



## Interim Report January 1st to September 30th 2005

### The Villeroy & Boch Group at a Glance

	1.1. - 30.09.2005	1.1. - 30.09.2004	Change	Change
	Euro mill.	Euro mill.	Euro mill.	%
<b>Sales <sup>1)</sup></b>				
domestic	207.7	215.0	-7.3	-3.4
foreign	454.0	462.7	-8.7	-1.9
total	661.7	677.7	-16.0	-2.4
<b>Result before</b>				
interest and income tax/EBIT	15.3	20.7	-5.4	-26.1
taxes on income/EBT	8.9	12.6	-3.7	-29.4
<b>Capital expenditure</b>	23.8	34.7	-10.9	-31.4
<b>Consolidated earnings per share (Euro)</b>	0.23	0.29	-0.06	-20.7
<b>Average number of persons employed <sup>1)</sup></b>	9,539	9,645	-106.0	-1.1

1) prior year adjusted to exclude divestments

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### **Underlying economic conditions remain strained in the Euro region due to rise in oil prices**

Economic expansion has continued at a strong pace so far this year, despite the renewed increase in the price of crude oil. This is to be attributed not only to the strong and consistently growing Chinese economy, but also to developments in the area of private consumption in the USA, where growth was stronger than anticipated. On the whole, the Institute for Global Economics (IfW) at Kiel University anticipates a 4.1% increase in worldwide production for the year 2005.

The major economic research institutes expect macroeconomic growth in the Euro region to increase momentum again by the end of 2005, following its rather restrained development so far this year. They continue to forecast a real change in gross domestic product (GDP) of 1.3%, but have had to make a further downward adjustment to their forecast for private consumption expenditure (1.1%).

Private households in Germany experienced a further restraint on their willingness to consume, not least because of the rise in oil prices. Private consumption expenditure for the year 2005 is expected to see a change in real terms of -0.1%. A trend which remains alarming is that in the construction industry. The IfW assumes that there will be a 5.7% decline in the amount of capital spent on new construction in the 2005 calendar year. All in all, economic research institutes anticipate a real change in GDP of between 0.7% and 0.9%.

### **Sales below prior-year level**

Having concluded three quarters of the year, Villeroy & Boch Group sales of Euro 661.7 million are 2.4% below those in the comparable period of the previous year. A pleasing sales trend was experienced in the third quarter, however, when prior-year sales were exceeded (+1.2%). As a result, the company was able to reduce the overall shortfall in sales which accrued during the first half year.

The volume of orders in the Villeroy & Boch Group on September 30th 2005 totalled Euro 54.5 million, as compared with Euro 43.3 million at the start of the business year. Regarded on the basis of Divisions, 43.5% was allocated to the Tableware Division, 38.2% to the Bathroom and Wellness Division and 18.3% to the Tile Division.

Totalling Euro 8.9 million, the result before taxes on income (EBT) for the first nine months of 2005 was below that of the prior year (Euro 12.6 million).

### **Trend in the Divisions**

#### ***Bathroom and Wellness Division: pleasing sales trend in the Business Segments "Ceramic Sanitary Ware/Kitchens" and "Bathroom Furniture/Fittings"***

Compared with prior-year figures, the Bathroom and Wellness Division increased its sales in the first three quarters of 2005 by 0.9%, bringing the total to Euro 327.7 million. The result of Euro 18.7 million is Euro 2.9 million below that of the previous year.

This can be attributed to the weakness of the Wellness Business Segment result, for which further improvements in the result of the two Business Segments "Ceramic Sanitary Ware/Kitchens" and "Bathroom Furniture/Fittings" were unable to completely compensate.

After a total of nine months, sales in the "Ceramic Sanitary Ware/Kitchens" Business Segment have increased from Euro 209.7 million to Euro 216.2 million – a rise of 3.1%.

Although the persistently weak market conditions have dampened the sales trend in Germany, all the other regions have reported growth rates of between 5% and 10%. A fundamental reason for this welcome development is the effective product policy. This is reflected in the strong demand for the new products introduced in spring, one of which being the product innovation "Pur Air" which was advertised on television.

The "Bathroom Furniture/Fittings" Business Segment was also able to continue the positive trend it experienced in previous months.

Driven by the good sales trend, which was particularly evident in Scandinavia, the Business Segment reported sales of Euro 43.5 million, which, when compared with prior-year figures of Euro 40.7 million, are equivalent to a 6.9% rise.

Sales of Euro 68.0 million in the Wellness Business Segment were 8.6% lower than those reported in the comparable period of the previous year (Euro 74.4 million). When seen in relation to the first half year, this sales decline, however, has continued to weaken.

Pleasing trends in Germany (+11.6%) and France (on prior-year level) were contrasted by sales losses in such core markets as the Netherlands, Italy and Scandinavia. Owing to the persistently difficult underlying economic conditions, in particular in the Business Segment's major sales markets, we expect sales to be below those of the previous year.

***Tile Division: consistent implementation of scheme aimed at cutting costs by more than Euro 10 million***

Tile Division sales of Euro 112.4 million did not achieve the level reported in the previous year (Euro 127.6 million). When compared with prior-year figures, the result situation for the first nine months of the year 2005 nevertheless experienced a slight improvement, increasing from Euro -8.5 million to Euro -6.8 million.

The initiated programme aimed at cutting costs by more than Euro 10 million is currently being implemented, and has already had an initial effect on the result. The scheduled reduction in the number of employees has also already been largely initiated and implemented, and will give rise to non-recurring expenses in 2005.

Problems which existed in the area of logistics have now been eliminated, and with them the accompanying supply shortages. The new tile assortments introduced in 2005 have been well accepted by the market.

Predictions for the German tile market remain negative. It is generally assumed that tile sales will decrease 5% in comparison with prior-

year figures. Developments in international markets such as Eastern Europe, the UK and the Netherlands are considerably more positive.

Sales in the 2005 business year are expected to be lower than those of the prior year, and the result situation will remain negative. The aim for 2006 is to achieve profitability in the Tile Division.

This aim to achieve profitability will be supported by spinning off and concentrating tile business into an independent subsidiary of Villeroy & Boch AG, and also by the related streamlining of business processes.

***Tableware Division: further increase in orders received in a demanding environment***

Despite a constant increase in global competition, in which a rise in Chinese imports plays a considerable role, and the continuing restraint in demand for consumer goods in Germany, the Tableware Division was able to improve on its prior-year level of orders received.

Regarded in relation to the first three quarters of 2004, orders received rose 5.6% to a total of Euro 237.1 million. Part of this growth results from special orders in Western and Eastern Europe. Particular success was additionally experienced in markets in Germany, France and Japan, and also in the hotel sector.

Compared with prior-year figures, sales fell 1.6% to Euro 221.6 million. 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 3.9%. An essential contribution was also made here by sales increases in the markets in USA/Canada (+4.4%), Germany (+1.7%) and France (+4.9%). It was furthermore possible to attain clear growth in the markets of the Middle East, Russia, Luxembourg and Switzerland.

On September 30th 2005 the volume of orders totalled Euro 23.7 million. Although this is 1.8% lower than the value on September 30th

2004, it is still 11.8% higher than the comparable value of the year 2003.

The continued decline in demand for symmetrical porcelain patterns, and also the Tableware Division's efforts to reduce capital tie-up have led to short-time working and measures aimed at adjusting employment levels at production locations in the Saar region and Luxembourg.

Special orders and new, competitively-priced product introductions with correspondingly lower contribution margins, the costs of the advertising campaign for asymmetrical products, and the expenses necessary for the initiated personnel measures give rise to a result of Euro 3.4 million, which is clearly lower than that of the previous year (Euro 7.6 million).

Although sales are expected to be on a level with those of the previous year, the Division will nevertheless be unable to achieve the extremely good result reported for the year 2004.

#### **Slight decline in volume of investment**

The Villeroy & Boch Group invested a total of Euro 23.8 million in the first nine months of 2005, as compared with Euro 34.7 million in the same period of the previous year. A total of 37.7% was invested in Germany and 62.3% abroad.

#### **Outlook for 2005 as a whole**

Owing to the consistently strained, underlying economic conditions Villeroy & Boch does not anticipate any essential changes in the remaining three months of the 2005 business year. Sales for the Group as a whole are expected to be lower than those of the previous year, a situation brought about as a result of reducing production capacity in the Tile Division, and the related sales decline in this sector. Taking into account the non-recurring expenses incurred for reducing the number of persons employed by a total of roughly 300, the operating result for the year 2005 as a whole will turn out lower than that of the

previous year. We anticipate an operating result for the business year as a whole which corresponds with the trend of the first nine months.

#### **Miscellaneous**

##### ***Accounting in accordance with IFRS/audit***

The Villeroy & Boch Group interim financial statements for the first nine months 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 third quarter of 2005. The portfolio on September 30th 2005 remained unchanged at 1,683,029 units.

#### **The Villeroy & Boch share/Investor Relations**

Having started the third quarter at a price of Euro 11.40, the Villeroy & Boch share was quoted at Euro 13.90 on September 30th 2005, signifying a price rise of a round 22%. Regarding the price over the year as a whole to date, a rise of as much as 52% results. 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. This above-average movement of the share is also evident, however, when compared directly with the SDAX.

Mettlach, October 2005

Villeroy & Boch Aktiengesellschaft

The Management Board

**Financial Calendar:**

April 11th 2006	Press conference on annual financial statements for 2005
April 27th 2006	Report on the first three months of 2006
June 9th 2006	General Meeting of Shareholders in the Stadthalle Merzig
July 27th 2006	Report on the first half year of 2006
October 27th 2006	Report on the first nine months of 2006

## Villeroy & Boch Consolidated Balance Sheet

	<u>30.09.2005</u> Euro mill.	<u>31.12.2004</u> Euro mill.
<b>A s s e t s</b>		
Intangible fixed assets	41.5	41.7
Property, plant and equipment	249.4	259.4
Financial assets	21.8	10.6
<b>Fixed assets</b>	<b>312.7</b>	<b>311.7</b>
Remaining long-term assets	0.6	0.2
Deferred taxes	42.9	42.9
<b>Long-term assets</b>	<b>356.2</b>	<b>354.8</b>
Inventories	220.3	223.7
Accounts receivable from trade	136.5	113.9
Remaining short-term assets	19.9	24.4
Tax claims	11.6	17.0
Cash	6.1	51.3
<b>Short-term assets</b>	<b>394.4</b>	<b>430.3</b>
<b>Total assets</b>	<b>750.6</b>	<b>785.1</b>
 <b>Liabilities and shareholders' equity</b>		
Shareholders' equity	334.0	342.1
Minority interests	3.7	3.5
<b>Shareholders' equity (total)</b>	<b>337.7</b>	<b>345.6</b>
Long-term financial liabilities	0.0	0.5
Remaining long-term liabilities	4.9	5.1
Long-term provisions	199.6	200.1
Deferred taxes	13.5	13.9
<b>Long-term debts</b>	<b>218.0</b>	<b>219.6</b>
Trade accounts payable	51.1	68.4
Short-term financial liabilities	2.9	4.3
Remaining short-term liabilities	87.4	81.0
Short-term provisions	36.4	49.1
Tax liabilities	17.1	17.1
<b>Short-term debts</b>	<b>194.9</b>	<b>219.9</b>
<b>Total shareholders' equity and debts</b>	<b>750.6</b>	<b>785.1</b>

## Statement of Shareholders' Equity

Euro mill.	Capital subscribed	Capital reserves	Earnings reserves	Consoli- dated result	Minority interests	Total shareholders' equity
<b>As of 01.01.2005</b>	<b>71.9</b>	<b>193.6</b>	<b>60.6</b>	<b>16.0</b>	<b>3.5</b>	<b>345.6</b>
Dividend				-10.4	-0.1	-10.5
Reclassification of prior-year consolidated result			5.6	-5.6		0.0
Consolidated result 1.1. - 30.09.				6.0	0.2	6.2
Subsequent valuation IAS 39			0.3			0.3
Currency change			-4.3		0.1	-4.2
Acquisition of treasury stock			-			-
Other changes in shareholders' equity			0.3			0.3
<b>As of 30.09.2005</b>	<b>71.9</b>	<b>193.6</b>	<b>62.5</b>	<b>6.0</b>	<b>3.7</b>	<b>337.7</b>
<b>As of 01.01.2004</b>	<b>71.9</b>	<b>193.6</b>	<b>93.0</b>	<b>-26.1</b>	<b>2.6</b>	<b>335.0</b>
Dividend				-7.3		-7.3
Reclassification of prior-year consolidated result			-33.4	33.4		0.0
Consolidated result 1.1. - 30.09.				7.6	0.6	8.2
Subsequent valuation IAS 39			-0.1			-0.1
Currency change			3.4			3.4
Acquisition of treasury stock			-2.9			-2.9
Other changes in shareholders' equity			-0.1			-0.1
<b>As of 30.09.2004</b>	<b>71.9</b>	<b>193.6</b>	<b>59.9</b>	<b>7.6</b>	<b>3.2</b>	<b>336.2</b>

### Villeroy & Boch Consolidated Profit and Loss Statement

	1st - 3rd Quarter 2005		1st - 3rd Quarter 2004 <sup>1)</sup>	
	Euro mill.	% sales	Euro mill.	% sales
Sales	661.7	100.0	732.2	100.0
Costs of goods sold	-403.6	-61.0	-453.6	-62.0
<b>Gross profit</b>	<b>258.1</b>	<b>39.0</b>	<b>278.6</b>	<b>38.0</b>
Selling expenses, marketing and development costs	-208.4	-31.5	-213.4	-29.1
General and administrative expenses	-37.6	-5.7	-42.3	-5.8
Amortisation of goodwill	-	-	-2.7	-0.4
Other operating expense/income	3.1	0.5	0.4	0.1
Result from equity investment	0.1	0.0	0.1	0.0
<b>Operating result (EBIT)</b>	<b>15.3</b>	<b>2.3</b>	<b>20.7</b>	<b>2.8</b>
<b>Financial results</b>	<b>-6.4</b>	<b>-1.0</b>	<b>-8.1</b>	<b>-1.1</b>
<b>Result before taxes (EBT)</b>	<b>8.9</b>	<b>1.3</b>	<b>12.6</b>	<b>1.7</b>
Taxes on income	-2.7	-0.4	-4.4	-0.6
<b>Net income</b>	<b>6.2</b>	<b>0.9</b>	<b>8.2</b>	<b>1.1</b>
Minority interests	-0.2	0.0	-0.6	-0.1
<b>Consolidated results</b>	<b>6.0</b>	<b>0.9</b>	<b>7.6</b>	<b>1.0</b>
Net earnings per ordinary share in Euro	0.20		0.26	
Net earnings per preference share in Euro	0.25		0.31	

1) as reported in previous year

When adjusting to exclude the effect of the divestments carried out in the Tile Division in the first three quarters, the sales reported in the previous year are to be reduced by Euro 54.5 mill. (cf. Segment Reporting).

### Villeroy & Boch Consolidated Profit and Loss Statement

	3rd Quarter 2005		3rd Quarter 2004 <sup>1)</sup>	
	Euro mill.	% sales	Euro mill.	% sales
Sales	216.6	100.0	229.3	100.0
Costs of goods sold	-134.9	-62.3	-140.5	-61.3
<b>Gross profit</b>	<b>81.7</b>	<b>37.7</b>	<b>88.8</b>	<b>38.7</b>
Selling expenses, marketing and development costs	-68.3	-31.5	-68.8	-30.0
General and administrative expenses	-12.4	-5.7	-13.6	-5.9
Amortisation of goodwill	-	-	-0.9	-0.4
Other operating expense/income	2.9	1.3	2.7	1.2
Result from equity investment	0.1	0.0	0.0	0.0
<b>Operating result (EBIT)</b>	<b>4.0</b>	<b>1.8</b>	<b>8.2</b>	<b>3.6</b>
<b>Financial results</b>	<b>-2.1</b>	<b>-1.0</b>	<b>-2.7</b>	<b>-1.2</b>
<b>Result before taxes (EBT)</b>	<b>1.9</b>	<b>0.9</b>	<b>5.5</b>	<b>2.4</b>
Taxes on income	-0.6	-0.3	-1.9	-0.8
<b>Net income</b>	<b>1.3</b>	<b>0.6</b>	<b>3.6</b>	<b>1.6</b>
Minority interests	0.0	0.0	-0.2	-0.1
<b>Consolidated results</b>	<b>1.3</b>	<b>0.6</b>	<b>3.4</b>	<b>1.5</b>
Net earnings per ordinary share in Euro	0.02		0.10	
Net earnings per preference share in Euro	0.07		0.15	

1) as reported in previous year

When adjusting to exclude the effect of the divestments carried out in the Tile Division in the third quarter, the sales reported in the previous year are to be reduced by Euro 15.4 mill. (cf. Segment Reporting).



## Villeroy & Boch Consolidated Cash Flow Statement

	<b>1st - 3rd Quarter 2005</b>	<b>1st - 3rd Quarter 2004</b>
	<u>Euro mill.</u>	<u>Euro mill.</u>
Net income	6.2	8.2
Depreciation of fixed assets	33.4	42.1
Change in long-term provisions	-7.6	-7.4
Result from disposal of fixed assets	-0.6	-0.2
Change in inventories, accounts receivable and other assets	-11.4	-14.2
Change in liabilities, short-term provisions and other liabilities	-26.6	-25.4
Other income/expense without effect on liquid assets	7.3	7.6
<b>Cash flow from operating activities</b>	<b>0.7</b>	<b>10.7</b>
Investment in intangible and tangible fixed assets	-23.8	-34.7
Deposits from disposal of fixed assets	3.7	19.2
Investment in financial assets and payments for the acquisition of consolidated companies	-11.7	-3.7
<b>Cash flow from investing activities</b>	<b>-31.8</b>	<b>-19.2</b>
Change in financial liabilities	-3.7	-9.5
Payment for sale/buying out for the acquisition of treasury stock	0.0	-2.9
Dividend payments	-10.4	-7.3
<b>Cash flow from financing</b>	<b>-14.1</b>	<b>-19.7</b>
<b>Change in balance of funds</b>	<b>-45.2</b>	<b>-28.2</b>
<b>Balance of funds as of 01.01.</b>	<b>51.3</b>	<b>37.0</b>
Change in consolidated companies	-	-1.9
Change in balance of funds	-45.2	-28.2
<b>Balance of funds as of 30.09</b>	<b>6.1</b>	<b>6.9</b>

<b>Segment Reference Figures</b>	<b>Bathroom &amp; Wellness</b> 1)	<b>Tiles</b> 2)	<b>Tableware</b>	<b>Transition/ Other</b>	<b>Villeroy &amp; Boch Group</b>
<b>1st - 3rd Quarter 2005</b>					
External sales	327.7	112.4	221.6		661.7
EBIT	18.7	-6.8	3.4		15.3
Financial results				-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
<b>1st - 3rd Quarter 2004</b>					
External sales <sup>3)</sup>	324.8	127.6	225.3		677.7
EBIT	21.6	-8.5	7.6		20.7
Financial results				-8.1	-8.1
Depreciation	19.3	10.0	12.4		41.7
Capital expenditure	18.9	7.6	8.2		34.7
Net operating assets	238.9	107.7	174.7	-185.2	336.1
Number of employees <sup>4)</sup>	4,879	1,050	3,242	474	9,645

(Values in Euro million; number of employees: average of the period under review)

- 1) Collective presentation of the Business Segments: "Ceramic Sanitary Ware/Kitchens", "Bathroom Furniture/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

<b>Segment Reference Figures</b>	<b>Bathroom &amp; Wellness</b> 1)	<b>Tiles</b> 2)	<b>Tableware</b>	<b>Transition/ Other</b>	<b>Villeroy &amp; Boch Group</b>
<b>3rd Quarter 2005</b>					
External sales	104.6	36.0	76.0		216.6
EBIT	2.0	-0.8	2.8		4.0
Financial results				-2.1	-2.1
Depreciation	5.4	1.7	4.0		11.1
Capital expenditure	4.2	1.4	2.5		8.1
Number of employees	4,809	1,043	3,198	471	9,521
<b>3. Quartal 2004</b>					
External sales	100.9	40.0	73.0		213.9
EBIT	5.1	-1.2	4.3		8.2
Financial results				-2.7	-2.7
Depreciation	6.6	2.8	4.7		14.1
Capital expenditure	10.4	2.2	3.3		15.9
Number of employees	4,856	1,053	3,211	467	9,587

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

- 1) Collective presentation of the Business Segments: "Ceramic Sanitary Ware/Kitchens", "Bathroom Furniture/Fittings" and "Wellness".
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