



Interim Report January 1st to March 31st 2005

- sales ¹⁾ 6.5% below prior-year level
- compared with prior-year, result before taxes on income /EBT falls slightly by Euro 0.5 mill. to Euro 4.1 mill.

The Villeroy & Boch Group at a Glance

	1.1. - 31.03.2005	1.1. - 31.03.2004	Change	Change
	Euro mill.	Euro mill.	Euro mill.	%
Sales ¹⁾				
domestic	72.4	76.6	-4.2	-5.5
foreign	145.8	156.8	-11.0	-7.0
total	218.2	233.4	-15.2	-6.5
Result before				
interest and income tax/EBIT	6.4	7.7	-1.3	-16.9
taxes on income/ EBT	4.1	4.6	-0.5	-10.9
Capital expenditure	7.9	8.5	-0.6	-7.1
Cash flow from operating activities	-22.7	-31.2	8.5	27.2
Consolidated earnings per share (Euro)	0.10	0.11	-0.01	-9.1
Average number of persons employed	9,549	9,641 ¹⁾	-92	-1.0

1) prior year adjusted to exclude divestments

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Underlying Economic Conditions Bleaker Than Last Expected

The *global economy* remained on a course of expansion during winter 2004/2005. Hardly any change was seen in the high rate of revival in the USA. According to the latest forecasts by the Institute for Global Economics (IfW), however, it is expected that global economic expansion will lose tempo during the course of this year. Fundamentally responsible for this development will be the slowdown in economic activity in the USA, where there should be an increase in the savings rate. Owing to the high price of oil, and the appreciation of the Euro, the rate of expansion in "*Euroland*" initially remained quite slack. A clearly noticeable economic recovery is not expected until the second half of the year. All in all the IfW expects a 1.4% real increase in gross domestic product (GDP) in Europe in 2005.

A few unpleasant surprises awaited the *German economy* during the first three months of 2005. The price of oil remained at a high level, and the number of unemployed totalled more than 5.2 million. Leading economic research institutes expect a real change in GDP of between 0.6% and 1.1%. Private consumption expenditure should rise 0.7%. The trend in the construction industry remained alarming. While forecasts at the end of the year still anticipated capital spending on new construction to decline by around 1,0 %, expectations have now been adjusted to 1.8%.

Sales Below Prior-Year Level

In the first quarter of 2005, the Villeroy & Boch Group had to accept a 6.5% sales decline, bringing the total to Euro 218.2 mill. This was seen in a 7.0% decline on foreign markets, and a 5.5% decline on the German market.

The volume of orders in the Villeroy & Boch Group on March 31st 2005 totalled Euro 51.8 mill., as compared with Euro 42.7 mill. at the start of the business year, the largest share of 45.9% being allocated to the Tableware Division. A share of 36.9% was allocated to the Bathroom and Wellness Division, and 17.2% to the Tile Division.

In the first quarter of 2005 the result before taxes on income (EBT) experienced a slight, reduction of Euro 4.6 mill., which was caused by sales. This brought the total to Euro 4.1 mill..

Trend in the Divisions

Bathroom and Wellness Division: sales and result in the Bathroom and Kitchen Business Segment slightly below previous year: Wellness Business Segment weakens in domestic market

Sales in the Bathroom and Wellness Division fell Euro 5.8 mill. to Euro 108.4 mill.. At the same time the operating result declined 10.9% to Euro 8.2 mill. The following trends were reported in the individual business segments:

Sales of Euro 85.8 mill. in the Bathroom and Kitchen Business Segment at the end of the first quarter, were 2.6% below the corresponding prior-year value of Euro 88.1 mill.. When compared with prior-year figures, the result reduced Euro 0.3 mill. to a total of Euro 8.7 mill..

This sales decline can be explained essentially by restrained buying in the German market, (-8.3%) brought about as a result of economic conditions. In contrast, sales in the rest of Europe were able to exceed prior-year levels. Particular mention must be made here of the positive trends in (+14.5%) and the rest of Western Europe (+11.6%). Growth in the remaining markets was not, however, sufficient to compensate for the decline in the core market, Germany.

In March, the "ISH" – the world's largest sanitation trade fair – was held in Frankfurt. The new product introductions exhibited by Villeroy & Boch were extremely well received. The company has great hopes for its innovation, "PurAir", a WC which actively deals with odours and with which Villeroy & Boch is setting new standards.

The outlook for the year as a whole is still full of imponderables. Forecasts on the volume of construction output assume a slight growth for Europe, which will be carried by renovation. This sector responds extremely sensitively, however, to deteriorations in economic

prospects. There are no improvement trends recognisable for Germany.

Reporting a decline of 13.5% on figures for the comparative prior-year period, sales in the Wellness Business Segment in the first quarter of 2005 were unsatisfactory. Owing to the consistently poor economic situation, sales were under particularly heavy pressure (-21.7%) in the Netherlands, one of the segment's major sales markets. The same also applies for Italy and Scandinavia. A pleasing result was seen, however, in Germany, where a 10.4% sales increase was realised.

Although the cost-cutting effects achieved by rationalising production in Belgium and the Netherlands had a positive influence on the result, they were still not sufficient to compensate for the decline in operating result brought about by the drop in sales. In the first three months of 2005 the Wellness Business Segment achieved EBIT of Euro -0.5 mill. (prior year: Euro 0.2 mill.).

Following two years of strong focus on internal reorganisation, innovative new products were introduced at the "ISH" in March, and were well received. For this reason, it is expected that there will be a distinct rise in the number of orders received in the second quarter of 2005, and also an improvement in business development.

It is difficult to assess the sales trend for the year 2005 as a whole. It will be essentially dependent on two factors: on the one hand, whether further sales declines take place in the Netherlands, and on the other, how successful new products are on the market. Owing to the cost-cutting measures and the positive effects of reorganisation, the results for the year 2005 should turn out better than those in 2004.

Tile Division: result on prior-year level

The Tile Division experienced an extremely difficult start to 2005. Sales of Euro 37.9 mill. in the first quarter are 17.4% below the comparable prior-year level, after adjustments to exclude the divestments made in 2004. A distinct sales decline was recorded in virtually all regions in Europe. In addition to the sluggish economy, the reason for this can also be found in the considerable supply difficulties

experienced in connection with commissioning of the new, highly-mechanised central warehouse in Merzig. The clear sales decline also resulted from the radical cuts in product range, carried out with the aim of reducing complexity. The new products introduced at the "Cersaie" and "Bau" trade fairs will not be able to start compensating for these product-range cuts until the second quarter of 2005.

A further negative influence was exerted on net proceeds by the sustained, consistently strong price competition. It was, nevertheless, possible to improve the prior-year result of Euro -2.8 mill. to Euro -2.7 mill..

As a result of introducing the new products, and expanding business operations in the major market, France, positive effects are expected for sales and result in the current, 2005 business year.

Tableware Division: sales and operating result slightly lower than in previous year

Sales of Euro 71.9 mill. in the first three months of 2005 were 1.9% lower than those of the previous year. If an extraordinary order in the 2004 promotional-gift business sector is ignored, the Tableware Division was actually able to increase its sales by 4.7%. In addition to the sales trend in Germany(+8.8%), a particularly pleasing trend was also seen in the foreign markets of Italy (+3.5%), France (+5.7%) and Great Britain (+8.5%). A growth contribution was also made by the 20 "House of Villeroy & Boch" shops which were newly opened in 2004. This concept for the company's own retailing sector will be continued and developed further in 2005.

Compared with the first three months of 2004, orders received rose 1.9% to a total of Euro 85.4 mill.. The operating result (EBIT) fell slightly from Euro 1.3 mill. to Euro 0.9 mill..

Our new product introductions achieved international success at the spring fairs. Orders received here were in some cases clearly higher than those received for the successful new product launches of the previous year. All international expectations were exceeded in particular by the patterned variant of the NewWave Caffè cup, which received the German Business Innovation Award for design

and production techniques in January 2005. A further exceptional success was experienced with the new Christmas theme, "Christmas USA", which met with a generally high level of acceptance among our customers. The asymmetrical patterns "NewWave Premium" and "NewWave Premium Gold", which are made of bone china, and also the smart new pattern, "Party" were likewise particularly successful.

The expansion of plant facilities in Torgau is, as scheduled in its final stages at the end of the first quarter of 2005. This investment was made to further improve the supply capability for asymmetrical products, which continue to experience a consistently high level of demand.

Although the increasing numbers of imports from Eastern Asia constitute a great challenge for porcelain manufacturers in the West, we feel that our brand and sales strengths, our innovative power, and our competitively superior technology give us the ability to meet this challenge.

Having returned to a high-level of earning power in 2004, we also expect a good result for the Tableware Division for the year 2005 as a whole.

Slight Fall in Volume of Investment

The Villeroy & Boch Group invested a total of Euro 7.9 mill. in the first quarter of 2005, as compared with Euro 8.5 mill. in the same period of the previous year. A total of 30.6% was invested in Germany and 69.4% abroad.

Outlook for 2005 as a Whole

Owing to the consistently strained underlying economic conditions Villeroy & Boch does not expect an easy business year in 2005. The company's main objectives will be to achieve profitability in the Tile Division, and optimise the cost structure. As a 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. Should the underlying economic conditions actually experience a positive trend, it should be possible to record an improvement in consolidated result.

Miscellaneous

Accounting in accordance with IFRS/audit

The Villeroy & Boch Group interim financial statements for the first quarter 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 March 31st 2005 remained unchanged at 1,683,029 units.

The Villeroy & Boch Share/Investor Relations

Villeroy & Boch share movement during the first three months of the 2005 business year was clearly better than that of the DAX and SDAX indices. Having started the year at a price of Euro 9.13, the share was quoted at EUR 10.92 by the end of the first quarter. This is the equivalent of a 19.6% price rise. Even when compared directly with Prime Consumer and Prime Household Appliances & Houseware, the reference indices relevant for the Villeroy & Boch share, the far-above-average price movement clearly illustrates Villeroy & Boch's strong competitive position.

During the period under review we cultivated and intensified our contact to private and institutional investors. We were consequently able to record a pleasing level of attendance at our financial statements press conference and conference of the German Association of Financial Analysts on April 20th 2005.

The dividend proposed by both the Supervisory Board and Management Board at the General Meeting of Shareholders will be higher for the 2004 business year than in the

previous year. The amount of the proposed dividend will be Euro 0.42 per individual preference-share certificate and Euro 0.37 per individual ordinary-share certificate.

Mettlach, April 2005

Villeroy & Boch Aktiengesellschaft

The Management Board

Financial Calendar:

June 3rd 2005	General Meeting of Shareholders' in the Stadthalle Merzig
July 28th 2005	Report on the first half of 2005
October 27th 2005	Report on the first nine months of 2005

Villeroy & Boch Consolidated Balance Sheet

	<u>31.03.2005</u> Euro mill.	<u>31.12.2004</u> Euro mill.
A s s e t s		
Intangible fixed assets	41.7	41.7
Property, plant and equipment	255.4	259.4
Financial assets	10.5	10.6
Fixed assets	307.6	311.7
Remaining long-term assets	0.4	0.2
Deferred taxes	42.4	42.9
Long-term assets	350.4	354.8
Inventories	221.9	223.7
Accounts receivable from trade	124.0	113.9
Other short-term assets	21.8	24.4
Tax claims	16.5	17.0
Cash	23.5	51.3
Short-term assets	407.7	430.3
Total assets	758.1	785.1
 Liabilities and shareholders' equity		
Shareholders' equity	342.5	342.1
Minority interests	3.6	3.5
Shareholders' equity (total)	346.1	345.6
Long-term financial liabilities	0.4	0.5
Remaining long-term liabilities	5.1	5.1
Long-term provisions	200.1	200.1
Deferred taxes	13.7	13.9
Long-term debts	219.3	219.6
Trade accounts payable	50.6	68.4
Short-term financial liabilities	6.8	4.3
Remaining short-term liabilities	75.1	81.0
Short-term provisions	40.2	49.1
Tax liabilities	20.1	17.1
Short-term debts	192.8	219.9
Total shareholders' equity and debts	758.1	785.1

Statement of Shareholders' Equity

Euro mill.				Consoli-	Total	
	Capital subscribed	Capital reserves	Earnings reserves	dated result	Minority interests	shareholders' equity
As of 01.01.2005	71.9	193.6	60.6	16.0	3.5	345.6
Reclassification of prior-year consolidated result			16.0	-16.0		0.0
Consolidated result 1st quarter				2.8	0.1	2.8
Subsequent valuation IAS 39			-0.7			-0.7
Currency change			-1.6			-1.6
Other changes in shareholders' equity			-0.1		0.0	-0.1
As of 31.03.2005	71.9	193.6	74.2	2.8	3.6	346.0
As of 01.01.2004	71.9	193.6	93.0	-26.1	2.6	335.0
Reclassification of prior-year consolidated result			-26.1	26.1		0.0
Consolidated result 1st quarter				3.1	0.2	3.1
Subsequent valuation IAS 39			-2.0			-2.0
Currency change			1.0			1.0
Other changes in shareholders' equity			0.0		0.0	0.0
As of 31.03.2004	71.9	193.6	65.9	3.1	2.8	337.1

Villeroy & Boch Consolidated Profit and Loss Statement

	Ist Quarter of 2005		Ist Quarter of 2004 ¹⁾	
	Euro mill.	% sales	Euro mill.	% sales
Sales	218.2	100.0	251.5	100.0
Costs of goods sold	-130.7	-59.9	-154.9	-61.6
Gross profit	87.5	40.1	96.6	38.4
Selling expenses, marketing and development costs	-69.7	-31.9	-72.5	-28.8
General and administrative expenses	-12.6	-5.8	-14.5	-5.7
Amortisation of goodwill	-	-	-0.9	-0.4
Other operating expense/income	1.2	0.6	-1.0	-0.4
Result from equity investment	0.0	0.0	0.0	0.0
Operating result (EBIT)	6.4	2.9	7.7	3.1
Financial results	-2.3	-1.0	-3.1	-1.3
Result before taxes (EBT)	4.1	1.9	4.6	1.8
Taxes on income	-1.2	-0.6	-1.3	-0.5
Net income	2.9	1.3	3.3	1.3
Minority interests	-0.1	0.0	-0.2	-0.1
Consolidated results	2.8	1.3	3.1	1.2
Net earnings per ordinary share in Euro	0.08		0.09	
Net earnings per preference share in Euro	0.13		0.14	

1) as reported in previous year

Villeroy & Boch Consolidated Cash Flow Statement

	Ist Quarter 2005	Ist Quarter 2004
	<u>Euro mill.</u>	<u>Euro mill.</u>
Net income	2.9	3.3
Depreciation of fixed assets	11.2	13.8
Change in long-term provisions	-2.4	-2.5
Result from disposal of fixed assets	-0.1	0.1
Change in inventories, accounts receivable and other assets	-7.3	-19.0
Change in liabilities, short-term provisions and other liabilities	-29.7	-30.4
Other income/expense without effect on liquid assets	2.7	3.5
Cash flow from operating activities	-22.7	-31.2
Investment in intangible and tangible fixed assets	-7.9	-8.5
Deposits from disposal of fixed assets	1.5	0.4
Investment in financial assets and payments for the acquisition of consolidated companies	-0.4	0.0
Cash flow from investing activities	-6.8	-8.1
Change in financial liabilities	1.7	10.2
Payment for sale/buying out for the acquisition of own share	0.0	0.0
Dividend payments	0.0	0.0
Cash flow from financing	1.7	10.2
Change in balance of funds	-27.8	-29.1
Balance of funds as of 1.1.	51.3	37.1
Change in balance of funds	-27.8	-29.1
Balance of funds as of 31.3.	23.5	8.0

Segment Reference Figures	Bathroom & Wellness 1)	Tiles 2)	Tableware	Transition/ Other	Villeroy & Boch Group
Ist Quarter of 2005					
External sales	108.4	37.9	71.9		218.2
EBIT	8.2	-2.7	0.9		6.4
Financial results				-2.3	-2.3
Depreciation	5.4	1.7	4.0		11.1
Capital expenditure	5.0	0.9	2.0		7.9
Net operating assets	244.0	83.4	168.8	-150.1	346.1
Number of employees	4,809	1,047	3,224	469	9,549
Ist Quarter of 2004					
External sales	114.2	45.9	73.3		233.4
EBIT	9.2	-2.8	1.3		7.7
Financial results				-3.1	-3.1
Depreciation	6.3	3.6	3.9		13.8
Capital expenditure	3.4	2.5	2.6		8.5
Net operating assets	240.6	142.2	160.6	-206.1	337.3
Number of employees ³⁾	4,874	1,046	3,241	480	9,641

1) Collective presentation of the Business Segments: "Bathroom and Kitchen" and "Wellness"

2) The two Business Segments "Tiles" and "Project Business" together constitute the Tile Division

3) 2004 prior-year figures adjusted to exclude divestments, and take account of the organisational changes in assignment to the Divisions

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