Villeroy & Boch
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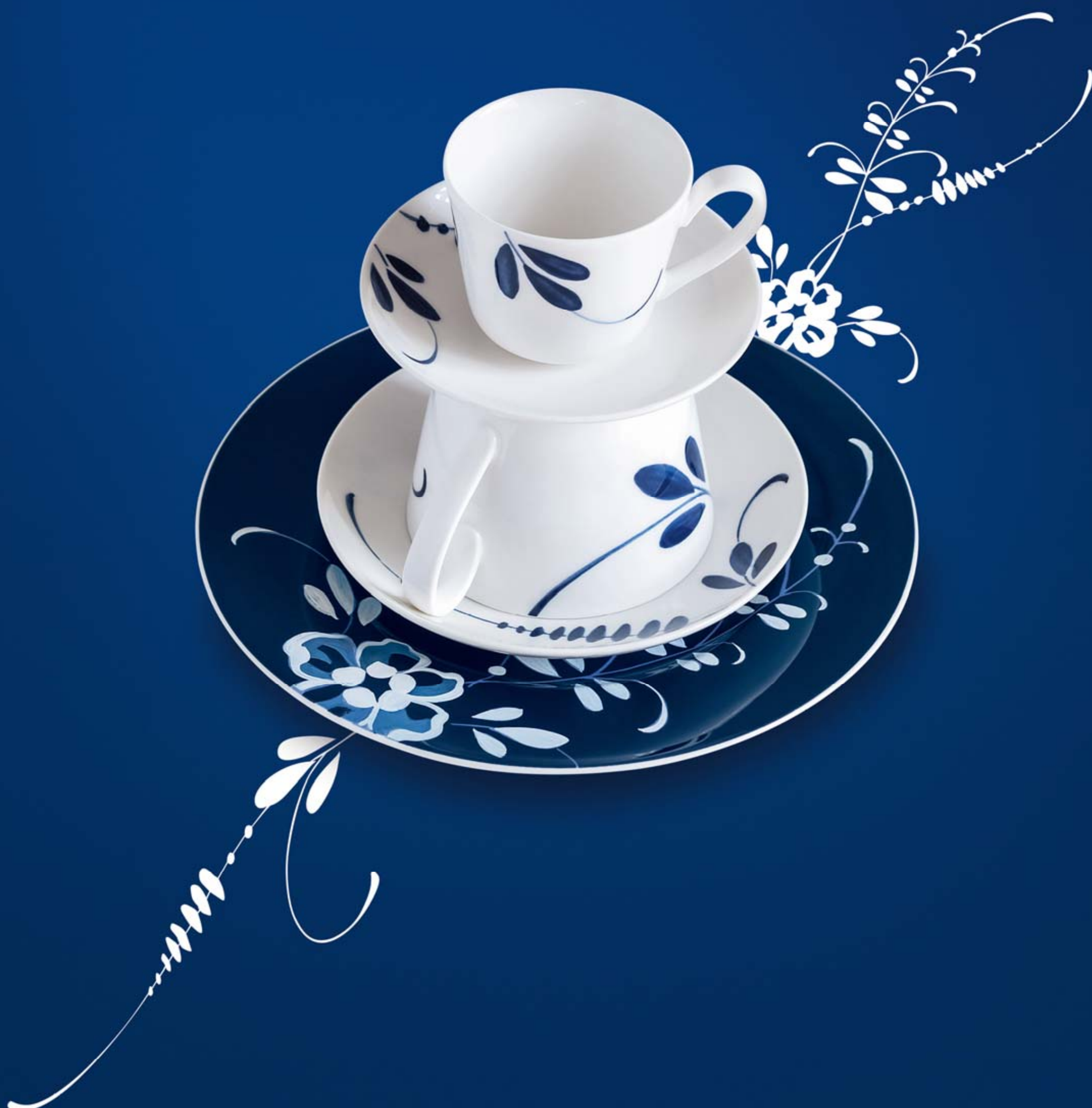

INTERIM REPORT
1 January to 30 June 2018

INTERIM REPORT
1 January to 30 June 2018

- Consolidated revenue from sale of goods up 3.5 % to € 416.6 million.
- EBIT increases by 5.0 % to € 19.0 million.
- Revenue and earnings targets for 2018 as a whole confirmed.

THE GROUP AT A GLANCE	1/1/2018 - 30/6/2018 in € million	1/1/2017 - 30/6/2017 in € million	Change in € million	Change in %
Revenue incl. licence income (1)	419.6	–	–	–
Revenue (nominal) (2)	416.6	402.4	14.2	3.5
Revenue – Germany	117.4	119.3	-1.9	-1.6
Revenue – Abroad	299.2	283.1	16.1	5.7
On a constant currency basis	425.3	402.4	22.9	5.7
EBIT	19.0	18.1	0.9	5.0
EBT	16.8	15.5	1.3	8.4
Group result	11.8	10.9	0.9	8.3
Return on net operating assets (rolling)	17.2 %	17.7 % (3)	-0.5 PP	-2.8
Investments	15.2	8.8	6.4	72.7
Employees (FTEs as at end of period)	7,499 FTE	7,538 FTE	-39 FTE	-0.5

(1) Income from licence business is reported in revenue from the 2018 financial year having, been reported in other operating income until 31 December 2017. The corresponding prior-year figures have not been restated.

(2) Revenue from sale of goods (i.e. excluding licence income)

(3) Return on net assets as at 31 December 2017

German Securities Code Numbers (WKN): 765 720, 765 723

ISIN: DE0007657207, DE0007657231

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INTERIM MANAGEMENT REPORT OF THE VILLEROY & BOCH GROUP FOR THE FIRST HALF-YEAR OF 2018

GENERAL CONDITIONS OF THE GROUP

The basic information on the Group as presented in the 2017 Group management report remains unchanged. Information on changes in the consolidated group and on research and development costs can be found on page 13 and in note 12 to the consolidated financial statements respectively.

ECONOMIC REPORT

General economic conditions

The positive global economic momentum continued in the first half of 2018, although the overall growth rate was curbed by rising capacity utilisation in the industrialised nations, and particularly in the euro zone.

The good performance of the German economy was temporarily slowed by a muted start to the year. However, demand factors such as exports and the boost to the domestic economy from the healthy situation on the employment market remained intact during the reporting period, while sustained capacity bottlenecks persisted in the construction industry in particular.

The Chinese economy, which is characterised by a high level of corporate debt, saw less pronounced expansion than in the previous year. By contrast, the robust momentum of the US economy continued unabated.

Course of business and position of the Villeroy & Boch Group

The Management Board of Villeroy & Boch AG considers the economic position of the Group to be positive on the whole.

We generated consolidated revenue of € 419.6 million in the first half of 2018. This figure includes income from our licence business in the amount of € 3.0 million, which was previously reported in other operating income. Further information on this change in reporting can be found in note 11 of the notes to the consolidated financial statements.

Excluding licence income, consolidated revenue from the sale of goods increased by 3.5 % to € 416.6 million. On a constant currency basis, i. e. assuming unchanged exchange rates against the previous year, we generated revenue growth of 5.7 %. Negative exchange rate effects with particularly pronounced depreciation involved the US dollar, the Swedish krona and the Russian rouble.

Orders on hand amounted to € 103.6 million as at 30 June 2018 (31 December 2017: € 107.0 million). Of this figure, € 81.8 million related to the Bathroom and Wellness Division and € 21.8 million to the Tableware Division.

In the first half of 2018, we increased consolidated EBIT by 5.0 % to € 19.0 million largely on the back of extremely strong revenue and earnings performance in the Bathroom and Wellness Division. Further information on the course of business in the two divisions can be found in the sections below.

We are reiterating our revenue and earnings forecasts for the year as a whole.

The Group's rolling return on net operating assets was 17.2 % as at 30 June 2018. The change compared with the end of the 2017 financial year (17.7 %) was due to the increase in net operating assets to € 294.7 million (31 December 2017: € 280.4 million). Rolling net operating assets, i.e. the average for the last twelve months, increased as a result of the consolidation of Argent Australia Pty. Ltd. in particular.

Course of business and position of the divisions

Bathroom and Wellness
The Bathroom and Wellness Division contributed € 303.1 million to consolidated revenue in the first half of 2017, of which € 0.1 million was attributable to licence business. Excluding licence income, revenue from the sale of goods increased by 7.0 % to € 303.0 million. On a constant currency basis, revenue growth was even higher at 8.9 %.
Revenue performance on the European market varied from region to region. While we enjoyed encouraging growth in Southern Europe (+18.4 %) and our markets in Eastern Europe (excluding Russia) (+8.4 %) and Northern Europe (+3.0 %) in particular, revenue development in our home market of Germany (-1.1 %) reflected the muted performance in the area of showroom business. All in all, the revenue generated in Europe was almost unchanged year-on-year at € 241.7 million (-0.4 %) and increased slightly on a constant currency basis (+1.3 %).
Revenue outside Europe increased by an impressive 50.8 % to € 61.3 million. The growth region of Asia-Pacific enjoyed particularly strong development, with revenue rising by 49.7 % (adjusted for the acquisition of Argent Australia Pty. Ltd. in June 2017). China was the standout performer with revenue growth of 57.6 %.

Thanks to strong revenue performance, efficiency improvements in our production network and sustained cost discipline, the Bathroom and Wellness Division increased its operating result (EBIT) considerably by € 4.3 million or 18.4 % year-on-year to € 27.7 million.

The rolling return on net operating assets rose to 24.3 % (31 December 2017: 23.5 %). The net operating assets employed in the division increased by € 10.7 million to € 212.8 million compared with 31 December 2017.

Tableware
The Tableware Division generated revenue of € 115.0 million in the first half of 2018, of which € 1.4 million was attributable to licence income. Revenue from the sale of goods decreased by 4.7 % year-on-year to € 113.6 million. Revenue was impacted by negative exchange rate effects to a significant extent, falling by 2.0 % on a constant currency basis.
Following key strategic adjustments in the previous year, we succeeded in slightly increasing our revenue in key European markets such as Benelux (+4.2 %), Italy (+2.7 %), Eastern Europe (+2.5 %) and France (+0.9 %) in the first half of the year, whereas development in Germany remained negative (-2.9 %). Among other things, the revenue generated in the other markets was affected by the negative exchange rate development of the Swiss franc and the pound sterling, resulting in a slight reduction in revenue in Europe as a whole of -1.6 %.
Outside Europe, too, exchange rate losses had an adverse effect on the otherwise positive development in individual markets, such as the USA (-9.9 %) and the Middle East/Africa region (-0.6 %). On a constant currency basis, revenue in these regions increased by 1.6 % and 4.8 % respectively.
A positive development is the fact that our intensified sales and marketing activities in the area of e-commerce paid off, with online revenue growing by 10.5 % across all markets.

The Tableware Division closed the first half of 2018 with an operating result (EBIT) of € -8.7 million (previous year: € -5.4 million). In addition to the reduction in revenue, earnings were impacted in particular by shifts in the sales channel structure. Increased costs in connection with the intensified expansion of our e-commerce activities and structures and lower contributions from licence business compared with the previous year also had a negative effect.
As orders on hand in licence business and, in particular, project business are higher than at the same time in the previous year, we expect revenue and earnings to recover in the second half of 2018.

The rolling return on net operating assets in the Tableware Division fell by 6.1 percentage points as against 31 December 2017, amounting to 5.8 % at the reporting date. This was due to the lower level of earnings accompanied by the € 3.6 million increase in rolling net operating assets to € 81.9 million.

Capital structure

Our equity declined by € 8.5 million as against the end of 2017, amounting to € 186.1 million as at 30 June 2018. The change in equity was primarily attributable to the dividend paid by Villeroy & Boch AG in March 2018 (€ 14.3 million), which was partially offset by the Group result of € 11.8 million in the first half of 2018. The revaluation surplus also changed by € -5.8 million. At 28.1 %, our equity ratio (including minority interests) declined by 0.2 percentage points as against 31 December 2017.

Investments

We made investments totalling € 15.2 million in the first half of 2018 (previous year: € 8.8 million). The Bathroom and Wellness Division accounted for € 12.9 million, with the remaining € 2.3 million attributable to the Tableware Division.

In the Bathroom and Wellness Division, we acquired new facilities for the ceramic sanitary ware plants in Mettlach, Mexico and Hungary in particular. Investments in the Tableware Division included modernisation measures for the production facilities in Torgau and Merzig. We also invested in the optimisation of our retail network, including in the United Kingdom, Spain and Germany.

At the reporting date, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 13.1 million. Our investments are financed from operating cash flow.

We are continuing to forecast an investment volume of more than € 40 million for 2018 as a whole.

Net liquidity

Our net liquidity amounted to € -3.1 million as at 30 June 2018, a decrease of € 60.7 million as against 31 December 2017. In addition to seasonal effects such as the dividend payment and the annual payment of customer bonuses and variable performance-based remuneration, this reflects the payments for the increased investment volume.

Balance sheet structure

Total assets amounted to € 662.9 million at the end of the reporting period compared with € 687.1 million as of 31 December 2017. The reduction in total assets meant that the share of total assets attributable to non-current assets increased to 34.6 % (31 December 2017: 33.1 %).

Current assets fell by € 25.2 million as against 31 December 2017, largely as a result of the reduction in cash and cash equivalents accompanied by the seasonal increase in inventories and trade receivables.

On the equity and liabilities side of the balance sheet, the main changes compared with year-end 2017 related to the reduction in other current liabilities and current provisions for personnel, while current financial liabilities increased as a result of interim finance, among other things.

REPORT ON RISKS AND OPPORTUNITIES

The opportunities and risks described in the 2017 annual report remain unchanged. There is no evidence of any individual risks that could endanger the continued existence of the Group.

OUTLOOK FOR THE CURRENT FINANCIAL YEAR

We are continuing to anticipate a further robust expansion in the world economy in 2018 as a whole. At the same time, there are not inconsiderable downside risks, especially due to the threat of an escalation in international trade conflicts. Meanwhile, the high level of capacity utilisation means the German economy is likely to be approaching its growth limit, which is also why construction activity will grow slower than in previous years for the time being in spite of the favourable conditions. Outside Europe, our largest growth market of China is expected to see above-average economic growth, albeit at a slightly slower rate. The phase of expansion in the US economy is also likely to continue thanks to improved investment momentum, tax incentives and the friendly consumer climate.

In light of the course of business in the first half-year and taking into account all of the available market estimates, the Management Board of Villeroy & Boch AG is continuing to forecast an increase in consolidated revenue of between 3 % and 5 % for the 2018 financial year as a whole. In terms of our earnings performance, we are forecasting an improvement in our operating result (EBIT) of between 5 % and 10 %. Our return on net operating assets is expected to amount to between 17 % and 18 % in the current year. We are therefore confirming the forecasts made in the 2017 Group management report unconditionally.

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 net assets, financial position and results of operations 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 2018

Frank Göring

Nicolas Luc Villeroy

Andreas Pfeiffer

Dr. Markus Warncke

CONSOLIDATED BALANCE SHEET

as of 30 June 2018

in € million

Assets	Notes	30/6/2018	31/12/2017
Non-current assets			
Intangible assets		37.6	37.5
Property, plant and equipment	1	165.8	165.3
Investment property		7.8	8.2
Investments accounted for using the equity method		1.3	1.5
Other financial assets	2	16.9	14.8
		229.4	**227.3**
Other non-current assets	5	1.9	3.7
Deferred tax assets		38.0	37.3
		269.3	**268.3**
Current assets			
Inventories	3	173.1	154.6
Trade receivables	4	132.8	127.2
Other current assets	5	28.2	25.3
Income tax receivables		6.6	2.5
Cash and cash equivalents	6	52.4	108.7
		393.1	**418.3**
Non-current asset held for sale		**0.5**	**0.5**
Total assets		**662.9**	**687.1**

Equity and Liabilities	Notes	30/6/2018	31/12/2017
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		9.9	12.7
Revaluation surplus	7	-79.8	-74.0
		180.6	**189.2**
Equity attributable to minority interests		**5.5**	**5.4**
Total equity		**186.1**	**194.6**
Non-current liabilities			
Provisions for pensions		181.3	185.1
Non-current provisions for personnel	8	17.9	19.0
Other non-current provisions		11.3	11.3
Non-current financial liabilities	9	50.1	50.2
Other non-current liabilities	10	4.7	4.7
Deferred tax liabilities		3.9	3.4
		269.2	**273.7**
Current liabilities			
Current provisions for personnel	8	9.3	15.4
Other current provisions		20.3	20.0
Current financial liabilities	9	5.4	0.9
Other current liabilities	10	84.1	92.5
Trade payables		85.6	83.5
Income tax liabilities		2.9	6.5
		207.6	**218.8**
Total liabilities		**476.8**	**492.5**
Total equity and liabilities		**662.9**	**687.1**

CONSOLIDATED INCOME STATEMENT

for the period 1 January to 30 June 2018

in € million

	Notes	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017
Revenue	11	**419.6**	**402.4**
Costs of sales		-241.2	-226.9
Gross profit		**178.4**	**175.5**
Selling, marketing and development costs	12	-136.9	-136.5
General administrative expenses		-22.5	-22.9
Other operating income and expenses	13	-0.1	1.9
Result of associates accounted for using the equity method		0.1	0.1
Operating result (EBIT)		**19.0**	**18.1**
Financial result	14	**-2.2**	**-2.6**
Earnings before taxes		**16.8**	**15.5**
Income taxes	15	-5.0	-4.6
Group result		**11.8**	**10.9**
Thereof attributable to:			
Villeroy & Boch AG shareholders		11.5	10.9
Minority interests		0.3	0.0
		11.8	**10.9**
EARNINGS PER SHARE		**in €**	**in €**
Earnings per ordinary share		0.42	0.39
Earnings per preference share		0.47	0.44

During the reporting period there were no share dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 30 June 2018

in € million

		1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017
Group result		**11.8**	**10.9**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-3.4	0.0
Gains or losses on translations of exchange differences		-2.8	-1.5
Deferred income tax effect on items to be reclassified to profit or loss		0.5	-0.1
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		0.0	1.8
Gains or losses on value changes of securities		-0.2	0.0
Deferred income tax effect on items not to be reclassified to profit or loss		0.0	-0.5
Total other comprehensive income		**-5.9**	**-0.3**
Total comprehensive income net of tax		**5.9**	**10.6**
Thereof attributable to:			
Villeroy & Boch AG shareholders		5.8	10.6
Minority interests		0.1	0.0
Total comprehensive income net of tax		**5.9**	**10.6**

CONSOLIDATED INCOME STATEMENT

for the period 1 April to 30 June 2018

in € million

	Notes	1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017
Revenue	11	**209.9**	**201.2**
Costs of sales		-120.9	-113.9
Gross profit		**89.0**	**87.3**
Selling, marketing and development costs	12	-70.3	-68.6
General administrative expenses		-11.4	-11.8
Other operating income and expenses	13	0.5	0.6
Result of associates accounted for using the equity method		0.1	0.1
Operating result (EBIT)		**7.9**	**7.6**
Financial result	14	**-1.1**	**-1.3**
Earnings before taxes		**6.8**	**6.3**
Income taxes	15	-2.0	-1.8
Group result		**4.8**	**4.5**
Thereof attributable to:			
Villeroy & Boch AG shareholders		4.6	4.5
Minority interests		0.2	0.0
		4.8	**4.5**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 April to 30 June 2018

in € million

		1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017
Group result		**4.8**	**4.5**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-2.3	0.4
Gains or losses on translations of exchange differences		-2.2	-0.6
Deferred income tax effect on items to be reclassified to profit or loss		0.6	0.3
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		-0.1	0.2
Gains or losses on value changes of securities		0.1	0.0
Deferred income tax effect on items not to be reclassified to profit or loss		0.1	-0.1
Total other comprehensive income		**-3.8**	**0.2**
Total comprehensive income net of tax		**1.0**	**4.7**
Thereof attributable to:			
Villeroy & Boch AG shareholders		0.7	4.7
Minority interests		0.3	0.0
Total comprehensive income net of tax		**1.0**	**4.7**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 30 June 2018

in € million

	Equity attributable to Villeroy & Boch AG shareholders							
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	Total	Equity attri-butable to mi-nority interests	Total equity
Notes					7			
As of 1/1/2017	**71.9**	**193.6**	**-15.0**	**-3.9**	**-74.1**	**172.5**	**0.1**	**172.6**
Group result				10.9		10.9	0.0	10.9
Other comprehensive income					-0.3	-0.3		-0.3
Total comprehensive income net of tax				**10.9**	**-0.3**	**10.6**	**0.0**	**10.6**
Dividend payments				-13.3		-13.3		-13.3
As of 30/6/2017	**71.9**	**193.6**	**-15.0**	**-6.3**	**-74.4**	**169.8**	**0.1**	**169.9**
As of 1/1/2018	**71.9**	**193.6**	**-15.0**	**12.7**	**-74.0**	**189.2**	**5.4**	**194.6**
Group result				11.5		11.5	0.3	11.8
Other comprehensive income					-5.8	-5.8	-0.1	-5.9
Total comprehensive income net of tax				**11.5**	**-5.8**	**5.7**	**0.2**	**-5.9**
Dividend payments				-14.3		-14.3	-0.1	-14.4
As of 30/6/2018	**71.9**	**193.6**	**-15.0**	**9.9**	**-79.8**	**180.6**	**5.5**	**186.1**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 30 June 2018

in € million

	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017
Group result	11.8	10.9
Depreciation of non-current assets	12.8	13.1
Change in non-current provisions	-6.6	-5.5
Profit from disposal of fixed assets	0.1	0.0
Change in inventories, receivables and other assets	-30.7	-13.7
Change in liabilities, current provisions and other liabilities	-19.2	-7.3
Other non-cash income/expenses	2.1	-0.1
Cash Flow from operating activities	**-29.7**	**-2.6**
Purchase of intangible assets, property, plant and equipment	-15.2	-8.8
Investment in non-current financial assets	-3.1	-7.5
Cash receipts from disposals of fixed assets	1.7	16.1
Cash Flow from investing activities	**-16.6**	**-0.2**
Change in financial liabilities	4.4	14.1
Dividends paid to minority shareholders	-0.1	-
Dividends paid to shareholders of Villeroy & Boch AG	-14.3	-13.3
Cash Flow from financing activities	**-10.0**	**0.8**
Sum of cash flows	**-56.3**	**-2.0**
Balance of cash and cash equivalents as at 1/1/	108.7	111.2
Net increase in cash and cash equivalents	-56.3	-2.0
Balance of cash and cash equivalents as at 30/6/	**52.4**	**109.2**

CONSOLIDATED SEGMENT REPORT

for the period 1 January to 30 June 2018

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch Group	
	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017	1/1/2018 - 30/6/2018	1/1/2017 - 30/6/2017
Revenue								
Segment revenue from sales of goods to external customers	303.0	283.2	113.6	119.2	-	-	416.6	402.4
Segment revenue from transactions with other segments	-	0.0	0.0	0.0	-	-	0.0	0.0
Segment revenue from licence	0.1	-	1.4	-	1.5	-	3.0	-
Revenue	303.1	283.2	115.0	119.2	1.5	0.0	419.6	402.4
Result								
Segment result	27.7	23.4	-8.7	-5.4	-	-	19.0	18.0
Financial result	-	-	-	-	-2.2	-2.6	-2.2	-2.6
Investments and depreciations								
Investments	12.9	6.6	2.3	2.2	-	-	15.2	8.8
Scheduled depreciation	9.8	9.2	3.0	3.9	-	-	12.8	13.1
Assets and Liabilities	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Segment assets	383.8	358.8	123.5	124.4	155.6	203.9	662.9	687.1
Segment liabilities	151.3	157.6	40.3	42.7	285.2	292.2	476.8	492.5

The rolling net operating assets and rolling operating result (EBIT) of the two divisions were as follows as at the end of the reporting period:

Rolling net operating assets	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
Rolling operating assets	355.5	339.3	122.2	120.8	-	-	477.7	460.1
Rolling operating liabilities	142.7	137.2	40.3	42.5	-	-	183.0	179.7
Rolling net operation assets	212.8	202.1	81.9	78.3	-	-	294.7	280.4
Rolling operating result (EBIT) *								
Rolling operating result (EBIT) *	51.8	47.5	4.8	9.3	-5.9	-7.0	50.7	49.8

* Central function earnings components that cannot be influenced by the division are not taken into account in calculating the operating result of both divisions.

CONSOLIDATED SEGMENT REPORT

for the period 1 April to 30 June 2018

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch Group	
	1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017	1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017	1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017	1/4/2018 - 30/6/2018	1/4/2017 - 30/6/2017
Revenue								
Segment revenue from sales of goods to external customers	155.9	144.8	52.7	56.4	0.0	0.0	208.6	201.2
Segment revenue from transactions with other segments	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Segment revenue from licence	0.0	-	0.6	-	0.7	-	1.3	-
Revenue	155.9	144.8	53.3	56.4	0.7	0.0	209.9	201.2
Result								
Segment result	14.7	12.2	-6.8	-4.7	-	-	7.9	7.5
Financial result	-	-	-	-	-1.1	-1.3	-1.1	-1.3
Investments and depreciations								
Investments	9.2	4.3	1.2	1.5	-	-	10.4	5.8
Scheduled depreciation	5.0	4.7	1.5	1.9	-	-	6.5	6.6

NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE VILLEROY & BOCH GROUP FOR THE FIRST HALF-YEAR OF 2018

GENERAL INFORMATION

Villeroy & Boch AG is domiciled in Mettlach and is a listed stock corporation under German law. It is the parent company of 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.

This interim report covers the period from 1 January to 30 June 2018. It was approved for publication on 12 July 2018 after the Management Board discussed the interim report with the Audit Committee of the Supervisory Board. It was prepared in accordance with section 315e of the German Commercial Code (HGB), applying the IFRS 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 2017. These can be ordered in the Investor Relations section of the website at www.villeroyboch-group.com.

In the period under review, the accounting and consolidation policies described in the 2017 Annual Report were expanded to include the accounting standards adopted by the EU and required to be applied for financial years starting on or after 1 January 2018, particularly IFRS 9 "Financial Instruments" (see note 18) and IFRS 15 "Revenue from Contracts with Customers" (see note 11). None of these changes had a material effect on this report.

Basis of consolidation

The basis of consolidation of the Villeroy & Boch Group consists of 54 companies (31 December 2017: 54 companies).

Dividend paid by Villeroy & Boch AG for the 2017 financial year

The General Meeting of Shareholders on 23 March 2018 approved the dividend of € 0.52 per ordinary share and € 0.57 per preference share as proposed by the Supervisory Board and Management Board of Villeroy & Boch AG. The distribution corresponds to a dividend payment of € 7.3 million for the ordinary share capital (previous year: € 6.7 million) and € 7.0 million for the preference share capital (previous year: € 6.6 million). The dividend was paid on 28 March 2018. 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.

Seasonal influences on business activities

Owing to Christmas business, the Tableware Division habitually expects to generate a higher level of revenue and operating result 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 € 13.8 million was acquired in the period under review (previous year: € 8.5 million). The Bathroom and Wellness Division primarily invested in new facilities for the sanitary ware plants in Mettlach, Ramos (Mexico) and Hódmezövásárhely (Hungary). A photovoltaic system is now supplying the production facility in Roden (Netherlands) with solar power. In the Tableware Division, new facilities were acquired for the production plants in Torgau and Merzig as well as the logistics centre in Merzig. We also invested in our retail stores in the United Kingdom, Spain, Germany and elsewhere. Depreciation amounted to € 12.0 million (previous year: € 12.3 million). As at the end of the reporting period, the Villeroy & Boch Group had obligations to acquire property, plant and equipment in the amount of € 13.0 million (31 December 2017: € 2.1 million).

2. Other financial assets

Financial assets increased by € 2.1 million in the first half-year of 2018 as a result of the acquisition of additional securities as a freely marketable investment in the amount of € 2.8 million.

3. Inventories

Inventories were composed as follows as at the end of the reporting period:

in € million	30/6/2018	31/12/2017
Raw materials and supplies	22.7	21.1
Work in progress	18.2	17.5
Finished goods and goods for resale	132.2	116.0
Inventories (total)	**173.1**	**154.6**

In the period under review, impairment losses on inventories increased by € -3.0 million to a total of € -18.4 million.

4. Trade receivables

At recognition, trade receivables are carried at their transaction price less expected losses over the agreed payment period. An additional impairment loss is recognised if there are objective evidences that a customer may default on a receivable.

Trade receivables are broken down as follows:

by customer domicile/in € million	30/6/2018	31/12/2017
Germany	28.6	26.8
Rest of euro zone	29.0	29.0
Rest of world	78.3	74.5
Gross carrying amount of trade receivables (a)	**135.9**	**130.3**

Continued / in € million	30/6/2018	31/12/2017
Gross carrying amount of trade receivables (a)	**135.9**	**130.3**
Impairment due to expected losses (step 1)	-0.4	-0.4
Impairment due to objective evidence (step 2)	-2.7	-2.7
Impairment losses (b)	**-3.1**	-3.1
Total trade receivables [(a)+(b)]	**132.8**	**127.2**

Valuation allowances are recognised by using the simplified method as the Group's receivables do not contain any significant financing components. An insurance policy is in place to cover the material default risk. Uninsured receivables are managed by using limits based on insurance classification and an internal rating. Expected losses are primarily calculated on the basis of external and internal customer ratings and the associated probabilities of default.

5. Other non-current and current assets

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

in € million	30/6/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Other tax receivables	10.2	-	9.4	-
Deferred income (a)	4.2	-	2.1	-
Advance payments and deposits (b)	3.2	1.9	1.1	1.9
Fair values of hedging instruments (a)	1.3	0.0	2.7	1.8
Miscellaneous assets	9.3	-	10.0	-
Other assets (total)	**28.2**	**1.9**	**25.3**	**3.7**

(a) Seasonal change

(b) Advance payments and deposits increased by a total of € 2.1 million to € 5.1 million. € 0.8 million of this figure related to Argent Australia, which was fully consolidated for the first time in the third quarter of 2017. Further advance payments of € 0.9 million were made in Mexico.

6. Cash and cash equivalents

Cash and cash equivalents are carried at cost on initial recognition. This item is composed as follows:

in € million	30/6/2018	31/12/2017
Cash on hand incl. cheques	0.4	0.5
Current bank balances	17.9	48.6
Short-term bank deposits	34.1	59.6
Total cash and cash equivalents	**52.4**	**108.7**

The € 56.3 million decrease in cash and cash equivalents is primarily attributable to seasonal effects such as the dividend payment of € 14.3 million, the payment of customer bonuses (see note 10) and variable remuneration for 2017. Bank balances were offset against matching liabilities in the amount of € 23.6 million (31 December 2017: € 14.6 million). Cash is held solely in the short term and at banks of good credit standing that are predominantly members of a deposit protection system. Accordingly, we do not anticipate any defaults within the next twelve months. We continually observe the creditworthiness of our banking partners in order to counteract any significant increase in default risk.

7. Revaluation surplus

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

in € million	30/6/2018	31/12/2017*
Items to be reclassified to profit or loss:		
Currency translation of financial statements of foreign group companies	-5.7	-3.3
Currency translation of long-term loans classified as net investments in foreign group companies	-7.8	-7.5
Change in fair value of cash flow hedges	0.1	3.5
Deferred taxes for this category	-4.7	-5.2
Sub-total (a)	**-18.1**	**-12.5**
Items not to be reclassified to profit or loss:		
Actuarial gains and losses on defined benefit obligations	-86.8	-86.8
Valuation results on securities *	-0.1	0.1
Deferred taxes for this category	25.2	25.2
Sub-total (b)	**-61.7**	**-61.5**
Total revaluation surplus [(a)+(b)]	**-79.8**	**-74.0**

* Prior-period amounts restated: Non-current investments (see note 2) are recognised using the fair value option in accordance with IFRS 9 (see note 18).

8. Non-current and current provisions for personnel

The main decrease within non-current provisions for personnel related to the provision for partial retirement and anniversary programmes. The change in current provisions for personnel is primarily due to the payment of variable remuneration components for 2017.

9. Non-current and current financial liabilities

Non-current financial liabilities did not change significantly in the first half of the year. The change in current financial liabilities was mainly attributable to the utilization of interim finance.

10. Other non-current and current liabilities

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

in € million	30/6/2018		31/12/2017	
	current	non-current	current	non-current
Bonus liabilities (a)	33.1	-	43.7	-
Personnel liabilities (a)	23.3	0.1	20.1	0.2
Advance payments	11.1	-	11.5	-
Other tax liabilities	10.8	-	12.1	-
Deferred income	2.4	1.7	1.1	1.7
Change in fair value of hedging instruments	0.8	0.5	0.8	0.2
Miscellaneous liabilities	2.6	2.4	3.2	2.6
Other liabilities (total)	**84.1**	**4.7**	**92.5**	**4.7**

(a) Seasonal change

NOTES ON SELECTED ITEMS OF THE CONSOLIDATED INCOME STATEMENT

11. Revenue

The application of IFRS 15 "Revenue from Contracts with Customers" means that income from Villeroy & Boch's licence business in the amount of € 3.0 million has been reported in revenue since 1 January 2018, having previously been reported in other operating income until 31 December 2017 (see note 13). The prior-period figures were not restated. Revenue is broken down in the segment report.

12. Selling, marketing and development costs

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

in € million	2018		2017	
	H1	Q2	H1	Q2
Bathroom and Wellness	-5.8	-3.0	-5.6	-2.9
Tableware	-1.8	-0.9	-1.8	-0.9
Research and development costs (total)	**-7.6**	**-3.9**	**-7.4**	**-3.8**

13. Other operating income and expenses

Other operating income and expenses decreased by € 2.0 million to € -0.1 million in the first half of 2018. This was primarily due to the change in presentation concerning the licence income generated in the amount of € 3.0 million, which is reported in revenue for the first time starting from the current financial year (see note 11). In the comparative prior-year period, other operating income included licence income of € 4.3 million.

14. Financial result

The financial result is broken down as follows:

in € million	2018		2017	
	H1	Q2	H1	Q2
Financial income	0.5	0.2	0.6	0.3
Finance expenses	-1.1	-0.5	-1.9	-0.9
Interest expenses for provisions (pensions)	-1.6	-0.8	-1.3	-0.7
Net finance expense (total)	**-2.2**	**-1.1**	**-2.6**	**-1.3**

15. Income taxes

The main components of income tax expense are as follows:

in € million	2018		2017	
	H1	Q2	H1	Q2
Current income taxes	-3.7	-1.4	-4.6	-2.5
Deferred taxes	-1.3	-0.6	0.0	0.7
Income taxes (total)	**-5.0**	**-2.0**	**-4.6**	**-1.8**

OTHER NOTES

16. Human resources

Personnel expenses and the number of employees are broken down as follows:

in € million	2018		2017	
	H1 Staff costs in € million	30/6 Employees (FTEs)	H1 Staff costs in € million	30/6 Employees (FTEs)
Bathroom and Wellness	-85.5	5,115	-80.6	5,128
Tableware	-46.7	1,906	-47.4	1,946
Other	-15.5	478	-15.4	464
Total	**-147.7**	**7,499**	**-143.4**	**7,538**

17. Contingent liabilities and commitments and financial obligations

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

in € million	30/6/2018	31/12/2017
Guarantees	45.6	42.8
Obligations to acquire property, plant and equipment	13.0	2.1
Trustee obligations	-	0.1
Obligations to acquire intangible assets	0.1	0.1
Total	**59.3**	**45.1**

18. Financial instruments

Primary and derivative financial instruments are reported in a wide range of items in the Villeroy & Boch consolidated statement of financial position. Following the first-time application of IFRS 9, all financial instruments were reclassified as of 1 January 2018 to reflect their contractual cash flows and the nature of the respective business model. A reconciliation can be found in the interim report on the first quarter of 2018. As previously, financial instruments are recognised at amortised cost or fair value. As at 30 June 2018, the financial instruments recognised for each item of the statement of financial position were as follows:

in € million	30/6/2018			31/12/2017		
Asset-side items containing financial instruments:	Carrying amount	**Carrying amount at** Cost	Fair value	Carrying amount	**Carrying amount at** Cost	Fair value
Assets						
Cash and cash equivalents (note 6)	52.4	52.4	-	108.7	108.7	-
Trade receivables (note 4)	132.8	132.8	-	127.2	127.2	-
Other financial assets (note 2)	16.9	8.2	8.7	14.8	6.1	8.7
Other assets (note 5)	15.7	11.5	4.2	17.5	13.0	4.5
Total asset-side instruments	217.8	204.9	12.9	268.2	255.0	13.2

Financial liabilities are also reported as follows in accordance with IFRS 9:

in € million	30/6/2018			31/12/2017		
Liability-side items containing financial instruments:	Carrying amount	**Carrying amount at** Cost	Fair value	Carrying amount	**Carrying amount at** Cost	Fair value
Equity and liabilities						
Trade payables	85.6	85.6	-	83.5	83.5	-
Financial liabilities (note 9)	55.5	55.5	-	51.1	51.1	-
Other liabilities (note 10)	50.5	49.2	1.3	61.8	60.8	1.0
Total liability-side instruments	191.6	190.3	1.3	196.4	195.4	1.0

19. Related party disclosures

No material contracts were concluded with related parties in the period under review. The pro rata transaction volume is largely the same as in the 2017 annual financial statements. All transactions are conducted at arm's-length conditions.

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

The shareholders elected the following members to the Supervisory Board at this year's General Meeting of Shareholders: Dr. Alexander von Boch-Galhau, Yves Elsen, Christina Rosenberg, Louis de Schorlemer, Prof. Dr. Annette G. Köhler. Bärbel Werwie and Thomas Kannengießer joined the Supervisory Board for the first time as employee representatives. Peter Prinz Wittgenstein, Dr. Renate Neumann-Schäfer, Susanne Ollmann, Francesco Grioli and Werner Jäger stepped down from the Supervisory Board. Ms. Sabine Süpke was appointed by court to the Supervisory Board as an employee representative with effect from 18 April 2018.

21. Events after the end of the reporting period

No further significant events occurred by the time the interim report was approved for publication.

FINANCIAL CALENDAR

19 October 2018	Report on the first nine months of 2018
7 February 2019	Annual press conference for the 2018 financial year
29 March 2019	General Meeting of Shareholders of Villeroy & Boch AG

This interim report is available in English and German. In the event of variances, the German version shall take precedence over the translation. 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.