



Interim Report January 1st to June 30th 2005

- sales ¹⁾ 4.0% below prior-year level
- Euro 7.0 million result before taxes on income/EBT remains on prior-year level

The Villeroy & Boch Group at a Glance

	1.1. - 30.06.2005	1.1. - 30.06.2004	Change	Change
	Euro mill.	Euro mill.	Euro mill.	%
Sales ¹⁾				
domestic	138.7	145.2	-6.5	-4.5
foreign	306.4	318.6	-12.2	-3.8
total	445.1	463.8	-18.7	-4.0
Result before				
interest and income tax/EBIT	11.3	12.5	-1.2	-9.6
taxes on income/EBT	7.0	7.1	-0.1	-1.4
Capital expenditure	15.7	18.8	-3.1	-16.5
Consolidated earnings per share (Euro)	0.18	0.16	0.02	12.5
Average number of persons employed ¹⁾	9,548	9,673	-125	-1.3

1) prior year adjusted to exclude divestments

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Strained economic conditions due to the slowdown in global economic expansion

The global economic trend has clearly lost tempo since last autumn. This is not only because of the disappointing economic development in the Euro region, but also because the economic revival in the USA has continued to slow down.

On the whole, the economic research institutes do not anticipate any considerable acceleration in economic activity in the Euro region during the current year. They forecast a real change in gross domestic product of 1.3% and a mere 1.4% increase in private consumption expenditure.

The German economy is admittedly recovering, but only slowly. Once again, this economic upturn is powered by exports. An increasing demand for products from Germany has come particularly from the "old" EU countries. Further stimulation for the German export trade has also been created by the eastward expansion of the EU. Setbacks have to be contended with, however, in the world's growth centres (North America and China), where the dampening effects of the Euro's last upward revaluation are still clearly felt. On the whole, however, the Institute for Global Economics (IfW) expects a 5% rise in exports for the year 2005. Few impulses were felt by the German economy from the area of private consumption. Restrained buying continued to be characteristic for private households during the first half of this year. Although tax relief measures gave rise to slight increases in available income, the desire to make purchases was dampened by the strained situation on the employment market and the rising energy costs. Private consumption expenditure should, however, increase in real terms by 0.3%. The trend in the construction industry remains alarming. The economic research institute in Halle, (IWH) made a further downward adjustment to its expectations regarding capital spending on new construction. A decline of 2.5% is now expected for the 2005 calendar year.

Sales below prior-year level

Sales of Euro 445.1 million were achieved in the Villeroy & Boch Group in the first half of 2005. It was possible to moderate the sales decline in the second quarter to -1.5%, with the effect that a 4% sales decline is still to be recorded for the half year.

The volume of orders in the Villeroy & Boch Group on June 30th 2005 totalled Euro 55.2 million, as compared with Euro 43.3 million at the start of the business year – the largest share of 42.2% being allocated to the Tableware Division. A share of 40.2% was allocated to the Bathroom and Wellness Division, and 17.6% to the Tile Division.

The Euro 7.0 million result before taxes on income (EBT) in the first half of 2005 was maintained at an almost comparable level with prior year figures (Euro 7.1 million).

Trend in the Divisions

Bathroom and Wellness Division: pleasing result trend in the Business Segments "Ceramic Sanitary Ware and Kitchens" and "Bathroom Furniture and Fittings"

The Division concluded the first half year with both sales and result on prior-year level. A positive trend in the Business Segments "Ceramic Sanitary Ware and Kitchens" and also "Bathroom Furniture and Fittings" completely compensated for the weaknesses in the Wellness Business Segment.

Despite economic difficulties, business for the year as a whole is expected to achieve prior-year levels in almost all European countries.

After the first six months of 2005, sales of Euro 146.1 million in the Ceramic Sanitary Ware and Kitchens Business Segment were 1.7% above the corresponding prior-year value (Euro 143.7 million). The Euro 16.5 million result is clearly above the prior-year level (Euro 16.2 million).

The sales trend in the first half of 2005 was dampened by the weakening German market. Almost all other regions achieved growth of more than five percent.

This success is directly connected with the segment's promising new products – the new collections shown at the ISH in March of this year having caught on particularly well. An extremely strong demand exists for "Pur Air", the technological WC innovation promoted on German television, which actively tackles odours.

Owing to the positive trend, experienced particularly in Scandinavia, the Bathroom Furniture and Fittings Business Segment was able to achieve sales of Euro 30.2 million, and thus recorded a 7.9% increase in sales (prior-year: Euro 28.0 million). As a result, it was possible to clearly increase the Business Segment's result to Euro 1.8 million (prior-year: Euro -0.1 million).

This Business Segment benefits in the European markets from the close link which exists between furniture and fittings, and the successful bathroom collections found particularly in the high-value sector. As a result, it was able to enjoy clear increases in a great number of markets.

We hope that this positive trend will continue in the second half of the year.

Sales of Euro 46.8 million in the Wellness Business Segment were 10.4% lower than the comparable value in the previous year. Seen in relation to the first quarter of 2005, (-13.5%) the negative sales trend weakened, however, in the second quarter, giving rise to a decline of 7.4%.

While sales in Germany rose 14.5% in comparison with the prior-year period, and figures for France remained the same, business in major core markets, such as the Netherlands, Italy and Scandinavia, developed unfavourably. Owing to the construction industry's persistently poor economic situation in our major sales markets, we do not expect any fundamental changes in the sales trend in the second half of this year.

Tile Division: slightly improved performance with a clear decline in sales

Despite a slight improvement in sales trend in the second quarter of 2005, sales totalling Euro 76.4 million in the first half year were 12.8% below the comparable prior-year level, after adjustments to exclude the divestments made in 2004.

Sales were lower than in the previous year, particularly in the major markets of Germany and France. Besides reflecting the consistently poor level of economic activity in the construction sector in Germany, these figures also still show the effects of the extensive product-range streamlining measures undertaken in the previous year.

Despite the consistently declining sales situation, the Division was able to conclude the second quarter with a better result than in the prior year, with the effect that the result of Euro -6.0 million at the end of June, was slightly better than that of the previous year (Euro -7.3 million).

It is anticipated that a positive effect will be exerted in the coming months, particularly as a result of eliminating logistic problems and the ensuing supply shortages, and also due to the sound market success of the new tile collections introduced in 2005.

The initial effects of a programme aimed at cutting costs by more than Euro 10 million per year should be seen in 2005.

Part of this plan, which aims to reduce the number of employees by around 140 persons, will, however, already lead to high non-recurring expenses in the second half of the year. An improvement in performance will not, therefore, be seen until after 2005.

Tableware Division: positive trend in orders received, despite intensified competition

Regarded in relation to the comparable period of 2004, orders received in the first six months of 2005 rose 3.6% to a total of Euro 159.5 million.

In contrast, sales fell 4.4% to Euro 145.6 million in comparison with prior-year figures. Consideration must be given here to the fact that a considerable contribution was made towards the increased prior-year sales figures by a large-scale order for advertising media in Spain. When adjustments are made to exclude this effect, sales actually rose 3.6%, with sales in Germany almost maintaining prior-year level. Demand for consumer goods in Germany remains weak. The demand from specialist retailers stagnated for the most part. A fundamental contribution was made towards the pleasing sales trend in the USA, France, Great Britain, Austria and Switzerland, by the advertising and communication campaign for Villeroy & Boch's asymmetrical tableware patterns, which ran from mid April to the end of June.

The patterned versions of the NewWave Caffè cup – which won the German Business Innovation Award for design and production techniques in January 2005 – and the new Christmas theme, "Christmas USA", are both enjoying a continuously-high, positive market response. The clever new "Party" pattern was likewise particularly successful, with its competition-oriented price leading to a high demand among our hotel customers in particular.

Due to the generally sustained, weak demand for consumer goods, above all in Germany, it was not possible to maintain the previous year's price level. The Euro 0.6 million result in the first half year was distinctly lower than in the previous year (Euro 3.3 million) owing to the lower level of sales, lower contribution margins and the costs of the advertising campaign.

A general decline in demand for symmetrical porcelain patterns, together with the Tableware Division's efforts to reduce capital tie-up, are giving rise to adjustments in employment levels at production locations in the Saar region and Luxembourg.

The Tableware Division expects sales on prior-year level for the year as a whole.

Owing to the adjustments in employment levels planned for the second half of the year, and the growing competition, it will not be possible to achieve the good result level attained in 2004.

Slight decline in volume of investment

The Villeroy & Boch Group invested a total of Euro 15.7 million in the first half of 2005, as compared with Euro 18.8 million in the same period of the previous year. A total of 31.8% was invested in Germany and 68.2% abroad.

Outlook for 2005 as a whole

Owing to the consistently strained underlying economic conditions Villeroy & Boch does not expect any essential changes in the 2005 course of business. The company's main objectives will be to achieve profitability in the Tile Division, and optimise the cost structure. As a distinct sales decline is to be reckoned with in the tile sector, sales for the Group as a whole are also expected to be lower than those of the previous year. Taking into account the non-recurring expenses incurred for a further considerable reduction in the number of persons employed, the Division does not expect to be able to achieve the prior-year operating result.

Miscellaneous

Accounting in accordance with IFRS/audit

The Villeroy & Boch Group interim financial statements for the first half of 2005 have been prepared in accordance with the International Financial Reporting Standards. The methods of accounting and valuation used to prepare these financial statements are the same as those used for the last Annual Financial Statements. The Profit and Loss Statement is prepared using the cost-of-sales method.

The interim financial statements have not been audited by the auditor.

Treasury stock

No individual preference-share certificates were acquired in the first quarter of 2005. The portfolio on June 30th 2005 remained unchanged at 1,683,029 units.

The Villeroy & Boch share/Investor Relations

Having started the first half year at a price of Euro 9.13, the Villeroy & Boch share was quoted at Euro 11.32 on June 30th 2005. This signifies a rise of 24% and shows the share's consistently positive movement. In the second quarter alone, the share rose 3.7% (status on March 31st 2005: Euro 10.92). Its movement therefore continues to be far above the average seen in Prime Consumer and Prime Household Appliances & Houseware, the reference indices relevant for the Villeroy & Boch share.

During the period under review we consistently cultivated our connections with private and institutional investors, and canvassed new contacts within the scope of our Investor Relations. Our General Meeting of Shareholders on June 3rd 2005 met with an extremely good response. The shareholders were not only given detailed information on the 2004 business year and also on the further plans and expectations for the current 2005 business year, but also had adequate opportunity to put questions to the Supervisory and Management Boards.

The proposed dividend amount of Euro 0.42 per individual preference-share certificate and Euro 0.37 per individual ordinary-share certificate was accepted by the General Meeting of Shareholders and paid from June 6th 2005.

Mettlach. July 2005

Villeroy & Boch Aktiengesellschaft

The Management Board

Financial Calendar:

October 27th 2005 Report on the first nine months of 2005

Villeroy & Boch Consolidated Balance Sheet

	<u>30.06.2005</u> Euro mill.	<u>31.12.2004</u> Euro mill.
A s s e t s		
Intangible fixed assets	41.8	41.7
Property, plant and equipment	252.7	259.4
Financial assets	12.0	10.6
Fixed assets	306.5	311.7
Remaining long-term assets	0.6	0.2
Deferred taxes	42.8	42.9
Long-term assets	349.9	354.8
Inventories	226.9	223.7
Accounts receivable from trade	134.9	113.9
Other short-term assets	19.3	24.4
Tax claims	15.5	17.0
Cash	5.9	51.3
Short-term assets	402.5	430.3
Total assets	752.4	785.1
 Liabilities and shareholders' equity		
Shareholders' equity	333.1	342.1
Minority interests	3.6	3.5
Shareholders' equity (total)	336.7	345.6
Long-term financial liabilities	0.4	0.5
Remaining long-term liabilities	5.3	5.1
Long-term provisions	199.7	200.1
Deferred taxes	13.5	13.9
Long-term debts	218.9	219.6
Trade accounts payable	52.6	68.4
Short-term financial liabilities	9.0	4.3
Remaining short-term liabilities	79.5	81.0
Short-term provisions	39.6	49.1
Tax liabilities	16.1	17.1
Short-term debts	196.8	219.9
Total shareholders' equity and debts	752.4	785.1

Statement of Shareholders' Equity

Euro mill.	Capital subscribed	Capital reserves	Earnings reserves	Consoli- dated result	Minority interests	Total shareholders' equity
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 consolidated result			5.6	-5.6		0.0
Consolidated result 1st half year				4.7	0.2	4.9
Subsequent valuation IAS 39			0.2			0.2
Currency change			-3.8			-3.8
Acquisition of treasury stock			-			-
Other changes in shareholders' equity			0.3			0.3
As of 30.06.2005	71.9	193.6	62.9	4.7	3.6	336.7
As of 01.01.2004	71.9	193.6	93.0	-26.1	2.6	335.0
Dividend				-7.3		-7.3
Reclassification of prior-year consolidated result			-33.4	33.4		0.0
Consolidated result 1st half year				4.2	0.4	4.6
Subsequent valuation IAS 39			-0.7			-0.7
Currency change			1.0			1.0
Acquisition of treasury stock			-2.9			-2.9
Other changes in shareholders' equity			-0.1			-0.1
As of 30.06.2004	71.9	193.6	56.9	4.2	3.0	329.6

Villeroy & Boch Consolidated Profit and Loss Statement

	1st half year of 2005		1st half year of 2004 ¹⁾	
	Euro mill.	% sales	Euro mill.	% sales
Sales	445.1	100.0	502.9	100.0
Costs of goods sold	-268.7	-60.4	-313.1	-62.3
Gross profit	176.4	39.6	189.8	37.7
Selling expenses, marketing and development costs	-140.1	-31.5	-144.6	-28.8
General and administrative expenses	-25.2	-5.6	-28.7	-5.7
Amortisation of goodwill	-	-	-1.8	-0.4
Other operating expense/income	0.2	0.0	-2.2	-0.4
Result from equity investment	0.0	0.0	0.0	0.0
Operating result (EBIT)	11.3	2.5	12.5	2.5
Financial results	-4.3	-0.9	-5.4	-1.1
Result before taxes (EBT)	7.0	1.6	7.1	1.4
Taxes on income	-2.1	-0.5	-2.5	-0.5
Net income	4.9	1.1	4.6	0.9
Minority interests	-0.2	0.0	-0.4	-0.1
Consolidated results	4.7	1.1	4.2	0.8
Net earnings per ordinary share in Euro	0.16		0.13	
Net earnings per preference share in Euro	0.21		0.18	

1) as reported in previous year

When adjusting to exclude the effect of the divestments carried out in the Tile Division in the first half year, the sales reported in the previous year are to be reduced by Euro 39.1 mill. (cf. Segment Reporting).

Villeroy & Boch Consolidated Profit and Loss Statement

	2nd quarter of 2005		2nd quarter of 2004 ¹⁾	
	Euro mill.	% sales	Euro mill.	% sales
Sales	226.9	100.0	251.4	100.0
Costs of goods sold	-138.0	-60.8	-158.2	-62.9
Gross profit	88.9	39.2	93.2	37.1
Selling expenses, marketing and development costs	-70.4	-31.0	-72.1	-28.7
General and administrative expenses	-12.6	-5.6	-14.2	-5.6
Amortisation of goodwill	-	-	-0.9	-0.4
Other operating expense/income	-1.0	-0.4	-1.2	-0.5
Result from equity investment	0.0	0.0	0.0	0.0
Operating result (EBIT)	4.9	2.2	4.8	1.9
Financial results	-2.0	-0.9	-2.3	-0.9
Result before taxes (EBT)	2.9	1.3	2.5	1.0
Taxes on income	-0.9	-0.4	-1.2	-0.5
Net income	2.0	0.9	1.3	0.5
Minority interests	-0.1	-0.1	-0.2	-0.1
Consolidated results	1.9	0.8	1.1	0.4
Net earnings per ordinary share in Euro	0.05		0.02	
Net earnings per preference share in Euro	0.10		0.07	

1) as reported in previous year

When adjusting to exclude the effect of the divestments carried out in the Tile Division in the second quarter, the sales reported in the previous year are to be reduced by Euro 21.0 mill. (cf. Segment Reporting).

Villeroy & Boch Consolidated Cash Flow Statement

	1st half year of 2005	1st half year of 2004
	<u>Euro mill.</u>	<u>Euro mill.</u>
Net income	4.9	4.6
Depreciation of fixed assets	22.3	27.1
Change in long-term provisions	-5.1	-4.9
Result from disposal of fixed assets	-0.1	-0.6
Change in inventories, accounts receivable and other assets	-21.7	-22.4
Change in liabilities, short-term provisions and other liabilities	-28.6	-25.0
Other income/expense without effect on liquid assets	4.8	5.1
Cash flow from operating activities	-23.5	-16.1
Investment in intangible and tangible fixed assets	-15.7	-18.8
Deposits from disposal of fixed assets	0.9	5.9
Investment in financial assets and payments for the acquisition of consolidated companies	0.0	0.0
Cash flow from investing activities	-14.8	-12.9
Change in financial liabilities	3.3	9.8
Payment for sale/buying out for the acquisition of treasury stock	0.0	-2.9
Dividend payments	-10.4	-7.3
Cash flow from financing	-7.1	-0.4
Change in balance of funds	-45.4	-29.4
Balance of funds as of 01.01.	51.3	37.0
Change in balance of funds	-45.4	-29.4
Balance of funds as of 30.06.	5.9	7.6

Segment Reference Figures	Bathroom & Wellness 1)	Tiles 2)	Tableware	Transition/ Other	Villeroy & Boch Group
1st half year of 2005					
External sales	223.1	76.4	145.6		445.1
EBIT	16.7	-6.0	0.6		11.3
Financial results				-4.3	-4.3
Depreciation	10.9	3.3	8.1		22.3
Capital expenditure	9.9	2.1	3.2	0.5	15.7
Net operating assets	243.2	85.9	174.9	-167.3	336.7
Number of employees	4,816	1,052	3,215	465	9,548
1st half year of 2004					
External sales ³⁾	223.9	87.6	152.3		463.8
EBIT	16.5	-7.3	3.3		12.5
Financial results				-5.4	-5.4
Depreciation	12.7	7.2	7.7		27.6
Capital expenditure	8.5	5.4	4.9		18.8
Net operating assets	238.3	130.8	163.0	-202.5	329.6
Number of employees ⁴⁾	4,890	1,049	3,257	477	9,673

(Values in Euro million; number of employees: half-yearly average)

- 1) Collective presentation of the Business Segments: "Ceramic Sanitary Ware and Kitchens", "Bathroom Furniture and Fittings" and "Wellness".
- 2) The two Business Segments "Tiles" and "Project Business" together constitute the Tile Division.
- 3) Prior-year 2004 figures adjusted to exclude divestments
- 4) Prior-year 2004 figures adjusted to exclude divestments, and take account of the organisational changes in assignment to the Divisions

Segment Reference Figures	Bathroom & Wellness 1)	Tiles 2)	Tableware	Transition/ Other	Villeroy & Boch Group
2nd quarter of 2005					
External sales	114.7	38.5	73.7		226.9
EBIT	8.5	-3.3	-0.3		4.9
Financial results				-2.0	-2.0
Depreciation	5.5	1.6	4.1		11.2
Capital expenditure	5.1	1.2	1.3	0.2	7.8
Number of employees	4,822	1,057	3,205	463	9,547
2nd quarter of 2004					
External sales 3)	109.7	41.7	79.0		230.4
EBIT	7.3	-4.5	2.0		4.8
Financial results				-2.3	-2.3
Depreciation	6.4	3.6	3.8		13.8
Capital expenditure	5.1	2.9	2.3		10.3
Number of employees 4)	4,906	1,053	3,273	474	9,706

(Values in Euro million; number of employees: quarterly average)

- 1) Collective presentation of the Business Segments: "Ceramic Sanitary Ware and Kitchens", "Bathroom Furniture and Fittings" and "Wellness".
- 2) The two Business Segments "Tiles" and "Project Business" together constitute the Tile Division.
- 3) Prior-year 2004 figures adjusted to exclude divestments
- 4) Prior-year 2004 figures adjusted to exclude divestments, and take account of the organisational changes in assignment to the Divisions