



**Villeroy & Boch**

1748

## **Interim Report 1 January to 30 June 2013**

- Revenue for the first six months down 1 % year-on-year at €359.8 million.
- EBIT at prior-year level of €11.9 million
- Revenue growth of + 3 % expected for 2013 as a whole; forecast operating result (EBIT) for 2013 unchanged.
- Contract on the sale of the property in Gustavsberg, Sweden, signed in June 2013.

Villeroy & Boch Group at a glance	01.01. – 30.06.		Change	
	2013 €million	2012 €million	in €million	in %
<b>Revenue (total)</b>	<b>359.8</b>	<b>363.2</b>	<b>-3.4</b>	<b>-0.9</b>
<b>Germany</b>	<b>103.3</b>	<b>97.3</b>	<b>6.0</b>	<b>6.2</b>
<b>Abroad</b>	<b>256.5</b>	<b>265.9</b>	<b>-9.4</b>	<b>-3.5</b>
<b>Earnings before interest and taxes (EBIT)</b>	<b>11.9</b>	<b>11.9</b>	<b>0.0</b>	<b>0.0</b>
<b>Earnings before taxes (EBT)</b>	<b>7.3</b>	<b>6.4</b>	<b>0.9</b>	<b>14.1</b>
<b>Group result</b>	<b>5.1</b>	<b>4.5</b>	<b>0.6</b>	<b>13.3</b>
<b>Return on net operating assets (rolling)</b>	<b>10.2 %</b>	<b>10.2 %*)</b>	<b>-</b>	<b>0.0</b>
<b>Investments</b>	<b>4.2</b>	<b>11.2</b>	<b>-7.0</b>	<b>-62.5</b>
<b>Employees (FTEs at the end of the period)</b>	<b>7,411 FTE</b>	<b>7,423 FTE</b>	<b>-12 FTE</b>	<b>-</b>

\*) Return on net assets as of 31 December 2012

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## **Interim Management Report of the Villeroy & Boch Group for the First Half of 2013**

### **Global economic conditions**

The global economy saw inconsistent development in the first half of 2013. While there was a slight upturn in Asia, the USA and Germany, economic development in the euro zone markets that are important to Villeroy & Boch continued to deteriorate as a result of the unresolved sovereign debt crisis and the associated uncertainty concerning the finance policy of the countries affected. In Central Europe, the impact of adverse weather conditions also led to a slump in construction activity and a further slowdown in employment.

With the announcement of the end to the US Federal Bank's highly expansive monetary policy, the economic outlook for the emerging markets has also deteriorated on account of the expected reflux of liquidity.

We still expect the euro zone to remain in a recession throughout the second half of 2013 and are not expecting the structural reforms and budget consolidation measures to gradually result in moderate growth until 2014 onwards.

### **Basic information on the Group**

The basic information on the Group as presented in the 2012 Group management report remains unchanged.

### **Report on net assets, financial position and results of operations**

#### **Villeroy & Boch Group**

In the first half of 2013, the Villeroy & Boch Group generated net revenue of €359.8 million, down 1 % on the prior-year figure of €363.2 million.

Orders on hand amounted to €57.2 million as at 30 June 2013, up €10.9 million on the start of the year. The Bathroom and Wellness Division accounted for €33.0 million of orders on hand, with the remaining €24.2 million attributable to the Tableware Division.

The Villeroy & Boch Group reported earnings before interest and taxes (EBIT) of €1.9 million in the first half of the year, the same as in the prior-year period (€1.9 million).

The contract on the sale of the property in Gustavsberg, Sweden, was signed in June 2013. The property will be sold in several tranches subject to the legal approval of the development plan that is required for the construction of residential units by the Swedish investor Ikano Bostad. In accordance with the terms of the contract, revenue is expected to be recognised in the 2013 and 2014 financial years. The total income may amount to up to €17 million. The recognition of the first instalment is expected in the fourth quarter of this year.

The rolling net operating assets of the Villeroy & Boch Group – calculated as an average for the last twelve months – amounted to €303.1 million at the reporting date (31 December 2012: €303.6 million). At 10.2 %, the return on net assets was unchanged as against 31 December 2012.

### **Development in the divisions**

#### **Bathroom and Wellness**

The Bathroom and Wellness Division generated revenue of €234.0 million in the first half of 2013, down 4.6 % on the same period of the previous year (€245.3 million).

This development was primarily due to the impact of the euro zone financial crisis and the sustained winter weather in Europe and Russia.

The latter factor had an adverse effect on the construction industry in terms of both new building and renovation activity.

Examples include the downturn in revenue in Russia (-29.0 %) and the Netherlands (-15.4 %).

By contrast, Sweden saw positive revenue development (+13.4 %), while revenue performance in Germany was stable with growth of +0.7 %.

Factors including the higher level of taxation on the sale of property led to a slowdown in project business in China, resulting in a downturn in revenue of 14.8 %. The establishment of a dedicated warehouse in China is planned in order to help the development of retail business in the country.

Meanwhile, Australia enjoyed encouraging revenue performance (+28.7 %).

In North America, the establishment of a distribution network for the sales partnership with TOTO USA developed according to plan. The downturn in revenue in the USA (-43.8 %) is primarily attributable to the sale of the St. Thomas Creation brand.

The lower level of revenue in Mexico (-28.8 %) is largely due to the targeted withdrawal from low-margin local project business in the previous year.

The Bathroom and Wellness Division recorded an operating result (EBIT) of €17.6 million, up €0.1 million on the previous year (€17.5 million). Despite the lower revenue, this improvement was primarily attributable to the efficiency gains in production that were generated as part of the industrial restructuring programme.

The rolling net operating assets of the Bathroom and Wellness Division amounted to €204.5 million at the reporting date as against €208.7 million on 31 December 2012. The return on net operating assets amounted to 11.6 % (31 December 2012: 11.3 %).

## **Tableware**

The Tableware Division enjoyed encouraging performance in the first six months of the year, with revenue increasing by €7.9 million or 6.7 % to €125.8 million after €117.9 million in the same period of the previous year.

This development was driven in particular by the revenue growth of 18.0 % in Germany. Among other things, this was due to the positive performance of new products such as “Marieflour Gris” and “Cooking Elements”, the successful intensification of promotional and impulse business, and the opening of additional retail stores.

Outside Germany, the markets of Eastern Europe (+24.3 %), Russia (+22.2 %), Switzerland (+12.6 %), Austria (+10.4 %) and the United Kingdom (+6.8 %) saw particularly strong revenue development. The downturns in the first quarter of the current year were more than offset in Italy (+1.6 %) and almost offset in Spain (-0.7 %).

Lower revenue was recorded in Australia (-4.0 %) and France (-2.7 %).

In the first half of the year, the Tableware Division generated an operating result (EBIT) of €5.7 million. This meant that EBIT for the first six months was essentially unchanged as against the previous year (€5.6 million). The revenue growth generated is not reflected in EBIT due to the aggressive pricing necessitated by the market conditions as well as increased marketing costs.

The rolling net operating assets of the Tableware Division amounted to €98.5 million at the reporting date compared with €94.9 million on 31 December 2012. The return on net operating assets amounted to 8.4 % (31 December 2012: 8.2 %).

Villeroy & Boch AG has entered into a joint venture with Genesis Luxury Fashion Pvt. Ltd., a successful Indian luxury brand retail company, for the distribution of Villeroy & Boch’s tableware products in India. The partnership is aimed at establishing a distribution network throughout India. Over

the next five years, up to 16 exclusive Villeroy & Boch retail stores will be successively opened. Three of these stores are scheduled for opening in 2013.

### **Balance sheet structure**

The application of the amended IAS 19 “Employee Benefits” resulted in a significant change to the Villeroy & Boch Group’s balance sheet structure compared with 31 December 2012. This modified IAS standard is required to be applied by all entities preparing IFRS financial statements. The most significant change for Villeroy & Boch is that actuarial losses, which were not recognised within the defined corridor until 31 December 2012, are required to be taken directly to equity with retrospective effect from 1 January 2013. As a result, equity decreased by €41.2 million in the opening balance sheet as at 1 January 2013 (see notes 9 and 10 of the notes to the consolidated financial statements). Provisions for pensions increased by €58.3 million as a result of the change in accounting treatment, while deferred tax assets increased by €17.1 million. The new accounting treatment meant that the equity ratio declined by 7 % to 25 % compared with 31 December 2012.

### **Net liquidity**

The net liquidity of the Villeroy & Boch Group amounted to €29.8 million at 30 June 2013, up €5.7 million as against the previous year.

### **Investments**

The Villeroy & Boch Group made investments of €4.2 million in the period under review (previous year: €1.2 million).

The Bathroom and Wellness Division accounted for 69.0 % or €2.9 million of the investments made in the first half of 2013, with the Tableware Division accounting for the remaining 31.0 % or €1.3 million.

Investments in the Bathroom and Wellness Division primarily related to continued capacity expansion measures in Thailand, the expansion of the product range at our wellness company in the Netherlands, and expansion and replacement investments in Romania and Germany. Investments in the Tableware Division primarily related to the optimisation of the distribution network and the infrastructure outside Europe.

At the reporting date, the Group had obligations to acquire property, plant and equipment in the amount of €4.9 million. These acquisitions are financed from operating cash flow.

We expect investments for 2013 as a whole to amount to €6 million as a result of postponements. In the 2012 Group management report, we forecast investments of €35 million for the 2013 financial year.

### **Opportunities and risks**

The opportunities and risks described in the 2012 Annual Report remain unchanged.

On 20 March 2013, the General Court of the European Union heard at first instance our action for the annulment of the ruling on the fine in connection with the ongoing EU antitrust proceedings. The hearing for this case is now complete.

The court has set the date for the pronouncement of the judgements for 16 September 2013. An estimate on our part on the ruling is not possible on account of the special nature of the case.

There is no evidence of any individual risks that could endanger the continued existence of the Group.

### **Outlook for the 2013 financial year**

For 2013, we now expect economic development in our most important sales markets to deteriorate slightly and are no longer forecasting an economic upturn this year. There is also a risk that the unresolved sovereign debt crisis and the fragile sentiment

in the financial sector will result in further disruptions and setbacks as the year progresses.

The course of business in the first half of the year serves to confirm our expectations for 2013. Despite unsatisfactory revenue development in the Bathroom and Wellness Division in the first half of the year and the difficult economic environment, we are forecasting revenue growth for 2013 as a whole, albeit at the lower end of the corridor announced previously, i.e. around +3 %. This will be driven by continued intensive investments in high-growth markets, particularly in Asia, as well as additional sales measures in the saturated markets of Europe.

We will also press ahead with the rationalisation of production as well as workflows and structures in the areas of administration, logistics and sales.

At more than +5 %, the forecast earnings growth for 2013 remains significantly higher than the projected revenue growth.

In terms of the rolling net operating assets of the Villeroy & Boch Group, the return on net assets is also expected to increase significantly in 2013 as a result of the earnings growth, as well as further measures in the area of working capital management.

**Villeroy & Boch Group**  
**Consolidated balance sheet as at 30 June 2013**

Assets	Notes	as at 30/06/2013	as at 31/12/2012 (Restated)	as at 30/06/2012 (Restated)
in €million				
<b>Non-current assets</b>				
Intangible assets		36,8	38,0	38,2
Property, plant and equipment	1	135,6	145,1	149,7
Investment property		13,5	14,0	14,4
Investment accounted for using the equity method		1,4	1,0	1,2
Other financial assets	2	7,9	9,1	10,1
		<b>195,2</b>	<b>207,2</b>	<b>213,6</b>
Other non-current assets	6	0,4	0,1	0,4
Deferred tax assets	5	52,1	53,4 <sup>1(2)</sup>	41,2 <sup>1(2)</sup>
		<b>247,7</b>	<b>260,7</b>	<b>255,2</b>
<b>Current assets</b>				
Inventories	3	165,7	150,9	154,7
Trade receivables	4	114,7	108,4	114,4
Other current assets	6	23,3	20,6	23,6
Income tax claims		3,9	2,9	3,1
Cash and cash equivalents	7	23,5	55,3	23,3
		<b>331,1</b>	<b>338,1</b>	<b>319,1</b>
<b>Non-current asset held for sale</b>	8	<b>9,5</b>	<b>10,0</b>	<b>3,7</b>
<b>Total assets</b>		<b>588,3</b>	<b>608,8</b>	<b>578,0</b>
<b>Shareholders' Equity and Liabilities</b>				
	Notes	as at 30/06/2013	as at 31/12/2012 (Restated)	as at 30/06/2012 (Restated)
in €million				
<b>Equity attributable to Villeroy &amp; Boch AG shareholders</b>				
Issued capital		71,9	71,9	71,9
Capital surplus		193,6	193,6	193,6
Treasury shares		-15,0	-15,0	-15,0
Retained earnings		-78,5	-72,1 <sup>2)</sup>	-77,5 <sup>2)</sup>
Valuation surplus	9	-28,1	-29,2 <sup>1)</sup>	0,5 <sup>1)</sup>
		<b>143,9</b>	<b>149,2</b>	<b>173,5</b>
<b>Equity attributable to minority interests</b>		<b>0,1</b>	<b>0,1</b>	<b>0,1</b>
<b>Total equity</b>		<b>144,0</b>	<b>149,3</b>	<b>173,6</b>
<b>Non-current liabilities</b>				
Provisions for pensions	10	192,4	194,9 <sup>1)</sup>	147,1 <sup>1)</sup>
Non-current provisions for personnel	11	15,8	16,7 <sup>2)</sup>	14,7 <sup>2)</sup>
Other non-current provisions		1,8	3,0	3,3
Non-current financial liabilities	13	25,0	50,0	50,0
Other non-current liabilities	14	3,0	3,4	3,5
Deferred tax liabilities		10,7	11,0	11,9
		<b>248,7</b>	<b>279,0</b>	<b>230,5</b>
<b>Current liabilities</b>				
Current provisions for personnel	11	7,3	12,6	4,3
Other current provisions	12	21,7	27,7	28,4
Current financial liabilities	13	28,3	1,3	8,7
Other current liabilities	14	69,9	73,9	82,1
Trade payables		65,7	60,9	45,3
Income Tax liabilities		2,7	4,1	5,1
		<b>195,6</b>	<b>180,5</b>	<b>173,9</b>
<b>Total liabilities</b>		<b>444,3</b>	<b>459,5</b>	<b>404,4</b>
<b>Total equity and liabilities</b>		<b>588,3</b>	<b>608,8</b>	<b>578,0</b>

<sup>1)</sup> Restatement of previous year values as a result of changes in accounting of defined benefit obligation (cp. note 10)

<sup>2)</sup> Restatement of previous year values as a result of changes in accounting of partial retirement (cp. note 11)

**Villeroy & Boch Group**  
**Consolidated Income Statement from 1 January to 30 June 2013**

in €million	Notes	2013 01/01/-30/06/	2012 01/01/-30/06/
<b>Revenue</b>	15	359,8	363,2
Costs of sales		-202,0	-209,9
<b>Gross profit</b>		157,8	153,3
Selling, marketing and development costs	16	-126,3	-118,8
General administrative expenses		-22,6	-22,1
Other operating income/expenses		2,7	-0,8
Result of associates accounted for using the equity method		0,3	0,3
<b>Operating result (EBIT)</b>		11,9	11,9
<b>Financial result</b>	17	-4,6	-5,5
<b>Earnings before taxes</b>		7,3	6,4
Income taxes		-2,2	-1,9
<b>Group result</b>		5,1	4,5
Thereof attributable to			
Villeroy & Boch AG shareholders		5,1	4,5
Minority interests		0,0	0,0
		5,1	4,5
<b>EARNINGS PER SHARE</b>			
Earnings per ordinary share in Euro		0,17	0,15
Earnings per preference share in Euro		0,22	0,20

During the reporting period there were no share dilution effects.

**Villeroy & Boch Group**  
**Consolidated Statement of Comprehensive Income from 1 January to 30 June 2013**

in €million	2013 01/01/-30/06/	2012 01/01/-30/06/
<b>Group result</b>	5,1	4,5
<b>Other comprehensive income</b>		
• <b>Items to be reclassified to profit or loss:</b>		
Gains or losses on cash flow hedge	-0,2	1,2
Unrealised exchange differences on translation	1,5	1,8
Deferred income tax effect on items to be reclassified to profit or loss	-0,8	0,5
• <b>Items not to be reclassified to profit or loss:</b>		
Actuarial gains or losses on defined benefit plans	-1,5	0,0
Deferred income tax effect on items not to be reclassified to profit or loss	0,5	0,0
<b>Total other comprehensive income</b>	-0,5	3,5
<b>Total comprehensive income net of tax</b>	4,6	8,0
Thereof attributable to		
Villeroy & Boch AG shareholders	4,6	8,0
Minority interests	0,0	0,0
	4,6	8,0

**Villeroy & Boch Group**  
**Consolidated Income Statement from 1 April to 30 June 2013**

in €million	Notes	2013 01/04/-30/06/	2012 01/04/-30/06/
<b>Revenue</b>	15	176,1	178,7
Costs of sales		-98,2	-102,4
<b>Gross profit</b>		77,9	76,3
Selling, marketing and development costs	16	-63,4	-59,2
General administrative expenses		-11,4	-10,9
Other operating income/expenses		1,4	-1,4
Result of associates accounted for using the equity method		0,2	0,0
<b>Operating result (EBIT)</b>		4,7	4,8
<b>Financial result</b>	17	-2,2	-2,8
<b>Earnings before taxes</b>		2,5	2,0
Income taxes		-0,8	-0,6
<b>Group result</b>		1,7	1,4
Thereof attributable to			
Villeroy & Boch AG shareholders		1,7	1,4
Minority interests		0,0	0,0
		1,7	1,4

**Villeroy & Boch Group**  
**Consolidated Statement of Comprehensive Income from 1 April to 30 June 2013**

in €million	2013 01/04/-30/06/	2012 01/04/-30/06/
<b>Group result</b>	1,7	1,4
<b>Other comprehensive income</b>		
• <b>Items to be reclassified to profit or loss:</b>		
Gains or losses on cash flow hedge	0,0	-0,2
Unrealised exchange differences on translation	-1,9	0,5
Deferred income tax effect on items to be reclassified to profit or loss	-0,6	0,4
• <b>Items not to be reclassified to profit or loss:</b>		
Actuarial gains or losses on defined benefit plans	-1,1	0,0
Deferred income tax effect on items not to be reclassified to profit or loss	0,4	0,0
<b>Total other comprehensive income</b>	-3,2	0,7
<b>Total comprehensive income net of tax</b>	-1,5	2,1
Thereof attributable to		
Villeroy & Boch AG shareholders	-1,5	2,1
Minority interests	0,0	0,0
	-1,5	2,1



**Villeroy & Boch Group**  
**Consolidated Statement of Equity from 1 January to 30 June 2013**

in €million Note	Equity attributable to Villeroy & Boch AG shareholders					Total	Equity attributable to minority interests	Total equity
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Valuation surplus			
<b>As at 01/01/2012 (Restated)</b>	<b>71,9</b>	<b>193,6</b>	<b>-15,0</b>	<b>-75,4</b>	<b>0,3</b>	<b>175,4</b>	<b>0,1</b>	<b>175,5</b>
Group result				4,5		4,5	0,0	4,5
Other comprehensive income				3,3	0,2	3,5		3,5
<b>Total comprehensive income net of tax</b>				<b>7,8</b>	<b>0,2</b>	<b>8,0</b>	<b>0,0</b>	<b>8,0</b>
Dividend payments				-9,9		-9,9		-9,9
<b>As at 30/06/2012 (Restated)</b>	<b>71,9</b>	<b>193,6</b>	<b>-15,0</b>	<b>-77,5</b>	<b>0,5</b>	<b>173,5</b>	<b>0,1</b>	<b>173,6</b>
<b>As at 01/01/2013 (Restated)</b>	<b>71,9</b>	<b>193,6</b>	<b>-15,0</b>	<b>-72,1</b>	<b>-29,2</b>	<b>149,2</b>	<b>0,1</b>	<b>149,3</b>
Group result				5,1		5,1	0,0	5,1
Other comprehensive income				-1,6	1,1	-0,5		-0,5
<b>Total comprehensive income net of tax</b>				<b>3,5</b>	<b>1,1</b>	<b>4,6</b>	<b>0,0</b>	<b>4,6</b>
Dividend payments				-9,9		-9,9		-9,9
<b>As at 30/06/2013</b>	<b>71,9</b>	<b>193,6</b>	<b>-15,0</b>	<b>-78,5</b>	<b>-28,1</b>	<b>143,9</b>	<b>0,1</b>	<b>144,0</b>

**Villeroy & Boch Group**  
**Consolidated Cash Flow Statement from 1 January to 30 June 2013**

in €million	01.01.-30.06.	
	2013	2012
Group result	5,1	4,5
Depreciation of non-current assets	13,3	13,1
Change in non-current provisions	-9,4	-8,9
Profit from disposal of fixed assets	-1,8	-2,5
Change in inventories, receivables and other assets	-23,0	-21,2
Change in liabilities, current provisions and other liabilities	-12,3	-21,3
Other non-cash income/expenses	3,7	3,5
<b>Cash Flow from operating activities</b>	<b>-24,4</b>	<b>-32,8</b>
Purchase of intangible assets, property, plant and equipment	-4,2	-11,2
Cash receipts from disposals of fixed assets	4,6	10,6
<b>Cash Flow from investing activities</b>	<b>0,4</b>	<b>-0,6</b>
Change in financial liabilities	2,1	7,4
Dividend payments	-9,9	-9,9
<b>Cash Flow from financing activities</b>	<b>-7,8</b>	<b>-2,5</b>
<b>Net increase in cash and cash equivalents</b>	<b>-31,8</b>	<b>-35,9</b>
Balance of cash and cash equivalents as at 01/01/	55,3	59,2
Net increase in cash and cash equivalents	-31,8	-35,9
<b>Balance of cash and cash equivalents as at 30/06/</b>	<b>23,5</b>	<b>23,3</b>

## Villeroy & Boch Group

### Consolidated Segment Report from 1 January to 30 June 2013

in €million	BATHROOM & WELLNESS		TABLEWARE		TRANSITION / OTHER		VILLEROY & BOCH GROUP	
	2013	2012	2013	2012	2013	2012	2013	2012
	01.01. - 30.06.		01.01. - 30.06.		01.01. - 30.06.		01.01. - 30.06.	
<b>Revenue</b>								
Segment revenue from sales to external customers	234,0	245,3	125,8	117,9	0,0	0,0	359,8	363,2
Segment revenue from transactions with other segments	0,5	0,6	0,0	0,0	-0,5	-0,6	0,0	0,0
<b>Result</b>								
Segment result	17,6	17,5	-5,7	-5,6	-	-	11,9	11,9
Financial result	-	-	-	-	-4,6	-5,5	-4,6	-5,5
<b>Investments and depreciations</b>								
Investments	2,9	7,1	1,3	4,1	-	-	4,2	11,2
Scheduled depreciation of segment assets	8,8	8,8	4,5	4,3	-	-	13,3	13,1
<b>Assets and Liabilities</b>	<b>30.06.</b>	<b>31.12.</b>	<b>30.06.</b>	<b>31.12.</b>	<b>30.06.</b>	<b>31.12.</b>	<b>30.06.</b>	<b>31.12.</b>
Segment assets	318,5	301,5	137,4	140,6	132,5	166,8	588,4	608,9
Segment liabilities	109,9	116,0	40,4	45,4	294,0	298,1	444,3	459,5

The rolling net operating assets of the two divisions were as follows as at the end of the reporting period:

	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.
<b>Rolling net operating assets</b>								
Rolling operating assets	311,2	314,2	138,6	135,3	-	-	449,8	449,5
Rolling operating liabilities	106,7	105,5	40,1	40,4	-	-	146,8	145,9
Rolling net operation assets	204,5	208,7	98,5	94,9	-	-	303,0	303,6

### Consolidated Segment Report from 1 April to 30 June 2013

in €million	BATHROOM & WELLNESS		TABLEWARE		TRANSITION / OTHER		VILLEROY & BOCH GROUP	
	2013	2012	2013	2012	2013	2012	2013	2012
	01.04. - 30.06.		01.04. - 30.06.		01.04. - 30.06.		01.04. - 30.06.	
<b>Revenue</b>								
Segment revenue from sales to external customers	117,0	123,2	59,1	55,5	0,0	0,0	176,1	178,7
Segment revenue from transactions with other segments	0,3	0,3	0,0	0,0	-0,3	-0,3	0,0	0,0
<b>Result</b>								
Segment result	9,8	9,2	-5,1	-4,4	-	-	4,7	4,8
Financial result	-	-	-	-	-2,2	-2,8	-2,2	-2,8
<b>Investments and depreciations</b>								
Investments	1,6	3,5	0,8	1,4	-	-	2,4	4,9
Scheduled depreciation of segment assets	4,4	4,5	2,2	2,1	-	-	6,6	6,6

## **Notes to the Interim Financial Statements of the Villeroy & Boch Group for the First Half of 2013**

### **General information**

Villeroy & Boch AG, Mettlach (Germany), is a listed public limited company under German law and acts as the parent company to the Villeroy & Boch Group. The Group is divided into two operating divisions: Bathroom and Wellness, and Tableware.

This interim report covers the period from 1 January to 30 June 2013. After the Management Board discussed the interim report with the Audit Committee of the Supervisory Board, it was approved for publication on 12 July 2013. It was prepared in accordance with section 315a of the German Commercial Code (HGB), applying the IASC regulations as endorsed by the European Commission. These condensed interim financial statements have not been audited or reviewed by an audit company. In the opinion of the Management Board, these interim financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group. The interim report includes condensed consolidated financial statements with selected explanatory notes in accordance with IAS 34. Accordingly, it should be read in conjunction with the consolidated financial statements for the year ended 31 December 2012, which can be ordered via the Investor Relations section of the website [www.villeroy-boch.com](http://www.villeroy-boch.com).

In the period under review, the accounting and consolidation methods described in the 2012 Annual Report were extended to include the accounting standards endorsed by the EU and required to be applied for reporting periods beginning on or after 1 January 2013. The new regulations affecting the Villeroy & Boch Group primarily relate to the accounting treatment of pensions and partial retirement obligations in accordance with IAS 19 "Employee Benefits".

The accounting policies for pension obligations under defined benefit plans have been altered as follows: Actuarial gains and losses are now taken directly to the valuation surplus. The corridor approach that was previously permitted was applied for the last time in the consolidated financial statements for the year ended 31 December 2012. The effects resulting from the change in accounting treatment are presented in note 10.

The accounting treatment of partial retirement programmes has been altered as follows: Previously, the top-up amounts paid by the Company were classified as termination benefits and a corresponding provision was recognised in full as soon as the obligation arose. Based on the more specific definition set out in the revised IAS 19, these payments are now classified as other long-term employee benefits. Accordingly, the top-up amount is recognised as a liability in the proportionate amount earned up until the respective reporting date. The effects resulting from the change in accounting treatment are presented in note 11.

None of the other changes had a material impact on this interim report.

### **Basis of consolidation**

The basis of consolidation of the Villeroy & Boch Group consists of 56 companies (31 December 2012: 59 companies).

As part of the continuous optimisation of the Group's investment structure, four property companies were merged into Villeroy & Boch AG in March 2013. On 19 April 2013, Villeroy & Boch Asia Pacific PTE. LTD., Singapore, was formed as a regional administrative office for the Asia-Pacific area.

Villeroy & Boch AG has entered into a cooperation for the joint distribution of tableware products in India with Genesis Luxury Fashion Pvt. Ltd., New Delhi, India. To this end, a joint venture domiciled in New Delhi, India, will be formed in which the Villeroy & Boch Group will hold a 50% equity interest.

## Dividend paid by Villeroy & Boch AG for the 2012 financial year

The General Meeting of Shareholders on 22 March 2013 approved the dividend of €0.35 per ordinary share and €0.40 per preference share as proposed by the Supervisory Board and Management Board of Villeroy & Boch AG. The distribution corresponds to a dividend payment of €4.9 million for the ordinary share capital (previous year: €4.9 million) and €4.9 million for the preference share capital (previous year: €4.9 million). As in the previous year, the Villeroy & Boch Group held 1,683,029 preference treasury shares at the distribution date; these shares were not entitled to participate in dividends. The dividend was paid on 25 March 2013.

## Seasonal influences on business activities

Due to Christmas business, the Tableware Division generally expects to generate a higher level of revenue and operating profit in the fourth quarter than in the other quarters of the year.

## Notes on selected items of the consolidated balance sheet

### 1. Property, plant and equipment

Property, plant and equipment in the amount of €4.0 million (previous year: €9.6 million) was acquired in the period under review, with a particular focus on the continuation of the planned capacity expansion in Thailand (sanitary ware), moulds for new products in the Netherlands (wellness) and new facilities for sanitary ware production in Romania and Germany. Property, plant and equipment with a carrying amount of €0.1 million was derecognised in the same period (previous year: €0.2 million). Depreciation amounted to €12.4 million (previous year: €12.2 million). The property of the former manufacturing plant in Lerma, Mexico, with a carrying amount of €0.4 million was reclassified to “non-current assets held for sale” (see note 8). At the reporting date, the Villeroy & Boch Group had obligations to acquire property, plant and equipment in the amount of €4.6 million (31 December 2012: €3.3 million).

### 2. Other financial assets

The reduction in this balance sheet item is primarily attributable to the scheduled repayment of a €1.2 million instalment of the loan extended to V&B Fliesen GmbH.

### 3. Inventories

As at the balance sheet date, inventories were composed as follows:

in € million	30.06.2013	31.12.2012
Raw materials and supplies	21.0	21.2
Work in progress	16.0	14.9
Finished goods and goods for resale	128.7	114.8
Advance payments	0.0	0.0
<b>Inventories (total)</b>	<b>165.7</b>	<b>150.9</b>

In the period under review, value adjustments of inventories increased by €1.1 million to total €18.1 million.

#### 4. Trade receivables

Trade receivables are broken down as follows:

by customer domicile	in € million	30.06.2013	31.12.2012
Germany		23.4	19.3
Rest of euro zone		30.3	27.6
Rest of world		64.1	64.4
Gross carrying amount of trade receivables		117.8	111.3
Valuation adjustments		-3.1	-2.9
<b>Trade receivables (total)</b>		<b>114.7</b>	<b>108.4</b>

#### 5. Deferred tax assets

Deferred tax assets increased by €17.1 million as of 1 January 2013 as a result of the new regulations set out in IAS 19 “Employee Benefits” (see notes 10 and 11).

#### 6. Other current and non-current assets

Other non-current and current assets developed as follows in the period under review:

in € million	30.06.2013		31.12.2012	
	current	non-current	current	non-current
Tax receivables	6.0	-	5.8	-
Advance payments and deposits	3.3	0.1	2.2	0.1
Prepaid expenses	3.5	0.0	2.0	0.0
Change in fair value of cash flow hedges (a)	3.0	0.3	3.2	0.0
Other assets	7.5	-	7.4	-
<b>Other assets (total)</b>	<b>23.3</b>	<b>0.4</b>	<b>20.6</b>	<b>0.1</b>

(a) At the reporting date, €3.3 million was recognised for the marking to market of exchange rate hedges (31 December 2012: €3.2 million).

#### 7. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

in € million	30.06.2013	31.12.2012
Cash on hand incl. cheques	0.6	0.4
Current bank balances and cash equivalents	22.9	54.9
<b>Cash and cash equivalents (total)</b>	<b>23.5</b>	<b>55.3</b>

The decrease in cash and cash equivalents is primarily attributable to the dividend payment and seasonal effects such as the payment of customer bonuses and variable remuneration for 2012. Bank balances were offset against matching liabilities in the amount of €15.5 million (31 December 2012: €20.6 million). Cash equivalents are partially covered by external guarantee systems.

## 8. Non-current assets held for sale

Non-current assets held for sale are reported as follows:

in € million	30.06.2013	31.12.2012
Property	5.8	6.1
Equity investments	3.7	3.7
Other	-	0.2
<b>Total carrying amount</b>	<b>9.5</b>	<b>10.0</b>

The sale of the former Frankfurt/Main branch was completed on 20 March 2013. The purchase price was €1.7 million higher than the carrying amount of €0.7 million.

The property of the former manufacturing plant in Lerma, Mexico, has been actively marketed since June 2013 in accordance with the disposal concept. The property, which has a carrying amount of €0.4 million, has been reclassified accordingly.

On 20 June 2013, the contracts on the gradual sale of the property in Gustavsberg, Sweden, were signed. This transaction is expected to result in total income of around €17 million, which will be recognised in the 2013 and 2014 financial years.

The rights to the brands of St. Thomas Creation LLC, USA, and the corresponding inventories were sold in the second quarter of 2013.

## 9. Valuation surplus

The valuation surplus comprises the reserves contained in “Other comprehensive income”:

in € million	30.06.2013	31.12.2012	30.06.2012
<b>Items to be reclassified to profit or loss:</b>			
• Currency translation of long-term loans classified as net investments in foreign operations	0.0	0.2	0,2
• Currency translation of financial statements in foreign operations	13.8	10.6	6,9
• Change in fair value of cash flow hedges	1.9	2.0	0,0
• Deferred taxes for this category	-1.6	-0.8	-0,3
<b>Sub-total (a)</b>	<b>14.1</b>	<b>12.0</b>	<b>6,8</b>
<b>Items not to be reclassified to profit or loss:</b>			
• Actuarial gains or losses on defined benefit plans (see note 10)	-59.8	-58.3	-9,0
• Deferred taxes for this category	17.6	17.1	2,7
<b>Sub-total (b)</b>	<b>-42.2</b>	<b>-41.2</b>	<b>-6,3</b>
<b>Total valuation surplus [(a)+(b)]</b>	<b>-28.1</b>	<b>-29.2</b>	<b>0.5</b>

On 1 January 2013, employee benefit obligations increased by €58.3 million as a result of the change in the accounting treatment of these obligations in accordance with IAS 19 (see note 10). Taking into account deferred tax assets of €17.1 million, an amount of €-41.2 million was charged directly to the valuation surplus. The impact of this change in accounting treatment is shown under “Items not to be reclassified to profit or loss” in the table above.

## 10. Provisions for pensions

The change in the accounting of defined benefit plans had the following effects:

in € million	30.06.2013	31.12.2012	30.06.2012
Provisions for pensions - as reported -	136.6	136.6	138.1
• Adjustment taken directly to equity (a)	59.8	58.3	9.0
• Adjustment recognised in profit or loss (b)	-	0.0	0.0
• Service cost and interest cost for H1 2013	3.7	-	-
• Benefits paid in H1 2013	-6.4	-	-
• Settlement of pension benefits in 2013 (c)	-1.3	-	-
<b>Provisions for pensions (new)</b>	<b>192.4</b>	<b>194.9</b>	<b>147.1</b>

(a) Entities preparing IFRS financial statements were required to adopt the new accounting treatment for defined benefit plans for reporting periods beginning on 1 January 2013. The Villeroy & Boch Group applied the corridor method until 31 December 2012. The elimination of this method means that actuarial gains and losses must now be recognised as part of the carrying amount. This resulted in an increase in pension obligations of €58.3 million as of 1 January 2013. In the first half of the current financial year, this item increased by a further €1.5 million to €59.8 million. The change in provisions for pensions is reflected in the valuation surplus (see note 9).

(b) Adjustments are recognised in profit or loss when the expected return on plan assets differs from the respective discount rates for the corresponding benefits. At the Villeroy & Boch Group, these items are largely identical.

(c) The Villeroy & Boch Group settled pension benefits in Germany in the amount of €1.3 million by way of a settlement payment to employees.

## 11. Current and non-current provisions for personnel

On 1 January 2013, the revised IAS 19 “Employee Benefits” introduced a change to the accounting treatment of provisions for partial retirement obligations. Top-up amounts paid by the employer are now required to be recognised in the amount earned up until the respective reporting date. This change in accounting treatment had the following effects:

in € million	30.06.2013	31.12.2012	30.06.2012
Provisions for partial retirement obligations - as reported -	7.7	7.7	7.6
• Adjustment taken directly to equity (a)	-0.6	-1.5	-1.5
• Addition to amounts earned recognised in profit or loss	0.2	0.9	0.4
• Service cost for H1 2013	0.2	-	-
• Payments of partial retirement benefits in H1 2013	-1.4	-	-
<b>Provisions for partial retirement obligations (new)</b>	<b>6.1</b>	<b>7.1</b>	<b>6.5</b>
• <i>Deferred tax assets from conversion effect</i>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>

(a) The amended accounting regulations are required to be applied by all entities preparing IFRS financial statements for reporting periods beginning on 1 January 2013. The reduction in provisions for partial retirement obligations of €0.6 million as of 1 January 2013 was reflected in retained earnings.

The change in current provisions for personnel is primarily due to the payment of variable remuneration components for 2012.



## 12. Other current provisions

The decrease in other current provisions is primarily due to the utilisation of the provision for restructuring.

## 13. Other current and non-current financial liabilities

A loan was reclassified to current financial liabilities on account of its remaining term.

## 14. Other current and non-current liabilities

Other non-current and current liabilities are composed as follows:

in € million	30.06.2013		31.12.2012	
	current	non-current	current	non-current
Bonus liabilities to customers (a)	26.9	-	35.7	-
Personnel liabilities	24.5	0.6	20.3	1.2
Tax liabilities	10.6	-	9.7	-
Change in fair value of cash flow hedges (b)	1.0	0.4	1.2	0.0
Government grants	0.4	0.6	0.6	0.7
Advance payments received on orders	4.2	-	4.2	-
Other liabilities	2.3	1.4	2.2	1.5
<b>Total carrying amount</b>	<b>69.9</b>	<b>3.0</b>	<b>73.9</b>	<b>3.4</b>

(a) Seasonal change

(b) Change due to the current exchange rate development of the exchange rate hedge

## Notes on selected items of the consolidated income statement

### 15. Revenue

Revenue is broken down as part of segment reporting.

### 16. Selling, marketing and development costs

This item includes the following expenses for research and development in the period under review:

in € million	2013		2012	
	H1	Q2	H1	Q2
Bathroom and Wellness	-4.1	-2.3	-3.5	-1.9
Tableware	-1.9	-0.9	-2.3	-1.0
	<b>-6.0</b>	<b>-3.2</b>	<b>-5.8</b>	<b>-2.9</b>

### 17. Financial result

The financial result is broken down as follows:

in € million	2013		2012	
	H1	Q2	H1	Q2
Financial income	0.7	0.4	0.6	0.3
Finance expense	-2.0	-1.0	-2.0	-1.1
Interest expenses for provisions (pensions)	-3.3	-1.6	-4.1	-2.0
	<b>-4.6</b>	<b>-2.2</b>	<b>-5.5</b>	<b>-2.8</b>

## Other notes

### 18. Staff

Staff costs and the number of employees are broken down as follows:

	<b>H1 2013</b>	<b>30.06.2013</b>	H1 2012	30.06.2012
	<b>Staff</b>	<b>Employees</b>	Staff	Employees
	<b>costs</b>	<b>(FTEs)</b>	costs	(FTEs)
	<b>in €million</b>		in € million	
Bathroom and Wellness	77.0	5,019	75.9	5,060
Tableware	45.6	1,998	44.5	1,995
Other	12.7	394	12.1	368
	<b>135.3</b>	<b>7,411</b>	<b>132.5</b>	<b>7,423</b>

### 19. Contingent liabilities and commitments and financial obligations

Contingent liabilities and commitments developed as follows in the period under review:

in € million	<b>30.06.2013</b>	31.12.2012
Obligations to acquire property, plant and equipment	4.6	3.3
Obligations to acquire raw materials	1.2	-
Trustee obligations	0.2	0.2
Obligations to acquire intangible assets	0.3	0.2
Guarantees	0.3	0.3

### 20. Financial instruments

Primary and derivative financial instruments are reported in separate items of Villeroy & Boch's consolidated balance sheet. The following table shows the portions of each balance sheet item measured in accordance with IAS 39 based on the methodical carrying amount:

in € million	<b>30.06.2013</b>			31.12.2012		
	<b>Book</b>	<b>Measured under IAS 39</b>		<b>Book</b>	<b>Measured under IAS 39</b>	
<b>Balance sheet items</b>	<b>value</b>	at cost	at fair value	<b>value</b>	at cost	at fair value
<b>containing financial instruments:</b>						
<b>Assets</b>						
Cash and cash equivalents (note 7)	23.5	23.5 <sup>A</sup>	-	55.3	55.3 <sup>A</sup>	-
Trade receivables (note 4)	114.7	114.7	-	108.4	108.4	-
Other financial assets (note 2)	7.9	7.9 <sup>B</sup>	-	9.1	9.1 <sup>B</sup>	-
Other assets (note 6)	14.2	10.9	3.3	13.0	9.8	3.2
<b>Shareholders' equity and liabilities</b>						
Trade payables	65.7	65.7	-	60.9	60.9	-
Other financial liabilities (note 13)	58.3	58.3	-	51.3	51.3	-
Other liabilities (note 14)	32.9	31.5	1.4	44.6	43.4	1.2

<sup>A)</sup> Measurement category: "Cash reserve"; <sup>B)</sup> thereof measured as "Loans and receivables" €5.3 million (31 December 2012: €6.5 million)

## **21. Related party disclosures**

In the course of our operating activities, we purchase materials, inventories and services from a large number of business partners around the world. This includes business partners in which the Villeroy & Boch Group holds equity interests and that have relationships with companies or members of the executive bodies of Villeroy & Boch AG. All transactions are conducted at arm's-length conditions.

Transactions between Villeroy & Boch AG and the individual subsidiaries have been eliminated in accordance with the principles of consolidation and hence are not discussed further here. The pro rata transaction volume with affiliated companies defined as related parties is largely the same as in the 2012 annual financial statements.

Related parties employed within the Villeroy & Boch Group receive compensation based on their position and/or function that is paid independently of the identity of the person in that position.

No material contracts were concluded with related parties in the period under review.

## **22. Changes to the composition of the Supervisory Board of Villeroy & Boch AG**

At the General Meeting of Shareholders on 22 March 2013, the following persons were elected to the Supervisory Board of Villeroy & Boch AG as shareholder representatives:

- Peter Prinz Wittgenstein, Nidda,
- Dr. Alexander von Boch-Galhau, Mettlach,
- Yves Elsen, Luxembourg, and
- Christina Rosenberg, Munich.

The following persons stepped down from the Supervisory Board:

- Dr. Jürgen Friedrich Kammer, Munich, and
- Charles Krombach, Luxembourg

## **23. Resolution on the authorisation to acquire and utilise treasury shares**

The shareholders have authorised the Management Board of Villeroy & Boch AG to acquire ordinary and/or preference shares of the Company (treasury shares) with a total notional interest in the share capital of up to €7,190,937.60 until 21 March 2018 inclusive. A detailed description can be found in the Investor Relations section of the Company's website at [www.villeroy-boch.com](http://www.villeroy-boch.com).

## **24. Voting right notifications in accordance with section 160 of the German Stock Corporation Act**

The following voting right notification was published in the period under review:

Since 20 February 2013, Villeroy and Boch Saarufer GmbH, Mettlach, has held financial instruments or other instruments in accordance with section 25a of the German Securities Trading Act (WpHG) that could theoretically enable it to purchase voting shares of Villeroy & Boch AG under certain conditions (purchase option). This relates to a share of the voting rights of 98.73% or 13,866,852 voting rights, meaning that the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% could theoretically be exceeded. There are not currently any voting rights due to financial or other instruments in accordance with section 25 WpHG or any voting rights in accordance with sections 21, 22 WpHG.

## **25. Events after the end of the reporting period**

No significant events occurred up until the time the interim report was approved for publication.

## **26. Combined responsibility statement**

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in line with the German generally accepted standards for the audit of financial statements, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group over the remainder of the financial year.

Mettlach, 12 July 2013

Frank Göring

Andreas Pfeiffer

Nicolas Luc Villeroy

Jörg Wahlers

## **Report by the Audit Committee of the Supervisory Board**

The interim report for the period from 1 January to 30 June 2013 was presented to the Audit Committee of the Supervisory Board on 12 July 2013 and discussed by the Management Board. The Audit Committee approved the interim report.

Mettlach, 12 July 2013

The Chairman of the Audit Committee

Peter Prinz Wittgenstein

## **Financial calendar:**

21 October 2013	Report on the first nine months of 2013
7 February 2014	Annual press conference for the 2013 financial year
21 March 2014	General Meeting of Shareholders of Villeroy & Boch AG

This interim report is available in English, German and French. In the event of variances, the German version shall take precedence over any translations. Due to rounding differences, there may be slight discrepancies in the totals and percentages contained in this report. Percentages are generally shown as rounded numbers. This interim report as well as further information can be downloaded at [www.villeroy-boch.com](http://www.villeroy-boch.com).