourg and the marketing company in the

USA. Investment measures in Germany involved the production locations in Mettlach and Torgau and were aimed essentially at achieving flexibility of production and further improvements in the logistics processes.

Wellness Division investments rose from Euro 3.4 million in the previous financial year to Euro 5.9 million in the year 2000. 82 % of these investments – and therefore the majority – were made at the subsidiary Ucosan B.V. in the Netherlands. The remaining investment resources flowed mainly into the new Group company Svenska Badkar AB. Investments served particularly to rationalise and adapt production in respect of the extended product range.

Changes in Area of Participation

In the financial year 2000, the acquisitions policy consistently pursued the strategic objective of becoming a full-range supplier of products for all aspects of the bathroom and also that of strengthening the company's own trading activities in the Tile Division.

By acquiring AB Gustavsberg – the Swedish manufacturer of ceramic sanitary ware and fittings – in April 2000, the Bathroom and Kitchen Division not only extended its product range, but also strengthened its presence in both the Scandinavian and Baltic markets, as well as in Russia. Acquisition of the remaining 50 % share in the Austrian company db.Das Bad GmbH at the turn of the year 2000/2001 signified a complete take-over of this bathroom furniture manufacturer.

In France, the Tile Division built up its activities in the retailing sector by purchasing the marketing company Socatra S.A. At the start of the year 2001, participating interests in the Italian tile-production companies Ceramica Ligure S.r.l. and Ilgres S.r.l. were increased from roughly 70 % to 100 %.

The Wellness Division was strengthened by the purchase of production companies which manufacture baths, shower trays, whirlpool systems and shower cubicles. Complementing the production of synthetic products at AB Gustavsberg is the Swedish company Svenska Badkar AB, which was

VILLEROY & BOCH GROUP –
ABRIDGED CASH FLOW STATEMENT

(in Euro million)

	2000	1999
Net retained profit	24.8	24.4
Depreciation on fixed assets	50.3	47.6
Changes in long-term provisions	0.9	2.4
Changes in special reserves	- 3.4	- 2.1
Result from disposal of fixed assets	- 1.3	- 2.5
Other payments received without effect on operating result (previous year: extraordinary result)	2.2	- 0.2
Changes in inventories, receivables, liabilities and short-term provisions	- 1.6	- 31.2
Cash flow from operating activities	71.9	38.4
Cash flow from investment activities	- 114.2	- 35.1
Cash flow from financing activities	- 154.9	- 122.3
Consolidation processes without effect on result or liquid resources	0.0	0.7
Change in balance of funds	- 197.2	- 118.3
Changes ensuing from companies consolidated	3.2	0.0
Balance of funds on 1.1.	268.2	386.5
Balance of funds on 31.12.	74.2	268.2

acquired in the final quarter of the year 2000. A further acquisition was made in January 2001, namely that of the Czech company Vagnerplast spol. s r.o. Following an increase in share capital, Ucosan holds 70 % of the shares. An option also exists to purchase the remaining shares.

In November 2000, Villeroy & Boch Tableware Ltd in the USA was merged with Villeroy & Boch USA Inc. for the purpose of benefiting from synergies and also for tax reasons. In Germany, the new associated company V & B International GmbH was founded, which holds shares in Villeroy & Boch USA Inc.

GROUP FINANCING

Rise in Cash Flow From Operating Activities

When compared with Euro 38.4 million in 1999, the cash flow from operating activities almost doubled in the year under review, reaching a total of Euro 71.9 million. With net retained profit having maintained roughly the same level as in the previous financial year, the increase is to be attributed firstly to the rise in depreciation and other payments received without effect on operating result. Secondly, when adjusted to exclude acquisitions, the rise in working capital reported was not as high as in the previous financial year, a situation which was brought about essentially by the reduction in both the quantity and value of inventories, particularly in the Tableware Division.

Fall in Net Liquid Assets as a Result of Acquisitions

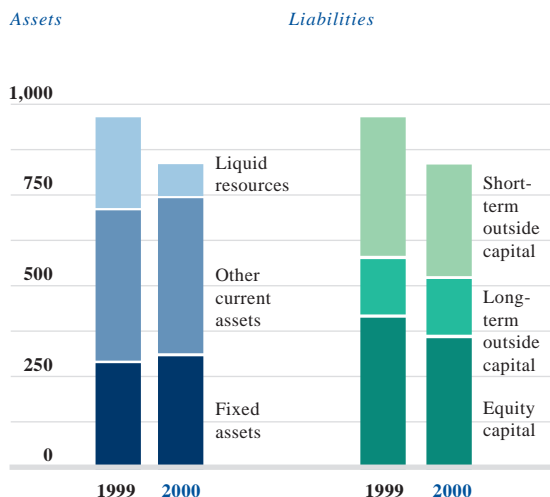
The level of net liquid assets in the Villeroy & Boch Group fell from Euro 107.2 million in the previous financial year to Euro 36.1 million in the year 2000. These figures do not take into account shares to the value of Euro 35.8 million in a specialised fund, which are shown in the financial assets, nor own shares in the sum of Euro 9.7 million.

The decline in liquid assets resulted from the Euro 194.0 million reduction in liquid resources, including investments held as current assets, bring-



GROUP BALANCE SHEET STRUCTURE

(in Euro million)



Assets	1999	2000
Fixed assets	275.0	293.2
Other current assets	411.6	443.3
Liquid resources	268.2	83.9
Balance sheet total	954.8	820.4

Liabilities	1999	2000
Equity capital	398.6	357.1
Long-term outside capital	160.5	162.5
Short-term outside capital	395.7	300.8
Balance sheet total	954.8	820.4

ing the total to Euro 74.2 million. This decline is contrasted, however, by a Euro 122.8 million decrease in liabilities to banks and bills payable, bringing the total to Euro 38.1 million. Payments for acquisitions made in the year 2000 had a further diminishing effect on liquid resources.

Improved Balance Sheet Structure in 2000

As a consequence of reduced liquid resources on the asset side and the lower level of equity capital and reduced liabilities to banks on the liabilities side, the balance sheet total had fallen from Euro 954.8 million to Euro 820.4 million by the balance-sheet date. Although equity capital was reduced as a result of setting off the goodwill of acquired

companies against revenue reserves, it still, however, rose in relation to the balance-sheet total. The equity ratio rose from 41.8 % to 43.5 %.

Owing to the lower balance-sheet total, the share of the latter accounted for by fixed assets – which themselves increased by Euro 18.2 million as a result of acquisitions – rose from 28.8 % to 35.7 %. Current assets were therefore reduced proportionally from 71.2 % to 64.3 %.

When compared with 1999, the long-term fixed-assets-to-net-worth ratio remained unchanged in the year 2000. Equity capital continues to fully cover long-term assets and in addition, 14 % (30 % in the previous financial year) of current assets. When long-term outside capital is taken into account, this cover ratio is increased to 51 % (69 % in the previous financial year).

EMPLOYEES

Rise in Number of Employees as a Result of Acquisitions

On 31.12.2000, a total of 10,408 persons were employed world-wide in the Villeroy & Boch Group, as compared with 9,818 on 31.12.1999. Of this total, 61.9 % (57.9 % in the previous financial year) were employed abroad and 38.1 % (previous year: 42.1 %) in Germany. A total of 3,737 persons were employed at Villeroy & Boch AG at the end of the financial year 2000, as compared with 3,902 in the previous financial year.

Reductions were recorded in the numbers of employees as a result of capacity adjustments and rationalisation measures carried out in particular in the Tableware Division in Luxembourg, in the Bathroom and Kitchen Division in France and in the Tile Division in Germany. Additions were recorded as a consequence of the acquisitions made in Sweden and France.

PRODUCT DEVELOPMENT

Development Costs

In the year 2000, research and development activities in the Villeroy & Boch Group concentrated

particularly on researching new, and improving existing production techniques and also on developing product innovations. A total of Euro 13.5 million was spent in the year 2000 to achieve these objectives, as compared with Euro 11.8 million in the previous financial year. Accounting for 1.4 % of total sales (previous year: 1.4 %), expenses on research and development remained roughly the same. The Bathroom and Kitchen Division accounted for 40 % – and thus the largest proportion – of research and development costs, followed by the Tile Division, which accounted for 30 %. The remainder was allotted in roughly even proportions to the remaining Divisions. Some examples of successful product developments in the year 2000 are: the development of a WC with reduced water consumption, and the industrial production of intarsiate stoneware. Progress was made in the use and improvement of die-cast technology for manufacturing complicated items of sanitary ware, in producing items of tableware using computer-controlled automatic casting machines and in improved processes for manufacturing small-format tiles.

From Idea to Innovation

It is increasingly the case that future business success is decided by a company's innovative power. In recent years, Villeroy & Boch has impressively proven its innovative skills with such products as VILBOguard, ceramicplus, activecare and finally, Alt Mettlach. So that ideas can be converted into real innovations even more quickly, however, Villeroy & Boch has created its new Innovation Management department, which takes up ideas both internally and externally, initiating, co-ordinating and implementing innovative projects on a Division-spanning basis.

In addition, the company suggestion system has been expanded to enable employee ideas to be used. Compared to the previous financial year, a distinct rise was reported in the number of improvement suggestions submitted by em-

ployees in the year 2000. The measures implemented led to noticeable cost reductions.

RISK MANAGEMENT

Risk Management System Implemented

In the course of its world-wide business activity, Villeroy & Boch is confronted by a series of risks which are inextricably linked with business dealings. A strategic, planning and budgeting process exists at Villeroy & Boch which is standardised for the entire company. The said process is used for the purpose of recording, measuring, monitoring and controlling risks existing within the business environment and is supported both by analyses of the market and competition, as well as by a monthly system of reporting. This involves information being reported on the order and employment situation, as well as on the earnings and assets position. In addition, there is a risk reporting system which aims to ensure that risks are recognised, assessed, reduced and followed.

There is also a rise in currency risks as a result of the increasing global orientation of Villeroy & Boch business activities. All financial and currency-covering transactions in the Villeroy & Boch Group are dealt with by the Central Treasury. Foreign currency netting is carried out throughout the Group and derivative financial instruments employed to reduce currency risks. In accordance with a procedural guideline, Treasury business dealings are subject to continuous checks. Reports on existing risk positions are regularly reported to the Executive Board.

Fundamental risks for Villeroy & Boch's business development arise from changes to the economic environment, trends in the competitive situation, market acceptance of new products/product fields, the integration of newly-acquired companies, partial dependency on suppliers for special primary products, risks of changes in interest rates and changes in currency parities. In so far as these risks can be foreseen, they are taken into consideration in the planning process and in accounting.

OUTLOOK

Slight Decline Expected in Future Business Conditions

In general, a further positive economic trend is expected in Germany in the year 2001, even if it is somewhat weaker. An increase in private consumption in particular is probable as a result of the tax reduction law. The construction industry in Germany will still not be able to overcome its low level of economic activity in the year 2001.

A positive economic trend is foreseeable in the remaining European countries, though this is expected to be contrasted by a further slowdown in economic activity in the USA and Japan.

Positive Expectations Within the Divisions

Villeroy & Boch expects the positive business trend, and therefore, profitable growth, to continue in all Divisions in the year 2001. Owing to the strategic orientation of the individual Divisions, this growth is anticipated in varying degrees. We therefore expect the most profitable Division – Bathroom & Kitchen – to grow and become the top-selling Division in the Villeroy & Boch Group in the current financial year.

Overall Outlook for the Year 2001

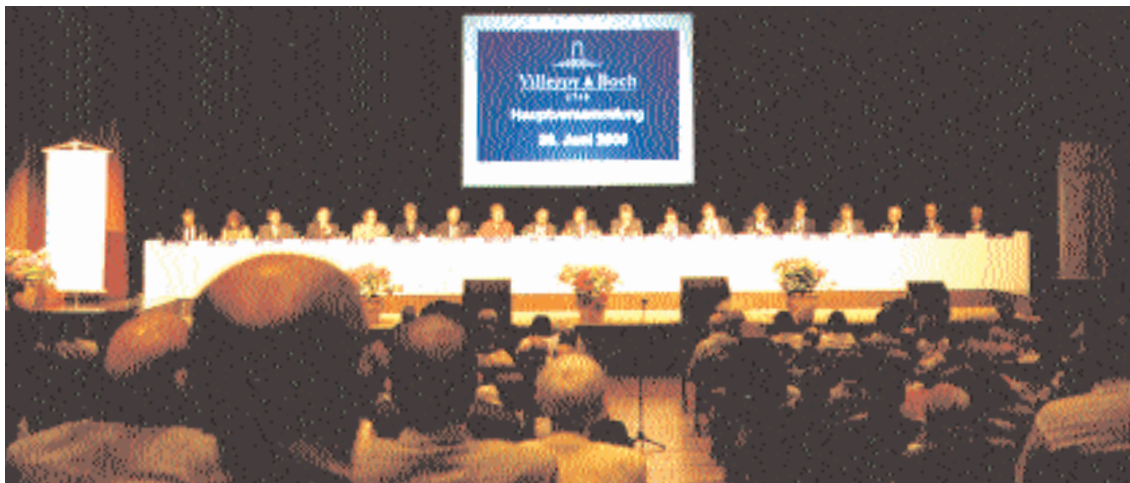
Owing to the continuous rise in foreign sales in recent years, the risks arising from weak demand on the domestic market have been lessened at Villeroy & Boch. Given continued increases in the share of foreign business, we expect Villeroy & Boch Group sales to rise by more than 6 % in the financial year 2001. The acquisitions we have made will contribute towards enabling us to achieve our goal for the year 2001 – namely that of exceeding the Euro 1.0 billion sales mark. Owing to the increase in sales and the level of productivity attained in all Divisions, we are assuming that a further improvement in performance will be achieved in the Group in the year 2001. The operating result of Villeroy & Boch

AG will, therefore, also experience a correspondingly positive trend.

Positive Business Trend Continues at Start of the Year 2001

When compared to the same period of the previous financial year, sales rose by 15 % in the first two months of the year 2001, this being brought about above all as a result of acquisitions. Further positive market acceptance in the current financial year is indicated by the successful presentations of new product introductions at trade fairs at the start of the year – namely BAU in Munich and Ambiente in Frankfurt – and also during the run up to the ISH in Frankfurt. Our successful product innovations ceramicplus, activecare, VILBOguard and Alt Mettlach will also be able to achieve further sales increases during the course of this year.

Having already met with an extremely high degree of market acceptance, the sales and marketing concept “The House of Villeroy & Boch” is to complement the attractive range of products offered and make a decisive contribution to the positive trend in the year 2001.

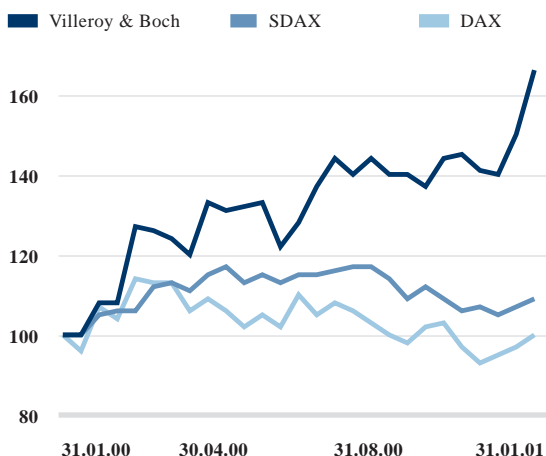


ENCOURAGING PRICE MOVEMENT OF VILLEROY & BOCH SHARE

The movements of the Villeroy & Boch share in the year 2000 were encouraging. Having started the year at a market price of Euro 7.40 (per individual preference share certificate), the share price reacted with slight gains following the conversion of the old par-value shares to individual share certificates. With the exception of a few sideways moves, the upwards trend continued throughout the year. Ending the year at a closing price of Euro 10 on 29.12.2000, the Villeroy & Boch share was able to record a 35 % rise in market price during the course of the year. A continuation of this positive movement can also be seen at the start of the year 2001.

DEVELOPMENT OF THE VILLEROY & BOCH SHARE

from January 2000 to January 2001 (in %)



General Meeting of Villeroy & Boch Shareholders on 30 June 2000 in the Stadthalle, Merzig.

INTERESTING SECOND-LINE STOCKS

The price movement of the Villeroy & Boch share is even more remarkable when regarded against the background of the continued, partly drastic declines in share prices on the “Neuer Markt” and a DAX which was unable to climb above the level recorded at the start of the year. Investors are increasingly focusing their attentions on interesting second-line stocks. It is precisely here that the Villeroy & Boch share proves to be a good investment. Its positive performance was also proved when compared with the SDAX, in which it is listed. The increasing volume of foreign trade raises its fungibility and attractiveness for investors.

ACQUISITION OF OWN SHARES

On the basis of a resolution passed at the General Meeting of Shareholders in 1999, Villeroy & Boch bought back roughly a million of its own shares on the stock market at the start of the financial year 2000, the average purchase price being Euro 9.46. These shares were not entitled to dividend at the General Meeting of Shareholders on 30 June 2000, with the effect that the distributed dividends were reduced from Euro 14,747,040.00 to Euro 14,165,127.35. The difference of Euro 581,912.65, was carried forward to a new account in the year 2000.

REFERENCE FIGURES FOR VILLEROY & BOCH INDIVIDUAL PREFERENCE-SHARE CERTIFICATES*

Per individual preference- share certificate in Euro	2000	1999
Dividends	0.55	0.55
Result in accordance with DVFA	0.76	0.48
Cash flow from operating activities	2.56	1.37
Equity capital**	11.81	13.25
Highest price	11.01	10.95
Lowest price	7.25	7.35
Closing price	10.00	7.40
PER H/L	14/10	23/15

* 14,044,800 shares

** without minority interest

ISSUE OF STOCK OPTIONS

For the first time, Villeroy & Boch has also launched a stock option programme. At the General Meeting of Shareholders on 30 June 2000, the Executive and Supervisory Boards were authorised to offer preference shares from the company's own holdings to selected top executives of Villeroy & Boch AG, Directors of Villeroy & Boch Group subsidiaries and also to the Executive Board. The authorised persons acquired a total of 35,548 shares with roughly 300,000 option rights. This stock option programme stimulates additional employee motivation by offering a participating interest in the increased corporate value.

DIVIDENDS

Both the Executive Board and Supervisory Board propose a dividend of Euro 0.55 per individual preference-share certificate and Euro 0.50 per individual ordinary-share certificate for the financial year 2000. A tax credit of roughly Euro 0.13 per preference share and roughly Euro 0.12 per ordinary share is linked to the distribution for domestic tax-paying shareholders.

Calculated on the end-of-year closing price (Euro 10.00 per individual preference-share certificate),

the proposed distribution of dividends results in a yield of 5.5 % for the individual preference-share certificate. No consideration has been given here to the tax credit.

FURTHER INTENSIFICATION OF INVESTOR RELATIONS

Villeroy & Boch has intensified its activities in the area of investor relations. Interim reports, press releases and ad-hoc bulletins were employed by the Executive Board to notify financial analysts and investors of developments in the financial year 2000. In addition, information on the current economic trend was conveyed in both one-to-one talks and group discussions, as well as at two events staged by the German Association of Financial Analysts (DVFA).

Villeroy & Boch has furthermore restructured its investor relations Internet presentation, as the Internet is regarded as an important communication platform. Interested persons can quickly gain an overall impression of the business and economic development of Villeroy & Boch at any time at <http://www.villeroy-boch.com/ir>. Navigation has been improved, the volume of information expanded and adapted to conform with the requirements of financial analysts, institutional and private investors. Using the contact form provided, Annual and Interim Reports can be ordered and press releases transmitted. The number of visitors to the site and the positive feedback prove that the new Internet presentation has met with a good response.

The restructured investor relations pages on the Internet with improved menu guide and more information have met with a good response.



Increasing Group internationalisation poses new challenges for the Personnel Department at Villeroy & Boch. Projects were therefore initiated in the financial year 2000, which served to ensure standard principles and instruments of management for all locations. These particularly concerned capability surveys, with a view to planning successors for executive personnel. The standardisation of contractual rules for international management was also introduced.

With its international structure, the working party of regional personnel managers guarantees a harmonised personnel policy, which at the same time takes the local requirements of all locations and countries into consideration. This body also ensures the integration of companies which are new additions to the Group.

The internationalisation of personnel work actively includes statutory employees' representatives. Consequently, the year 2000 saw the admission of works councils from Mondial (Romania), Ucosan (the Netherlands) and Gustavsberg (Sweden) to the Euroforum – the international association of location works councils.

THE EMPLOYEE SUCCESS FACTOR

A declared objective of Villeroy & Boch's personnel policy is to secure young staff for demanding specialist and executive positions from the company's own ranks. In so doing, importance is attached to identifying potential candidates in good time and binding them to the company. Important criteria when recruiting new staff include international training and foreign experience, which should be gained either at school, during vocational training or as part of university studies. The Fund for the Promotion of Vocational Training provides financial resources which are aimed at making it easier for particularly qualified trainees within the company, or sponsored students, to finance stays abroad. Engineering students at the Ceramics Faculty of Temesvar University (Romania) represent just one of the groups which has received support from this fund since the year 2000. They will be trained as junior staff for the Mondial location.

In the Divisions and at Corporate Headquarters – particularly in the Marketing and Controlling Departments here – Villeroy & Boch is building up a pool of junior staff, which consists of highly-qualified young employees who are being prepared for demanding management tasks within the Group. This method has proven itself throughout many years, for example in the area of technology. Here, when acquisitions are made, an intensive transfer of knowledge is carried out by exchanging competent engineers.

PROMOTION OF CREATIVITY AND INNOVATIVE THINKING

Employee creativity and innovative thinking are developed and promoted within the scope of idea and innovation management. The result can be seen in the increasing quality of the improvement suggestions submitted. A consequence in the year 2000 was the ability to realise significant cost-cutting potential.

Even young employees are systematically introduced to this way of thinking during the course of special training projects. Trainees at the main ap-

DEVELOPMENT OF THE AVERAGE NUMBER OF PERSONS EMPLOYED WITHIN THE GROUP

	2000	1999	Change 99/00
DIVISIONS			
Tiles	2,684	2,770	-86
Bathroom and Kitchen	3,954	3,359	595
Tableware	3,159	3,355	-196
Wellness	326	276	50
Other	404	370	34
Group as a whole	10,527	10,130	397

COUNTRIES

Germany	4,082	4,112	-30
France	1,433	1,484	-51
Luxembourg	775	907	-132
Other	4,237	3,627	610
Group as a whole	10,527	10,130	397



prentice workshop, for example, developed a new kind of control program for two milling machines, which had previously been operated independently of each other. This idea and its effective implementation has proved to be highly successful in day to day operations, reducing the downtime and periods of inactivity of these units.

In order to consistently lend new stimuli to its high standards of technology, design and innovation, Villeroy & Boch AG has also begun to work together with schools and universities, both at home and abroad. As an extremely appealing project with both a creative and result-oriented, practical direction, which received considerable media attention, the Tile Division's Product Management Department and students of interior-design from Trier Technical College held a competition under the heading "Room for Visions – Visions for Rooms". What resulted were innovative design and application solutions for highly functional, aesthetically-appealing tiles which can be used in the public, commercial and private sectors. Further technical development is planned for these tiles. The competition carries a total prize of DM 15,000 and is a continuation of Villeroy & Boch's

Young people at Villeroy & Boch are introduced to the modern working world in a progressive training environment.

traditional way of encouraging young talent. In future, this competition will be held on an annual basis and an increase in the number of participating colleges is planned in the medium term. Viewed in the long term, the competition is to be held at an international level.

Not only Villeroy & Boch's orientation as a brand-name company is determined by the willingness to look beyond national frontiers and accept new influences and foreign cultures. These factors are also characteristic of a contemporary, employee-oriented personnel policy.

A declared objective of Villeroy & Boch's personnel policy is to secure young staff for demanding specialist and executive positions from the company's own ranks.

A good harvest was reaped in the financial year 2000 as a result of seeds sown for Tile Division reorientation. The turn-around already achieved in 1999 led to regained profitability in a year which continued to be characterised by stagnation in the construction sector. This applied just as much to Germany – Villeroy & Boch's most important market – as to France, which is also regarded as a domestic market.

When viewed against this background, therefore, the trend experienced by Villeroy & Boch's Tile Division is even more encouraging. Sales of Euro 282.1 million achieved in 1999, were increased by 6.4 % in 2000, bringing their total to Euro 300.1 million, and the operating result of Euro -4.0 million in 1999 rose to Euro 1.1 million. Following structural adjustment to exclude sales of the French trading companies Comar – acquired in 1999 – and Socatra – which was acquired in the financial year under review – a sales increase of 1.1 % was reported.

The positive net-proceed trend is the result of the Division's consistent reorientation in the areas of technology, organisation, product and product range policy and also market cultivation.

INVESTMENTS AND IMPROVED TECHNICAL CONFIGURATION

Investment resources in the sum of Euro 20.9 million (previous year: Euro 17.7 million) were used above all to thoroughly renew the technical configuration within the Division. A distinct increase in productivity was brought about in the financial year under review, as a result of modernising production facilities, employing new manufacturing technology and optimising processes. In addition, contributions were made to reducing costs by continuing to concentrate production in fewer locations. Wall-tile production was, therefore, discontinued at the factory in Lübeck and concentrated in the French factory at La Ferté-Gaucher.

Small-format vitreous tile manufacture was shifted from the factory in Mettlach and relocated in the neighbouring town of Merzig, where a high level of capital expenditure has resulted in the development of an ultra-modern floor-tile factory.

A distinct rise in sales was achieved in the “Creation” segment, with such new tile introductions as the updated “Creative System”, the internationally successful designer-series “Kenzo nature” and the “Versailles” wall and floor-tile concept.

This is also the location of a new kind of production facility, which for the very first time enables industrial manufacture of the intarsiate vitreous tiles developed by Villeroy & Boch over 150 years ago.

The stoneware in question is a tile product which was developed by Eugen von Boch around the mid-19th century and whose full-ceramic pattern is coloured throughout. Known all over the world under the name of “Mettlacher Platten”, spectacular design applications in historical buildings in Europe and beyond still bear witness today to the unsurpassed durability of this covering material, which in the past was still made painstakingly by hand. Bearing the collection name “Alt Mettlach”, the new intarsiate vitreous tile is the outstanding product innovation of the financial year 2000.

INNOVATIVE PRODUCTS IN SUPERIOR-QUALITY PRODUCT RANGE

A decisive contribution was made towards the positive trend in the Tile Division, by the consistently implemented strategy of the product-range policy, which is oriented towards products in the middle and higher-quality segments. In this way, it was possible to record a distinct rise in sales in the “Creation” segment during the financial year under review, with such new tile innovations as the updated “Creative System”, the internationally successful designer-series “Kenzo nature” and the “Versailles” wall and floor-tile concept.

Enhanced core capabilities and the innovative power of the Villeroy & Boch brand, which are linked in turn to improved profitability, have also proved themselves in the growing market success of new product developments, which additionally



Providing an assured style in every room: LIMESTONE – a tile series which radiates a cosy atmosphere in living rooms, bathrooms and kitchens.

offer an “application plus”. From the year 2000 onwards, examples of such new developments are the newly-introduced non-vitreous base tiles, provided with the dirt-repellent, easy-care “ceramic-plus” surface.

Within the scope of the floor-tile initiative already introduced during the previous financial year, Villeroy & Boch was able in the financial year 2000, to increasingly convince architects and planners of the exceptional assets of “VILBOguard”, the newly-developed, polished, fine stoneware product with its anti-slip quality. A particularly high demand was experienced for this product from the construction-project sector, where it is used for prestigious designs. With the help of this product, the successful “Granifloor 2000” floor-tile range and the new “Loft” wall-tile series, the company is building-up and strengthening the significance of its high-earning “Architektur Design” segment.

NEW “PRESTIGE” SEGMENT

With its innovation “Alt Mettlach” – which was presented for the very first time in autumn at the major international trade fair “Cersaie” in Bologna – Villeroy & Boch is also launching a new product segment in the tile sector, namely “Prestige”. This promising, globally-unique new product was already awarded a prize for innovation at the very start of its market launch.

With its innovation "Alt Mettlach" – which was presented for the very first time in autumn at the major international trade fair "Cersaie" in Bologna – Villeroy & Boch is also realising a new product segment in the tile sector, namely "Prestige".

PROGRESSIVE MARKET CULTIVATION

In the financial year 2000, Villeroy & Boch was not only able to convince a constantly increasing number of its market partners from the retailing and manual sectors, but also planners and architects of the future-oriented opportunities of its "House of Villeroy & Boch" marketing concept. Together with the Bathroom and Kitchen Division, the Tile Division has already opened more than 100 showroom "Houses" and the orders received for the new financial year show just how positively sales middlemen estimate the brand's ability to assert itself.

Target-group-oriented appeals were conveyed to market partners, users and end consumers by way of a series of market-back-up and sales-promotion measures. These measures included, for example, the customer magazine "Creativ Times", for showroom consultants in the retailing and manual sectors and also "Connex", for architects and construction planners. Electronic media are also employed as contemporary marketing instruments with which to appeal to specific target groups.

Characteristic of the Division's progressive, result-oriented activities are furthermore the development and reorganisation of sales, giving particular consideration to intensified dealings with planners and architects.

FOREIGN BUSINESS AND ACQUISITIONS

The internationalisation of business activities is also gaining increasing importance for the Tile Division. In order to improve competitiveness on the French market, a new acquisition was made in the retailing sector there, which further expanded the company's "own retail trade" distribution channel. The company Socatra, which was taken over in the financial year under review, has a total of seven trading branches in the South of France.

The 100 % take-over of the Italian fine stoneware specialist, Ceramica Ligure at the start of 2001, will contribute towards qualified growth in the

floor-tile sector, which is characterised by a high degree of profitability. In so doing, Villeroy & Boch is also strengthening its Southern European axis.

OUTLOOK

Marketable innovations in the middle and superior-quality product ranges, exhaustion of potential in markets with which dealings currently exist, and also the company's increasingly international orientation, are expected to have a noticeable benefit on the Tile Division's sales and result trend in the year 2001. In an environment dominated by tough competition, the brand's regained design leadership, its distinctive, application-oriented concepts for integral design solutions in the four current home and lifestyle trends and also in the construction-project sector, will all give added strength to the unique position of "The House of Villeroy & Boch".

Around mid-January, a noticeable feeling of "new beginnings" was aroused in our employees and market partners by the impressive presentation of innovative tile introductions at the BAU in Munich – one of this industry's major trade fairs. The experience gained here has given us reason to approach the year 2001 with positive expectations.

Unusually individual designs are inspired by the new CREATIVE SYSTEM borders.



The financial year 2000 was characterised for the Bathroom and Kitchen Division by its successfully implemented growth strategy, which achieved distinct increases in both sales and result. In so doing, Villeroy & Boch's development in the major countries and regions was better than the market trend generally experienced for bathroom furnishing products.

A RISE IN SALES AND IMPROVED RESULT

Sales within the Division rose by 30.1 % to total Euro 286.0 million (previous year: Euro 219.9 million) in the financial year 2000. For the first time, these figures include sales made by the Swedish subsidiary AB Gustavsberg, which was acquired on 1 April 2000. Following structural adjustment, a 4.3 % sales increase was recorded. An above-average increase of 34.2 % was achieved in the operating result, bringing the total to Euro 27.1 million (1999: Euro 20.2 million).

The reasons for this positive trend are to be found in the intensified development of international activities, which has led to particularly outstanding successes in the major European core markets of the Netherlands, Great Britain and Italy. An equally encouraging trend was marked by the sales rise achieved in France, where the increase corresponded to market growth and once again allowed a distinct improvement in profitability in the year 2000. Poor levels of economic activity within the industry in Germany – especially in the second half year – were not without consequence for the

In the financial year 2000, an above-average increase of 34.2 % was reported in the operating result.

Division. Viewing the year as a whole and comparing it with the previous financial year, a brilliant first half of the year 2000, however, not only enabled positive increases to be achieved in both sales and income, but also in market share.

DISTINCT RISE IN FOREIGN SHARE

The main factor which contributed to the rise in foreign share – bringing it to a total of 60 % in the financial year 2000 – was the acquisition of the Swedish ceramic sanitary-ware and fittings manufacturer, AB Gustavsberg, in April. As a result of this take-over, Villeroy & Boch gained access to the Scandinavian market, which had previously been reserved, to a large extent, for locally-based companies. An additional advantage can be seen in the fact that Gustavsberg's sales activities traditionally spread well into the Baltic Region. As a result, therefore, Villeroy & Boch has also been able to strengthen the presence of its products in the littoral states of Poland, the Baltic Region and Russia.

Whether a single, or double arrangement, the new LUNA kitchen sink displays a captivating design. It can either be fitted, or used as a base-mounted unit.



Clearly intensified marketing activities abroad provide proof of the great significance of international business in the Division's growth strategy. By consistently developing models specifically for individual foreign markets, it is possible to gain market share even in countries which are dominated by local competitors.

NEW PRODUCTS AND PROBLEM SOLUTIONS

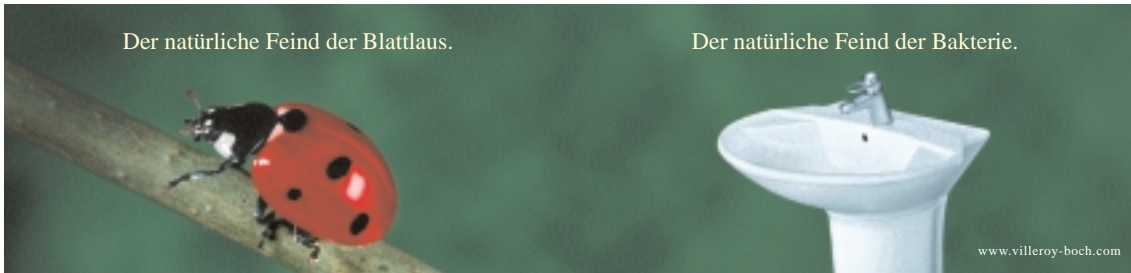
Fundamental reasons for market success are furthermore to be found in the large degree of market acceptance for new products and the Division's

lead where innovations are concerned. Despite the market launch of similar rival products, ceramic-plus – the dirt-repellent, easy-care ceramic surface – has nevertheless continued its triumphant course. Providing the ideal complement for perfect bathroom hygiene is the innovation "activecare", whose special glaze offers natural protection against bacteria.

Encouraging sales figures were achieved on all markets with the comfort collections "Century" and "Sunny", both of which were launched at the ISH in 1999. This provides proof of Villeroy & Boch's competence in developing internationally-accepted designs and product ranges.

HOMMAGE: the new collection in the Classic lifestyle segment. For its design and materials, Villeroy & Boch goes back to the "good old days", to a time when lifestyles were determined by the European metropolises of Paris, London and Berlin. HOMMAGE revives the spirit at the turn of the century and portrays it in a new ambience.





Motif used in the end-consumer campaign for the new anti-bacterial ceramic glaze "activecare".

In addition, stand-alone products – such as the design-award winning “SoHo N.Y.” vanity unit – are becoming increasingly popular. Products of this kind reflect a sophisticated trend in furnishing and interior design, which is gaining significance throughout the world. Corresponding products are promoting this trend in all Villeroy & Boch Divisions.

DIVERSIFICATION

A fundamental module in the Division's strategy is the ability to realise a complete bathroom from the “House of Villeroy & Boch”. A logical step was taken in this direction by acquiring AB Gustavsberg, which created access to the fittings product

field. This trend will be continued by launching two top-segment fittings series at the ISH 2001.

Shares in the Austrian bathroom-furniture manufacturing company – db.Das Bad – were increased at the end of the year to 100 %. In so doing, the platform for further diversification was also strengthened in this important product category.

STRONG DEMAND FOR KITCHEN CERAMICS

An extremely positive trend was also experienced in the year 2000 by another of Villeroy & Boch's specialities, namely the kitchen ceramics business. Increased demand was once again recorded for these high-quality products with their typical style

The LOOP base-mounted vanity unit conveys an impression of stylish casualness.



The new Villeroy & Boch “CIRCLE” fitting displays simple elegance.



Reasons for the Bathroom and Kitchen Division's convincing market success lie in the extensive acceptance gained by new products and problem solutions. Offering bathroom furniture and also, most recently, fittings, the company is now the complete supplier of bathroom furnishings for both complex and broadly-diversified user wishes.

of design and high degree of utility. Appropriate increases were made to the domestic market sales team. Improved distribution was achieved in France by way of direct access to the specialised kitchen retailing sector.

APPEAL TO END CONSUMERS AND MARKET-PARTNER SUPPORT

The financial year 2000 was also dominated by powerful end-consumer communication and targeted marketing activities for market partners. Considerable financial resources were employed for integrated TV, radio and print campaigns on the subject of ceramicplus and activecare. Attention was focused primarily on the end consumer – not only in Germany, but also in France, Austria and the Netherlands. Market partners were also included by way of a hotline, which gave their addresses to interested consumers. The number of consumer enquiries received by market partners consequently increased as a result of the active support provided by Villeroy & Boch.

Further development was carried out on special advisory and informative media, such as Connex and Insider, which consequently strengthened contact with, and product loyalty among plumbers, planners and architects. Extensive sales-promotion measures for “House of Villeroy & Boch” partners underline the importance which the Division attaches to these customers in their presentation of the Villeroy & Boch lifestyle brand at point of sale.

“Tips and Tricks” – a guide for bathroom planning and design – provides the end consumer with clearly-structured information on the variety of conceivable bathroom furnishings and fittings

available and explains how he can obtain his dream bathroom. The “Care Brochure” provides a welcome after-sales service, giving practical advice and tips on how to care for the bathroom and its furnishings, and as a result, obtain long-term value. In this way, the customer's feeling, that he has purchased a high-quality product from Villeroy & Boch, is confirmed.

INVESTMENTS

During the financial year under review, the Bathroom and Kitchen Division employed investment resources in the sum of Euro 18.1 million (previous year: Euro 9.1 million), in particular at its locations in Germany and Hungary. Owing to the increased manufacture of bathroom items which are complicated to produce, priority was given here to developing the efficient die-casting technology. Investments made in introducing a new grinding technique, reducing baking times and avoiding raw material loss, were integral elements of the rigorous cost-cutting programme. Shortened run-through times and a considerable reduction in intermediate stocks led to a further increase in productivity and asset yield in the financial year 2000.

OUTLOOK

The Division will continue to implement its growth strategy, the effectiveness of which having been confirmed by the success in recent years. In so doing, the main emphasis will be on:

- integrating acquisitions made last year and developing these business sectors
- intensifying activities in the bathroom furniture and fittings sectors
- a new-product initiative at the ISH 2001, oriented towards trends, problem solutions and completing the Villeroy & Boch bathroom
- strengthening international activities

Consequently, a further increase in sales and result is expected for the year 2001.

Taking the shrinking domestic market into consideration, the Tableware Division was able to maintain its position well in the financial year 2000. A lack of consumption stimuli led to a further reduction in the sales volume figures recorded for Germany in 1999. When regarded in this connection, the internationalisation of sales activities is, therefore, of growing importance.

The Division was able to make clear gains both on major European target markets and overseas markets – a development which increased the share of foreign business from 61 % to 66 %.

A 2.8 % rise in world-wide sales was recorded by the Division in the year 2000, bringing the total to Euro 304.2 million, as compared with Euro 295.9 million in 1999. Although markets in the European Union were still able to offset the sales decline experienced on the German market in the first half of the year, this trend weakened as the year progressed.

It was above all overseas business, in particular that in North America, which brought compensation. Villeroy & Boch recorded growth of almost 21 % in this market alone, and thus at the same time, growing market shares. In the year 2000, the company continued to implement measures to specialise and optimise its sales and logistics infrastructure, one which is unique in the tableware industry.

DISTINCT RISE IN RESULT AND CASH FLOW

The Tableware Division was able to clearly increase its operating result in the financial year under review to Euro 13.0 million, as compared with Euro 10.4 million in 1999. This encouraging trend is based firstly on structural measures and secondly, on a consistently pursued product-range up-trading. In this way, progress was made in orienting the product-range mix towards the high-quality Château range, with its correspondingly improved profitability. New tableware series introduced during the years 1999 and 2000, such as Ivoire, Azurea and – inspired by Far-Eastern artistic beauty – Kimono met with a high degree of acceptance and stimulated considerable purchasing interest among consumers in many markets.

In the year 2000, the company continued to implement measures to specialise and optimise its sales and logistics infrastructure, one which is unique in the tableware industry.

Although not introduced onto the market until the financial year under review, the gourmet-series Amanti enjoyed great success in the average price sector. This series is directed at consumers who have their own culinary ambitions when cooking and entertaining and is, therefore, aimed at a young international trend. Orientation towards a wide range of tastes, as well as an increased move towards completing product groups with the demands for a completely-laid table, represent acceptance by broad consumer strata in different markets. A product offensive carried out in the cutlery sector was able to improve sales figures achieved in this segment in 1999 by 26 %.

A stylish complement to the Château Collection KIMONO: blown glass from the MANKAI series.



Owing to these results and the massive reduction in capital employed, the Division was able to realise an extraordinarily high operating cash flow of Euro 46 million.

INVESTMENTS TO ACHIEVE FLEXIBILITY AND REDUCE COSTS

During the financial year under review, the Division was furthermore able to harvest the fruits of seeds sown in previous years, which had required a high level of investment. Strong cost reductions resulted from the rationalisation measures implemented in the production and logistics sectors.

Investments in the sum of Euro 9.8 million in the year 2000 (previous year: Euro 16.0 million) were used mainly to achieve flexibility of manufacturing operations at the production locations in Germany and Luxembourg. As a result, these locations are now able to react much quicker to the

changing market needs. For the purpose of optimising the entire chain of goods and service production, the main processes were re-defined and mapped into a fundamentally new software environment, based on SAP standard software. In 2001, the range of performance will be extended to include an effective requirements planning system and production / operations management system (POM).

REDUCTION IN INVENTORIES

At the end of 1999, a programme was initiated to reduce international inventories, for the purpose of attaining a lasting improvement in asset yields. It was based on the introduction of supply chain management and also on stepped-up sales of excessive stocks.

Inventories were reduced without causing any negative effects on supply capability, the process leading to a 20 % reduction, which is the equivalent of Euro 15 million.

CityLife, one example from the new Metropolitan Collection, displaying minimal aesthetics (left) and CUMULUS vases as an ideal complement to the new FLOREA pattern.





Giving a new interpretation to the subject of gourmet glass series, LINOVA: its emotional appeal is created by way of special cut patterns, which make a statement about the bouquet and qualities of the drink.

INTENSIFIED COMMUNICATION

Having already been introduced during the previous financial year, concentration on the Villeroy & Boch brand was increased. The aim is to achieve as great a communication intensity as possible and in so doing, secure the best possible starting position in the world-wide battle for the greatest “share” of consumer awareness. Advertising campaigns in strategically important markets should also lead to a further increase in both brand awareness and purchasing intention for Villeroy & Boch in 2001. In addition, implementation of the unique “House of Villeroy & Boch” sales and marketing concept will continue to be intensively pursued at point-of-sale.

CONCENTRATION ON THE “VILLEROY & BOCH” BRAND AND “METROPOLITAN” LIFESTYLE SEGMENT

It has now become substantiated knowledge that in the face of increasing globalisation, only clearly differentiated brands with a high degree of awareness appear able to assert themselves in strategic markets. Recognition of this fact has caused the Division to give up the brand names “Heinrich” and “Gallo”.

While concentrating on the primary brand of “Villeroy & Boch”, the three segments “Château”, “House and Garden” and “Switch” are to represent the former design and brand categories.

A new addition is the “Metropolitan Collection”, which was introduced at the international consumer-goods fair “Ambiente”. This new lifestyle segment is directed above all at consumers with a puristic, urbane taste.

The first collection redefines hospitality. “Fusion food” represents a mixture of Far Eastern and European gastronomic culture. In its series “Metropolitan City” and “NewWave”, Villeroy & Boch is offering an original mixture of geometrically different tableware items, which can be combined with each other in an unconventional way, both in the professional sector and the creative home.

OUTLOOK

When compared with the year under review, only a slight improvement can be expected in the underlying economic conditions in Germany and on markets within the European Union during the year 2001. Thanks to its superior product-range concepts, Villeroy & Boch's Tableware Division anticipates an increase in both sales and market share. As a result of measures initiated not only on product ranges, structures and processes, but also in the marketing sector, it is expected that further improvement should be experienced in the area of asset yields – an area on which Management attention is focused.

FLOREA provides a great variety of combination possibilities, ranging from opulent to delicately patterned.





Offering a depth of 60 cm, the new Quaryl® bath NAGANO™ extends an invitation to “dive in”. Thanks to its compact outer dimensions of 160 cm, it also fits in small bathrooms.

Synthetic bathroom products reported a positive trend in the year 2000. A trend towards so-called wellness products – experienced particularly in European markets – has also increased the interest in whirlpool systems. The only country in which this does not apply is Germany, owing to the persistently poor economic activity in the construction sector.

Against this economic background, the financial year 2000 was of particular importance for the development of what was previously known as the Villeroy & Boch Synthetics Division. Initiated by making systematic acquisitions in the areas of synthetic baths, shower trays and whirlpools, the announced external growth has continued into the current year. In order for this sector to give a more comprehensible description of its appropriate field of operation, the company Division was renamed “Wellness Division” at the start of the second quarter of 2001. This name will also apply internationally.

SALES GROWTH RESULTING FROM ACQUISITIONS

In the financial year under review, the Division reported sales in the sum of Euro 49.3 million, as

Innovative power and growth characterise the new Wellness Division, which is oriented towards meeting the stressed population's increased need for balance and relaxation.

compared to Euro 36.3 million in 1999. For the first time, these figures also include sales achieved by the Swedish whirlpool manufacturer, Svenska Badkar AB – which was acquired in November – and also AB Gustavsberg's shares of sales for baths and shower partitions. AB Gustavsberg is the Swedish manufacturer of ceramic sanitary ware and fittings, which was acquired by Villeroy & Boch at the start of the financial year under review. When sales of the newly acquired Group companies are discounted, a growth percentage of 5.5 % was recorded for the year 2000.

DISTINCT IMPROVEMENT IN PERFORMANCE

A positive result trend was also seen during the first full financial year of the new Division, which was able to increase its 1999 figures by 31.3 %, bringing the total to Euro 2.1 million. This clearly shows the positive effects of the new strategy, which places emphasis on :

- converting the Ucosan range to the Villeroy & Boch brand

- strengthening international presence and
- seeking promising acquisitions in markets, in which the company's representation was previously weak.

The result also reflects above all the innovative power which led to new products in the bathroom and wellness sector. Special mention must be made here of low-noise whirlpool systems, which,



for the first time, also permit use of the increasingly valued relaxation facilities in multiple dwelling units.

WELLNESS AND FITNESS – THE LATEST TRENDS

“Wellness” and “Fitness” are trends which provide balance and relaxation to the stressed. The Wellness Division develops solutions and systems to suit the individual preferences of every user, whether they be ambitiously athletic, or more interested in calm and quiet relaxation. Roughly 5 % of this creative Division's sales is invested in technical innovations, of the kind presented in March 2001 at the ISH in Frankfurt – the most important international trade fair for the sanitary ware industry.

A new generation of low-noise whirlpools and a new kind of steam cubicle range are the result of a consistent orientation towards consumer wishes and expectations where elements of bathroom fur-

Roughly five percent of sales turnover was invested in developing new bathroom-furnishing elements, such as low-noise whirlpools, to enable Villeroy & Boch to occupy this highly-promising market.

nishing are concerned. Under the key words of wellness and relaxation, these wishes and expectations reflect a new physical awareness and present the bathroom as an oasis of well-being.

RATIONALISATION AND FLEXIBILITY

Product development was not the only sector in which considerable investment was made. The rationalisation of manufacturing processes is a fundamental criterion, if the increasingly extensive ranges of the most varied bath types are to be produced cost-effectively. Owing to the individual character of customer wishes, it is necessary that manufacturing processes display a high degree of flexibility. For this purpose, a total of Euro 1 million was invested, which also led to improved productivity.

OUTLOOK

Consumer wishes for wellness products will continue to be a central theme of the Division's development activities in the near future. Not only improvements and modifications, but also new kinds of solutions are on the agenda, which aim to secure a leading position among European companies within the industry. Both autonomous, internal growth and further acquisitions will contribute towards achieving this goal. A further distinct rise is to be anticipated in Wellness Division sales and result in the year 2001, owing to a policy of superior innovations, continued internationalisation and increased brand awareness.

Wellness – the Longing for Well-Being – is a Trend of Our Times

A new awareness of physical requirements can currently be recognised in our society. The hectic pace of daily life, the pressures experienced at work and in the family, cause us to search for a means of offsetting and harmonising these negative influences. In recent times, a term has been adopted to describe the fulfilment of this longing for relaxation and well-being. It is “wellness” – a term which is also becoming increasingly fashionable throughout the world.

It is not a coincidence that this concept involves an essential basic element – and thus, a prerequisite for human life – namely – water! Evidence of a link between water and well-being can be found way back in the early history of mankind and this same combination is ultra-modern today, using progressive technical possibilities.

The bathroom environment represents an oasis in which to relax with the help of this vital element. Dimensions of such an oasis vary according to the spatial conditions prevailing in the room, which may be a private bathroom, a generously-sized hotel or spa facility with sauna and hamam, or even a spacious fun pool with its great variety of “water architecture”. A further variable is to be found in the changeable aggregate condition of the element H₂O, as water can be heated to different temperatures and also used in the form of steam – either to stimulate, or calm body and mind.

It is also possible to vary the quantity and distribution of water on various parts of the body, depending on taste and the intended purpose of the particular treatment.

Fitness-lovers bravely expose themselves to a cold, purposeful jet, whereas those endeavouring to achieve a peaceful balance of body and soul, unwind luxuriously in a pleasantly warm bath.

Villeroy & Boch is taking advantage of the powerful development occurring within the wellness trend to expand its activities in the bathroom sector.

The growing variety of consumer requirements demands an extensive choice in the range of bathroom furnishing offered. Having many years of experience in the areas of ceramic sanitary ware and ceramic wall and floor tiles, Villeroy & Boch is also regarded as a specialist in this sector.

Villeroy & Boch is taking advantage of the powerful development occurring within this wellness trend – one which is increasingly outshining the extremely strenuous, sweaty and rather spartan “fitness wave” – to expand its activities in the bathroom sector. Since an increasingly dynamic trend can be recognised where non-ceramic bathroom elements are concerned, a highly-promising, strategic decision was made to set up a new Wellness Division.

Core operations were assumed in the new Division by the Dutch subsidiary company, Ucosan, which possesses its own original knowledge of processing synthetics into baths and shower trays, whirlpools, shower cubicles and partitions. As a result of systematic acquisitions, this Division is being developed into another of the Group's supporting pillars.

Villeroy & Boch's innovative products convey wellness elements to the user in their most beautiful form – just as the user himself prefers – whether the water desired is calming, invigoratingly-bubbly, gently-flowing, or in a powerful current. Ucosan's extremely “futuristic” Quarryl® material not only opens up technical possibilities, but also facilitates innovative, ergonomic and aesthetically-striking design solutions for baths and shower trays, whirlpools and – most recently – steam cubicles.

In so doing, the Villeroy & Boch brand is providing a comprehensive range of elements which enable the wonderful effect of water to be used to promote a sense of well-being.

*Consolidated Financial Statement
of Villeroy & Boch AG*

VILLEROY & BOCH GROUP
CONSOLIDATED BALANCE SHEET ON 31.12.2000

ASSETS

	31.12.2000		31.12.1999	
	Euro '000	Euro '000	Euro '000	Euro '000
Fixed Assets				
Intangible assets	4,850		4,042	
Tangible assets	245,598		221,303	
Financial assets	42,760	293,208	49,625	274,970
Current Assets				
Inventories		244,170		240,600
Receivables and other assets				
Trade accounts receivable	137,354		111,959	
Due from affiliated companies	0		1,033	
Other receivables and assets	40,064	177,418	37,875	150,867
Securities		10,043		361
Cash and bank balances		73,860		267,806
		505,491		659,634
Prepaid Expenses		21,735		20,188
		820,434		954,792

L I A B I L I T I E S

	31.12.2000		31.12.1999	
	Euro '000	Euro '000	Euro '000	Euro '000
Shareholders' Equity				
Subscribed capital	71,909		71,810	
Capital reserve	193,587		193,686	
Revenue reserves	39,890		82,155	
Consolidated profits	26,296		24,448	
Minority interests	3,998	335,680	4,303	376,402
Special Reserve Account		42,815		44,434
Provisions				
Provisions for pensions and similar obligations	151,725		149,807	
Other provisions	123,012	274,737	119,473	269,280
Liabilities				
- due to banks	31,617		144,735	
- trade accounts payable	58,575		45,480	
- due to affiliated companies	0		1,939	
Other liabilities	76,294	166,486	71,653	263,807
Deferred Income		716		869
		820,434		954,792

VILLEROY & BOCH GROUP
CONSOLIDATED PROFIT AND LOSS ACCOUNT

1 JANUARY TO 31 DECEMBER 2000

	2000 Euro '000	1999 Euro '000
Net Sales	939,594	834,169
Change in inventories and own work capitalised	- 5,421	+ 12,762
Total Value of Production	934,173	846,931
Other operating income	39,984	27,840
Cost of materials	312,189	279,567
Personnel expenses	320,537	291,098
Depreciation of intangible and tangible fixed assets	50,343	47,620
Other operating expenses	248,658	229,617
Income from investments	+ 883	+ 1,350
Net interest	- 6,981	- 2,460
Result from Ordinary Operations	+ 36,332	+ 25,759
Extraordinary result	0	+ 169
Taxes on income and earnings	11,511	1,567
Net Retained Profit	24,821	24,361
Loss attributable to minority interests	+ 1,139	+ 87
Withdrawals from reserves for own shares	336	0
Consolidated Profits	26,296	24,448



GENERAL

The consolidated financial statement has 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 statement includes ten domestic and forty-five foreign subsidiaries, in which – directly or indirectly – majority voting rights are held. Twenty subsidiaries have been included for the first time ever in the full consolidation. The fundamental new acquisitions include the Gustavsberg group (8 companies) and the Socatra group (3 companies), both of which were acquired in the year 2000. In addition, the company Comar S.A. – which was acquired in 1999 and previously evaluated at original cost – has been included in the full consolidation for the first time.

Furthermore, six subsidiary companies which were formerly reported at equity, have been fully consolidated for the first time. A further subsidiary has been excluded from the companies consolidated owing to its merger with another subsidiary.

Acquisitions consolidated for the first time in the consolidated financial statement (Gustavsberg and Socatra groups and also Comar S.A.) essentially had an effect on the following items of the balance sheet and the profit and loss account:

	Euro '000
Fixed Assets	22,578
Inventories	17,994
Trade accounts receivable	17,409
Provisions	11,731
Trade accounts payable	9,737
Net sales	82,812
Cost of Materials	36,797
Personnel expenses	23,310
Result from ordinary operations	3,465

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 generally corresponds to that of the parent company. An interim financial statement has been prepared for the Socatra group.

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 subsection 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 statement.

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 statement are categorically stated at the reporting date exchange rate (exception: the fixed assets assessed at historical rates of Villeroy & Boch Magyarország Rt., Hódmezővásárhely 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 balance-sheet 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. In variance to the annual financial statement of Villeroy & Boch AG, all production costs which can be capitalised in terms of commercial law have been uniformly stated for the valuation of the Group's own products.

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 statement 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 and accrued **accumulated tax payments** are shown combined in the Villeroy & Boch Group.

Provisions are set up according to sound business judgement for recognisable risks, contingent obligations and impending losses. Pension provi-

sions 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 statement are combined, in order to improve presentational clarity. These items are shown separately in the appendix.

The consolidated financial statement of Villeroy & Boch AG is drawn up in Euro.

NOTES TO BALANCE SHEET

INVENTORIES

	31.12.2000 Euro '000	31.12.1999 Euro '000
Raw materials and supplies	32,182	31,309
Work in progress	31,726	29,584
Finished goods	179,961	179,469
Payments on account	301	238
	244,170	240,600

RECEIVABLES AND OTHER ASSETS

	31.12.2000 Euro '000	of which due after more than 1 year Euro '000	31.12.1999 Euro '000	of which due after more than 1 year Euro '000
Trade accounts receivable	137,354	-	111,959	-
Due from affiliated companies	-	-	1,033	-
Other receivables and assets:				
due from companies in which an interest is held	16	-	112	-
Other assets	40,048	433	37,763	1,121
	40,064	433	37,875	1,121
	177,418	433	150,867	1,121

SECURITIES

Securities are made up as follows:

	31.12.2000 Euro '000	31.12.1999 Euro '000
Own shares	9,676	-
Other securities	367	361
	10,043	361

In accordance with a resolution adopted at the General Meeting of Shareholders on 25 June 1999, a total of 1,058,023 no-par-value individual preference-share certificates (March 658,023 shares and April 400,000 shares) were purchased in the financial year 2000 at an average price (including incidental acquisition costs) of Euro 9.46 per share. Own shares purchased are the equivalent of 3.77 % of Villeroy & Boch AG equity capital.

Within the scope of a stock-option programme a total of 35,548 shares (0.13 % of equity capital) have been sold at a price of Euro 10.25 per share to executive personnel at Villeroy & Boch AG and its subsidiary companies. Net proceeds resulting from the sale totalled Euro 0.364 million.

PREPAID EXPENSES

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

	31.12.2000 Euro '000	31.12.1999 Euro '000
deferred taxes	18,692	18,097
other prepaid expenses	3,043	2,091
	21,735	20,188

The deferred taxes in the Villeroy & Boch Group concern both tax accruals and deferrals from the annual financial report (Euro 5.454 million) as well as those from consolidation measures (Euro 13.238 million).

SUBSCRIBED CAPITAL/CAPITAL RESERVE

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 (after conversion of a partial amount of the capital reserve in the amount of Euro 99,453.87).

REVENUE RESERVES

	31.12.2000 Euro '000	31.12.1999 Euro '000
Reserve for own shares	9,676	-
Other revenue reserves	30,214	82,155
	39,890	82,155

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 10.283 million, are reported as revenue reserves in 2000. In addition, consolidation measures are offset in this item. During the year under review, accrued differential amounts of Euro 44.046 million resulting from the initial consolidation have been offset against revenue reserves.

Following the transfer of Euro 10.012 million into the reserve for own shares in the year under review, a total of Euro 9.0 million (previous year: Euro 10.226 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 0.336 million was withdrawn from the reserve for own shares.

SPECIAL RESERVE ACCOUNT

	31.12.2000 Euro '000	31.12.1999 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)	32,854	27,998
Untaxed reserves under § 273 HGB, in accordance with foreign law	9,961	16,436
	42,815	44,434

During the year under review, a tax-based depreciation of fixed assets in the amount of Euro 8.19 million 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 0.861 million).

In accordance with § 6b EStG, profits from the sale of capital assets, in the amount of Euro 0.138 million, were allocated to the untaxed reserves under § 273 HGB.

Earnings in the amount of Euro 3.349 million result from re-transferring the special reserve account.

PROVISIONS

Full appropriation has been made to pension provisions.

The remaining provisions concern:

	31.12.2000 Euro '000	31.12.1999 Euro '000
Provisions for taxes	9,462	8,087
Other provisions	113,550	111,386
	123,012	119,473

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 31.12.2000 Euro '000	of which due within 1 year Euro '000	1 to 5 years Euro '000	more than 5 years Euro '000	Mortgage security Euro '000	Total 31.12.1999 Euro '000	of which due within 1 year Euro '000
Liabilities							
due to banks	31,617	31,617	-	-	437	144,735	144,735
trade accounts payable	58,575	58,575	-	-	-	45,480	45,480
due to affiliated companies	-	-	-	-	-	1,939	1,939
Miscellaneous liabilities:							
Advance payments received	731	731	-	-	-	526	526
due to liabilities towards companies in which an interest is held	150	150	-	-	-	30	30
Notes payable	6,487	6,487	-	-	-	16,190	16,190
Other liabilities	68,926	67,571	345	1,010	-	54,907	53,531
of which from taxes:	(9,883)					(10,333)	
of which within the framework of social security:	(11,279)					(8,589)	
	76,294	74,939	345	1,010	-	71,653	70,277
	166,486	165,131	345	1,010	437	263,807	262,431

CONTINGENT LIABILITIES

	2000 Euro '000	1999 Euro '000
Liabilities on bills discounted	6,060	20,269
Guarantee obligations	217	509
Trustee liabilities	307	291

OTHER FINANCIAL LIABILITIES

	Euro '000
Liabilities resulting from rental and leasing agreements	
due 2001	17,647
due 2002 – 2005	34,618
due after 2005	10,124
Liabilities resulting from orders placed for investment	4,969

NOTES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT

COST OF MATERIALS

	2000 Euro '000	1999 Euro '000
Cost of raw materials and supplies (including intermediate products)	133,444	108,054
Cost of purchased materials	136,514	133,883
	269,958	241,937
Cost of purchased services	42,231	37,630
	312,189	279,567

The services purchased essentially concern energy.

PERSONNEL EXPENSES

	2000 Euro '000	1999 Euro '000
Wages and salaries	254,691	231,558
Social security and pension costs	65,846	59,540
(of which in respect of old-age pensions)	(5,490)	(6,060)
	320,537	291,098

The share of interest in the amount of Euro 8.527 million (previous financial year: Euro 8.492 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:	2000	1999
Tiles	2,684	2,770
Bathroom and Kitchen	3,954	3,359
Tableware	3,159	3,355
Wellness	326	276
Other	404	370
	10,527	10,130

OTHER OPERATING EXPENSE

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 6.592 million (previous financial year: Euro 6.475 million) in the Villeroy & Boch Group. Furthermore, allocations to the special reserve account, in the amount of Euro 0.138 million (previous financial year: Euro 1.159 million) are reported under other operating expenses.

NET INTEREST

	2000 Euro '000	1999 Euro '000
INCOME		
Income from other securities and long-term loans	521	522
Other interest and similar income (of which from affiliated companies)	8,190 (-)	11,243 (21)
	8,711	11,765
EXPENSES		
Interest and similar expenses (of which to affiliated companies)	- 7,165 (-)	- 5,733 (- 42)
Share of interest in the changed provisions for pensions	- 8,527	- 8,492
	- 15,692	- 14,225
Net interest	- 6,981	- 2,460

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 2.318 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, which is prepared in accordance with the regulations laid down in the German Accounting Standards No. 2, 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)	2000	1999
Net retained profit	24.8	24.4
Depreciation on fixed assets	50.3	47.6
Changes in long-term provisions	0.9	2.4
Changes in special reserves	- 3.4	- 2.1
Changes in inventories and receivables	- 4.6	- 17.6
Changes in liabilities and short-term provisions	3.0	- 13.6
Result from disposal of fixed assets	- 1.3	- 2.5
Other income without effect on liquid resources	0.0	- 0.2
Other payments received without effect on operating result	2.2	0.0
Cash flow from operating activities	71.9	38.4
Investments in intangible and tangible fixed assets	- 54.7	- 46.2
Investments in financial assets and payments for the acquisition of consolidated companies	- 68.3	- 14.8
Deposits from the disposal of fixed assets	8.8	25.9
Cash flow from investment activities	- 114.2	- 35.1
Change in financial liabilities	- 131.0	- 111.5
Payment for the acquisition of own shares	- 9.7	0.0
Villeroy & Boch AG dividends	- 14.2	- 10.8
Cash flow from financing activities	- 154.9	- 122.3
Consolidation processes without effect on result or liquid resources	0.0	0.7
Change in balance of funds	- 197.2	- 118.3
Balance of funds on 1.1.	268.2	386.5
Effects on balance of funds due to changes in companies consolidated	3.2	0.0
Change in balance of funds affecting liquid resources	- 197.2	- 118.3
Balance of funds on 31.12.	74.2	268.2

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: Tiles, Bathroom and Kitchen, Tableware and Wellness.

The segments produce and/or market the following products:

TILES

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

BATHROOM AND KITCHEN

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

TABLEWARE

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

WELLNESS

Synthetic baths, system baths, shower partitions and synthetic kitchen sinks,
shower partitions and steel baths purchased from external companies

The segment data is determined in accordance with the balance-sheet items and methods of valuation in the underlying consolidated financial statement. 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.

Depreciation does not include extraordinary depreciation.

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 affiliated and associated companies, inventories, trade accounts receivable, 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 affiliated and associated companies, securities, liquid resources, deferred taxes and debts due from affiliated and associated companies.

The essential items here are the liquid resources, totalling Euro 73.9 million (previous year: Euro 267.8 million) and investments held as fixed and current assets, totalling Euro 46.6 million (previous year: Euro 37.0 million).

Operating debts comprise expenditure reserves, trade accounts payable, 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 6.5 million (previous year: Euro 16.2 million), liabilities due to banks, totalling Euro 31.6 million (previous year: Euro 144.7 million) and the pension provisions, totalling Euro 151.7 million (previous year: Euro 149.8 million).

SEGMENTATION ACCORDING TO REGION

	Germany	France	Rest of Europe	Rest of the world	Transition	Villeroy & Boch Group
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
1999						
Sales	367.0	135.1	227.7	104.4		834.2
Operating net assets	224.5	54.8	147.0	28.6	- 78.5	376.4
Investments	15.4	4.4	23.2	3.2		46.2

(Values in Euro million)

SEGMENTATION ACCORDING TO DIVISION

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
EBIT	1.1	27.1	13.0	2.1		43.3
Other operating result without effect on liquid resources					0.0	0.0
Net interest					- 7.0	- 7.0
Earnings-tax expenditure					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	2,684	3,954	3,159	326	404 ¹⁾	10,527

1999

Sales	282.1	219.9	295.9	36.3		834.2
Depreciation	17.2	12.3	15.3	2.8		47.6
EBIT	- 4.0	20.2	10.4	1.6		28.2
Other operating result without effect on liquid resources					0.2	0.2
Net interest					- 2.4	- 2.4
Earnings-tax expenditure					1.6	1.6
Net retained profit						24.4
Operating assets	247.8	153.2	216.2	22.0	315.6	954.8
Operating debts	76.1	53.3	46.9	8.0	394.1	578.4
Operating net assets	171.7	99.9	169.3	14.0	- 78.5	376.4
Investments	17.7	9.1	16.0	3.4		46.2
Number of employees	2,770	3,359	3,355	276	370 ¹⁾	10,130

(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 statement 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 2000. Preparation of the consolidated financial statement 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 statement 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 statement 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 internal controlling system and evidence of the details given in the consolidated financial statement 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 statement, delimitation of the consolidated Group, the accounting and consolidation principles applied and the essential assessments of the legal representatives as well as the appraisal of the overall presentation of the consolidated financial statement 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 statement, on observation of the principles of orderly accounting, conveys 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. 9 March 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Reinke)
Wirtschaftsprüfer

(Kohns)
Wirtschaftsprüfer

TILE/
BATHROOM AND KITCHEN
DIVISIONS

Germany	Fliesenhandel an der Cristallerie GmbH, Wadgassen ²⁾ Fliesenhandel Merzig GmbH, Merzig ²⁾
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., Hódmezővásárhely
Netherlands	Villeroy & Boch Nederland B.V., Amsterdam
Austria	db.Das Bad Gesellschaft m.b.H., Salzburg-Plainfeld
Romania	S.C. Mondial S.A., Lugoj
Sweden	AB Gustavsberg, Gustavsberg

TABLEWARE DIVISION

Germany	Villeroy & Boch Creation GmbH, Mettlach ²⁾
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
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	Ucosan Holding B.V., Roden
Sweden	AB Gustavsberg, Gustavsberg Svenska Badkar AB, Växjö
Czech Republic	Vagnerplast spol. s r. o., Velké Přítočno

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, Frederiksberg
Belgium	Villeroy & Boch Belgium S.A., Brüssel
USA	Villeroy & Boch USA Inc., Princeton

¹⁾ As per end of March 2001

²⁾ 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
FRF	1.65	-	100.00	100.00
FRF	1.00	-	100.00	100.00
ITL	22,500.00	70.00	30.00	100.00
HUF	2,289.30	99.59	-	99.59
EUR	0.05	100.00	-	100.00
ATS	30.00	-	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
ITL	48.41	0.20	99.80	100.00
CHF	0.50	-	100.00	100.00
SEK	2.00	-	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
CZK	18.53	-	70.00	70.00
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.



CONSTANT EXPANSION OF WORLD-WIDE PRESENCE

Villeroy & Boch is represented by the products from its four Divisions: Tiles, Bathroom and Kitchen (ceramic sanitary ware, bathroom furniture and kitchen sinks), Tableware and Wellness (synthetic baths and shower trays, whirlpools) in more than 125 countries throughout the world.

In the financial year under review, 62 % of Group sales were achieved outside Germany, a figure which had still only reached 46 % in 1996. This trend reflects our strategy of growing independence from the weak core market of Germany.

The group currently operates 22 factories in 10 European countries. Up till now, the “House of Villeroy & Boch” sales and marketing concept has been realised by the Tableware Division in approximately 1,000 “shop-in-shop” outlets throughout four continents, and by the construction-oriented Divisions in more than 100 showroom exhibitions.



● *Production*

○ *Marketing*



GENERAL MEETING OF SHAREHOLDERS

8 June 2001
3 p.m.
Stadthalle Merzig

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

8 August 2001

and on

the first nine months of the year on
31 October 2001.

DEAR SHAREHOLDERS

If you are interested in further information,
or in the German version of the Annual Report for the year 2000,
please contact:

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