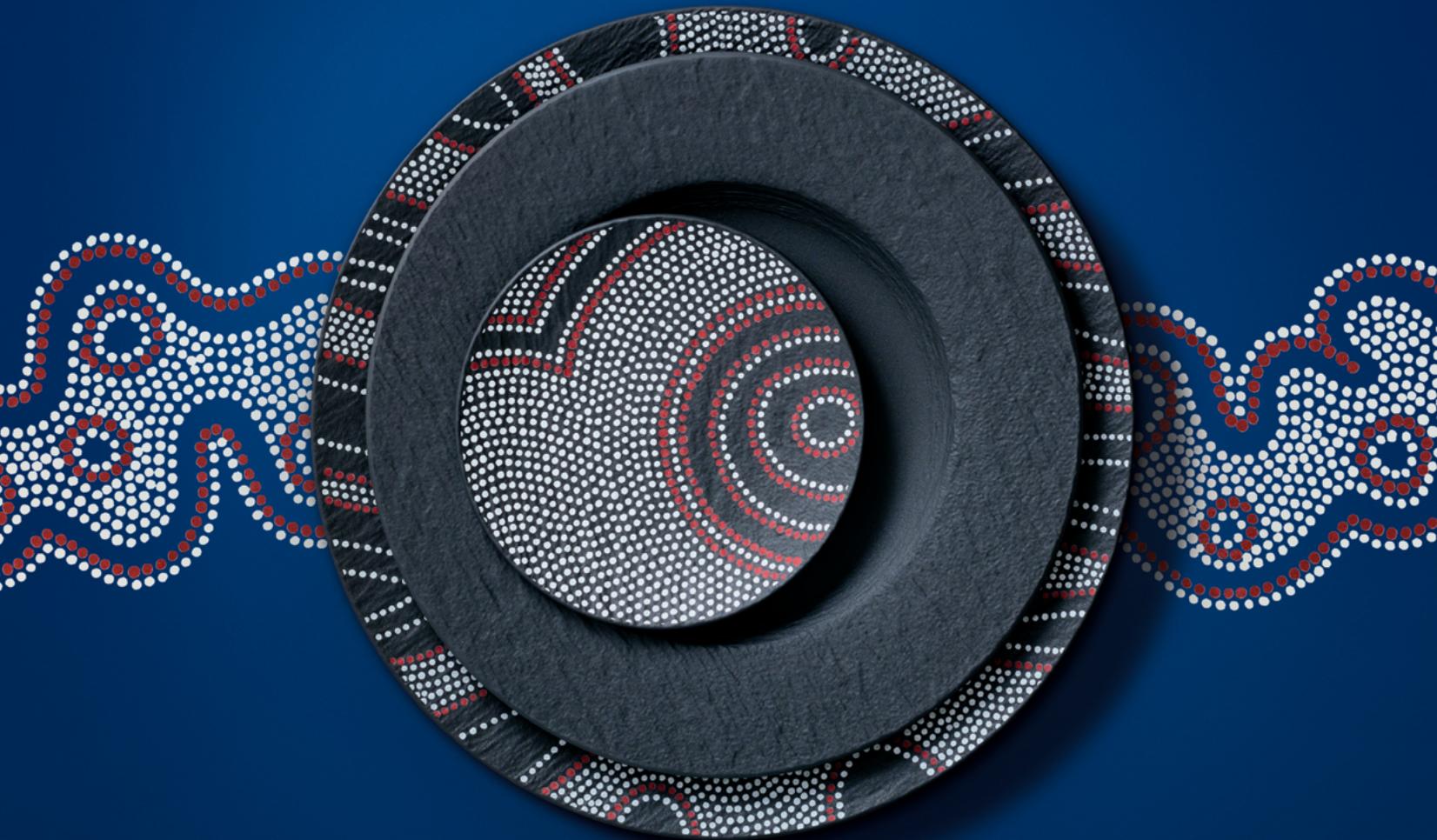




Villeroy & Boch

1748



ANNUAL REPORT  
2018

# THE GROUP AT A GLANCE

## VILLEROY & BOCH

in the 2018 financial year

in € million

		<b>2018</b>	2017	Change in %
Revenue		853.1	836.5	2.0%
Revenue – Germany		241.2	240.9	0.1%
Revenue – Abroad		611.9	595.6	2.7%
EBITDA		77.1	76.0	1.4%
EBIT		53.6	49.8	7.6%
EBT		49.2	45.4	8.4%
Group result		33.9	29.8	13.8%
Net operating assets (12 months average)		320.4	280.4	14.3%
Balance sheet total		681.6	687.1	-0.8%
Investments		43.6	35.9	21.4%
Depreciation and amortisation		23.5	26.2	-10.3%
Employees (annual average)		8,018	8,090	-0.9%
Return on net operating assets	in %	16.7	17.7	-1.0 pp
Net operating margin	in %	6.3	6.0	0.3 pp
Return on equity	in %	16.2	15.3	0.9 pp
Equity ratio (incl. minority interests)	in %	30.7	28.3	2.4 pp
Earnings per ordinary share	in €	1.25	1.11	12.6%
Earnings per preference share	in €	1.30	1.16	12.1%
Dividend per ordinary share	in €	0.55	0.52	5.8%
Dividend per preference share	in €	0.60	0.57	5.3%

# CONTENT

## 02 TO OUR SHAREHOLDERS

03	Letter to Shareholders
06	Executive Bodies of the Company
08	Report of the Supervisory Board
12	Corporate Governance Report
18	Villeroy & Boch's Shares

## 21 GROUP MANAGEMENT REPORT

22	Basic Information on the Group
27	Economic Report
35	Sustainability
36	Report on Risks and Opportunities
47	Report on Expected Development
48	Other Disclosures
48	Remuneration Report
49	Combined Responsibility Statement

## 51 CONSOLIDATED FINANCIAL STATEMENTS

52	Consolidated Balance Sheet
54	Consolidated Income Statement

55	Consolidated Statement of Comprehensive Income
56	Consolidated Statement of Equity
57	Consolidated Cash Flow Statement

## 58 NOTES

58	General Information
69	Notes to the Consolidated Statement of Financial Position
96	Notes to the Consolidated Statement of Comprehensive Income
100	Notes to the Consolidated Statement of Cash Flows
101	Notes to the Group Segment Report
104	Other Notes

## 120 ADDITIONAL INFORMATION

120	Independent Auditor's Report
126	Mandates of the Management Board and the Supervisory Board
128	Company Calendar 2019
128	Imprint

# DIVISIONS

## BATHROOM AND WELLNESS (in the 2018 financial year)

		in € million		
		2018	2017	Change in %
Revenue		584.3	558.1	4.7
EBIT		47.3	41.0	15.4
Net operating margin	in %	8.1	7.3	0.8 pp
Return on net operating assets	in %	23.4	23.5	-0.1 pp

## TABLEWARE (in the 2018 financial year)

		in € million		
		2018	2017	Change in %
Revenue		266.2	278.4	-4.4
EBIT		6.3	8.8	-28.4
Net operating margin	in %	2.4	3.2	-0.8 pp
Return on net operating assets	in %	3.5	11.9	-8.4 pp



# TO OUR SHAREHOLDERS

- 03 Letter to Shareholders
- 06 Executive Bodies of the Company
- 08 Report of the Supervisory Board
- 12 Corporate Governance Report
- 18 Villeroy & Boch's Shares

# LETTER TO SHAREHOLDERS



FRANK GÖRING  
Chairman of the Management Board

*Dear Shareholders,*

2018 was a good year for Villeroy & Boch in which we became even more profitable. While revenue increased by 2.0 % in nominal terms and 2.8 % on a constant currency basis and adjusted for licence effects to € 853.1 million, we recorded above-average EBIT growth for the eight year in succession, this time by 7.6 % to € 53.6 million. With the EBIT margin now amounting to 6.3 %, we are continuing to approach our medium-term target of 7.0 %. The return on net operating assets – our third key performance indicator – amounted to 16.7 % compared to 17.7 % in the previous year. Our substantial investments of € 43.6 million and the necessary increase in inventories to restore delivery capacity in the Bathroom and Wellness Division served to increase net assets and hence reduce the return, but we are very satisfied with this high level of well over 15 %.

The Group result saw even stronger growth than EBIT, increasing by 13.8 % to € 33.9 million. This was due to the lower tax expense after our tax rate had been impacted by the US tax reform in the previous year.

All in all, dear shareholders, we can look back on a fundamentally successful financial year with positive performance in terms of revenue and earnings, which also means higher profit-sharing. At the General Meeting of Shareholders on 29 March 2019, the Management Board and the Supervisory Board will be proposing the payment of a dividend of € 0.55 per ordinary share and € 0.60 per preference share, an increase of € 0.03 on the previous year in each case.

My colleagues on the Management Board and I are aware that this continuous positive development is not something that should be taken for granted, particularly in light of the challenges facing the global economy. The results we have achieved are thanks in particular to our rigorous cost discipline. Our employees have been exemplary in their support for this path, and I would like to take this opportunity to thank them.

Having looked at the key financial data, I would now like to tell you about the developments and projects that demanded our attention in 2018 and will continue to do so in 2019.

We are extremely proud of the fact that we were able to build on our above-average growth in the Asia-Pacific economic area, with the Bathroom and Wellness Division alone exceeding revenue of € 100 million for the first time. China again saw outstanding revenue growth of 32 % to € 66.7 million. In absolute terms, we enjoyed stronger growth in this market than ever before. In other words, our regional product and distribution strategy is paying off – thanks among other things to the ViClean shower toilet collection, with which we generated global revenue of around € 28 million. However, our market success in China is also down to the fact that we are reliably addressing customer demand, partially from Europe but primarily through our production site in Saraburi, Thailand. We are currently investing heavily in this site in light of our continuous APAC growth, including € 2.7 million in 2018, and the next phase of expansion with a significantly higher investment volume is currently being planned.

We also invested in other locations such as Mettlach, where we are increasing the capacity for our rimless DirectFlush WCs, a product that remains extremely popular: After around 735,000 units in 2017, we sold almost 920,000 in the past year. Looking back on the past ten years, we can safely say that the gradual shift in our portfolio from the traditional to the rimless toilet was the best decision we could have made. In 2018, revenue in our core business of ceramic sanitary ware increased by 6 % to almost € 390 million. Across all markets and product segments, we recorded revenue growth of 4.7 % in nominal terms and 6.3 % on a constant currency basis in the Bathroom and Wellness Division, while EBIT improved by as much as 15.4 %.

By contrast, revenue in the Tableware Division fell by 4.4 %. There were three reasons for this. Firstly, we were unfortunately unable to deliver our new products to customers as planned. Although this meant we lost out on around € 3.5 million in revenue, this represents good additional potential for 2019. Secondly, the market conditions are continuing to change hugely due to the digitalisation of the retail landscape. The trend of demonstrably fewer people out shopping is continuing. Germany saw a decline in footfall of 5 %, for instance, and this phenomenon is being observed across national borders. We responded by continuing to optimise our store portfolio, closing a total of 19 locations and opening just seven new stores in promising locations. In doing so, we are actively foregoing revenue in favour of supporting a medium-term improvement in our earnings performance. Another reason for the lower revenue in the 2018 financial year was – as in 2017 – our revised discount system for dealers, particularly in volume business. We priced in the fact that

our decision of allowing more restrictive discounts would again lead to a reduction in revenue. However, this remains the correct decision from a strategic perspective, as it allows us to maintain and protect our brand and hence the heart of our identity.

Looking to the future, as you may have seen in the media, Gabi Schupp has been appointed as the Management Board member responsible for the Tableware Division. A recognised brand and consumer goods expert, she succeeded Nicolas Luc Villeroy in February 2019 after he stood down from the Management Board to devote himself to other tasks following over 30 years with the company. We would like to thank him for his outstanding commitment from the very first day until the last.

One of Gabi Schupp's main tasks will be to implement the strategic reorientation. This includes the revised brand architecture. With the sub-labels of Vivo for customer loyalty programmes and licence business and Like for furniture retail and e-commerce, we intend to continue to participate in the growth in volume channels, but not at the expense of the main Villeroy & Boch brand. Above our main brand, we are also introducing a high-end label aimed at premium customers in particular. Villeroy & Boch Signature will be available in a selected range in prestigious stores. The second element of the reorientation is the further expansion of our digital business, which currently accounts for 17% of Tableware revenue. The key to success here is leveraging additional potential from the direct one-to-one relationship with customers and fans of our brand. Our Privilege Club now has over 400,000 registered members whom we intend to address far more individually in future than we have to date. This will be aided by the introduction of the Salesforce CRM system, which we have been working on with maximum priority since 2018. In order to address customers individually, we naturally also require a broad range of products, including full tableware sets, modern mini-series designed specifically for young buyer groups and individual items in different price categories for regular spontaneous purchases. This realignment of our product range structure with a greater focus on topics, gifts and impulse buys is the third and final element of our reorientation. The customer enthusiasm we encountered at the Ambiente trade fair in February 2019 and the considerable passion of our sales and marketing team leave us in no doubt that this reorientation will put us on the right track.

Dear readers: Despite the macroeconomic and political risks that can negatively influence our business, we are fundamentally optimistic for the future. This is because our committed and passionate employees mean we are able to resolve the strategic and operational tasks facing us even better than before. This is appreciated by our loyal customers and business partners and our shareholders alike.

Yours,



Frank Göring, Chairman of the Management Board  
Mettlach, March 2019

## MEMBERS OF THE MANAGEMENT BOARD



**FRANK GÖRING**  
Chief Executive Officer  
Responsibility: Strategy, Human Resources, Legal, Compliance, M&A, Public Relations, Digitisation and Innovation



**DR. MARKUS WARNCKE**  
Chief Financial Officer  
Responsibility: Finance, Taxes, Investor Relations, IT, Purchasing, Real Estate and Corporate Audit



**ANDREAS PFEIFFER**  
Management Board member responsible for Bathroom and Wellness Division



**GABI SCHUPP**  
Management Board member responsible for Tableware Division

## MEMBERS OF THE SUPERVISORY BOARD



THOMAS  
KANNENGIESSER

CHRISTINA  
ROSENBERG

DOMINIQUE  
VILLEROY  
DE GALHAU

DIETMAR  
LANGENFELD

PROF. DR. ANNETTE  
G. KÖHLER

SABINE  
SÜPKE

DIETMAR  
GEUSKENS

LOUIS  
DE SCHORLEMER

DR. ALEXANDER  
VON BOCH-GALHAU  
Second Vice  
Chairman of the  
Supervisory Board

RALF  
RUNGE  
First Vice Chairman  
of the Supervisory  
Board

LUITWIN-GISBERT  
VON BOCH-GALHAU  
Honorary member  
of the Supervisory  
Board

YVES  
ELSEN  
Chairman of the  
Supervisory Board

BÄRBEL  
WERWIE

For details on the mandates held by members of the Supervisory Board, please refer to page 126.

# REPORT OF THE SUPERVISORY BOARD

*Dear Shareholders,*

In the 2018 financial year, the Supervisory Board performed the duties prescribed to it by law and the Articles of Association in full. It monitored the course of business and the activities of the Management Board and advised the Management Board in managing the Company. The Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and the individual divisions, including the risk situation and risk management, comprehensively, continuously and in a timely manner in both written and oral reports. The Supervisory Board was also directly involved in all decisions of material importance to the Company, allowing it to intensively advise on the relevant matters at its meetings. In its resolutions, the Supervisory Board approved the proposed resolutions by the Management Board and the Committees following its own detailed examination and discussion.

## **KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD**

In the 2018 financial year, the Supervisory Board held six ordinary meetings and adopted three resolutions by written circulation procedure (combined resolution). No member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board or the committees of which they are members. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times.

## **KEY TOPICS ADDRESSED IN THE PAST FINANCIAL YEAR**

The balance sheet meeting in February 2018 focused on discussing the annual and consolidated financial statements for 2017 and on their approval and adoption by the Supervisory Board. The agenda for the General Meeting of Shareholders was also adopted. With regard to Management Board remuneration, the Supervisory Board examined target fulfilment for 2017. Furthermore, the Management Board informed the Supervisory Board of the Group's current position.

The Supervisory Board met for one meeting, the content of which was the discussion of and further proceedings in the EU Bathroom Case, in March 2018, before it convened for its constituent meeting following the General Meeting of Shareholders. The content of this meeting was the proceedings and results of the General Meeting of Shareholders in addition to the election of the Chairman of the Supervisory Board, his deputy and the members of the committees of the Supervisory Board.

The main items at the meetings in June and September 2018 were business development and strategic Group projects. Furthermore, the meeting in June was a discussion on the earnings report and the selection recommendation in the context of the invitation to tender for the audit of the annual and consolidated financial statements.

The meeting in November 2018 focused on the discussion of the figures as at 31



YVES ELSSEN  
Chairman of the Supervisory Board

October 2018 and the resulting orientation for the consolidated and single-entity financial statements for 2018, the sustainability report and the integrated combined, separate, non-financial report of the Villeroy & Boch Group and Villeroy & Boch AG, the Management Board's report on the position of the Group and the review of the risk management system. Furthermore, the updated declaration of compliance (section 161 AktG) was issued at the meeting and the mandates held by Management Board members in subsidiaries were approved. The meeting also adopted the annual planning for 2019 and the objectives of the Management Board members for 2019. Moreover, Ms Gabi Schupp was appointed as a further member of the Management Board of Villeroy & Boch AG at this meeting.

Resolutions on the members of the committees, further procedure in the EU bathroom case and Management Board affairs were adopted by combined methods. Members of the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee to discuss current issues. This served to ensure that the Supervisory Board was informed about the Company's current operational development, significant transactions, the risk situation and risk management, and the development of key financial indicators at all times.

#### **REPORT ON THE COMMITTEES**

To ensure that the work of the Supervisory Board is performed efficiently, it is conducted to a large extent by the four committees formed for this purpose. The Audit Committee held seven regular meetings in the year under review. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on the audit of the 2017 annual financial statements at the meeting in January. The meeting also resolved to recommend that the Supervisory Board again nominates Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the annual and consolidated financial statements for the 2018 financial year at the General Meeting of Shareholders and discussed the preparations for the invitation to tender for the audit of the annual and consolidated financial statements. At two further meetings in April

and May, written offers received in the tender procedure were reviewed and assessed, pitches were presented and talks were held. The meeting in July discussed the results of the tender and the implementation of the General Data Protection Regulation at Villeroy & Boch. In September, key audit matters, the voluntary audit of the non-financial declaration and key points of the forthcoming audit of the annual and consolidated financial statements were discussed with the auditor. The main topics discussed at the meeting in November 2018 were the preparation for the forthcoming Supervisory Board meeting, and in particular the status of the preliminary audit of the consolidated and single-entity financial statements by the auditor, the non-financial Group report and the approval of non-audit services by the auditor in the year under review.

The Investment Committee met once in the year under review. The meeting of the Investment Committee in November 2018 prepared the corporate and investment planning for 2019 and the medium-term planning for resolution by the Supervisory Board.

The members of the Human Resources Committee met twice in 2018 to discuss target attainment in the 2017 financial year, the target agreements for the Management Board for the 2019 financial year, the change in the Management Board and the terms of Management Board contracts. A decision on these matters was made by written procedure.

The Conciliation Committee formed in accordance with section 27 (3) of the German Codetermination Act (MitbestG) did not meet in the year under review.

The Supervisory Board was regularly informed about the work of the committees by the respective chairmen.

#### **PERSONNEL CHANGES IN THE SUPERVISORY BOARD**

The term in office of the Supervisory Board members Francesco Grioli, Werner Jäger, Susanne Ollmann and Peter Prinz Wittgenstein ended after the General Meeting of Shareholders on 27 March 2018. Dr Renate Neumann-Schäfer also stepped down after this General Meeting of Shareholders for personal reasons. The General Meeting of Shareholders re-elected the shareholder representatives Dr Alexander von Boch-Galhau, Yves Elsen and Christina Rosenberg in addition to electing Prof. Annette Köhler and Louis de Schorlemer as new members of the Supervisory Board. The employee representatives elected Thomas Kannengießler and Bärbel Werwie to the Supervisory Board. Roland Strasser's seat as a union representative remained vacant as it was not possible to achieve the gender ratio among employee representatives required by section 7(3) MitbestG. Instead, Sabine Süpke was appointed to the Supervisory Board as a union representative by way of resolution of the Saarbrücken Local Court dated 18 April 2018.

#### **AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS**

The annual financial statements and the Management Report of the Villeroy & Boch AG as well as the IFRS consolidated financial statements and the Management Report of the Villeroy & Boch Group for the 2018 financial year were audited by the auditor elected by the General Meeting of Shareholders, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and issued with an unqualified audit opinion. These documents and the reports by the auditor were made available to all members of the

Audit Committee and the Supervisory Board in good time before the balance sheet meeting. The Audit Committee discussed the annual financial statements in January and February 2019. The annual financial statements were also discussed intensively at the balance sheet meeting of the full Supervisory Board in February 2019. At both meetings, the auditor reported on the audit as a whole and the individual focal points and key findings of the audit and answered all of the Audit Committee's and the Supervisory Board's questions in detail. In particular, the auditor expressed an opinion as to whether there were any material deficiencies in the internal control and risk management system with regard to the financial reporting process and did not express any objections in this respect. The auditor also stated that there were no circumstances that could give rise to grounds for concern as to its impartiality and provided the Supervisory Board with information on the services performed in addition to the audit of the annual financial statements. The Supervisory Board concurred with the audit report and the findings of the audit.

The Supervisory Board examined the annual and consolidated financial statements as well as the management report and the Group management Report for the 2018 financial year, taking into account the report by the auditor, and the proposal by the Management Board on the appropriation of retained earnings. Following its own examination, the Supervisory Board approved the annual financial statements prepared by the Management Board at its balance sheet meeting in February 2019 in accordance with the recommendation by the Audit Committee. The annual financial statements have therefore been adopted in accordance with section 172 of the German Stock Corporation Act.

The Supervisory Board also approved the consolidated financial statements and Group management report of Villeroy & Boch AG. The Supervisory Board concurred with the proposal by the Management Board on the appropriation of retained earnings.

Following the recommendation of the Audit Committee in accordance with sections 170 and 171 AktG, the Supervisory Board examined the lawful, proper and appropriate reporting in the non-financial Group report and conducted a critical review of the methods and procedures used by the Management Board and the processes applied in data collection. The Supervisory Board was aided in the performance of its statutory audit duties by an external audit of the integrated content of the non-financial report. Based on the final results of this examination, it approved the non-financial Group report prepared by the Management Board. The non-financial Group report is published on the following website:

[www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports](http://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports).

The Supervisory Board would like to thank its members who have stepped down in the past financial year for the many years of trusting cooperation. The Supervisory Board would also like to thank the members of the Management Board and all the employees of the Villeroy & Boch Group for their great personal commitment, and our shareholders for the trust they have shown us.

For the Supervisory Board



Yves Elsen, Chairman  
Mettlach, February 2019

# CORPORATE GOVERNANCE REPORT

In accordance with section 3.10 of the German Corporate Governance Code, the Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance at Villeroy & Boch in the following report. This report contains the declaration on corporate governance in accordance with sections 289f, 315d of the German Commercial Code (HGB).

Good corporate governance aimed at creating sustainable value through responsible corporate management is of fundamental importance for Villeroy & Boch. It serves as the foundation for promoting the trust of investors, journalists, customers, employees and the public. Accordingly, the recommendations and suggestions of the Government Commission of the German Corporate Governance Code constitute the basis for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

## DECLARATION ON CORPORATE GOVERNANCE

### RESPONSIBLE MANAGEMENT

The Management Board of Villeroy & Boch AG is responsible for managing the Company as the governing body with the aim of creating short-term and long-term value. The workings of the Management Board are determined by corresponding Rules of Procedure. Resolutions are adopted at meetings of the Management Board, which generally take place at least twice a month.

The Supervisory Board appoints, advises and monitors the Management Board. Its workings and allocations of responsibilities are established in corresponding Rules of Procedure. Ordinary meetings of the Supervisory Board are held at least four times a year. The Supervisory Board is provided with continuous, timely information in the form of written and oral reports by the Management Board and is involved in all decisions of material importance to the Company.

### COMPOSITION OF THE MANAGEMENT BOARD

The Management Board of Villeroy & Boch AG currently consists of four members. The members of the Management Board are appointed by the Supervisory Board in accordance with the provisions of the German Codetermination Act. In appointing members to the

Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates. With respect to the overall composition of the Management Board, it seeks to ensure diversity and compliance with the self-imposed target for the share of women. In making appointments to the Management Board, the Supervisory Board seeks to take adequate account of diversity, particularly with respect to age, cultural background and educational and professional background.

### COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Villeroy & Boch AG is composed of twelve members, six of whom are elected by the General Meeting of Shareholders (shareholder representatives) and six of whom are elected by the Company's employees in accordance with the provisions of the German Codetermination Act (employee representatives). The term of office of members of the Supervisory Board is normally five years. The Supervisory Board is of the opinion that its composition is an important factor in successfully performing its diverse tasks to the optimal benefit of the Company.

In accordance with the recommendation of Section 5.4.1 of the German Corporate Governance Code, it has therefore determined concrete objectives regarding its composition and prepared a profile of skills and expertise for the entire Supervisory Board.

The composition of the Supervisory Board of Villeroy & Boch AG should be such that the Management Board will be subject to informed monitoring by and receive expert advice from the Supervisory Board at all times. The candidates proposed for election to the Supervisory Board should be in a position, thanks to their knowledge, skills and professional experience, to perform the tasks of a Supervisory Board member in an internationally active company and to safeguard the reputation of the Villeroy & Boch Group with the public. In the process, special attention should be paid to the personality, integrity, commitment, professionalism and independence of the persons proposed for election. The individual knowledge, skills and experience of the individual members of the Supervisory Board should complement each other in such a way that there is sufficient professional expertise

available for the work of the Supervisory Board as such and for the business activities of each division at all times to guarantee that the Management Board is monitored professionally and efficiently and provided with advice on a continuous basis. In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience. Diversity is also taken into account when selecting potential candidates for vacant positions on the Supervisory Board, particularly with respect to age, cultural background and educational and professional background.

In accordance with the statutory provisions and its Articles of Association, the Supervisory Board of Villeroy & Boch AG is composed of six shareholder representatives and six employee representatives. Following the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector ("German Equality Act"), there is a 30 % minimum ratio for women and men on the Supervisory Board, which is taken into account in new appointments. By way of a resolution dated 5 October 2017, the shareholder representatives on the Supervisory Board objected to the statutory minimum share of men and women being fulfilled at the level of the entire Supervisory Board. The minimum share must therefore be fulfilled separately by both the shareholder representatives and the employee representatives. This means the shareholder representatives and the employee representatives must each be composed of at least 30% women and 30% men. The shareholder representatives and the employee representatives must each include at least two women and two men. In the election of employee representatives to the Supervisory Board on 24 January 2018, one woman was elected as an employee representative. This meant the gender quota set out in section 7 (3) of the German Co-determination Act (MitbestG) was not achieved. Accordingly, one position on the Supervisory Board was left unoccupied. By way of resolution of the Saarbrücken Local Court dated 18 April 2018, this vacancy has been filled by Sabine Süpke in accordance with section 18a (2) MitbestG. The minimum share is fulfilled by the shareholder representatives and the employee representatives.

The Supervisory Board should have a sufficient number of independent members. Significant conflicts of interest that are not merely temporary should be avoided.

With Yves Elsen, Prof. Dr. Annette Köhler, Christina Rosenberg, Dietmar Geuskens and Sabine Süpke, the

Supervisory Board has an appropriate number of members without significant personal or business relationships with the company, its governing bodies, a controlling shareholder or a company affiliated with a controlling shareholder.

The Supervisory Board members should also have sufficient time to perform their functions such that they can do so with the requisite regularity and diligence. The regulation on the age limit set out by the Supervisory Board in its Rules of Procedure will be taken into account, as will the standard limit on length of membership. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board.

Future amendments to the German Corporate Governance Code will also be taken into account.

The Supervisory Board is of the opinion that, on the whole, its current members have the necessary knowledge, skills and professional experience to properly perform their tasks and that its objectives for the composition of the Supervisory Board have been fulfilled. As a whole, it is familiar with the sector in which it operates and also has comprehensive industry knowledge in the Audit Committee.

#### **FINDINGS ON THE PROMOTION OF WOMEN IN MANAGEMENT POSITIONS IN ACCORDANCE WITH SECTIONS 76 (4) AND 111 (5) OF THE GERMAN STOCK CORPORATION ACT**

Since 2011, the Management Board and Supervisory Board have adopted a Group-wide policy for promoting diversity and an appropriate proportion of women in management positions. Furthermore, on account of the 2015 German Equality Act, Villeroy & Boch AG has set targets for the share of female members of the Management Board and the next two levels of management as well as a deadline by which these shares must be achieved.

On 27 June 2017, the Management Board resolved a target of 35% for the first and second levels of management below the Management Board. At the reporting date, women occupied 35.7% of the positions in the two levels of management below the Management Board. The long-term target remains for women to occupy 40% of the positions in both levels of management.

Taking into account the company-specific situation, and in particular the purpose and size of the company, on 24 April 2017 the Supervisory Board resolved a target of 0% for the share of women in the Management Board of Villeroy & Boch AG for the aforementioned period. In line

with the principle of diversity, the Supervisory Board has and will take gender into account in future appointments to the Management Board, but will continue to be guided primarily by the knowledge, skills and experience of the candidates in order to ensure that these statutory duties are performed correctly and conscientiously. Following the appointment of Gabi Schupp as at 1 February 2019, the Management Board now consists of three men and one woman.

### **TRUST-BASED COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD**

The cooperation between the Management Board and Supervisory Board was again characterised by open, trust-based communication in 2018. This was seen in the meetings of the Supervisory Board and in the discussions between members of the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. In the year under review, the reports by the Management Board to the Supervisory Board focused specifically on the direction and implementation of corporate strategy, the company's business development, the Group's position and questions relating to the risk situation, risk management, the internal control system, the recognition and evaluation of non-financial performance indicators and compliance management.

The Supervisory Board's right to withhold approval in certain cases is laid down in the Rules of Procedure for the Supervisory Board and the Management Board. This especially applies to significant transactions or measures affecting the net assets, financial position and results of operation of Villeroy & Boch AG.

### **SUPERVISORY BOARD COMMITTEES**

To allow it to perform its tasks efficiently and deal with complex issues more intensively, the Supervisory Board has formed three expert committees in addition to the Conciliation Committee prescribed by section 27 (3) of the German Codetermination Act. The activities of the committees are governed by the Rules of Procedure for the respective committees.

By law, the Conciliation Committee prescribed by section 27 (3) of the German Codetermination Act must be established in order to perform the task set out in section 31 (3) sentence 1 of the German Codetermination Act. It submits proposals for the appointment or the revocation

of the appointment of Management Board members to the Supervisory Board if the requisite majority of two-thirds of the votes of Supervisory Board members is not reached in the first ballot. The Conciliation Committee consists of the Chairman and First Vice Chairman of the Supervisory Board, one shareholder representative and one employee representative. The current members are Yves Elsen (Chairman), Ralf Runge (First Vice Chairman), Dr Alexander von Boch-Galhau and Dietmar Geuskens.

The Human Resources Committee primarily deals with the conclusion as well as the amendment and termination of the employment contracts of Management Board members and long-term succession planning. It prepares the appointment and dismissal of members of the Management Board, the remuneration system for the Management Board and the total remuneration for the individual members of the Management Board, including contractual bonus provisions, pension provisions and other contractual benefits, for resolution by the full Supervisory Board. It is chaired by the Chairman of the Supervisory Board and also includes one employee representative and one shareholder representative. The current members are Yves Elsen (Chairman), Christina Rosenberg and Sabine Süpke.

The tasks of the Investment Committee include advising on corporate and investment planning in advance and preparing investment decisions. The Investment Committee is chaired by the Chairman of the Supervisory Board and also includes one shareholder representative and one employee representative. The current members are Yves Elsen (Chairman), Dr Alexander von Boch-Galhau (Vice Chairman) and Dietmar Langenfeld.

The Audit Committee addresses the topics of accounting, risk management, the internal control and audit system, reporting of non-financial information, compliance and issues relating to the audit of the annual financial statements. It is composed of a financial expert in accordance with section 100 (5) AktG and one representative each for the shareholders and the employees. These are currently Prof. Annette Köhler (Chairwoman), Dietmar Geuskens (Vice Chairman) and Dominique Villeroy de Galhau. The Chairwoman of the Audit Committee is independent and is qualified as an independent expert within the meaning of section 100 (5) AktG thanks to her professional background as the Professor for Business Administration and Chair of Accounting, Auditing and Controlling at the University of Duisburg-Essen.

A separate Nomination Committee has not been formed to propose candidates to the General Meeting of Shareholders. Proposals for election have been and will continue to be prepared at shareholder representatives' meetings.

The chairmen of the committees report to the full Supervisory Board on the work of the committees. Information on the key contents of the committee meetings in the past financial year can be found in the Report of the Supervisory Board.

#### **PREVENTION OF CONFLICTS OF INTEREST**

The members of the Management Board and the Supervisory Board have a duty to uphold the interests of the Company and not to pursue any personal interests that could clash with those of the Company in fulfilling their duties. All members of the Management Board and the Supervisory Board are obliged to disclose any potential conflicts of interest to the Supervisory Board. There are no significant personal or business relationships with governing bodies, shareholders or affiliated companies. Roles in other statutory supervisory boards and comparable domestic and foreign controlling bodies of commercial enterprises held by members of the Management Board and the Supervisory Board can be found in this report as well. Links with related parties are shown in the notes to the consolidated financial statements.

#### **EFFICIENCY REVIEW**

The Supervisory Board of Villeroy & Boch AG performs a regular efficiency review, most recently at its meeting on 5 February 2019 for the fiscal year 2018. This is a self-assessment of the workings of the Board and is carried out by its members. The efficient work of the Supervisory Board is driven in particular by the work of the committees, which meet as required and, if they do not have their own decision-making authority, prepare the resolutions to be passed by the full Supervisory Board.

#### **MANAGERS' TRANSACTIONS**

The managers' transactions reported to us in the 2018 financial year are published on the following website:  
<http://www.villeroyboch-group.com/en/investor-relations/financial-news/managers-transactions.html>

At the end of the year under review, the members of the Supervisory Board held 1.98% of all the ordinary and preference shares issued by the Company either directly or indirectly as defined by Article 19 of the European Market

Abuse Regulation (Regulation (EU) No. 596/2014). Of this figure, 1.36% were attributable to Dr Alexander von Boch-Galhau. The members of the Management Board held 0.50% of the shares in circulation.

#### **COMPREHENSIVE INFORMATION CREATES TRANSPARENCY AND TRUST**

Villeroy & Boch AG seeks to inform all target groups of the Company's position equally and in good time and to ensure optimal transparency with regard to its management and controlling mechanisms by way of comprehensive reporting. This includes the annual publication of the consolidated financial statements and quarterly reports, which are prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs). The consolidated financial statements and the Group management report were published on 7 February 2019, and therefore comfortably within the 90-day period recommended by item 7.1.2 of the German Corporate Governance Code. The annual financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website [www.villeroyboch-group.com](http://www.villeroyboch-group.com) contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports, the non-financial Group report and other publications by Villeroy & Boch AG are also available to download in German and English from the Investor Relations section. The publications comply with the transparency requirements of the Market Abuse Regulation and the German Securities Trading Act.

To allow us to maintain a dialogue with analysts and shareholders, the financial and analysts' press conference and the General Meeting of Shareholders are held once a year.

Publication dates and recurring events are published in the financial calendar on our website, in this annual report and in our interim reports.

#### **ERNST & YOUNG CONFIRMED AS AUDITOR**

The Supervisory Board again commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to audit the annual and consolidated financial statements for the 2018 financial year as the auditor appointed by the General Meeting of Shareholders. The Audit Committee and the Supervisory Board had previously satisfied themselves as to the independence of the auditor. Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft has been the auditor of the annual and consolidated financial statements of Villeroy & Boch AG since the 2009 financial year. The responsible auditors are Heiko Hummel and Thomas Waldner. The statutory provisions regarding the rotation of the auditor and the responsible auditors in accordance with Article 17 of EU Regulation No. 537/2014 of the European Parliament and of the Council of 14 July 2014 and the grounds for exclusion in accordance with sections 319 and 319a HGB have been observed.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman of the Audit Committee would be informed immediately of any potential grounds for disqualification or partiality and any facts and events of importance for the proper performance of the tasks of the Supervisory Board arising during the performance of the audit. If the audit gives rise to facts that show a misstatement in the declaration of conformity issued by the Management Board and the Supervisory Board in accordance with section 161 of the German Stock Corporation Act (AktG), the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

#### **DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG**

The Management Board and the Supervisory Board are obliged to issue a Declaration of Conformity regarding the adoption of the recommendations of the German Corporate Governance Code once a year in accordance with section 161 AktG. Following discussions at the meeting of the Supervisory Board in November 2018, the Management Board and the Supervisory Board issued the annual declaration of conformity stating that the Company had complied with and continues to comply with all of the recommendations of the Government Commission of the German Corporate Governance Code with the exceptions noted (cf. version of 29 November 2018 at [www.villeroyboch-group.com/en/investor-relations/corporate-governance/declaration-of-compliance](http://www.villeroyboch-group.com/en/investor-relations/corporate-governance/declaration-of-compliance)). An addition to last year's declaration of compliance, which can also be accessed via the link above, was added on 19 February 2019.

#### **COMPLIANCE AT THE VILLEROY & BOCH GROUP**

The establishment of an effective compliance organisation is a vital element of good corporate governance. We can only achieve long-term business success by complying with the relevant statutory provisions, internal guidelines and our corporate values.

Our compliance management system encompasses the core elements of prevention, detection and response. It focuses in particular on prevention in order to minimise compliance risks right from the start. In order to detect breaches of compliance regulations, Villeroy & Boch AG has, among other things, installed a whistleblower system allowing potential breaches to be reported anonymously.

Our compliance organisation begins directly with the Management Board of Villeroy & Boch AG and is present at every level of the Group. CEO Frank Göring is the member of the Management Board with responsibility for compliance. The Chief Compliance Officer of the Villeroy & Boch Group reports to him. The Chief Compliance Officer is supported by functional compliance officers at the head office and in the divisions as well as local compliance officers at the Group companies.

Our compliance programme covers essentially business ethics, antitrust law, combating corruption, fraud, data protection, money laundering prevention and sanction list screening. Other relevant areas such as the environment, occupational health and safety, data security and capital market law are handled by specialist officers and departments. Our Group-wide ethical principles, the Code of Conduct and other guidelines are binding for all employees, providing them with orientation for responsible behaviour in day-to-day business, protecting them against incorrect decisions and hence safeguarding the basis of our success as a Company.

Our employees are provided with continuous information and training on compliance issues. The extensive and multilingual training programme is conducted in a classroom environment and in the form of web-based training.

Our compliance management system was last audited in 2016 in accordance with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). The subject of the external audit was the effectiveness of the compliance management system in the areas of antitrust law and combating corruption in Germany. BAY GmbH

Wirtschaftsprüfungsgesellschaft Rechtsanwaltsgesellschaft has confirmed that the principles and measures of our compliance management system are suitable for detecting and preventing risks relating to violations of legal provisions early on with reasonable assurance.

Our compliance management system is subject to permanent development, particularly with regard to the enshrinement of compliance requirements in the operating processes along the value chain in order to ensure process-oriented compliance.

You can find out more about compliance at Villeroy & Boch on the company's website at [www.villeroyboch-group.com/en/investor-relations/corporate-governance/compliance](http://www.villeroyboch-group.com/en/investor-relations/corporate-governance/compliance) and in the sustainability report ([www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports](http://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports)).

## **REMUNERATION REPORT**

The remuneration report is part of the Group Management Report (see page 48) and the Notes (see note 57 on page 114).

# VILLEROY & BOCH'S SHARES

## STOCK MARKETS DOMINATED BY UNCERTAINTY IN 2018

For investors, 2018 was a nervous year characterised by high volatility and, ultimately, weak performance. The poor final quarter of the year in particular meant that the positive aspects were largely forgotten. However, the Dax reached a new all-time high in January, while the US share indices did the same as recently as early October.

Following a good start to the year, the trade dispute between the USA and China was a key factor in the deterioration in sentiment in February and March, which put the downside potential of the international stock markets to the test. This negative sentiment was only temporary, however, and the recovery phase that began in April shaped the spring and summer months in Europe and continued into the autumn in the USA. As in 2017, it is notable that the European markets again failed to keep pace with the North American indices. The reasons for this below-average development include Italy's debt burden and budget dispute with the EU, the stalemate surrounding Brexit, the scaling back of the ECB's bond purchases and, later in the year, the gilets jaunes protests in France. Companies from various industries also

delivered profit warnings with a frequency that had not been seen for some time, thereby stoking fears of a recession and significantly curbing analyst expectations for 2019.

The Dax closed the year down 18.3% at 10,559 points, its poorest performance since the crisis year of 2008. The MDax fell by 17.6% to 21,588 points, while the smaller companies in the SDax closed the year down 20.0% at 9,509 points. The TecDax enjoyed more favourable performance, declining by 3.1% to 2,450 points.

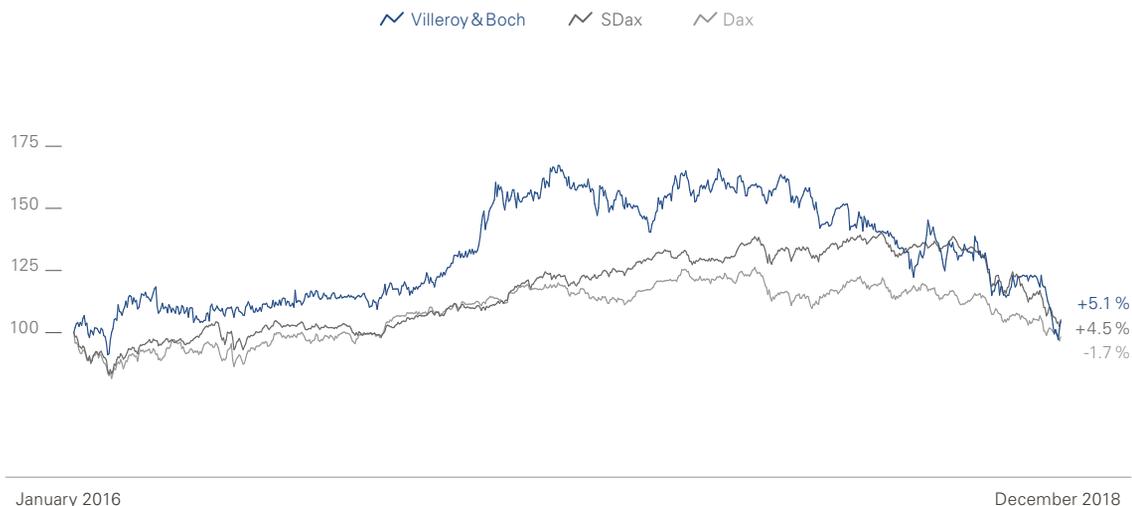
## VILLEROY & BOCH PREFERENCE SHARES DRAGGED DOWN BY MARKET DEVELOPMENT

Villeroy & Boch's share price saw continuous growth in the first weeks of 2018 on the back of the encouraging full-year figures for 2017 and the overall upward trend. The highest closing price was achieved on 20 February at €20.05. Shareholders then enjoyed another profit distribution: In March, a dividend of €0.57 per preference share was paid out for the 2017 financial year.

However, the growing uncertainty on the markets quickly made it clear that small caps would come under particular

### PERFORMANCE OF VILLEROY & BOCH'S SHARES IN COMPARISON TO DAX AND SDAX

in the period from 30 Dec. 2015 to 28. Dec. 2018 (indexed)



scrutiny. Driven by numerous profit warnings on the market as a whole, investors acted extremely defensively ahead of the publication of quarterly and half-yearly figures. In a mood of general scepticism, they tended to sell shares in order to avoid the risk of more substantial losses in response to disappointing news, and this trend also affected Villeroy & Boch's shares in July and October. In each case, the share price recovered following the announcement of solid revenue and earnings figures. Villeroy & Boch's share price remained at around € 15 until early December before falling to its lowest closing price of € 11.90 on 21 December even in the absence of any fundamental reasons for doing so. The situation improved slightly in the final trading days and Villeroy & Boch's shares closed 2018 at € 12.88, down 33.5 % on the start of the year.

While the company regularly outperformed the benchmark Dax and SDax indices in the previous years of positive market sentiment, it saw a more pronounced downturn in the turbulent stock market year of 2018. Over the past three years, Villeroy & Boch's share price has risen by a total of 5.1 %. The SDax gained 4.5 % and the Dax fell by 1.7 % in the same period.

## INVESTOR RELATIONS ACTIVITIES

In the 2018 financial year, we again maintained intensive contact with private investors, analysts and institutional investors. The year began with the financial and analysts' press conference on 8 February, meaning we were again one of the earliest companies to publish audited financial statements and present our figures to the public. The General Meeting of Shareholders, at which the members of the Management Board responded to questions from shareholders and shareholder representatives on the current situation and the outlook for the company, took place on 23 March. A tour of the sanitary ware factory in Mettlach was again offered in advance of the event.

Among other things, we used the leading trade fair for the Tableware Division, the Ambiente in February, to conduct individual and group discussions with analysts and institutional investors. Our contacts in the capital market environment appreciate the opportunity to experience our product range in person and compare the design and innovation quality of our new products with the competition. We also participated in the investor conferences organised by Oddo BHF, Solventis and Quirin

### PERFORMANCE OF VILLEROY & BOCH'S SHARES



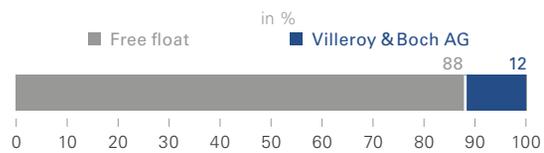
Privatbank in Frankfurt and Paris, and reached additional institutional investors from Frankfurt and London at roadshows. Other investors visited us at our headquarters in Mettlach, enjoying an introduction to the ceramic production process in a tour of our sanitary ware or tableware plants.

The number of analysts closely observing and commenting on our business performance and share price development decreased from five to three in the 2018 financial year. This was mainly due to the MiFID II capital market directive coming into force. As predicted by numerous experts, this makes it harder for smaller issuers in particular to access high-quality research. At the reporting date, our company was covered by Oddo BHF, Quirin Privatbank and Solventis. The average target price issued by the analysts was € 19.67 at the end of 2018, 52.7% higher than the year-end closing price. All three analysts rated our shares with a Buy recommendation.

## PROPOSED DIVIDEND

Based on the company's business performance in 2018, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 29 March 2019 the payment of a dividend of €0.60 per preference share and €0.55 per ordinary share, an increase of €0.03 on the previous year in each case. This represents a Group distribution ratio of 45% excluding treasury shares.

### STRUCTURE OF PREFERENCE SHAREHOLDERS



### MASTER DATA

ISIN:	DE0007657231
GSIN:	765723
Securities exchange symbol:	VIB3

### KEY FIGURES OF VILLEROY & BOCH'S SHARES

	2018	2017	2016	2015	2014
Closing price (in €)	<b>12.88</b>	19.37	14.60	12.25	12.05
Yearly high/low (in €)	<b>20.05/11.90</b>	20.50/14.10	14.75/11.15	15.21/11.81	14.78/10.32
Ordinary shares, 31.12.	<b>14,044,800</b>	14,044,800	14,044,800	14,044,800	14,044,800
Preference shares, 31.12.	<b>14,044,800</b>	14,044,800	14,044,800	14,044,800	14,044,800
■ Shares held by Villeroy & Boch	<b>1,683,029</b>	1,683,029	1,683,029	1,683,029	1,683,029
■ Shares in free float	<b>12,361,771</b>	12,361,771	12,361,771	12,361,771	12,361,771
Market capitalisation, Xetra year-end (in € million)	<b>180.9</b>	272.0	205.1	172.0	169.2
Average daily turnover, Xetra (in shares)	<b>8,311</b>	12,935	10,216	12,252	19,521
PER based on yearly high/PER based on yearly low (in €)	<b>15.42/9.15</b>	17.67/12.16	13.05/9.87	14.32/11.14	15.56/10.86
Consolidated earnings per ordinary share (in €) *	<b>1.25</b>	1.11	1.08	1.01	0.90
Consolidated earnings per preference share (in €)	<b>1.30</b>	1.16	1.13	1.06	0.95

\* Ordinary shares not publicly traded

# GROUP MANAGEMENT REPORT

## 22 BASIC INFORMATION ON THE GROUP

22 Business model of the Group

23 Controlling System

24 Research and development

26 Procurement

26 Employees

## 27 ECONOMIC REPORT

27 General Economic conditions

27 Course of business and position of the Group

28 Results of operations

31 Financial Position

33 Net assets

34 Other financial performance indicators

## 35 SUSTAINABILITY

### 36 REPORT ON RISKS AND OPPORTUNITIES

36 Risk strategy

36 Risk management

37 Internal control and risk management system  
for Group financial reporting

38 Individual risks

44 Report on Opportunities

### 47 REPORT ON EXPECTED DEVELOPMENT

### 48 OTHER DISCLOSURES

### 48 REMUNERATION REPORT

### 49 COMBINED RESPONSIBILITY STATEMENT



# GROUP MANAGEMENT REPORT

- ▮ **Consolidated revenue rises 2.0 % to € 853.1 million or 2.8 % adjusted for currency and license effects.**
- ▮ **EBIT improves by 7.6 % to € 53.6 million.**
- ▮ **Group result up 13.8 % year-on-year at € 33.9 million.**
- ▮ **Investment volume increases significantly by € 7.7 million to € 43.6 million.**

## BASIC INFORMATION ON THE GROUP

### BUSINESS MODEL OF THE GROUP

#### Organisational structure of the Group

Villeroy & Boch is a leading international ceramic manufacturer. As a full-service provider for the bathroom and the “perfectly laid table”, our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. Group-wide tasks and functions are performed by our central functions.

Villeroy & Boch AG is the Group parent for a total of 55 (previous year: 53) fully consolidated direct or indirect subsidiaries. Comprehensive information on the basis of consolidation and the investment structure of the Villeroy & Boch Group can be found in notes 2 and 61 of the notes to the consolidated financial statements.

#### Divisions and sales markets

Our products are sold in 125 countries. Our product range in the Bathroom and Wellness Division includes ceramic bathroom collections in various styles, bathroom furniture, shower, tub and whirlpool systems, ceramic kitchen sinks, and fittings and accessories. We typically address end consumers through a two- or three-tier sales channel. Our key target groups are dealers, craftsmen, architects, interior designers and planners. Our products in this division are displayed in more than 12,000 showrooms worldwide. We

also reach the relevant target groups using different forms of communication, including a dedicated professional section on our website for architects, planners and tradespeople, which contains extensive information on new products, references and planning tools including technical product specifications. With the Bathroom Inspirator, the Bathroom Planner and the augmented reality app, end consumers also have access to practical applications allowing them to individually plan and design complete bathrooms in a virtual environment.

Our product range in the Tableware Division includes high-quality tableware, glasses, cutlery and corresponding accessories, kitchen and tableware textiles and gift items. We supply specialist retailers – from small porcelain retailers to large department store chains and specialist e-commerce providers – and reach end customers through our own retail activities, which include more than 100 Villeroy & Boch stores and around 500 points of sale operated by our own staff at high-profile department stores. We are also continuously working to expand our global online presence as part of our own retail activities. We now sell our Tableware products in more than 20 countries via our online shops. All in all, our products are available at around 4,700 points of sale worldwide.

Our product range is also supplemented by license-based products for house and home, particularly lighting, bathroom accessories and flooring. From 2019, the assortment is also supplemented by home furniture.

## Basic Information on the Group

## PRODUCTION SITES BY REGION

## AMERICAS



Ramos (Mexico)

## EUROPE



Gustavsberg und Vårgårda (Sweden)  
 Hódmezvásárhely (Hungary)  
 Lugoj (Romania)  
 Merzig, Mettlach, Torgau and  
 Treuchtlingen (Germany)  
 Mondsee (Austria)  
 Roden (The Netherlands)  
 Roeselare (Belgium)  
 Valence d'Agen (France)

## APAC



Saraburi (Thailand)

In the project business of both divisions, we reach our customers via specialised sales units. The main target group for sanitary projects consists of architects, interior designers and planners of public institutions, office buildings, hotels and high-quality residential complexes. Tableware projects are mainly aimed at the investors and operators of hotels and restaurants.

**Locations**

Villeroy & Boch AG and its headquarters are based in Mettlach in the Saarland region.

We currently have 14 production sites in Europe, Asia and the Americas. Our products for the Tableware Division are produced at the Merzig and Torgau plants in Germany. The other twelve plants manufacture products for the Bathroom and Wellness Division. Ceramic sanitary ware is produced at our locations in Mettlach (Germany), Valence d'Agen (France), Hódmezvásárhely (Hungary), Lugoj (Romania), Gustavsberg (Sweden), Ramos (Mexico) and Saraburi (Thailand). We also manufacture bathroom furniture in Treuchtlingen (Germany) and Mondsee (Austria), bathtubs, shower tubs and whirlpools in Roden (Netherlands) and Roeselare (Belgium), and fittings in Vargarda (Sweden).

**CONTROLLING SYSTEM**

The Management Board of Villeroy & Boch AG manages the Group as a whole using a strictly defined management structure and operational targets whose achievement is monitored by way of prescribed key figures. This focuses on key financial indicators.

The performance of the Group as a whole, and the two divisions individually, is measured using the following key financial indicators: net revenue, earnings before interest and taxes (EBIT) and the rolling operating return on net assets. The latter is calculated as the rolling operating result divided by the average operating net assets for the last twelve months. Operating net assets are calculated as the total of intangible assets, property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities.

Comprehensive information on the development of the key financial indicators can be found in the economic report. Although Group-wide controlling is not currently performed on the basis of non-financial performance indicators, these play an important role at an operating level in areas such as the environment, employees, the supply chain, product

responsibility and compliance. Extensive information on our non-financial performance can be found in the Villeroy & Boch Group's sustainability report. This separate non-financial Group report for the 2018 financial year prepared in accordance with section 315b (3) of the German Commercial Code (HGB) is available online at [www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports](http://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports). For further details, please refer to the "Sustainability" section.

### RESEARCH AND DEVELOPMENT

Our activities in the areas of research, development and innovation serve to strengthen our competitiveness and hence form the basis for our long-term, sustainable economic success.

Including design development, the Villeroy & Boch Group invested € 15.9 million in research and development in the 2018 financial year (previous year: € 15.9 million). Of this figure, € 11.8 million (previous year: € 12.2 million) was attributable to the Bathroom and Wellness Division and € 4.1 million (previous year: € 3.7 million) was attributable to the Tableware Division.

Our research and development activities in the 2018 financial year again concentrated on the continuous enhancement of our ceramic materials, products and production technologies.

#### Research partnerships for innovative solutions

Villeroy & Boch maintains a network of external partners in the field of applied research and industrial development. This allows us to pursue the objective of generating innovative solutions in order to create products with concrete value added for our customers, enable efficient production technologies and press ahead with process digitalisation.

As part of the "HyFly" collaborative project under the "InfectControl 2020" research initiative launched by the German Federal Ministry of Education and Research (BMBF) in 2016, we are working with research institutions and universities to design functional surfaces that combine antibacterial and easy-care properties. Using scientific methods from fluid mechanics and numerical simulation,

in 2018 we also researched various concepts for WCs and washbasins with special geometric features. The aim of these activities is to create products for sanitary facilities requiring high standards of hygiene and infection prevention, for instance public buildings or infrastructure projects such as airports or railway stations. In the "KARMIN" research project, another subproject under the "InfectControl 2020" initiative, we are participating as an associate industrial partner to create a hygiene-optimised wet room designed for installation in hospital patient rooms. Other notable research cooperations in the reporting period concern the launch of state-of-the-art testing methods in quality control and assurance for raw materials and ceramic slurries, in addition to the continuous development of innovative ceramic materials. In the field of environmental research, we also initiated a project at the end of 2018 to increase the recycling rate of process wastewater.

#### Digitalisation in occupational health and safety

As part of occupational health and safety, we intensified our efforts in terms of process digitalisation in 2017 with a view to meeting the increasingly dynamic requirements in these areas. The use of state-of-the-art information and communication technology (ICT) plays an important role in this regard. ICT is one of the key technologies for German industry. This was underlined by the German Federal Government with the launch of the BMBF funding programme "ICT 2020 - Research for Innovation", which forms part of its high-tech strategy 2020 and in which Villeroy & Boch is actively participating. In the year under review, we continued our participation in a research project with the German Research Centre for Artificial Intelligence (DFKI) with the aim of largely automating processes in occupational hazardous substance management that are currently manual. Using automated substitution testing, we want to reduce the potential risk to employees at our production sites while also leveraging corresponding cost-saving effects. After completing the programming and test phase of the initial application, in the reporting period work continued on optimising and expanding the substitution tool to include additional application modules.

## Basic Information on the Group

### Internal enhancement of production techniques

As part of the internal enhancement of our production techniques, projects were initiated with the aim of creating robust processes and achieving material and resource efficiency and standardisation, thereby improving output levels. This was supported by the use of new management methods and statistical data analysis techniques and the design of new production facilities.

We are also working continuously to optimise our technologies under the umbrella of “Industry 4.0”. Newly available technologies are evaluated in terms of their potential and the options for integrating them into existing manufacturing facilities at our production sites.

### Product development

Product-related development activities in the Bathroom and Wellness Division included the continuous enhancement of our innovative ceramic material TitanCeram, which makes it possible to produce designs with extremely thin walls and clearly defined edges, and is also very stable and robust. In this context, we are planning to roll out the material beyond our premium product range and to our mainstream segments as well. Furthermore, in ViClean-I 100 we also completed the first product from the development platform for our new generation of shower toilets ready for market in the reporting period, and initiated the development of further innovative functions. Let us not forget, our high innovative capability is also reflected in the new product developments we launched in 2018: TitanGlaze is a new addition to our product range – a high-purity, crystalline aluminium oxide-enriched glaze distinguished by a premium matte feel and a very scratch- and impact-resistant finish. Other innovations include SupraFix 3.0, a patent-pending enhancement of our installation system that makes installing wall-mounted toilets even easier and more flexible, and last but not least O.novo Kids – our full bathroom range for children specially designed for use in nurseries and pre-schools.

Our development activities in the Tableware Division focused on glazes and various surfaces. For instance, we added new moulds to our recent Manufacture Rock product

series, which is characterised by the artisanal style in the form of matte slate-looking porcelain. With our newly developed “It’s my match” collection, we are seizing on unconventional designs that appeal to our younger target group of customers. The collection combines unglazed, matte surfaces with strokes of glossy, on-trend colours in varying intensity while also satisfying the utmost quality standards of premium porcelain (including dishwasher suitability). We also further advanced our development activities in the area of additive production techniques, also called 3D printing, and the resulting freedom of design for materials such as metal and plastic. A joint research project with external knowledge partners was used to test various techniques with the primary aim of optimising printing speed and size as well as the quality and performance characteristics of the printed ceramic products.

## PROCUREMENT

The Villeroy & Boch Group's procurement portfolio encompasses raw materials, energy and supplies for its own production facilities as well as finished and semi-finished goods. The Group also purchases capital goods, packaging materials, transport services and a wide range of additional services. All in all, the value of our procurement volume including investments corresponds to over 60 % of our revenue. The aim of our procurement organisation and procurement strategies is to make a sustained contribution to the company's long-term success by providing the required materials and services in the required quality and volume at the right time and the best possible price. Through close cooperation with our suppliers, we are also aiming to continuously improve the quality of our products and business processes while advancing innovation.

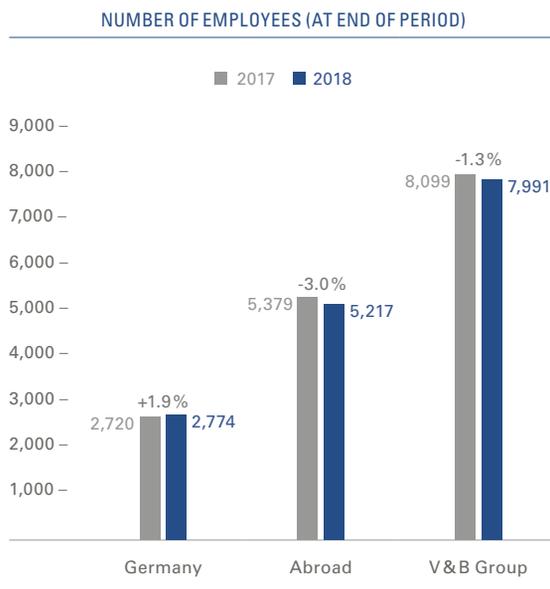
The Group encountered higher costs on the procurement market in the 2018 financial year. The sustained robust growth of the world economy and the associated rise in energy, wage and transport costs caused the purchase prices for many raw materials and substances to rise in 2018 as well. Higher prices were therefore inevitable, particularly for production, energy, packaging, transportation and externally sourced goods. Appropriate countermeasures in the context of procurement management and favourable exchange rate changes made it possible to at least partially offset these price increases. Among other things, we benefited from the fact that the US dollar - the functional currency for certain procurement volumes - depreciated further against the Group's reporting currency, the euro.

Supplier relationships are extremely important to us. As part of our systematic strategic procurement management, we use a standardised catalogue of criteria to continuously evaluate our suppliers in the categories of quality, cost, logistics, service, technology and environment with a view to furthering our cooperation on this basis. We also aim to structure our supplier relationships so that all risks are minimised to the greatest possible extent. To this end, contracts with suppliers are negotiated, compliance with

statutory provisions is pursued and corresponding risk management is practised. In particular, our "Supplier Code of Conduct" requires suppliers to commit to the same standards as our company with regard to integrity, business ethics, work conditions and up-holding human rights.

## EMPLOYEES

### Workforce



The Villeroy & Boch Group had a total of 7,991 employees as at 31 December 2018, a decrease of 108 compared with the end of the previous year (8,099.) 34.7 % of the workforce was employed in Germany (previous year: 33.6 %). The Bathroom and Wellness Division accounted for 5,184 employees (previous year: 5,241), while a total of 2,244 people were employed in the Tableware Division (previous year: 2,302) and 563 in central functions (previous year: 556).

Taken as an average for the year as a whole, our workforce decreased from 8,090 in the previous year to 8,018.

## ECONOMIC REPORT

### GENERAL ECONOMIC CONDITIONS

The global economy lost momentum over the course of the year. This development was driven by negative sentiment indicators, above all the uncertainty caused by the escalating trade conflicts and the tightening of monetary policy in the United States, as a result of which there was a turnaround in international capital flows that slowed the performance of the emerging economies. Nevertheless, the solid economic growth in Germany was carried by the domestic economy, which benefited from rising employment and persistently low interest rates. The economic upswing in the euro area was flatter than in the previous year, as exports were hampered by weak global demand and the appreciation of the euro. Overseas, economic growth in China remained strong, and the trade dispute with the US has not yet had any tangible impact on our industry.

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry. The growth rate of residential construction in Europe softened overall. Despite favourable financing conditions, construction on our key domestic market of Germany rose at a more measured rate compared to previous years on account of consistently high capacity utilisation and workforce bottlenecks within the sector.

A key factor for business performance in the Tableware Division is the consumer climate among private households. Owing to rising consumer price inflation and higher energy prices, private consumer spending in Germany rose by 1.5 % in 2018 according to GfK information, a slightly slower rate than in the previous year. In addition, consumer activity is reflected in the frequency of visits to retail outlets, an indicator that continued to decline in many parts of Europe in the period under review, not least on account of the long, hot summer. In Villeroy & Boch's extremely important domestic market of Germany, visitor frequency fell by 5.0 % year-on-year.

### COURSE OF BUSINESS AND POSITION OF THE GROUP

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

Taking our intra-year forecast adjustment into account, we achieved our revenue and earnings targets for the 2018 financial year. The table below shows a comparison of the forecast and actual key figures for 2018 and the forecasts for 2019:

	GROUP TARGETS		
	Forecast 2018	Actual 2018	Forecast 2019
Revenue growth <sup>1)</sup>	2–3 % <sup>2)</sup>	2.0 % (2.8 %)	3–5 %
EBIT growth	5–10 %	7.6 %	3–5 %
Return on net operating assets	≈17 % <sup>3)</sup>	16.7 %	≈16 %
Investments	> € 40 million	€ 43.6 million	> € 40 million

1) Figures for revenue growth shown in parentheses are adjusted for currency and license effects

2) Forecast in 2017 Group management report: 3 % to 5 %

3) Forecast in 2017 Group management report: 17 % to 18 %

We increased our consolidated revenue by 2.0% in total to €853.1 million in the 2018 financial year. For the first time, this figure includes income from our license business, which was reported in other operating income in the previous year. Furthermore, revenue performance in both divisions was significantly impacted by negative exchange rate effects. The currencies with the most pronounced depreciation were the Swedish krona, the US dollar, the Russian rouble and the Chinese renminbi. Adjusted for these two non-recurring effects, i.e. adjusting for license income retroactively and on a constant currency basis, we achieved revenue growth of 2.8%.

We also achieved our target for operating result – having projected an improvement of between 5% and 10%, EBIT increased strongly by 7.6% to €53.6 million (previous year: €49.8 million). We therefore raised our net operating margin from 6.0% to 6.3%. The main drivers behind this were the strong earnings performance of the Bathroom and Wellness Division and our systematic cost management.

The Group's rolling return on net operating assets was 16.7% as at the end of the year. The change as against the previous year (17.7%) was caused by the rise in rolling net operating assets to €320.4 million (previous year: €280.4 million). In addition to the higher investment volume, this was due essentially to the accumulation of inventories in the Bathroom and Wellness Division necessary to safeguard delivery capability.

At €43.6 million in total, investments in property, plant and equipment and intangible assets in the 2018 financial year were higher than in the previous year (€35.9 million) and in line with forecasts.

Further information on revenue and earnings development in the Bathroom and Wellness Division and the Tableware Division can be found in the following discussion of the Group's results of operations. The development of other key figures is discussed in the "Financial position", "Net assets" and "Other financial performance indicators" sections of the Group management report.

## RESULTS OF OPERATIONS

The following information provides an overview of our results of operations in the 2018 financial year.

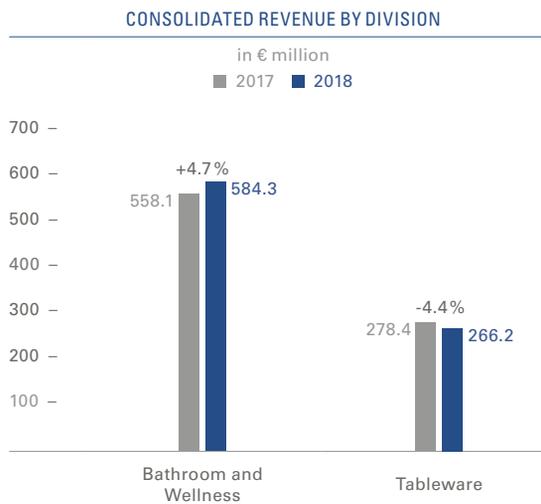
### Consolidates Revenue 2018

#### Consolidated revenue up 2.0%

The Villeroy & Boch Group generated revenue of €853.1 million in the 2018 financial year. This represents a nominal improvement of 2.0% as against the previous year (€836.5 million) or an increase of 2.8% adjusted for currency and license effects.

Of the license income included in revenue of €6.1 million, which was previously reported in other operating income and amounted to €5.9 million in the previous year, €0.5 million (previous year: €0.6 million) was attributable to the Bathroom and Wellness Division and €3.0 million (previous year: €2.6 million) to the Tableware Division. €2.6 million (previous year: €2.7 million) related to license agreements in central functions.

#### Revenue by division



The *Bathroom and Wellness Division* generated revenue of €584.3 million in the 2018 financial year, an increase of 4.7% thanks to strong growth in our core product area of ceramic sanitary ware. On a constant currency basis, this revenue growth amounted to 6.2%.

While performance in Europe was influenced mainly by modest showroom business during the year, especially during the extremely hot summer, we turned things around with a strong final quarter. Buoyed by full delivery capability for the highly popular product categories

## Economic Report

among our rimless DirectFlush WCs and thin-walled TitanCeram washbasins, and thanks to recovering showroom business, we continued to grow at a high level in Germany in particular (+1.3%) – though even stronger growth was prevented by ongoing capacity bottlenecks among craftspeople. Revenues declined by -7.3% in the UK and -17.7% in Russia, -7.1% on a constant currency basis. By contrast, gratifying increases were reported for Southern Europe at +7.6% and Eastern Europe (not including Russia) at +7.7%. On a constant currency basis, revenue volumes in Northern Europe also rose by 5.0% (nominally +0.4%). In total, our revenue volumes in Europe grew slightly by 0.4% to €453.7 million, or 2.0% on a constant currency basis.

Revenue outside Europe increased by 22.8% to €130.1 million. Once again, a key driver was our consistently strong growth in the Asia-Pacific region, which rose by 33.4% to a revenue volume of €100.1 million, and therefore passed the 100-million-mark for the first time. Not including the consolidation effect of the Australian Group company Argent Pty. Ltd. acquired on 23 June 2017, the revenue increase amounted to 25.2%. As our most important growth market, China contributed greatly to this with a strong surge in revenue of 31.5%.

The *Tableware Division* generated a revenue volume of €266.2 million in the 2018 financial year, down 4.4% on the previous year. The effects of currency changes and license reporting cancelled each other out almost entirely.

Decisions to refocus our Tableware business defined the division's revenue situation. This included the transition in the distribution model on various markets, the changes in our pricing and discount policy that were initiated in the previous year and the optimisation of our shop network.

The decline in revenues was observed in many parts of the world. With a handful of isolated exceptions, revenue in Europe declined overall in the period under review (-4.7%). By contrast, on the markets outside Europe, we achieved an increase in revenue in the US of 3.7% on a constant currency basis, though in nominal terms this was neutralised by the depreciation of the US dollar (-0.4%).

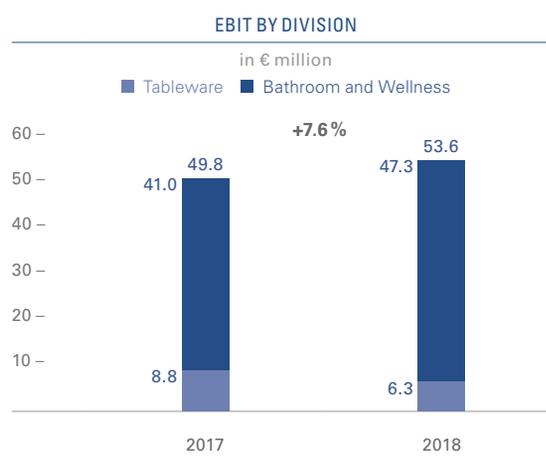
A positive development is the fact that thanks to our intensified sales and marketing activities for e-commerce, an increasingly important pillar of our sales model, online revenue grew by 9.2% across all markets. E-commerce activities now account for around 17% of the Tableware Division's total revenue.

**Orders on hand**

The Group's orders on hand amounted to €59.8 million as at 31 December 2018. €48.7 million (previous year: €96.2 million) of this related to the Bathroom and Wellness Division and €11.1 million (previous year: €10.8 million) to the Tableware Division. The change compared to orders on hand as at the end of 2017 (€107.0 million) relates primarily to ceramic sanitary ware: Delivery times were reduced significantly by investments in capacity, allowing customers to place their orders with less lead time. Furthermore, several major orders in China reported as orders on hand in 2017 were delivered.

**Consolidated EBIT****EBIT up 7.6% year-on-year at €53.6 million**

We increased our EBIT by 7.6% or €3.8 million to €53.6 million in the 2018 financial year. The improvement in the operating result was driven essentially by excellent revenue and earnings development in the Bathroom and Wellness Division and supported by strict cost discipline.



Selling, marketing and development costs, which were down on the previous year's figure of €275.3 million at €266.9 million, and general and administrative expenses of €43.8 million (previous year: €47.2 million) were affected by both our systematic cost management and extraordinary

effects. These included essentially the transition in Tableware distribution on some markets from direct retail to a distributor model and the ongoing optimisation of our shop network, which significantly improved the cost structure. In addition, revenue-based distribution costs were reclassified to the cost of sales of the goods sold. The effects described resulted in the cost reductions reporting in the income statement being significantly greater than the operational savings achieved. Inversely, the cost of sales of the goods sold and therefore the gross profit were negatively affected as a result.

Net other operating expenses and income amounted to €-1.6 million. Other operating earnings in the previous year (€1.7 million) included license income of €5.9 million. Income from license business has been reported as a component of revenue since the start of the 2018 financial year. Furthermore, we generated other income of €1.9 million from the sale of our former production grounds in Selb (Germany).

#### Operating result (EBIT) by division

##### Bathroom and Wellness division

The Bathroom and Wellness Division increased its operating result (EBIT) to €47.3 million in the 2018 financial year, thanks above all to our strong revenue growth, an improvement of 15.4% on the previous year (€41.0 million).

##### Tableware division

The Tableware Division closed the 2018 financial year with an operating result (EBIT) of €6.3 million (previous year: €8.8 million). The drop in earnings was largely a result of lower revenue, but was cushioned in part by the transition in the distribution model on various markets and stricter cost discipline.

#### Group result



We generated a Group result of €33.9 million in the 2018 financial year, a strong increase of €4.1 million or 13.8% as against the previous year. The main factors driving the increase were the improved operating activities and the improved tax rate, which declined from 34.4% in the previous year to 31.1%, in part as a result of local tax cuts in France, Belgium and the Netherlands. Tax expenses amounted to €-15.3 million (previous year: €-15.6 million) in the reporting period. Net finance expense remained constant year-on-year at €-4.4 million (€-4.4 million).

## Economic Report

## Structure of the consolidated income statement (IFRS)

In summary, the results of operations for the 2018 financial year were as follows:

## STRUCTURE OF THE CONSOLIDATED INCOME STATEMENT

	in € million			
	2018	% of revenue	2017	% of revenue
Revenue	853.1	100.0	836.5	100.0
Cost of sales	-487.3	-57.1	-466.4	-55.8
Selling, marketing and development costs	-266.9	-31.3	-275.3	-32.9
General administrative expenses	-43.8	-5.1	-47.2	-5.6
Other expenses/income	-1.6	-0.2	1.7	0.2
Result on financial investments accounted according to the equity method	0.1	0.0	0.5	0.1
<b>EBIT</b>	<b>53.6</b>	<b>6.3</b>	<b>49.8</b>	<b>6.0</b>
Financial result	-4.4	-0.5	-4.4	-0.6
<b>Earnings before taxes (EBT)</b>	<b>49.2</b>	<b>5.8</b>	<b>45.4</b>	<b>5.4</b>
Income taxes	-15.3	-1.8	-15.6	-1.8
<b>Group result</b>	<b>33.9</b>	<b>4.0</b>	<b>29.8</b>	<b>3.6</b>

## Dividend proposal

At the General Meeting of Shareholders on 29 March 2019, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

€ 0.55 per ordinary share

€ 0.60 per preference share

This represents a total dividend distribution of € 16.1 million. Based on the number of preference shares held by the company at the payment date, the total cash outflow will be € 15.1 million.

## FINANCIAL POSITION

## Principles and objectives of financial management

We operate a central financial management system encompassing global liquidity management, cash management and the management of market price risks.

The central Group Treasury department performs uniform financial management for the entire Group. The framework is provided by external statutory and regulatory requirements as well as internal guidelines and limits.

Our liquidity management ensures that we are able to meet our payment obligations at all times. Cash inflows and outflows from our operating business form the basis for daily cash account management and short-term and medium-term liquidity planning.

The resulting financing requirements are generally covered by bank loans. Surplus liquidity is invested on the money market in line with risk/reward considerations. With the proviso that our financial trading partners have a good credit standing, expressed in the form of an investment grade rating, we pursue the aim of ensuring an optimal financial result.

Our cash management is also organised and managed centrally. In order to ensure economic efficiency, priority is given to the centralisation of cash flows via cash pooling. An inhouse cash system ensures that intercompany cash flows are always executed via internal clearing accounts where this is possible for legal and tax purposes. Internal offsetting therefore reduces the number of external bank transactions to a minimum. Standardised processes and transmission channels have been established for payment transactions.

The management of market price risks encompasses exchange rate risks, interest rate risks and other price risks. Our aim is to limit the negative impact of fluctuations on the results of the divisions and the Group. Group-wide risk potential is calculated on a regular basis and corresponding decisions on hedging are taken.

Further information on risk management can be found in the "Report on Risks and Opportunities" section of the Group Management Report.

### Capital structure

Our financing structure as shown in the table below changed as follows in the 2018 financial year:

CAPITAL STRUCTURE		
in € million		
	31/12/2018	31/12/2017
Equity	209.4	194.6
Non-current liabilities	236.6	273.7
Current liabilities	235.6	218.8
<b>Total equity and liabilities</b>	<b>681.6</b>	<b>687.1</b>

Equity increased by € 14.8 million year-on-year to € 209.4 million in the period under review. Retained earnings rose by € 19.2 million, with the Group profit of € 33.9 million generated in the 2018 financial year (€ 0.4 million of which relating to non-controlling interests) offset by the dividend distribution in spring 2018 (€ 14.3 million). In total, our equity ratio (including non-controlling interests) rose to 30.7% as against the previous year's 28.3%. 84.5% of the Group's non-current assets in the amount of € 247.8 million were covered by equity.

Non-current liabilities in the amount of € 236.6 million comprised pension provisions, financial liabilities, provisions for personnel, other liabilities and deferred tax liabilities. Non-current liabilities declined by € 37.1 million year-on-year, € 25.0 million of which related solely to the reclassification of a non-current bank loan to current financial liabilities as it nears maturity. Furthermore, pension obligations declined by € 7.9 million, € 3.2 million of which related to payments for the early settlement of pension claims.

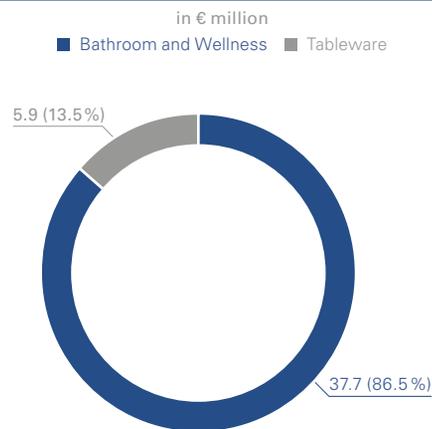
Current liabilities, consisting of other liabilities, trade payables, financial liabilities, other provisions, personnel provisions and income tax liabilities, climbed by € 16.8 million as against the previous year to € 235.6 million. Current financial liabilities rose to € 33.1 million (previous year: € 0.9 million), largely on account of the reclassification of the bank loan referred to above. By contrast, other liability items were down in the reporting period, including in particular trade payables (€ -6.2 million) and other liabilities (€ -5.9 million).

### Investments

Investments in property, plant and equipment and intangible assets

Our investments in property, plant and equipment and intangible assets totalled € 43.6 million in the 2018 financial year (previous year: € 35.9 million). 43% of this figure was attributable to Germany (previous year: 54%). At the end of the year 2018, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 6.5 million. Our investment obligations are financed from operating cash flow.

#### BREAKDOWN OF INVESTMENTS BY DIVISION



At € 37.7 million or 86.5%, our investments were concentrated primarily on the *Bathroom and Wellness Division*. The focus was on the establishment of new production facilities for our ceramic sanitary ware plants in Germany and abroad, particularly in Mettlach (Germany), Saraburi (Thailand) and Ramos (Mexico).

We invested € 5.9 million in the *Tableware Division*, corresponding to 13.5% of the total investment volume. We acquired new machinery and tools for production at our Merzig and Torgau plants. Moreover, we invested in the further optimisation of our retail network, for example renovating and opening stores in Germany, Spain, France and in the UK.

Please see note (6) to the consolidated financial statements for further information on the Group's material investing activities in the reporting period.

## Economic Report

## Financing

## CONDENSED CASH FLOW STATEMENT

	in € million	
	2018	2017
Group result	33.9	29.8
Current depreciation and amortisation of non-current assets incl. reversals	23.5	26.2
Change in non-current provisions	-18.8	-10.2
Profit from disposal of fixed assets	-3.3	-0.4
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	-41.3	-13.4
Other non-cash income/expenses	8.1	9.0
<b>Net cash flow from operating activities</b>	<b>2.1</b>	<b>41.0</b>
<b>Net cash flow from investing activities</b>	<b>-44.6</b>	<b>-27.3</b>
<b>Net cash flow from financing activities</b>	<b>-7.6</b>	<b>-14.1</b>
<b>Total cash flows</b>	<b>-50.1</b>	<b>-0.4</b>
<b>Balance of cash and cash equivalents on 1 Jan.</b>	<b>108.7</b>	<b>111.2</b>
Change based on total cash flows	-50.1	-0.4
Change due to exchange rate effects	-1.0	-2.1
<b>Balance of cash and cash equivalents on 31 Dec.</b>	<b>57.6</b>	<b>108.7</b>

Net cash from operating activities amounted to €2.1 million (previous year: €41.0 million). The significant lower operating cash flow compared to the previous year is due to the higher accumulation of working capital. In particular, we increased our inventories in the Bathroom and Wellness Division in the reporting period in order to ensure sustainable delivery capability on our markets; there were also higher volumes in raw materials procurement on account of production. Total inventories in the Group increased by €11.9 million. In addition, trade receivables rose by €10.2 million while trade payables were down by €6.2 million.

Net cash used in investing activities of €-44.6 million (previous year: €-27.3 million) included payments for investments in property, plant and equipment, non-current financial assets and intangible assets totalling €48.7 million, which were offset by proceeds from the disposal of assets amounting to €4.1 million.

Net cash used in financing activities amounted to €-7.6 million (previous year: €-14.1 million). This included primarily net proceeds from loans of €7.1 million on the one hand and the dividend payment of €14.3 million in spring 2018 on the other.

**Liquidity****Net liquidity**

Our net liquidity amounted to €-0.5 million as at the end of the reporting period (previous year: €57.6 million). The decline in net liquidity was due in particular to increased investing activity (€48.7 million, including investments in financial assets) and the lower operating cash flow compared to the previous year, which reflects the change in working capital over the course of the year.

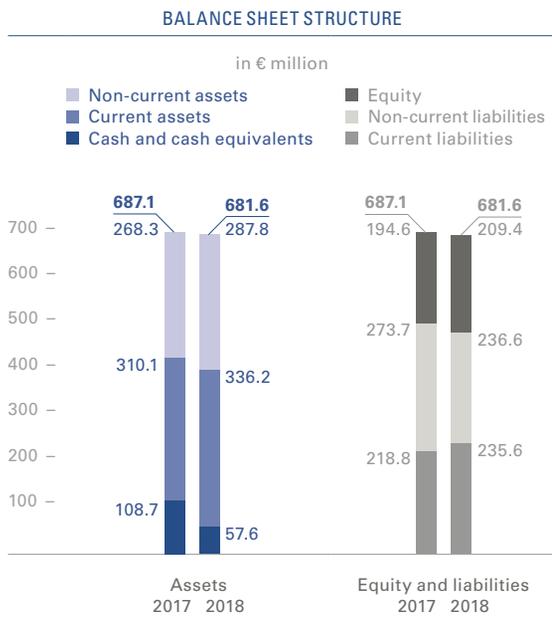
Cash and cash equivalents, current financial assets and current and non-current financial liabilities were combined in calculating net liquidity.

At 31 December 2018, we had unutilised credit facilities totalling €220 million (31 December 2017: €245 million) that were not subject to any restrictions.

**NET ASSETS****Balance sheet**

The Villeroy & Boch Group had total assets of €681.6 million at 31 December 2018 compared with €687.1 million at the end of the previous year. The balance sheet structure is shown in the graphic beside:

### Year-on-year comparison of the structure of the balance sheet



Non-current assets in the amount of €287.8 million (previous year: €268.3 million) comprised non-current fixed assets, deferred tax assets and other non-current assets. The share of total assets attributable to non-current assets amounted to 36.4% (previous year: 33.1%). As a result of the regular review of the useful lives of property, plant and equipment, the depreciation periods for various production facilities were harmonised with a positive effect on earnings.

Current assets were composed primarily of inventories, trade receivables, cash and cash equivalents and other current assets. Current assets (including non-current assets held for sale) declined by €25.0 million year-on-year to €393.8 million. Cash funds were €51.1 million down on the previous year's level. By contrast, inventories rose by €11.9 million, as a result of the accumulation of inventories in the Bathroom and Wellness Division for operational reasons. At the same time, trade receivables increased by €10.2 million on account of varying payment terms in the Bathroom and Wellness Division.

The items of the equity and liabilities side of the balance sheet are discussed in the "Capital structure" section of the management report.

### OTHER FINANCIAL PERFORMANCE INDICATORS

In addition to the key performance indicators of revenue and earnings before interest and taxes (EBIT), whose development in the past financial year is discussed under "Results of operations", our activities are focused on optimising the rolling return on net operating assets. Net operating assets are calculated as the total of intangible assets, property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities.

The return on net operating assets is calculated as follows:

$$\text{Return on net operating assets} = \frac{\text{Operating result (EBIT)}}{\text{Net operating assets (ø 12 months)}}$$

As of 31 December 2018, the rolling net operating assets of the Villeroy & Boch Group were composed as follows:

**COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS (GROUP)**

in € million

V&B Group	2018	2017
<b>Net operating assets</b>	<b>320.4</b>	<b>280.4</b>
Property, plant and equipment	183.5	173.3
Inventories	169.7	150.1
Receivables (from third parties)	123.9	114.8
Liabilities	-70.2	-67.2
Other assets	-86.5	-90.6
<b>Operating result (EBIT)</b>	<b>53.6</b>	<b>49.8</b>
<b>Return on net operating assets</b>	<b>16.7%</b>	<b>17.7%</b>

The Group's return on net operating assets declined by 1.0 percentage points to 16.7% as at the end of 2018. This was because the improvement in the operating result in the 2018 financial year was more than compensated by the increase in rolling net operating assets to €320.4 million (previous year: €280.4 million). The accumulation of assets resulted in part from the increased investment volume and higher inventories. The rolling net operating assets of the Bathroom and Wellness Division were composed as follows:

Economic Report  
SustainabilityCOMPOSITION OF THE ROLLING RETURN  
ON NET OPERATING ASSETS (BATHROOM AND WELLNESS)

in € million		
Bathroom and Wellness	2018	2017
<b>Net operating assets</b>	<b>234.4</b>	<b>202.1</b>
I Property, plant and equipment	160.4	149.2
I Inventories	103.3	86.4
I Receivables (from third parties)	94.2	86.6
I Liabilities	-54.1	-51.1
I Other assets	-69.4	-69.0
<b>Operating result (EBIT) *</b>	<b>54.8</b>	<b>47.5</b>
<b>Return on net operating assets</b>	<b>23.4%</b>	<b>23.5%</b>

\* Central function earnings components that cannot be influenced by the division are not taken into account in calculating the return on net operating assets.

The rolling net operating assets of the Tableware Division were composed as follows:

COMPOSITION OF THE ROLLING RETURN  
ON NET OPERATING ASSETS (TABLEWARE)

in € million		
Tableware	2018	2017
<b>Net operating assets</b>	<b>86.0</b>	<b>78.3</b>
I Property, plant and equipment	23.1	24.1
I Inventories	66.4	63.7
I Receivables (from third parties)	29.7	28.2
I Liabilities	-16.1	-16.1
I Other assets	-17.1	-21.6
<b>Operating result (EBIT) *</b>	<b>3.0</b>	<b>9.3</b>
<b>Return on net operating assets</b>	<b>3.5%</b>	<b>11.9%</b>

\* Central function earnings components that cannot be influenced by the division are not taken into account in calculating the return on net operating assets.

## SUSTAINABILITY

For us, achieving our financial targets is closely connected to the various aspects of sustainability and corporate social responsibility, which ensure that our actions as a company are consistent with not only economic, but also ecological and social considerations. As such, trust-based cooperation with our stakeholders – and particularly our customers, suppliers, employees, shareholders and lenders – and a responsible approach to the environment play a particularly

important role within our organisation and our processes. Sustainable management in the sense of good and transparent corporate governance requires all Villeroy & Boch employees to act with integrity and in accordance with the law in order to ensure the company's long-term success. Compliance with statutory and official provisions and internal guidelines and directives – especially our Code of Conduct, which is required to be observed by all employees – is ensured by means of a Group-wide compliance management system. As the company's success is also inextricably linked to the dedication of creative, motivated employees, our human resources strategy focuses on ensuring an attractive employment environment with healthy and safe working conditions, fair payment, targeted training opportunities and an active commitment to diversity and equal opportunity.

Our customers place their confidence in the high quality of our products – and this is based on stylish design, extremely high durability and maximum product safety in equal measure. We intend to continue to earn this confidence in future with technically superior products and sustainable value creation. This is why the requirements we make of our suppliers and our inhouse production are so stringent. Alongside compliance with the law and labour and environmental standards, our aim is to achieve our outstanding product quality with the greatest possible resource and energy efficiency. The use of management systems and standardised processes helps us to achieve this. In accordance with sections 289b, 315b of the Handelsgesetzbuch (HGB – German Commercial Code), Villeroy & Boch AG is required to supplement its (Group) management report with a non-financial declaration. Reportable aspects within the meaning of section 289c HGB include company-related disclosures on environmental, employee and social matters, respect for human rights and combating bribery and corruption – meaning they relate directly to our sustainability-related activities in the aforementioned areas. In preparing the non-financial declaration, we have exercised the option provided by law of alternatively producing a combined, separate non-financial report for the Villeroy & Boch Group and Villeroy & Boch AG. This is published online at [www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports](http://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports). This non-financial report is integrated into our sustainability report for the financial year from 1 January to 31 December 2018, in which we report extensively on our non-financial performance.

## REPORT ON RISKS AND OPPORTUNITIES

### RISK STRATEGY

Our business policy is aimed at sustainably increasing the performance and earnings strength of our company, and hence its enterprise value, for the benefit of our shareholders and other stakeholders. To this end, the Villeroy & Boch Group's business activities open up a wide range of opportunities, but are also accompanied by risks. In the course of our business activities, we are exposed to general economic and industry-specific risks as well as the usual financial and economic risks.

In accordance with our approach to risk, potential business risks are identified at an early stage, evaluated and – where possible – minimised or avoided altogether using recognised methods and measures. Risks are consciously accepted when the prospects for success are suitably attractive. The risks in question must also be calculable and manageable in terms of their size, as well as having a low probability of occurrence. Within our company, we have a functional and effective risk management system that is intended to secure the continued existence of the Group and ensure the achievement of our objectives as a company, and especially our financial, operational and strategic objectives.

### RISK MANAGEMENT

#### Risk management system and internal control system

Our risk management system encompasses both risks and opportunities. In contrast to risk reduction measures, opportunities generally do not serve to reduce risks; they are discussed separately in the “Report on opportunities” section.

The risk management system covers all of the areas of our Group and allocates clear responsibilities and duties to all organisational units. In this system, the Management Board defines the principles of the risk policy and risk treatment above and beyond the general principles of Group strategy and ensures that they are implemented. The Code of Conduct limiting the risks of possible breaches of

the law and regulations, which applies to all employees and managers throughout the Group, is a further component of this system.

Various coordinated planning, reporting and control processes and early warning systems have been put in place in implementing the system as a whole with the aim of recognising developments that could endanger the Group's continued existence in good time and taking appropriate and effective countermeasures.

Our operational risk management covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks and, together with the necessary countermeasures, is primarily the responsibility of process management, i.e. decentrally at divisional level. Risk Controlling identifies, measures and evaluates all risks. In particular, the involvement of the controlling team for the respective division serves to ensure that risk management is integrated into the decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.

The internal control system is a central component of risk management at Villeroy & Boch. It comprises the principles, procedures and measures introduced by management in order to

- || ensure the effectiveness and economic efficiency of the Group's business activities,
- || the correctness and reliability of internal and external financial reporting and
- || compliance with the statutory provisions that are relevant to the company.

The principles, organisational structure, workflows and processes of the internal control and risk management system are set out in Group-wide guidelines and work instructions. These specialised provisions are based on the relevant laws and regulations as well as voluntarily adopted company standards and are adjusted at regular intervals to reflect external and internal developments.

### Monitoring of the risk management processes

Based on a mandate delegated by the Management Board of the Villeroy & Boch Group, Group Internal Audit regularly examines the efficiency of the workflows and the effectiveness of the internal controls installed in the decentralised divisions and the risk management system. It reports on its findings in a timely manner. This ensures that the Management Board is continuously informed about weaknesses and any resulting risks and the derivation of adequate recommendations for rectifying these weaknesses. Specifically, our Group Internal Audit Team is responsible for identifying risks in the course of its activities (identification function), independently and objectively evaluating these risks (evaluation function) and presenting recommendations for improvement (advisory function) and tracking their implementation (tracking function).

The Audit Committee of the Supervisory Board also monitors the effectiveness of the risk management, internal control and internal audit system and, in particular, the financial reporting process. In addition, the effectiveness of the internal control system for financial reporting and the effectiveness of the risk early warning system are regularly confirmed by our external auditor as part of its annual audit of the consolidated financial statements.

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR GROUP FINANCIAL REPORTING

As Villeroy & Boch AG is a publicly traded corporation within the meaning of section 264d of the German Commercial Code (HGB), it is required to describe the key characteristics of its internal control and risk management system with respect to the Group financial reporting process in accordance with section 315 (4) HGB. The purpose of this system is to guarantee with reasonable assurance that the Group financial reporting process is reliable and that it complies with the generally accepted principles of proper accounting.

The internal control and risk management system relating to financial reporting is integrated into our Group-wide risk management system. It encompasses the organisational, control and monitoring structures that we use to ensure that business transactions and events are identified, processed and recognised in financial reporting correctly, promptly and in full. The central basis for a proper, uniform and continuous financial reporting process is formed by the relevant laws and standards and internal provisions, which are set out in a Group-wide accounting policy that is continuously updated. In addition, clearly defined procedures are specified in the form of a uniform chart of accounts for financial reporting, a Group-wide schedule for the preparation of the financial statements and various manuals. Furthermore, there are clear functional and personnel assignments for the functions performed as part of the financial reporting and consolidation process (e.g. Group reporting, controlling, financial accounting, payroll, taxes and Group treasury) in order to ensure the strict separation of the specific areas of responsibility.

In addition to the assignment of appropriate staff resources, the preparation of the consolidated financial statements is supported by uniform, standardised reporting and consolidation software that contains extensive checking and validation routines. In this respect, the internal control and risk management system relating to financial reporting provides for both preventive and down-stream controls. For example, this includes IT-based and manual reconciliation in the form of regular spot checks and plausibility checks, various risk-, process- and content-related controls in the divisions, the establishment of functional separations and predefined approval processes, the systematic implementation of the principle of dual control for all material processes relating to financial reporting, and strictly regulated access controls for our IT systems.

To monitor the Group companies' compliance with the control systems and accounting provisions, regular analytical examinations are performed by the local managing directors and auditors, the central Group reporting department, the Audit Committee of the Supervisory Board, Group Internal Audit and the external auditor of the consolidated financial statements. This monitoring includes identifying weaknesses, initiating improvement measures and examining whether weaknesses have been rectified.

## INDIVIDUAL RISKS

The following section contains a discussion of the risks that the Villeroy & Boch Group considers to be significant and whose potential occurrence could have a relevant adverse effect on the Group's net assets, financial position and results of operations.

The overview below provides a general summary of the individual risks. Applying a one-year forecast period, it shows the relative importance of the individual risks based

on their probability of occurrence and potential financial impact following any risk mitigation measures (net risk). A probability of less than 30% is classified as "low", while a probability of more than 60% is classified as "high". The assessment of the potential financial impact is based on the qualitative criteria "insignificant" (loss < € 1 million), "moderate" (loss between € 1 million and € 5 million) and "significant" (loss > € 5 million).

### RISK PROFILE OF THE VILLEROY & BOCH GROUP

Risk type	Probability of occurrence			Potential financial impact		
	low	medium	high	insignificant	moderate	significant
General and industry-specific market risks		x				x
Economic performance risks						
█ Procurement risks	x					x
█ Product development risks	x					x
█ Production risks		x			x	
█ Environmental protection risks		x			x	
Financial and economic risks						
█ Inventory risks	x			x		
█ Default and credit risks	x			x		
█ Liquidity risks	x			x		
█ Exchange rate risks		x			x	
█ Interest rate risks	x			x		
█ Other price risks	x			x		
Tax risks		x			x	
Personnel risks		x			x	
Legal risks		x			x	
IT risks	x			x		

### General and industry-specific market risks

As a globally active company, we currently market our products in 125 countries. All international business activities typically involve a wide range of general market risks that depend on macroeconomic developments, societal and geopolitical factors and regulatory conditions.

Specifically, macroeconomic developments – such as an economic slowdown in the industrialised nations and emerging economies, or exchange rate fluctuations – can impair the propensity and the ability of our customers to invest or lead to postponements of investment decisions. In the event of a hard, no-deal Brexit – the official withdrawal date is 29 March 2019 – we foresee not inconsiderable repercussions for our sales on the UK market: In addition to a lower revenue volume on account of the economic situation, we above all anticipate risks from adverse exchange rate changes and customs duties, which would significantly increase the costs of reciprocal trading with the UK. Regarding our biggest growth market, China, there could be a tangible slump in the economy in the event of a full-scale trade war with the United States – which would in turn also affect our industry. Not least, our markets in the emerging economies are exposed to the general economic risk that the further tightening of US interest rate policy could exacerbate the withdrawal of capital by foreign investors. In addition, consumer spending and consumer confidence on the individual markets can be negatively impacted by socio-political factors such as military conflicts or civil unrest.

In the Bathroom and Wellness Division, in the face of rising concentration within the sanitary ware industry, we anticipate increased competitive pressure and the associated risk of changes in market share. Specifically in project business, we face the challenge of tapping additional growth potential in order to successfully defend our market position against the competition.

As well as economic sales risks, the Tableware Division is subject to the additional challenges of the dynamic change in our customers' consumer behaviour. Achieving our revenue targets is therefore closely tied to the successful operational implementation of our sales measures, particularly in the growth channels of e-commerce and project business. As for our product areas requiring intensive marketing – new products and secondary brands – the inherent uncertainty

in terms of future acceptance by our business partners is naturally unavoidable. Consistent declines in customer numbers at retail stores in the western European markets represent a not inconsiderable sales risk for our own outlets as well, which we are counteracting in particular by improving the connectivity of our offline and online sales channels. In addition, consolidation within the retail sector is increasing the market power of major retail chains, meaning that we are also exposed to growing pressure on prices and margins in this area.

With regard to the market risks listed, we perform comprehensive risk monitoring by continuously observing and analysing the macroeconomic data and economic and industrial developments that are particularly relevant to our business on a continuous basis. Based on these observations, our operating divisions define, prepare and then implement the adjustments and measures that are necessary both in order to avert potential risks and, more importantly, to exploit opportunities that present themselves.

### Economic performance risks

#### Procurement risks

In the critical area of production supply in particular, general procurement risks include the risk, that the materials delivered to us will be of poor quality, as well as the risk of supplier insolvency or other supply interruptions. Suitable countermeasures for these risks have been defined as part of risk management, e.g. the permanent monitoring of markets and the financial stability of key suppliers and the definition and implementation of procurement strategies. This also includes preventing single sourcing scenarios to the greatest possible extent. However, in some exceptional cases – including the important area of raw materials – the current circumstances are such that there are very few alternative sources available on the market.

Furthermore, the increasing volatility of market prices for many raw materials could embody corresponding risks for our procurement prices. Phases of rapidly rising market prices could lead to a deterioration in our cost position, while we would be unable to benefit in full from phases of falling market prices on account of having locked in prices for the medium or long term.

#### Product development risks

As our competitive position and our revenue and earnings development depend to a large extent on the development of commercially successful products and production technologies, we invest significant resources in research and development. Development processes involve an extensive time and resource commitment and are subject to technological challenges and regulatory requirements. However, these factors and the tough competition mean there is no guarantee that all of the products in our present or future development pipeline will reach the planned market maturity and prove to be commercially successful. Additional information on our research and development activities can be found in the section of the same name under “Basic Information on the Group”.

#### Production risks

Production risks result from potential interruptions to operations, e.g. due to machine or furnace failures, and can have significant financial consequences and adversely affect our business performance. Accordingly, we provide a sufficient maintenance budget to ensure the regular servicing of our production facilities and the necessary replacement investments. Furthermore, our on-site technicians and special maintenance agreements with our spare part suppliers mean that a rapid response is guaranteed in the event of operational problems. If operations are interrupted in spite of these extensive preventative measures, insurance policies have been concluded to cover any financial losses where it is economically viable to do so.

#### Environmental protection risks

The environmental impact of production cannot be avoided altogether. In order to prevent the resulting environmental risks, especially in light of increasingly stringent legislation, environmental and occupational safety laws are analysed at regular intervals and organisational measures are subsequently initiated where relevant. We also continuously monitor emission levels at all our locations. As well as analysing the specific environmental impact, this includes taking account of the related occupational safety aspects (e.g. exposure at the respective workplaces). The central

basis for continuous monitoring is a dedicated reporting system in which location-related information is bundled and presented for the Group as a whole. We respond by making corresponding investments in environmental and occupational safety as required.

Our employees are another key element of our preventive activities, and we ensure that they are made aware of current environmental and energy-related topics on a regular basis. Employees are included in various operational projects in their respective area in order to leverage potential and minimise risk.

#### Financial risks

As an international Group, we are exposed to financial and economic risks. In particular, these are:

- || Inventory, default and credit risks
- || Liquidity risks and
- || Market price risks (exchange rate, interest rate and other price risks).

Financial risk is managed globally by our central Group Treasury unit. There are detailed guidelines and provisions for dealing with financial risk, including the separation of front office and back office functions. Group-wide principles regulate all relevant issues, such as banking policy, financing agreements and global liquidity management.

*Management of inventory risks:* For property, plant and equipment and inventories, the necessary insurance cover is in place to protect against the various risks of their actual loss. A detailed reporting system exists for the size, structure, range of coverage and changes to individual items, counteracting the risk of loss in value due to limited usability of inventories. Further information can be found in notes 6 and 11 of the notes to the consolidated financial statements. There is no significant concentration of inventory risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2018.

## Report on Risks and Opportunities

*Management of default and credit risks:* Default and credit risks describe the uncertainty that a contractual party will fail to meet its contractual obligations. In order to minimise these risks, our guidelines state that business relationships are only entered into with creditworthy business partners and, if necessary, subject to the provision of collateral. The main receivables from customers are protected by trade credit insurance. The default risk for the remaining uninsured receivables is controlled by way of a limit system and reporting. Compliance with limits is monitored centrally. We counteract potential default risks through the collateral deposited by customers, such as guarantees and mortgages, and through prompt collection measures. Specific valuation allowances are recognised for default risks that occur despite this, and particularly in the event of significant financial difficulties on the part of the debtor and impending bankruptcy (see section 12 of the notes to the consolidated financial statements). For banks, too, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established based on the ratings issued by international rating agencies and the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible as the Group deals only with contract partners with an investment grade rating from an international rating agency. External security is also ensured for the respective instrument, for example through deposit guarantee systems. There is no significant concentration of default risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2018.

*Management of liquidity risks:* In order to ensure our permanent solvency and financial flexibility, we control short, medium and long-term liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and through a medium and short-term liquidity projection. The financing requirements of Group companies are generally met in full by internal lending. This allows the cost-effective and permanently adequate coverage of financial requirements

for the Group's business operations and site investments. We utilise international cash pooling systems in order to reduce external finance volumes and optimise our financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit internal lending in exceptional cases. There is no significant concentration of liquidity risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2018. Further information on the management of liquidity risks can be found in note 53 of the notes to the consolidated financial statements.

*Management of exchange rate risks:* In the course of our global business activities, we are exposed to exchange rate risks arising from transactions in foreign currencies. Currency futures contracted with banks with good credit ratings are predominantly employed as hedging transactions. We generally hedge exchange rate risk over a period of twelve months, though hedges can extend beyond this horizon in exceptional cases. The required hedging volume is first determined by netting receivables and liabilities throughout the Group for each currency pair. As a matter of principle, the remaining exchange rate risk is initially hedged at a level of 70 % on the basis of past experience. From the conclusion of the contract, it is demonstrated periodically that possible currency fluctuations in the planned hedged item are offset by the opposing effects of the hedge throughout the term of the contract. The volume identity of planned and recognised foreign currency revenues for transactions already settled is also reviewed and documented at the end of each reporting period. There is no significant concentration of exchange rate risks within the Group. There were no changes in the nature of these risks or the risk management and measurement methods in 2018. As in the previous years, however, there is an increased risk due to the volatility of the Russian rouble, the pound sterling and the Swedish krona. These currencies can be expected to see a heightened exchange rate risk once again in 2019. We use a dynamic hedging approach to address these risks. Further information on the management of exchange rate risks can be found in note 53 of the notes to the consolidated financial statements.

*Management of interest rate risks:* Interest rate risks occur as a result of interest rate fluctuations on the market when funds are invested or borrowed at fixed- and variable-interest rates. The earnings risk arising from interest rate changes is determined on the basis of sensitivity analyses and controlled by Group Treasury, which maintains an appropriate relationship between fixed- and variable-interest borrowings. The risk of volatile interest markets is limited by way of fixed-interest loan agreements. There were no changes in interest risk positions or the risk management and measurement methods in 2018. In 2018, a few banks discussed the possibility of passing on the negative deposit rates imposed by central banks to business customers. However, the Villeroy & Boch Group has a sufficient number of alternative banking partners and investment options, meaning it is not subject to negative deposit rates at present. Further information on the management of interest rate risks can be found in section 53 of the notes to the consolidated financial statements.

*Management of other price risks:* Other financial risks result from changes in the price of purchased commodities used in our value chain, such as raw materials and supplies. As part of our risk management activities, we identify the volume of risk with the aim of hedging it. Among other things, we use capital market-oriented financial products for this purpose. The commodity of brass is currently hedged using commodity swaps with banks with good credit ratings. The requirements in accordance with production planning are generally hedged at a level of 70 % for the coming year and 30 % for the subsequent year on the basis of past experience. There was no change in the management of brass price risks in 2018. In 2018, the volume of hedges was covered by corresponding hedged items on a monthly basis. There is no significant concentration of other price risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2018. Further information on the management of commodity price risks can be found in section 53 of the notes to the consolidated financial statements.

#### **Tax risks**

The global business activities of the Villeroy & Boch Group mean it is subject to a wide range of country-specific tax laws and regulations. Changes in the applicable tax law situation could have an adverse effect on the taxation of the Group companies.

The Group companies domiciled in Germany and abroad may be subject to an external audit of their tax declarations and payments by the responsible local fiscal authorities. As a matter of principle, the resulting risks relate to all outstanding assessment periods and arise primarily in connection with differing or more restrictive interpretations of existing provisions by the fiscal authorities, which can result in additional financial burdens.

Tax risks are continuously identified and systematically reviewed and assessed as part of our risk management system. The corresponding technical issues are analysed and evaluated by the central Group tax department in conjunction with external tax advisors. Adequate provisions have been recognised in previous financial years for tax risks that are already known.

#### **Personnel risks**

The long-term success of the Villeroy & Boch Group depends to a large extent on its committed and skilled employees and managers. In order to secure new talents and expertise for the long term, the Group places great value on a targeted human resources policy whose content involves the recruitment and training of new, qualified employees and the continuous further education of established staff in the form of management and personality training and specialised learning programmes. A growing challenge for us as an employer is the increasingly tough competition for new employees as societal developments, and especially demographic change, lead to a shift in terms of supply and demand on the employment market. Finding the necessary replacements for qualified employees in key positions involves recruitment processes that can be lengthy. This can result in capacity bottlenecks.

## Report on Risks and Opportunities

We have pension and pension-related obligations for the provision of retirement benefits to our employees. Changes in the relevant measurement parameters, such as interest rates, mortality rates and the rate of salary growth, constitute a financial risk as they may lead to a change in the volume of these obligations and negatively impact our equity and our earnings. Provisions for pensions are described in note 26 of the notes to the consolidated financial statements.

**Legal risks**

The progressive internationalisation of our business activities is accompanied by an increase in the number and complexity of the statutory provisions we are required to observe. Accordingly, we are permanently exposed to risks in connection with guarantee obligations and material defects, product liability, competition and antitrust law, industrial property rights and claims arising from breaches of contract. To the extent that it is foreseeable and economically reasonable to do so, we cover the existing legal risks by concluding insurance policies that are typical for the industry and recognise provisions to a sufficient extent for obligations going above and beyond this. To reduce the potential cost of legal risks, we ensure the high quality standards of our products by regularly monitoring production and making continuous improvements. In addition, responsible and legally compliant behaviour is ensured by the compliance organisation established by the Management Board.

After obtaining legal advice, the Supervisory Board has come to the conclusion that claims for recourse could be made against four former members of the Management Board in connection with the EU's decision on bathroom manufacturer antitrust proceedings. Time-limited waivers of the statutory period of limitations were agreed with three of the former members of the Management Board. An action for performance is pending against one former member of the Management Board. The proceedings are currently suspended on account of the judge's retirement. No specific claims for reimbursement or recourse have been recognised to date.

**IT risks**

Generally speaking, a distinction can be made between the following IT risks:

- || Non-availability of IT systems and applications,
- || Missing or incorrect provision of data,
- || Loss or manipulation of data,
- || Cybercrime
- || Breaches of compliance (data protection provisions, licenses, etc.),
- || Disclosure of confidential information.

The detailed Group-wide guidelines and provisions for the active management of these risks are regularly examined by external auditors and Group Internal Audit to ensure compliance and effectiveness. Our central IT organisational structure and the use of standardised, Group-wide systems and processes are additional measures aimed at minimising the probability of risks occurring.

As part of the continued digitalisation of our business and production processes, the topic of cybersecurity has become significantly more important in recent years. To provide effective protection against potential threats, we employ standardised, state-of-the-art firewall technology at all Group locations. The Group has concluded cybercrime insurance to protect it financially against loss.

**Overall risk position**

The Management Board of Villeroy & Boch AG regularly examines the risk situation of the Group and has satisfied itself as to the effectiveness of the risk management system. In the 2018 financial year, the risk profile did not change materially compared with the previous year. In the opinion of the Management Board, based on the probability of occurrence and potential impact of the risks described above, they do not represent a risk to the continued existence of the Group either in isolation or cumulatively. The individual risks are controlled using the risk management system and sufficient risk cover is available. The Management Board does not expect this to have a material influence on the Group's net assets, financial position and results of operation.

## REPORT ON OPPORTUNITIES

The Villeroy & Boch Group has a wide range of opportunities to secure its long-term future business success. The following section describes the material opportunities available to the Group involving additional earnings potential.

### Opportunities through ceramic expertise

Expertise with ceramic materials is in Villeroy & Boch's DNA and a key factor in our successful 270-year history as a company. We focus on combining product design and raw material and production expertise with product functionality and quality. With successful products like the rimless Direct-Flush WC and innovative materials like TitanCeram, which combines selected natural materials such as feldspar, quartz, clay and titanium dioxide for particularly delicate yet stable washbasins, or our new matte TitanGlaze which gives the ceramic a very scratch- and impact-resistant finish thanks to a high-purity, crystalline aluminium oxide, we are underlining our claim to be the innovation leader for ceramic sanitary ware. We are working on the ceramics of the future at our own development centre and in cooperation with selected research partners, and we are confident that this will allow us to continue to set ourselves apart from the competition in future.

### Opportunities through addressing current trends in society

One key opportunity in the Tableware Division involves identifying trends in society with regard to how people enjoy food and drink at an early stage so that we can benefit by offering a corresponding product range. After having established "Food Concepts" alongside our traditional Tableware business in 2017 – a new product segment catering specifically to the current trends in food such as BBQ, pasta, soup, salad, coffee and tea – the associated product range was extended again in the 2018 financial year. We will be focusing on the global boom in coffee moving ahead. We also have a separate product segment for gift items to be given on big or small occasions. This product range includes

vases, decorative bowls and various glass sets. In order to further accelerate our response to market trends, in 2018 we reorganised the marketing department within Tableware with the aim of implementing marketing strategies for specific segments – from premium to mainstream and through to the mass market.

### Opportunities through growth markets

While our activities in the saturated markets of Europe are primarily focused on expanding our market share, our approach in the growth regions is geared towards increasing brand awareness and hence establishing our position on the respective market. The biggest growth potential, particularly in the Bathroom and Wellness division, still lies in our Chinese market, which is characterised by an ever larger middle and upper class with a propensity for consumer spending and, above all, with a strong affinity for brands. We have intensified the expansion of our distribution network in recent years by establishing independent organisations, including local logistics platforms. Accordingly, we continued to expand our local points of sale in the 2018 financial year as well.

### Opportunities through project business

We believe that there remains good potential for increasing the sales volume in our global project business in the Bathroom and Wellness Division. We have a specialist sales team and an extensive range of products and services that is precisely tailored to the needs of our professional partners. In order to manage our international activities even more efficiently, in 2018 we created "Global Projects" – a new central organisational unit based in London from which we can actively reach out to top interior designers and the major hotel groups and project developers. Thanks not least to these measures, we increased our total revenue from project business in the Bathroom and Wellness Division by 8.0% on top of an already high level in the 2018 financial year. The expansion of project business also represents an opportunity in the Tableware Division, where our sales activities are focused on cruise ships and care homes in addition to hotels and restaurants.

## Report on Risks and Opportunities

**Opportunities through license partnerships**

Granting brand licenses is another instrument we use to position the Villeroy & Boch brand outside our core business areas. Accordingly, license business is a way of attracting new target groups and expanding our product range. For “House and Home”, our licensing partners currently offer tiles, wooden flooring, lighting, fittings, garden furniture, accessories and, from the start of 2019, home furnishings under the Villeroy & Boch brand.

**Opportunities through digitalisation****Opportunities of digitalisation for marketing**

Since 2013, we have massively expanded our structures and investments in the area of digitalisation. Our marketing activities are geared towards providing our customers with innovative, modern concepts that meet their needs, both offline and online. Our aim is to have a presence wherever customers look for us and to provide them with a consistent information and shopping experience. To ensure that we meet the individual needs of end consumers and business partners in terms of information, inspiration, entertainment, service and dialogue in full and in a targeted manner, we have significantly expanded our online presence. This includes continuously improving our website, intensifying our social media activities, increasing the use of online marketing channels and optimising our web content for search engines. In this context, in recent years we have continuously optimised the content of the Villeroy & Boch website and added additional functions. Online marketing measures are also increasingly being used to advertise new product ranges to the appropriate target group using state-of-the-art targeting. We also pressed ahead with and improved the activation of existing customers using channels such as e-mail marketing. Thanks to a further, significant improvement in the technical platform for our online presence, new opportunities will be created in the coming financial year of 2019 to actively serve new and existing customers even more effectively.

For the Tableware Division, e-commerce is a strategically important sales channel encompassing our own online shops as well as the sales platforms of other providers, and is also the fastest-growing sales channel. We expect to see above-average growth rates in online business in the years

ahead, particularly as we address additional e-commerce platforms more intensively. After having continued to expand the human resources capacities of the specialist departments in the previous year and created the necessary processes to make us fit for the future, and after further intensifying our cooperation with e-commerce platforms, our online revenue grew by 8.3% year-on-year in the 2018 financial year. These developments are to be expanded and advanced further in the years ahead.

In the Bathroom and Wellness Division, digital services and tools play a primary role. With tools like our Bathroom Planner and Bathroom Inspirator and the augmented reality app, consumers can plan their ideal bathroom and project the selected products into a video of the allocated room using a smartphone or tablet PC for a lifelike 3D view. We also allow customers to plan their bathrooms in virtual reality, e.g. by using cardboard. In this way, the use of new technologies generates additional benefit for customers. Digital channels can also be used to reach both end customers and business customers (including architects, planners and plumbers) in a targeted and efficient manner. This allows us to generate valuable leads with additional revenue potential that we pass on to our dealers with the customer's permission. Additional contact paths via digital channels were established in the year under review in order to provide customers with optimal support during the information and buying phase. Additional contact paths via digital channels were established in the year under review in order to provide customers with optimal support during the information and buying phase and to further improve lead processing with our dealers.

**Opportunities of digitalisation for production**

Digitalisation is opening up new opportunities and vast potential for our production sites. Our task is to evaluate the wide range of potential applications of digitalisation for our production sites and successfully implement them following a successful pilot phase. The current roll-out of standardised, consistent online IT systems and the networking of machines within the production process at our sanitary ware factories will form the basis for further uses of digitalisation.

We are continuing to leverage the available potential for improvement through statistical fault analysis and the stabilisation of process parameters. Predictive analytics are another element of the digitalisation environment. The basis for leveraging the resulting potential is provided by recording and collecting all of the relevant data for a product within the manufacturing process. At sanitary ware factories, all products are initially identified at measurement stations using barcodes. Quality-related data for each product is then stored in a central analysis system. This data may relate to ceramic composition, material flow, or the climatic conditions, tools used and process parameters applied in the production systems. The aim is to connect the data recorded in order to identify the influence, critical value ranges and interdependencies of the process parameters in the first instance, thereby allowing predictions about the risk of a faulty product at the end of the production process to be made as reliably as possible in the long term. In processes controlled using defined thresholds, products are discarded at an early stage if the probability of failure exceeds a predefined level. This prevents unnecessary process costs and improves energy efficiency, particularly with regard to the energy-intensive firing process. We expect the successive roll-out and continuous improvement of these analysis systems at all our plants to result in relevant long-term improvements in earnings.

State-of-the-art technologies are also being examined, such as the use of collaborative robots for largely manual and physically demanding steps within the production process. To this end, we are working in close cooperation with robot manufacturers and research institutions.

#### Opportunities of digitalisation for administration

Last but not least, digitalisation is having a positive effect in terms of efficiency in our administrative areas. The use of uniform IT systems, the performance enhancement of these systems and the minimisation of media discontinuities are making a significant contribution to continuous efficiency improvement. The optimisation potential lies in the Group-wide harmonisation and standardisation of repetitive processes across all areas of activity. In the areas of human resources, procurement and finance, our aims also include the bundled processing of business transactions at shared

service centres. The further digitalisation of processes using new digital tools is aimed at improving the performance and quality of our processes while also increasing efficiency.

#### Opportunities through digital transformation

In addition to the application areas described above, and the digitalisation opportunities they entail, since 2018 there has been a separate organisational unit to advance the digital transformation of the entire company and thereby leverage the opportunities afforded by digitalisation in day-to-day work. This will focus, for instance, on activities to establish new digital business models within the company or investments in digital start-ups to tap new business areas and sales opportunities, or the development of methods and expertise in the field of data science, such as using big data or artificial intelligence in all value-added processes. Furthermore, a number of internal programmes were set up in 2018 to support digital transformation and improve digital fitness among our employees.

#### Non-operating earnings potential

Outside of our operating business, we believe that there is earnings potential in the development and marketing of properties that are no longer required for operating purposes.

We expect the development of our property in Luxembourg to continue to offer additional earnings potential. After the entire plant site was converted into a mixed-use commercial and residential area in 2017, the close cooperation with the City of Luxembourg and the jointly commissioned architects and planners has since led to significant progress in planning.

Activities in 2018 focused on preparing a development plan for the entire Rollingergrund site, which is to be developed into an attractive and energetic residential and working district with a high share of housing. Furthermore, above-ground demolition work is now underway at the former "Usine 1" site. Alongside the further progress in the development plan, initial exploratory talks were held in the reporting period regarding the possible sale of the development properties we still own in Rollingergrund. We expect this project, which has earnings potential in the high eight figures, to be wrapped up in the 2019 financial year.

## REPORT ON EXPECTED DEVELOPMENT

We are forecasting moderate, flatter global economic growth in 2019. Despite the uncertainty entailed by Brexit and structural problems in individual countries, especially Italy and France, economic developments in the euro area will largely remain on an upward trajectory. Growth prospects for the German economy will become somewhat dimmer, as the gradual cooldown of the world economy will also slow export momentum. Overseas, the consistently robust expansion of the US economy will wane slightly as fiscal incentives run out. Slower economic growth is also expected on our biggest growth market, China, owing to the risks of the trade conflict with the US and high public and private debt.

We expect that European residential construction, a key indicator for business development in the Bathroom and Wellness Division, will experience declining growth rates across all countries in the forecast period. The capacity limits reached in the construction industry are likely to continue to curb development.

Private consumer spending – one of the key factors for our Tableware business – is likely to experience a stable development on our European markets compared to 2018. In Germany, private consumer spending is expected to pick up, benefiting from the higher disposable income of private households.

The forecasts for the development of macroeconomic and industry-specific conditions presented here are based on the figures published by various research institutions and our own estimates.

### Revenue, earnings and investments at the Group

Based on a fundamentally consistently positive assessment of the market and a range of supporting factors, we are aiming to increase consolidated revenue by between 3% and 5% in the 2019 financial year.

We are forecasting an improvement in our operating result (EBIT) before non-recurring property income of between 3% and 5% in 2019.

Our return on net operating assets is expected to reach a level of around 16% in 2019.

Our operating investments in property, plant and equipment and intangible assets are forecast to amount to more than €40 million in the 2019 financial year. Around 75% of the investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for a quarter. One focal point of our investment activity in the Bathroom and Wellness Division will be the targeted expansion of the technical capacities at our ceramic sanitary ware plants. As a result, we will continue to expand our business volume on our growth markets in the Asia-Pacific region in particular. In the Tableware Division, on the one hand we will increasingly focus on production at our Merzig and Torgau plants in the 2019 financial year, for which we are planning to expand our cup and decoration capacity. On the other, we are investing in the expansion of our online activities in the context of the transformation of our Tableware business.

The investment plan for the 2019 financial year also includes additional investments of around €5 million for “Mettlach 2.0”. This essentially involves activities in connection with the redevelopment of Villeroy & Boch’s headquarters, the Alte Abtei (Old Abbey) in Mettlach, where we are creating a new brand discovery centre to attract visitors.

The forward-looking statements contained in this management report are based on assessments made by the Management Board of Villeroy & Boch AG to the best of its knowledge at the preparation date of the consolidated financial statements. They are subject to various risks and uncertainties as a matter of principle. Accordingly, actual results could deviate from expectations of future performance if any of the uncertainties listed in the report on risks and opportunities or other uncertainties were to occur or if the assumptions underlying the statements proved to be inaccurate.

## OTHER DISCLOSURES

### Disclosures on the acquisition of treasury shares

Disclosures on the acquisition of treasury shares in accordance with section 160 (1) no. 2 of the German Stock Corporation Act (AktG) can be found in note 19 of the notes to the consolidated financial statements.

### Takeover disclosures

The disclosures relevant to takeovers in accordance with section 315a(1) HGB can be found in notes 17 and 25 to the consolidated financial statements.

### Group declaration on corporate governance

With regard to the Group declaration on corporate governance required by section 315d in conjunction with section 289f of the German Commercial Code (HGB), reference is made to the version printed in the Corporate Governance Report contained in the 2018 Annual Report, which is available online at [www.villeroyboch-group.com/en/investor-relations/corporate-governance](http://www.villeroyboch-group.com/en/investor-relations/corporate-governance).

## REMUNERATION REPORT

### Remuneration System

The Supervisory Board regularly examines the remuneration system for the Management Board with respect to the statutory requirements of the German Act on the Appropriateness of Management Board Remuneration and the recommendations of the German Corporate Governance Code, and makes adjustments when it considers this to be necessary or otherwise appropriate. The Supervisory Board also consults an independent remuneration consultant to the necessary extent.

The remuneration system for the members of the Management Board is performance-oriented, with fixed remuneration being supplemented by a performance-

based variable component. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes at least half of the total remuneration paid. The variable remuneration is broken down into a short-term annual component (annual bonus) and a long-term component with a measurement period of three years. This long-term remuneration has a higher weighting than the short-term component. In terms of content, variable remuneration components are oriented towards financial targets (return on net operating assets, earnings before interest and taxes, earnings before taxes) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2018 financial year. In addition, a company car for private use is offered to members of the Management Board. The existing contracts of the current members of the Management Board provide for defined benefit or defined contribution pension commitments. In the opinion of the Supervisory Board, under the advice of an independent remuneration consultant engaged by the Supervisory Board, the total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the Company's financial situation and do not exceed typical remuneration compared to peer group companies.

Please refer to the respective version of the declaration of conformity. In accordance with Articles of Association, Supervisory Board remuneration likewise consists of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

Other Disclosures  
Remuneration Report  
Combined Responsibility Statement

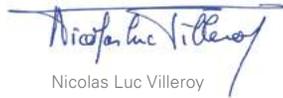
## COMBINED RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the 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.

Mettlach, 30 January 2019



Frank Göring



Nicolas Luc Villeroy



Andreas Pfeiffer



Dr. Markus Warncke





# CONSOLIDATED FINANCIAL STATEMENTS

**52 CONSOLIDATED BALANCE SHEET**

**54 CONSOLIDATED INCOME STATEMENT**

**55 CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME**

**56 CONSOLIDATED STATEMENT OF EQUITY**

**57 CONSOLIDATED CASH FLOW STATEMENT**

**58 NOTES**

58 General Information

69 Notes to the Consolidated Statement of Financial Position

96 Notes to the Consolidated Statement of Comprehensive Income

100 Notes to the Consolidated Statement of Cash Flows

101 Notes to Group Segment Report

104 Other Notes

### CONSOLIDATED BALANCE SHEET

as of 31 Dec. 2018

in € million

Assets	Notes	31/12/2018	31/12/2017
<b>Non-current assets</b>			
Intangible assets	5	38.9	37.5
Property, plant and equipment	6	183.2	165.3
Investment property	7	7.0	8.2
Investments accounted for using the equity method	8	1.6	1.5
Other financial assets	9	17.1	14.8
		<b>247.8</b>	<b>227.3</b>
Other non-current assets	13	3.5	3.7
Deferred tax assets	10	36.5	37.3
		<b>287.8</b>	<b>268.3</b>
<b>Current assets</b>			
Inventories	11	166.5	154.6
Trade receivables	12	137.4	127.2
Other current assets	13	27.6	25.3
Income tax receivables	14	3.9	2.5
Cash and cash equivalents	15	57.6	108.7
		<b>393.0</b>	<b>418.3</b>
<b>Non-current assets held for sale</b>	16	<b>0.8</b>	<b>0.5</b>
<b>Total assets</b>		<b>681.6</b>	<b>687.1</b>

## Consolidated Balance Sheet

as of 31 Dec. 2018

in € million

Equity and Liabilities	Notes	31/12/2018	31/12/2017
<b>Equity attributable to Villeroy&amp;Boch AG shareholders</b>			
Issued capital	17	71.9	71.9
Capital surplus	18	193.6	193.6
Treasury shares	19	-15.0	-15.0
Retained earnings	20	31.9	12.7
Revaluation surplus	21	-77.9	-74.0
		<b>204.5</b>	<b>189.2</b>
<b>Equity attributable to minority interests</b>			
	22	<b>4.9</b>	<b>5.4</b>
<b>Total equity</b>		<b>209.4</b>	<b>194.6</b>
<b>Non-current liabilities</b>			
Provisions for pensions	26	177.2	185.1
Non-current provisions for personnel	27	17.1	19.0
Other non-current provisions	28	8.8	11.3
Non-current financial liabilities	29	25.0	50.2
Other non-current liabilities	30	4.4	4.7
Deferred tax liabilities	10	4.1	3.4
		<b>236.6</b>	<b>273.7</b>
<b>Current liabilities</b>			
Current provisions for personnel	27	15.2	15.4
Other current provisions	28	20.0	20.0
Current financial liabilities	29	33.1	0.9
Other current liabilities	30	86.6	92.5
Trade payables	31	77.3	83.5
Income tax liabilities		3.4	6.5
		<b>235.6</b>	<b>218.8</b>
<b>Total liabilities</b>		<b>472.2</b>	<b>492.5</b>
<b>Total equity and liabilities</b>		<b>681.6</b>	<b>687.1</b>

**CONSOLIDATED INCOME STATEMENT**

for the period 1 Jan. to 31 Dec. 2018

in € million

	Notes	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
<b>Revenue</b>	32	<b>853.1</b>	<b>836.5</b>
Costs of sales	33	-487.3	-466.4
<b>Gross profit</b>		<b>365.8</b>	<b>370.1</b>
Selling, marketing and development costs	34	-266.9	-275.3
General administrative expenses	35	-43.8	-47.2
Other operating income	36	14.2	17.0
Other operating expenses	37	-15.8	-15.3
Result of associates accounted for using the equity method	38	0.1	0.5
<b>Operating result (EBIT)</b>		<b>53.6</b>	<b>49.8</b>
Interest income and other finance income	39	1.8	1.3
Interest expenses and other finance expenses	40	-6.2	-5.7
<b>Financial result</b>		<b>-4.4</b>	<b>-4.4</b>
<b>Earnings before taxes</b>		<b>49.2</b>	<b>45.4</b>
Income taxes	41	-15.3	-15.6
<b>Group result</b>		<b>33.9</b>	<b>29.8</b>
Thereof attributable to:			
! Villeroy & Boch AG shareholders		33.5	29.9
! Minority interests	42	0.4	-0.1
<b>Group result</b>		<b>33.9</b>	<b>29.8</b>
<b>Earnings per share</b>		<b>in €</b>	<b>in €</b>
! Earnings per ordinary share	43	1.25	1.11
! Earnings per preference share	43	1.30	1.16

During the reporting period there were no dilution effects.

Consolidated Income Statement  
Consolidated Statement of Comprehensive Income

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the period 1 Jan. to 31 Dec. 2018

in € million

	2018	2017
<b>Group result</b>	<b>33.9</b>	<b>29.8</b>
<b>Other comprehensive income</b>		
<b>Items to be reclassified to profit or loss:</b>		
┆ Gains or losses on translations of exchange differences	-1.3	-6.1
┆ Gains or losses on cash flow hedges	-1.0	0.4
┆ Deferred income tax effect on items to be reclassified to profit or loss	0.6	-0.6
<b>Items not to be reclassified to profit or loss:</b>		
┆ Actuarial gains or losses on defined benefit plans	-3.1	9.0
┆ Gains or losses on value changes of securities	-0.4	0.1
┆ Deferred income tax effect on items not to be reclassified to profit or loss	0.7	-3.0
<b>Total other comprehensive income</b>	<b>-4.5</b>	<b>-0.2</b>
<b>Total comprehensive income net of tax</b>	<b>29.4</b>	<b>29.6</b>
┆ Thereof attributable to:		
┆ Villeroy & Boch AG shareholders	29.6	30.0
┆ Minority interests	-0.2	-0.4
<b>Total comprehensive income net of tax</b>	<b>29.4</b>	<b>29.6</b>

### CONSOLIDATED STATEMENT OF EQUITY

for the period 1 Jan. to 31 Dec. 2018

in € million

	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		
Notes	17	18	19	20	21		22	
<b>As of 01/01/2017</b>	<b>71.9</b>	<b>193.6</b>	<b>-15.0</b>	<b>-3.9</b>	<b>-74.1</b>	<b>172.5</b>	<b>0.1</b>	<b>172.6</b>
Group result				29.9		29.9	-0.1	29.8
Other comprehensive income					0.1	0.1	-0.3	-0.2
<b>Total comprehensive income net of tax</b>				<b>29.9</b>	<b>0.1</b>	<b>30.0</b>	<b>-0.4</b>	<b>29.6</b>
Dividend payments				-13.3		-13.3		-13.3
Acquisition of non-controlling interests						-	5.7	5.7
<b>As of 31/12/2017</b>	<b>71.9</b>	<b>193.6</b>	<b>-15.0</b>	<b>12.7</b>	<b>-74.0</b>	<b>189.2</b>	<b>5.4</b>	<b>194.6</b>
<b>As of 01/01/2018</b>	<b>71.9</b>	<b>193.6</b>	<b>-15.0</b>	<b>12.7</b>	<b>-74.0</b>	<b>189.2</b>	<b>5.4</b>	<b>194.6</b>
Group result				33.5		33.5	0.4	33.9
Other comprehensive income					-3.9	-3.9	-0.6	-4.5
<b>Total comprehensive income net of tax</b>				<b>33.5</b>	<b>-3.9</b>	<b>29.6</b>	<b>-0.2</b>	<b>29.4</b>
Dividend payments				-14.3		-14.3	-0.3	-14.6
<b>As of 31/12/2018</b>	<b>71.9</b>	<b>193.6</b>	<b>-15.0</b>	<b>31.9</b>	<b>-77.9</b>	<b>204.5</b>	<b>4.9</b>	<b>209.4</b>

Consolidated Statement of Equity  
Consolidated Cash Flow Statement

### CONSOLIDATED CASH FLOW STATEMENT

for the period 1 Jan. to 31 Dec. 2018

in € million

	Notes	01/01/2018 – 31/12/2018	01/01/2017 – 31/12/2017
Group result		33.9	29.8
Depreciation of non-current assets	44	23.5	26.2
Change in non-current provisions		-18.8	-10.2
Profit from disposal of fixed assets		-3.3	-0.4
Change in inventories, receivables and other assets		-25.1	-9.8
Change in liabilities, current provisions and other liabilities		-3.2	8.8
Taxes paid/received in the financial year		-11.0	-10.2
Interest paid in the financial year		-2.7	-3.1
Interest received in the financial year		0.7	0.9
Other non-cash income/expenses	48	8.1	9.0
<b>Cash flow from operating activities</b>	<b>48</b>	<b>2.1</b>	<b>41.0</b>
Purchase of intangible assets, property, plant and equipment		-43.6	-35.9
Investment in non-current financial assets and cash payments		-5.1	-8.2
Payments for the acquisition of consolidated companies	2	–	-3.3
Cash receipts from disposals of fixed assets		4.1	20.1
<b>Cash flow from investing activities</b>	<b>49</b>	<b>-44.6</b>	<b>-27.3</b>
Cash proceeds from long-term borrowing	29	34.3	12.7
Cash repayments of amounts borrowed	29	-27.3	-12.4
Dividends paid to minority shareholders	22	-0.3	-1.1
Dividends paid to shareholders of Villeroy&Boch AG	23	-14.3	-13.3
<b>Cash flow from financing activities</b>	<b>50</b>	<b>-7.6</b>	<b>-14.1</b>
<b>Sum of cash flows</b>		<b>-50.1</b>	<b>-0.4</b>
<b>Balance of cash and cash equivalents as of 1 Jan.</b>		<b>108.7</b>	<b>111.2</b>
Change based on total cash flows		-50.1	-0.4
Changes due to exchange rates		-1.0	-2.1
<b>Net increase in cash and cash equivalents</b>		<b>-51.1</b>	<b>-2.5</b>
<b>Balance of cash and cash equivalents as of 31 Dec.</b>	<b>15+51</b>	<b>57.6</b>	<b>108.7</b>

# NOTES

## GENERAL INFORMATION

Villeroy & Boch Aktiengesellschaft, domiciled in Mettlach, Saaruferstrasse 1-3, is a listed stock corporation under German law. It is the parent company of the Villeroy & Boch Group. The Villeroy & Boch Group is a leading international ceramic manufacturer. As a fullservice provider for the bathroom and the “perfectly laid table”, our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. Villeroy & Boch AG is listed in the Prime Standard operated by Deutsche Börse AG.

In line with section 315e of the HGB (German Commercial Code), the consolidated financial statements as at 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are supplemented by additional explanatory notes in accordance with section 315e HGB.

The financial year is the calendar year. The consolidated financial statements were prepared in euro. Unless stated otherwise, all amounts are disclosed in millions of euro (€ million).

The annual financial statements of Villeroy & Boch AG and the consolidated financial statements of Villeroy & Boch Aktiengesellschaft have been published in the Bundesanzeiger (Federal Gazette).

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 30 January 2019. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

The following section describes the main IFRS accounting policies as adopted by the Villeroy & Boch Group in accordance with the relevant provisions.

## 1. ACCOUNTING POLICIES

### Modifications due to the adoption of accounting principles

With the exception of the IFRS regulations requiring mandatory application for the first time in the financial year, the accounting policies applied are essentially the same as those applied in the previous year.

### First-time application of IFRS 9

As at 1 January 2018, the financial instruments of the Villeroy & Boch Group were assigned to new measurement categories in accordance with IFRS 9 “Financial Instruments” and their measurement was adjusted in line with the new requirements (see note 53). The application of the new reporting and measurement regulations did not result in any significant changes. In future, the change in credit risk will be taken into account by using external insurance ratings to determine the impairment of financial assets. As at the time of transition, write-downs on trade receivables amounted to €-3.1 million applying the new method (see note 12). The Villeroy & Boch Group recognised an impairment loss of €-3.1 million in accordance with IAS 39 as at 31 December 2017.

### First-time application of IFRS 15

The Villeroy & Boch Group applied IFRS 15 “Revenue from Contracts with Customers” for the first time as at 1 January 2018 using the modified retrospective transition method. In accordance with the relevant provisions, the comparative information shown for the previous year 2017 was not restated.

First-time application did not result in any significant changes in the timing or amount of revenue recognition for revenue generated from the sale of goods. In addition, Villeroy & Boch recognises income from licences to use our brands awarded to third parties, which is recognised in line with the licensed products sold. This license income was reclassified from other operating income to revenue as part of the first-time application of IFRS 15. In the 2018 financial year, the group recognised income from licences of € 6.1 million (previous year: € 5.9 million; see note 36).

A separate item for contract assets was added to the balance sheet item “Other current assets” (see note 13). A contract asset is the company’s claim to consideration for the services transferred to the customer, provided that the claim is conditional and thus not exclusively linked to the passage of time. In the Villeroy & Boch Group, licence agreements are deemed contract assets that grant third parties the right to use the Group’s brands or rights for their own products. Until 31 December 2017, licence income was recognised on an accrual basis under “Miscellaneous other

## General Information

assets”; since the start of the year it has been recognised as a separate item under the balance sheet item “Other current assets” (see note 13).

Contract liabilities are recognised as liabilities in accordance with IFRS 15. A contract liability comprises the company’s obligation to provide performance for which the customer has paid advance consideration. It is therefore equivalent to the existing liability item “Advance payments” (see note 30).

Other than the reclassifications described, no other transition effects were identified that would have led to recognition in retained earnings on first-time application as at 1 January 2018.

The other changes to the IFRS regulations effective for the first time in the 2018 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on developments within the IFRS Framework can be found in note 62.

#### Intangible assets

Acquired intangible assets are capitalised at the cost necessary to bring the asset to its working condition. Internally generated intangible assets are only capitalised in the year of their creation if they meet the requirements of IAS 38. Initial measurement is at cost including attributable overheads.

Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general and administrative expenses. Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price and the value in use of the respective asset. The net selling price represents the proceeds that could be generated in an arm’s length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with payments in the years beyond the planning horizon derived

from the situation in the final year of the planning period. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account.

Any impairment losses identified are recognised in profit or loss. If the reason for the recognition of an impairment loss ceases to exist in a future period, the impairment loss is reversed accordingly. The reversal of impairment losses on capitalised goodwill is prohibited.

Annual impairment testing for capitalised goodwill is performed at divisional level.

#### Property, plant and equipment

Property, plant and equipment are carried at cost less depreciation in accordance with the useful life. Cost includes all net costs necessary to bring the asset to its working condition. Cost is determined on the basis of the directly attributable costs of the asset plus the pro rata materials and manufacturing overheads. Maintenance and repair costs for property, plant and equipment are recognised in profit or loss.

If an asset consists of several components with significantly different useful lives, the individual elements are depreciated in accordance with their individual service potential.

Property, plant and equipment are depreciated on a straight-line basis over their useful life.

The following useful lives are applied, unchanged from the previous year, throughout the Group:

ASSET CLASS	Useful life in years
Buildings (predominantly 20 years)	20–50
Operating facilities	10–20
Kilns	5–10
Technical equipment and machinery	5–12
Vehicles	4–8
IT equipment	3–6
Other operating and office equipment	3–10

The estimated useful lives are reviewed regularly. In the course of this year's review, the useful life of kilns/drying plants was increased from 5 to 10 years and the useful life of shaping machines from 5 to 8 years, with a total earnings effect of € 2.7 million.

In addition to ordinary depreciation, impairment losses are recognised on property, plant and equipment if the value in use or the net realisable value of the respective asset concerned has fallen below the depreciated cost. If the reasons for the recognition of an impairment loss cease to exist in a future period, the impairment loss is reversed accordingly.

Property, plant and equipment under construction are carried at cost. Finance costs that arise directly during the creation of a qualifying asset are capitalised. Depreciation on assets under construction only begins when the assets are completed and used in operations.

#### Leases

If assets are leased and the lessor bears substantially risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised using the straight line method over the term of the agreement as expenses in the statement of comprehensive income.

If beneficial ownership remains with the Villeroy & Boch Group (finance lease), the leased asset is capitalised at its fair value or the lower present value of the lease instalments. Depreciation is allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability is recognised for the discounted corresponding payment obligations arising from future lease instalments. The first-time application of IFRS 16 "Leases" as at January 1st, 2019, essentially changes the accounting treatment of leased assets. A summary is provided in note 62.

#### Government grants

Grants are recognised only when the Group has satisfied the associated conditions with reasonable assurance and the grants have been provided. Grants and subsidies received for the acquisition or construction of property, plant and equipment and intangible assets reduce their cost insofar as they can be allocated to the individual assets; otherwise, they are recognised as deferred income and subsequently reversed depending on the degree of fulfilment.

#### Investment property

Land and buildings held to earn regular rental income (investment property) are reported separately from assets used in operations. Mixed-use property is classified proportionately as a financial investment if the leased portion of the building could be sold separately. If this criterion is not met, the entire property is classified as investment property if the owner-occupied portion is insignificant. Investment property is carried at amortised cost. Depreciation is performed in the same way as for property, plant and equipment used in operations. Market values are calculated by independent experts and by inhouse staff. The experts contracted typically calculate market values using the gross rental method. In these cases, the market value is also calculated using the asset value method as a control. The basis for the internal determination of market values are mainly the official comparative prices from the land value maps of expert committees, supplemented by property-specific fair values for the respective structures.

#### Investments accounted for using the equity method

An associate is a company over which the Villeroy & Boch Group has significant influence. The Villeroy & Boch Group has significant influence when it has the opportunity to participate in the financial and operating policy decisions of the investee without control or joint management. Investments in associates are accounted for using the equity method, under which the cost at the acquisition date is adjusted to reflect the proportionate future results of the respective associate. Changes in equity are reported in the operating result in the statement of comprehensive income.

#### Financial instruments

Financial instruments arise from contracts which lead to a financial asset or financial liability or an equity instrument. They are recognised in the statement of financial position as soon as the Villeroy & Boch Group concludes a contract to this effect. In accordance with IFRS 9, based on the characteristics of the contractual cash flows and the nature of the respective business model, each financial instrument is allocated to one of four measurement categories in accordance with the classification described in note 53 and, depending on the category chosen, measured either at amortised cost or fair value. Financial instruments are derecognised when the claim for settlement expires.

### Inventories

Inventories are carried at the lower of cost or net realisable value. The cost of inventories includes the directly allocable direct costs (e.g. material and labour costs allocable to construction) and overheads incurred in the production process. Measurement is performed using the standard cost method. For the majority of raw materials, supplies and merchandise, cost is determined using the moving average method and contains all expenses incurred in order to bring such inventory items to their present location and condition. Value allowances are recognised to an appropriate extent for inventory risks arising from the storage period and/or impaired realisability. Net realisable value is defined as the proceeds that are expected to be realised less any costs incurred prior to the sale. In the event of an increase in the net realisable value of inventories written down in prior periods, write-downs are reversed in profit or loss as a reduction of the cost of goods sold in the statement of comprehensive income.

### Receivables

On recognition, trade receivables and other current 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 indications that a receivable may be defaulted on. The loss allowances to be recognised are calculated in the amount of the expected losses over the total remaining term.

Non-current receivables are initially measured at cost using the effective interest method. A provision is recognised for the potential risk of default that could arise within the next 12 months. If the credit risk increases significantly during the term of the contract, the impairment loss is increased by the amount of a possible default over the total remaining term. Examples of indications include a deterioration in the rating or becoming past due by more than 90 days. The impairment loss is increased if there are further objective indications that a receivable may be defaulted on, such as filing for insolvency.

Impairment is used to adequately reflect the default risk, while actual cases of default result in the derecognition of the respective asset.

In the previous year, receivable was recognised at cost by using IAS 39 “Financial instruments: recognition and measurement”. An impairment loss was recorded as soon as the carrying amount of the receivable exceeded the fair

value of the future cash income. As of December 31st, 2017, the Group recognized a write-down of € 3.1 million. After the conversion to IFRS 9 “Financial instruments” on January 1st, 2018, we disclosed del credere of € 3.1 million. The implementation of IFRS 9 had no significant effect on this balance sheet item.

### Cash and cash equivalents

Cash and short-term investments (cash equivalents) are defined as cash on hand, demand deposits and time deposits with an original term of up to three months. Cash is carried at its amortised cost under IFRS 9 (previous year: nominal amount in accordance to IAS 39). In the case of cash equivalents, interest income is recognised in profit or loss on a pro rata basis.

### Pension obligations

Provisions equal to the defined benefit obligations (DBO) already earned are recognised for obligations under defined benefit pension plans. The expected future increase in salaries and pensions are also taken into account. If pension obligations are covered in full or in part by fund assets, the market value of these assets is offset against the DBO if these assets are classified as trust assets and administered by third parties. Actuarial gains and losses, such as those arising from the change in the discounting factor or assumed mortality rates, are recognised in the revaluation surplus. Of the annual pension costs, the service cost is reported in staff costs and the interest cost in net other finance costs.

Provisions are not recognised for defined contribution plans as the payments made are recognised in staff costs in the period in which the employees perform the services granting entitlement to the respective contributions.

### Other provisions

Provisions are recognised for legal or constructive obligations to third parties arising from past events where an outflow of resources is likely to be required to settle the obligation and the amount of this outflow can be reliably estimated. Provisions are carried at the future settlement amount based on a best estimate. Provisions are discounted as necessary.

### Liabilities

Financial liabilities and other liabilities are recognised at fair value and subsequent at its amortised cost.

In the previous year, the non-current liabilities were accounted at fair value and in the case of current liabilities at the repayment amount, both in accordance with IAS 39.

### Contingent liabilities

Contingent liabilities are possible obligations, predominantly arising from guarantees, which were established in the past but whose actual existence is dependent on the occurrence of a future event and where recourse is not likely as at the end of the reporting period. Contingent liabilities are not recognised in the statement of financial position.

### Revenue recognition

Revenue from the sale of goods is recognised when the related performance obligation has been fulfilled by transferring the goods to the customer. Goods are deemed to have been transferred when the customer gains control of them. For wholesale transactions, the time at which this occurs must be assessed based on the individually agreed terms of delivery. For consignment or consignment agency models, revenue is recognised at the time of resale to the end customer. In the Group's retail outlets, revenue is recognised immediately at the time of the transaction when the goods are paid for, whereas - in the Group's online shop - revenue is recognised when goods are delivered to customers.

Regarding the key terms of payment, the Group grants commercial customers terms of payment specific to their country and industry, though these do not usually exceed 90 days. Similarly, the agreement of advance and down payments is not uncommon for individual customer groups. The underlying contracts do not include significant financing components in either scenario.

The amount of revenue to be recognised is determined by the transaction price, i.e. the amount of consideration that Villeroy & Boch is expected to receive in exchange for the transfer of goods - less trade discounts, rebates, and customer bonuses. Unlike trade discounts and rebates, bonuses are not granted on invoices - rather, they are subsequent, performance-based repayments made to customers. As soon as it is assumed that the customer has satisfied the agreed terms for granting bonuses, this amount is deferred

as a revenue deduction by way of a corresponding liability. Projections for customers bonuses deferred over a year are prepared on the basis of data specific to the customer and country (the most likely amount method). Estimates of variable consideration are not limited as the uncertainty regarding the amounts to be included is only temporary because projections are constantly updated.

Furthermore, Villeroy & Boch also generates revenue from licensing its brand rights to third parties. The underlying performance obligation is fulfilled by the licensee during the term of the contract by way of production under the label of the Villeroy & Boch Group. The resulting sales-based licence income is recognised on an accrual basis in accordance with the terms of the licence agreement.

In the previous year, the Villeroy & Boch Group recognized revenue from the sale of goods, the rendering of services and the rental of assets to third parties against yielding payments under IAS 18 "Revenue". These proceeds were measured at the fair value of the consideration received or to be received and reduced by discounts or other deductions. They were recognized as soon as the services owed or rendered were rendered and the significant risks and rewards of ownership passed to the customer. As a result of the first-time application of IFRS 15 "Revenue from contracts with customers" as at January 1st, 2018, there were no material changes in the timing or amount of revenue recognition for revenue from the sale of goods. The new IFRS 15 "Revenue from Contracts with Customers" also defines income from licences as a component of revenue. In the previous year, such earnings were still included in other operating income.

### Other revenue recognition

Dividend income is recognised when a legal claim to payment arises. Interest income is deferred on the basis of the nominal amount and the effective interest method. Rental income from investment property is recognised on a straight-line basis over the term of the relevant lease. Revenue from intercompany transactions is only realised when the assets ultimately leave the Group. Operating expenses are recognised in profit or loss as incurred economically. Rental cost from operating lease is recognised on a straight-line basis over the term of the relevant lease contract.

#### Research and development costs

Research costs arise as a result of original and planned investigation undertaken in order to gain new scientific or technical knowledge or understanding. In accordance with IAS 38, they are expensed as incurred. Development costs are expenses for the technical and commercial implementation of existing theoretical knowledge. Development ends with the start of commercial production or utilisation. Costs incurred during development are capitalised if the conditions for recognition as an intangible asset are met. Due to the risks existing until market launch, the majority of these conditions are regularly not met in full.

#### Taxes

Income tax expense represents the total of current and deferred taxes. Current and deferred taxes are recognised in income unless they are associated with items taken directly to equity. In these cases, the corresponding taxes are also recognised directly in equity.

Current tax expense is determined on the basis of the taxable income for the financial year. Taxable income differs from the result for the year reported in the statement of comprehensive income, as it excludes those income and expense items that are only taxable or tax-deductible in prior/subsequent periods or not at all. The current tax liabilities of the Villeroy & Boch Group are recognised on the basis of the applicable tax rates. Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These comply with the legislation in force or substantially enacted as at the end of the reporting period.

## SUMMARY OF SELECTED VALUATION METHODS

Item	Measurement methods
<b>ASSETS</b>	
<b>Intangible assets</b>	
Goodwill	(Amortised) cost (Subsequent measurement: Impairment test)
Other acquired intangible assets	(Amortised) cost
Internally generated intangible assets	Cost (direct costs and directly attributable overheads)
<b>Property, plant and equipment</b>	(Amortised) cost
<b>Investment property</b>	(Amortised) cost
<b>Financial assets *</b>	
Category: Loans and receivables *	(Amortised) cost using the effective interest method
Category: Available for sale *	At fair value in OCI; if no fair value: at cost through profit or loss
Category: Hedging instruments *	At fair value in OCI (Ineffective parts: at fair value through profit or loss)
<b>Inventories</b>	Lower of cost or net realisable value
<b>Trade receivables *</b>	(Amortised) cost using the effective interest method
<b>Cash and cash equivalents *</b>	Nominal value
<b>Non-current assets held for sale</b>	Lower of carrying amount and fair value less costs to sell
<b>Equity and liabilities</b>	
<b>Provisions</b>	
Provisions for pensions	Projected unit credit method
Provisions for personnel	
I Termination benefits	Discounted settlement amount (most likely)
I Other long-term employee benefits	Projected unit credit method
Other provisions	Discounted settlement amount (most likely)
<b>Financial liabilities *</b>	
Other liabilities *	At amortised cost through profit or loss
Hedging instruments *	At fair value in OCI (Ineffective parts: at fair value through profit or loss)
<b>Trade payables *</b>	(Amortised) cost using the effective interest method

\* Change of measurement method due to first-time application of IFRS 9

## General Information

**Management estimates and assumptions**

In preparing the consolidated financial statements, assumptions and estimates are required to a certain extent that affect the reporting and the amount of the recognised assets, liabilities, income, expenses and contingent liabilities. These can affect, for example, the possibility of control in determining the basis of consolidation, impairment testing for the assets recognised in the statement of financial position, the Group-wide determination of economic lives, the timing of the settlement of receivables, assessments of the risk of default and the expected loss given default, the evaluation of the utilisation of tax loss carryforwards and the recognition of provisions, among other things.

The main sources of estimate uncertainty are future measurement factors such as interest rates, assumptions of future financial performance and assumptions on the risk situation and interest rate development. The underlying assumptions and estimates are based on the information available when these consolidated financial statements were prepared. At the end of the year under review, there were no assumptions concerning the future or other major sources of estimation uncertainty at the end of the reporting period with a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In individual cases, actual values may deviate from the projected amounts. Changes are recognised as soon as better information becomes available. The carrying amounts of the affected items are presented separately in the respective notes.

**2. BASIS OF CONSOLIDATION**

In addition to Villeroy & Boch AG, the consolidated financial statements include all 13 (previous year: 13) German and 43 (previous year: 41) foreign subsidiaries that Villeroy & Boch AG – directly or indirectly – controls and has included in consolidation. The change in the basis of consolidation of the Villeroy & Boch Group was as follows:

Villeroy & Boch AG and consolidated companies:

	Germany	Abroad	Total	Previous year
As at 1 January 2018	13	41	54	53
Additions due to acquisition	–	–	–	1
Additions due to new companies (a)	–	2	2	–
As at 31 December 2018	13	43	56	54

**(a) Addition due to business acquisition:**

Villeroy & Boch AG acquired 45,36% of shares in Argent Australia Pty. Ltd., Brisbane, Australia, in the previous year. The company mainly sells and distributes bathroom and kitchen fittings to Australian specialist retailers and project customers. By quickly exercising options, the Villeroy & Boch Group could acquire a simple majority of votes that, according to the Articles of Association and the Shareholders' Agreement, would be sufficient to determine key business activities unilaterally. For this reason, Argent Australia Pty. Ltd. was included in the consolidated financial statements from June 23rd, 2017. The key figures for the current financial year can be found in note 22.

**(b) Addition due to formation:**

V & B South Africa Pty. Ltd., Cape Town, South Africa, was formed on 4 July 2018, and a second company in France was formed on 20 November 2018. Both companies are assigned to the Bathroom and Wellness Division.

### Other disclosures

The primary purposes and registered offices of the individual companies of the Villeroy & Boch Group are as follows:

	Number of Group companies					
	Germany	Abroad	2018	Germany	Abroad	2017
<b>Shareholding: 100%</b>						
<b>Division</b>						
Bathroom and Wellness	3	30	33	3	28	31
Tableware	5	18	23	5	18	23
Other business purposes	6	3	9	6	3	9
Reconciliation	-1	-10	-11	-1	-10	-11
<b>Total</b>	<b>13</b>	<b>41</b>	<b>54</b>	<b>13</b>	<b>39</b>	<b>52</b>
<b>Shareholding: 50% to 99%</b>						
Bathroom and Wellness	-	2	2	-	2	2
<b>Group total</b>	<b>13</b>	<b>43</b>	<b>56</b>	<b>13</b>	<b>41</b>	<b>54</b>

Property and operator companies for restaurants in the Villeroy & Boch Group are shown in the “Other business purposes” category. Some companies, such as Villeroy & Boch AG, operate in both divisions. Multiple entries are eliminated in the “Reconciliation” line.

Details of the subsidiaries not wholly owned in which the Villeroy & Boch Group holds significant non-controlling interests can be found in note 22. Further information on the structure of the Villeroy & Boch Group can be found under “Business model of the Group” in the management report.

The list of shareholdings in accordance with section 313(2) HGB is shown in note 61.

The Villeroy & Boch Group uses the following national options as regards the audit and disclosure of annual financial statement documents:

The Villeroy & Boch Group is exercising the exemption from the preparation, audit and disclosure of separate financial statements and possibly a separate management report provided for by section 264(3) HGB for nearly all German subsidiaries in the 2015 financial year. The formal requirements have been satisfied by the respective Group company and by Villeroy & Boch AG. The companies in question are indicated accordingly in the list of shareholdings (see note 61). The consolidated financial statements of Villeroy & Boch AG are the exempting consolidated financial statements for these companies.

An audit by an external auditor was waived in accordance with section 479A UK of the 2006 UK Companies Act for Villeroy & Boch (U.K.) Limited, London, entered in the commercial register of England and Wales under 00339567. The two Dutch companies Ucosan B.V., Roden, and Villeroy & Boch Tableware B.V., Oosterhout, exercise the options relating to the preparation, publication and auditing of annual financial statements in accordance with Part 9, section 403(1b), Book 2 of the Dutch Civil Code. The accounting data of both companies, as consolidated subsidiaries, are included in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Dutch commercial register.

In accordance with section 314 of the Luxembourg Commercial Code, no consolidated financial statements or Group management report are prepared for Villeroy & Boch S.à.r.l., Faïencerie de Septfontaines-lez-Luxembourg. The accounting data of the company is included as a consolidated subsidiary in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Luxembourg commercial and companies register.

### 3. CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group’s consolidated financial statements are prepared in accordance with uniform Group accounting principles and included in the consolidation.

The end of the reporting period for the consolidated companies is the same as for Villeroy & Boch AG as the ultimate parent company. The consolidated financial statements include the transactions of those companies that are considered subsidiaries and associated companies to the Villeroy & Boch AG at the reporting date.

Subsidiaries are those companies in which the Villeroy & Boch AG can determine the relevant business activities unilaterally – either directly or indirectly. The relevant business activities include all activities that have an essential influence on the profitability of the company. Domination is given only if the Villeroy & Boch AG can control the relevant activities of the subsidiary company, has a legal claim to variable returns on investment in the subsidiary company and can influence the amounts of dividends. In general, domination within the Villeroy & Boch Group is given when the Villeroy & Boch AG holds a direct or indirect majority of the voting rights. Potential voting rights are also taken into consideration. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.

As part of capital consolidation, the acquisition costs of the subsidiaries at the acquisition date are offset against the remeasured equity interest attributable to them with any resulting differences recognised as goodwill. Differences resulting from increasing the ownership interest in subsidiaries that are already consolidated are offset directly against retained earnings (see note 1 – Accounting policies: Intangible Assets). Any hidden reserves and liabilities identified as a result are carried at amortised cost in subsequent consolidation in the same way as the corresponding assets and liabilities.

Non-controlling interests in the acquired company are measured in the amount of the corresponding share of the identifiable net assets of the acquired company. They are reported in equity under non-controlling interests in the consolidated statement of financial position of Villeroy & Boch AG (see note 22). Transactions with non-controlling interests that do not result in a loss of control are recognised in equity as an equity transaction.

With respect to the elimination of intercompany balances, the reconciled receivables and liabilities of the companies included in consolidation are offset against each other. Revenue, income and expenses between the consolidated companies are eliminated, as are intercompany profits and losses from non-current assets and inventories. The results of subsidiaries acquired or sold in the course of the year are

included in the consolidated statement of comprehensive income from the actual acquisition date or until the actual disposal date.

If any differences in tax expenses are expected to reverse in later financial years, deferred taxes are recognised for consolidation measures in profit or loss.

When including an associated company in consolidation for the first time, the differences arising from initial consolidation are treated in accordance with the principles of full consolidation. Inter-company profits and losses for such companies were insignificant in the years under review.

In this financial year, the composition of the consolidated entity was examined regularly. The Villeroy & Boch AG dominates all subsidiaries up to this date. The consolidation principles applied in the previous year were retained.

#### 4. CURRENCY TRANSLATION

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. They are measured at the closing rate as at the end of the respective reporting period. The single-entity statements of financial position of consolidated companies prepared in foreign currencies are translated into euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate at the end of the reporting period, while all statement of comprehensive income items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised outside profit or loss (see note 21(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21(b)). They continue to be reported in this item of the statement of financial position even in the event of a partial repayment of the net investment. When consolidated companies leave the consolidated group, any exchange rate differences previously not affecting the net income are reversed to profit or loss.

The euro exchange rates of key currencies changed as follows during the past financial year:

		CURRENCY			
		1€=		Average exchange rate	
		Exchange rate at end of reporting period			
		2018	2017	2018	2017
Swedish krona	SEK	10.25	9.84	10.24	9.63
Chinese Renminbi Yuan	CNY	7.88	7.80	7.82	7.63
Australian dollar	AUD	1.62	1.53	1.58	1.47
US dollar	USD	1.15	1.20	1.19	1.13
Thai baht	THB	37.05	39.12	38.35	38.29
Norwegian krone	NOK	9.95	9.84	9.62	9.28
Russian rouble	RUB	79.72	69.39	73.36	65.61
British pound	GBP	0.89	0.89	0.88	0.87
Swiss franc	CHF	1.13	1.17	1.16	1.11

General Information  
Notes to the Consolidated Statement  
of Financial Position

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 5. INTANGIBLE ASSETS

Intangible assets developed as follows:

in € million			
	Concessions, patents, licences and similar rights	Goodwill	<b>Total</b>
<b>Accumulative cost</b>			
<b>As at 1 Jan. 2017</b>	<b>19.3</b>	<b>39.7</b>	<b>59.0</b>
Currency adjustments	0.0	-0.1	-0.1
Additions	1.0	–	1.0
Additions from acquisitions	0.4	0.9	1.3
Disposals	-0.6	–	-0.6
<b>As at 1 Jan. 2018</b>	<b>20.1</b>	<b>40.5</b>	<b>60.6</b>
Currency adjustments	0.0	-0.2	-0.2
Additions	3.0	–	3.0
Additions from acquisitions	–	–	–
Disposals	-0.6	–	-0.6
<b>As at 31 Dec. 2018</b>	<b>22.5</b>	<b>40.3</b>	<b>62.8</b>
<b>Accumulative amortisation and impairment</b>			
<b>As at 1 Jan. 2017</b>	<b>13.5</b>	<b>8.8</b>	<b>22.3</b>
Currency adjustments	0.0	–	0.0
Amortisation	1.0	–	1.0
Disposals	-0.2	–	-0.2
<b>As at 1 Jan. 2018</b>	<b>14.3</b>	<b>8.8</b>	<b>23.1</b>
Currency adjustments	0.0	–	0.0
Amortisation	1.0	–	1.0
Disposals	-0.2	–	-0.2
<b>As at 31 Dec. 2018</b>	<b>15.1</b>	<b>8.8</b>	<b>23.9</b>
<b>Residual carrying amounts</b>			
<b>As at 31 Dec. 2018</b>	<b>7.4</b>	<b>31.5</b>	<b>38.9</b>
As at 31 Dec. 2017	5.8	31.7	37.5

The asset group “Concessions, patents, licences and similar rights” essentially includes key money capitalised by subsidiaries for rented retail space worth €2.6 million (previous year: €2.8 million), capitalised software licences in the amount of €1.6 million (previous year: €1.8 million) and emission allowances of €3.1 million (previous year: €1.0 million).

Goodwill in the amount of €31.5 million (previous year: €31.7 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 52.

Capitalised goodwill was tested for impairment. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2022 were discounted using an interest rate before income tax of 6.9% p.a. (previous year: 6.4% p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 6.2% p.a. (previous year: 5.8% p.a.). The present value calculated in this way was greater than the net assets of the division, so that no impairment loss was required to be recognised on this item.

Notes to the Consolidated Statement  
of Financial Position**6. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment used in operations developed as follows in the year under review:

	in € million				
	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Property, plant and equipment under construction	Total
<b>Accumulative cost</b>					
<b>As at 1 Jan. 2017</b>	<b>193.4</b>	<b>330.8</b>	<b>97.0</b>	<b>14.3</b>	<b>635.5</b>
Currency adjustments	-2.0	-3.0	-1.4	-0.4	-6.8
Additions from acquisitions	-	-	0.9	-	0.9
Additions	1.2	7.6	5.6	20.4	34.8
Disposals	-3.7	-8.4	-7.6	-	-19.7
Reclassifications	0.5	6.9	0.3	-7.7	-
<b>As at 1 Jan. 2018</b>	<b>189.4</b>	<b>333.9</b>	<b>94.8</b>	<b>26.6</b>	<b>644.7</b>
Currency adjustments	0.0	-0.3	-0.3	0.0	-0.6
Additions from acquisitions	-	-	-	-	-
Additions	2.6	10.1	4.4	23.2	40.3
Disposals	-5.4	-7.8	-7.0	0.0	-20.2
Reclassifications	10.2	9.6	1.9	-21.7	0.0
<b>As at 31 Dec. 2018</b>	<b>196.8</b>	<b>345.5</b>	<b>93.8</b>	<b>28.1</b>	<b>664.2</b>
<b>Accumulative depreciation and impairment</b>					
<b>As at 1 Jan. 2017</b>	<b>126.7</b>	<b>272.7</b>	<b>78.9</b>	<b>-</b>	<b>478.3</b>
Currency adjustments	-1.0	-2.3	-1.2	-	-4.5
Depreciation	3.4	14.4	6.7	-	24.5
Impairments	-	-	-	-	-
Disposals	-3.5	-8.2	-7.2	-	-18.9
Reclassifications	-	-	-	-	-
<b>As at 1 Jan. 2018</b>	<b>125.6</b>	<b>276.6</b>	<b>77.2</b>	<b>-</b>	<b>479.4</b>
Currency adjustments	0.0	-0.6	0.1	-	-0.5
Depreciation	3.5	11.6	6.7	-	21.8
Impairments	-	-	-	-	-
Disposals	-5.3	-7.6	-6.8	-	-19.7
Reclassifications	-	-	-	-	-
<b>As at 31 Dec. 2018</b>	<b>123.8</b>	<b>280.0</b>	<b>77.2</b>	<b>-</b>	<b>481.0</b>
<b>Residual carrying amounts</b>					
<b>As at 31 Dec. 2018</b>	<b>73.0</b>	<b>65.5</b>	<b>16.6</b>	<b>28.1</b>	<b>183.2</b>
As at 31 Dec. 2017	63.8	57.3	17.6	26.6	165.3

We acquired property, plant and equipment worth €40.3 million (previous year: €34.8 million). At €30.8 million (previous year: €24.1 million), our investments primarily concentrated on the Bathroom and Wellness Division. We mainly invested in the modernisation of our production. The focus was on sanitary ware production, mainly in Mettlach (Germany), Saraburi (Thailand), Ramos (Mexico) and Lugoj (Romania). Furthermore, work began to build a painting facility for bathroom furniture in Mondsee (Austria). In addition, moulds were acquired for new wellness products in Roden (Netherlands) and a new turning lathe was purchased in Vargarda (Sweden).

We invested €4.0 million (previous year: €4.6 million) in the Tableware Division. New machinery and tools valued at €2.2 million (previous year: €2.0 million) were acquired for production in our Merzig and Torgau plants. Moreover, we invested in the further optimisation of our retail network, for example renovating and opening stores in Germany, Spain, France and the UK.

Property, plant and equipment amounting to €5.5 million (previous year: €6.1 million) was acquired for central functions. We invested €1.5 million (previous year: €4.1 million) of this in total in the redevelopment of our headquarters in Mettlach.

Facilities worth €21.7 million were completed and integrated into operational value added in the reporting period (previous year: €7.7 million). €14.6 million related to Germany, where - among other things - a new office complex was opened at head office (€5.9 million), the modernisation of the Losheim logistics centre was completed (€2.2 million) and new die casting systems went into operation (€3.0 million). The production site in Hungary uses new facilities worth €2.4 million. A majority was accounted for by new glazing robots and a new water treatment facility. In the previous year, new facilities were used for the first time mainly in Germany (€3.3 million) and Romania (€1.4 million).

The disposals in the financial year of €20.2 million (previous year: €19.7 million) and the cumulative depreciation of €19.7 million (previous year: €18.9 million) result predominantly from the scrapping of assets already written down in full that can no longer be used.

“Other equipment, operating and office equipment” includes leased assets worth €0.4 million (previous year: €0.4 million). Payment obligations from future lease instalments are recognised as a liability, though the future interest expense is not taken into account (see note 28).

Apart from these finance leases, the Group had only leases that qualify as operating leases according to their economic substance.

#### Operating leases

In the 2018 financial year, rental expenses under operating leases amounted to €32.8 million (previous year: €34.2 million). In Japan and Hong Kong, leases were terminated prematurely when the agreement was transferred to a distributor. This reduced lease expenses by €0.9 million. The Group leases sales premises, warehouses, office space and other facilities and movable assets. The leases have basic terms of between six months and 30 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions. Income of €0.5 million was generated from subletting unused properties with current leases (previous year: €0.6 million). Any ancillary costs and other obligations are borne by the sublessees. The subleases end before or at the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

	in € million		
	Less than 1 year	1 to 5 years	More than 5 years
<b>Future lease payments</b>			
As at 31 Dec. 2018	15.8	24.9	5.2
As at 31 Dec. 2017	18.3	27.6	6.3
<b>Future sublease income</b>			
As at 31 Dec. 2018	0.4	0.3	-
As at 31 Dec. 2017	0.6	0.8	-

Notes to the Consolidated Statement  
of Financial Position**7. INVESTMENT PROPERTY**

Investment property developed as follows:

in € million				
	Land	Buildings	Investment property	
			2018	2017
<b>Accumulative cost</b>				
<b>As at 1 Jan.</b>	<b>0.6</b>	<b>73.9</b>	<b>74.5</b>	<b>74.5</b>
Disposals	-	-	-	-0.1
Additions	0.3	-	0.3	0.1
Transfer to asset classified as held for sale	-0.6	-6.4	-7.0	-
<b>As at 31 Dec.</b>	<b>0.3</b>	<b>67.5</b>	<b>67.8</b>	<b>74.5</b>
<b>Accumulative depreciation and impairment</b>				
<b>As at 1 Jan.</b>	<b>-</b>	<b>66.3</b>	<b>66.3</b>	<b>65.6</b>
Depreciation	-	0.7	0.7	0.7
Disposals	-	-	-	0.0
Transfer to asset classified as held for sale	-	-6.2	-6.2	-
<b>As at 31 Dec.</b>	<b>-</b>	<b>60.8</b>	<b>60.8</b>	<b>66.3</b>
<b>Residual carrying amounts</b>				
<b>As at 31 Dec.</b>	<b>0.3</b>	<b>6.7</b>	<b>7.0</b>	<b>8.2</b>

This item includes property in the Saarland and France.

The properties in Luxembourg with a carrying amount of € 0.8 million were classified as non-current assets held for sale and reclassified to the corresponding item of the statement of financial position in the reporting year (see note 16). In the previous year, three smaller plots of properties were sold in Lübeck-Dänischburg.

In line with the classification described above, the total market value of the properties reported in this item was € 13.1 million as at 31 December 2018 (previous year: € 42.2 million). These market values are categorised in level 3 of the fair value hierarchy of IFRS 13.

The Group generated the following amounts from its investment property:

in € million		
	31/12/2018	31/12/2017
Rental income	0.5	0.7
Property management and similar expenses	-0.2	-0.3

Rent is expected to develop as follows:

in € million			
	Less than 1 year	1 to 5 years	More than 5 years
As at 31 Dec. 2018	0.5	1.7	5.1
As at 31 Dec. 2017	0.5	1.8	5.5

Future rents rise in line with the trend in the consumer price index. The tenants usually bear all maintenance expenses.

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

As in the previous year, the Villeroy & Boch Group accounts for two companies using the equity method in accordance with IAS 28.

V & B Lifestyle India Private Limited, Gurgaon, India, markets Tableware products in India. Equity was increased in the 2018 financial year. A further unlisted company domiciled in Germany, to which section 313(3) HGB applies, is not allocated to a business unit.

The carrying amounts of the investments developed as follows in the period under review:

in € million		
	2018	2017
<b>As at 1 Jan.</b>	<b>1.5</b>	<b>1.5</b>
Addition due to capital increase	0.6	–
Pro rata results of associated companies	0.0	0.5
Distribution to the Villeroy & Boch Group	-0.5	-0.5
<b>As at 31 Dec.</b>	<b>1.6</b>	<b>1.5</b>

The Villeroy & Boch Group holds 50 % of the voting rights in each company. There were no joint arrangements within the meaning of IFRS 11 at the reporting date.

## 9. OTHER FINANCIAL ASSETS

Other financial assets include:

in € million		
	31/12/2018	31/12/2017
Equity investments (a)	2.1	2.1
Loans (b)	3.8	4.0
Securitized (c)	11.2	8.7
<b>Total</b>	<b>17.1</b>	<b>14.8</b>

(a) A 2.29 % holding in the share capital of V & B Fliesen GmbH, Merzig, with a carrying amount of € 2.1 million (previous year: € 2.1 million) is reported under equity investments.

(b) In connection with the gradual sale of the plant property in Gustavsberg, Sweden, a loan receivable was granted to Porslinsfabriksstaden AB, Gustavsberg, Sweden, a company of the IKANO Bostad Group, in 2013. The loan, which is denominated in Swedish krona, has an

equivalent value of € 2.1 million (previous year: € 2.1 million) and a remaining term of three years. A repayment of € 2.4 million was made in December 2017. Further repayments are made every two years. A bank guarantee from Svenska Handelsbanken AB (publ), Stockholm, Sweden, and transferred ownership rights to material assets serve as collateral for the loan. In addition, loans to third parties essentially include mandatory government loans from France.

Loans to third parties mature as follows:

in € million		
	2018	2017
<b>Gross carrying amount as at 31 Dec.</b>	<b>3.8</b>	<b>4.0</b>
of which: Neither impaired nor past due as at end of reporting period	3.8	4.0
■ Due within one year	1.7	0.1
■ Due in two to five years	1.0	2.6
■ Due in more than five years	1.1	1.3

(c) Listed bonds, equities and investment funds are recognised as securities at their current market value, not affecting net income. Changes in value are recognised in equity in the revaluation surplus (see note 21(f)) and reclassified to retained earnings (in previous year: reclassified to net income) on disposal of the respective security. The investments break down as follows:

in € million		
	31/12/2018	31/12/2017
Special assets provided by the ordinary shareholders	1.4	1.5
Other free assets	9.8	7.2
<b>Total</b>	<b>11.2</b>	<b>8.7</b>

On the occasion of the 100-year anniversary of the Mettlach mosaic factory on 17 January 1970, the ordinary shareholders provided a fund intended to pay for the professional education and training of employees of the Villeroy & Boch Group and their families, the promotion of research and science and for the Investor Relations and Corporate Governance of the Villeroy & Boch Group. The capital is invested to achieve an optimal return.

These items are assigned to level 1 in the fair value hierarchy of IFRS 13.

Notes to the Consolidated Statement  
of Financial Position**10. DEFERRED TAX ASSETS AND LIABILITIES**

The following deferred taxes are reported in the statement of financial position:

in € million		
	<b>31/12/2018</b>	31/12/2017
Deferred tax assets from temporary differences	23.0	24.8
Deferred tax assets from tax loss carryforwards	13.5	12.5
<b>Deferred tax assets</b>	<b>36.5</b>	<b>37.3</b>
<b>Deferred tax liabilities</b>	<b>4.1</b>	<b>3.4</b>

Deferred taxes from temporary differences are due to different carrying amounts in the consolidated statement of financial position and the tax base in the following items:

in € million					
	Note	Deferred tax assets		Deferred tax liabilities	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
Intangible assets	5	0.0	0.1	1.2	1.2
Property, plant and equipment	6	3.5	5.0	3.6	2.5
Financial assets	9	0.2	0.1	0.2	0.1
Inventories	11	0.0	0.0	1.3	1.6
Other assets	13	0.1	0.1	0.9	0.4
Special tax items		0.0	0.0	4.2	4.2
Provisions for pensions	26	28.2	26.9	5.8	3.6
Other provisions	28	1.6	2.5	0.0	0.0
Other liabilities		3.1	1.7	0.6	1.4
<b>Subtotal</b>		<b>36.7</b>	<b>36.4</b>	<b>17.8</b>	<b>15.0</b>
Offsetting of deferred tax assets/liabilities		-13.7	-11.6	-13.7	-11.6
<b>Deferred taxes from temporary differences</b>		<b>23.0</b>	<b>24.8</b>	<b>4.1</b>	<b>3.4</b>

The €1.8 million change in deferred tax assets from temporary differences to €23.0 million (previous year: €24.8 million) is attributable to the increase in deferred taxes on provisions for pensions (see note 26), as well as the increased offsetting against deferred tax liabilities.

Deferred tax assets from tax loss carryforwards amounted to €13.5 million (previous year: €12.5 million) and related to loss carryforwards at foreign Group companies.

The loss carryforwards are subject to restrictions on offsetting. As such, no deferred tax assets are recognised for loss carryforwards whose utilisation due to future taxable income is not probable. As a result, deferred taxes of €13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards. Loss carryforwards of €87.8 million (previous year: €79.3 million) are subject to restrictions on offsetting (periods of between 5 and 20 years).

Based on impairment testing for the period from 2019 to 2023, deferred tax assets from tax loss carryforwards were written down in the amount of €16.7 million (previous year: €16.4 million).

## 11. INVENTORIES

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

in € million		
	31/12/2018	31/12/2017
Raw materials and supplies	23.6	21.1
Work in progress	19.0	17.5
Finished goods and goods for resale	123.9	116.0
Advance payments	0.0	–
<b>Carrying amount</b>	<b>166.5</b>	<b>154.6</b>

Inventories were broken down between the individual divisions as follows:

in € million		
	31/12/2018	31/12/2017
Bathroom and Wellness	105.0	96.4
Tableware	61.5	58.2
<b>Total</b>	<b>166.5</b>	<b>154.6</b>

The significant increase in inventories in the Bathroom and Wellness Division, by €8.6 million to €105.0 million,

relates mainly to efforts to safeguard long-term delivery capability primarily in the Asian region, and to an increase in raw materials to maintain consistently good quality of the quantity required for the production process.

A valuation allowance of €17.5 million was recognized for inventory risks arising from the storage period or reduced usability. In the financial year, the write-downs on inventories increased by €2.1 million (previous year: €-0.7 million).

## 12. TRADE RECEIVABLES

Following the introduction of IFRS 9, trade receivables have been carried at their transaction price less expected losses over the agreed payment period on first-time recognition since 1 January 2018. Villeroy & Boch grants its customers country- and industry-specific payment terms. The geographical allocation of these receivables by customer domicile was as follows:

in € million		
	31/12/2018	31/12/2017
Germany	23.9	26.8
Rest of euro zone	28.8	29.0
Rest of world	87.7	74.5
<b>Gross carrying amount</b>	<b>140.4</b>	<b>130.3</b>
Write-down due to expected losses (level 1)	-0.5	-0.4
Write-down due to objective indications (level 2)	-2.5	-2.7
<b>Write-downs</b>	<b>-3.0</b>	<b>-3.1</b>
<b>Carrying amount</b>	<b>137.4</b>	<b>127.2</b>

€99.3 million (previous year: €89.8 million) relate to the Bathroom and Wellness Division and €38.1 million (previous year: €37.4 million) to the Tableware Division.

Impairment losses are recognised using a new two-stage approach as the individual receivables are mainly short-term and therefore do not contain significant financing components. The risk of default on unimpaired receivables is essentially covered by insurance.

In the first stage, the loss expected by the agreed payment date is recognised as an impairment loss. Uninsured receivables are managed by using limits based on insurance classification and an internal rating. Expected losses are calculated primarily on the basis of external and internal customer ratings and the associated historic probabilities of default.

Notes to the Consolidated Statement  
of Financial Position

An additional impairment loss is recognised if there are objective indications that a customer may default on a receivable (stage 2). The loss allowances to be recognised are calculated in the amount of the expected losses over the total remaining term. The following matrix is used to determine the expected credit losses. This is based on observed past loss rates, supplemented by future-oriented estimates.

The receivables were composed as follows:

in € million		
	2018	2017
<b>Items neither impaired nor past due</b>	<b>101.8</b>	<b>101.6</b>
<b>Not impaired but past due</b>	<b>21.8</b>	<b>16.3</b>
<b>Impaired but not past due<sup>1)</sup></b>	<b>13.0</b>	<b>9.0</b>
<b>Impaired and past due</b>	<b>3.8</b>	<b>3.4</b>
Customer in default for 90 days or less	0.8	0.5
Customer in default between 91 and 360 days	1.5	0.7
Customer in default for 361 days or more	1.5	2.2
<b>Total gross amount</b>	<b>140.4</b>	<b>130.3</b>
Write-downs	-3.0	-3.1
<b>Net carrying amount</b>	<b>137.4</b>	<b>127.2</b>

1) Receivables not covered by credit insurance

With respect to receivables that are neither impaired nor past due, there was no evidence of potential default as at the end of the reporting period. The Villeroy & Boch Group has received a cover note from a trade credit insurer or recoverable collateral for receivables that are past due but not impaired. All other receivables were impaired in the first stage, even if not yet past due. These receivables rose by € 4.0 million from € 9.0 million to € 13.0 million in the reporting year. This increase is essentially due to deliveries to selected customers, even though the maximum coverage agreed with the insurer was exceeded as a result. Furthermore, a flat-rate write-down was recognised on the uninsured share for general risk provisioning. If there were objective indications of a possible default, in the second stage an additional impairment loss was recognised and the receivable was reported as impaired and past due.

Impairment developed as follows in the two stages:

in € million						
	2018			2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>As at 1 Jan.</b>	<b>0.4</b>	<b>2.7</b>	<b>3.1</b>	<b>0.4</b>	<b>2.7</b>	<b>3.1</b>
Additions	0.2	1.1	<b>1.3</b>	0.8	0.8	<b>1.6</b>
Currency adjustments	-0.1	-0.1	<b>-0.2</b>	0.0	0.0	<b>0.0</b>
Utilisation	0.0	-0.4	<b>-0.4</b>	-0.6	-0.7	<b>-1.3</b>
Reversals	0.0	-0.8	<b>-0.8</b>	-0.2	-0.1	<b>-0.3</b>
<b>As at 31 Dec.</b>	<b>0.5</b>	<b>2.5</b>	<b>3.0</b>	<b>0.4</b>	<b>2.7</b>	<b>3.1</b>

There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers. The transition to the new accounting regulations described above did not affect profit or loss.

### 13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

	in € million					
	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2018	Less than 1 year	More than 1 year	31/12/2017	Less than 1 year	More than 1 year
Advance payments and deposits	4.9	3.1	1.8	3.0	1.1	1.9
Fair values of hedging instruments	3.2	1.5	1.7	4.5	2.7	1.8
Contract assets	1.6	1.6	–	–	–	–
Miscellaneous other assets	10.5	10.5	–	10.0	10.0	–
<b>Total financial instruments *</b>	<b>20.2</b>	<b>16.7</b>	<b>3.5</b>	<b>17.5</b>	<b>13.8</b>	<b>3.7</b>
Other tax receivables	9.1	9.1	–	9.4	9.4	–
Prepaid expenses	1.8	1.8	–	2.1	2.1	–
<b>Total other assets</b>	<b>31.1</b>	<b>27.6</b>	<b>3.5</b>	<b>29.0</b>	<b>25.3</b>	<b>3.7</b>

\* Financial instruments are described in note 53.

As at the end of the reporting period, the Group's hedging instruments comprised currency futures (€ 3.2 million; previous year: € 3.4 million) and brass swaps (€ 0.0 million; previous year: € 1.1 million).

Capitalised security deposits in the amount of € 1.9 million (previous year: € 2.0 million) were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

Contract assets comprise licence claims included but not yet invoiced of € 1.6 million that were previously shown under "Miscellaneous other assets". The Villeroy & Boch Group recognised contract assets of € 0.2 million as at 1 January 2018. € 0.2 million of the assets recognised as at the end of the previous year (previous year: € 0.7 million) were invoiced to licensees in the 2018 financial year. Claims that were recognised as at 31 December were not reversed in profit or loss in the reporting year (previous year: € 0.1 million).

"Miscellaneous other assets" include receivables from the French government from the "crédit d'impôt pour la compétitivité et l'emploi", receivables from other investees, receivables from the sale of assets (see note 16), rent receivables, creditors with debit balances and a number of individual items.

Other tax receivables in the amount of € 9.1 million (previous year: € 9.4 million) primarily include VAT credit of € 6.6 million (previous year: € 6.8 million).

Prepaid expenses mainly include rent payments, insurance premiums and claims for compensation under the partial retirement programme.

In cases of doubt regarding the collectibility of receivables, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. Loss allowances for current assets are recognised using the simplified, two-stage approach. As in the previous year, there were no past due receivables in this item as at 31 December 2018. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of contractual partners.

### 14. INCOME TAX RECEIVABLES

The income tax receivables of € 3.9 million (previous year: € 2.5 million) primarily include outstanding corporate income tax assets. € 3.1 million (previous year: € 1.6 million) of this figure relates to foreign group companies.

Notes to the Consolidated Statement  
of Financial Position**15. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents were composed as follows as at the end of the reporting period:

	in € million	
	31/12/2018	31/12/2017
Cash on hand incl. cheques	0.6	0.5
Current bank balances	19.9	48.6
Cash equivalents	37.1	59.6
<b>Total cash and cash equivalents</b>	<b>57.6</b>	<b>108.7</b>

Cash is held solely in the short term and at banks of good credit standing that are predominantly members of a deposit protection system (see note 53). 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.

**16. NON-CURRENT ASSETS HELD FOR SALE**

Non-current assets held for sale are carried at amortised cost. In this balance-sheet item we account:

	in € million	
	31/12/2018	31/12/2017
Property		
(a) in Luxembourg	0.8	–
(b) in Germany	–	0.5
<b>Total non-current assets held for sale</b>	<b>0.8</b>	<b>0.5</b>

The items developed as follows in the year under review:

- (a) In the financial year, one property of the former production site in Luxembourg was reclassified from investment property (see note 7) with a carrying amount of € 0.8 million to this balance sheet item as a result of the planned disposal, which has earnings potential of a high double-digit million amount. We expect this transaction to be completed in 2019.
- (b) The properties of the former production location in Selb (Germany) were sold to an external project developer in 2018. The sale resulted in a gain of € 3.7 million in the financial year (see note 36). The residual purchase

price receivable of € 2.8 million was partially written down in accordance with the applicable guidelines. This receivable is recognised under other assets (see note 13).

**17. ISSUED CAPITAL**

The issued capital of Villeroy & Boch AG as at the end of the reporting period was unchanged at € 71.9 million and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital.

The holders of non-voting preference shares receive a dividend from the annual unappropriated surplus that is € 0.05 per share higher than the dividend paid to holders of ordinary shares, or a minimum preferred dividend of € 0.13 per preference share. If the unappropriated surplus in a given financial year is insufficient to cover the payment of this preferred dividend, any amount still outstanding shall be paid from the unappropriated surplus of subsequent financial years, with priority given to the oldest amounts outstanding. The preference dividend for the current financial year is only paid when all amounts outstanding are satisfied. This right to subsequent payment forms part of the profit entitlement for the respective financial year from which the outstanding dividend on preference shares is granted.

Each ordinary share grants one vote.

The numbers of different shares outstanding were as follows:

	Number of shares	
	2018	2017
<b>Ordinary shares</b>		
Ordinary shares outstanding – unchanged –	14,044,800	14,044,800
<b>Preference shares</b>		
Ordinary shares issued – unchanged –	14,044,800	14,044,800
Treasury shares, as at 31 December – unchanged –	1,683,029	1,683,029
Shares outstanding	12,361,771	12,361,771

A resolution of the General Meeting of Shareholders on 23 March 2018 authorised the Management Board of Villeroy & Boch AG to acquire ordinary treasury shares and/or preference treasury shares in accordance with the following rules:

a) Until 22 March 2023 inclusively, the Management Board is authorised to acquire ordinary or preference shares of the company up to an amount of ten percent of the share capital of the company at the time this authorisation becomes effective or, if lower, ten percent of the share capital of the company at the time this authorisation is exercised. The authorisation to acquire treasury shares granted to the company by the General Meeting of Shareholders on 22 March 2013 will be revoked after the new authorisation takes effect, to the extent that it has not yet been utilised. The shares acquired on the basis of this authorisation together with other treasury shares already acquired by the company and still owned or attributable to it in accordance with sections 71a et seq. of the German Stock Corporation Act (AktG) must not account for more than 10% of the share capital. The acquisition can be restricted to the shares of just one class. At the discretion of the Management Board, preference treasury shares can be acquired either on the stock exchange (1) or on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell in accordance with the principle of equal treatment (2). At the discretion of the Management Board, ordinary treasury shares can be acquired either on the basis of a public offer to all ordinary shareholders or on the basis of an invitation to all ordinary shareholders to submit offers to sell in accordance with the principle of equal treatment (2) or from individual ordinary shareholders by disapplying the put options of the other ordinary shareholders (3).

(1) If acquired on the stock exchange, the consideration paid per preference treasury share by the company (not including additional costs of acquisition) must be within 10% of the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the acquisition date.

(2) If preference/ordinary treasury shares are acquired on the basis of a public purchase offer to all shareholders of a particular class or a public invitation to submit offers to sell

|| in the event of a public purchase offer to all preference/ordinary shareholders, the purchase price offered per share (not including additional costs of acquisition), or

|| in the event of a public invitation to all preference/ordinary shareholders to submit offers to sell, the thresholds of the price range stipulated by the company (not including additional costs of acquisition)

must be within 20% of the average closing prices for the company's preference treasury shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the day on which the public purchase offer or the public invitation to submit offers to sell is publicly announced.

If the relevant share price deviates substantially following the publication of a public purchase offer for all preference/ordinary shareholders or the public invitation to all preference/ordinary shareholders to submit offers to sell, the purchase offer or the invitation to submit offers to sell can be adjusted. In the event of this, the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange on the third, fourth and fifth trading day before the day of the announcement of the adjustment is taken as a basis.

The volume of the purchase offer or the invitation to submit offers to sell can be adjusted. If, in the case of a public purchase offer or a public invitation to submit offers to sell, the volume of the preference/ordinary treasury shares tendered exceeds the planned buyback volume, the acquisition can be conducted in the ratio of the issued or offered preference/ordinary treasury shares; the right of preference/ordinary shareholders to tender their preference/ordinary treasury shares in proportion to their ownership interests is excluded in this respect.

Preferential treatment of smaller amounts of up to 100 preference/ordinary treasury shares per preference/ordinary shareholder and commercial rounding to avoid notional fractions of shares can be provided for. Any further put options of preference/ordinary shareholders are therefore precluded.

The public offer to all preference/ordinary shareholders or the invitation to all preference/ordinary shareholders to submit offers to sell can provide for further conditions.

Notes to the Consolidated Statement  
of Financial Position

- (3) If ordinary treasury shares are acquired from individual shareholders by disapplying the put options of the other ordinary shareholders, the purchase price must not be more than 5 % higher than the closing prices for the company's preference treasury shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange on the day before the acquisition offer. Acquisition at a price below the relevant price as defined above is possible.
- b) The Management Board is authorised to use the shares acquired on the basis of the above authorisation under a) or one or more prior authorisations for all legally permitted purposes. The treasury shares can be sold on the stock market or on the basis of an offer to all shareholders, in accordance with the principle of equal treatment, and used for the following purposes in particular:
- (1) The preference treasury shares can be sold in a way other than on the stock market or on the basis of an offer to all shareholders if the cash purchase price to be paid is not significantly less than shares already listed on the stock market with essentially the same features. The price is not significantly less if the purchase price is not more than 5 % less than the average closing prices for the company's preference treasury shares on the Xetra trading system (or a similar successor system) for the last five trading days before disposal. The number of preference treasury shares sold in this way, together with the number of other shares sold or issued from authorised capital during the term of this authorisation with pre-emption rights disappplied in accordance with section 186(3) sentence 4 AktG, and the number of shares that can arise as a result of exercising options or convertible rights or fulfilling the conversion obligations of options or convertible bonds issued during the term of this authorisation with pre-emption rights disappplied in accordance with section 186(3) sentence 4 AktG must not exceed 10 % of the share capital, neither at the time of this authorisation becoming effective nor being exercised.
- (2) The treasury preference or ordinary shares can be issued against non-cash consideration, particularly in connection with the acquisition of companies, shares in companies or interests in them and mergers of companies, as well as for the purpose of acquiring other assets including rights and receivables.
- (3) The preference or ordinary treasury shares can be redeemed without the redemption or its execution requiring a further resolution of the General Meeting of Shareholders. They can also be redeemed by way of simplified procedure without a capital reduction by adjusting the notional pro rata amount of share capital of the company attributable to the other shares. If redeemed by way of simplified procedure, the Management Board is authorised to adjust the number of shares in the Articles of Association. Ordinary treasury shares can only be redeemed without the simultaneous redemption of at least a corresponding number of preference treasury shares if the pro rata amount of share capital of the total preference treasury shares outstanding does not exceed half of the share capital as a result.
- (4) The preference treasury shares can be distributed to shareholders as a distribution in kind in addition to or instead of cash distribution.
- c) All the above authorisations can be utilised individually or collectively, on one or several occasions, in full or in part, in pursuit of one or more purposes. The authorisations under a) and b), items (1) and (2) can also be utilised by dependent companies or companies majority owned by Villeroy & Boch AG or by third parties acting on their behalf or on behalf of Villeroy & Boch AG. The above authorisations cannot be utilised for the purposes of trading in treasury shares (section 71(1) no. 8 sentence 2 AktG).
- d) The Management Board can exercise the above authorisations under a) to c) only with the approval of the Supervisory Board.
- e) The pre-emption rights of shareholders to treasury shares acquired on the basis of the authorisation in accordance with a) above or one or more prior authorisations are disappplied if they are utilised in accordance with the above authorisations under b), items (1) and/or (2). Shareholders also have no pre-emption rights if the treasury shares acquired are sold on the stock market in accordance

with b). In the event of a disposal of the treasury shares acquired by way of an offer to all shareholders as per b), the Management Board is authorised to disapply the pre-emption rights of the holders of shares of once class to shares of the respective other class, if the respective offer price is not more than 5% less than the average closing prices for the company's preference treasury shares on the Xetra trading system (or a similar successor system) on the last five trading days before the offer is announced. If the treasury shares acquired are sold by way of an offer to all shareholders or a distribution in kind in accordance with b) (4), the Management Board is authorised to disapply the pre-emption rights of shareholders for fractional amounts.

The resolution adopted by the General Meeting of Shareholders on 22 March 2013 authorised the Management Board of Villeroy & Boch AG to acquire its own preference shares in accordance with prescribed rules until 21 March 2018. This authorisation expired on 21 March 2018.

#### 18. CAPITAL RESERVES

The capital reserves are unchanged at € 193,6 million.

#### 19. TREASURY SHARES

As in the previous year, the cost for the 1,683,029 preference treasury shares was € 15.0 million. Under IAS 32.33, the total cost of these shares reduces equity. All transactions were performed on the stock market on the basis of the applicable resolutions of the General Meeting of Shareholders and with the approval of the Supervisory Board. There were no share transactions with related parties. Treasury shares are not entitled to dividends. The utilisation of the preference shares held is restricted by the resolutions adopted.

#### 20. RETAINED EARNINGS

The retained earnings of the Villeroy & Boch Group in the amount of € 31.9 million (previous year: € 12.7 million) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

	in € million	
	<b>2018</b>	<b>2017</b>
As at 1 Jan.	12.7	-3.9
Consolidated earnings attributable to Villeroy & Boch AG shareholders	33.5	29.9
Dividend distribution	-14.3	-13.3
<b>As at 31 Dec.</b>	<b>31.9</b>	<b>12.7</b>

Notes to the Consolidated Statement  
of Financial Position**21. REVALUATION SURPLUS**

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

in € million			
	2018	2017	Change
<b>Items to be reclassified to profit or loss:</b>			
█ Currency translation of financial statements of foreign group companies (a)	-5.0	-3.3	-1.7
█ Currency translation of long-term loans classified as net investments in foreign group companies (b)	-6.5	-7.5	1.0
█ Cash flow hedges (c)	2.5	3.5	-1.0
█ Deferred tax effect on items to be reclassified to profit or loss (d)	-4.6	-5.2	0.6
<b>Items not to be reclassified to profit or loss:</b>			
█ Actuarial gains and losses on defined benefit obligations (e)	-89.9	-86.8	-3.1
█ Sundry valuation results (f)	-0.3	0.1	-0.4
█ Deferred tax effect on items not to be reclassified to profit or loss (g)	25.9	25.2	0.7
<b>As at 31 December</b>	<b>-77.9</b>	<b>-74.0</b>	<b>-3.9</b>

**(a) Reserve for currency translation of financial statements of foreign group companies**

Results of group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). The translation of these financial statements resulted in a net effect of €-1.7 million in the 2018 financial year (previous year: €-1.7 million).

**(b) Reserve for currency translation of long-term loans classified as net investments in foreign group companies**

Within the Villeroy & Boch Group there are loans that finance a net investment in a foreign operation. Loans in foreign currency are measured using the respective closing rate at the end of the reporting period. Currency effects from a loan classified as a net investment are therefore reported in this revaluation surplus. This net change in equity in the period under review amounted to €1.0 million (previous year: €-4.0 million).

**(c) Reserve for cash flow hedges**

The Villeroy & Boch Group uses financial derivatives to reduce the risks of planned operating currency and brass transactions (see note 53). These hedges are reported at fair value in the statement of financial position as other assets (see note 13) or other liabilities (see note 30). Changes in fair value amounted to €1.8 million in the period under

review (previous year: €2.1 million). Cumulative prior-period changes in value in the amount of €-2.8 million (previous year: €-1.7 million) were reclassified to profit or loss in the year under review as the hedged item was also recognised in profit or loss at the same time. The net change in equity in the period under review amounted to €-1.0 million (previous year: €0.4 million).

**(d) Reserve for deferred tax effect on items to be reclassified to profit or loss**

As at the end of the reporting period this reserve mainly includes the deferred tax on the recognised cash flow hedge reserve. It developed as follows:

in € million		
	2018	2017
<b>As at 1 Jan.</b>	<b>-5.2</b>	<b>-4.5</b>
Additions	0.6	-1.3
Disposals	0.0	0.6
<b>As at 31 Dec.</b>	<b>-4.6</b>	<b>-5.2</b>

On settlement of the respective hedging instrument the deferred taxes recognised in this reserve will be reclassified to profit or loss.

**(e) Reserve for actuarial gains and losses on defined benefit plans**

The reserve for actuarial gains and losses on defined benefit plans (see note 26) arises on the remeasurement of benefit obligations as a result of the modification at the end of the reporting period of actuarial parameters, such as the discount rate, the benefit period or the long-term salary trend. In the reporting period, this item changed by € -3.1 million from € -86.8 million to € -89.9 million (see note 26).

**(f) Reserve for miscellaneous gains and losses on measurement**

This reserve comprises:

in € million			
	2018	2017	Change
Valuation results on securities	-0.6	0.1	-0.7
Valuation results on long-term obligations to employees	0.3	0.0	0.3
<b>As at 31 Dec.</b>	<b>-0.3</b>	<b>0.1</b>	<b>-0.4</b>

The Villeroy & Boch Group recognises listed securities (see note 9 c). These financial instruments are measured at their respective fair value. The fair value is the market price and is assigned to the first level of the fair value hierarchy. Changes in value during the holding period are recognised in the revaluation surplus in equity. Gains and losses reported in this item by the time of derecognition remain in the reserves. They are reclassified to retained earnings. Until 31 December 2017, these gains and losses were reclassified to finance costs on disposal. In the reporting period, this item changed by € -0.7 million from € 0.1 million to € -0.6 million (see note 9).

Provisions for personnel (see note 27) include long-term obligations to employees of Villeroy & Boch (Thailand) Co. Ltd. that are recognised in the amount of the actuarial present values. Actuarial gains and losses, such as those arising from the change in the discounting factor or assumed mortality rates, are recognised in this item. In the reporting period, this item changed by € 0.3 million from € 0.0 million to € 0.3 million.

**(g) Reserve for deferred tax effect on items not to be reclassified to profit or loss**

As at the end of the reporting period, this reserve exclusively contained the deferred tax on the reserve for actuarial gains and losses on defined benefit plans. This resulted in a change in net equity in the financial year of € 0.7 million (previous year: € -3.0 million).

Notes to the Consolidated Statement  
of Financial Position**22. EQUITY ATTRIBUTABLE TO  
MINORITY INTERESTS**

Non-controlling interests in equity amounted to €4.9 million (previous year: €5.4 million). As in the previous year,

there are non-controlling interests in two Group companies (see note 61). Combined, these Group companies are as follows as at the end of the reporting period:

	in € million		
	Argent Australia Pty. Ltd., Australien	Mondial S.A., Rumänien	Total
<b>Percentage of minority interests</b>	<b>54.6%</b>	<b>0.5%</b>	
Non-current assets	1.2	14.5	
Current assets	13.9	11.9	
Non-current liabilities	-0.5	-1.2	
Current liabilities	-5.9	-7.5	
<b>Net assets</b>	<b>8.7</b>	<b>17.7</b>	
Net assets of minority interests	4.8	0.1	<b>4.9</b>
Revenue	22.5	40.8	
<b>Result</b>	<b>0.7</b>	<b>2.8</b>	
thereof attributable to minority interests	0.4	0.0	<b>0.4</b>
<b>total of comprehensive income</b>	<b>-1.1</b>	<b>2.8</b>	
thereof attributable to minority interests	-0.6	0.0	<b>-0.6</b>
<b>dividend payment to minority interests</b>	<b>-0.3</b>	<b>-</b>	<b>-0.3</b>

This combined financial information contains transactions with other companies of the Villeroy & Boch Group that were eliminated in consolidation, such as liabilities for purchased goods and unearned intercompany profits. Our principles of consolidation are described in note 3.

The proposal for the appropriation of profits is for a dividend of:

<i>Ordinary share:</i>	€ 7.7 million
<i>Preference share:</i>	€ 8.4 million
	€ 16.1 million

**23. DISTRIBUTABLE AMOUNTS AND DIVIDENDS**

The information presented here relates to the appropriation of the retained earnings of Villeroy & Boch AG calculated in accordance with German commercial law.

The net profit of Villeroy & Boch AG for 2018 amounted to €11.2 million. Taking into account the profit carried forward of €12.1 million, the unappropriated surplus amounts to €23.3 million.

At the next General Meeting of Shareholders on 29 March 2019, the Supervisory Board and the Management Board of Villeroy & Boch AG will propose that the unappropriated surplus be used to distribute a dividend as follows:

€ 0.55	<i>per ordinary share</i>
€ 0.60	<i>per preference share</i>

If the company still holds treasury shares at the time of the resolution on the appropriation of profits, the dividend payment for the preferred capital will be reduced by the amount attributable to the treasury shares. The amount attributable to treasury shares is to be carried forward to new account.

The dividend shown in the table below was paid to the bearers of Villeroy & Boch shares in previous years:

Eligible share class	28/03/2018		29/03/2017	
	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0.52	7.3	0.48	6.7
Preference shares	0.57	7.0	0.53	6.6
		<b>14.3</b>		<b>13.3</b>

## 24. CAPITAL MANAGEMENT

The primary goals of central capital management in the Villeroy & Boch Group are ensuring liquidity and access to the capital markets at all times. This provides the Group with freedom of action and sustainably increases its enterprise value.

The Villeroy & Boch Group's non-current sources of finance consist of:

in € million		
	31/12/2018	31/12/2017
Equity	209.4	194.6
Provisions for pensions (note 26)	177.2	185.1
Financial liabilities (note 29)	25.0	51.1
<b>Non-current sources of finance</b>	<b>411.6</b>	<b>430.8</b>

A long-term loan of €25 million is due for repayment within the next twelve months. This loan is therefore considered a short-term borrowing (see note 29).

## 25. VOTING RIGHT NOTIFICATIONS

In accordance with section 160(1) no. 8 of the German Stock Corporation Act (AktG), the published content of disclosures on holdings in Villeroy & Boch AG reported in accordance with section 20(1) or (4) AktG or in accordance with section 33(1) or (2) of the German Securities Trading Act (WpHG) (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) must be disclosed.

The content of disclosures in accordance with sections 33 et seq. WpHG (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) as at the time of going to press is shown below.

(1) On 11 November 2016, *Ms. Thalea von Boch-Reichel*, Germany, 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 9 November 2016 and amounted to 3.16% (444,020 voting rights) at this date.

(2) On 11 November 2016, *Ms. Alida-Kirsten von Boch-Galhau*, Germany, 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 9 November 2016 and amounted to 3.16% (444,020 voting rights) at this date.

(3) *Villeroy and Boch Saarufer GmbH, Mettlach, Germany*, informed us in accordance with section 41(4) f WpHG on 15 January 2016: Since 26 November 2015, Villeroy & Boch Saarufer GmbH, Mettlach, Germany, has held instruments in accordance with section 25a(1) no. 2 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 instruments in accordance with section 25 WpHG or any voting rights in accordance with sections 21, 22 WpHG.

(4) On 13 June 2014, *Baroness Ghislaine de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) 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

Notes to the Consolidated Statement  
of Financial Position

(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.

- (5) 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.
- (6) 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.
- (7) 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.
- (8) Since 20 February 2013, *Villeroy and Boch Saarufer GmbH, Mettlach, Germany*, has held financial instruments or other instruments in accordance with section 25a 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.
- (9) On 14 February 2011, *Mr. Luitwin-Gisbert von Boch-Galhau, Germany*, notified us in accordance with section 21(2) WpHG that his share of the voting rights

in Villeroy & Boch AG exceeded the threshold of 15 % on 17 November 2010 and amounted to 17.74 % (2,491,132 voting rights) as at this date. 13.94 % of this (1,957,696 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG, 1.10 % of which (154,000 voting rights) also in accordance with section 22(1) sentence 1 no. 6 WpHG. A further 3.37 % (472,726 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 6 WpHG. Of the following shareholders, 3 % or more of the voting rights are attributable to him in each case:

- Luitwin Michel von Boch-Galhau
- Siegfried von Boch-Galhau

- (10) On 20 May 2010, *Dr. Alexander von Boch-Galhau, Germany*, notified us in accordance with section 21(1) WpHG that his share of the voting rights in Villeroy & Boch AG fell below the threshold of 5 % on 18 May 2010 and has amounted to 4.13 % (580,250 voting rights) since this date. 1.42 % of this (200,000 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.

The shareholders listed below notified us in accordance with section 127(2) WpHG (section 41(2) WpHG of the version applicable prior to 3 January 2018) that their shares of the voting rights in our company were as follows as at the dates stated below:

- (1) 18.42 % of voting rights are attributable to *Mr. Luitwin Michel von Boch-Galhau, Germany*, as at 1 April 2002; 1.55 % of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.
- (2) 7.41 % of voting rights are attributable to *Mr. Wendelin von Boch-Galhau, Germany*, as at 1 April 2002; 6.80 % of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.
- (3) 7.14 % of voting rights are attributable to *Mr. Franziskus von Boch-Galhau, Germany*, as at 1 April 2002; 0.34 % of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

## 26. PROVISIONS FOR PENSIONS

There are various defined benefit pension plans within the Villeroy & Boch Group. The regional distribution of the provisions recognised for these pensions were as follows:

in € million		
	31/12/2018	31/12/2017
Germany	157.9	167.0
Rest of euro zone	9.3	9.9
Rest of world	10.0	8.2
<b>Provisions for pensions</b>	<b>177.2</b>	<b>185.1</b>

In Germany there are a final salary plan and several earnings points plans. A final salary plan is available in Sweden. In order to cover its pension obligations, the Villeroy & Boch Group uses assets partially managed by external agents.

In the Villeroy & Boch Group, 8,236 people (previous year: 8,644) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31/12/2018	31/12/2017
<b>Germany</b>		
Members	2,258	2,213
Vested former members	1,235	1,252
Pensioners	2,354	2,697
<b>Total</b>	<b>5,847</b>	<b>6,162</b>
<b>Rest of euro zone</b>		
Members	427	445
Vested former members	24	21
Pensioners	68	65
<b>Total</b>	<b>519</b>	<b>531</b>
<b>Rest of world</b>		
Members	1,112	1,528
Vested former members	503	160
Pensioners	255	263
<b>Total</b>	<b>1,870</b>	<b>1,951</b>
<b>Persons with a commitment</b>	<b>8,236</b>	<b>8,644</b>

Provisions for pensions were measured by using the following company-specific parameters:

	in %			
	2018		2017	
	Ø	Range	Ø	Range
Discount rate	1.8	0.9–9.1	1.8	0.7–7.5
Expected long-term wage and salary trend	2.5	1.0–5.6	2.5	1.0–5.6
Expected long-term pension trend	1.3	0.0–3.5	1.3	0.0–2.0

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 0.9% in Switzerland to 9.1% in Mexico. In the previous year, the country-specific discount rates ranged from 0.7% in Switzerland to 7.5% in Mexico. A discount rate of 1.75% (previous year: 1.75%) is used in Germany. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. The pension obligations for the German companies in the Group are measured using the biometric data of the 2018 G Heubeck mortality tables (previous year: 2005 G Heubeck mortality tables). This transition increased provisions for pensions and reduced the reserve for actuarial effects by € 1.9 million. Country-specific mortality tables were used in the other group companies.

The pension plans are presented below in summary because, as in the previous year, the majority of these provisions relate to German companies.

The present value of defined benefit obligations can be reconciled to the provision reported in the statement of financial position as follows:

in € million		
	31/12/2018	31/12/2017
Present value of defined benefit obligations	200.7	209.3
Fair value of plan assets	-23.5	-24.2
<b>Carrying amount</b>	<b>177.2</b>	<b>185.1</b>

Notes to the Consolidated Statement  
of Financial Position

The present value of pension obligations developed as follows:

in € million		
	2018	2017
<b>As at 1 Jan.</b>	<b>209.3</b>	<b>225.7</b>
Current service cost	2.1	2.6
Interest income and interest expenses	3.5	3.0
Actuarial gains and losses arising from		
changes in demographic assumptions	1.9	1.1
changes in financial assumptions	0.7	-10.4
changes in other assumptions	0.3	0.8
Past service cost	0.0	–
Gains or losses from settlements	-1.4	–
Contributions from plan participants	0.4	0.9
Benefits paid	-12.4	-13.1
Settlement payments	-3.2	–
Currency changes arising from non-euro-denominated plans	-0.5	-1.3
<b>As at 31 Dec.</b>	<b>200.7</b>	<b>209.3</b>

There were the following changes to plan assets:

in € million		
	2018	2017
<b>As at 1 Jan.</b>	<b>24.2</b>	<b>24.6</b>
Interest income and interest expenses	0.5	0.5
Gains and losses from plan assets	-0.2	0.5
Contributions from the Villeroy & Boch Group as employer	0.4	0.3
Contributions from plan participants	0.4	0.9
Benefits paid	-1.2	-1.4
Currency changes arising from non-euro-denominated plans	-0.6	-1.2
<b>As at 31 Dec.</b>	<b>23.5</b>	<b>24.2</b>

The portfolio structure of plan assets was as follows:

	31/12/2018		31/12/2017	
	in € million	%	in € million	%
I Annuities/annuity funds	9.9	42	11.0	45
I Equities/equity funds	5.6	24	5.5	23
I Property/REITs	2.1	9	2.3	10
I Cash and cash equivalents	0.1	0	0.1	0
<b>Investments on an active market</b>	<b>17.7</b>	<b>75</b>	<b>18.9</b>	<b>78</b>
Insurance policies	5.8	25	5.3	22
<b>Plan assets</b>	<b>23.5</b>	<b>100</b>	<b>24.2</b>	<b>100</b>

### Risks

The risks associated with defined benefit obligations in the Villeroy & Boch Group essentially relate to the basic actuarial assumptions for the future on the basis of past developments in the calculation of the carrying amount. This present value is influenced by discounting rates in particular, whereby the present low interest rate is contributing to a relatively high pension provision. A continuing decline in returns on the capital market for prime industrial bonds would result in a further rise in obligations. A simulation calculation is presented in the section below “Sensitivities, forecast development and duration”.

There are risks within plan assets, such as equity price risk and issuer default risk, as a result of the selection

of the individual investments and their composition in a securities account. Given the small overall volume of plan assets, the Villeroy & Boch Group considers these risks to be appropriate and non-critical overall. The return on plan assets is assumed in the amount of the discounting rates determined on the basis of senior, fixed-rate industrial bonds. If the actual returns on plan assets fall short of the discounting rates used, the net obligation under pension plans will increase.

### Sensitivities, forecast development and duration

The sensitivity analysis for the present values of obligations shown below takes into account the change in one assumption while the other variables are not changed compared to the original calculation:

	Change in actuarial assumption	Effect on defined benefit obligation in € million as at	
		31/12/2018	31/12/2017
<b>Present value of defined benefit obligations</b>		<b>200.7</b>	<b>209.3</b>
Discount rate	Increase by 0.25%	194.6	203.2
	Reduction by 0.25%	206.6	215.7
Pension trend	Increase by 0.25%	204.8	213.7
	Reduction by 0.25%	196.8	205.1

Notes to the Consolidated Statement  
of Financial Position

An alternative valuation of pension obligations was carried out to determine the effects of the amount of pension obligations in the event of changes in the underlying parameters. It is not possible to extrapolate these values on a straight-line basis in the event of differing changes in assumptions, nor to add them together in the event of combinations of changes in individual assumptions.

The following development in the present value of obligations is forecast for the subsequent year:

	in € million	
	<b>Forecast 2019</b>	Forecast 2018
Defined benefit obligations as at 31 Dec. 2018 or 2017 resp.	200.7	209.3
Forecast service cost	2.3	2.2
Forecast interest costs	3.5	3.6
Forecast pension payments	-12.5	-12.9
<b>Forecast defined benefit obligations</b>	<b>194.0</b>	<b>202.2</b>

In determining the forecast pension obligations, the demographic assumptions about the composition of participants are taken from the current scenario. The calculation of pension obligations in the coming year is based on the situation on the valuation date.

The weighted duration of pension provisions in the Villeroy & Boch Group as at 31 December 2018 was 12.6 years (previous year: 12.4 years). The weighted duration for the pension plans of German companies amounted to 11.4 years (previous year: 11.5 years).

## 27. NON-CURRENT AND CURRENT PROVISIONS FOR PERSONNEL

Provisions for personnel at the Villeroy & Boch Group are based on the legal, tax and economic circumstances of the respective country. These provisions developed as follows in the reporting period:

in € million							
	Non-current provisions for:					Current provisions	Total amount
	Anniversary bonuses	Partial retirement	Severance pay	Other	Total		
<b>As at 1 Jan. 2017</b>	<b>7.1</b>	<b>5.0</b>	<b>5.8</b>	<b>0.9</b>	<b>18.8</b>	<b>17.8</b>	<b>36.6</b>
Currency adjustments	0.0	0.0	-0.1	0.0	-0.1	-0.3	-0.4
Utilisation	-0.9	-2.2	-3.9	-0.1	-7.1	-14.4	-21.5
Reversals	0.0	–	–	–	0.0	-1.8	-1.8
Additions	0.6	1.9	3.8	0.0	6.3	14.4	20.7
Additions from acquisitions	0.4	–	0.4	–	0.8	–	0.8
Reclassifications	–	0.3	–	0.0	0.3	-0.3	0.0
<b>As at 1 Jan. 2018</b>	<b>7.2</b>	<b>5.0</b>	<b>6.0</b>	<b>0.8</b>	<b>19.0</b>	<b>15.4</b>	<b>34.4</b>
Currency adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utilisation	-0.5	-2.1	-3.4	-0.1	-6.1	-13.4	-19.5
Reversals	0.0	-0.3	–	-0.1	-0.4	-1.3	-1.7
Additions	0.5	0.7	3.3	0.4	4.9	14.5	19.4
Reclassifications	-0.4	0.1	–	0.0	-0.3	–	-0.3
<b>As at 31 Dec. 2018</b>	<b>6.8</b>	<b>3.4</b>	<b>5.9</b>	<b>1.0</b>	<b>17.1</b>	<b>15.2</b>	<b>32.3</b>

Provisions for anniversary bonuses are recognised by Group companies that have undertaken to pay their employees corresponding cash or non-cash benefits on the occasion of work anniversaries. Villeroy & Boch AG recognises an obligation of €4.8 million (previous year: €4.8 million). This corresponds to 70.6% (previous year: 66.7%) of this provision. Villeroy & Boch AG measured this obligation using the biometric assumptions of the 2018 G Heubeck mortality tables (previous year: 2005 G Heubeck mortality tables). The effect of this transition of €0.1 million was recognised in profit or loss. A foreign Group company reclassified an amount of €0.3 million to personnel liabilities (see note 30).

Under the partial retirement programme, employees have the option to reduce their working hours in accordance with certain personal requirements for a period determined by law prior to retirement. 97.0% of the provision relates to the employees of Villeroy & Boch AG (previous year: 93.3%).

A new programme was successfully set up for the employees of Sanipa Badmöbel Treuchtlingen GmbH in the financial year. The programme for the employees of Villeroy & Boch S.à.r.l., Faïencerie de Septfontaines-lez-Luxembourg, was discontinued.

The provisions for severance pay are recognised for legally required termination benefits that must be paid when an employee changes employer or retires. These are generally non-recurring payments for employees in Thailand, Austria, Italy, Australia, Rumania and India.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of €14.3 million (previous year: €14.0 million).

The measurement of current and non-current provisions for staff is based on external expert opinions, the past data available and government regulations.

Notes to the Consolidated Statement  
of Financial Position**28. OTHER NON-CURRENT AND  
CURRENT PROVISIONS**

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

in € million							
	Other non-current provisions	Other current provisions for:					Total amount
		Warranties	Legal and consultancy fees	Other taxes	Miscellaneous	Total	
<b>As at 1 Jan. 2017</b>	<b>16.2</b>	<b>6.8</b>	<b>1.7</b>	<b>1.1</b>	<b>10.2</b>	<b>19.8</b>	<b>36.0</b>
Currency adjustments	0.0	-0.1	–	0.0	-0.2	-0.3	-0.3
Utilisation	-0.6	-0.9	-0.7	-1.1	-5.1	-7.8	-8.4
Reversals	-0.6	–	-0.1	–	-1.4	-1.5	-2.1
Additions	0.4	0.8	0.8	0.5	2.8	4.9	5.3
Additions from acquisitions	–	0.4	–	–	0.4	0.8	0.8
Reclassifications	-4.1	–	–	–	4.1	4.1	–
<b>As at 1 Jan. 2018</b>	<b>11.3</b>	<b>7.0</b>	<b>1.7</b>	<b>0.5</b>	<b>10.8</b>	<b>20.0</b>	<b>31.3</b>
Currency adjustments	0.0	-0.1	0.0	0.0	0.0	-0.1	-0.1
Utilisation	-1.0	-0.8	-0.5	-0.3	-3.8	-5.4	-6.4
Reversals	-1.9	-0.2	0.0	0.0	-0.8	-1.0	-2.9
Additions	1.6	0.7	0.8	0.1	3.7	5.3	6.9
Reclassifications	-1.2	–	–	–	1.2	1.2	0.0
<b>As at 31 Dec. 2018</b>	<b>8.8</b>	<b>6.6</b>	<b>2.0</b>	<b>0.3</b>	<b>11.1</b>	<b>20.0</b>	<b>28.8</b>

Non-current provisions relate in particular to contractually agreed demolition, dismantling and renovation obligations at the site of our former tableware plant in Luxembourg as well as other environmental and renovation obligations, obligations to remove leasehold improvements and recultivation obligations.

We intend to invest an amount of €4.2 million (previous year: €4.1 million) in the restoration and renovation of the former Tableware plant in Luxembourg in the 2019 financial year. Work amounting to €1.1 million was completed in the period under review (previous year: €0.1 million). Payments of €1.2 million that were classified as short-term in the previous year were rescheduled. For this reason, an amount of €1.2 million (previous year: €4.1 million) was reclassified to current provisions as at the end of the reporting period in order to report the planned, short-term utilisation for 2019 of €4.2 million.

The provision for warranties was measured on the basis of past division-specific data. In addition, current information on any new risks in connection with new materials, changes in production processes or other factors influencing quality were also taken into account in measurement.

Miscellaneous other provisions included provisions for commission, licensing fees and a large number of individual items.

## 29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Current and non-current financial liabilities developed as follows in the financial year:

in € million							
	Non-current financial liabilities to			Current financial liabilities to			Total
	Banks	Lessors	Total	Banks	Lessors	Total	
<b>As at 1 Jan. 2017</b>	<b>50.0</b>		<b>50.0</b>	<b>0.5</b>		<b>0.5</b>	<b>50.5</b>
Addition due to business acquisition (see note 2)	-	0.2	0.2	0.5	0.4	0.9	1.1
Cash changes	-	-	-	12.8	-0.1	12.7	12.7
Non-cash changes:							
┆ Offsetting (see note 15)	-	-	-	-14.2	-	-14.2	-14.2
┆ Interest capitalisation	0.4	0.0	0.4	0.6	0.0	0.6	1.0
┆ Reclassifications	-0.4	0.0	-0.4	0.4	0.0	0.4	0.0
┆ Currency adjustments	-	0.0	0.0	0.0	0.0	0.0	0.0
<b>As at 1 Jan. 2018</b>	<b>50.0</b>	<b>0.2</b>	<b>50.2</b>	<b>0.6</b>	<b>0.3</b>	<b>0.9</b>	<b>51.1</b>
Addition due to business acquisition (see note 2)	-	-	-	-	-	-	-
Cash changes	-	-	-	34.5	-0.2	34.3	34.3
Non-cash changes:							
┆ Offsetting (see note 15)	-	-	-	-28.3	-	-28.3	-28.3
┆ Interest capitalisation	0.4	0.0	0.4	0.6	0.0	0.6	1.0
┆ Reclassifications	-25.4	-0.2	-25.6	25.4	0.2	25.6	0.0
┆ Currency adjustments	-	0.0	0.0	-	0.0	0.0	0.0
<b>As at 31 Dec. 2018</b>	<b>25.0</b>	<b>0.0</b>	<b>25.0</b>	<b>32.8</b>	<b>0.3</b>	<b>33.1</b>	<b>58.1</b>

Non-current financial liabilities in the amount of €25.0 million (previous year: €50.0 million) relate to banks domiciled in Germany. A bank loan of €25.0 million was reclassified to current financial liabilities as it will be repaid within the next twelve months. For one long-term loan agreement, a special right of termination in the event of a change of control at Villeroy & Boch AG was agreed for the lending bank. The debt service is repeated annually.

Net receivables from and liabilities to banks were consolidated and amounted to €28.3 million (previous year: €14.2 million) (see note 15). The requirements for offsetting have been met and it is intended to settle them on a net basis.

The liabilities to lessors reported under financial liabilities result from finance leases for motor vehicles.

Notes to the Consolidated Statement  
of Financial Position**30. OTHER NON-CURRENT AND CURRENT  
LIABILITIES**

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

	in € million					
	Carrying amount	Remaining term		Carrying amount	Remaining term	
		31/12/2018	Less than 1 year		More than 1 year	31/12/2017
Bonus liabilities	43.0	43.0	–	43.7	43.7	–
Fair values of hedging instruments	0.7	0.4	0.3	1.0	0.8	0.2
Advance payments received on account of orders	4.5	4.5	–	11.5	11.5	–
Miscellaneous other liabilities	6.7	4.3	2.4	5.7	3.1	2.6
<b>Total financial instruments *</b>	<b>54.9</b>	<b>52.2</b>	<b>2.7</b>	<b>61.9</b>	<b>59.1</b>	<b>2.8</b>
Personnel liabilities	19.5	19.4	0.1	20.3	20.1	0.2
Other tax liabilities	12.3	12.3	–	12.1	12.1	–
Deferred income	4.3	2.7	1.6	2.9	1.2	1.7
<b>Total carrying amount</b>	<b>91.0</b>	<b>86.6</b>	<b>4.4</b>	<b>97.2</b>	<b>92.5</b>	<b>4.7</b>

\* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) relates predominantly to currencies in the amount of €0.7 million (previous year: €1.0 million).

Advance payments received on account of orders are classified as contract liabilities in accordance with IFRS 15. €10.1 million of the advance payments recognised as at 31 December 2017 (previous year: €2.7 million) were settled by deliveries in the 2018 financial year.

Miscellaneous other liabilities included debtors with credit balances and a number of individual items.

Other tax liabilities primarily included VAT in the amount of €7.4 million (previous year: €7.2 million) and payroll and church tax in the amount of €4.1 million (previous year: €4.0 million).

Deferred income consisted essentially of the free allocation of emission allowances (see note 5), compensation for a long-term rental agreement with the City of Luxembourg (see note 7), rent payments received and government grants for property, plant and equipment (see note 6).

**31. TRADE PAYABLES**

Based on the domicile of the respective Group company, trade payables related to:

	in € million	
	31/12/2018	31/12/2017
Germany	31.4	35.8
Rest of euro zone	9.8	11.6
Rest of world	36.1	36.1
<b>Carrying amount as at 31 Dec.</b>	<b>77.3</b>	<b>83.5</b>

## NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### 32. REVENUE

#### Revenue breakdown

The Villeroy & Boch Group generates revenue from the sale of goods and merchandise. The income generated from the license business is also reported as a component of consolidated revenue. A breakdown of revenue - by type of revenue and by division and region - is shown in segment reporting under note 52.

#### Contract balances

Please see the relevant sections for information on the development of contract balances in relation to trade receivables (note 12), contract assets (note 13) and contract liabilities - these correspond to the statement of financial position item "Advance payments" (note 30).

Revenue of € 10.1 million (previous year: € 2.7 million) was recognised in the 2018 financial year that was included in net advance payments (€ 11.5 million) at the start of the reporting period. The amount of revenue recognised in the 2018 financial year from performance obligations that were settled in prior periods was € 3.2 million (previous year: € 2.3 million).

#### Performance obligations

Please see "Revenue recognition" under note 1 "Accounting policies" for detailed information on performance obligations in contracts with customers.

As at the end of the reporting period, the total amount of outstanding performance obligations, i.e. the Group's orders on hand, was € 59.8 million, € 59.6 million of which are expected to be fulfilled in 2019 and € 0.2 million of which thereafter. The amount stated does not include subsequent deductions to be granted or sales-based income anticipated from license business.

### 33. COST OF SALES

Cost of sales comprises the cost of the products and merchandise sold. In accordance with IAS 2, this includes not only directly allocable costs such as the cost of materials, staff costs and energy costs, but also overheads and allocable depreciation of production facilities.

### 34. SELLING, MARKETING AND DEVELOPMENT COSTS

This item contains the costs of marketing and distribution, the field sales force and advertising and logistics, license costs and research and development expenses.

The expenses for research and technical development broke down into:

in € million		
	2018	2017
Bathroom and Wellness	-11.8	-12.2
Tableware	-4.1	-3.7
<b>Total</b>	<b>-15.9</b>	<b>-15.9</b>

### 35. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses comprise staff costs and non-staff operating expenses incurred in management and administrative functions.

### 36. OTHER OPERATING INCOME

Other operating income is composed as follows:

in € million		
	2018	2017
Reversal of provisions*	3.9	3.2
Book profits on the disposal of non-current assets	3.7	0.6
Exchange rate gains	2.9	3.2
Reversal of write-downs on receivables	0.8	0.3
Reversal of liabilities	0.7	0.9
Reimbursement for damages	0.3	0.7
License income	-	5.9
Other	1.9	2.2
<b>Total</b>	<b>14.2</b>	<b>17.0</b>

\* not including amounts in other statement of consolidated income items

License income will be reported as revenue from the 2018 financial year as a result of the first-time application of IFRS 15. Prior to 31 December 2018 it was reported under other operating income. The corresponding prior-year figures have not been restated. Under the previous reporting method of IAS 18, the other operating income

Notes to the Consolidated Statement  
of Comprehensive Income

recognised for the reporting period would have been € 6.1 million higher.

Miscellaneous other operating income includes a number of individual items.

**37. OTHER OPERATING EXPENSES**

Other operating expenses were composed as follows:

in € million		
	2018	2017
Addition to write-downs on receivables	-3.5	-1.5
Consulting services	-3.1	-3.1
Exchange rate losses	-2.4	-2.1
Reorganisation costs	-0.9	-1.1
Book losses on the disposal of non-current assets	-0.5	-0.3
Costs for maintenance/repairs	-0.1	-0.4
Other	-5.3	-6.8
<b>Total</b>	<b>-15.8</b>	<b>-15.3</b>

The additions to write-downs on receivables relate to trade receivables (see note 12) and other receivables. Miscellaneous other operating expenses include a number of individual items.

**38. RESULTS OF FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD**

This item includes the pro rata income from the investment in two associated companies in the amount of € 0.1 million (previous year: € 0.5 million).

**39. INTEREST INCOME AND OTHER FINANCIAL INCOME**

Financial income consisted of:

in € million		
	2018	2017
<b>Interest income from:</b>		
! Cash and cash equivalents	1.1	1.1
! Loans and receivables	0.4	0.1
<b>Total interest income</b>	<b>1.5</b>	<b>1.2</b>
Dividends from securities available-for-sale	0.3	0.1
<b>Total financial income</b>	<b>1.8</b>	<b>1.3</b>

**40. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES**

Finance costs related to:

in € million		
	2018	2017
<b>Interest expenses from:</b>		
! Provisions	-3.4	-2.5
! Overdraft facilities	-1.8	-2.2
! Non-current loans	-1.0	-1.0
! Other borrowing	0.0	0.0
<b>Total interest expenses</b>	<b>-6.2</b>	<b>-5.7</b>
Other finance costs	0.0	0.0
<b>Total finance costs</b>	<b>-6.2</b>	<b>-5.7</b>

The interest expense on provisions increased by € -0.9 million in the 2018 financial year, from € -2.5 million to € -3.4 million. In the reporting period, the amount of interest expenses on pension plans was affected by the change in interest rates from 1.3% in 2017 to 1.8%.

**41. INCOME TAXES**

Income taxes include the taxes on income paid or due and deferred taxes. Villeroy & Boch Group companies in Germany are subject to an average trade tax rate of 14.0% of the trade earnings. The corporate income tax rate is 15% plus a solidarity surcharge of 5.5% of the corporate income tax. Rates vary between 9.0% and 34.6% for the other countries.

in € million		
	2018	2017
Taxes paid or due in Germany	-2.9	-4.4
Taxes paid or due outside Germany	-8.1	-6.9
<b>Current taxes</b>	<b>-11.0</b>	<b>-11.3</b>
Deferred taxes	-4.3	-4.3
<b>Income taxes</b>	<b>-15.3</b>	<b>-15.6</b>

The expected income tax expense (current and deferred) based on the overall German tax rate of 29.5% differs from the reported income tax expense as follows:

in € million		
	2018	2017
<b>Earnings before taxes (EBT)</b>	<b>49.2</b>	<b>45.4</b>
Expected income tax (EBT x tax rate of 29.5%)	-14.5	-13.4
Differences arising from foreign tax rates	3.1	2.3
<b>Tax effects arising from:</b>		
! Non-deductible expenses	-1.9	-2.5
! Adjustment/write-downs on deferred taxes	-2.0	0.4
! Tax-free income	0.8	0.5
! Change of Tax-rates	-1.0	-2.9
! Other deferred taxes	0.2	0.0
<b>Actual income tax expense</b>	<b>-15.3</b>	<b>-15.6</b>
<b>Actual tax rate in %</b>	<b>31.1</b>	<b>34.4</b>

The reconciliation of the deferred tax assets and liabilities recognised in the statement of financial position to the deferred taxes recognised in the income statement is as follows:

in € million		
	2018	2017
Change in statement of financial position item:		
! Deferred tax assets (note 10)	-0.8	-10.1
! Deferred tax liabilities (note 10)	-0.7	0.6
<b>Sub-total</b>	<b>-1.5</b>	<b>-9.5</b>
! Pass to other comprehensive income (note 21(e))	-1.4	4.3
! Currency adjustments	-1.4	0.9
<b>Deferred taxes recognised in income statement</b>	<b>-4.3</b>	<b>-4.3</b>

#### 42. MINORITY INTERESTS

Non-controlling interests in consolidated earnings amounted to € 0.4 million (previous year: € -0.1 million).

#### 43. EARNINGS PER SHARE

Earnings per share are calculated by dividing the portion of consolidated net income attributable to the shareholders of Villeroy & Boch AG by the weighted number of shares outstanding:

in € million		
	31/12/2018	31/12/2017
<b>Ordinary shares</b>		
Number of shares outstanding	14,044,800	14,044,800
Pro rata consolidated net income (in € million) *	17.5	15.5
Earnings per share (in €) *	1.25	1.11
<b>Preference shares</b>		
Number of shares outstanding	12,361,771	12,361,771
Pro rata consolidated net income (in € million) *	16.0	14.3
Earnings per share (in €) *	1.30	1.16

\* each in relation to the shares outstanding

The portion of consolidated net income attributable to the shareholders of Villeroy & Boch AG is allocated in accordance with the appropriation of earnings set out in the Articles of Association (see note 17). The development in treasury shares is described in note 19. There were no dilution effects during the reporting periods.

#### 44. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

Depreciation, amortisation and impairments in the financial year broke down as follows:

in € million		
	2018	2017
Amortisation of intangible assets	-1.0	-1.0
Impairment losses on intangible assets	-	-
Depreciation of property, plant and equipment	-21.8	-24.5
Impairment losses on property, plant and equipment	-	-
Depreciation of investment property	-0.7	-0.7
Impairment losses on investment property	-	-
Impairment losses on financial assets	-	-
<b>Total depreciation, amortisation and impairments</b>	<b>-23.5</b>	<b>-26.2</b>

Notes to the Consolidated Statement  
of Comprehensive Income

The scheduled depreciation is based on standard Group useful lives (cf. Note 1). The estimated useful lives are reviewed regularly. In the course of this year's review, the useful life of kilns/drying plants was increased from 5 to 10 years and the useful life of shaping machines from 5 to 8 years, with a total earnings effect of € 2.7 million.

**45. COST OF MATERIALS**

The cost of materials comprised the following:

	in € million	
	2018	2017
Cost of raw materials and supplies (including primary products)	-133.9	-132.2
Cost of purchased goods	-122.0	-115.9
	<b>-255.9</b>	<b>-248.1</b>
Cost of purchased services	-40.2	-37.6
<b>Total cost of materials</b>	<b>-296.1</b>	<b>-285.7</b>

**46. PERSONNEL EXPENSES**

Personnel expenses were composed as follows:

	in € million	
	2018	2017
Wages and salaries	-237.5	-229.6
Post-employment benefits:		
■ Expenses for defined benefit plans (see note 26)	-2.1	-2.6
■ Income from settlement of defined benefit obligations (see note 26)	1.4	-
■ Expenses for defined contribution plans	-17.6	-17.3
Termination benefits	-2.3	-2.5
Other services	-33.0	-34.1
<b>Total staff costs</b>	<b>-291.1</b>	<b>-286.1</b>

The cost of defined contribution pension plans essentially relates to employer contributions to statutory pension schemes.

“Other benefits” include employer contributions to health insurance, trade association dues and similar expenses.

**Average number of employees:**

	NUMBER OF EMPLOYEES	
	2018	2017
Wage earners	4,224	4,260
Salaried employees	3,794	3,830
<b>Average</b>	<b>8,018</b>	<b>8,090</b>

Of the workforce as a whole, a total of 2,756 people are employed in Germany (previous year: 2,698), with the remaining 5,262 employed outside Germany (previous year: 5,392).

	NUMBER OF EMPLOYEES	
	2018	2017
Bathroom and Wellness	5,205	5,221
Tableware	2,256	2,322
Other	557	547
<b>Average</b>	<b>8,018</b>	<b>8,090</b>

**47. OTHER TAXES**

The cost of other taxes was € -4.0 million in the reporting period (previous year: € -4.5 million). Companies based in Germany accounted for € -0.9 million (previous year: € -0.8 million) and Group companies abroad for € -3.1 million (previous year: € -3.7 million).

“Other taxes” include mainly real estate tax expenses of € -1.5 million (previous year: € -1.9 million), expenses for the French “contribution économique territoriale” of € -0.9 million (previous year: € -0.8 million) and the French “taxe organique” of € -0.1 million (previous year: € -0.1 million).

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### 48. CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities is calculated by using the indirect method. Here, the Group result after taxes is adjusted for non-cash income and expenses, such as depreciation and amortisation, and changes in operating assets affecting cash are taken into account.

The net cash flow from operating activities amounted to € 2.1 million (previous year: € 41.0 million). The decline is due mainly to the higher accumulation of working capital. In the financial year, the Villeroy & Boch Group invested € 11.9 million (previous year: € 13.2 million) in inventories to safeguard delivery capability and sustainable production (see note 11). At the same time, trade receivables increased by € 10.2 million (previous year: € 11.2 million) while trade payables were reduced by € 6.2 million (previous year: increased by € 6.3 million). Operating cash flow was reduced by € 3.2 million in the reporting year due to the settlement of claims for members of company pension schemes (see note 26). No settlements were offered in the previous year.

The “Other non-cash income and expenses” item includes:

in € million		
	<b>2018</b>	2017
Interest from the provision for pensions and similar obligations	3.4	2.5
Expenses/income from deferred taxes	2.9	5.5
Additions to tax provisions	0.2	0.5
Other non-cash items	1.6	0.5
<b>Total</b>	<b>8.1</b>	<b>9.0</b>

### 49. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities changed by € -17.3 million as against the previous year to € -44.6 million (previous year: € -27.3 million). We invested € 43.6 million in new intangible assets and property, plant and equipment (previous year: € 35.9 million) and € 5.1 million in financial assets (previous year: € 11.5 million) in the reporting period. The Villeroy & Boch Group generated proceeds of € 4.1 million (previous year: € 20.1 million), primarily from the sale of properties in Selb (see note 15). In the previous year, we recognised the purchase prices from the sale of a first part of the former plant property in Luxembourg and a further purchase price instalment in Sweden.

### 50. CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to € -7.6 million (previous year: € -14.1 million). The cash outflow in the reporting year, as in the previous year, was mainly due to the payment of the dividend of € -14.3 million to the shareholders of Villeroy & Boch AG. We generated net proceeds of € 7.1 million from borrowings of short-term bank loans.

### 51. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to € 57.6 million (previous year: € 108.7 million), a decrease of € 51.1 million as against the previous year.

Notes to the Consolidated Statement of Cash Flows  
Notes to the Group Segment Report

## NOTES TO THE GROUP SEGMENT REPORT

### 52. GROUP SEGMENT REPORT

The Villeroy & Boch Group is divided into the operating divisions described below, which bundle the Group activities for our product business. The divisions are consistent with the internal organisational and reporting structure and are the reportable segments as defined by IFRS 8.

The *Bathroom and Wellness* Division manufactures ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, bathtubs and shower tubs, whirlpools, bath and kitchen fittings and accessories. The product range is rounded off by shower toilets, installation systems, outdoor system pools and accessories, among other things.

The *Tableware* Division covers the complete assortment of tableware, crystal/glass and cutlery, supplemented by

accessories, kitchen and tableware textiles as well as a selection of gift articles.

In addition to net revenues, the operating result of the divisions is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the divisions' earnings power. Furthermore, the rolling operating return on net assets is also used to measure the earnings power of the Group and the individual divisions. This is calculated from the operating net assets as at the end of the month as an average of the last twelve months in relation to earnings before interest and taxes (before central function expenses). Group financing and income taxes are managed on a Group-wide basis and are not allocated to the individual divisions. Pricing for inter-division transfers is based on standard market conditions.

The divisions of the Villeroy & Boch Group generated the following revenue:

	in € million							
	Revenue from sales of goods to external customers		Revenue from licence		Intersegment revenue		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Bathroom and Wellness	583.8	558.1	0.5	–	0.0	0.0	584.3	558.1
Tableware	263.2	278.4	3.0	–	0.0	0.0	266.2	278.4
Transition / Other	–	–	2.6	–	–	–	2.6	–
<b>Total segment revenue</b>	<b>847.0</b>	<b>836.5</b>	<b>6.1</b>	<b>–</b>	<b>0.0</b>	<b>0.0</b>	<b>853.1</b>	<b>836.5</b>
Eliminations	0.0	0.0	–	–	–	–	0.0	0.0
<b>Consolidated revenue</b>	<b>847.0</b>	<b>836.5</b>	<b>6.1</b>	<b>–</b>	<b>0.0</b>	<b>0.0</b>	<b>853.1</b>	<b>836.5</b>

In the course of the first-time adoption of IFRS 15, revenues from the license business were reclassified from other operating income to revenues. The comparative figures presented for the previous year 2017 were not adjusted in accordance with the rules.

The operating result of the two divisions was calculated as operating segment earnings (EBIT) as follows:

in € million		
	31/12/2018	31/12/2017
Bathroom and Wellness	47.3	41.0
Tableware	6.3	8.8
<b>Operating result (EBIT)</b>	<b>53.6</b>	<b>49.8</b>
Net finance cost (see notes 39 and 40)	-4.4	-4.4
<b>Earnings before taxes</b>	<b>49.2</b>	<b>45.4</b>
Income taxes (see note 41)	-15.3	-15.6
<b>Group result</b>	<b>33.9</b>	<b>29.8</b>

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

in € million						
	Rolling assets		Rolling liabilities		Rolling net assets	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bathroom and Wellness	374.0	339.3	139.6	137.2	234.4	202.1
Tableware	125.1	120.8	39.1	42.5	86.0	78.3
<b>Total</b>	<b>499.1</b>	<b>460.1</b>	<b>178.7</b>	<b>179.7</b>	<b>320.4</b>	<b>280.4</b>

The following assets and liabilities were assigned to the divisions:

in € million						
	Assets		Liabilities		Net assets	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bathroom and Wellness	393.2	358.8	147.8	157.6	245.4	201.2
Tableware	128.1	124.4	41.3	42.7	86.8	81.7
Reconciliation	160.3	203.9	283.1	292.2	-122.8	-88.3
<b>Total</b>	<b>681.6</b>	<b>687.1</b>	<b>472.2</b>	<b>492.5</b>	<b>209.4</b>	<b>194.6</b>

## Notes to the Group Segment Report

Segment assets include intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities include provisions, trade payables and other liabilities. Reconciliation includes primarily financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities.

## Other segment information:

in € million				
	Additions to intangible assets and property, plant and equipment		Depreciation and amortisation	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Bathroom and Wellness	37.7	29.0	-18.0	-19.0
Tableware	5.9	6.9	-5.5	-7.2
<b>Total</b>	<b>43.6</b>	<b>35.9</b>	<b>-23.5</b>	<b>-26.2</b>

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual divisions.

The following table shows the revenue from external customers and non-current assets by domicile of the respective national companies:

in € million				
	Revenue from sales of goods to external customers		Non-current assets*	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
German companies	419.7	416.5	90.0	82.2
Rest of euro zone	142.8	142.3	23.3	26.5
Rest of world	284.5	277.7	113.8	105.9
<b>Total</b>	<b>847.0</b>	<b>836.5</b>	<b>227.1</b>	<b>214.6</b>

\* in accordance with IFRS 8.33 (b)

## OTHER NOTES

### 53. FINANCIAL INSTRUMENTS

The recognition of primary and derivative financial instruments is based on their allocation to the four measurement categories defined in IFRS 9. The following measurement categories were used in the Villeroy & Boch group in the reporting period:

- ▮ Debt instruments such as trade receivables, bank balances and trade payables, which are held primarily to generate contractually agreed cash flows and whose cash flows relate to payments of interest and principle payments on an outstanding nominal value, are recognised at amortised “cost”. Changes in value are recognised in the statement of profit or loss.
- ▮ Debt instruments that are not intended to be held to maturity and equity instruments that are not held for trading are recognised “*at fair value through other comprehensive income*”. These financial instruments are measured at fair value. Changes in value during the year are recognised in the reserves. The gains and losses that accrue in the reserves over time are recycled to profit or loss when a debt instrument is derecognised. When an equity instrument is derecognised, the accrued gains and losses are reclassified to retained earnings.
- ▮ All other financial instruments are recognised “*at fair value through profit or loss*”. Positive and negative changes in fair value are recognised in profit or loss.
- ▮ In the “*hedges*” category, the Villeroy & Boch Group uses financial derivatives exclusively to reduce the risks of planned operating transactions (cash flow hedge). These are recognised in the statement of financial position at fair value. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge. Changes in fair value that prove effective in accordance with IFRS 9 are reported outside profit or loss. Effectiveness means that any change in the market value of the hedge will be offset by an opposing change in the fair value of the hedging instrument. The cumulative changes in value taken to equity are later reported in profit or loss in the period in which the hedged item is recognised in the statement of comprehensive income. Ineffective portions of the change in fair value are taken directly to profit or loss when they arise.

The first-time application of IFRS 9 resulted in the reclassification of all financial instruments to reflect the contractual cash flows and the nature of the respective business model in line with the categories applicable from 1 January 2018:

Statement of financial position item	Note	Recognition until 31 December 2017		Recognition from 1 January 2018	
		IAS 39 category	€ million	IFRS 9 category	€ million
Trade receivables	12	Loans and receivables	127.2	Cost	127.2
Cash and cash equivalents	15	Cash	108.7	Cost	108.7
Other financial assets					
┆ Securities	9	Available for sale (OCI)	8.7	Fair value (excl. recycling)	8.7
┆ Loans	9	Loans and receivables	4.0	Cost	4.0
┆ Equity investments	9	Available for sale (cost)	2.1	Fair value	2.1
┆ Hedging derivatives	13	Hedge accounting	4.5	Hedge accounting	4.5
┆ Other financial instruments	13	Loans and receivables	12.7	Cost	12.7
<b>Total financial assets</b>			<b>267.9</b>		<b>267.9</b>

The transition to the new IFRS 9 did not have any consequences in terms of the recognition of financial liabilities and hedging relationships at the Villeroy & Boch Group. Retained earnings have not changed as a result of the first-time application of IFRS 9.

### List of financial instruments

The Villeroy & Boch consolidated statement of financial position contains the following financial instruments in accordance to IFRS 9:

	in € million							
	Carrying amount as at 31 Dec. 2018	Amounts not measured under IAS 39	Amounts measured under IFRS9				Carrying amount as at 31 Dec. 2018	Fair value as at 31 Dec. 2018
			Amortised cost	Fair value (OCI)				
			with no recycling	Cash flow hedge				
Cash and cash equivalents (note 15)	57.6	–	57.6	–	–	57.6	57.6	
Trade receivables (note 12)	137.4	–	137.4	–	–	137.4	137.4	
Other financial assets (note 9)	17.1	–	3.8	13.3	–	17.1	17.1	
Other assets (note 13)	31.1	10.9	17.0	–	3.2	20.2	20.2	
			<b>215.8</b>	<b>13.3</b>	<b>3.2</b>	<b>232.3</b>	<b>232.3</b>	
Other assets not recognised under IAS 39 (a)						10.9	–	
Non-current assets – not including other financial assets (note 9)						230.7	–	
Inventories (see note 11)						166.5	–	
Deferred tax assets (see note 10) and income tax receivables (see note 14)						40.4	–	
Assets held for sale (see note 16)						0.8	–	
<b>Total assets</b>						<b>681.6</b>	<b>–</b>	

## Other Notes

in € million

	Carrying amount as at 31 Dec. 2018	Amounts not measured under IAS 39	Amounts measured under IFRS 9		Carrying amount as at 31 Dec. 2018	Fair value as at 31 Dec. 2018
			Amortised cost	Fair value (OCI)		
				Cash flow hedge		
Trade payables (note 31)	77.3	–	77.3	–	77.3	77.3
Financial liabilities (note 29)	58.1	–	58.1	–	58.1	58.1
Other liabilities (note 30)	91.0	36.1	54.2	0.7	54.9	54.9
			<b>189.6</b>	<b>0.7</b>	<b>190.3</b>	<b>190.3</b>
Other liabilities not recognised under IAS 39 (b)					36.1	–
Equity					209.4	–
Current and non-current provisions (c)					238.3	–
Deferred tax liabilities (note 10) and income tax liabilities					7.5	–
<b>Total equity and liabilities</b>					<b>681.6</b>	<b>–</b>

- (a) The other assets not recognised under IFRS 9 are tax receivables and prepaid expenses (see note 13).
- (b) The other liabilities not recognised under IFRS 9 are personnel liabilities, other tax liabilities and deferred income (see note 30).
- (c) The current and non-current provisions include provisions for pensions (see note 26), provisions for personnel (see note 27) and other provisions (see note 28).

The following financial instruments under IAS 39 were included in the statement of financial position in the previous year:

in € million										
Amounts measured under IAS 39										
	Carrying amount as at 31 Dec. 2017	Amounts not measured under IAS 39	No-	Amortised cost			Fair Value		Carrying amount as at 31 Dec. 2017	Fair value as at 31 Dec. 2017
			nominal value	Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow hedges		
Cash and cash equivalents (note 15)	108.7	–	108.7	–	–	–	–	–	108.7	108.7
Trade receivables (note 12)	127.2	–	–	127.2	–	–	–	–	127.2	127.2
Other financial assets (note 9)	14.8	–	–	3.9	2.2	8.7	–	–	14.8	14.8
Other assets (note 13)	29.0	11.5	–	13.0	–	–	4.5	–	17.5	17.5
			<b>108.7</b>	<b>144.1</b>	<b>2.2</b>	<b>8.7</b>	<b>4.5</b>		<b>268.2</b>	<b>268.2</b>
Other assets not recognised under IAS 39 (a)									11.5	–
Non-current assets – not including other financial assets (note 9)									212.5	–
Inventories (see note 11)									154.6	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)									39.8	–
Assets held for sale (see note 16)									0.5	–
<b>Total assets</b>									<b>687.1</b>	<b>–</b>

## Other Notes

in € million						
	Carrying amount as at 31 Dec. 2017	Amounts not measured under IAS 39	Amounts measured under IAS 39			
			Amortised cost		Fair Value	
			Liabilities	Cash flow hedges	Carrying amount as at 31 Dec. 2017	Fair value as at 31 Dec. 2017
Trade payables (note 31)	83.5	–	83.5	–	83.5	83.5
Financial liabilities (note 29)	51.1	–	51.1	–	51.1	51.1
Other liabilities (note 30)	97.2	35.4	61.8	–	61.8	61.8
			<b>196.4</b>	<b>0.0</b>	<b>196.4</b>	<b>196.4</b>
Other liabilities not recognised under IAS 39 (b)					35.4	–
Equity					194.6	–
Current and non-current provisions (c)					250.8	–
Deferred tax liabilities (see note 10) and income tax liabilities					9.9	–
<b>Total equity and liabilities</b>					<b>687.1</b>	<b>–</b>

- (a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).
- (b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).
- (c) The current and non-current provisions include provisions for pensions (see note 26), provisions for personnel (see note 27) and other provisions (see note 28).

Owing to the short maturities of cash and cash equivalents, trade receivables, other receivables, trade payables and other liabilities, it is assumed that the fair values are the carrying amounts. The fair values of other receivables and held-to-maturity investments are calculated as the present values of future expected payments. Standard, matched maturity interest rates are used for discounting. The fair values of currency forwards and foreign currency positions are determined using market prices as at the end of the reporting period.

### Basis of fair value measurement

As in the previous year, the fair values of recognised financial instruments are calculated, in the case of hedge transactions, on the basis of market prices of the parameters on which the derivatives are based, such as current and forward rates, and yield curves. Quoted prices are used to measure the securities of the Villeroy & Boch support fund and free investments (see note 9c).

### Management of financial instruments

A common feature of all primary and derivative financial instruments is a future claim to cash. Accordingly, the Villeroy & Boch Group is subject in particular to risks of volatility in exchange rates, interest rates and market prices. To limit these risks, the Villeroy & Boch Group has

a functional and effective risk management system with a clear functional organisation. Further information on the implemented risk management system can be found under “Risk management system” in the management report.

### Management of exchange rate risks

Exchange rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in exchange rates. The Villeroy & Boch Group uses currency futures to hedge these risks. The procedure for hedging exchange rate fluctuations is described in the management report under “Management of exchange rate risks”. The following currency futures will be carried out after the end of the reporting period 31 December 2018:

	in € million			
	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	21.9	0.4	3.1	0.1
In three to six months	21.2	0.4	3.8	0.1
In six to twelve months	34.6	0.7	7.7	0.2
After twelve months	68.8	1.7	10.2	0.3
<b>Total</b>	<b>146.5</b>	<b>3.2</b>	<b>24.8</b>	<b>0.7</b>

As at the reporting date, around 30 % of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the foreign currencies Russian rouble (RUB), pound (GBP) and Swedish krone (SEK). In the event of a change in the respective exchange rates of +/- 10 % and assuming that all other variables remained constant, the carrying amounts at 31 December 2018 would have been € 4.6 million higher/lower (previous year: € 5.2 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income.

## Other Notes

**Management of commodity price risks**

Commodity price risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market prices. The hedging strategy of the Villeroy & Boch Group is described

in the management report under “Management of other price change risks”.

The following cash flows from the brass commodity swaps in place are due after the balance sheet date 31 December 2018:

	in € million			
	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	0.2	0.0	0.2	0.0
In three to six months	0.1	0.0	0.3	0.0
In six to twelve months	-	-	0.8	0.0
After twelve months	-	-	0.8	0.0
<b>Total</b>	<b>0.3</b>	<b>0.0</b>	<b>2.1</b>	<b>0.0</b>

On the basis of production planning, there is an unhedged brass position of 2,088 tonnes in total as at the end of the reporting year for the following financial year (previous year: 678 tonnes). In the event of a change in brass prices of +/-10 % and assuming that all other variables remained constant, the carrying amounts at 31 December 2018 would have been € 0.8 million higher/lower (previous year: € 0.3 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income in 2018.

General procurement market risk is explained in the management report.

**Management of interest rate risks**

Interest rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market interest rates. The management method used is described in the management report under “Management of interest rate risks”.

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. According to a sensitivity analysis before tax effects, in the event of a theoretical change in interest rates in the 2018 financial year of +/-50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.3 million higher/lower (previous year: € 0.3 million).

**Management of default and credit risks**

Default and credit risks describe the uncertainty of a contractual party meeting its obligations, such as customers for trade receivables or banks for cash investments. The Villeroy & Boch Group has taken extensive measures to reduce this risk, which are described in the management report under “Management of default and credit risks”.

**Management of liquidity risks**

A sufficient liquidity reserve is maintained to ensure that the Villeroy & Boch Group is able to meet its obligations and remain financially flexible at all times. The strategy applied is described in the management report under “Management of liquidity risks”. Financial instruments in the form of cash and cash equivalents (see note 15) and borrowings (see note 29) are used to manage liquidity. Based on the contractual maturities of financial liabilities, cash outflows are expected in the following time bands:

in € million					
	Cash outflow expected in the following time bands				
	Carrying amount as at 31 Dec.	Gross	Within three months	Between three months and one year	Between one and five years
Trade payables	83.5	83.5	83.5	–	–
Current and non-current financial liabilities (a)	51.1	67.6	14.2	1.0	52.4
Other liabilities	57.8	46.4	44.4	0.5	1.5
Cash flow hedge liabilities (b)	1.0	38.9	8.9	24.8	5.2
<b>Total as at 31 Dec. 2017</b>	<b>193.4</b>	<b>236.4</b>	<b>151.0</b>	<b>26.3</b>	<b>59.1</b>
Trade payables	77.3	77.3	77.3	–	–
Non-current and current financial liabilities (a)	58.1	79.7	28.3	26.0	25.4
Other liabilities	54.2	51.6	44.0	5.0	2.6
Cash flow hedge liabilities (b)	0.7	26.8	3.3	12.6	10.9
<b>Total as at 31 Dec. 2018</b>	<b>190.3</b>	<b>235.4</b>	<b>152.9</b>	<b>43.6</b>	<b>38.9</b>

(a) The cash flow from current and non-current financial liabilities includes future interest payments of €1.4 million (previous year: €2.4 million) that will not be incurred until after 31 December 2018. Current financial liabilities of €28.3 million (previous year: €14.2 million) were consolidated in the balance sheet (cf. Note 29).

(b) The transaction volume of cash flow hedge liabilities in the amount of €26.2 million (previous year: €38.8 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of €0.7 million (previous year: €1.0 million) is forecast, equal to the statement of financial position item. €0.3 million of this will be settled in the next three months (previous year: €0.2 million).

In liquidity planning, recognised liabilities are carried at their payment amount on maturity. This takes into account future interest not shown in the statement of financial position as at the end of the reporting period as it is not incurred until later financial years.

#### Net income from financial instruments

In the reporting year the Villeroy & Boch Group generated a net result of €-4.3 million (previous year: €-2.3 million) from the use of primary and derivative financial instruments. The increase is essentially due to new hedges entered into in the financial year (see note 21 c) and the impairment loss on other receivables.

#### 54. CONTINGENT LIABILITIES AND COMMITMENTS

There were the following contingent liabilities and commitments in the Villeroy & Boch Group:

in € million		
	31/12/2018	31/12/2017
Guarantees	1.3	1.2
Trustee obligations	0.9	0.1

The maximum guarantee commitments assumed that can be claimed from the Villeroy & Boch Group are shown. Guarantees were essentially provided by Villeroy & Boch AG to the benefit of lessors.

## 55. OTHER FINANCIAL OBLIGATIONS

There were the following financial obligations as at the end of the reporting period:

in € million		
	31/12/2018	31/12/2017
Obligations arising from orders placed:		
▮ for investments in intangible assets	0.3	0.1
▮ for investments in property, plant and equipment	6.3	2.1

53.3% of the obligations to acquire property, plant and equipment in the amount of € 6.3 million related to Villeroy & Boch (Thailand) Co. Ltd., followed by Villeroy & Boch AG (25.5%) and Villeroy & Boch Austria GmbH (5.2%). In the previous year, 59.0% related to Villeroy & Boch AG, followed by Villeroy & Boch Gustavsberg AB (24.8%) and Villeroy et Boch S.A.S. (7.4%).

## 56. RELATED PARTY DISCLOSURES

### Related company 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 some that have relationships with companies or members of the executive bodies of Villeroy & Boch AG. All transactions are conducted at arm's-length conditions. Villeroy & Boch AG, Germany, is the ultimate controlling entity of the Villeroy & Boch Group. Transactions between Villeroy & Boch AG and its subsidiaries and between individual subsidiaries primarily relate to the exchange of work in process, finished goods and merchandise and services. These transactions were eliminated in accordance with the consolidation principles (see note 3) and are not discussed in this section.

The Villeroy & Boch Group accounts for two companies using the equity method (see note 8). The V & B Lifestyle India Private Limited was founded in 2013 for the sale and distribution of the tableware products in India. It has three sales offices as at the end of the reporting period (previous year: three). There are only minor delivery and service relations at the moment from the point of view of the Villeroy & Boch Group. No goods or services were provided to or by the German company accounted for using the

equity method. From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to associated companies was immaterial.

There were no other significant transactions with related companies in the period under review. All transactions are conducted at arm's-length conditions.

### Related person disclosures

The Group's related persons include shareholders able to significantly influence Villeroy & Boch AG, persons in key positions and relatives of these persons.

Members of the Supervisory Board and the Management Board are considered persons in key positions. The following table lists all remuneration of this group of persons:

in € million		
	2018	2017
Current employee benefits	4.1	4.2
Post-employment benefits	1.8	1.6
Termination benefits	0.4	–
<b>Total</b>	<b>6.3</b>	<b>5.8</b>

Relatives of this group of persons employed within the Villeroy & Boch Group receive the compensation based on their position/function paid independently of the identity of the person in that position.

There were no other significant transactions with related persons in the period under review. All transactions are conducted at arm's-length conditions.

## 57. REMUNERATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

### Supervisory Board remuneration

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive fixed basic remuneration and a variable remuneration component. The fixed annual basic remuneration for each member of the Supervisory Board amounts to €24,000. The Chairman receives an additional €53,000, while the Deputy Chairman receives an additional €16,500. Members of the Supervisory Board receive a fee of €1,500 for each meeting of the full Supervisory Board.

The Chairman of the Audit Committee receives €10,000 p.a. and the Chairmen of the Investment Committee and

the Human Resources Committee each receive €4,000 p. a. in addition to their basic remuneration, while the members of the respective committees each receive an additional €2,500 p. a.

The members of the Supervisory Board receive variable remuneration of an additional €195 for each cent per share by which the dividend payable to shareholders exceeds 10.5 cents. The shareholder dividend is calculated as the average of the dividends paid for one preference share or one ordinary share.

The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.

The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration for performing their duties in the financial year:

in € thousand					
	Fixed remuneration	Meeting fees	Variable remuneration for 2017	Total	Previous year
Yves Elsen <sup>2)</sup> , <sup>3)</sup>	85	9	9	103	88
Dr. Alexander von Boch-Galhau <sup>2)</sup>	39	9	9	57	41
Ralf Runge <sup>4)</sup>	41	6	9	56	58
Dietmar Langenfeld <sup>2)</sup> , <sup>4)</sup>	27	9	9	45	44
Dominique Villeroy de Galhau <sup>1)</sup>	26	9	9	44	41
Dietmar Geuskens <sup>1)</sup> , <sup>4)</sup>	26	9	9	44	41
Christina Rosenberg <sup>3)</sup>	26	9	9	44	36
Prof. Dr. Annette Köhler (since 03/2018) <sup>1*)</sup>	26	6	–	32	–
Peter Prinz Wittgenstein (until 03/2018)	13	3	9	25	73
Louis de Schorlemer (since 03/2018)	19	6	–	25	–
Thomas Kannengießler (since 03/2018)	19	6	–	25	–
Bärbel Werwie (since 03/2018) <sup>4)</sup>	19	6	–	25	–
Sabine Süpke (since 04/2018) <sup>3)</sup> , <sup>4)</sup>	19	5	–	24	–
Werner Jäger (until 03/2018) <sup>4)</sup>	6	3	9	18	43
Francesco Grioli (until 03/2018) <sup>4)</sup>	6	3	9	18	43
Susanne Ollmann (until 03/2018)	5	3	9	17	33
Dr. Renate Neumann-Schäfer (until 03/2018)	6	3	7	16	26
Wendelin von Boch-Galhau (until 03/2017)	–	–	2	2	29
Bernhard Thömmes (until 11/2016)	–	–	–	–	7
Rounding	-3	0	-5	-8	-3
<b>Total</b>	<b>405</b>	<b>104</b>	<b>103</b>	<b>612</b>	<b>600</b>

1) Audit Committee

2) Investment Committee

3) Human Resources Committee

4) Remuneration is deducted in accordance with DGB guidelines for the deduction of supervisory board remuneration.

\* Chairman of the respective committee

A total expense of €773 thousand was reported in the Group result for the 2018 financial year (previous year: €768 thousand). In addition to the fixed remuneration paid and the meeting fees for 2018, this figure includes €108 thousand (previous year: €98 thousand) for the provision for variable remuneration, €5 thousand for variable remuneration paid 2017 and the reimbursement of other expenses in the amount of €53 thousand (previous year: €66 thousand), plus insurance premiums in the amount of €98 thousand (previous year: €98 thousand).

#### Management Board remuneration

An expense of €3,355 thousand (previous year: €2,936 thousand) is reported in the income statement for the 2018 financial year. This figure is composed of fixed (€1,444 thousand; previous year: €1,504 thousand), variable salary components (€1,495 thousand; previous year: €1,432 thousand) and a non-recurring payment on termination of employment (€416 thousand; previous year: €0 thousand). The variable remuneration is composed of a one-year remuneration in the amount of €686 thousand (previous year: €671 thousand) and a remuneration for several years in the amount of €809 thousand (previous year: €761 thousand). The fixed remuneration includes remuneration in kind of €70 thousand (previous year: €64 thousand), including €2 thousand (previous year: €2 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to €20,043 thousand (previous year: €20,672 thousand). In the financial year, former members of the Management Board received pension benefits totalling €1,520 thousand (previous year: €1,538 thousand).

The provisions of section 314(3) sentence 1 HGB in conjunction with section 286(5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2018 financial year.

#### 58. AUDITORS' FEES AND SERVICES

The fees for the auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were broken down as follows:

in € million		
	2018	2017
Audits of financial statements	0.4	0.4
Other assurance or valuation services	–	–
Tax advisory services	–	0.0
Other services	0.3	0.2

Other services mainly related to consulting services in connection with our digitization strategy.

#### 59. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 AKTG

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG (German Stock Corporation Act) for the 2018 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 29 November 2018. The declarations are permanently available to shareholders on the Internet.

#### 60. EVENTS AFTER THE END OF THE REPORTING PERIOD

There are currently no significant events that took place after the end of the financial year.

## 61. LIST OF SHAREHOLDINGS

The shareholdings of the Villeroy & Boch Group are listed in accordance with section 313(2) HGB\* below:

		in %		
Fully consolidated subsidiaries		Villeroy&Boch AG investment		
<b>Germany</b>		Direct	Indirect	Total
1.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach <sup>1)</sup>	100	–	100
2.	Heinrich Porzellan GmbH, Selb <sup>1)</sup>	100	–	100
3.	INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach <sup>1)</sup>	100	–	100
4.	Keraco GmbH, Wadgassen	100	–	100
5.	Sales Design Vertriebsgesellschaft mbH, Merzig <sup>1)</sup>	100	–	100
6.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen <sup>1)</sup>	100	–	100
7.	V & B International GmbH, Mettlach <sup>1)</sup>	100	–	100
8.	VilboCeram GmbH, Mettlach <sup>1)</sup>	100	–	100
9.	Villeroy & Boch Creation GmbH, Mettlach <sup>1)</sup>	100	–	100
10.	Villeroy & Boch Gastronomie GmbH, Mettlach <sup>1)</sup>	100	–	100
11.	Villeroy & Boch Interior Elements GmbH, Mettlach <sup>1)</sup>	100	–	100
12.	Villeroy & Boch K-Shop GmbH, Mettlach <sup>1)</sup>	100	–	100
<b>Abroad</b>		Direct	Indirect	Total
13.	Argent Australia Pty. Ltd., Brisbane (Australia)	45.36	–	45.36
14.	Delfi Asset S.A., Luxembourg (Luxembourg)	–	100	100
15.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	–	100
16.	Kiinteistö Oy, Helsinki (Finland)	–	100	100
17.	Rollingergrund Premium Properties SA, Luxembourg (Luxembourg)	–	100	100
18.	Mondial S.A., Lugoj (Romania)	99.44	–	99.44
19.	Ucosan B.V., Roden (Netherlands)	100	–	100
20.	V AND B SOUTH AFRICA PTE LTD., Claremont (South Africa)	100	–	100
21.	Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe (Mexico)	–	100	100
22.	Vilbomex S.A. de C.V., Ramos Arizpe (Mexico)	–	100	100
23.	Vilbona Mexiko S.A. de C.V., Ramos Arizpe (Mexico)	–	100	100
24.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	–	100	100
25.	Villeroy & Boch (Thailand) Co. Ltd., Saraburi (Thailand)	16.51	83.49	100
26.	Villeroy & Boch (U.K.) Ltd., London (UK)	–	100	100
27.	Villeroy & Boch Arti della Tavola S.r.l., Milan (Italy)	0.2	99.8	100
28.	Villeroy & Boch Asia Pacific Pte. Ltd., Singapore (Singapore)	100	–	100
29.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	–	100	100
30.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	–	100
31.	Villeroy & Boch Belgium S.A., Brussels (Belgium)	99.99	0.01	100
32.	Villeroy & Boch Czech s.r.o., Prague (Czech Republic)	100	–	100

## Other Notes

<b>Abroad (Continuation)</b>		Direct	Indirect	Total
33.	Villeroy & Boch Danmark A/S, Rødovre (Denmark)	–	100	100
34.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	–	100
35.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	–	100	100
36.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
37.	Villeroy & Boch Magyarország Kft., Hódmezővásárhely (Hungary)	100	–	100
38.	Villeroy & Boch MC S.à r.l. , Monaco (Monaco)	99.99	0.01	100
39.	Villeroy & Boch Norge AS, Lorenskog (Norway)	–	100	100
40.	Villeroy & Boch OOO, Moscow (Russia)	100	–	100
41.	Villeroy & Boch Polska Sp. z o.o., Warsaw (Poland)	–	100	100
42.	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg,- Luxembourg (Luxembourg)	100	–	100
43.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99.99	0.01	100
44.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	–	100	100
45.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	–	100
46.	Villeroy & Boch Tableware Japan K.K., Tokyo (Japan)	–	100	100
47.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	–	100	100
48.	Villeroy & Boch Tableware Oy, Helsinki (Finland)	–	100	100
49.	Villeroy & Boch Trading (Shanghai) Co. Ltd., Shanghai (China)	100	–	100
50.	Villeroy & Boch Ukraine TOV, Kiev (Ukraine)	100	–	100
51.	Villeroy & Boch USA Inc., New Jersey (USA)	–	100	100
52.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99.99	0.01	100
53.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	–	100	100
54.	Villeroy et Boch S.A.S., Paris (France)	100	0.00	100
55.	Villeroy et Boch Valence d’Agen S.A.S., Valence d’Agen (France)	–	100	100
<b>Associated Companies</b>		Direct	Indirect	Total
56.	V&B Lifestyle India Private Limited , Gurgaon (Indien)	50	–	50

1 Section 264 (3) HGB is applied to this subsidiary.

\* Section 313(2) no. 4 HGB plus section 313(3) HGB are applied to two German investments.

## 62. DEVELOPMENTS WITHIN THE IFRS FRAMEWORK

The following pronouncements by the international standard-setter, the IASB (International Accounting Standards Board), were endorsed by the EU and are required to be applied for financial years beginning after 31 December 2017:

Standard	Name
IAS 40	Amendments to IAS 40: Transfers to, or from, investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 9	Financial instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15	Clarification of IFRS 15 Revenue from Contracts with Customers
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Various	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Various	Annual Improvements to International Financial Reporting Standards, 2014–2016 Cycle (published on 8 December 2016)

The effects of the first-time application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” are summarised in note 1 “Accounting Policies”. The amendment to IAS 40 clarifies that a transfer to “Investment property” must be implemented as soon as there is evidence of a change in use. The application of these new standards had no material effect on the accounting policies of the Villeroy & Boch Group.

The following IASB pronouncements were endorsed by the EU and were not yet effective for the past 2018 financial year:

Standard	Name
IFRS 16	Leases (effective for financial years beginning on or after 1 January 2019)
IFRS 9	Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019)
IFRIC 23	Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019)

IFRS 16 “Leases” sets out the accounting treatment and disclosure requirements for leases. It supersedes the guidance of IAS 17 “Leases” and various interpretations.

In accordance with IFRS 16, a contract is, or contains, a lease if it conveys the right to use an asset for a period of time in exchange for consideration. In future, the lessee must recognise all leases for which it holds the right to use the leased asset (the “right-of-use asset”). Recognition exemptions are available for short-term and low-value leases. The cost of the right-of-use asset includes the present value of the lease liability as well as any additional payments at or prior to conclusion of the lease, other direct costs incurred by the lessee and any restoration or demolition obligations. When calculating lease payments, there is an option regarding the consideration of remuneration for additional services, such as for maintenance expenses. Lease incentives, i.e. payments by the lessor to the lessee, are deducted from the cost of the asset. The present value of the lease liability is the sum of all outstanding lease payments discounted to the date of initial recognition. The right-of-use asset is subsequently measured at amortised cost in accordance with the principles of IAS 16 “Property, Plant and Equipment”.

The interest cost of the lease liabilities is reported separately from depreciation and amortisation in the income statement. In the cash flow statement, cash outflows for repayments are reported in net cash from financing activities. All other lease payments continue to be reported in net cash from operating activities.

IFRS 16 extends the disclosure requirements for lease transactions in the notes to the lessee’s consolidated financial statements. For lessors, there is no change to the accounting treatment of the assets transferred.

According to the IASB, IFRS 16 “Leases” is effective for reporting periods beginning on or after 1 January 2019. For existing leases, the modified retrospective approach is applied for transition purposes in the Villeroy & Boch Group as at 1 January 2019. Under this method, lease liabilities are offset against right-of-use assets of the same value. Prior-year comparative disclosures are not required. There will be no change in the accounting treatment of contracts with a remaining term of less than twelve months at the transition date. We expect an increase of a low eight-figure amount in the total assets of the Villeroy & Boch Group, which will reduce its equity ratio by around two percentage point.

Among other things, the amendment to IFRS 9 relates to the classification of financial instruments that, if cancelled by the borrower, incur breakage costs on the part of the borrower. These financial instruments are recognised at amortised cost or at fair value through OCI.

## Other Notes

The new interpretation IFRIC 23 applies, among other things, to unused tax losses (see note 10) and to the determination of tax rates (see note 41) if there is uncertainty regarding their income tax treatment when they are measured. If recognition for tax purposes cannot be clarified until after the end of the reporting period, the tax expense is recognised at either the most probable value or the expected value.

According to current understanding, the amendment to IFRS 9 and the introduction of IFRIC 23 will have only an immaterial effect on the Villeroy & Boch Group.

The EU has not yet adopted the following IASB pronouncements:

Standard	Name
<b>New Standards</b>	
IFRS 17	Insurance Contracts (issued on 18 May 2017)
<b>Changes and additions to existing standards:</b>	
IAS 28	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)
Diverse	Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017)
IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)
Frame-work	Amendments o References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)
IFRS 3	Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)
IAS 1	Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)

We will apply the above new and amended standards when they become effective within the EU. In the absence of an official German translation, the standards are shown with their English titles.

The new IFRS 17 “Insurance Contracts” applies to all contracts in which the entity is required to pay compensation on the occurrence of an uncertain future event. Typical examples for a manufacturing company include product warranties given by a manufacturer, assets and liabilities relating to pension obligations or short positions from residual value guarantees issued. An explicit exemption from or opting for IFRS 9 will presumably have

only an immaterial effect on the Villeroy & Boch Group. Subject to endorsement in EU law, the standard will be effective from 1 January 2021.

The amendments to IAS 19 “Employee Benefits” will modify the accounting for plan amendment, curtailment and settlement. In the event of a future intra-year plan amendment, the service cost and the net interest will have to be recalculated for the period until the end of the reporting period (31 December) using the current actuarial assumptions. Previously, this recalculation was only made at the end of the year without any adjustment to current annual expenditure. This will allow for a more accurate presentation of the effects of such amendments (see note 29).

According to present knowledge, the new standards listed above will have only an immaterial effect on the Villeroy & Boch Group.

The European Commission has resolved not to endorse the following IASB pronouncements in European law:

Standard	First-time adoption
IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014)	01/01/2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	01/01/2016

As they have not been implemented in EU law, the Villeroy & Boch Group is not permitted to apply these regulations in the preparation of exempting consolidated financial statements in accordance with section 315e (1) HGB. The Villeroy & Boch Group would not be affected by either regulation.

## ADDITIONAL INFORMATION

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German:

We issued the following auditor's report on the consolidated financial statements and the group management report:

### INDEPENDENT AUDITOR'S REPORT

#### TO VILLEROY&BOCH AKTIENGESELLSCHAFT

#### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

##### Opinions

We have audited the consolidated financial statements of Villeroy & Boch Aktiengesellschaft, Mettlach, and its subsidiaries (of the Group), which comprise the consolidated balance sheet as of 31 December 2018, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Villeroy & Boch Aktiengesellschaft for the fiscal year from 1 January to 31 December 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and

the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

##### Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

### Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

#### 1. Measurement of inventories

##### Reasons why the matter was determined to be a key audit matter

Inventories constitute a significant item in the consolidated financial statements. They are measured at production cost. For this purpose, the standard costs used during the year are adjusted to the respective actual costs at the end of the year with the help of revaluation factors. The adjustment is highly dependent on the assumptions with regard to the overhead costs of the production process that have to be included, the fixed costs that are not related to production and the determination of the planned capacity utilization (normal utilization).

Corresponding valuation allowances take into account inventory risks arising from the period of storage and/or reduced usability. In particular, the determination of the write-down rates and the allocation to various valuation classes in the IT-supported write-down procedure as well as the evaluation whether additional manual write-downs are necessary, which are not taken into account in this write-down procedure, are at the discretion of the executive directors of the Company.

##### Auditor's response

In our audit procedures, we examined the method and the underlying controls of the measurement of inventories.

We verified the method to calculate the standard costs and examined this at item level for each business division for anomalies and changes compared to the prior year using data analytic procedures. We analyzed the revaluation factors used for the adjustment of the standard costs to the actual costs on a spot check basis. We also examined whether production-related overhead costs were only taken

into account in the calculation of the production costs to the extent that they are incurred with normal utilization of technical and personnel production capacities. In particular, we analyzed the change in overhead costs and the planned production capacity compared to the prior year. We examined the planned and actual output using a prior-year comparison and by inspecting the production reports of the production plants.

We confirmed the suitability of the IT-supported write-down procedure for the assessment of inventory risks. We assessed the system-based implementation of the write-down procedure with the assistance of internal IT experts. We compared the computational logic of the model with the accounting and measurement policies used by the Group and arithmetically verified it on a test basis. We further assessed the write-downs calculated based on past experience through analytical comparisons with the write-downs of individual items and of total inventory applied in prior years and discussed the requirement for additional manual write-downs with the executive directors based on this.

Our audit did not lead to any reservations concerning the measurement of inventories.

##### Reference to related disclosures in the consolidated financial statements

The Company's disclosures regarding the recognition and measurement policies used for the inventories are included in the notes to the consolidated financial statements (note 1 and note 11).

#### 2. Recognition and measurement of deferred taxes

##### Reasons why the matter was determined to be a key audit matter

For the recognition and measurement of deferred taxes, the calculation of all differences between their recognition pursuant to the respective local tax regulations and pursuant to the IFRS accounting requirements as well as the calculation of tax loss carryforwards is required at the level of the tax object. On account of the varied and usually complex local tax regulations, this requires elaborate calculations.

The assessment of the recoverability of deferred tax assets from temporary differences and tax loss carryforwards is based on the assessment of usability in the future through future taxable income. The executive directors therefore make estimates with regard to the economic development of the respective companies based on discretionary judgment.

#### Auditor's response

Due to the complexity of the tax calculations taking into account the local tax regulations and legislation, we consulted internal tax experts for the assessment of deferred taxes.

For the assessment of the recognition and measurement of deferred taxes, we examined the underlying processes for the recognition and measurement of deferred taxes at the group companies, among other things. We also verified the identification and quantification of deviations between the recognition and the measurement of liabilities on a test basis in accordance with tax regulations and financial reporting pursuant to IFRS, as well as the calculation of the deferred taxes and the application of the tax rate.

For the assessment of the recoverability of tax assets from temporary differences as well as from tax loss carryforwards, we examined, on a test basis, whether the tax planning was derived from the corporate planning and the applicable national tax regulations were observed for the utilization of loss carryforwards. Furthermore, we confirmed the assumptions of the tax planning of the individual companies based on the taxable income generated in the past.

Our audit did not lead to any reservations concerning the recognition and measurement of deferred taxes.

#### Reference to related disclosures in the consolidated financial statements

Disclosures of the Group on the recognition and measurement of deferred tax assets are included in the notes to the consolidated financial statements (note 1 and note 10).

### 3. Recognition of pension provisions

#### Reasons why the matter was determined to be a key audit matter

The estimates made by the executive directors with respect to the existence of an obligation as well as the projection of future cash flows in connection with this obligation have a direct impact on the recognition and measurement of provisions. Particularly for pension provisions, assumptions are to be made regarding the discount rate to be used, life expectancy and wage and salary developments in the respective countries.

#### Auditor's response

The Group commissioned an external actuary to determine the amount of pension provisions. We assessed whether the experts have the competence, abilities and objectivity necessary for the purposes of our audit, gained an understanding of the experts' work, and assessed the suitability of the experts' work as audit evidence for the relevant assertions. We gained an understanding of the process of determining the data basis, data exchange with the expert as well as the calculation parameters.

Among other things, we reconciled the data basis with the existing contracts and the master data in the SAP HR system on a sample basis and analyzed them with regard to anomalies and changes compared to the prior year. We reviewed the plausibility of the calculation parameters used, including the discount rate, inflation rate, and salary development, as well as the mortality tables used, based on internal and external market data.

Our audit procedures revealed that the discount rate used is within an acceptable range and that the other assumptions are also sufficiently documented.

#### Reference to related disclosures in the consolidated financial statements

Disclosures of the Group on the measurement of pension provisions are included in the notes to the consolidated financial statements (note 1 and note 26).

#### Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG ["Aktengesetz": German Stock Corporation Act] and the declaration of compliance with the corporate governance code of the supervisory board pursuant to Sec. 161 AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the other parts of the annual report, except the audited consolidated financial statements and group management report as well as our independent auditor's report, in particular the report on corporate governance, the report of the supervisory board pursuant to Sec. 171 (2) AktG and the separate non-financial report. We received a copy of this 'Other information' by the time this auditor's report was issued.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon. In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

#### Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have

considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

#### Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

■ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

■ Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

■ Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

**Other legal and regulatory requirements**

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 23 March 2018. We were engaged by the supervisory board on 24 September 2018. We have been the group auditor of Villeroy & Boch Aktiengesellschaft without interruption since fiscal year 2009.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

**German Public Auditor responsible for the engagement**

The German Public Auditor responsible for the engagement is Mr. Heiko Hummel."

Stuttgart, 31 January 2019

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Hummel,  
Wirtschaftsprüfer  
[German Public Auditor]

Waldner,  
Wirtschaftsprüfer  
[German Public Auditor]

# MANDATES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

## MANDATES OF THE MANAGEMENT BOARD

### FRANK GÖRING

Chairman of the Management Board

### ANDREAS PFEIFFER

Management Board member  
responsible for Bathroom and Wellness Division

*b) within the Group: Villeroy & Boch Magyarország Kft.,  
Hódmezővásárhely, Hungary  
Villeroy & Boch Trading Shanghai Co., Ltd.,  
Shanghai, China*

### NICOLAS LUC VILLEROY *(until 31 January 2019)*

Management Board member  
responsible for Tableware Division

### GABRIELE SCHUPP *(since 1 February 2019)*

Management Board member  
responsible for Tableware Division

### DR. MARKUS WARNCKE

Chief Financial Officer

## MANDATES OF THE SUPERVISORY BOARD

### LUITWIN GISBERT VON BOCH-GALHAU

Honorary member of the Supervisory Board

### YVES ELSEN

Chairman of the Supervisory Board  
Managing Partner & CEO HITEC Luxembourg  
S.A., Luxembourg

*b) Université du Luxembourg, Luxembourg (Chairman)  
Ascendos Rail Leasing S.à r.l., Luxembourg  
(until 12 February 2018)  
Carrosserie Robert Comes & Compagnie S.A.,  
Niederanven, Luxembourg  
EarthLab Luxembourg S.A., Kayl, Luxembourg  
(since 13 February 2018)*

### RALF RUNGE \*

- || First Vice Chairman of the Supervisory Board
- || Chairman of the Villeroy & Boch Euro Works Council
- || Chairman of the Faiencerie Merzig Works Council

### PETER PRINZ WITTGENSTEIN *(until 23 March 2018)*

- || Former Second Vice Chairman of the Supervisory Board
- || Management Consultant

### DR. ALEXANDER VON BOCH-GALHAU

- || Second Vice Chairman of the Supervisory Board
  - || Management Consultant
- b) Union Stiftung, Saarbrücken, Germany*

### DIETMAR GEUSKENS \*

District Manager of IGBCE Saarbrücken, Germany  
*a) Steag New Energies GmbH, Saarbrücken, Germany  
(since 1 April 2018)*

**FRANCESCO GRIOLI \*** (until 23 March 2018)

Member of the Central Board of Executive Directors of the IGBCE Hannover, Germany

a) BASF SE, Ludwigshafen, Germany (until 4 May 2018)

Continental AG, Hannover, Germany

(since 1 November 2018)

Gerresheimer AG, Düsseldorf, Germany (Vice Chairman)

b) V & B Fliesen GmbH, Merzig (until 31 May 2018)

**WERNER JÄGER \*** (until 23 March 2018)

|| IT-Administrator

|| Former Chairman of the Villeroy & Boch AG Head Office Works Council

**PROF. DR. ANNETTE G. KÖHLER** (since 23 March 2018)

University professor and owner of the Chair of Accounting, Auditing and Controlling at the University of Duisburg-Essen, Germany

a) HVB UniCredit Bank AG, Munich, Germany

DMG Mori AG, Bielefeld, Germany

b) DKSH Holding AG, Zurich, Switzerland

(since 22 March 2018)

**THOMAS KANNENGIESSER \*** (since 23 March 2018)

Senior Product Manager

Bathroom and Wellness division

**DIETMAR LANGENFELD \***

|| Chairman of the Villeroy & Boch AG Central Works Council

|| Chairman of the Sanitary Ware Plant Mettlach Works Council

**DR. RENATE NEUMANN-SCHÄFER**

(until 23 March 2018)

Chief Financial Officer of Gesellschaft Deutscher Rosenfreunde e.V., Baden-Baden, Germany

a) Sto SE & Co. KGaA, Stühlingen, Germany

Sto Management SE, Stühlingen, Germany

R. Stahl AG, Waldenburg, Germany (since 30 August 2018)

b) Samariter Stiftung, Nürtingen, Germany

Samariter GmbH, Nürtingen, Germany

Stiftung Zeit für Menschen, Nürtingen, Germany

**SABINE SÜPKE \*** (since 18 April 2018)

Director of trade union education center of the IGBCE Hannover, Germany

a) KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG,

Essen, Germany

**SUSANNE OLLMANN\*** (until 23 March 2018)

Head of Shared Service Center Accounting

**CHRISTINA ROSENBERG**

Management Consultant innotail, Munich, Germany

b) combyne GmbH, Munich, Germany (since 11 October 2018)

**LOUIS DE SCHORLEMER**

Managing Director Corporate Diplomat, Brussels, Belgium

b) New Taste International S.A.S., Paris, France

(until 20 December 2018)

GaultMillau S.A., Courbevoie, France

(until 20 December 2018)

**BÄRBEL WERWIE\*** (since 23 March 2018)

Chair of the Villeroy & Boch AG

Central Works Council

**DOMINIQUE VILLEROY DE GALHAU**

General Director of La Financière Tiepolo, Paris, France

a) Momentum Asset Management S.A., Luxembourg

(Chairman)

b) Adolphe de Galhau'sche Sophienstiftung, Wallerfangen,

Germany (Chairman)

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\* Employee representative

a) Memberships of other statutory supervisory boards within the meaning of section 125 of the German Stock Corporation Act (AktG)

b) Memberships of comparable domestic and foreign controlling bodies of commercial enterprises within the meaning of section 125 of the German Stock Corporation Act (AktG)

## COMPANY CALENDAR 2019

29 March 2019 – General Meeting of Shareholders, Merzig Town Hall

18 April 2019 – Report on the first three months of 2019

18. July 2019 – Report on the first half of 2019

21 October 2019 – Report on the first nine months of 2019

## IMPRINT

### EDITOR/ CONTACT

Villeroy & Boch AG  
Saaruferstraße 1-3  
66693 Mettlach – Germany  
[www.villeroy-boch.com](http://www.villeroy-boch.com)

### Investor Relations

We will be happy to send you additional copies of this Annual Report free of charge. Please feel free to order them by contacting:

Tel. +49 6864 81-2715  
[investor-relations@villeroy-boch.com](mailto:investor-relations@villeroy-boch.com)

### Public Relations

[presse@villeroy-boch.com](mailto:presse@villeroy-boch.com)

### Careers

[www.villeroy-boch.com/en/careers](http://www.villeroy-boch.com/en/careers)

## LAYOUT AND TYPESETTING

Statement GmbH  
[www.agentur-statement.de](http://www.agentur-statement.de)

### Translation

EVS Translations GmbH  
Offenbach – [www.evs-translations.de](http://www.evs-translations.de)

### Photography

Bernd Hartung  
Frankfurt – [www.berndhartung.de](http://www.berndhartung.de)  
Chris Schuff  
Saarbrücken – [www.chris-schuff.com](http://www.chris-schuff.com)

### Printing

Buch- und Offsetdruckerei Häuser KG  
Köln – [www.haeuserkg.de](http://www.haeuserkg.de)



## DISCLAIMER

### Forward-looking statements

This annual report contains forward-looking statements based on management estimates of future developments at the time this report was prepared. These statements are subject to risks and uncertainties that Villeroy&Boch is largely unable to influence or precisely evaluate. Among other things, this includes the future economic and legal market conditions, the behaviour of other market participants and expected synergy effects. If these or other uncertain factors were to occur in reality or the assumptions underlying the forward-looking statements were to prove incorrect, the actual results could deviate from the expected results described herein. Villeroy&Boch does not intend to update these forward-looking statements after the reporting date in order to reflect future events or developments.

### Rounding differences

The percentages and figures in this report may be subject to rounding differences.

### Technical discrepancies

There may be discrepancies between the accounting documents contained in this report and the accounting documents submitted to the Bundesanzeiger (Federal Gazette) due to technical reasons (e. g. conversion of electronic formats). In this case, the version submitted to the Bundesanzeiger shall be binding. This report has been translated into English. In the event of variances, the German version shall take precedence over the English translation.





Villeroy & Boch

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