



Interim Report 1 January to 30 September 2006

- Sales 6.6% above prior-year level
- Earnings before tax/EBT after deduction of single €6 million restructuring expenditure €2.8 million below prior-year figure

Villeroy & Boch Group at a Glance

	1.1. - 30.9.2006	1.1. - 30.9.2005	Change	Change
	Euro million	Euro million	Euro million	%
Sales				
Domestic	203.7	207.7	-4.0	-1.9
Foreign (excluding acquisition)	483.3	454.0	29.3	6.5
Acquisition Mexico/USA (June - September)	18.5	-	18.5	-
Total	705.5	661.7	43.8	6.6
Earnings				
before interest and tax/EBIT	13.7	15.3	-1.6	-10.5
before tax/EBT	6.1	8.9	-2.8	-31.5
Number of employees	10,216	9,539	677	7.1
Number of employees (excl. acquisition Mexico/USA)	9,240	9,539	-299	-3.1

Securities identification numbers: 765 720, 765 723

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Economic development beyond its peak

After global economic development in the first six months of 2006 continued to accelerate at high speed, the last few months seem to have lost momentum. The Institute for Global Economics (IfW) at the University of Kiel expects the gross domestic product (GDP) in the major industrial countries to increase overall in 2006 at a rate of approximately 3.1% in real terms compared to 2.5% in the previous year.

While the economic upsurge in the Euro region will maintain its strong position over the remainder of the year, the growth rates of the GDP in real terms should have reached their peak by this time. The leading economic research institutes have raised their forecast for the GDP in real terms and now expect the increase to average approximately 2.7% over 2006 (previous year: 1.4%). Once again, this development is largely due to the substantial rise in exports.

In Germany economic expansion in the first six months of the year gathered speed to an extent not experienced in the past six years. The IfW raised its forecast for the increase in the 2006 GDP in real terms from 2.1% to 2.4%. Together with the positive development in private consumption expenditure (1.0% increase) the export trade (9.9% variation to the prior-year level) has essentially been the driving force of economic development in 2006. Private consumption expenditure should average a 1.0% increase over the year, capital expenditure on new constructions even 2.8%. This means that the economic trends in the construction business should be able to record their strongest increase since 1994.

Sales above prior-year level

On completion of the third quarterly period, the Villeroy & Boch group registered a 6.6% sales increase compared to the previous year, bringing the sales total to €705.5 million. In the period under review sales achieved an organic growth of 3.8 %. Overall, this encouraging development was largely due to sales increases in the foreign markets totalling 6.4%. Domestic sales were slightly below the prior year level (-1.9%).

Orders in hand in the Villeroy & Boch Group on 30 September 2006 amounted to €75.6 million compared to €48.9 million at the beginning of the business year, the Bathroom and Wellness Division making the largest contribution with 49.3%. 32.7% was allocated to the Tableware Division and 18.0% to the Tile Division.

The €6.1 million earnings before tax (EBT) in the first nine months of 2006 were below the prior year level (€8.9 million), the three sanitary ware factories acquired in Mexico contributing a result of €0.6 million. Earnings would have reached €12.1 million without the restructuring expenditure for the Tableware Division.

Trend in the Divisions

Bathroom and Wellness: Sales increase coincides with improved result

The Bathroom and Wellness Division achieved sales amounting to €364.2 million in the first three quarterly periods of 2006, an increase of 11.1% compared to the previous year. Excluding the figures of the sanitary ware factories acquired in Mexico sales increased by 5.5%. The €19.1 million result surpasses the prior-year figure (€18.7 million).

Both the Ceramic Sanitary Ware and Furniture Business Segment and the Wellness and Fittings Business Segment developed as follows:

The Ceramic Sanitary Ware and Furniture Business Segment registered a 6.8% organic sales growth in the first nine months to achieve €245.7 million. The foreign markets (+9.2%) made a significant contribution to this positive

development. Sales increases could be recorded in all regions. Western Europe saw an especially favourable trend in the Italian sales market, increasing by 22.9%, while some eastern European countries, such as Russia, the Baltic Provinces and the Ukraine also noted a promising development (together +17.2%). Sales overseas were also able to yield a significant increase (+31.6%). This resulted in a foreign sales share of 71.6% of the total sales in this Business Segment. The internationalization strategy will also be pursued in the future with success. The domestic market also recorded a positive trend in the period under review, contributing to the overall favourable development by a moderate increase in sales of 1.0%.

The Wellness and Fittings Business Segment registered a 2.5 % sales rise overall, achieving sales of €100.0 million, although business developed quite differently in different regions. A drop in sales in France (-26.3 %) and Great Britain (-11.0 %) contrasted with sales increases in Eastern Europe (+7.5 %), Scandinavia (+9.0%) and other western European countries (+14.9%). However, the positive effects in sales predominate, the Business Segment achieving a 1.5% sales increase overall in the foreign markets. The 8.6% sales increase recorded in the domestic market was well above average.

The Business Segment is taking advantage in particular in the Scandinavian markets of the fact that one combined marketing team for the entire Division is now working these sales markets more intensively.

The Bathroom and Wellness Division is expecting the sales increase and consequently the improvement in the result to remain constant for the 2006 business year.

Tiles: In spite of sales slightly below prior-year level, marked improvement in result due to cost-cutting programme

Tile Division sales totalled €11.6 million in the first three quarterly periods of 2006, falling just short of the prior-year figure (€12.4 million). However, the operating result registered a marked improvement from €6.8 million to €1.8 million, this development

highlighting the effectiveness of the cost-cutting programme.

In spite of a continuing decline in the domestic market for tiles in the first nine months of the year, the Division was able to increase its sales by 3.7%. Equally, France - the second core market – was able to counter the trend and improve its sales by 7.3%. An early and successful market launch of the new products for 2006 is largely responsible for both sales increases. However, sales abroad dropped overall (-6.3%), essentially as a result of abandoning the Mondial brand in the Rumanian market.

Sampling and delivery for an additional campaign to launch the new product ‘The Overture 2007’ was set in motion in October 2006, the aim of this additional campaign being to generate even more sales and further expand existing market shares in the core markets in 2006.

The Division is expecting a marked improvement in the overall result for 2006 compared to the previous year. A further programme has already been introduced for 2007 which will not only continue the cost-cutting measures but which also includes plans to expand distribution.

Tableware: Earnings situation still burdened by restructuring costs

In the first nine months of 2006 the inflow of orders and sales in the Tableware Division were still above comparable figures from the previous year, albeit at a more moderate rate than after the first six months. The persistently strained economic environment is continuing to put constraints on the consumers’ propensity to consume whereby, coupled with the pressure of competition from Asia, in particular from China, the pressure on prices is not easing.

The €229.7 million sales figure was 3.7% above the prior-year level. While the domestic market suffered a drop in sales of 13.2%, the foreign markets were able to register an overall sales increase of 10.2%. Particularly encouraging was the trend in Great Britain (+6.0%), Switzerland (+13.7%), Eastern

Europe (+27.8%) and the other western European countries (+63.1%).

The inflow of orders rose in the first nine months of 2006 compared with 2005 by 2.9% to €244.0 million. Orders on hand amounted to €24.7 million, rising 4% above the comparable figure from the previous year.

The Tableware Division operating result (EBIT) dropped from €3.4 million in the previous year to €3.6 million. However, this figure includes the €6.0 million restructuring costs for the Luxembourg production facility.

While the EBIT figure is expected to remain at the prior-year level for operational business in terms of sales and profit margin in spite of the continuing decline in demand for symmetrical porcelain designs, the cost-intensive measures introduced, amongst others, to adapt employee levels in the Luxembourg production facility will continue to represent a considerable burden on the result.

Volume of Capital Expenditure

The Villeroy & Boch Group invested a total of €25.7 million in the first nine months of 2006 compared with €23.8 million in the same period of the previous year, 41.1% of which is allocated to domestic and 58.9% to foreign business.

Outlook for the 2006 business year

Villeroy & Boch is not expecting any significant changes in business trends for the remaining quarter of 2006. The company will continue to challenge globalization and the related flood of cheap imports from the Far East through systematic automation of western production facilities together with measures to strengthen the production facilities in Eastern Europe. Due to the measures to adapt employee levels in the Tableware Division (in particular in the Luxembourg production facility) the result of the current year will be burdened by a single expenditure of approximately €9.5 million opposed to future savings of approximately €7 million p.a.

In the 2006 business year we expect a moderate increase in sales and an improvement in the operating result overall in all Divisions with the exception of Tableware, in which the result will be burdened exceptionally by the measures to adapt employee levels.

Additional information

Accounting in accordance with IFRS/Audit

The Villeroy & Boch Group interim accounts for the first nine months of 2006 were prepared in accordance with the International Financial Reporting Standards. Essentially, the same accounting and valuation principles were applied in the course of the preparation as in the last annual financial statement. The Profit and Loss Statement is prepared in accordance with the cost-of-sales method.

An audit by the auditor was not conducted on the interim accounts.

Treasury stock

No company-owned individual preference shares were acquired in the third quarter of 2006 so that the portfolio on 30 September 2006 remained unchanged at 1,683,029.

The Villeroy & Boch share / investor relations

Proceeding from a final price of €1.84 in the 2005 business year, the share recorded a price of €1.62 on 30 September 2006, corresponding to a moderate price drop of 1.86%. This meant that the share continued to lag behind the relevant comparable Prime Consumer and Prime Household Appliances & Houseware indices. In direct comparison with SDAX, the share developed below average. Since mid September the preference share has no longer been listed on the SDAX index due to the low volume of trade in the share. However, the delisting has not had an adverse effect on the course of the share price.

Mettlach, October 2006

Villeroy & Boch Aktiengesellschaft

The Management Board

Financial Calendar:

18 April 2007	Balance-sheet conference on the annual financial statement for 2006
26 April 2007	Report on the first three months of 2007
01 June 2007	General Meeting of Shareholders in the Stadthalle Merzig
26 July 2007	Report on the first six months of 2007
30 October 2007	Report on the first nine months of 2007

Villeroy & Boch consolidated balance sheet

	<u>30.09.2006</u> Euro million	<u>31.12.2005</u> Euro million
Assets		
Intangible assets	43.8	42.2
Property, plant and equipment	254.6	245.8
Investment properties	1.3	1.3
Investment accounted for at equity	0.6	0.6
Other financial assets	<u>2.4</u>	<u>15.5</u>
	302.7	305.4
Other non-current assets	0.0	0.5
Deferred tax assets	<u>52.0</u>	<u>52.2</u>
Non-current assets	354.7	358.1
Inventories	209.0	205.6
Trade receivables	164.2	119.3
Financial assets	10.2	0.1
Other current assets	22.3	13.9
Tax claims	14.4	14.6
Cash and cash equivalents	<u>5.8</u>	<u>58.5</u>
Current assets	425.9	412.0
Total Assets	<u>780.6</u>	<u>770.1</u>
Shareholders' Equity and Liabilities		
Capital subscribed	71.9	71.9
Capital surplus	193.6	193.6
Earnings reserve	66.3	62.5
Consolidated result	4.3	13.1
Equity attributable to minority interest	<u>0.3</u>	<u>3.6</u>
Total shareholders' equity	336.4	344.7
Provisions for pensions and similar liabilities	189.8	188.8
Other non-current provisions	8.7	7.7
Non-current financial liabilities	0.0	0.0
Other non-current financial liabilities	2.1	5.1
Deferred tax liabilities	<u>21.5</u>	<u>21.4</u>
Non-current liabilities	222.1	223.0
Other current provisions	30.4	32.4
Current financial liabilities	25.3	0.0
Other current liabilities	100.3	82.7
Trade payables	49.0	69.1
Tax liabilities	<u>17.1</u>	<u>18.2</u>
Current liabilities	222.1	202.4
Total shareholders' equity and liabilities	<u>780.6</u>	<u>770.1</u>

Statement of Shareholders' Equity

Euro million	Capital subscribed	Capital surplus	Earnings reserve	Consolidated result	Minority interests in shareholders' equity	Total shareholders' equity
As of 01.01.2006	71.9	193.6	62.5	13.1	3.6	344.7
Dividend				-9.1	-0.1	-9.2
Reclassification of prior-year			4.0	-4.0		0.0
Consolidated result 01.01. - 30.09.				4.3	0.1	4.4
Acquisition of minority interests					-3.3	-3.3
Subsequent valuation IAS 39			-0.6			-0.6
Currency change			0.6			0.6
Other changes in shareholders' equity			-0.2			-0.2
As of 30.09.2006	71.9	193.6	66.3	4.3	0.3	336.4
As of 01.01.2005	71.9	193.6	60.6	16.0	3.5	345.6
Dividend				-10.4	-0.1	-10.5
Reclassification of prior-year			5.6	-5.6		0.0
Consolidated result 01.01. - 31.09.				6.0	0.2	6.2
Subsequent valuation IAS 39			0.3			0.3
Currency change			-4.3		0.1	-4.2
Other changes in shareholders' equity			0.3			0.3
As of 30.09.2005	71.9	193.6	62.5	6.0	3.7	337.7

Villeroy & Boch Consolidated Profit and Loss Statement

	1st - 3rd Quarter 2006		1st - 3rd Quarter 2005	
	Euro million	% sales	Euro million	% sales
Sales	705.5	100.0	661.7	100.0
Costs of goods sold	-437.2	-62.0	-403.6	-61.0
Gross profit from sales	268.3	38.0	258.1	39.0
Selling expenses, marketing and development costs	-206.8	-29.3	-208.4	-31.5
General and administrative expenses	-39.0	-5.5	-37.6	-5.7
Other operating income/expense	-8.9	-1.3 1)	3.1	0.5
Result from investments in associated companies	0.1	0.0	0.1	0.0
Operating result (EBIT)	13.7	1.9	15.3	2.3
Financial results	-7.6	0.3	-6.4	-1.0
Earnings before taxes (EBT)	6.1	2.2	8.9	1.3
Taxes on income	-1.7	-0.2	-2.7	-0.4
Net income	4.4	2.0	6.2	0.9
Minority interests in shareholders' equity	-0.1	0.0	-0.2	0.0
Consolidated result	4.3	2.0	6.0	0.9
Net earnings per ordinary share in Euros	0.14		0.20	
Net earnings per preference share in Euros	0.19		0.25	

Villeroy & Boch Consolidated Profit and Loss Statement

	3st quarter 2006		3st quarter 2005	
	Euro million	% sales	Euro million	% sales
Sales	238.3	100.0	216.6	100.0
Costs of goods sold	-153.0	-64.2	-134.9	-62.3
Gross profit from sales	85.3	35.8	81.7	37.7
Selling expenses, marketing and development costs	-68.2	-28.6	-68.3	-31.5
General and administrative expenses	-13.7	-5.7	-12.4	-5.7
Other operating income/expense	-2.7	-1.1 1)	2.9	1.3
Result from investments in associated companies	0.0	0.0	0.1	0.0
Operating result (EBIT)	0.7	0.3	4.0	1.8
Financial results	-3.0	-1.3	-2.1	-1.0
Earnings before taxes (EBT)	-2.3	-1.0	1.9	0.9
Taxes on income	0.6	0.3	-0.6	-0.3
Net income	-1.7	-0.7	1.3	0.6
Minority interests in shareholders' equity	0.0	0.0	0.0	0.0
Consolidated result	-1.7	-0.7	1.3	0.6
Net earnings per ordinary share in Euros	-0.09		0.02	
Net earnings per preference share in Euros	-0.04		0.07	

1) incl. 3 Mio. € restructuring expenditures at the location Luxembourg

2) incl. 3 Mio. € reverse a provision for financial security from sale Boch Frères (tiles France)

Villeroy & Boch Consolidated Cash Flow Statement

	1st quarter 2006	1st quarter 2005
	<u>Euro million</u>	<u>Euro million</u>
Net income	4.4	6.2
Amortisation of fixed assets	33.6	33.4
Change in non-current provisions	-6.8	-7.6
Result from disposal of fixed assets	0.1	-0.6
Change in inventories, accounts receivable and other assets	-37.8	-11.1
Change in liabilities, current provisions and other liabilities	-18.1	-26.6
Other income/expense without effect on liquid assets	7.7	7.3
Cash Flow from operating activities	-16.9	1.0
Investment in intangible and tangible fixed assets		
	-24.6	-23.8
Deposits arising from disposals of fixed assets	5.5	3.7
Investment in financial assets and payments for the acquisition of consolidated companies	-32.8	-11.7
Cash Flow from investing activities	-51.9	-31.8
Change in financial liabilities	24.6	-3.7
Deposits due to sale of/payment for the acquisition of treasury stock	0.0	0.0
Dividend payments	-9.1	-10.4
Cash Flow from financing	15.5	-14.1
Sum of cash flows	-53.3	-44.9
Changes in balance of cash due to exchange rates	0.2	-0.3
Changes in balance of cash and cash equivalents	-53.1	-45.2
Balance of cash and cash equivalents as of 01.01.	58.5	51.3
Change in consolidated companies	0.4	
Change in balance of cash and cash equivalents	-53.1	-45.2
Balance of cash and cash equivalents as of 31.03.	5.8	6.1

¹⁾ Acquisition of Mexico and minority interests from Vagnerplast

Key segment data	Bathroom and Wellness	Tile	Tableware	Transition Other	Villeroy & Boch Group
1st - 3rd Quarter 2006					
External sales	364.2	111.6	229.7		705.5
EBIT	19.1	-1.8	-3.6 ¹⁾		13.7
Financial result				-7.6	-7.6
Depreciation	15.9	4.4	12.5		32.8
Capital expenditure	18.9	1.8	5.0		25.7
Net operating assets	252.4	79.8	146.8	-142.6	336.4
Number of employees	5,750	987	3,051	428	10,216
1st - 3rd Quarter 2005					
External sales	327.7	112.4	221.6		661.7
EBIT	18.7	-6.8 ²⁾	3.4		15.3
Financial result				-6.4	-6.4
Depreciation	16.3	5.0	12.1		33.4
Capital expenditure	14.3	3.6	5.9		23.8
Net operating assets	233.2	82.0	169.4	-146.9	337.7
Number of employees	4,814	1,049	3,209	467	9,539

(Figures in Euro millions; number of employees: average for the period under review)

¹⁾ incl. 6 Mio. € restructuring expenditures at the location Luxembourg

²⁾ incl. 5 Mio. € reversal of a provision for financial security from sale Boch Frères (tiles France)

Key segment data	Bathroom and Wellness	Tile	Tableware	Transition Other	Villeroy & Boch Group
3rd quarter 2006					
External sales	126.8	36.0	75.6		238.4
EBIT	1.7	-0.5	-0.8 ¹⁾		0.4
Financial result				-3.0	-3.0
Depreciation	5.0	1.5	4.0		10.5
Capital expenditure	9.3	0.9	2.0		12.2
Net operating assets					0.0
Number of employees	5,795	962	3,014	431	10,202
3rd quarter 2005					
External sales	104.6	36.0	76.0		216.6
EBIT	2.0	-0.8 ²⁾	2.8		4.0
Financial result				-2.1	-2.1
Depreciation	5.4	1.7	4.0		11.1
Capital expenditure	4.2	1.4	2.5		8.1
Net operating assets	0.0	0.0	0.0	0.0	0.0
Number of employees	4,809	1,043	3,198	471	9,521

(Figures in Euro millions; number of employees: average for the period under review)

¹⁾ incl. 3 Mio. € restructuring expenditures at the location Luxembourg

²⁾ incl. 3 Mio. € reversal of a provision for financial security from sale Boch Frères (tiles France)