Interim Report
1 January to 30 June 2010

- **Revenue for first six months up slightly year-on-year (+0.4%)**
- **EBT (operating) improves by €17.1 million to €3 million**
- **Provision of €73 million recognised due to EU antitrust fine**

The first section of this interim report discusses the operating results of the Villeroy & Boch Group in 2010. The second section presents the Group's assets and results including the special expenditures resulting from the EU antitrust proceedings.

I. Overview of the Villeroy & Boch Group – operating results

Overview of the Villeroy & Boch Group (operating results)	1 Jan. – 30 June		Change	
	2010 €m	2009 €m	in €m	in %
Revenue (total)	**349.9**	**348.6**	**1.3**	**0.4**
Germany	**87.6**	**87.2**	**0.4**	**0.5**
Abroad	**262.3**	**261.4**	**0.9**	**0.3**
Earnings before interest and taxes (EBIT) - operating	**8.1**	**-9.0**	**17.1**	
Earnings before taxes (EBT) - operating	**3.0**	**-14.1**	**17.1**	
Investments	**9.7**	**7.8**	**1.9**	**24.4**
Employees	**8,823**	**9,619**	**-796**	**-8.3**

German Securities Code Numbers (WKN): 765 720, 765 723
ISIN: DE0007657207, DE0007657231
Villeroy & Boch AG • 66688 Mettlach, Germany
Tel.: 0049 (0)6864 - 81 1520 • Fax: 0049 (0)6864 - 81 7 1520
Internet: http://www.villeroy-boch.com

Interim Management Report of the Villeroy & Boch Group for the First Half of 2010

Global economic conditions

The recovery in the global economy continued in the second quarter of this year. The International Monetary Fund recently increased its growth forecast for 2010 to 4.6%. The main drivers are China, India and Brazil. Further, growth is also forecast for North America again. Germany is now expected to see a rise in gross national product of around 1.5%.

Contrary to this positive development, a number of significant risk factors still remain. In particular at this point, it is not possible to estimate reliably the consequences of the extremely high level of national debt around the world and of the strained situation at many banks at present.

Report on net assets, financial position and results of operations:

I. Villeroy & Boch Group – Operating results*

In the first half of 2010, the Villeroy & Boch Group generated net revenue of €349.9 million compared with €348.6 million in the same period of the previous year. This represents a slight increase of 0.4%.

Orders on hand increased by €11.7 million compared with 1 January 2010 to total €55.9 million as of 30 June 2010. Of this figure, 56.5% was attributable to the Bathroom and Wellness Division.

In the first half of 2010, the Villeroy & Boch Group generated operating earnings before taxes (EBT) of €3.0 million, up €17.1 million on the prior-year figure of €-14.1 million.

This development reflects the restructuring and cost reduction measures initiated in the previous year, which have had a positive impact on staff costs and costs of purchased services in particular. Staff costs were reduced by €6.0 million in the first half of the year.

Development in the Divisions

Bathroom and Wellness

The Bathroom and Wellness Division generated revenue of €228.4 million in the first half of 2010, up 3.8% (€8.4 million) on the previous year.
In Germany, sales of ceramic kitchen sinks and bathroom furniture developed particularly well. Improved service levels in the kitchen segment and the acquisition of the furniture manufacturer Sanipa in 2008 are now generating substantial revenue growth.
All in all, however, the Division's foreign markets are generally enjoying stronger growth than Germany.
Scandinavia, Russia and Asia are the best performers among the major foreign markets. The UK and Spain, the countries most affected by the financial crisis in Western Europe, have also returned to revenue growth after two years.
By contrast, revenue declined in the Netherlands and Italy due to the pronounced reluctance to commit to new construction and renovation projects. Also the south-eastern European countries, Hungary and Romania, that are important to the Division are clearly also still suffering from the crisis.
Meanwhile, the markets of the Middle East, which saw a boom in project business up until 2008, are only recovering slowly.
Revenue in the Americas improved significantly in the second quarter, with cumulative revenue growth being recorded for the first time in three years.
The Bathroom and Wellness Division recorded an operating result (EBIT before special

* The earnings figures for the Group and the Divisions relate to the operating result before the EU fine (2010) and restructuring expenses (2009).

expenditures) of €12.1 million, up €15.0 million on the previous year.
There were significant increases in both revenue and profit margin. Production and structural costs were reduced significantly as a result of the restructuring measures undertaken in 2009.
The high level of interest at regional trade fairs in the first quarter of 2010, particularly with regard to the new products in the Subway range, the built-in and surface-mounted washbasins for project business and the innovative colours in the Loop series, had a positive impact on revenue in the second quarter.
The new products presented at the ISH 2009 trade fair, Subway 2.0 (Bathroom), LaBelle (Bathroom & Furniture) and 2morrow (Sanipa Furniture), also continued to perform well.
Thanks to the recovery in key markets, successful product launches, the targeted strengthening of the distribution network in growth regions and a number of current project tenders in Asia and the Middle East, the Division is confident with regard to the second half of the year and expects revenue to continue to increase.

Tableware

The Tableware Division generated revenue of €121.5 million in the first half of 2010 (down €7.1 million on the previous year). Adjusted for the special transactions realised in the first half of 2009, revenue increased by 0.9% year-on-year. External retailers as well as own retail shops and, in particular, the e-commerce sales channel all enjoyed growth. Hotel business, which was particularly hard hit by the crisis, stopped the downward trend and achieved revenue at almost the same level as in the first half of the previous year.
At €2.1 million, the operating result for the first half of the year was significantly higher than in the previous year (€-6.1 million). This development was driven in particular by the cost savings initiated in 2009 and the productivity improvement measures.
The Division expects its markets to continue to develop positively in the second half of the year. Indicators include incoming orders (up 4.3% year-on-year) and the orders received for Christmas business to date, which are also higher than in the previous year.

II. Villeroy & Boch Group – including special expenditures from EU antitrust fine

Villeroy & Boch Group – incl. special expenditures	1 Jan. – 30 June 2010 €m	1 Jan. – 30 June 2009 €m	Change in €m
Earnings before interest and taxes (EBIT) - operating	8.1	-9.0	17.1
Special expenditures from EU fine	-73.0	-	-73.0
Special expenditures from 2009 restructuring	-	-60.0	60.0
Earnings before interest and taxes (EBIT)	-64.9	-69.0	4.1
Earnings before taxes (EBT)	-70.0	-74.1	4.1
Group result	-70.4	-74.1	3.7

On 23 June 2010, the European Commission imposed a fine totalling €71.5 million against Villeroy & Boch AG, Mettlach and its subsidiaries in Belgium, the Netherlands, Austria and France in conjunction with the antitrust proceedings that had been in progress since 2004 (COMP / E-1 / 39.092 – PO/Bathroom Fittings and Fixtures). The fine is payable within three months. Alternatively, when appealing to court a bank guarantee may be lodged as a deposit.

The decision as a whole relates to a number of manufacturers of fittings, shower partitions and ceramic sanitary ware. As a manufacturer of ceramic sanitary ware, Villeroy & Boch is accused of having been involved in concerted practices in the bathroom fittings sector in Germany, Belgium, the Netherlands, Austria and France in the period from 1994 to 2004.

The decisions on the fine attribute this alleged behaviour of the fitting and shower partition manufacturers to Villeroy & Boch and other ceramic manufacturers.

Villeroy & Boch fully rejected the claims by the European Commission already during the preliminary proceedings. Its defence was supported by expert legal and economic opinions.

After reviewing the decision on the fine, Villeroy & Boch continues to reject fully the accusations by the European Commission as incorrect and illegal.

The European Commission combined a number of independent industries and various national markets to form a supposed cross-industrial and cross-border cartel. Furthermore, Villeroy & Boch was not involved in the alleged price-fixing. Customers and consumers were not disadvantaged in any way.

The decision is based on a flawed understanding and assessment of the relevant market relationships, leading to an incorrect evaluation of the factual and legal situation. The case as a whole poses fundamental questions with regard to the constitutionality of the proceedings and the appropriateness of the fines imposed in the Commission’s practice.

We are of the opinion that the decision on the fine is illegal in its current form. Accordingly, Villeroy & Boch AG will initiate an action for annulment with the General Court of the European Union in Luxembourg.

Despite its objections, Villeroy & Boch has recognised a provision of €73.0 million as a precautionary measure until the court’s decision; this figure includes adequate legal costs. According to previous practice, legal proceedings of first instance can take about four years until a decision is reached.

The following table provides a condensed income statement reflecting the aforementioned special expenditures:

Structure of the consolidated income statement (IFRS)				
€ million	***1st half year 2010***	*% of revenue*	***1st half year 2009***	*% of revenue*
Revenue	*349.9*	*100.0*	*348.6*	*100.0*
Cost of sales	*-207.2*	*-59.2*	*-215.1*	*-61.7*
Gross profit	***142.7***	***40.8***	***133.5***	***38.3***
Selling, marketing and development costs	*-112.2*	*-32.1*	*-117.5*	*-33.7*
General and administrative expenses	*-20.7*	*-5.9*	*-21.9*	*-6.3*
Other expenses/income	*-1.7*	*-0.5*	*-3.1*	*-0.9*
EBIT (operating, before special expenditures)	***8.1***	***2.3***	***-9.0***	***-2.6***
Special expenditures from:				
- EU fine	***-73.0***		***-***	
- Restructuring programme (2009)	***-***		***-60.0***	
EBIT (incl. special expenditures)	***-64.9***		***-69.0***	
Net finance expense	*-5.1*		*-5.1*	
Earnings before taxes (EBT)	***-70.0***		***-74.1***	
Income taxes	*-0.4*		*0.0*	
Consolidated result	***-70.4***		***-74.1***	

Tax result

The tax expense of €0.4 million is attributable to the non-deductible special expenditures in the first half of the year.

Net liquidity

The net liquidity of the Villeroy & Boch Group amounted to €26.5 million as of 30 June 2010. This represents a year-on-year increase of €26.1 million that is primarily attributable to the significant reduction in inventories.

Investments

The Villeroy & Boch Group made investments totalling €9.7 million in the first half of the year (previous year: €7.8 million). Additional information can be found in the notes.

Opportunities and risks

The opportunities and risks described in the 2009 Annual Report remain unchanged. There is no evidence of any individual risks that could endanger the continued existence of the Group. A provision has been recognised in light of the EU antitrust fine.

Outlook for the rest of the 2010 financial year

Following a satisfactory first quarter, the second quarter confirmed the expectations of a significant improvement in operating results compared with the 2009 financial year.

While revenue was down on the previous year in January and February, it has been higher than in 2009 every month since March. All in all, we expect consolidated revenue for 2010 as a whole to be slightly higher than in the previous year. The implementation of the measures initiated in 2008 and 2009 with the aim of cutting production and structural costs is progressing well and will continue in the second half of the year. As this will lead to continuous earnings growth, we are forecasting a clearly positive operating result (EBIT) of more than €10 million for the 2010 financial year as a whole (previous year: €-1.7 million).

The Group result will be impacted by the provision for the EU antitrust fine in the amount of €73 million.

Significant transactions with related parties

Additional information can be found on page 17 of this report.

Villeroy & Boch Group

Consolidated balance sheet as of 30 June 2010

Assets

in Euro Thousands	Notes	30/06/2010	31/12/2009
Non-current assets			
Intangible assets		40,198	39,128
Property, plant and equipment	1	164,274	170,378
Investment property	2	21,759	19,809
Investment accounted for using the equity method		1,331	1,087
Other financial assets		21,002	22,316
		248,564	252,718
Other non-current assets		341	758
Deferred tax assets		48,301	47,194
		297,206	300,670
Current assets			
Inventories	3	141,965	143,102
Trade receivables	4	117,737	106,299
Financial assets	5	0	20,600
Other current assets	6	24,508	21,538
Income tax claims		3,995	2,620
Cash and cash equivalents	7	76,635	78,783
		364,840	372,942
Total assets		662,046	673,612

Shareholders' Equity and Liabilities

in Euro Thousands	Notes	30/06/2010	31/12/2009
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital		71,909	71,909
Capital surplus		193,587	193,587
Treasury shares		-14,985	-14,985
Retained earnings		-92,838	-17,137
Valuation surplus	8	5,215	-2,024
		162,888	231,350
Equity attributable to minority interests	9	102	665
Total equity		162,990	232,015
Non-current liabilities			
Provisions for pensions		147,623	148,912
Non-current provisions for personnel	10	18,027	18,379
Other non-current provisions	11	5,596	5,877
Non-current financial liabilities		50,000	50,000
Other non-current liabilities	12	4,222	4,236
Deferred tax liabilities		14,885	14,867
		240,353	242,271
Current liabilities			
Current provisions for personnel	10	6,367	10,695
Other current provisions	11	124,064	62,146
Current financial liabilities		101	1,967
Other current liabilities	12	74,583	73,368
Trade payables		48,820	45,092
Income Tax liabilities		4,768	3,874
		258,703	197,142
Liabilities dedicated assets classified as held for sale		0	2,184
Total liabilities		499,056	441,597
Total equity and liabilities		662,046	673,612

Villeroy & Boch Group

Consolidated Income Statement from 1 January to 30 June 2010

in Euro Thousands	Notes	1st half-year 2010	1st half-year 2009
Revenue		349,940	348,590
Costs of sales		-207,266	-215,143
Gross profit		**142,674**	**133,447**
Selling, marketing and development costs	13	-112,207	-117,460
General and administrative expenses		-20,688	-21,922
Other operating income/expenses		-74,931	-63,368
(Thereof from EU fine)		(-73,000)	(-)
(Thereof from Restructuring)		(-)	(-60,000)
Result of associates accounted for using the equity method		244	314
Operating result (EBIT)		**-64,908**	**-68,989**
(Operating result before special expenditures)		**(8,092)**	**(- 8,989)**
Financial results	**14**	**-5,081**	**-5,157**
Earnings before taxes		**-69,989**	**-74,146**
Income taxes	15	-453	0
Group result		**-70,442**	**-74,146**
Thereof attributable to			
minority interests		9	-21
Villeroy & Boch AG shareholders		-70,451	-74,125
		-70,442	**-74,146**
EARNINGS PER SHARE in Euro			
Earnings per ordinary share		-2.69	-2.83
Earnings per preference share		-2.64	-2.78

Villeroy & Boch Group

Consolidated Income Statement from 1 April to 30 June 2010

in Euro Thousands		2nd quarter 2010	2nd quarter 2009
Revenue		172,029	166,354
Costs of sales		-101,071	-99,762
Gross profit		**70,958**	**66,592**
Selling, marketing and development costs	13	-55,383	-56,178
General and administrative expenses		-10,214	-9,859
Other operating income/expenses		-74,027	-2,210
(Thereof from EU fine)		(-73,000)	(-)
(Thereof from Restructuring)		(-)	(-)
Result of associates accounted for using the equity method		30	284
Operating result (EBIT)		**-68,636**	**-1,371**
(Operating result before special expenditures)		**(4,364)**	**(- 1,371)**
Financial results	**14**	**-2,541**	**-2,716**
Earnings before taxes		**-71,177**	**-4,087**
Income taxes	15	-94	-12,309
Group result		**-71,271**	**-16,396**
Thereof attributable to			
minority interests		43	-5
Villeroy & Boch AG shareholders		-71,314	-16,391
		-71,271	**-16,396**
EARNINGS PER SHARE in Euro			
Earnings per ordinary share		-2.72	-0.64
Earnings per preference share		-2.67	-0.59

There were no share dilution effects in the reporting periods.

Villeroy & Boch Group

Consolidated Statement of Equity as of 30 June 2010

in Euro Thousands	Equity attributable to Villeroy & Boch AG shareholders: Issued capital	Capital surplus	Treasury shares	Retained earnings	Valuation surplus	Total	Equity attributable to minority interests	Total equity
Note					8			
As of 01/01/2009	**71,909**	**193,587**	**-14,985**	**87,805**	**-7,866**	**330,450**	**487**	**330,937**
Group result (as per Consolidated Income Statement)				-74,125		-74,125	-21	-74,146
Other comprehensive income				-653	1,924	1,271	5	1,276
Total comprehensive income net of tax				**-74,778**	**1,924**	**-72,854**	**-16**	**-72,870**
Dividends				-9,068		-9,068		-9,068
Other change						0	274	274
As of 30/06/2009	**71,909**	**193,587**	**-14,985**	**3,959**	**-5,942**	**248,528**	**745**	**249,273**
As of 01/01/2010	**71,909**	**193,587**	**-14,985**	**-17,137**	**-2,024**	**231,350**	**665**	**232,015**
Group result (as per Consolidated Income Statement)				-70,451		-70,451	9	-70,442
Other comprehensive income				-5,250	7,239	1,989	14	2,003
Total comprehensive income net of tax				**-75,701**	**7,239**	**-68,462**	**23**	**-68,439**
Acquisition of non-controlling interests (cp. note 9)						0	-586	-586
As of 30/06/2010	**71,909**	**193,587**	**-14,985**	**-92,838**	**5,215**	**162,888**	**102**	**162,990**

Villeroy & Boch Group

Consolidated Statement of Comprehensive Income as of 30 June 2010

in Euro Thousands	**30/06/2010**	**30/06/2009**
Group result (as per Consolidated Income Statement)	**-70,442**	**-74,146**
On the equity recorded, realised other comprehensive income		
Gains or losses arising from translating the retained earnings of foreign operation	-5,244	-564
Other changes	-5	-89
	-5,249	**-653**
On the equity recorded, unrealised other comprehensive income		
Gains or losses on hedging instruments in a cash flow hedge	-1,252	611
Gains or losses arising from translating the net investment in a foreign business operation	1,879	351
Gains or losses arising from translating the financial statements of foreign operation	6,262	754
Gains or losses arising from deferred taxes	363	213
	7,252	**1,929**
Other comprehensive income (Total of issues resulting in neither profit nor loss, recorded on the equity)	**2,003**	**1,276**
Total comprehensive income net of tax	**-68,439**	**-72,870**
Thereof attributable to		
Villeroy & Boch AG shareholders	-68,462	-72,854
minority interests	23	-16
	-68,439	**-72,870**

Villeroy & Boch Group
Consolidated Cash Flow Statement as of 30 June 2010

in Euro Thousands	1st half-year 2010	1st half-year 2009
Group result	-70,442	-74,146
Depreciation of non-current assets	15,705	17,865
Change in non-current provisions	-6,105	-7,085
Profit from dispoal of fixed assets	-65	-874
Change in inventories, receivables and other assets	-13,555	19,248
Change in liabilities, current provisions and other liabilities	-3,404	-26,784
Change in current provision for EU fine	73,000	-
Change in current provision for restructuring	-8,122	58,029
Other non-cash income/expenses	2,959	4,351
Cash Flow from operating activities	**-10,029**	**-9,396**
Purchase of intangible assets, property, plant and equipment	-8,564	-6,577
Investment in non-current financial assets and cash payments for the acquisition of consolidated companies	-3	-1,608
Cash receipt from restricted deposits	20,000	20,631
Cash receipts from disposals of fixed assets	1,557	4,928
Cash Flow from investing activities	**12,990**	**17,374**
Change in financial liabilities	-1,868	-7,377
Cash payments for the acquisition of non-controlling interests	-1,391	-
Dividend payments	-	-9,068
Cash Flow from financing activities	**-3,259**	**-16,445**
Net increase in cash and cash equivalents	**-298**	**-8,467**
Balance of cash and cash equivalents as of 01/01/2010	78,783	58,978
Change in consolidated companies	-1,850	0
Net increase in cash and cash equivalents	-298	-8,467
Balance of cash and cash equivalents as of 30/06/2010	76,635	50,511

Villeroy & Boch Group Segment Report as of 30 June 2010

1st half-year Segment Report

in Euro Thousands	BATHROOM & WELLNESS 2010	BATHROOM & WELLNESS 2009	TABLEWARE 2010	TABLEWARE 2009	TRANSITION / OTHER 2010	TRANSITION / OTHER 2009	VILLEROY & BOCH GROUP 2010	VILLEROY & BOCH GROUP 2009
Revenue								
Segment revenue from sales to external customers	228,408	220,032	121,532	128,558	-	-	349,940	348,590
Segment revenue from transactions with other segments	345	377	0	0	-345	-377	0	0
Result								
Segment result (before special expenditures)	12,107	-2,890	-4,015	-6,099	-	-	8,092	-8,989
From EU - fine	-	-	-	-	-73,000	-	-73,000	-
From Restructuring 2009	-	-40,923	-	-19,077	-	-	-	-60,000
Segment result (incl. special expenditures)	12,107	-43,813	-4,015	-25,176	-	-	-64,908	-68,989
Financial result	-	-	-	-	-5,081	-5,157	-5,081	-5,157
Other information								
Segment assets	339,247	382,788	130,019	146,372	192,780	183,201	662,046	712,361
Segment liabilities	104,724	102,809	40,808	36,903	353,524	323,376	499,056	463,088
Thereof from EU fine	-	-	-	-	73,000	-	73,000	-
Thereof from Restructuring 2009	-	-	-	-	38,951	59,458	38,951	59,458
Investments	4,753	6,328	4,986	1,440	-	-	9,739	7,768
Scheduled depreciation of segment assets	10,944	11,154	4,693	6,699	-	-	15,637	17,853

Villeroy & Boch Group 2nd quarter Segment Report as of 30 June 2010

in Euro Thousands	BATHROOM & WELLNESS 2010	BATHROOM & WELLNESS 2009	TABLEWARE 2010	TABLEWARE 2009	TRANSITION / OTHER 2010	TRANSITION / OTHER 2009	VILLEROY & BOCH GROUP 2010	VILLEROY & BOCH GROUP 2009
Revenue								
Segment revenue from sales to external customers	115,026	109,859	57,003	56,495	-	-	172,029	166,354
Segment revenue from transactions with other segments	265	179	0	0	-265	-179	0	0
Result								
Segment result (before special expenditures)	7,263	1,604	-2,899	-2,975	-	-	4,364	-1,371
From EU fine	-	-	-	-	-73,000	-	-73,000	-
From Restructuring 2009	-	-	-	-	-	-	-	-
Segment result (incl. special expenditures)	7,263	1,604	-2,899	-2,975	-73,000	-	-68,636	-1,371
Financial result	-	-	-	-	-2,541	-2,716	-2,541	-2,716
Other information								
Investments	1,983	3,608	2,022	667	-	-	4,005	4,275
Scheduled depreciation of segment assets	5,406	5,586	2,327	3,324	-	-	7,733	8,910

Notes to the Interim Financial Statements of the Villeroy & Boch Group for the First Half of 2010

General information

Villeroy & Boch AG, Mettlach, is a listed public limited company under German law and acts as the parent company to the Villeroy & Boch Group. The Group is divided into the two operating divisions of Bathroom and Wellness and Tableware.

This interim report covers the period from 1 January to 30 June 2010. It was approved for publication on 26 July 2010 after being discussed by the Management Board and the Audit Committee of the Supervisory Board. It was prepared in accordance with section 315a of the German Commercial Code (HGB), applying the IASC rules as endorsed by the European Commission. These condensed interim financial statements have not been audited or reviewed by an audit company. In the opinion of the Management Board, these interim financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group. The interim report includes condensed consolidated financial statements with selected explanatory notes in accordance with IAS 34. Accordingly, it should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009. In the period under review, the accounting and consolidation methods described in the 2009 Annual Report were extended to include the accounting standards endorsed by the EU for the first time. These have had no material impact on this interim report.

Basis of consolidation

As of 30 June 2010, the basis of consolidation of the Villeroy & Boch Group consists of 59 companies (31 December 2009: 62 companies). The number of consolidated companies in the Villeroy & Boch Group was reduced by three as part of the restructuring programme.

With effect from 1 April 2010, the Villeroy & Boch Group sold all of its shares in VITAVIVA ITALIA S.r.L., Castelraimondo, Italy. The buyer intends to continue production with the workforce acquired.

In addition, the companies Vagnerplast spol. s r.o., Unhost, Czech Republic, and Vagnerplast Slovensko s. r.o., Partizánske, Slovakia, were both sold with effect from 1 May 2010. The buyer intends to continue production with the workforce acquired.

The closing process is not yet complete. We do not expect the deconsolidation to have a material effect on the Group result in light of the provisions recognised in 2009.

Seasonal influences on business activities

The Tableware Division generally expects to generate a higher level of revenue and operating profit in the quarters containing Easter and, in particular, Christmas than in the two other quarters of the year. There are no other seasonal effects on the rest of the product portfolio.

Notes on selected items of the consolidated balance sheet

1. Property, plant and equipment

Property, plant and equipment in the amount of €8,278 thousand (previous year: €6,509 thousand) was acquired in the period under review, mainly as part of replacement and rationalisation activities with a particular focus on the establishment of the cup die casting competence centre in Torgau and the capacity expansion in Saraburi, Thailand. Property, plant and equipment with a carrying amount of €363 thousand (previous year: €336 thousand) was sold in the same period. Depreciation amounted to €14,384 thousand (previous year: €16,616 thousand). At the reporting date, the Villeroy & Boch Group had obligations to acquire property, plant and equipment in the amount of €7,486 thousand (31 December 2009: €6,218 thousand).

2. Investment property

Since 1 April, properties in Castelraimondo (Italy) have been leased to the buyer of the former Group company VITAVIVA ITALIA S.r.L. under the terms of an operating lease. The production of selected models from the Villeroy & Boch range is to continue. The lease has a term of six years.

3. Inventories

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

in € thousands	30 Jun. 2010	31 Dec. 2009
Raw materials, supplies and merchandise	20,593	21,954
Work in progress	19,423	19,386
Finished goods and goods for resale	101,895	101,679
Advance payments	54	83
	141,965	**143,102**

Finished goods and goods for resale increased by €216 thousand in the period under review (previous year: reduction of €-3,869 thousand). The increase in inventories in the Tableware Division in the amount of €4,634 thousand, which was largely due to the production of new products, was almost fully offset by the planned reduction in the Bathroom and Wellness Division, which included the sale of the three wellness companies. Write-downs of inventories decreased by €1,468 thousand in the period under review, from €25,633 thousand to €24,165 thousand.

4. Trade receivables

Trade receivables are broken down as follows:

Group company issuing invoice domiciled in / in € thousands	30 Jun. 2010	31 Dec. 2009
Germany	72,457	64,735
Euro zone excl. Germany	5,417	7,522
Other international destination	39,863	34,042
Trade receivables	**117,737**	**106,299**

In the period under review, specific and portfolio-based valuation allowances on trade receivables fell by a net amount of €980 thousand to €5,474 thousand.

5. Financial assets

The promissory note loan was repaid in full during the period under review.

6. Other non-current and current assets

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

in € thousands	Carrying amount 30 Jun. 2010	Remaining term Less than 1 year	More than 1 year	Carrying amount 31 Dec. 2009	Remaining term Less than 1 year	More than 1 year
Deposits and advance payments	**2,788**	2,779	9	**2,415**	2,408	7
Changes in fair value of cash flow hedges	**1,269**	937	332	**2,288**	1,558	730
Tax receivables	**6,902**	6,902	-	**5,348**	5,348	-
Other assets	**13,890**	13,890	0	**12,245**	12,224	21
	24,849	**24,508**	**341**	**22,296**	**21,538**	**758**

7. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

in € thousands	30 Jun. 2010	31 Dec. 2009
Cash on hand incl. cheques	179	770
Current bank balances	8,887	30
Cash equivalents	67,569	77,983
	76,635	**78,783**

Bank balances were offset against matching liabilities in the amount of €8,727 thousand (31 December 2009: €4,941 thousand). Cash equivalents are fully covered by external guarantee systems.

8. Valuation surplus

The valuation surplus contains the following items:

in € thousands	30 Jun. 2010	31 Dec. 2009
Currency translation of net investment in foreign operations	-3,663	-5,542
Gains on translation of financial statements of foreign operations	9,886	3,631
Changes in fair value of cash flow hedges	-1,306	-47
Surplus for deferred taxes	298	-66
	5,215	**-2,024**

9. Equity attributable to minority interests

On 8 April 2010, the Villeroy & Boch Group acquired the remaining shares in the Thailand-based manufacturer of sanitary products Nahm Sanitaryware. The Group now holds 100% of the shares in the company.

10. Non-current and current provisions for personnel

The change in current provisions for personnel compared with 31 December 2009 is primarily due to the payment of variable remuneration components to employees.

11. Other non-current and current provisions

Other current provisions include a provision resulting from the EU antitrust fine. Further details can be found on page 4 of the interim report. The increase in current provisions was primarily offset by the utilisation of the restructuring provision in the amount of €8.1 million.

12. Other non-current and current liabilities

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

in € thousands	Carrying amount 30 Jun. 2010	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount 31 Dec. 2009	Remaining term Less than 1 year	Remaining term More than 1 year
Advance payments received on orders	**1,152**	1,152	-	**1,999**	1,999	-
Bonus liabilities (a)	**24,875**	24,875	-	**31,162**	31,162	-
Personnel liabilities (a)	**27,880**	26,002	1,878	**24,180**	22,327	1,853
Changes in fair value of cash flow hedges	**2,089**	2,089	-	**1,629**	1,629	-
Government grants (b)	**2,152**	1,263	889	**1,351**	422	929
Tax liabilities (c)	**12,414**	12,414	-	**10,484**	10,484	-
Other liabilities	**8,243**	6,788	1,455	**6,799**	5,345	1,454
	78,805	**74,583**	**4,222**	**77,604**	**73,368**	**4,236**

(a) Seasonal change

(b) Increase due to the award of emission allowances for the 2010 financial year

(c) Change primarily attributable to the increase in value added tax liabilities

Notes on selected items of the consolidated income statement

13. Selling, marketing and development costs

The research and development costs included in this item totalled €4,789 thousand in the first half of 2010 (previous year: €4,730 thousand).

14. Financial results

The financial results can be broken down as follows:

in € thousand	2010		2009	
	1st half year	2nd quarter	1st half year	2nd quarter
Financial income	1,385	650	2,190	866
Financial expense	-2,283	-1,100	-2,791	-1,303
Interest expense on provisions (pensions)	-4,183	-2,091	-4,556	-2,279
	-5,081	**-2,541**	**-5,157**	**-2,716**

15. Income taxes

Income taxes are composed as follows:

in € thousand	2010		2009	
	1st half year	2nd quarter	1st half year	2nd quarter
Current income taxes	-214	30	0	457
Deferred taxes	-239	-124	0	-12,766
Income taxes	**-453**	**-94**	**0**	**-12,309**

Other notes

16. Personnel

Personnel expenses and the average number of employees are broken down as follows:

in € thousands	1st half year 2010		1st half year 2009	
	Personnel expenses	Employees	Personnel expenses	Employees
Bathroom and Wellness	75,063	5,820	79,708	6,398
Tableware	45,421	2,606	47,326	2,810
Other *)	11,213	397	10,658	411
	131,697	**8,823**	**137,692**	**9,619**

*) The increase in personnel expenses in this area is due to non-recurring effects in the previous year.

17. Contingent liabilities, commitments and financial obligations

In the period under review, contingent liabilities and commitments developed as follows:

in € thousands	30 Jun. 2010	31 Dec. 2009
Obligations to acquire property, plant and equipment	7,486	6,218
Obligations to acquire commodities	222	-
Trustee obligations	282	259
Guarantees	87	92
Obligations to acquire intangible assets	3	30
Other contingencies	-	16

18. Related party disclosures

As of the balance sheet date, the Group had net receivables in the amount of €1,827 thousand from V & B Fliesen GmbH (previous year: €1,268 thousand) for cost allocation for various services. These services are provided at arm's-length conditions.
The landfill site acquisition described in the 2009 Annual Report was completed in the first quarter.
A heritable building right of Villeroy & Boch AG in the land held by a shareholder ended in the first quarter. The notarised termination agreement was concluded with the involvement of the Supervisory Board. The compensation for termination in the amount of €235 thousand was calculated by an independent expert.

Within the reporting period, no further significant agreements were concluded with related parties in the period under review.

19. Notifications on voting rights

In accordance with section 21 (1) of the German Securities Trading Act (WpHG), Dr. Alexander von Boch-Galhau informed Villeroy & Boch on 20 May 2010 that his interest in the voting rights of Villeroy & Boch AG fell below the threshold of 5% on 18 May 2010 and amounted to 4.13% (580,250 voting rights) at this date. Of this figure, 1.42% (200,000 voting rights) are attributable to him in accordance with section 22 (1) sentence 1 no. 4 WpHG.

20. Personnel Changes in the Supervisory Board of Villeroy & Boch AG

The General Meeting of Shareholders on 12 May 2010 elected Mr. Francois Villeroy de Galhau, member of the Executive Committee of the major French bank BNP Paribas (Head of French Retail Banking) and domiciled in Paris, to the Supervisory Board as a shareholder representative until the end of the General Meeting of Shareholders resolving on the approval of the actions of the members of the executive bodies for the 2014 financial year.

21. Share buy-back programme

The General Meeting of Shareholders on 12 May 2010 authorised the Management Board to acquire non-voting preference shares of Villeroy & Boch AG with a notional interest in the share capital totalling up to €7,190,937.00 until 14 November 2015. The Group may hold a maximum of 10% of the share capital. At the discretion of the Management Board, shares can be acquired on the stock exchange or on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell. The authorisation to acquire treasury shares until 14 November 2010 in accordance with section 71 (1) no. 8 of the German Stock Corporation Act (AktG) that was granted by the General Meeting of Shareholders on 15 May 2009 was reversed at the same time.
Details can be found in the Investor Relations – General Meeting of Shareholders section of our website. Transactions require the approval of the Supervisory Board. No preference treasury shares were acquired during the period under review.

22. Resolution on the appointment of the auditor for the 2010 financial year

The General Meeting of Shareholders resolved to appoint Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Theodor-Heuss-Anlage 2, 68165 Mannheim, as the auditor of the single-entity financial statements of Villeroy & Boch AG and the consolidated financial statements for the 2010 financial year.

23. Other information

With effect from 21 June 2010, Villeroy & Boch's preference shares were listed in the Prime Standard operated by Deutsche Börse AG.

On 12 June 2010, it was announced that Volker Pruschke, the Management Board member responsible for Corporate Development, will leave the Company when his contract expires on 31 August 2010.

24. Events after the balance sheet date

There were no significant events between the end of the reporting period and the release of the interim financial statements for publication.

25. Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the rest of the financial year.

Mettlach, 29 July 2010

Manfred Finger **Frank Göring** **Volker Pruschke**

Report by the Audit Committee of the Supervisory Board

The Interim Report for the period from 1 January to 30 June 2010 was presented to the Audit Committee of the Supervisory Board on 26 July 2010 and discussed by the Management Board.

The Audit Committee approved the interim report.

Mettlach, 29 July 2010
Chairman of the Audit Committee
Charles Krombach

Financial calendar:

28 October 2010 Report on the first nine months of 2010