



Quarterly Report 1 January to 31 March 2006

- Sales 8.0% above prior-year level
- €7.3 million earnings before tax (EBT) well above prior-year figure

Villeroy & Boch Group at a glance

	1.1. - 31.03.2006	1.1. - 31.03.2005	Change	Change
	Euro million	Euro million	Euro million	%
Sales				
Domestic	72.1	72.4	-0.3	-0.4
Foreign	163.5	145.8	17.7	12.1
Total	235.6	218.2	17.4	8.0
Earnings				
before interest and tax (EBIT)	9.8	6.4	3.4	53.1
before tax (EBT)	7.3	4.1	3.2	78.0
Capital expenditure	5.6	7.9	-2.3	-29.1
Consolidated result per share (Euro)	0.19	0.10	0.09	90.0
Average number of employees	9,297	9,549	-252	-2.6

Securities identification numbers: 765 720, 765 723

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Underlying economic conditions marked by short-term upswing

The global economy is currently experiencing a considerable upward trend, which is expected to continue into the following year. The Institute for Global Economics (IfW) at the University of Kiel anticipates a 4.5% increase in world production this year (previous year: 4.4%).

The IfW believes that economic expansion in the Euro region will again gather speed in the first 6 months of 2006 producing significant results. Indicators point to a strong increase in the gross domestic product (GDP) in real terms. In this connection, impulses are coming from both domestic and foreign demand, whereby the demand from private households in the Euro region (excluding Germany) will continue to be the driving force of the economy. The gross domestic product (GDP) will average 2.4% (previous year: 1.4%) in real terms in 2006. Private consumption will also improve from 1.4% in 2005 to 1.7% in 2006.

The German economy is currently enjoying a strong, albeit short-term upward trend. For the first time in five years domestic demand is showing clear signs of advancing. While private consumption expenditure dropped 0.7% in 2005, economic research institutes anticipate a rise of 0.5% for both 2006 and 2007. The gross domestic product is expected to rise approximately 2.1% in real terms this year. Particularly pleasing is the noticeable increase in capital expenditure on new constructions in spite of the effects of special circumstances such as the abolition of the owner-occupied housing allowance. The IfW is expecting a 4.1% increase in capital expenditure on new constructions for the current calendar year.

Sales above prior-year level

The Villeroy & Boch Group was able to register an 8.0% sales increase in the first quarter of 2006, bringing the sales total to €235.6 million. This development was principally due to sales increases in the foreign markets (+12.1%). Domestic sales almost reached prior-year level (-0.4%).

Orders in hand in the Villeroy & Boch Group amounted to €63.2 million on 31 March 2006 compared to €48.9 million at the beginning of the business year, with the Tableware Division making the largest contribution with 41.4%. 39.7% was allocated to the Bathroom and Wellness Division and 18.9% to the Tile Division.

The €7.3 million earnings before tax (EBT) in the first three months clearly surpassed the prior-year figure (Euro 4.1 million).

Trend in the Divisions

Bathroom and Wellness: Encouraging sales trend with improved result

The Bathroom and Wellness Division achieved sales amounting to €119.3 million in the first three months of 2006, an increase of 10.1% compared with the previous year. The €9.4 million result is 14.6% above that of the previous year.

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 an 11.0% rise in sales from €76.5 million to €84.6 million.

With the exception of France (+2.7%), all foreign markets were able to achieve a double-figure sales increase. The positive trend (+3%) in the domestic market also contributed to this overall favourable development.

The wholesale trade positioned last year's new products well in their displays with a positive sales result. The latest innovations have been launched at the regional fairs which have taken place so far this year. The products presented included "Memento" - a Premium Edition for design competence at the highest level, "Sentique" - a ceramic series in the modern classic sector, and "Omnia architectura" - a series for the project sector. Expansion of the Wellness range has been initiated with the development of new baths ("Squaro") und pool systems ("Just Relax!"). Launched last year, the world premiere PurAir, the first fresh-air

WC in the world, which actively combats the odours arising from toilet use, will now also be available for other WC models.

The Wellness and Fittings Business Segment registered a 7.8 % rise overall, achieving sales of € 34.7 million. Particularly noteworthy in this connection is the positive trend in the domestic market (+21.1%) as well as in Scandinavia (+9.9%). The core markets of the Netherlands (+9.5% and Italy (+10.7%) were also able to increase their sales.

As a result of the merger of the Bathroom and Kitchen Division with the Wellness Division, and consequently the pooling of the two, until then separate marketing departments at the turn of the year, the Wellness and Fittings Business Segment will now be able to take advantage of the expanded marketing team in the sanitary ware sector.

The Bathroom and Wellness Division is expecting an increase in sales and, consequently, an improvement in the result for the 2006 business year.

Tiles: Cost-cutting programme has positive effect on result

The Tile Division outperformed prior-year sales of €37.9 million by 1.3% to achieve a total of € 38.4 million. The result also improved in the first three months of 2006 from €-2.7 million in the previous year to €-0.7 million, the programme to cut costs and improve production techniques initiated in 2005 leading to positive effects, as expected. The new products in 2006 have been launched according to schedule and have met with considerable market success, being well received by our customers.

In spite of a continuing decline in consumption in Germany, our principal market, it was virtually possible to maintain sales at prior-year level (-0.6%), thus putting a stop to the pronounced deterioration in the last few years. In France, the positive trend of the last quarter of 2005 continued its upturn, registering a noteworthy 14% increase in sales in the first quarter of 2006. The other international markets are also improving, in several instances with a very good growth rate. Parti-

cularly noteworthy are the USA (+24.5%), Scandinavia (+17.7%) and the Netherlands (+16.8%).

Due to the effects expected from the cost-cutting measures and from further positive developments in sales, it should be possible to achieve a marked improvement in the result in the business year.

Tableware: Inflow of orders and sales well above prior-year levels

In the first quarter of 2006, the inflow of orders and sales in the Tableware Division were well above comparable figures from the previous year in spite of a strained economic environment in the sector. Pressure from competition and pricing wars is on the increase in several markets, largely due to a rise in imports from China.

The € 77.9 million sales figure was 8.3% above the prior-year level. Having made the adjustment for the first delivery in March 2006 of a large-scale order in the premium business, the Tableware Division was able to record a 2.4% sales increase. Particularly encouraging was the improvement in markets in the Middle East (+22.8%), the Netherlands (+18.1%), as well as in the USA (+2.9%). The establishment of e-shops in a number of markets resulted in e-commerce sales quadrupling in the first quarter of 2006, although they remain at a low level.

The inflow of orders rose 7.4% to € 91.7 million compared with the first three months of 2005. Orders on hand on 31 March 2006 amounted to € 26.1 million, surpassing the comparable figure from the previous year by 9.7%.

New products launched at the spring fairs achieved international success. In particular the tableware series Country Heritage and Cascara, the exciting professional chef's cutlery Marchesi, eponymous to the top Italian chef, as well as the Line Extensions of the glass series NewWave surpassed all expectations. This success was also enjoyed by the new Christmas theme "Winter Collage" and the spring theme "Spring Fantasy", both of

which were very well received by our customers.

The Tableware Division operating result (EBIT) improved from € 0.9 million in the previous year to €1.1 million.

While an improvement in EBIT is expected in the operational business in terms of sales, the cost-intensive measures introduced to adapt employee levels in the Luxembourg production facility constitute a considerable burden on the result.

Volume of capital expenditure

The Villeroy & Boch Group invested a total of € 5.6 million in the first quarter of 2006 compared with €7.9 million in the same period of the previous year, 52.7% of which is allocated to domestic and 47.3% to foreign business.

Outlook for the entire year of 2006

Globalisation poses a great challenge for the relatively labour-intensive western European ceramic industry. The abolition of import quotas means that cheap imports from the Far East are increasingly pushing their way into largely saturated European markets. Cost-intensive measures to adapt structures, i.e. the systematic automation of western production facilities together with measures to strengthen the eastern European sites should increase Villeroy & Boch competitiveness in the medium and long term. Additionally, Villeroy & Boch is intensifying its activities in the growing Asian and American markets, having already taken the first steps by acquiring three sanitary ware factories in Mexico and concluding a cooperation agreement with a Chinese manufacturer of hotel porcelain. In 2006, we expect a moderate increase in sales and an improvement in the operating result in all the Divisions.

Additional information

Accounting in accordance with IFRS/Audit

The Villeroy & Boch interim accounts for the first three 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 first quarter of 2006 so that the portfolio on 31 March 2006 remained unchanged at 1,683,029.

The Villeroy & Boch Share / Investor Relations

Proceeding from a final price of €11.84 in the 2005 business year, the share recorded a price of €12.70 on 31 March 2006, corresponding to a price increase of 7.3%. 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, it also sustained a below-average trend. However, if the share price trend were to be appraised over the last 12 months, the price increase would reach 32.6 %.

We have maintained personal contact with private and institutional investors in the period under review within the scope of individual meetings, the balance-sheet conference held on 11 April 2006 and the analysts' conference held by the German association for financial analyses and asset management, DVFA.

For the 2005 business year, the Supervisory Board and Management Board have proposed to the General Meeting of Shareholders a slightly lower dividend of € 0.37 per individual preference share certificate and € 0.32 per individual ordinary share certificate.

Mettlach, April 2006

Villeroy & Boch Aktiengesellschaft

The Management Board

Financial calendar:

09 June 2006	General meeting of shareholders in the Stadthalle Merzig
27 July 2006	Report on the first six months of 2006
26 October 2006	Report on the first nine months of 2006

Villeroy & Boch consolidated balance sheet

	<u>31.03.2006</u> Euro million	<u>31.12.2005</u> Euro million
Assets		
Intangible assets	42.1	42.2
Property, plant and equipment	239.0	245.8
Investment properties	1.3	1.3
Investment accounted for at equity	0.6	0.6
Other financial assets	6.6	15.5
	<u>289.6</u>	<u>305.4</u>
Other non-current assets	0.0	0.5
Deferred tax assets	51.2	52.2
Non-current assets	<u>340.8</u>	<u>358.1</u>
Inventories	205.9	205.6
Trade receivables	139.7	119.3
Financial assets	10.1	0.1
Other current assets	20.2	13.9
Tax claims	13.0	14.6
Cash and cash equivalents	17.4	58.5
Current assets	<u>406.3</u>	<u>412.0</u>
Total Assets	<u><u>747.1</u></u>	<u><u>770.1</u></u>
Shareholders' Equity and Liabilities		
Capital subscribed	71.9	71.9
Capital surplus	193.6	193.6
Earnings reserve	76.6	62.5
Consolidated result	5.3	13.1
Equity attributable to minority interest	3.5	3.6
Total shareholders' equity	<u>350.9</u>	<u>344.7</u>
Provisions for pensions and similar liabilities	188.7	188.8
Other non-current provisions	7.9	7.7
Non-current financial liabilities	0.0	0.0
Other non-current financial liabilities	4.5	5.1
Deferred tax liabilities	21.4	21.4
Non-current liabilities	<u>222.5</u>	<u>223.0</u>
Other current provisions	24.3	32.4
Current financial liabilities	0.0	0.0
Other current liabilities	79.8	82.7
Trade payables	52.6	69.1
Tax liabilities	17.0	18.2
Current liabilities	<u>173.7</u>	<u>202.4</u>
Total shareholders' equity and liabilities	<u><u>747.1</u></u>	<u><u>770.1</u></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						0.0
Reclassification of prior-year consolidated result			13.1	-13.1		0.0
Consolidated result 01.01. - 31.03.				5.3	-0.1	5.2
Subsequent valuation IAS 39			2.0			2.0
Currency change			-1.0			-1.0
Other changes in shareholders' equity			0.0			0.0
As of 31.03.2006	71.9	193.6	76.6	5.3	3.5	350.9
As of 01.01.2005	71.9	193.6	60.6	16.0	3.5	345.6
Dividend						0.0
Reclassification of prior-year consolidated result			16.0	-16.0		0.0
Consolidated result 01.01. - 31.03.				2.8	0.1	2.9
Subsequent valuation IAS 39			-0.7			-0.7
Currency change			-1.6			-1.6
Other changes in shareholders' equity			-0.1			-0.1
As of 31.03.2005	71.9	193.6	74.2	2.8	3.6	346.1

Villeroy & Boch Consolidated Profit and Loss Statement

	1st quarter 2006		1st quarter 2005	
	Euro million	% sales	Euro million	% sales
Sales	235.6	100.0	218.2	100.0
Costs of goods sold	-141.9	-60.2	-130.7	-59.9
Gross profit from sales	93.7	39.8	87.5	40.1
Selling expenses, marketing and development costs	-70.2	-29.8	-69.7	-31.9
General and administrative expenses	-12.8	-5.4	-12.6	-5.8
Other operating income/expense	-0.9	-0.4	1.2	0.5
Result from investments in associated companies	0.0	0.0	0.0	0.0
Operating result (EBIT)	9.8	4.2	6.4	2.9
Financial results	-2.5	-1.0	-2.3	-1.1
Earnings before taxes (EBT)	7.3	3.2	4.1	1.9
Taxes on income	-2.1	-0.9	-1.2	-0.5
Net income	5.2	2.3	2.9	1.3
Minority interests in shareholders' equity	0.1	0.0	-0.1	0.0
Consolidated result	5.3	2.3	2.8	1.3
Net earnings per ordinary share in Euros	0.18		0.08	
Net earnings per preference share in Euros	0.23		0.13	

Villeroy & Boch Consolidated Cash Flow Statement

	1st quarter 2006	1st quarter 2005
	<u>Euro million</u>	<u>Euro million</u>
Net income	5.2	2.9
Amortisation of fixed assets	11.0	11.2
Change in non-current provisions	-2.4	-2.4
Result from disposal of fixed assets	0.0	-0.1
Change in inventories, accounts receivable and other assets	-26.0	-7.2
Change in liabilities, current provisions and other liabilities	-29.2	-29.7
Other income/expense without effect on liquid assets	3.6	2.7
Cash Flow from operating activities	-37.8	-22.6
Investment in intangible and tangible fixed assets		
	-5.6	-7.9
Deposits arising from disposals of fixed assets	2.3	1.5
Investment in financial assets and payments for the acquisition of consolidated companies	-0.1	-0.4
Cash Flow from investing activities	-3.4	-6.8
Change in financial liabilities	0.0	1.7
Deposits due to sale of/payment for the acquisition of treasury stock	0.0	0.0
Dividend payments	0.0	0.0
Cash Flow from financing	0.0	1.7
Sum of cash flows	-41.2	-27.7
Changes in balance of cash due to exchange rates	0.1	-0.1
Changes in balance of cash and cash equivalents	-41.1	-27.8
Balance of cash and cash equivalents as of 01.01.	58.5	51.3
Change in consolidated companies	-	-
Change in balance of cash and cash equivalents	-41.1	-27.8
Balance of cash and cash equivalents as of 31.03.	17.4	23.5

Key segment data	Bathroom and Wellness	Tile	Tableware	Transition Other	Villeroy & Boch Group
1st quarter 2006					
External sales	119.3	38.4	77.9		235.6
EBIT	9.4	-0.7	1.1		9.8
Financial result				-2.5	-2.5
Depreciation	5.4	1.4	4.2		11.0
Capital expenditure	3.1	0.4	2.1		5.6
Net operating assets	228.8	83.5	154.7	-116.1	350.9
Number of employees	4,746	1,023	3,100	428	9,297
1st quarter 2005					
External sales	108.4	37.9	71.9		218.2
EBIT	8.2	-2.7	0.9		6.4
Financial result				-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

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