



Half-Year Report 1 January to 30 June 2006

- Sales 6.0% above prior-year level
- €8.7 million earnings before tax/EBT well above prior-year level

Villeroy & Boch Group at a glance

	1.1. - 30.06.2006	1.1. - 30.06.2005	Change	Change
	Euro million	Euro million	Euro million	%
Sales				
Domestic	137.2	138.7	-1.5	-1.1
Foreign	329.9	306.4	23.5	7.7
Total (consolidated)	467.0	445.1	21.9	4.9
Mexico acquisition	4.6	-	4.6	-
Total (including Mexico/USA acquisition)	471.6	445.1	26.5	5.9
Earnings before				
interest and tax (EBIT)	13.0	11.3	1.7	15.0
interest and tax (EBIT) (including acquisition)	13.3	11.3	2.0	17.7
tax (EBT)	8.4	7.0	1.4	20.0
tax (EBT) (including acquisition)	8.7	7.0	1.7	24.6

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ISIN: DE0007657207, DE0007657231

Villeroy & Boch AG • D 66688 Mettlach

Telephone: (00 49) (0)6864 - 81 2705 • Fax: (00 49) (0)6864 - 81 1478

Website: <http://www.villeroy-boch.com>

Current boom sustainable in spite of deterioration in the underlying economic conditions

In the first six months of 2006 the industrial countries were again characterized by a strong upward trend in the economy in spite of a marked deterioration in the underlying economic conditions in the past few months due to a further increase in the price of oil and a tightening of monetary policies worldwide. The Institute for Global Economics (IfW) at the University of Kiel expects the gross domestic product (GDP) in the major industrial countries to increase at a rate of approximately 3.0% in real terms in 2006.

Economic activity in the Euro region has continued its upsurge. This positive development in the first six months of 2006 is predominately attributable on the one hand to the dramatic expansion of the private consumer market and, on the other, to the sharp increase in exports. Leading economic research institutes expect economic activity in the Euro region to intensify over the remainder of the year. The GDP in the Euro region will average 2.3% in 2006 (previous year: 1.4%).

The German economy continues to enjoy a strong upward trend. The IfW anticipates a marked increase in production by the end of the year. Private consumption expenditure also rose significantly and the German export dynamic was in full swing. A total increase in exports of 10.6% is anticipated for 2006. The GDP is expected to remain constant this year with a 2.1% rise in real terms. Private consumption expenditure should average an 0.9% increase over the year. Also pleasing is the fact that capital expenditure on new constructions is benefiting from the favourable economic situation. The IfW foresees a 1.6% 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 a 4.9% sales increase in the first six months of 2006, bringing the sales total to €467.1 million. If the results of the three sanitary ware factories acquired in Mexico are included, the sales increase extends to 6%

compared to the previous year. It should be noted in this case that only the €4.6 million sales for the month of June have been taken into account in the period under review. Overall, this encouraging development was largely due to sales increases in the foreign markets (+ 7.7 % excluding Mexico; + 9.2 % including Mexico). Domestic sales were slightly below prior-year level (-1.1 %).

Orders in hand in the Villeroy & Boch Group on 30 June 2006 amounted to €62.2 million compared to €48.9 million at the beginning of the business year, the Bathroom and Wellness Division making the largest contribution with 45.0%. 35.0% was allocated to the Tableware Division and 20.0% to the Tile Division.

The €8.4 million earnings before tax (EBT) in the first six months of 2006 surpassed the prior-year figure (€7.0 million). The EBT including the €0.3 million result from Mexico for the month of June totals €8.7 million for the group.

Acquisition of three sanitary ware factories in Mexico

By acquiring three sanitary ware factories in Mexico the company is intensifying its activities in the growing markets of both American continents. Production was effectively assigned in economic terms on 1 June 2006. However, it will not be entered in the balance sheet until the next quarterly report when the accounting systems there have been fully integrated. A payment towards the purchase price was made in the period under review. The factories acquired are reported to have totalled €4.6 million sales for the month of June, resulting in €0.3 million earnings before tax (EBT).

Trend in the Divisions

Bathroom and Wellness: sales increase coincides with improved result

The Bathroom and Wellness Division achieved sales amounting to €237.4 million in the first six months of 2006, an increase of 6.4% compared to the previous year. The €17.1 million result surpasses the prior-year figure (€16.7 million). The preceding and following

information does not include the figures of the sanitary ware factories acquired in Mexico.

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 7.8% rise in sales in the first six months to achieve €167.4 million. With the exception of Great Britain (- 2.9 %) and France (- 0.4 %) a sales increase was recorded, especially in the eastern European countries (+ 23.5 %), Italy (+ 27.4 %) and the Netherlands (+ 13.0 %), all of which contributed significantly to this development, affirming our resolve to adopt an internationalization strategy. It was therefore possible to increase the share in foreign sales to 72.0%. Measures taken by the Division in the growing markets of both American continents will ensure that foreign sales continue to increase in future. The domestic market also recorded a positive trend in the first six months of 2006, contributing to the overall favourable development by a moderate increase in sales of 0.8%.

The Wellness and Fittings Business Segment registered a 3.5% sales rise overall, achieving sales of €70.0 million although business developed quite differently in different regions. Sales increases in core markets such as Germany (+ 11.9 %), the Netherlands (+ 8.8 %) and even the other western European countries (+21.2 %) contrast with the drop in sales in France (- 27.3 %) and Italy (- 8.8 %). However, the positive effects in sales predominate, so that we do not expect any significant change in the development for the following six months of 2006.

The first measures of success are emerging from the pooling of the marketing departments as a result of the merger at the end of the year of the Bathroom and Kitchen with the Wellness Business Segment, the Business Segment taking advantage in particular in the northern European market of the fact that one marketing team is able to work these sales markets more intensively. Sales in fittings could be increased in this case by 10.5%.

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: Positive effect as a result of cost-cutting programme

The €75.6 million sales figure achieved by the Tile Division in the first six months of the current business year failed to reach prior-year level by 1.2%. However, the operating result registered a marked improvement from €6.0 million to €1.3 million, this development attributable to the programme initiated in 2005 to cut costs and improve production techniques.

The launching of new products early on in the year in January and their success on the market are largely responsible for the sales increases in Germany and France, the core markets for this Division. As a result, the market shares in both markets increased considerably. In spite of a continuing decline in the domestic market for tiles the Division was able to increase sales by 0.4%. Even though France was able to improve its sales by 8.6%, this positive development in sales was not enough to compensate for the decline in the other foreign markets (in particular in eastern Europe). Overall, sales abroad dropped by -3.2 % compared to the same period in the previous year, essentially as a result of abandoning the Mondial brand in Rumania.

An additional campaign to launch the new product 'The Overture 2007' is planned for autumn 2006 with the aim of generating more sales in the core markets and further developing existing market shares.

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: Earnings situation burdened by restructuring costs

In the first six months 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 persistently strained economic environment in the sector. Pressure from competition and pricing wars are on the increase in several markets, largely due to a rise in imports from China.

The €154.1 million sales figure was 5.9% above the prior-year level. While the domestic market suffered a drop in sales of 7.5%, the foreign markets were able to register an overall sales increase of 11.1%. The establishment of e-shops in a number of markets and the ongoing focus on this sales channel have led to a dramatic growth in e-commerce sales in the first six months, increasing more than threefold from €327,000 in 2005 to approximately €1.0 million in 2006. This growth trend is expected to continue.

The inflow of orders amounted to €164.5 million, a 3.1% increase compared with the first six months of 2005. Orders on hand amounted to €1.8 million, falling 6.4% below the comparable figure from the previous year.

The Tableware Division operating result (EBIT) dropped from €0.6 million in the previous year to €2.8 million. However, this already includes the €3.0 million restructuring costs for the Luxembourg production facility.

While an improvement in EBIT is expected in the 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 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 €13.5 million in the first six months of 2006 compared with €15.7 million in the same period of the previous year, 43.0% of which is allocated to domestic and 57.0% to foreign business.

Outlook for the entire year of 2006

Villeroy & Boch is not expecting any significant changes in business trends for the following six months of 2006. The company will continue to challenge the adverse consequences of 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. In order to increase competitiveness in the medium and long term Villeroy & Boch has also been constrained to adopt cost-intensive measures to adapt employee levels in the Luxembourg production facility. This involves a single expense of approximately €8 million opposed to future savings of €6 million p.a. The cost-cutting measures introduced in 2005 in the Tile Division will also continue to improve the result in the course of the current business year.

In the 2006 business year we expect a moderate increase in sales and an improvement in the operating result 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 six 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 six months of 2006 so that the portfolio on 30 June 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 €1.90 on 30 June 2006, corresponding to a moderate price increase of half a percentage point. This meant that the share continued to lag behind the relevant comparable Prime Consumer and Prime Household Appliances & Houseware indices. However, in direct comparison with SDAX, the share has recently developed an above-average trend.

Within the scope of our investor relations work we have maintained our contacts with private

and institutional investors and established new contacts in the period under review. The General Meeting of Shareholders held on 09 June 2006 was well received. The shareholders were given a comprehensive report on the 2005 business year and on further projects and expectations for the current business year. They had ample opportunity to address their questions to the Supervisory Board and Management Board. A resolution was passed to adopt the proposed dividend payment of €0.37 per individual preference share certificate and €0.32 per individual ordinary share certificate.

Mettlach, July 2006

Villeroy & Boch Aktiengesellschaft

The Management Board

Financial calendar:

26 October 2006

Report on the first nine months of 2006

Villeroy & Boch consolidated balance sheet

	<u>30.06.2006</u> Euro million	<u>31.12.2005</u> Euro million
Assets		
Intangible assets	43.4	42.2
Property, plant and equipment	233.7	245.8
Investment properties	1.3	1.3
Investment accounted for at equity	0.6	0.6
Other financial assets	2.6	15.5
	281.6	305.4
Other non-current assets	0.0	0.5
Deferred tax assets	52.4	52.2
Non-current assets	334.0	358.1
Inventories	206.8	205.6
Trade receivables	137.3	119.3
Financial assets	10.1	0.1
Other current assets	44.2	13.9
Tax claims	13.1	14.6
Cash and cash equivalents	11.9	58.5
Current assets	423.4	412.0
Total Assets	757.4	770.1
Shareholders' Equity and Liabilities		
Capital subscribed	71.9	71.9
Capital surplus	193.6	193.6
Earnings reserve	65.2	62.5
Consolidated result	6.2	13.1
Equity attributable to minority interest	0.3	3.6
Total shareholders' equity	337.2	344.7
Provisions for pensions and similar liabilities	188.4	188.8
Other non-current provisions	8.3	7.7
Non-current financial liabilities	0.0	0.0
Other non-current financial liabilities	2.0	5.1
Deferred tax liabilities	21.6	21.4
Non-current liabilities	220.3	223.0
Other current provisions	25.0	32.4
Current financial liabilities	16.4	0.0
Other current liabilities	91.6	82.7
Trade payables	50.4	69.1
Tax liabilities	16.5	18.2
Current liabilities	199.9	202.4
Total shareholders' equity and liabilities	757.4	770.1

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. - 30.06.				6.2	0.1	6.3
Acquisition of minority interests					-3.3	-3.3
Subsequent valuation IAS 39			-0.6			-0.6
Currency change			-0.5			-0.5
Other changes in shareholders' equity			-0.2			-0.2
As of 30.06.2006	71.9	193.6	65.2	6.2	0.3	337.2
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. - 30.06.				4.7	0.2	4.9
Subsequent valuation IAS 39			0.2			0.2
Currency change			-3.8			-3.8
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

Villeroy & Boch Consolidated Profit and Loss Statement

	1st half year of 2006		1st half year of 2005	
	Euro million	% sales	Euro million	% sales
Revenue incl. Mexico/USA acquisition	471.7		445.1	
Share in revenue - not consolidated Mexico/USA acquisition	-4.6		-	
Consolidated revenue	467.1	100.0	445.1	100.0
Costs of goods sold	-284.1	-60.8	-268.7	-60.4
Gross profit from revenue	183.0	39.2	176.4	39.6
Selling expenses, marketing and development costs	-138.6	-29.7	-140.1	-31.5
General and administrative expenses	-25.3	-5.4	-25.2	-5.7
Other operating income/expense	-6.1	-1.3	0.2	0.0
Result from investments in associated companies	0.0	0.0	0.0	0.0
Pro rata result - Mexico/USA acquisition	0.3	0.1	-	-
Operating result (EBIT)	13.3	2.8	11.3	2.5
Financial results	-4.6	-1.0	-4.3	-1.0
Earnings before taxes (EBT)	8.7	1.8	7.0	1.6
Taxes on income	-2.4	-0.5	-2.1	-0.5
Net income	6.3	1.3	4.9	1.1
Minority interests in shareholders' equity	-0.1	0.0	-0.2	0.0
Consolidated result	6.2	1.3	4.7	1.1
Net earnings per ordinary share in Euros	0.21		0.16	
Net earnings per preference share in Euros	0.26		0.21	

Villeroy & Boch Consolidated Profit and Loss Statement

	2st quarter 2006		2st quarter 2005	
	Euro million	% sales	Euro million	% sales
Revenue incl. Mexico/USA acquisition	236.1		226.9	
Share in revenue - not consolidated Mexico/USA acquisition	-4.6		-	
Consolidated revenue	231.5	100.0	226.9	100.0
Costs of goods sold	-142.2	-61.4	-138.0	-60.8
Gross profit from revenue	89.3	38.6	88.9	39.2
Selling expenses, marketing and development costs	-68.4	-29.5	-70.4	-31.0
General and administrative expenses	-12.5	-5.4	-12.6	-5.6
Other operating income/expense	-5.2	-2.2	-1.0	-0.4
Result from investments in associated companies	0.0	0.0	0.0	0.0
Pro rata result - Mexico/USA acquisition	0.3	0.1	-	-
Operating result (EBIT)	3.5	1.5	4.9	2.2
Financial results	-2.1	-0.9	-2.0	-0.9
Earnings before taxes (EBT)	1.4	0.6	2.9	1.3
Taxes on income	-0.3	-0.1	-0.9	-0.4
Net income	1.1	0.5	2.0	0.9
Minority interests in shareholders' equity	-0.2	-0.1	-0.1	0.0
Consolidated result	0.9	0.4	1.9	0.8
Net earnings per ordinary share in Euros	0.01		0.05	
Net earnings per preference share in Euros	0.06		0.10	

Villeroy & Boch Consolidated Cash Flow Statement

	1st half year of 2006	1st half year of 2005
	<u>Euro million</u>	<u>Euro million</u>
Net income	6.3	4.9
Amortisation of fixed assets	22.9	22.3
Change in non-current provisions	-4.7	-5.1
Result from disposal of fixed assets	0.0	-0.1
Change in inventories, accounts receivable and other assets	-18.3	-21.2
Change in liabilities, current provisions and other liabilities	-22.1	-28.6
Other income/expense without effect on liquid assets	4.9	4.8
Cash Flow from operating activities	-11.0	-23.0
Investment in intangible and tangible fixed assets		
	-12.3	-15.7
Deposits arising from disposals of fixed assets	4.2	0.9
Investment in financial assets and payments for the acquisition of consolidated companies	-34.7 ¹⁾	0.0
Cash Flow from investing activities	-42.8	-14.8
Change in financial liabilities	16.3	3.3
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	7.2	-7.1
Sum of cash flows	-46.6	-44.9
Changes in balance of cash due to exchange rates	0.0	-0.5
Changes in balance of cash and cash equivalents	-46.6	-45.4
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	-46.6	-45.4
Balance of cash and cash equivalents as of 31.03.	11.9	5.9

1) Incl. Business development Mexico and acquisition of minority interests in shareholders' equity from Vagnerplast

Segment Reference Figures	Bathroom & Wellness	Tiles	Tableware	Transition/ Other	Villeroy & Boch Group
1st half year of 2006					
External sales incl. Mexico/USA acquisition	242.0	75.6	154.1		471.7
Sales Mexico/USA acquisition - no consolidated	-4.6	-	-		-4.6
External sales - consolidated	237.4	75.6	154.1		467.1
EBIT ¹⁾	17.4	-1.3	-2.8		13.3
Financial results				-4.6	-4.6
Depreciation	10.9	2.9	8.5		22.3
Capital expenditure	9.6	0.9	3		13.5
Net operating assets	223.2	84.8	143.6	-114.6	337
Number of employees	4,752	999	3,070	427	9,248
1st half year of 2005					
External sales - consolidated	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

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

¹⁾ Incl. proportional result from business development Mexico / USA (+0,3)

Key segment data	Bathroom and Wellness	Tile	Tableware	Transition Other	Villeroy & Boch Group
2st quarter 2006					
External sales incl. Mexico/USA acquisition	122.7	37.2	76.2		236.1
Sales Mexico/USA acquisition - no consolidated	-4.6	-	-		-4.6
External sales - consolidated	118.1	37.2	76.2		231.5
EBIT ¹⁾	7.7	-0.6	-3.9		3.2
Financial results				-2.9	-2.9
Depreciation	5.5	1.5	4.3		11.3
Capital expenditure	6.5	0.5	0.9		7.9
Number of employees	4,757	980	3,040	421	9,198
2st quarter 2005					
External sales - consolidated	114.7	38.5	73.7		226.9
EBIT	8.5	-3.3	-0.3		4.9
Financial result				-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

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

¹⁾ Incl. proportional result from business development Mexico / USA (+0,3)