

Interim Report 1 January to 30 June 2014

- Consolidated revenue up 5.4 % on a constant currency basis;
Revenue (nominal) increases by 3.4 % year-on-year to Euro 372.1 million.
- Operating EBIT up 13.4 % year-on-year to Euro 13.5 million.
- Further non-recurring income of Euro 1.1 million generated from real estate project in Sweden.
- Growth and earnings targets for 2014 as a whole confirmed.

Villeroy & Boch Group at a glance	01.01. - 30.06.		Change	
	2014 in Euro million	2013 in Euro million	in Euro million	in %
Revenue (constant currency basis)	379.3	359.8	19.5	5.4
Revenue (nominal)	372.1	359.8	12.3	3.4
Germany	109.5	103.3	6.2	6.0
Abroad	262.6	256.5	6.1	2.4
Earnings before interest and taxes (EBIT)	14.6	11.9	2.7	22.7
Earnings before interest and taxes (EBIT) adjusted for non-recurring income from the real estate project in Sweden	13.5	11.9	1.6	13.4
Earnings before taxes (EBT)	10.5	7.3	3.2	43.8
Group result	7.3	5.1	2.2	43.1
Return on net operating assets (rolling)	12.9 %	12.0 % *)	-	-
Investments	15.5	4.2	11.3	269.1
Employees (FTEs at the end of the period)	7,312	7,411	-99	

*) Return on net assets as of 31 December 2013

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ISIN: DE0007657207, DE0007657231

Villeroy & Boch AG • 66688 Mettlach • Germany

Tel.: 0049 (0)6864 - 81 2715 • Fax: 0049 (0)6864 - 81 7 1331

Internet: <http://www.villeroyboch-group.com>

Interim Management Report of the Villeroy & Boch Group for the First Half of 2014

1. Basic Information on the Group

The basic information on the Group as presented in the 2013 Group management report remains unchanged. Information on changes in the consolidated group and research and development costs can be found on page 13 and page 17 of the notes to the consolidated financial statements respectively.

2. Economic Report

2.1. General economic conditions

The global economy enjoyed little in the way of impetus in the first half of 2014. The economic recovery in the industrialised nations continued with moderate growth rates. The German economy recorded growth of +0.3 % in the second quarter of 2014.

While economic output in many euro zone countries – like in Germany – was primarily driven by private consumption, Italy and France continued to see negative development. Restrained economic performance was observed in China, some of the emerging economies and the USA. In the latter case, however, this was mainly due to the unusually cold winter.

Stability continued to be provided by the commodities markets and inflation in particular. Inflation in the euro zone remained extremely low throughout the first half of 2014, with the average rate of 0.6 % representing the lowest level since the financial crisis in 2008 and 2009.

We expect to see a slight upturn in the global economy in the second half of the current financial year. As previously, however, this development is susceptible to risk factors including the sustained high level of sovereign debt in the euro zone, uncertainties affecting the global financial system and the continued

geopolitical tension between the West and Russia in particular.

2.2. Course of business and position of the Villeroy & Boch Group

The economic position of the Group remains positive. The course of business in the first six months confirms our revenue forecast for 2014. We expect to see further positive revenue development in the second half of the year thanks to the high level of orders on hand.

In the first half of 2014, our net revenue increased by 5.4 % to Euro 379.3 million on a constant currency basis, i.e. assuming unchanged exchange rates compared with the previous year. Nominal consolidated revenue amounted to Euro 372.1 million, up 3.4 % on the same period of the previous year.

The relatively pronounced exchange rate effects were due in particular to the changes in the Russian rouble, the Swedish krona, the Norwegian krone, the US dollar and the Australian dollar.

Orders on hand amounted to Euro 64.5 million as of 30 June 2014, up Euro 19.2 million on the start of the year. The Bathroom and Wellness Division accounted for Euro 37.1 million of orders on hand, with the remaining Euro 27.4 million attributable to the Tableware Division.

Operating earnings before interest and taxes (EBIT) amounted to Euro 13.5 million in the first six months of the current financial year, up 13.4 % on the same period of the previous year.

As planned, we signed additional purchase agreements in connection with our real estate project in Sweden. We generated non-recurring income of Euro 1.1 million in the

period to 30 June 2014, thereby increasing our earnings before interest and taxes (EBIT) by Euro 2.7 million or 22.7 % to Euro 14.6 million.

On 10 July 2014, we sold another tranche of our plant properties in Sweden. The corresponding revenue will be recognised in the third quarter. As previously, the total income from this real estate transaction is expected to amount to around Euro 17 million, of which Euro 7.0 million has already been recognised in 2013.

The rolling net operating assets of the Villeroy & Boch Group amounted to Euro 293.6 million at the reporting date (31 December 2013: Euro 301.5 million). Earnings growth and the reduction in the average net operating assets employed meant that our rolling operating return on net assets improved by 0.9 percentage points to 12.9 % compared with 31 December 2013. The decrease in net operating assets is reflected in the lower level of inventories in particular.

2.3. Course of business and position of the divisions

2.3.1. Bathroom and Wellness

The Bathroom and Wellness Division generated revenue of Euro 247.5 million on a constant currency basis in the first half of 2014, up 5.8 % on the same period of the previous year. Nominal revenue increased by 3.6 % year-on-year to Euro 242.5 million (Euro +8.5 million). The main exchange rate effects were due to changes in the Russian rouble, the Swedish krona and the Norwegian krone.

Revenue growth in Germany (+4.1 %) again contributed to the positive overall development. As previously, the upturn in revenue was driven by the extremely good performance in the area of bathroom furniture. With regard to sanitary ware, our WCs with an open rim and “DirectFlush” technology continued to enjoy encouraging development.

We also recorded substantially higher (nominal) revenue in our growth markets of China (+53.3 %) and Russia (+27.3 %), as well as in Eastern Europe (+13.0 %).

There was a downturn in revenue in Italy (-18.1 %), Denmark (-15.2 %), France (-11.2 %) and Mexico (-28.7 %) in particular, largely as a result of economic factors. In Mexico, the ongoing negative revenue development is also attributable to the continued reluctance to invest on the local residential construction market due to uncertainty concerning expected changes in statutory conditions.

The Bathroom and Wellness Division recorded an operating result (EBIT) of Euro 18.0 million, up Euro 0.4 million on the same period of the previous year.

The division increased its return on net assets to 15.8 % (31 December 2013: 14.3 %). In addition to improved earnings, this was due to the reduction in rolling net operating assets of Euro 4.2 million compared with 31 December 2013, from Euro 201.3 million to Euro 197.1 million.

2.3.2. Tableware

The Tableware Division generated revenue of Euro 131.8 million on a constant currency basis in the first half of 2014, up Euro 6.0 million or 4.8 % on the same period of the previous year. Nominal revenue improved by Euro 3.8 million or 3.0 % to Euro 129.6 million. The main exchange rate effects were due to changes in the US dollar and the Australian dollar.

The division’s home market of Germany remained the main driver for this revenue growth on a half-yearly basis (+9.4 %). Outside Germany, the upward trend recorded in the first quarter continued in a number of countries, with significantly higher (nominal) revenue generated in Poland (+32.0 %), Austria (+12.7 %) and Benelux (+8.5 %). We also enjoyed substantial revenue growth in the Middle East (+33.1 %), especially in Saudi Arabia.

Lower revenue was primarily recorded in the United Kingdom (-9.2 %), particularly as a result of the closure of retail stores, and in Italy (-8.9 %) due to economic factors.

In the first half of the year, the Tableware Division improved its operating result (EBIT) by Euro 1.2 million to Euro -4.5 million.

The rolling net operating assets of the Tableware Division amounted to Euro 96.5 million at the reporting date compared with Euro 100.2 million on 31 December 2013. This meant that the return on net assets increased substantially by 3.8 percentage points to 12.4 %.

The new products presented at the relevant trade fairs have seen extremely positive development to date. This is already reflected in revenue to an extent, but particularly in the incoming orders that have been placed. The new “Artesano Provençal” and “La Classica” collections have enjoyed especially promising performance so far. Above and beyond this, the incoming orders for our 2014 Christmas collection give us reason to expect improved revenue and earnings performance in the financial year as a whole.

2.4. Capital structure

Our equity declined by Euro 6.3 million compared with 31 December 2013 to Euro 154.1 million. In addition to exchange rate effects, this was due in particular to the dividend payment of Euro 10.4 million, which was partially offset by the consolidated net income of Euro 7.3 million in the first half of 2014.

Our equity ratio amounted to 26.0 % at the reporting date. This meant that the reduction in equity only impacted the equity ratio to the tune of 0.8 percentage points, as total assets also declined (Euro -5.7 million).

2.5. Investments

Our investments in the period under review totalled Euro 15.5 million (previous year: Euro 4.2 million).

The Bathroom and Wellness Division accounted for 84.5 % or Euro 13.1 million of the total investment volume in the first half of 2014, with the Tableware Division accounting for the remaining 15.5 % or Euro 2.4 million.

Investments in the Bathroom and Wellness Division primarily related to the construction of our new logistics and assembly centre in Sweden. Investments also concentrated on the sanitary ware plants in Mettlach (Germany) and Saraburi (Thailand) and a Bathroom and Wellness World of Discovery at the new LUV SHOPPING shopping centre in Lübeck-Dänischburg (Germany).

In the Tableware Division, we mainly invested in the further expansion of our retail network. For example, new or renovated retail outlets were opened in Lübeck-Dänischburg, Luxembourg, Marseille (France) and Wijnegem (Belgium).

At the reporting date, the Group had obligations to acquire property, plant and equipment in the amount of Euro 7.6 million. These acquisitions will be financed from operating cash flow.

The information contained in the 2013 Group management report on the investments planned for 2014 as a whole continues to apply.

2.6. Net liquidity

Our net liquidity amounted to Euro -13.3 million as of 30 June 2014, thereby improving by a substantial Euro 16.5 million compared with the previous year.

Net liquidity was Euro 22.4 million lower than on 31 December 2013 (Euro +9.1 million). This was mainly due to the dividend payment.

2.7. Balance sheet structure

Total assets amounted to Euro 593.9 million at the reporting date compared with Euro 599.6 million on 31 December 2013. The share of total assets attributable to non-current assets increased slightly to 35.9 % (31 December 2013: 34.7 %). Current assets declined by Euro 4.9 million, largely as a result of seasonal factors. This is mainly reflected in the lower level of cash and cash equivalents, which was offset to a large extent by the increase in trade receivables and inventories in particular. Non-current assets held for sale decreased by Euro 5.7 million in connection with the successive disposal of the plant buildings in Sweden. On the liability side of the statement of financial position, the reduction in total equity and liabilities is primarily reflected in equity. The dividend payment was largely offset by the consolidated income generated in the first half of the year.

The reduction in non-current liabilities was slightly outweighed by the increase in current liabilities, which was primarily due to the higher level of liabilities to suppliers.

3. Report on Post-Reporting Date Events

As discussed under 2.2 above, a further tranche of the plant buildings was sold on 10 July 2014 as part of the continued implementation of the real estate project in Sweden. Above and beyond this, no further significant events occurred up until the time the interim report was approved for publication.

4. Report on Risks and Opportunities

The opportunities and risks described in the 2013 Annual Report remain unchanged.

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

5. Outlook for the Current Financial Year

As of the end of the first half of 2014, we are still expecting to see moderate overall economic growth for the year as a whole. In our view, the mildly positive economic effects that are anticipated, especially in the European sales markets that are important for us, will be offset by the slowdown in growth in the emerging economies in particular. However, the financial and commodities markets remain a source of uncertainty. Developments in Ukraine continue to represent a risk that is difficult to assess. If the situation were to intensify again following a slight easing of the political climate between Russia and NATO, there could be serious consequences for the economy in the form of potential economic sanctions up to and including a potential trade boycott. This would have a corresponding adverse effect on revenue and earnings in our growth market of Russia.

Based on the latest economic data and assuming that the risks described above do not occur, we are maintaining our forecast of growth in consolidated revenue of between 3 % and 5 % for the 2014 financial year as a whole.

We are also continuing to forecast above-average growth in earnings, i.e. an improvement of more than 5 % compared with the previous year.

Our return on net operating assets in 2014 is expected to be slightly higher than in the previous year.

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, 11 July 2014

Frank Göring
Andreas Pfeiffer
Nicolas Luc Villeroy

Villeroy & Boch Group
Consolidated balance sheet as at 30 June 2014

Assets

in € million	Notes	as of 30.06.2014	as of 31.12.2013
Non-current assets			
Intangible assets		36.9	38.1
Property, plant and equipment	1	144.1	141.3
Investment property		12.6	13.1
Investment accounted for using the equity method	2	1.8	1.4
Other financial assets	3	18.1	14.1
		213.5	208.0
Other non-current assets	6	0.4	0.0
Deferred tax assets		47.8	48.8
		261.7	256.8
Current assets			
Inventories	4	154.7	148.8
Trade receivables	5	113.7	102.1
Other current assets	6	20.8	21.0
Income tax claims		4.1	2.9
Cash and cash equivalents	7	36.9	60.3
		330.2	335.1
Non-current assets held for sale	8	2.0	7.7
Total assets		593.9	599.6

Shareholders' Equity and Liabilities

in € million	Notes	as of 30.06.2014	as of 31.12.2013
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital		71.9	71.9
Capital surplus		193.6	193.6
Treasury shares		-15.0	-15.0
Retained earnings		-64.0	-57.4
Revaluation surplus	9	-32.5	-32.8
		154.0	160.3
Equity attributable to minority interests		0.1	0.1
Total equity		154.1	160.4
Non-current liabilities			
Provisions for pensions		179.9	182.7
Non-current provisions for personnel	10	14.0	15.2
Other non-current provisions		1.2	1.4
Non-current financial liabilities		25.0	25.0
Other non-current liabilities	12	2.5	2.7
Deferred tax liabilities		10.8	11.5
		233.4	238.5
Current liabilities			
Current provisions for personnel	10	8.9	12.9
Other current provisions	11	21.3	21.3
Current financial liabilities		25.2	26.2
Other current liabilities	12	71.9	75.2
Trade payables		75.5	60.7
Income Tax liabilities		3.6	4.4
		206.4	200.7
Total liabilities		439.8	439.2
Total equity and liabilities		593.9	599.6

Villeroy & Boch Group
Consolidated Income Statement for the period from 1 January to 30 June 2014

in € million	Notes	2014 01.01.-30.06.	2013 01.01.-30.06.
Revenue	13	372.1	359.8
Costs of sales		-205.7	-202.0
Gross profit		166.4	157.8
Selling, marketing and development costs	14	-127.5	-126.3
General administrative expenses		-23.1	-22.6
Other operating income and expenses		-1.3	2.7
Result of associates accounted for using the equity method		0.1	0.3
Operating result (EBIT)		14.6	11.9
(Operating result before real estate project Gustavsberg)		(13.5)	(11.9)
Financial result	15	-4.1	-4.6
Earnings before taxes		10.5	7.3
Income taxes	16	-3.2	-2.2
Group result		7.3	5.1
Thereof attributable to			
Villeroy & Boch AG shareholders		7.3	5.1
Minority interests		0.0	0.0
		7.3	5.1
EARNINGS PER SHARE			
Earnings per ordinary share in Euro		0.25	0.17
Earnings per preference share in Euro		0.30	0.22

During the reporting period there were no share dilution effects.

Villeroy & Boch Group
Consolidated Statement of Comprehensive Income for the periode from 1 January to 30 June 2014

in € million		2014 01.01.-30.06.	2013 01.01.-30.06.
Group result		7.3	5.1
Other comprehensive income			
• Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-0.6	-0.2
Unrealised exchange differences on translation		-2.2	1.5
Deferred income tax effect on items to be reclassified to profit or loss		-0.5	-0.8
• Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		-0.1	-1.5
Deferred income tax effect on items not to be reclassified to profit or loss		0.2	0.5
Total other comprehensive income	9	-3.2	-0.5
Total comprehensive income net of tax		4.1	4.6
Thereof attributable to			
Villeroy & Boch AG shareholders		4.1	4.6
Minority interests		0.0	0.0
		4.1	4.6

Villeroy & Boch Group
Consolidated Income Statement for the period from 1 April to 30 June 2014

in € million	Notes	2014 01.04.-30.06.	2013 01.04.-30.06.
Revenue	13	179.1	176.1
Costs of sales		-97.9	-98.2
Gross profit		81.2	77.9
Selling, marketing and development costs	14	-62.7	-63.4
General administrative expenses		-11.7	-11.4
Other operating income and expenses		-0.6	1.4
Result of associates accounted for using the equity method		0.2	0.2
Operating result (EBIT)		6.4	4.7
(Operating result before real estate project Gustavsberg)		(4.7)	(4.7)
Financial result	15	-2.0	-2.2
Earnings before taxes		4.4	2.5
Income taxes	16	-1.4	-0.8
Group result		3.0	1.7
Thereof attributable to			
Villeroy & Boch AG shareholders		3.0	1.7
Minority interests		0.0	0.0
		3.0	1.7

Villeroy & Boch Group
Consolidated Statement of Comprehensive Income for the periode from 1 April to 30 June 2014

in € million		2014 01.04.-30.06.	2013 01.04.-30.06.
Group result		3.0	1.7
Other comprehensive income			
• Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		0.2	0.0
Unrealised exchange differences on translation		-0.2	-1.9
Deferred income tax effect on items to be reclassified to profit or loss		-0.2	-0.6
• Items not to be reclassified to profit or loss:			
Acturial gains or losses on defined benefit plans		0.0	-1.1
Deferred income tax effect on items not to be reclassified to profit or loss		0.2	0.4
Total other comprehensive income	9	0.0	-3.2
Total comprehensive income net of tax		3.0	-1.5
Thereof attributable to			
Villeroy & Boch AG shareholders		3.0	-1.5
Minority interests		0.0	0.0
		3.0	-1.5

Villeroy & Boch Group
Consolidated Statement of Equity for the period from 1 January to 30 June 2014

in € million Note	Equity attributable to Villeroy & Boch AG shareholders						Equity attributable to minority interests	Total equity
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	Total		
					9			
As of 01.01.2013	71.9	193.6	-15.0	-72.1	-29.2	149.2	0.1	149.3
Group result				5.1		5.1	0.0	5.1
Other comprehensive income				-1.6	1.1	-0.5		-0.5
Total comprehensive income net of tax				3.5	1.1	4.6	0.0	4.6
Dividend payments				-9.9		-9.9		-9.9
As of 30.06.2013	71.9	193.6	-15.0	-78.5	-28.1	143.9	0.1	144.0
As of 01.01.2014	71.9	193.6	-15.0	-57.4	-32.8	160.3	0.1	160.4
Group result				7.3		7.3	0.0	7.3
Other comprehensive income				-3.5	0.3	-3.2		-3.2
Total comprehensive income net of tax				3.8	0.3	4.1	0.0	4.1
Dividend payments				-10.4		-10.4		-10.4
As of 30.06.2014	71.9	193.6	-15.0	-64.0	-32.5	154.0	0.1	154.1

Villeroy & Boch Group
Consolidated Cash Flow Statement for the period from 1 January to 30 June 2014

in € million	01.01.-30.06.	
	2014	2013
Group result	7.3	5.1
Depreciation of non-current assets	13.3	13.3
Change in non-current provisions	-7.2	-9.4
Profit from disposal of fixed assets	-0.9	-1.8
Change in inventories, receivables and other assets	-20.2	-23.0
Change in liabilities, current provisions and other liabilities	0.0	-12.3
Other non-cash income/expenses	4.5	3.7
Cash Flow from operating activities	-3.2	-24.4
Purchase of intangible assets, property, plant and equipment	-15.5	-4.2
Investment in non-current financial assets and cash payments	-0.4	-
Cash receipts from activities of real estate project Gustavsberg	0.6	-
Cash receipts from disposals of fixed assets	6.5	4.6
Cash Flow from investing activities	-8.8	0.4
Change in financial liabilities	-1.0	2.1
Dividend payments	-10.4	-9.9
Cash Flow from financing activities	-11.4	-7.8
Net increase in cash and cash equivalents	-23.4	-31.8
Balance of cash and cash equivalents as at 01.01.	60.3	55.3
Net increase in cash and cash equivalents	-23.4	-31.8
Balance of cash and cash equivalents as at 30.06.	36.9	23.5

Villeroy & Boch Group

Consolidated Segment Report for the period from 1 January to 30 June 2014

in € million	BATHROOM & WELLNESS		TABLEWARE		TRANSITION / OTHER		VILLEROY & BOCH GROUP	
	2014	2013	2014	2013	2014	2013	2014	2013
	01.01. - 30.06.		01.01. - 30.06.		01.01. - 30.06.		01.01. - 30.06.	
Revenue								
Segment revenue from sales to external customers	242.5	234.0	129.6	125.8	0.0	0.0	372.1	359.8
Segment revenue from transactions with other segments	0.1	0.5	0.0	0.0	-0.1	-0.5	0.0	0.0
Result								
Segment result	18.0	17.6	-4.5	-5.7	-	-	13.5	11.9
Real estate project Gustavsberg	-	-	-	-	1.1	-	1.1	-
Financial result	-	-	-	-	-4.1	-4.6	-4.1	-4.6
Investments and depreciations								
Investments	13.1	2.9	2.4	1.3	-	-	15.5	4.2
Scheduled depreciation of segment assets	8.6	8.8	4.7	4.5	-	-	13.3	13.3
Assets and Liabilities	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.
Segment assets	315.2	292.3	134.1	137.3	144.6	170.0	593.9	599.6
Segment liabilities	111.2	113.1	46.5	42.6	282.1	283.5	439.8	439.2

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

Rolling net operating assets	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.	30.06.	31.12.
Rolling operating assets	304.3	308.2	137.7	140.2	-	-	442.0	448.4
Rolling operating liabilities	107.2	106.9	41.2	40.0	-	-	148.4	146.9
Rolling net operation assets	197.1	201.3	96.5	100.2	-	-	293.6	301.5

Consolidated Segment Report for the period from 1 April to 30 June 2014

in € million	BATHROOM & WELLNESS		TABLEWARE		TRANSITION / OTHER		VILLEROY & BOCH GROUP	
	2014	2013	2014	2013	2014	2013	2014	2013
	01.04. - 30.06.		01.04. - 30.06.		01.04. - 30.06.		01.04. - 30.06.	
Revenue								
Segment revenue from sales to external customers	118.7	117.0	60.4	59.1	0.0	0.0	179.1	176.1
Segment revenue from transactions with other segments	0.0	0.3	0.0	0.0	0.0	-0.3	0.0	0.0
Result								
Segment result	9.2	9.8	-4.5	-5.1	-	-	4.7	4.7
Real estate project Gustavsberg	-	-	-	-	1.7	-	1.7	-
Financial result	-	-	-	-	-2.0	-2.2	-2.0	-2.2
Investments and depreciations								
Investments	8.5	1.6	1.7	0.8	-	-	10.2	2.4
Scheduled depreciation of segment assets	4.3	4.4	2.4	2.2	-	-	6.7	6.6

Notes to the Interim Financial Statements of the Villeroy & Boch Group for the First Half of 2014

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. Villeroy & Boch's preference shares are listed in the Prime Standard operated by Deutsche Börse AG. Villeroy & Boch's preference shares are represented in the CDAX and SDAX and were included in the MSCI Germany Small Cap Index on 30 May 2014.

This interim report covers the period from 1 January to 30 June 2014. It was approved for publication on 11 July 2014 after the Management Board discussed the interim report with the Audit Committee of the Supervisory Board. 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. For this reason, it should be read in conjunction with the consolidated financial statements as at 31 December 2013. These can be ordered in the Investor Relations area of the website at www.VilleroyBoch-Group.com.

In the period under review, the accounting and consolidation methods described in the 2013 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 2014. None of these changes had a material impact on this interim report.

Basis of consolidation

The basis of consolidation of the Villeroy & Boch Group consists of 55 companies (31 December 2013: 56 companies). On 31 January 2014, Vilbona Inc, San Diego, USA, was merged into Villeroy & Boch USA Inc., New York, USA.

Dividend paid by Villeroy & Boch AG for the 2013 financial year

The General Meeting of Shareholders on 21 March 2014 approved the dividend of Euro 0.37 per ordinary share and Euro 0.42 per preference share as proposed by the Supervisory Board and Management Board of Villeroy & Boch AG. The distribution corresponds to a dividend payment of Euro 5.2 million for the ordinary share capital (previous year: Euro 4.9 million) and Euro 5.2 million for the preference share capital (previous year: Euro 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 dividends. The dividend was paid on 24 March 2014.

Seasonal influences on business activities

Due to Christmas business, the Tableware Division habitually 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 statement of financial position

1. Property, plant and equipment

Property, plant and equipment in the amount of Euro 14.8 million was acquired in the period under review (previous year: Euro 4.0 million), with a particular focus on the construction of our new logistics and assembly centre for sanitary ware in Gustavsberg, Sweden (Euro 5.8 million). The Bathroom and Wellness Division also invested in the sanitary ware plants in Mettlach (Germany) and Saraburi (Thailand) and a Bathroom and Wellness World of Discovery at the new LUV SHOPPING shopping centre in Lübeck-Dänischburg (Germany). In the Tableware Division, new or renovated retail outlets were opened in Lübeck-Dänischburg (Germany), the City of Luxembourg, Marseille (France) and Wijnegem (Belgium). Depreciation amounted to Euro 12.4 million (previous year: Euro 12.4 million). At the reporting date, the Villeroy & Boch Group had obligations to acquire property, plant and equipment in the amount of Euro 7.6 million (31 December 2013: Euro 3.7 million).

2. Investments accounted for using the equity method

On 28 March 2014, additional shares in V & B Lifestyle India Private Limited, New Delhi, in the amount of Euro 0.2 million were subscribed for in connection with a capital increase. The equity interest held remains unchanged at 50 %.

3. Other financial assets

In connection with the successive sale of the plant buildings in Gustavsberg, Sweden (see note 8), a second loan receivable was granted to Porslinsfabriksstaden AB, Gustavsberg, Sweden, on 9 April 2014. The loan, which is denominated in SEK, has an equivalent value of Euro 5.6 million as at 30 June 2014 and a term of eight years. Repayments will be made every two years, starting in 2014. Rights to the sold property were transferred as collateral for the loan. The current carrying amount of the two loans as of 30 June 2014 was Euro 11.3 million.

V&B Fliesen GmbH, Merzig, made the interest and principal repayment of Euro 1.2 million as scheduled.

4. Inventories

As at the end of the reporting period, inventories were composed as follows:

in Euro million	30.06.2014	31.12.2013
Raw materials and supplies	20.2	20.0
Work in progress	14.7	14.7
Finished goods and goods for resale	119.8	114.1
Advance payments	0.0	0.0
Inventories (total)	154.7	148.8

In the period under review, impairment losses on inventories increased by Euro 2.2 million to a total of Euro 18.4 million.

5. Trade receivables

Trade receivables are broken down as follows:

by customer domicile	in Euro million	30.06.2014	31.12.2013
Germany		24.6	18.9
Rest of euro zone		27.9	26.5
Rest of world		65.0	60.4
Gross carrying amount of trade receivables		117.5	105.8
Valuation adjustments		-3.8	-3.7
Trade receivables (total)		113.7	102.1

6. Other current and non-current assets

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

in Euro million	30.06.2014		31.12.2013	
	current	non-current	current	non-current
Other tax receivables	7.2	-	7.1	-
Advance payments and deposits	2.6	0.3	2.2	0.0
Prepaid expenses	3.4	0.0	2.0	0.0
Fair value of hedging instruments (a)	1.2	0.1	2.1	0.0
Miscellaneous assets	6.4	-	7.6	-
Other assets (total)	20.8	0.4	21.0	0.0

(a) At the reporting date, Euro 1.2 million was recognised for the marking to market of exchange rate hedges (31 December 2013: Euro 2.1 million).

7. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

in Euro million	30.06.2014	31.12.2013
Cash on hand incl. cheques	0.3	0.4
Current bank balances	8.5	17.7
Cash equivalents	28.1	42.2
Cash and cash equivalents (total)	36.9	60.3

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 2013. Bank balances were offset against matching liabilities in the amount of Euro 14.2 million (31 December 2013: Euro 13.8 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 Euro million	30.06.2014	31.12.2013
Property	2.0	4.0
Equity investments	-	3.7
Non-current assets held for sale (total)	2.0	7.7

As part of the successive sale of the plant buildings in Sweden, additional tranches were sold on 9 April 2014 and 10 June 2014 resulting in income totalling Euro 1.1 million. The total income from this real estate project is expected to amount to around Euro 17 million, of which Euro 7 million was already recognised in 2013.

In addition, the property of the former manufacturing plant in Lerma, Mexico, was sold by way of a notarised agreement dated 22 May 2014 resulting in a book profit of Euro 0.4 million. The purchase price was transferred as scheduled.

The transfer of the 15 % interest in V&B Fliesen GmbH to the Eczacıbaşı Group with effect from 1 January 2014 in exchange for a purchase price of Euro 3.7 million was notarised on 13 May 2014. The purchase price was transferred in accordance with the terms of the agreement.

9. Revaluation surplus

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

in Euro million	30.06.2014	31.12.2013
Items to be reclassified to profit or loss:		
• Currency translation of financial statements in foreign group companies	12.2	10.6
• Currency translation of long-term loans classified as net investments in group companies	-0.9	-0.6
• Change in fair value of cash flow hedges	-0.2	0.4
• Deferred taxes for this category	-2.3	-1.8
Sub-total (a)	8.8	8.6
Items not to be reclassified to profit or loss:		
• Actuarial gains or losses on defined benefit plans	-58.8	-58.7
• Deferred taxes for this category	17.5	17.3
Sub-total (b)	-41.3	-41.4
Total revaluation surplus [(a)+(b)]	-32.5	-32.8

10. Current and non-current provisions for personnel

The decrease in non-current provisions for personnel is primarily due to the utilisation of the provision for partial retirement. The change in current provisions for personnel is mainly due to the payment of variable remuneration components for 2013.

11. Other current provisions

The provision for restructuring reported in other current provisions decreased by Euro 0.4 million as a result of utilisation.

12. Other current and non-current liabilities

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

in Euro million	30.06.2014		31.12.2013	
	current	non-current	current	non-current
Bonus liabilities (a)	26.7	-	33.9	-
Personnel liabilities	22.3	0.4	20.0	0.6
Other tax liabilities	9.5	-	9.4	-
Change in fair value of hedging instruments (b)	1.4	0.1	1.7	0.0
Government grants	0.8	0.6	0.5	0.6
Advance payments received on account of orders	3.1	-	3.5	-
Other liabilities	8.1	1.4	6.2	1.5
Other liabilities (total)	71.9	2.5	75.2	2.7

(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

13. Revenue

Revenue is broken down as part of segment reporting.

14. Selling, marketing and development costs

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

in Euro million	2014		2013	
	H1	Q2	H1	Q2
Bathroom and Wellness	-4.4	-2.3	-4.1	-2.3
Tableware	-1.9	-1.0	-1.9	-0.9
Research and development costs (total)	-6.3	-3.3	-6.0	-3.2

15. Financial result

The financial result is broken down as follows:

in Euro million	2014		2013	
	H1	Q2	H1	Q2
Financial income	0.6	0.3	0.7	0.4
Financial expenses	-1.8	-0.9	-2.0	-1.0
Interest expenses for provisions (pensions)	-2.9	-1.4	-3.3	-1.6
Financial result (total)	-4.1	-2.0	-4.6	-2.2

16. Income taxes

The main components of income tax expense are as follows:

in Euro million	2014		2013	
	H1	Q2	H1	Q2
Current income taxes	-2.7	-1.2	-1.8	-0.6
Deferred taxes	-0.5	-0.2	-0.4	-0.2
Income taxes (total)	-3.2	-1.4	-2.2	-0.8

Other notes

17. Staff

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

	H1 2014	30.06.2014	H1 2013	30.06.2013
	Staff costs	Employees	Staff costs	Employees
	in Euro million	(FTEs)	in Euro million	(FTEs)
Bathroom and Wellness	-74.7	4,876	-77.0	5,019
Tableware	-46.7	2,004	-45.6	1,998
Other	-13.6	432	-12.7	394
	-135.0	7,312	-135.3	7,411

18. Contingent liabilities, commitments and financial obligations

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

in Euro million	30.06.2014	31.12.2013
Guarantees	28.1	28.0
Obligations to acquire property, plant and equipment	7.6	3.7
Obligations to acquire raw materials	0.6	-
Trustee obligations	0.2	2.0
Obligations to acquire intangible assets	0.1	0.1
Other contingent liabilities	0.1	0.1

19. Financial instruments

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

in Euro million	30.06.2014			31.12.2013		
Items of the statement of financial position	Book value	Measured in accordance with IAS 39		Book value	Measured in accordance with IAS 39	
containing financial instruments:		at cost	at fair value		at cost	at fair value
Assets						
Cash and cash equivalents (note 7)	36.9	36.9 ^A	-	60.3	60.3 ^A	-
Trade receivables (note 5)	113.7	113.7	-	102.1	102.1	-
Other financial assets (note 3)	18.1	18.1 ^B	-	14.1	14.1 ^B	-
Other assets (note 6)	10.6	9.3	1.3	11.9	9.8	2.1
Shareholders' Equity and liabilities						
Trade payables	75.5	75.5	-	60.7	60.7	-
Other financial liabilities	50.2	50.2	-	51.2	51.2	-
Other liabilities (note 12)	40.7	39.2	1.5	46.4	44.7	1.7

^{A)} Measurement category: "Cash reserve", ^{B)} thereof measured as "Loans and receivables" Euro 15.5 million (31 December 2013: Euro 11.5 million)

20. 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 2013 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.

21. Changes to the composition of the Management Board of Villeroy & Boch AG

Jörg Wahlers, member of the Management Board of Villeroy & Boch AG responsible for Finance, Human Resources and Compliance, left Villeroy & Boch AG at his own request when his contract expired on 31 May 2014. Our CEO, Frank Göring, has assumed this function on a temporary basis until a new appointment is made to succeed Jörg Wahlers.

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

Bernd Thömmes has represented the senior employees on the Supervisory Board of Villeroy & Boch AG since 27 January 2014 after Jürgen Beining stepped down from the Supervisory Board at his own request.

By way of a decision by the Saarbrücken Local Court on 14 March 2014, Mr. Francesco Grioli, Ronneberg, District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz, was appointed to the Supervisory Board as an employee representative with effect from 21 March 2014 (from the end of the General Meeting of Shareholders (5:50 p.m.)) for a term until the end of the General Meeting of Shareholders resolving on the approval of the actions of the members of the executive bodies for the 2017 financial year.

23. Voting right notifications

On 13 June 2014, Baroness Ghislaine de Schorlemer, Luxembourg, informed us in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that her share of the voting rights in Villeroy & Boch AG exceeded the thresholds of 3 % and 5 % on 27 February 2014 as a result of inheritance (testator: Baron Antoine de Schorlemer) and amounted to 5.92 % (831,575 voting rights) at this date.

On 13 June 2014, Baroness Ghislaine de Schorlemer, Luxembourg, further informed us in accordance with section 21 (1) WpHG that her share of the voting rights in Villeroy & Boch AG returned to below the thresholds of 3 % and 5 % on 28 March 2014 and has amounted to 0 % since this date.

On 13 June 2014, Mr. Christophe de Schorlemer, Luxembourg, informed us in accordance with section 21 (1) WpHG that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3 % on 28 March 2014 and amounted to 3.16 % (444,307 voting rights) at this date.

On 13 June 2014, Ms. Gabrielle de Schorlemer-de Theux, Luxembourg, informed us in accordance with section 21 (1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3 % on 28 March 2014 and amounted to 3.16 % (444,308 voting rights) at this date.

On 11 June 2014, Ms. Caroline de Schorlemer-d'Huart, Belgium, informed us in accordance with section 21 (1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3 % on 28 March 2014 and amounted to 3.16 % (444,308 voting rights) at this date.

24. Events after the end of the reporting period

As part of the continued implementation of the real estate project in Sweden, another tranche was sold as planned on 10 July 2014. The corresponding revenue will be recognised in the third quarter of 2014.

Above and beyond this, no further significant events occurred up until the time the interim report was approved for publication.

Mettlach, 11 July 2014

Frank Göring

Andreas Pfeiffer

Nicolas Luc Villeroy

Report by the Audit Committee of the Supervisory Board

The interim report for the period from 1 January to 30 June 2014 was presented to the Audit Committee of the Supervisory Board on 11 July 2014 and discussed by the Management Board. The Audit Committee approved the interim report.

Mettlach, 16 July 2014

Chairman of the Audit Committee

Peter Prinz Wittgenstein

Financial calendar:

21 October 2014	Report on the first nine months of 2014
12 February 2015	Annual press conference for the 2014 financial year
27 March 2015	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 and further information can also be downloaded at www.VilleroyBoch-Group.com.