Villeroy & Boch

1748

ANNUAL REPORT 2012



# THE GROUP AT A GLANCE

| | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Revenue | in Euro million | 744 | 743 | 714 | 715 | 841 |
| Revenue – Germany | in Euro million | 203 | 208 | 180 | 198 | 186 |
| Revenue – Abroad | in Euro million | 541 | 535 | 534 | 518 | 655 |
| EBITDA (before special expenditures/proceeds) | in Euro million | 58 | 55 | 56 | 33 | 63 |
| EBITDA | in Euro million | 58 | 64 | –17 | –29 | 63 |
| EBIT (before special expenditures/proceeds) | in Euro million | 31 | 28 | 24 | –2 | 24 |
| EBIT | in Euro million | 31 | 37 | –49 | –86 | 24 |
| EBT (before special expenditures/proceeds) | in Euro million | 18 | 17 | 13 | –13 | 16 |
| EBT | in Euro million | 18 | 26 | –60 | –97 | 16 |
| Group results | in Euro million | 15 | 18 | –63 | –97 | 11 |
| NOPAT | in Euro million | 25 | 20 | 21 | 5 | 18 |
| Net operating assets (12 month average) | in Euro million | 304 | 323 | 317 | 374 | 402 |
| Balance sheet total | in Euro million | 592 | 598 | 598 | 674 | 772 |
| Cash flow from operating activities | in Euro million | 21 | 34 | –42 | 50 | 18 |
| Cash flow from operating activities (2010: before EU) | in Euro million | 21 | 34 | 31 | 50 | 18 |
| Capital Expenditure | in Euro million | 26 | 26 | 24 | 21 | 27 |
| Depreciation and amortisation | in Euro million | 27 | 27 | 30 | 35 | 38 |
| Impairment losses (incl. reversals) | in Euro million | 0 | 0 | 3 | 22 | 1 |
| Employees (annual average) | Number | 7,946 | 8,558 | 8,729 | 9,440 | 10,193 |
| Return on Net operating assets | in percent | 10.2 | 8.6 | 7.5 | –1.9 | 6.0 |
| Net operating margin (before special expenditures/proceeds) | in percent | 4.2 | 3.7 | 3.3 | –0.2 | 2.9 |
| Return on equity (ROE) (before special expenditures/proceeds) | in percent | 7.7 | 5.0 | 5.9 | –5.4 | 3.3 |
| Cash flow sales profitability (2010: before EU) | in percent | 2.8 | 4.6 | 4.3 | 7.1 | 2.1 |
| Equity ratio (incl. minority interests) | in percent | 32.1 | 30.2 | 28.9 | 34.4 | 42.8 |
| Earnings per ordinary share | in Euro | 0.53 | 0.67 | –2.40 | –3.68 | 0.40 |
| Earnings per preference share | in Euro | 0.58 | 0.72 | –2.35 | –3.63 | 0.45 |
| Dividend per ordinary share | in Euro | 0.35 | 0.35 | 0.15 | – | 0.32 |
| Dividend per preference share | in Euro | 0.40 | 0.40 | 0.33 | – | 0.37 |

## DIVISIONS

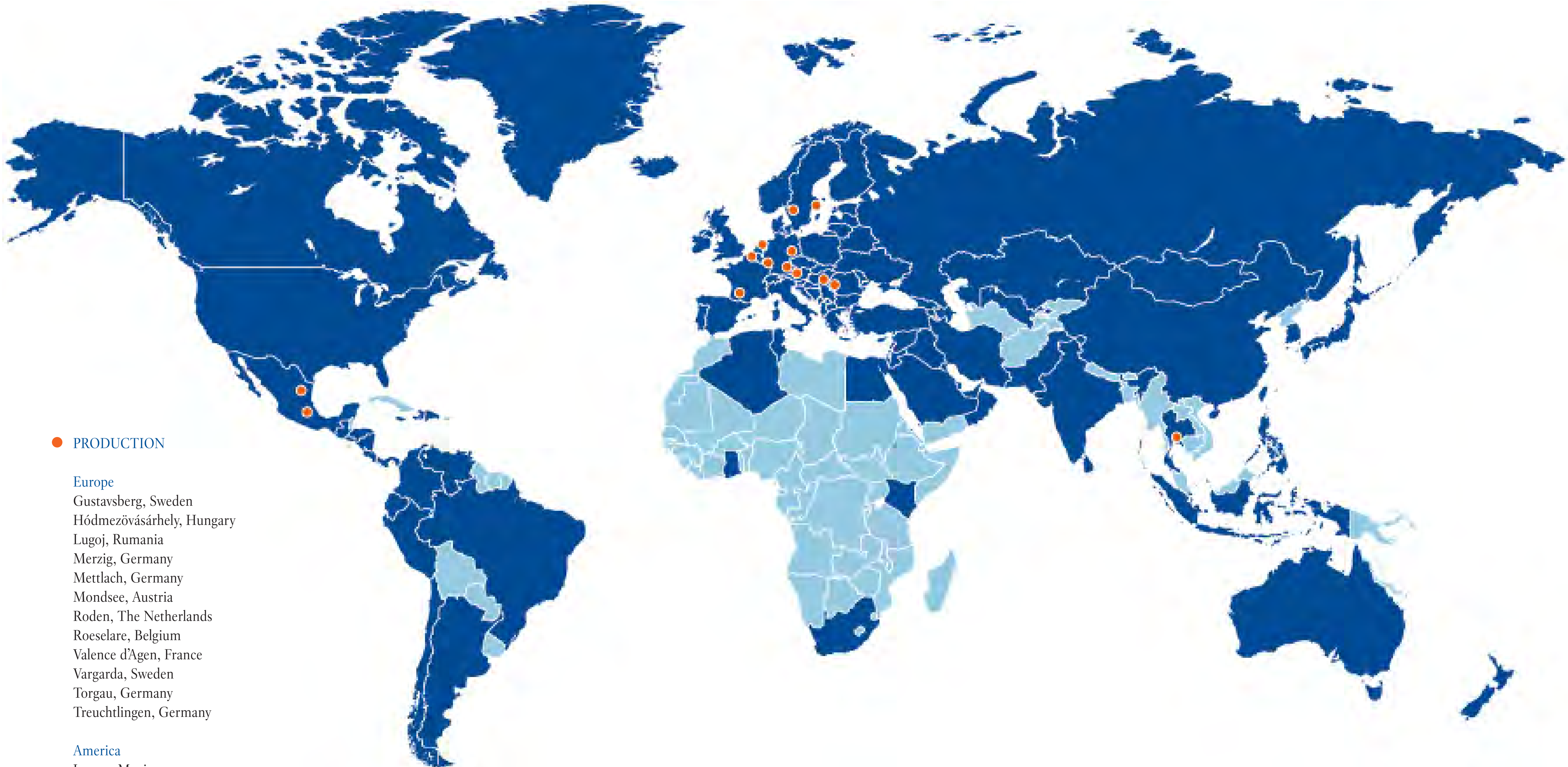
### Bathroom and Wellness

| | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Sales | in Euro million | 466 | 462 | 447 | 427 | 521 |
| EBIT | in Euro million | 23 | 19 | 19 | –65 | 15 |
| EBIT (before special expenditures) | in Euro million | 23 | 19 | 19 | –4 | 15 |
| Net operating assets (12 month average) | in Euro million | 209 | 222 | 224 | 266 | 270 |
| Return on Net operating assets | in percent | 11.3 | 9.1 | 8.9 | –1.1 | 6.0 |

### Tableware

| | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Sales | in Euro million | 278 | 281 | 268 | 289 | 320 |
| EBIT | in Euro million | 8 | 9 | 5 | –21 | 9 |
| EBIT (before special expenditures) | in Euro million | 8 | 9 | 5 | 2 | 9 |
| Net operating assets (12 month average) | in Euro million | 95 | 100 | 93 | 109 | 132 |
| Return on Net operating assets | in percent | 8.2 | 10.1 | 4.0 | –0.2 | 7.0 |

# VILLEROY & BOCH WORLDWIDE



PRODUCTION

**Europe**
Gustavsberg, Sweden
Hódmezövásárhely, Hungary
Lugoj, Rumania
Merzig, Germany
Mettlach, Germany
Mondsee, Austria
Roden, The Netherlands
Roeselare, Belgium
Valence d'Agen, France
Vargarda, Sweden
Torgau, Germany
Treuchtlingen, Germany

**America**
Lerma, Mexico
Ramos, Mexico

**Asia/Pazific**
Saraburi, Thailand

Countries in which Villeroy & Boch products are distributed

## *Dear shareholders,*

It is my great pleasure to report on our performance in 2012 today. First of all, the good news: in another year dominated by the European sovereign debt crisis and its negative impacts on demand from private households and companies, we improved our operating result by 11 % with stable revenue.

At the end of the fiscal year, revenue stood at Euro 744 million. At first glance, this equates to growth of just 0.1 %. However, taking into account the impact of a major project with a chain of convenience stores in the Tableware Division in 2011 (Euro 15 million) and the decreases in revenue following our targeted withdrawal from unprofitable project business in Mexico (Euro 5 million), we increased our revenue on an adjusted basis by Euro 21 million (3 %). One key factor here was a strong final quarter in which our revenue rose by more than Euro 8 million year-on-year.

The operating result (EBIT) rose sharply by Euro 3 million year-on-year to Euro 31 million. On the earnings side, we benefited from the rigorous continuation of cost management as well as productivity improvements, optimisation of the product and country mix of the goods sold, and downstream effects from the master plan we adopted in 2009. Taken together, these resulted in an improved gross margin.

A detailed look at our performance on the individual markets shows a very mixed picture, especially in Europe. Revenue decreases in the mid-single-digit percentage range on average were posted in the crisis-hit EU states of Greece, Spain, Portugal, Italy and Ireland. Business performance was even weaker in the Netherlands, where the Bathroom and Wellness Division saw its revenue plummet by 17 % in a "home-grown" property crisis, which slowed down the entire construction sector. Encouragingly, there were signs of growth in the other regions of Europe: we posted our strongest increases in Russia (+22 %), the UK (+ 11 %), Norway (+9 %), Austria (+8 %) and Germany (+4 % on an adjusted basis). Outside Europe, business development was very positive in the USA (+8 %) and Asia, particularly revenue growth in Thailand (+25 %) and Japan (+14 %).

Our target for the years ahead, dear shareholders, is clearly formulated: further profitable growth. The following activities and strategies are geared towards target attainment:

- On the American markets, we repositioned ourselves with the Bathroom and Wellness Division in 2012. Following the sale of our Mexican sanitary ware plant in Saltillo, we are focusing on the manufacture of high-quality products for North, Central and South America with our two remaining plants in Ramos and Lerma. We see considerable revenue and earnings potential in the USA through the strategic sales partnership with the US organisation of TOTO, the world's biggest sanitary ware group, launched in April. Specifically, we expect synergies in terms of distribution, logistics and service. For instance, on the North American market, our bathroom products will be sold exclusively through the sales and distribution channels of TOTO USA in future. This gives us access to a wide customer base and more than 2,500 showrooms.

- On the dynamic markets of Russia and Asia in particular, our intention is to grow quickly and consistently. Since July 2012, our Bathroom and Wellness Division has therefore been active in Russia as a general importer with its own company and a logistics platform. With this local organisation, we are now able to expand beyond the major cities of Moscow and St Petersburg.
  We also took a key decision regarding Asia in 2012: here, we intend to establish a decentralised, autonomous organisation aimed at responding to local needs quickly and flexibly and controlling both divisions. The main targets for the years ahead are extensive expansion of distribution and enhancement of brand awareness. For example, our presence in China currently consists of 67 bathroom displays and 34 tableware sales areas at the point of sale. There is also growth potential on the Indian market, where we will be stepping up our presence from 2013 onwards. In the medium term, we aim to expand our revenue in the Asia/Pacific region to well over Euro 100 million, thus increasing its share of consolidated revenue from 7 to 15 %. To meet the expected surge in demand, we increased the capacity of our sanitary ware plant in Saraburi, Thailand by more than 20 % in 2012, as well as turning the location into a competence centre.

- Despite all the growth opportunities in the new markets, the home market of Europe remains the backbone of Villeroy & Boch. Ultimately, this is where we earn the money that enables investments in other regions. To grow in Europe as well, we are continuing to enhance our product range in a targeted manner, creating products and strengthening the premium character of our brand. For example, in 2012, we converted our shops in Düsseldorf and Brussels to premium stores and issued a special edition for the royal wedding in Luxemburg in October with the initials of the couple, Guillaume and Stéphanie. In addition, the Tableware Division launched *Mariefleur*, a new country collection that instantly became the best new range of the last ten years. In the Bathroom and Wellness division, *O.novo*, launched in 2011, went on to become the best-selling new product range, while our bathroom furniture business again grew by approx. 10 %. The year was rounded off with prestigious orders in the project business, for instance supplying the Turkish presidential palace in Ankara with tableware products and the European Central Bank in Frankfurt with high-quality sanitary ware.

- We also made another step forwards in terms of our processes in 2012. Our compliance management system was examined and successfully certified by external auditors in line with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer e.V. (Institute of Public Auditors in Germany). In addition, in the Finance department, we changed our accounting process last year so that we are able to close the financial year 2012 nearly eight weeks earlier than in the previous year, thus enabling us to focus more quickly on further developments in the new financial year.

Dear shareholders: Villeroy & Boch generated a sound operating result in 2012, particularly in view of the challenging market environment. As we want you to participate in our strong business development, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 22 March 2013 the payment of a dividend of Euro 0.35 per ordinary share and Euro 0.40 per preference share; as in the previous year.

I hope this overview will give you an impression of our work in the past financial year and show you how we are positioning Villeroy & Boch for a promising future. And I can assure you that I, my Management Board colleagues Jörg Wahlers, Andreas Pfeiffer, Nicolas Luc Villeroy and our entire workforce are totally committed to continuing to generate reliable returns for you in future.

I would be delighted if you continued to accompany your company's development and, on behalf of the Management Board of Villeroy & Boch AG, I would like to thank the people who do the company proud and make it even better day by day: our 7,840 employees.

Yours,

**Frank Göring**
Chairman of the Management Board
Mettlach, February 2013

Villeroy & Boch
1748

# MEMBERS OF THE MANAGEMENT BOARD

Members of the Management Board (left to right): Nicolas Luc Villeroy, Jörg Wahlers, Frank Göring and Andreas Pfeiffer

## Frank Göring

Chairman of the Management Board (CEO)
*b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary (until 26 June 2012)*

## Jörg Wahlers

Finance and Human Resources (CFO)
*b) Linnenbecker GmbH & Co. KG, Erkrath*
*within the Group: Delfi Asset S.A., Luxembourg*

## Andreas Pfeiffer (since 01 May 2012)

Management Board member responsible for Bathroom and Wellness Division
*b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary (since 27 June 2012)*
*Villeroy & Boch Trading Shanghai Co., Ltd*

## Nicolas Luc Villeroy (since 01 May 2012)

Management Board member responsible for Tableware Division

# MEMBERS OF THE SUPERVISORY BOARD

### Luitwin Gisbert von Boch-Galhau

Honorary member of the Supervisory Board
*b) Banque CIC Est S.A., Strasbourg/France*
*(Member of the Administrative Board)*
*within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary*
*(Chairman of the Supervisory Board)*

### Wendelin von Boch-Galhau

Chairman of the Supervisory Board
Managing Director of country life von Boch-Galhau Verwaltungs-Gesellschaft mbH
Managing Director of Solarpark Linslerhof GmbH
*b) V&B Fliesen GmbH, Merzig*

### Ralf Runge*

First Vice Chairman of the Supervisory Board
Chairman of the Faiencerie Works Council
Chairman of the Villeroy & Boch Euro Works Council

### Peter Prinz Wittgenstein

Second Vice Chairman of the Supervisory Board
Management Consultant

### Jürgen Beining*

Head of Sales Central Europe, Bathroom and Wellness Division

### Dr. Alexander von Boch-Galhau

Management Consultant
*b) Union Stiftung, Saarbrücken*

### Dietmar Geuskens*

District Manager of IG Bergbau, Chemie, Energie, Saarbrücken
*a) RAG Deutsche Steinkohle AG, Herne*
*Steag Power Saar GmbH, Saarbrücken*

### Werner Jäger*

IT Administrator
Chairman of the Head Office Works Council

### Dr. Jürgen Friedrich Kammer

Former Chairman of the Management Board and Supervisory Board of Industrie-Chemie AG Munich
*b) Wittelsbacher Ausgleichsfonds, Munich (Vice Chairman)*

### Charles Krombach

Former Managing Director of Landewyck Group S.à r.l., Luxembourg, and Heintz van Landewyck S.à r.l., Luxembourg
*b) Advisory Board of Landewyck Group S.à r.l., Luxembourg*

### Dietmar Langenfeld*

Industrial Foreman for Logistics
Chairman of the Villeroy & Boch AG Central Works Council
Chairman of the Sanitärfabrik Works Council

### Ralf Sikorski*

Trade Union Secretary
District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz
*a) BASF SE, Ludwigshafen*
*Steag Power Saar GmbH, Saarbrücken (Vice Chairman)*
*KSBG GmbH, Essen (Vice Chairman)*
*b) V&B Fliesen GmbH, Merzig*
*Steag New Energies GmbH, Saarbrücken (Vice Chairman)*

### Francois Villeroy de Galhau

Member of the Executive Committee
(Directeur général délégué) of BNP Paribas S.A., Paris/France
*b) BGL – BNP PARIBAS, Luxembourg*
*BNP Paribas Fortis S.A., Brussels/Belgium*
*BNP Paribas Leasing Solutions, Puteaux/France*
*Banca Nazionale del Lavoro S.p.A., Rome/Italy*
*Cortal Consors S.A., Paris/France*
*Arval, Rueil-Malmaison/France*
*Bayard Presse S.A., Montrouge/France*

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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)*

# REPORT OF THE SUPERVISORY BOARD

In the year under review, 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 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 discuss and advise on the relevant matters at its meetings. Following its own detailed examination and discussion, the Supervisory Board approved the proposed resolutions by the Management Board.

## KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

In the 2012 financial year, the Supervisory Board held four ordinary meetings and one extraordinary meeting and adopted one resolution by written circulation procedure. No member of the Supervisory Board attended fewer than half of these meetings. 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

At an extraordinary meeting of the Supervisory Board in February, the Supervisory Board discussed its further actions with regard to the EU antitrust proceedings on bathroom fittings and resolved, among other things, to observe the continued proceedings with the assistance of a well-known legal firm in order to allow it to respond quickly to new developments as necessary. The Chairman of the Supervisory Board did not attend the meeting in order to exclude the possibility of a conflict of interests. As a precaution, Mr. Wendelin von Boch-Galhau will continue to refrain from participating in any necessary votes by the Supervisory Board on such matters in future; in this context, the Supervisory Board examined whether measures in accordance with section 5.5.3 sentence 2 of the German Corporate Governance Code were necessary and came to the conclusion that this was not the case. Furthermore, the Management Board informed the Supervisory Board of the status of the compliance organisation and the nomination of the Chief Compliance Officer at this meeting.

The balance sheet meeting in March 2012 focused on discussing the single-entity and consolidated financial statements for 2011 and 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 2011 and defined the new targets for 2012. The results of the efficiency review of the Supervisory Board were also presented and discussed. Furthermore, the Management Board informed the Supervisory Board of the Group's current position.

Wendelin von Boch-Galhau,
Chairman of the Supervisory Board

By circular resolution of the Supervisory Board in April 2012, the divisional heads Andreas Pfeiffer (Bathroom and Wellness) and Nicolas Luc Villeroy (Tableware) were appointed as members of the Management Board with effect from 1 May 2012.

The meeting in May 2012, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders. An editorial amendment to the Articles of Association of Villeroy & Boch AG, a revision of the allocation of responsibilities and a revision of the Rules of Procedure of the Management Board were also resolved.

At the meeting in September 2012, the Management Board reported to the Supervisory Board on the Group's position. A further core element of this meeting was the strategic development of the Group. The Management Board's strategic projects were presented to the Supervisory Board and discussed. This meeting also granted an authorization in principle for an investment requiring the consent of the Supervisory Board.

The meeting in November 2012 focused on the continuation of the strategic topics discussed at the September meeting, as well as the presentation of the figures as of 31 October 2012 and the resulting orientation for the single-entity and consolidated financial statements for 2012. The meeting also adopted the annual planning for 2013, updated the Rules of Procedure of the Supervisory Board and the Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act, and prepared the agenda for the General Meeting of Shareholders.

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 it has formed:

The Audit Committee held three meetings in the year under review. At its preparatory meeting in February 2012, the Audit Committee discussed the preliminary single-entity and consolidated financial statements. At the March meeting, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the annual financial statements for 2011 and it was agreed that it would be recommended to the Supervisory Board that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be proposed to the General Meeting of Shareholders for re-election as the auditor of the single-entity and consolidated financial statements for the 2012 financial year. The meeting in November 2012 focused on the status of the preliminary audit of the single-entity and consolidated financial statements by the auditor, risk management, the status of the expansion of the Internal Control System (ICS) and the report by Internal Audit, and discussed the amendment to the Rules of Procedure of the Supervisory Board and the Declaration of Conformity.

The Investment Committee met twice in the year under review. At its September meeting, the Committee prepared the decision on an investment requiring the approval of the Supervisory Board; this was approved by the Supervisory Board the next day. The meeting of the Investment Committee in November 2012 involved the preparation of corporate and investment planning for 2013 for resolution by the Supervisory Board.

The members of the Human Resources Committee met in March and November 2012 to discuss the remuneration system for the Management Board, the objectives for the Management Board and the pension adjustments in the contracts of the Management Board members in preparation for the resolutions by the Supervisory Board.

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

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

## PERSONNEL CHANGES

With effect from 1 May 2012, the Supervisory Board resolved the extension of the Management Board to four members. The Supervisory Board appointed Nicolas Luc Villeroy, Head of the Tableware Division since 2005, as the Management Board member responsible for the Tableware Division. Mr. Villeroy previously performed several roles in the areas of tiles, sanitary ware and tableware, and has worked for the Group for 25 years. Andreas Pfeiffer, Head of the Bathroom and Wellness Division, was appointed as the Management Board member responsible for the Bathroom and Wellness Division. Mr. Pfeiffer joined the Group in 2008 as Head of the Bathroom and Wellness Division, having previously advised the Company on various strategic projects in 2006 and 2007.

The General Meeting of Shareholders re-elected Mr. Wendelin von Boch-Galhau to the Supervisory Board as a shareholder representative; the subsequent meeting of the Supervisory Board then re-elected him as Chairman of the Supervisory Board.

## AUDIT OF THE SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS

The single-entity financial statements, the IFRS consolidated financial statements and the combined Management Report of Villeroy & Boch AG for the 2012 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 single-entity financial statements in January 2013. The single-entity financial statements were also intensively discussed at the balance sheet meeting of the Supervisory Board in February 2013. 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 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 single-entity and consolidated financial statements and the combined Management Report for the 2012 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 single-entity financial statements prepared by the Management Board at its balance sheet meeting in February 2013 in accordance with the recommendation by the Audit Committee. The single-entity 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 the combined Management Report. The Supervisory Board concurred with the proposal by the Management Board on the appropriation of retained earnings.

The Supervisory Board would like to express its gratitude to all of the Group's employees for their work in the past financial year. It would also like to thank the members of the Management Board.

For the Supervisory Board

**Wendelin von Boch-Galhau**, Chairman
Mettlach, February 2013

# 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 section 289a (1) of the German Commercial Code (HGB) and the remuneration report pursuant to sections 4.2.5 and 5.4.6 of the German Corporate Governance Code on the remuneration paid to the Management Board and Supervisory Board.

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, 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 take place at least twice a month. In filling management positions at the Company, the Management Board seeks to take regard of diversity and, in particular, to take appropriate account of women.

The Supervisory Board appoints, advises and monitors the Management Board. Its workings 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 to have appropriate participation by women. When examining potential candidates to fill vacant positions on the Management Board, highly qualified women are included in the selection process and are taken into account to an appropriate extent. The current composition of the Management Board is shown on page 14. Personnel changes in the year under review are presented in the Report of the Supervisory Board.

## 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 takes its role of monitoring a globally operating company seriously. It 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 set out in section 5.4.1 of the German Corporate Governance Code, it therefore defined the following targets for its composition at its meeting on 10 March 2011:

"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, 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. In proposing members for election, the Supervisory Board shall also seek to ensure appropriate participation by women. Highly qualified women should be included in the selection process when examining potential candidates as new members or filling vacant positions on the Supervisory Board and should be taken into account to an appropriate extent in the members proposed for election. The Supervisory Board will strive to have at least one female member in future. The Supervisory Board should have a sufficient number of independent members. Significant conflicts of interest that are not merely temporary should be avoided. 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 laid down by the Supervisory Board in the Rules of Procedure will be taken into account. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board."

The Supervisory Board is of the opinion that, on the whole, its current members have the necessary knowledge, professional experience and skills to perform their tasks properly. The Supervisory Board took these targets into account when advising on the proposals for election that were presented to the General Meeting of Shareholders in the year under review and that will be presented to the General Meeting of Shareholders in the coming financial year. The current composition of the Supervisory Board is shown in the list on page 15.

## 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 2012. 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 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 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, each consisting of three members, 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 Supervisory Board and 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 Wendelin von Boch-Galhau (Chairman), Ralf Runge (First Vice Chairman), Peter Prinz Wittgenstein and Ralf Sikorski.

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 Wendelin von Boch-Galhau (Chairman), Ralf Sikorski and Dr. Jürgen Friedrich Kammer.

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 Wendelin von Boch-Galhau (Chairman), Peter Prinz Wittgenstein (Vice Chairman) and Dietmar Langenfeld.

The Audit Committee discusses the topics of accounting, risk management, the internal control and audit system, compliance, and issues relating to the audit of the annual financial statements. It is composed of two shareholder representatives and one employee representative. The current members are Charles Krombach (Chairman), Werner Jäger (Vice Chairman) and Peter Prinz Wittgenstein. The Chairman of the Audit Committee is independent and has extensive expertise in the areas of accounting and auditing as a result of his long-standing position as managing partner of Landewyck Group S.à r.l. and Heintz van Landewyck S.à r.l.

No separate Nomination Committee has been formed to propose suitable candidates for election to the Supervisory Board. 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. 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 on pages 14 and 15. Links with related parties are shown in the notes to the consolidated financial statements on page 113.

### Efficiency review

The Supervisory Board of Villeroy & Boch AG performs a regular efficiency review, most recently at its meeting in March 2012. 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 prepare the resolutions to be passed by the full Supervisory Board.

### Directors' dealings/Share ownership by Members of the Management Board and the Supervisory Board

Disclosures on transactions in shares of Villeroy & Boch AG requiring notification in accordance with section 15a of the German Securities Trading Act are published immediately on the Company's website. The Company was not notified of any directors' dealings in the year under review. At the end of the year under review, the members of the Supervisory Board held 2.77% of all the ordinary and preference shares issued by the Company either directly or indirectly (within the meaning of section 15a of the German Securities Trading Act). Of this figure, 1.63% were attributable to Dr. Alexander von Boch-Galhau. The members of the Management Board held 0.48% 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 International Financial Reporting Standards (IFRS). The 90-day period for the publication of the consolidated financial statements set out in section 7.1.2 of the German Corporate Governance Code was again observed this year. The single-entity financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website *www.villeroy-boch.com* contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports by Villeroy & Boch AG are also available for download in German and English from the Investor Relations section. The publications comply with the transparency requirements set out in 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 to audit the single-entity and consolidated financial statements for the 2012 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.

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 intensive discussions at the meeting of the Supervisory Board in November, the Management Board and the Supervisory Board issued a declaration of conformity stating that the Company had complied with and continued to comply with all of the recommendations of the Government Commission of the German Corporate Governance Code with the exceptions noted (see *http://www.villeroy-boch.com/de/de/home/unternehmen/investor-relations/corporate-governance/entsprechenserklaerungen.html*).

## 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. Accordingly, a compliance organisation was established in 2008 as part of the risk management system.

Our compliance organisation begins directly with the Management Board of Villeroy & Boch AG. Technical responsibility for compliance issues is divided between the Legal department, which is responsible for ensuring that the provisions of anti-trust, competition and capital market law are upheld, and the Corporate Compliance department, which is responsible for all other issues. The head of the Corporate Compliance department is the Chief Compliance Officer of the Villeroy & Boch Group. He 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 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.

Employees are also provided with continuous information and training on compliance issues. The extensive training programme on corporate compliance and compliance with anti-trust law is conducted in a classroom environment; web-based training is also available for anti-trust compliance. The latter ends with participants receiving a certificate after passing a test.

In 2012, our compliance management system was reviewed in accordance with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). The external audit focused on the design and appropriateness of the compliance management system. The audit firm Noerr AG (for compliance with anti-trust law) and Dr. Kleeberg & Partner GmbH (for corporate compliance) confirmed that the design of our compliance management system is appropriate and that the principles and measures derived as a result are suitable for detecting and preventing risks relating to breaches of legal provisions at an early stage with reasonable assurance.

## REMUNERATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

### Principles of the remuneration system

In past financial years, the Supervisory Board examined the remuneration system for the Management Board with respect to the changes in statutory requirements resulting from the German Act on the Appropriateness of Management Board remuneration, which came into force on 31 July 2009, and the recommendations of the German Corporate Governance Code and made adjustments where it considered this to be necessary or otherwise appropriate. The Supervisory Board obtained advice in this matter from an independent remuneration consultant. The Supervisory Board continues to regularly review the remuneration system for the Management Board.

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 more than 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, both variable remuneration components are oriented towards the Company's financial targets (return on 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 2012 financial year. Performance targets and remuneration parameters cannot be amended subsequently. 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, 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 either in a vertical comparison or in a horizontal comparison with reference companies.

Supervisory Board remuneration is also composed 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.

### 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 a fixed basic remuneration and a variable remuneration component.

The fixed annual basic remuneration is Euro 20,000. The Chairman receives an additional Euro 45,000, while the Vice Chairman receives an additional Euro 13,500. Members of the Supervisory Board receive a fee of Euro 1,250 for each meeting of the full Supervisory Board.

The Chairmen of the Investment Committee, the Human Resources Committee and the Audit Committee each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the respective committees each receive an additional Euro 2,500 p.a.

The variable remuneration amounts to Euro 195 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share (calculated as the average of the dividends paid for one preference share and 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 TEuro | Fixed remuneration | Meeting fees | Variable remuneration for 2011 | Total | Previous year |
|---|---|---|---|---|---|
| Wendelin von Boch-Galhau[2*) 3*)] | 73 | 6 | 5 | 84 | 81 |
| Ralf Runge[4)] | 34 | 8 | 5 | 47 | 42 |
| Peter Prinz Wittgenstein[1) 2)] | 39 | 8 | 5 | 52 | 47 |
| Dr. Alexander von Boch-Galhau | 20 | 8 | 5 | 33 | 28 |
| Francois Villeroy de Galhau | 20 | 5 | 5 | 30 | 26 |
| Jürgen Beining | 20 | 6 | 5 | 31 | 28 |
| Werner Jäger[1) 4)] | 23 | 8 | 5 | 36 | 31 |
| Dr. Jürgen Friedrich Kammer[3)] | 23 | 6 | 5 | 34 | 30 |
| Charles Krombach[1*)] | 24 | 8 | 5 | 37 | 31 |
| Dietmar Langenfeld[2) 4)] | 23 | 6 | 5 | 34 | 31 |
| Ralf Sikorski[3) 4)] | 23 | 6 | 5 | 34 | 30 |
| Dietmar Geuskens[4)] | 20 | 5 | 5 | 30 | 28 |
| Rounding differences | – 3 | –1 | 3 | – 1 | – 7 |
| | **339** | **79** | **63** | **481** | **426** |

1)Audit Committee, 2) Investment Committee, 3) Human Resources Committee, * = Chairman of the respective committee,
4) In accordance with the guidelines of the DGB (Confederation of German Trade Unions) on the transfer of supervisory board remunerations, the remuneration will be transferred.

A total expense of Euro 491 thousand was reported in consolidated earnings for the 2012 financial year (previous year: Euro 506 thousand). In addition to the fixed remuneration paid and the meeting fees for 2012, this figure includes Euro 63 thousand for the provision for variable remuneration as well as Euro 10 thousand for reimbursement for other expenses.

## Management Board remuneration

An expense of Euro 2,340 thousand (previous year: Euro 1,935 thousand) was reported in the income statement for the 2012 financial year. This figure consists of fixed salary components of Euro 1,237 thousand (previous year: Euro 1,139 thousand) and variable salary components of Euro 1,103 thousand (previous year: Euro 796 thousand). In the year under review, the Villeroy & Boch Group paid insurance premiums in the amount of Euro 3 thousand (previous year: Euro 2 thousand). The members of the Management Board received remuneration in kind totalling Euro 51 thousand (previous year: Euro 35 thousand).

Provisions for pensions for former members of the Management Board amounted to Euro 23,102 thousand (previous year: Euro 18,210 thousand). In the year under review, former members of the Management Board received pension benefits totalling Euro 1,359 thousand (previous year: Euro 1,371 thousand).

The provisions of section 314 (2) sentence 2 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 2012 financial year.

# VILLEROY & BOCH'S SHARES – THE 2012 STOCK MARKET YEAR

## POSITIVE DEVELOPMENT ON THE STOCK MARKETS

The 2012 stock market year was heavily influenced by the ongoing sovereign debt crisis. Fears of a collapse of entire national economies dominated the headlines, triggering significant price losses – at least temporarily – but also prompting central banks to undertake extensive countermeasures. This opening of the fiscal floodgates led to a massive rally on the trading floor towards the end of the year.

On the DAX, this upturn was preceded by a strong first quarter and a weak second quarter. Ultimately, however, price performance on the most important German share index was euphoric, with growth of around 30% to 7,612 points at year-end. The MDAX peaked at a new record level of more than 12,000 points. It closed the year just below this figure at 11,914 points, representing growth of around 34% for the year as a whole.

## VILLEROY & BOCH'S PREFERENCE SHARES

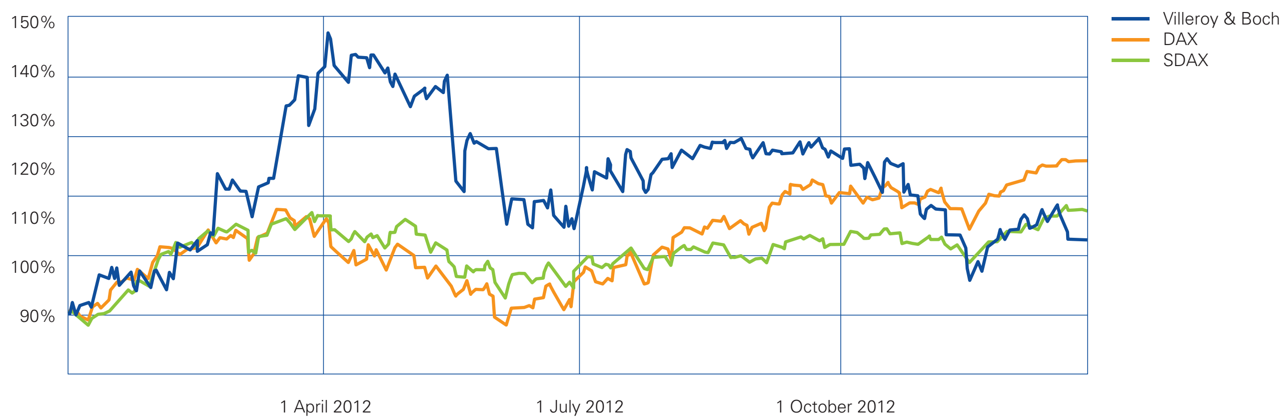
Villeroy & Boch's preference shares opened 2012 at Euro 5.85. The share price climbed to Euro 8.21 in the first quarter before reaching a peak of Euro 8.63 at the start of the second quarter. However, the subsequent intensification of the debt crisis curbed development on the stock markets into the third quarter. Villeroy & Boch's preference shares were unable to buck this trend, resulting in a sideways phase ranging from Euro 6.70 to Euro 7.60. The lowest closing price in the fourth quarter was Euro 6.20 in November, after which the share price recovered to Euro 6.63 at year-end. This corresponds to growth of 13% across the year as a whole – plus the dividend of Euro 0.40 per preference share that was paid in May.

## CAPITAL MARKET COMMUNICATIONS

On the occasion of the annual analyst conference in Frankfurt/Main, Frank Göring, CEO of Villeroy & Boch AG, and CFO Jörg Wahlers presented the consolidated financial statements of the Group. They informed the analysts and institutional investors in attendance about the Company's development in the 2011 financial year and provided the guests with an insight into the strategic focus for the coming years. In addition, the General Meeting of Shareholders was held in May 2012 and the members of the Management Board conducted individual teleconferences and meetings with analysts and investors during the course of the financial year. Further information for private and institutional investors can be found in the Investor Relations section of the Company's website at *www.villeroy-boch.com*.

## PROPOSED DIVIDEND

Based on business development in 2012, the Supervisory Board and the Management Board will propose to the General Meeting of Shareholders the payment of a dividend of Euro 0.40 per preference share and Euro 0.35 per ordinary share, as in the previous year. This represents a Group distribution ratio of 67% excluding treasury shares.




| | | | |
|---|---|---|---|
| GSIN | 765723 | Yearly high[1)] | 8.63 Euro |
| ISIN | DE0007657231 | Yearly low[2)] | 5.85 Euro |
| Securities exchange symbol | VIB3 | Closing Price[3)] | 6.63 Euro |
| Shareholders structure | 88% Free-Float | Earnings per ordinary share* | 0.53 Euro |
| Market capitalisation | 91.1 Euro million | Earnings per preference share | 0.58 Euro |

* Common shares not traded publicly 1) 3 April 2012; 2) 5 January 2012; 3) 28 December 2012

## Outlook 2013

At the turn of the year 2012/2013, fears of the global financial impact of the “fiscal cliff” in the USA were calmed when a compromise on the US budget dispute was agreed at the last minute. Despite this, the financial and debt crisis has yet to be fully overcome, and the possibility of another flare-up remains a significant cause for concern in early 2013. The existing imbalances are excessive. The mood on the trading floor is more positive than the situation in the real economy. As was shown in 2012, countermeasures by central banks can have a considerable influence on events on the stock markets. As such, many banks are optimistic that the German leading index DAX will reach the 8,000-point barrier in 2013 or even climb to an all-time high of 8,200 points and beyond. According to experts, this positive outlook is due to the low interest rates on instant access and savings accounts, which are expected to lead to higher share performance.

*„It is our employees' commitment, motivation and passion for our products that makes Villeroy & Boch a leading premium brand with European roots. Accordingly, the heart of our HR strategy is to find motivated, qualified employees, to develop our workforce, to retain them for our Company in the long term, and to be perceived as an attractive and desirable employer for existing and future employees"*

Jörg Hagmaier, Senior Director Corporate HR

# OUR EMPLOYEES

At the end of 2012, the Villeroy & Boch Group had a total of 7,840 employees compared with 8,449 in the previous year. The reduction in the workforce is largely attributable to the disposal of one of three production facilities in Mexico. As previously, the majority of our workforce is employed in Europe, primarily in Germany and particularly at the locations in Mettlach and Merzig.

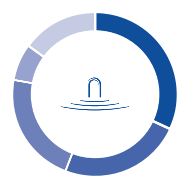
## IN FIGURES

**Trend and number of employees within the Group***

| Divisions | 2012 | 2011 | 12/11 |
|---|---|---|---|
| Bathroom and Wellness | 5,148 | 5,733 | –585 |
| Tableware | 2,275 | 2,317 | –42 |
| Other | 417 | 399 | 18 |
| **Group as a whole** | **7,840** | **8,449** | **–609** |

* As of 31.12.

**Personnel by regions**



| Countries | 2012 |
|---|---|
| Germany | 32 % |
| Western Europe | 24 % |
| Eastern Europe | 22 % |
| North America+Mexico | 7 % |
| Rest of the world | 15 % |

## ADDRESSING THE SHORTAGE OF SKILLED LABOUR

When there is a shortage of skilled labour, a broad-based, needs-oriented vocational training programme forms the basis for sustainable HR policy. In the past financial year, 41 young men and women started training or a dual course of studies at Villeroy & Boch's Saar locations. The new talents were selected from more than 700 applicants and are spread across a total of eleven commercial and technical professions and the courses of business informatics, industrial engineering and business administration. As part of their training, the young professionals get to know the Company intensively through practical experience in various departments, in some cases involving the possibility of working abroad. All in all, the Saar locations had a total of 92 trainees and students at the start of the 2012/2013 training year.

In addition to the vocational training that has been established for a number of decades, Villeroy & Boch restructured its junior management programme in 2010. This programme is aimed at university graduates, who are given the opportunity to experience different departments in their chosen specialist area and develop their specific and cross-divisional skills over a three-year period.

The targeted training of school-leavers and university graduates is our way of securing the future supply of experts and managers today. This allows us to prepare for succession issues in good time and to appoint graduates from Villeroy & Boch's tailored junior management programmes to vacant positions. One of the main advantages is that the employees and the Company benefit from the knowledge and the networks the graduates have already established – right from the very first day.

## IDENTIFYING POTENTIAL AND DEVELOPING SKILLS

In order to make the best possible contribution to the Company's success, it is important to effectively utilise the existing skills and proficiencies of our employees and to support the acquisition of necessary skills. This is based on the clear formulation of our expectations for the respective positions within the Company and communication to the holders of those positions in order to measure them by these standards and develop them accordingly.

As part of Villeroy & Boch's skills management programme, this holistic approach is now being implemented successively throughout the Group. The key elements for identifying employee potential and developing skills are the systematic description and evaluation of the positions within the Villeroy & Boch Group in order to establish a clear, structured Group-wide job architecture, and the unequivocal definition of requirements in terms of the necessary qualifications and skills for each position within the Company.

The annual, standardised employee appraisal plays a key role in the skills management process. Among other things, this exchange between employees and their managers is used to reflect on employees' professional behaviour and cooperation with their colleagues and superiors and to compare this with the requirements of their respective position. The corresponding areas for improvement and development targets for the employee are then defined on this basis. In order to cover the requirements arising from employee appraisals and potential analyses in the medium term, the internal education programme " Villeroy & Boch Global Academy" offers seminars and curricula that are tailored to the needs of specific employees, managers and departments.

This targeted, in-depth HR development is a key element of our corporate strategy and an investment in the future of Villeroy & Boch. It ensures that employees are shown potential development paths, secures the continuous establishment of expertise within the Company, and provides for proactive, sustainable succession planning throughout the Group in order to allow vacant positions to be filled internally to a greater extent.

## COPING WITH CHANGE

For companies, demographic and social change means more than just having to ensure sustainable HR planning. It also embodies the responsibility for addressing the needs of employees in terms of balancing their work and family life.

In 2012, Villeroy & Boch focused its activities on the area of family care time. The family care model allows employees looking after family members at home to adjust their working hours in order to reconcile their professional activity and responsibility for their family. The model is significantly more extensive than the family care time provided by law and offers individual solutions for the employees concerned. For this and other family-friendly measures, we received an award in the "Large Companies" category of the "Family Companies 2012" competition in recognition of its excellent performance in the area of family-oriented HR planning.

Unternehmen Familie 2012

## CREATING AN INSPIRING AND ATTRACTIVE WORK ENVIRONMENT

At Villeroy & Boch, a large number of varied employee events helps to ensure an attractive work environment. This includes the "Inspirations" series, which recently saw former soccer referee Dr. Markus Merk giving a talk on the chain of events in the decision-making process. Direct communication and continuous information from the Management Board, including live chats in German and English and the "CEO Letter" to the entire workforce, also contribute to an open corporate culture.

We are aware that an inspiring and attractive work environment is essential in order to promote the culture of ideas within our Company. After all, the best ideas for innovations and improvements come from those who work with products and processes on a daily basis: our employees. Villeroy & Boch's idea management team has been active for several years with enthusiasm, passion and creative campaigns aimed at identifying potential areas for improvement and initiating their implementation. And with some success, too: in the 2012 financial year, employees submitted 1,150 ideas. Around 30% have already been implemented, while others are currently in the implementation process. With the more than 5,100 ideas that have been implemented since the start of the programme, the Company has generated a monetary gain of around Euro 2.4 million – as well as various unquantifiable benefits. Of this figure, around Euro 500,000 has been handed out as prize money to the submitters of the respective ideas.

## INTERVIEW WITH JÖRG WAHLERS, HEAD OF HR

*Mr. Wahlers, you have been the member of Villeroy & Boch's Management Board responsible for Finance and Human Resources for more than one and a half years. Did you imagine that your new position and, in particular, your new responsibility for HR would be like they have turned out?*
I was indeed surprised by the highly detailed and consistent HR toolkit that was already established at Villeroy & Boch: HR instruments such as employee appraisals, target agreements and the development centre, the results of which are compiled and integrated into development sessions, are extremely progressive compared with many companies of a similar size. And we need not shy away from comparing standardised, systematic mapping of these HR issues, especially with major global corporations.

*What do you mean in concrete terms?*
Villeroy & Boch has now stored all of its basic Group-wide HR data in a system – forming the basis for the mapping of global, standardised HR processes that will be gradually made available to employees and managers over the coming years. This has already been realised for a number of employees in Germany and at some of our European subsidiaries: an individual intranet connection allows them to access content such as holiday applications, electronic payslips or personal documents, e.g. for employee appraisals or training histories, at all times. This is how I define modern HR work.

*What HR issues are particularly important to you?*
For me, it is particularly important that the added value offered by human resources can be clearly and tangibly appreciated as a contributor to and supporter of Villeroy & Boch's internationalisation strategy. I believe that internationalisation can only be achieved through an appropriate HR policy. We need employees with an international mindset and, in some cases, a willingness to embrace mobility. In exchange, we offer global career paths with challenging and inspiring jobs that provide motivation and promote employee retention. When it comes to encouraging this corporate culture, I believe that communication – especially from a management level, and middle management in particular – is vital to our success as a company.

*Looking to the future, what challenges do you see facing Villeroy & Boch over the next five years in terms of HR strategy, and how do you intend to address them?*
In the future, strategic HR activity will be an even more important element of success than is the case now. Companies that address topics such as the shortage of skilled labour and work-life balance will have an important advantage and will be able to position themselves as attractive employers. I believe that Villeroy & Boch is already doing extremely well in terms of helping our


Jörg Wahlers – Interview with Head of HR and Labour Director

employees to achieve a suitable work-life balance through instruments such as flexible working hour models, healthy living days, crèche places at our head office and, in particular, individual working hour solutions in connection with family care time. We are addressing the shortage of skilled labour on a sustainable basis with our vocational training and junior management programmes and by continuously offering targeted further education schemes to all of our employees. Our recruitment for a number of jobs has an international focus in order to attract the best available talent.

*Why is it worth applying to Villeroy & Boch?*
Villeroy & Boch is an internationally active company with a history dating back more than 260 years. There is a reason why one of the principles in our mission statement reads“ Villeroy & Boch – Maintaining the tradition”. I personally am particularly fascinated by the combination of innovation- and technology-driven ceramics production and a strong, well-known brand. The opportunity our employees receive in terms of developing their skills both nationally and internationally within the Company is another thing that makes us an interesting and challenging employer. We offer exciting and responsible jobs for men and women and for young and experienced professionals alike.

*Was this a deciding factor in your move to Villeroy & Boch?*
Yes, definitely. I was quite simply won over by the role as head of Finance and Human Resources and the immense potential shown by the Company. Once you have been here for some time, it becomes clear that, above all, it is the employees and the corporate culture that make Villeroy & Boch what it is. I would like to take this opportunity to thank all of our employees for their commitment and initiative, and I am confident that, by working together, we can press ahead with Villeroy & Boch’s international development and help to shape the change.

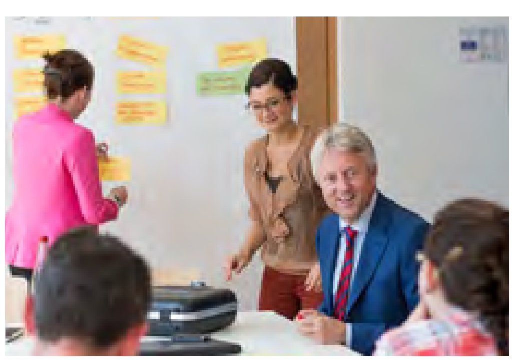
## SOCIAL MEDIA IN HR WORK

Web 2.0 has reached the area of HR work and is clearly gaining traction. Nowadays, companies who restrict their HR presence to career pages and e-recruitment on their own website are no longer in a position to meet the challenges of a highly competitive employment market. The call for an active "social dialogue" is getting louder and is bringing traditional HR work to the virtual environment of social networks.

Recruitment via social media is a particularly hot topic at present, and this approach to filling vacant positions now plays an important role. On the HR front, Villeroy & Boch has a particularly strong presence on the Xing and Linkedin communication platforms, where it provides information on career opportunities within the Company, publishes job advertisements, and undertakes targeted searches for potential candidates and actively approaches them.

In order to better leverage the opportunities presented by social networks for the Company's HR activity, a workshop entitled "Villeroy & Boch and Social Media" was held in August 2012. Simone Kempf, International Social Dialogue Manager, provided the employees of Corporate HR with an insight into the future of social networks for HR and discussed topics including employer branding and HR marketing. Together with colleagues from HR, she then led a workshop focusing in particular on the risks and opportunities of social media for Villeroy & Boch.

The participants in the workshop were familiarised with one of the main challenges: in order to stay ahead of the competition when it comes to attracting talented employees internationally, modern HR work means motivating "digital natives" – those who have grown up with computers and the Internet – through social media activities and positioning Villeroy & Boch as an attractive employer. At the same time, it is and will remain essential to meet the expectations of "digital immigrants" – those who have only come to digital technologies during their adult life – and to continue to address this target group through printed media and other offline communication activities.




Workshop on social media in HR work

## VILLEROY & BOCH'S SOCIAL MEDIA PRESENCE ON THE WORLD WIDE WEB

Facebook, Twitter and YouTube are the poster boys of social media. In addition to these platforms, however, there is a growing number of established and up-and-coming networks, such as the image services Instagram and Pinterest or the career platforms Linkedin and Xing. Villeroy & Boch is represented on all the relevant channels, providing its fans, followers and interested parties with background information on the company and valuable content that goes above and beyond product information. This means that we are in daily contact with a growing fan base. On Facebook alone, more than 22,000 users have expressed an interest in our brand, with 40% of them aged between 25 and 34. Among other things, this allows them to be won over by our attractiveness as an employer.

### Villeroy & Boch goes Social Media:

- linkedin.com/company/villeroy-&-boch
- xing.com/company/villeroy&boch
- youtube.com/villeroyundboch
- pinterest.com/villeroyundboch
- facebook.com/villeroyandboch
- twitter.com/villeroyundboch
- instagram: #villeroyundboch

## VILLEROY & BOCH'S JUNIOR MANAGEMENT PROGRAMME

"From university to practice": this is the theme of Villeroy & Boch's three-year junior management programme for university graduates, which provides them with their first position within the Company and the opportunity to take the first steps on the career ladder. On-the-job training allows the junior managers to experience the various departments within their chosen area (e.g. Marketing & Sales, Procurement or Engineering) and to move through various positions – including outside their division and, where possible, throughout the world. Cross-functional HR development measures are also helping to optimally prepare 23 junior managers for their professional future at present.

Christel Hassel, born in 1984 and with the Company since October 2010, is part of the first year of the newly structured junior management programme, meaning that she has been there since day one. Following positions in Marketing and Sales in the Bathroom and Wellness Division, the business administration graduate has been working in Public Relations since October 2012. She reports on her experiences as a junior manager in China.

Christel Hassel (second from right) with sales staff at Villeroy & Boch's exhibition stand in Xiamen (south of Shanghai)

"During my three months in a sales role in China, I was primarily active at the office in Shanghai; however, I also travelled to Hangzhou and spent a week with our colleagues in Beijing. During this time, I provided support for the local team's market and competitive analyses and got to know their day-to-day business. I trained employees in the various exhibitions on our products, new innovations and technical solutions and provided assistance for questions and problems. I also had the opportunity to meet some designers and interior architects. The aim was to win new customers for our brand. I arranged meetings and presented the Villeroy & Boch brand and its history, innovations and products. In the subsequent discussions, I answered questions and collected the suggestions, requests and requirements of potential customers in order to allow us to address them in an even more targeted manner in the future. I conducted the product descriptions and presentations and further communication with customers in Chinese. Prior to travelling to China, I had learned the relevant specialist terminology – such as bathtub, water tank, or drain and overflow pipe – and I added a lot of additional terms to my vocabulary during my three months in Shanghai. I was helped by the fact that I had spent a semester in China as part of my university studies, meaning that I was already familiar with the country and its culture. As well as getting to know the Chinese sanitary ware market, my time in China allowed me to become familiar with and appreciate the local team. My colleagues in China provided me with active support throughout my stay. All in all, I experienced three exciting and eventful months that passed far too quickly."

## HUMAN RESOURCES INTERNATIONAL – THAILAND

With a team of almost 900 enthusiastic employees, Villeroy & Boch (Thailand) Co. Ltd. – which traded as Nahm Sanitaryware Co. Ltd. until recently – has been producing sanitary ware in Thailand for more than four years. Around 500,000 units a year are currently manufactured in Thailand for Villeroy & Boch's markets in the Middle East and the entire Asia-Pacific region (APAC). Production is set to be gradually expanded to one million units by 2016.

Junior HR manager Karolina Buniowska reports on HR work in Thailand, which she supported for several months during her overseas posting as part of the junior management programme:

Renowned as a production location for quality goods, Thailand has been a popular investment destination for internationally-oriented companies for some years. For the local HR unit, one major challenge is to attract and retain qualified employees in what is an intensely competitive employment market. This is why the HR experts at Villeroy & Boch Thailand offer various measures in the area of employee retention and satisfaction.

From a commercial perspective, these measures focus on teaching and improving the specialist expertise of the employees, most of whom are unskilled. One of the most interesting initiatives in recent years was the "Casting School" formed in May 2012, the aim of which is to provide specialist expertise on casting and to train newly recruited employees in casting from day one. The training measures include basic theoretical content as well as practical training. The content is taught by specially trained colleagues.

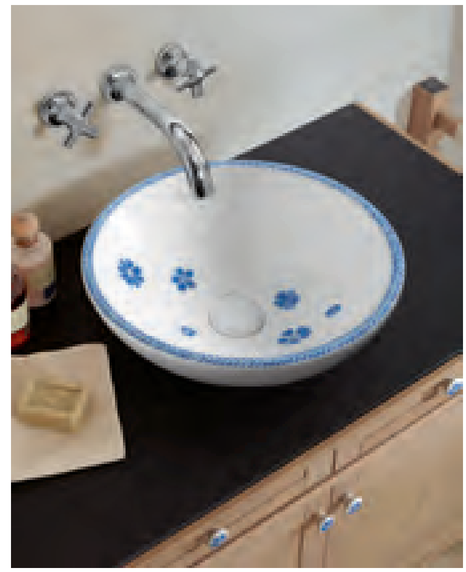
In order to accompany this targeted staff development with a continuous improvement in working conditions, a number of innovative optimisations and investments have been and are being realised in the area of production. For example, a newly installed dust extraction system in the preparation area and ceiling ventilation in the furnace area are ensuring improved air quality and more comfortable temperatures at the respective workstations.

Junior HR manager Karolina Buniowska with the local HR officer Rungroj Intapuang

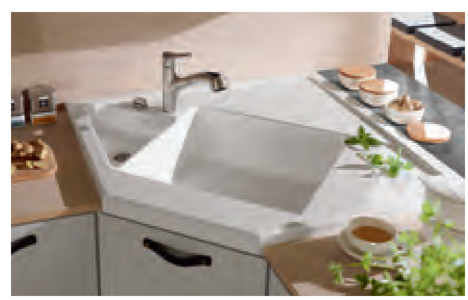
In addition to support from the HR department at Villeroy & Boch (Thailand) Co. Ltd., employees are provided with a number of options for finding out about new developments and exchanging information with colleagues. This includes "town hall meetings", at which the most important operational events in the last month are presented to the team. The sense of community is further encouraged through ancillary activities such as sporting competitions and staff parties, as well as communal religious ceremonies.

# BATHROOM AND WELLNESS DIVISION

Andreas Pfeiffer, Management Board member responsible for Bathroom and Wellness Division



A contemporary interpretation of traditional craftsmanship: the *True Oak* furniture programme

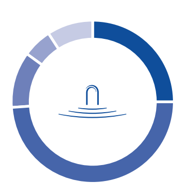


Clear structures in geometric forms: kitchen sink *Monumentum*

## Key Data

| In Euro million | 2012 | 2011 |
|---|---|---|
| Sales | 466 | 462 |
| EBIT – operating | 23 | 19 |
| Capital expenditures | 17 | 18 |
| Depreciation | 18 | 19 |

## Sales by regions



| Country | 2012 |
|---|---|
| Germany | 25% |
| Western Europe | 49% |
| Eastern Europe | 11% |
| North America | 6% |
| Rest of the World | 9% |

## INTERVIEW WITH ANDREAS PFEIFFER, HEAD OF BATHROOM AND WELLNESS

*Mr. Pfeiffer, the prospects for 2012 were far from positive, with hesitant investment on the part of private households and the public sector around Europe. What is your conclusion for the Bathroom and Wellness Division?*

To put it simply, development was extremely varied. After a promising start to 2012, the German economy saw a tangible slowdown in growth, particularly in the second half of the year. The fact that we were able to increase our domestic revenue by around 6 % compared to the last year in spite of this development is a positive sign. The highest growth rates in Europe were recorded in Norway (+12 %), the United Kingdom (+11 %), and in Belgium (+6 %). By contrast, there was a double-digit decline in revenue in the Netherlands, an important market for our business. The reason for this negative development was the significantly lower propensity to invest on the part of households; after all, no European country has a higher level of private debt, due in particular to a local real estate bubble. Revenue was also adversely affected by the sovereign debt crisis in Southern Europe, particularly in Italy.

*How was development in the other markets?*

In Mexico, we deliberately withdrew from the low-margin market segment with the sale of the eco plant in Saltillo, leading to a fall in revenue of more than 20 %. In the USA, business decreased slightly as well. Russia, however, saw an extremely positive development, with revenue rising by 22 %. After several years with double-digit revenue growth in China, we were able to keep our turnover stable at the level of 2011 in spite of restrictive government conditions for the high-end project business. There was a slight increase in revenue across all markets. However, the quality of our revenue mix has changed for the better: driven by a significant improvement in margins, earnings before interest and taxes (EBIT) rose by around 20 % to Euro 23 million.

*What lessons for the future can be taken from the current economic crisis?*

The fact that crises are no longer a temporary phenomenon, but rather are establishing themselves as a fixed component and a continuous aspect of our thinking as a Company. The important thing is not to be scared of crises. Instead, we should look to continuously develop our skills for dealing with such situations. In moments like this, we need to accelerate processes, define clear objectives and prioritise and synchronise our activities.

*One element of Villeroy & Boch's corporate strategy is to increase the share of revenue generated outside Germany. How do you intend to ensure this for the Bathroom and Wellness Division?*

By performing a detailed analysis of all markets and developing appropriate solutions for sustainable, profitable growth. Take the USA, for example, where we have established our business on a new footing and entered into a long-term sales partnership with TOTO. TOTO has a comprehensive distribution network and excellent logistics and service structures that we can build upon. I am confident that, in the coming years, this cooperation will allow us to increase our revenue in the USA several times over.

*How are you approaching the Asia-Pacific market?*
Let us start by looking at China, which we consider to offer huge growth potential: In the future, we will increasingly rely on our own sales organization there. We have already successfully achieved this in Shanghai and Beijing. Outside these major cities – and in China, this still leaves more than 40 cities with a population in excess of one million – we will significantly expand our presence in the future and address the renovation and retail sectors in addition to our project business. A key step along the way will be sophisticated display concepts aimed at strengthening awareness of our brand. In other countries – such as Australia, Singapore, Taiwan, Malaysia and the Philippines – we are cooperating with exclusive distributors. In order to leverage the considerable potential offered by the respective markets, those distributors have to be motivated to fulfil their responsibilities to a greater extent.

*In times of internationalization, what role is still played by Villeroy & Boch's home market of Europe?*
An extremely important one! After all, Germany and the rest of Western Europe provide the foundations for our investments in growth regions. We expect the market to remain stable in the coming years. New bathroom concepts for the growing number of older population groups will present interesting opportunities that we must make the most of.

*Let us talk about products: Which ones were particularly successful with customers in 2012?*
Our bathroom furniture business again enjoyed highly encouraging double-digit growth. This was driven by the strong development of the professional furniture brand Sanipa and the success of our *Subway 2.0* furniture collection. Our new rimless WC *Omnia Architectura* also had a successful 2012. Rimless WCs, which were initially especially popular in Germany, are now gaining ground throughout Europe.

*"Odd years" are always particularly interesting for your industry, as the leading ISH trade fair takes place every two years. What are your expectations for 2013 – and what can trade fair visitors expect from you?*
There is always a great deal of interest in how Villeroy & Boch will present itself at the ISH, both internally and externally; after all, it is the world's largest showcase for innovative bathroom design. We intend to present *Joyce*, a new mainstream collection that has what it takes to become a bestseller and that will be available in time for the trade fair. We will also present the *True Oak* furniture programme and the matching wash basin with Farmhouse decor that harks back to our brand's roots, as well as a number of other new products.

*Finally, what conclusion would you like to be able to draw at the end of 2013?*
I hope that we will have made significant progress towards our medium-term goals thanks to well-considered decisions and measures. In concrete terms, I hope that the sales partnership with TOTO in the USA will start to bear fruit, and that we will generate significant growth rates in Asia and meet our ambitious targets on all continents. If we do our homework, a successful year awaits us!

# TABLEWARE DIVISION

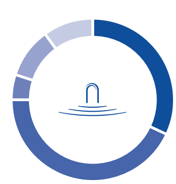
Nicolas Luc Villeroy, Management Board member responsible for Tableware Division

The novelties *Artesano Original* and *Urban Nature BBQ*: attractively designed assortments for the perfect BBQ

## Key Data

| In Euro million | 2012 | 2011 |
|---|---|---|
| Sales | 278 | 281 |
| EBIT – operating | 8 | 9 |
| Capital expenditures | 9 | 8 |
| Depreciation | 9 | 8 |

## Sales by regions



| Country | 2012 |
|---|---|
| Germany | 32% |
| Western Europe | 43% |
| Eastern Europe | 5% |
| North America | 10% |
| Rest of the World | 10% |

## INTERVIEW WITH NICOLAS LUC VILLEROY, HEAD OF THE TABLEWARE DIVISION

*Mr. Villeroy, 2012 was dominated by the crisis in the euro zone and the global economic slowdown. How did the Tableware Division perform in this environment?*
Looking at the figures in detail, we performed extraordinarily well. We generated significant growth and defied the crisis in almost all countries – especially in China (+30 %), Russia (+21 %), Sweden (+20 %), the United Kingdom (+11 %) and the USA (+11 %). The lower level of revenue in Germany compared with the previous year was to be expected; after all, we benefited from a major order for advertising material in 2011 that can not be repeated in the same form every year. Adjusted for this extraordinary effect, revenue in Germany also increased by 4 %, not least thanks to our strong Christmas business. Our operating result (EBIT) decreased slightly to Euro 8 million.

*Consumers in Spain, Portugal and Greece were more reluctant to buy in 2012. Did you feel the impact of this development? And if so, how are you dealing with it?*
Yes, revenue in these areas lagged behind the rest of Europe, in some cases significantly. In times of economic uncertainty, people postpone larger investments in particular, such as the purchase of an entire tableware set. This is when it is important to have a well-balanced product portfolio. For example, our range of accessories and gift ideas – from presents for children's birthdays to decorative elements for the Advent season – play a comparatively large role in times of crisis, as people always make impulse buys that they had not planned previously. The challenge for us is to draw attention to these items through attractively designed sales areas and clever placement in order to ensure greater demand.

*What other items are important in your strategic product mix?*
For example, we produce high-quality glass and cutlery collections that provide our customers with a perfectly set table consisting solely of Villeroy & Boch products. We are also permanently committed to attracting new target groups. To this end, 2012 saw the launch of a colourful vase collection with a modern design for today's living space. And then there is the *Cities of Europe* decor concept, which is particularly popular among younger target groups: we have captured the international attitude towards life, combined it with the hot topic of coffee – and come up with a New Wave coffee collection with motifs for Berlin, London, Paris and Rome. In 2013, the *Cities of the World* collection will be launched, including New York, Rio de Janeiro, Sydney and Tokyo. Another strategic approach is to increasingly feature our brand logo in our products, starting with our new barbecue tableware. We are optimistic that this product will meet with a good response among our customers.

*Around a year ago, you presented the new Mariefleur flower decor, thereby writing a new chapter in Villeroy & Boch's Farmhouse story. Did this meet your customers' requirements?*
It certainly did! Following a phase in which white collections were in demand, our product developers and designers recognised and addressed the reinterpreted floral trend in the tableware segment at an early stage. This tableware series has proven to be the most successful product launch in the past ten years, and demand around the world is so high that our production and delivery capacities are being stretched.

*How do you identify the right trends?*

It comes down to two things: Firstly, we apply a systematic analysis. We look at today's consumers in detail and factor in the global mega-trends, such as urbanisation, sustainability and growing mobility. This allows us to derive key findings for our products. Secondly, our developers have their finger on the pulse. They go to trade fairs, look for ideas in magazines and find inspiration from city life. This time for creativity is hugely important.

*Let us talk more about internationalisation. Villeroy & Boch is a company with European roots. Why should a family in Brazil, Dubai or India want to purchase a Villeroy & Boch collection?*

The starting point is the fact that more and more people from Asia, the Arabic countries and North and South America are travelling to Europe to experience our culture. They stay in modern hotels, go to restaurants and enjoy the atmosphere in the many cafés. We have found that a large number of international guests are developing an affinity for European bathroom and dining culture. Our task is to position Villeroy & Boch in such a way that they do not want to miss out on our products when they are back at home. And this is something we can achieve at our international stores by telling stories – about our brand, our design and our tradition.

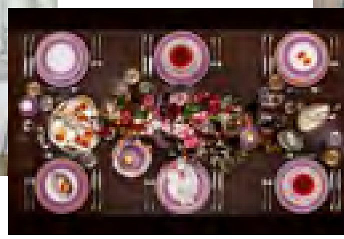
*At the end of the day, what matters is that the Tableware Division delivers strong revenue and earnings figures. What is your strategic focus going into 2013?*

Our first aim is to continue to grow in the Asia-Pacific region every year, as this market offers significant potential, particularly among higher income groups. Accordingly, we intend to intensify our sales activities in Japan, China and elsewhere. Second, we are looking to further develop Villeroy & Boch's brand positioning. We will modernise strategically important flagship stores and showrooms and open new ones – as we did in 2012 at locations including Düsseldorf and Brussels. It is important that our stores provide the necessary space for showcasing our products in a targeted manner – and that our window displays around the world become more uniform. Third, we intend to intensify our online business and combine it with our offline activities more effectively.

*And finally, what can we expect on the product front in 2013?*

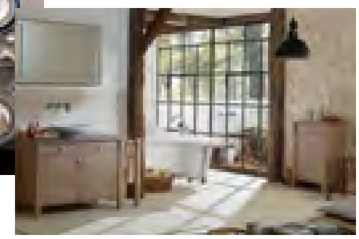
At the leading Ambiente trade fair in Frankfurt, we will present a number of new products, including formal new developments for hotels and catering and for private customers. We are also systematically expanding our range of gift and themed collections in order to increase the frequency of impulse buys. And for our international markets, we are adjusting the form and decor of existing products to meet local requirements, such as in Asia. As you can see, we have grand plans for 2013 and beyond!

Page 6 and 7



Page 8 and 9

Page 10 and 11



Page 12 and 13

## Page 6 and 7

**Joyce** – Individualisation is one of today's greatest trends. Our new, innovative collection adopts this trend and gives it its own fascinating twist: *Joyce* – the bathroom with APPs. APPs are functional, exchangeable accessories for flexible bathroom design. Together with the *Joyce* furniture fronts in modern APP colours, they offer seamless design.

## Page 8 to 11

**Anmut My Colour, Anmut Geometry** – Strong, striking colours on classically round dinnerware – *Anmut My Colour* and *Anmut Geometry* are the exciting combination of a highly contemporary colour concept and a modern, playful decor with an authentic dinnerware form. All the dinnerware pieces of the decor *Anmut My Colour* are decorated with a wide band of colour and a simple decor of real platinum at the rim. *Anmut Geometry* with its geometrical patterns is the perfect addition to it.

## Page 12 and 13

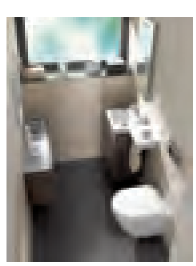
**True Oak** – The craftsmanship is shown in every detail and it takes five steps to transform the *Mellow Oak* finish into a unique, tactile experience. Furniture is produced according to traditional methods and each piece is made of several individual parts that are carefully joined together. A natural-look, easy-care washbasin countertop with a slate effect and specially decorated ceramic buttons complete the picture.

## Page 43

**Subway 2.0** – The *Subway 2.0* bathroom collection encompasses a wide selection of space-saving, functional products that are designed for use in small spaces and offer optimal solutions even for unconventional room layouts. With its contemporary, modern design, the collection is well-suited for furnishing a range of different lifestyle worlds.

## Page 47

**Stella Hotel** – The collection is versatile and delicate – so it's perfect for all kinds of occasions. From breakfast to dinner, lunch to coffee – the fine "Premium Bone Porcelain" brings harmony into every situation.



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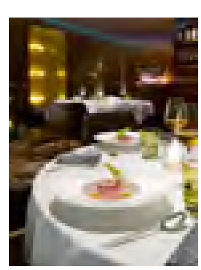

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# GROUP MANAGEMENT REPORT

# 2012

# GROUP MANAGEMENT REPORT 2012

## CONSOLIDATED REVENUE UNCHANGED YEAR-ON-YEAR AT EURO 744 MILLION

## CONSOLIDATED REVENUE UP 3 % AFTER ADJUSTMENT FOR NON-RECURRING EFFECTS

## OPERATING EBIT UP EURO 3 MILLION YEAR-ON-YEAR AT EURO 31 MILLION (+ 11 %)

## CONSOLIDATED NET PROFIT OF EURO 15 MILLION (PREVIOUS YEAR: EURO 18 MILLION)

### GENERAL ECONOMIC CONDITIONS

Global economic development slowed significantly over the course of the year under review. The economic upturn that was expected at the start of 2012 failed to materialise in the second half of the year, and the euro zone even entered a recession during this period. The reasons for this include the still unresolved sovereign debt crisis and the savings measures introduced as a result, as well as the fragile mood in the European banking sector. During the year, these factors also had an adverse impact on consumer sentiment in Germany, although economic output increased slightly in 2012 as a whole. Positive impetus was provided by residential construction and the sustained high level of employment in Germany. In the USA, disappointing consumer spending and a slower rise in exports led to weaker economic growth. By contrast, China again enjoyed a high growth rate, albeit at a lower level than previously.

Construction, which is an important industry for the Bathroom and Wellness Division, saw patchy development in the key markets in 2012. Two markets bucked this general trend: Germany continued its strong recovery in the sector, while performance in the Netherlands was below-par due to changes in tax legislation and banking regulations. We were able to maintain our position across all markets.

The Tableware Division proved to be one of the leading brands in a highly fragmented market. In the key markets of Europe, economic performance in this sector was also patchy. The continued shift in trading structured and the changed price sensitivity of consumers as a result of Asian imports proved to be particular challenges. Villeroy & Boch succeeded in reinforcing its market position in light of these factors.

### BASIC INFORMATION ON THE GROUP

Villeroy & Boch is a leading international ceramic manufacturer with 7,840 employees around the world (as of 31 December 2012) and 15 production sites in Europe, Mexico and Thailand. The Company can look back on a 265-year history and is now represented in more than 125 countries around the world. The head office of the listed Villeroy & Boch AG is in Mettlach in the Saarland.

Villeroy & Boch AG is the Group parent for a total of 58 directly or indirectly fully consolidated subsidiaries. The investment structure of the Villeroy & Boch Group reflects operational concerns and the legal and tax situation.

The organisational structure of the Villeroy & Boch Group is reflected operationally in the defined divisions. A differentiation is currently made between two divisions that are supported by central functions. The Tableware Division covers the complete range of high-quality tableware, crystal and cutlery, rounded off by accessories, kitchen and tableware textiles as well as gift items. The product range of the Bathroom and Wellness Division includes ceramic bathroom collections in various styles, bathroom furniture, ceramic kitchen sinks, shower, tub and whirlpool systems, and fittings and accessories. In 2012, there was a change in the organisational structure as a result of the sale of the sanitary ware plant in Saltillo, Mexico: Villeroy & Boch withdrew from the low-margin local project business, with a total of 505 employees being transferred to the buyer as a result.

Strategic planning includes a regular analysis of the current business model with a view to global mega-trends such as urbanisation and demographic change, as well as changes in lifestyle, new trends and other external factors.

Villeroy & Boch's products are distributed around the world. The end consumer in the Bathroom and Wellness Division is generally reached through a two- or three-tier sales channel. In the Tableware Division, customers are addressed via specialist retailers as well as Villeroy & Boch's own retail activities. In the project business of both divisions, customers are targeted by a dedicated sales organisation.

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. The performance of the Group as a whole and the two divisions individually is measured using the following key figures: net revenue, earnings before interest and taxes (EBIT) and the rolling operating return on net assets. The latter is calculated as the operating result divided by the average operating net assets for the last twelve months. The operating result applied is the result from ordinary activities at a Group level and at the level of the respective divisions before the expenses attributable to the central functions. Operating net assets are calculated as the total of property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities.

## CONSOLIDATED INCOME STATEMENT

» See table below

## REVENUE AND EARNINGS

### Consolidated revenue up 3 % after adjustment for non-recurring effects

The Villeroy & Boch Group generated revenue of Euro 743.6 million in the 2012 financial year, thereby repeating the absolute figures it recorded in the previous year. Taking into account the extraordinary effects in the Tableware Division in the previous year and the sale of the sanitary ware factory in Saltillo, Mexico, the Group reported satisfactory revenue growth of 3%. Although revenues in a number of markets increased in spite of the difficult economic environment, the Group was unable to achieve its overall consolidated revenue target of Euro 750-760 million for 2012.

Structure of the consolidated income statement (IFRS)

| In Euro million | 2012 | % of revenue | 2011 | % of revenue |
|---|---|---|---|---|
| Revenue | 743.6 | 100 | 742.9 | 100 |
| Cost of sale | – 420.6 | – 57 | – 433.2 | – 58 |
| **Gross profit** | **323.0** | **43** | **309.7** | **42** |
| Selling, marketing and development costs | – 244.1 | – 33 | – 235.8 | – 32 |
| General administrative expenses | – 47.5 | – 6 | – 46.1 | – 6 |
| Other expenses/income | – 0.5 | 0 | 0.0 | 0 |
| **Operating EBIT (before special proceeds)** | **30.9** | **4** | **27.8** | **4** |
| **Real estate income from Dänischburg properties** | **–** | **–** | **9.2** | **1** |
| **EBIT (2011 incl. Dänischburg income)** | **30.9** | **4** | **37.0** | **5** |
| Financial result | –12.5 | – 2 | –11.2 | – 2 |
| **Earnings before taxes (EBT)** | **18.4** | **2** | **25.8** | **3** |
| Income taxes | – 3.7 | 0 | – 7.5 | –1 |
| **Group result** | **14.7** | **2** | **18.3** | **2** |

## CONSOLIDATED REVENUE 2012

### Revenue by region and country 2012

| In Euro million | Revenue | Share |
|---|---|---|
| **Germany** | **202.5** | **27 %** |
| **Abroad (total)** | **541.1** | **73 %** |
| **Western Europe (excl. Germany)** | **350.9** | **47 %** |
| Scandinavia | 106.3 | 14 % |
| France | 71.2 | 10 % |
| Benelux | 56.0 | 7 % |
| United Kingdom | 34.0 | 5 % |
| Rest of Western Europe | 83.4 | 11 % |
| **Eastern Europe** | **66.2** | **9 %** |
| **Asia/Australia/Africa** | **72.8** | **10 %** |
| **Americas** | **51.2** | **7 %** |

The Group's domestic market of Germany remained the most important region for Villeroy & Boch in 2012. All in all, revenues of Euro 202.5 million were generated in Germany. This corresponds to a slight decrease of around Euro 5.2 million (– 3 %); however, the prior-year figure contained a major project in the Tableware Division. Adjusted for this non-recurring factor, the German market saw revenue growth of 4 %. Revenues generated outside Germany were up slightly year-on-year at Euro 541.1 million. In particular, Russia saw significant revenue growth (+22 %). By contrast, revenue decreased in particular as a result of the targeted withdrawal from low-margin project business in Mexico (– 24 %) as well as in the Netherlands (– 12 %).

The gross margin increased by one percentage point, from 42 to 43%. This was due to productivity improvements, the optimisation of the product and country mix of the goods sold, and downstream effects from the measures forming part of the master plan we adopted in 2009.

Sales, marketing and development costs increased by Euro 8.3 million year-on-year to Euro 244.1 million (previous year: Euro 235.8 million). The Euro 6.9 million increase in sales structure costs was attributable to the further expansion of the markets in Russia and Asia, as well as the expansion of in-house retail activities in the Tableware Division. Inflation-related cost increases were kept to Euro 1.4 million as a result of systematic cost management.

General administrative expenses increased by Euro 1.4 million to Euro 47.5 million in 2012.

### Operating EBIT up 11 % year-on-year at Euro 31 million

Based on constant revenues, consolidated earnings before interest and taxes (EBIT) increased by Euro 3.1 million or 11 % year-on-year to Euro 30.9 million. This meant that operating earnings (EBIT) for the 2012 financial year were at the upper end of the estimate provided in the forecast for 2011. It should be noted that the prior-year figure was adjusted for the sale of the former plant buildings in Lübeck-Dänischburg in the amount of around Euro 9.2 million.

The Group's financial result deteriorated by around Euro 1.3 million year-on-year to Euro – 12.5 million. This development was primarily due to higher expenses for other employee benefits (jubilee bonuses, transitional benefits). This was attributable to the significantly lower interest rates compared with the previous year, which resulted in a corresponding increase in actuarial losses.

Tax expense amounted to Euro 3.7 million in 2012 (previous year: Euro 7.5 million). The tax rate for the 2012 financial year was 20 % (previous year: 29 %). The reduction in the tax rate is due to the partial reversal of a valuation adjustment on deferred taxes from tax loss carryforwards. This reduction in the valuation adjustment for previous years was based on the adoption of the final tax assessments.

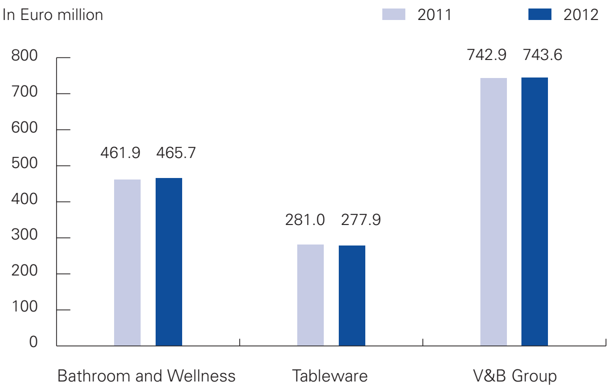
In the 2012 financial year, the Group enjoyed a satisfactory course of business with a significant positive consolidated net profit of Euro 14.7 million (previous year: Euro 18.3 million including the income from the Lübeck-Dänischburg properties).

The rolling net operating assets of the Villeroy & Boch Group amounted to Euro 303.6 million at the reporting date (previous year: Euro 322.5 million), meaning that the net return on assets increased from 9 % in the previous year to 10 %.

## REVENUE AND EARNINGS BY DIVISION (GROUP)

### Consolidated revenue 2011/2012

Breakdown by division




In Euro million

| Division | 2011 | 2012 | Change | |
|---|---|---|---|---|
| Bathroom and Wellness | 461.9 | 465.7 | 3.8 | 1 % |
| Tableware | 281.0 | 277.9 | – 3.1 | – 1 % |
| **V&B Group** | **742.9** | **743.6** | **0.7** | **0 %** |

### Business development in the divisions

The **Bathroom and Wellness Division** generated revenue of Euro 465.7 million in the 2012 financial year (up +1 % year-on-year). Adjusted for the sale of the plant in Saltillo, Mexico, which represented Villeroy & Boch's targeted withdrawal from low-margin local project business, revenue growth in the division amounted to 2 %.

Revenue development in the individual regions was highly varied. The markets in Russia (+22 %) and Germany (+6 %) enjoyed above-average performance. Satisfactory growth rates were also recorded in Thailand (+26 %), Norway (+12 %), the United Kingdom (+11 %) and Belgium (+6 %). However, this was offset by decreases in revenue in Mexico (–27 %), the Netherlands –17 %) and Italy (–17 %).

The operating result (EBIT) increased by Euro 3.7 million year-on-year to Euro 22.7 million (previous year: Euro 19.0 million). This was primarily attributable to the slight increase in revenues, positive effects from the restructuring measures implemented by the Group – which were reflected in the lower cost of goods sold – and strict cost management.

The rolling net operating assets of the division amounted to Euro 208.7 million at the reporting date as against Euro 221.1 million in the previous year. The return on net assets was up 2 % year-on-year at 11 %.

The **Tableware Division** generated revenues of Euro 277.9 million in 2012, down 1 % on the previous year. Adjusted for a major project with a supermarket chain in the previous year, the division reported revenue growth of 4%.

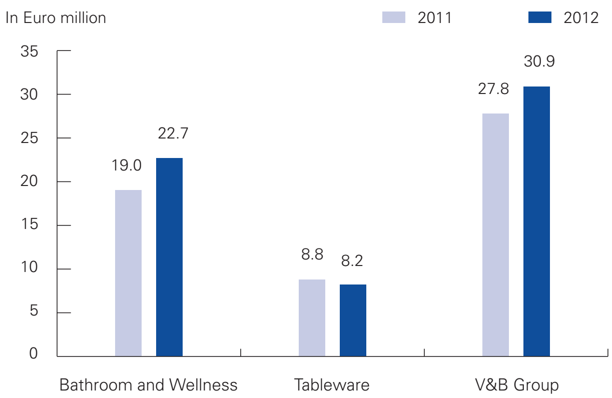
There was satisfactory revenue development in the markets of Russia (+21 %), Austria (+20 %), the USA (+11 %) and the United Kingdom (+11 %), while further growth was recorded in the Netherlands (+7 %), Switzerland (+5 %), Italy (+3 %) and France (+2 %).

The division recorded an operating result (EBIT) of Euro 8.2 million, down Euro 0.6 million on the previous year. This was due to the lower level of revenues and increased expenses from the intensification of in-house retail activities.

The rolling net operating assets of the division fell by Euro 5.5 million year-on-year to Euro 94.9 million. The return on net assets amounted to 8 % (previous year: 10 %).

### Consolidated EBIT 2011/2012

(before proceeds on sale of Lübeck-Dänischburg buildings)

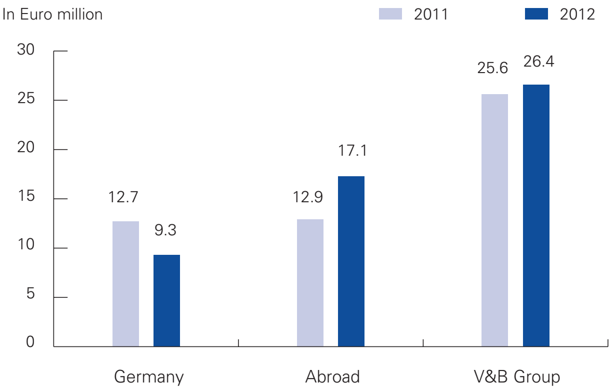



In Euro million

| Division | 2011 | 2012 |
|---|---|---|
| Bathroom and Wellness | 19.0 | 22.7 |
| Tableware | 8.8 | 8.2 |
| **V&B Group** | **27.8** | **30.9** |

## INVESTMENTS

### Investments in intangible assets and property, plant and equipment in 2011/2012




| In Euro million | 2011 | 2012 |
|---|---|---|
| Germany | 12.7 | 9.3 |
| Abroad | 12.9 | 17.1 |
| **V&B Group** | **25.6** | **26.4** |

### Investments at the Villeroy & Boch Group

Investments in intangible assets and property, plant and equipment in the 2012 financial year totalled Euro 26.4 million (previous year: Euro 25.6 million). 35 % of the investments made in the year under review were attributable to Germany (previous year: 50 %). At the reporting date, the Group had obligations to acquire property, plant and equipment in the amount of Euro 3.5 million. These will be financed from the operating cash flow.

At 65 % or Euro 17.2 million (previous year: 69 %), investing activities focused on the **Bathroom and Wellness Division**. Of this figure, Euro 14.4 million was invested outside Germany. 31 % of this amount related to Eastern Europe, with Western Europe accounting for 36 % and Asia for 33 %. These activities focused in particular on investments in conjunction with the further expansion of the location in Thailand and the modernisation of production technology in Romania and France.

Investments in the **Tableware Division** amounted to 35 % or Euro 9.2 million. Of this figure, 70 % was attributable to Germany and primarily related to investments in the further expansion and optimisation of the competence centre in Merzig. Investments outside Germany focused on the expansion of sales activities.

## FINANCING

### Condensed cash flow statement

| In Euro million | 2012 | 2011 |
|---|---|---|
| Group result | 14.7 | 18.3 |
| Current depreciation and amortisation of non-current assets incl. reversals | 27.0 | 27.4 |
| Change in non-current provisions | – 14.9 | – 14.2 |
| Profit from disposal of fixed assets | – 2.0 | – 10.8 |
| Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities | – 15.3 | – 3.1 |
| Other non-cash income/expenses | 11.1 | 16.3 |
| **Net cash flow from operating activities** | **20.6** | **33.9** |
| **Net cash flow from investing activities** | **– 14.4** | **– 5.5** |
| **Net cash flow financing activities** | **– 10.0** | **– 6.3** |
| **Total cash flows** | **– 3.8** | **22.1** |
| **Cash and cash equivalents on 1 January** | **59.2** | **37.0** |
| Total cash flows | – 3.8 | 22.1 |
| Change in cash and cash equivalents due to exchange rate effects | – 0.1 | 0.1 |
| Change in basis of consolidation | – | – |
| **Cash and cash equivalents on 31 December** | **55.3** | **59.2** |

The net cash flow from operating activities amounted to Euro 20.6 million, down Euro 13.3 million on the previous year. This was primarily due to the increase in inventories and receivables from customers, which totalled Euro 7.0 million, as well as the utilisation of other provisions.

The net cash flow from investing activities was down Euro 8.9 million year-on-year at Euro – 14.4 million. Investments at the prior-year level of Euro 26.4 million were offset by payments of Euro 12.0 million for asset disposals, which largely related to the sale of the plant in Saltillo. In the previous year, the cash flow was positively impacted by the sale of the Dänischburg properties and the 24 % interest in V & B Fliesen GmbH, the effect of which totalled Euro 18.1 million.

The net cash flow from financing activities amounted to Euro – 10.0 million, a change of Euro – 3.7 million as against the previous year; this was due to the higher dividend payment in 2012.

### Net liquidity

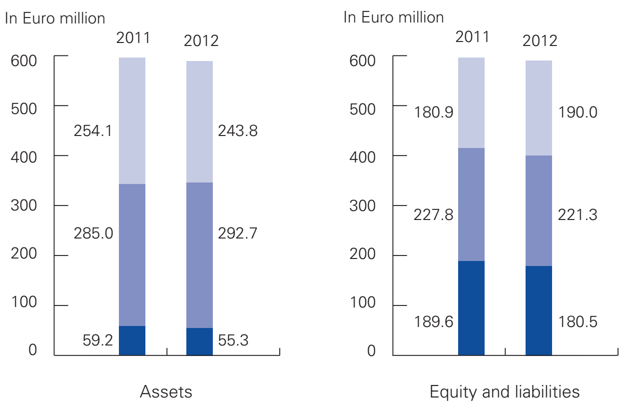
The net liquidity of the Villeroy & Boch Group amounted to Euro 4.0 million at the reporting date (previous year: Euro 7.9 million). This decrease was primarily attributable to the utilisation of provisions and the increase in inventories and receivables from customers. The cash inflow from the sale of the production location in Saltillo, Mexico, was offset by the dividend payment for 2011.

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

## BALANCE SHEET STRUCTURE

Total assets amounted to Euro 591.8 million at the reporting date compared with Euro 598.3 million in the previous year. The balance sheet structure was as follows:

Balance sheet structure in 2011/2012




| Assets in Euro million | 2011 | 2012 |
|---|---|---|
| Non-current assets | 254.1 | 243.8 |
| Current assets | 285.0 | 292.7 |
| Cash and equivalents | 59.2 | 55.3 |
| **Total assets** | **598.3** | **591.8** |

| Equity and liabilities in Euro million | 2011 | 2012 |
|---|---|---|
| Equity | 180.9 | 190.0 |
| Non-current liabilities | 227.8 | 221.3 |
| Current liabilities | 189.6 | 180.5 |
| **Total equity and liabilities** | **598.3** | **591.8** |

The net profit for the 2012 financial year and currency effects recognised directly in equity meant that, following the dividend payment, equity increased by around Euro 9.1 million to Euro 190.0 million. As a result, the equity ratio rose from 30 % in the previous year to 32 %.

All in all, non-current assets declined by Euro 10.3 million. This change includes the reclassification of non-current assets to assets held for sale in the amount of Euro 6.1 million, which primarily related to the planned sale of a property in Sweden that was previously used for production purposes. Further factors included the decrease in deferred tax assets (Euro 2.1 million) and investment property (Euro 1.5 million) and other financial assets. The latter related to the planned repayment of a long-term loan by V & B Fliesen GmbH (Euro 1.2 million). Accordingly, the share of total assets attributable to non-current assets decreased to 35 % (previous year: 36 %).

Current assets increased by Euro 7.7 million year-on-year to Euro 292.7 million. This was primarily reflected in inventories (up Euro 4.9 million), trade receivables (up Euro 2.1 million) and other current assets (up Euro 1.4 million) and current tax receivables (up Euro 0.7 million). Assets held for sale decreased by Euro 1.4 million. The aforementioned addition from the reclassification of non-current assets was more than offset by the sale of the assets classified in this item in the previous year.

Cash and cash equivalents fell by Euro 3.9 million to Euro 55.3 million in the year under review. Further details can be found in the cash flow statement.

Non-current liabilities declined by Euro 6.5 million. This was due to the utilisation of pension provisions in the amount of Euro 4.1 million and restoration provisions in the amount of Euro 2.0 million. In addition, deferred tax liabilities fell by Euro 1.1 million. Current liabilities declined by Euro 9.1 million, which was primarily reflected in the decrease of Euro 4.9 million in other current provisions and Euro 2.8 million in current liabilities.

At the reporting date, the long-term financing sources of the Villeroy & Boch Group included equity (Euro 190.0 million), pension provisions (Euro 136.6 million) and financial liabilities (Euro 51.3 million). 99 % of pension provisions were attributable to the euro zone. Discount rates of between 3.0 % and 3.25 % were applied in measuring these provisions. A rate of 3.0 % was applied in Germany. These figures are based on the interest rates for first-class debt instruments with the same maturity in the respective economic area. Financial liabilities relate to banks and have a medium-term maturity and a fixed interest rate.

## EMPLOYEES

Villeroy & Boch had a total of 7,840 employees at 31 December 2012, of which around 32 % were employed in Germany. Compared with the previous year, the number of employees declined by 609. This was largely attributable to the sale of the sanitary ware plant in Saltillo, Mexico. The Bathroom and Wellness Division accounted for 5,148 employees, while a total of 2,275 people were employed in the Tableware Division and 417 in central functions. Taken as an average for the year as a whole, the number of employees at the Villeroy & Boch Group decreased from 8,558 to 7,946.

## PROCUREMENT

In light of the deterioration in the global economy, prices for many of the relevant commodities for Villeroy & Boch on the global markets largely moved sideways (albeit with high levels of volatility in some cases). Nevertheless, excess demand for individual commodities, unfavourable exchange rate developments (particularly with regard to the EUR/USD exchange rate) and political uncertainty led to some sharp price rises. Prices for procurement in Asia also increased. Purchasing prices were reduced by continued measures in terms of specifications, the pooling of requirements and the optimisation of the procurement process, which served to limit price rises to 3 %.

## RESEARCH AND DEVELOPMENT

Through research, development and innovation, Villeroy & Boch is not only taking responsibility for current and future generations, but also laying the foundations for long-term economic success and competitiveness.

Spending on research and development at the Villeroy & Boch Group, including the development of designs, totalled Euro 13.3 million in 2012. Of this figure, Euro 9.1 million related to the Bathroom and Wellness Division and Euro 4.2 million to the Tableware Division.

In 2012, our holistic culture of innovation again led to innovative, prize-winning product concepts such as the Omnia Architectura DirectFlush WC. Further information on this product can be found in the Innovation and Innovation Management section.

In addition to developing new products, the Company is pursuing the goal of successively optimising its ceramics production on the basis of state-of-the-art scientific methods and findings, among other things. Continuous research has allowed energy efficiency and productivity especially in the manufacture of geometrically complex products to be increased significantly in recent years.

The SIMSAN project, which was continued successfully in 2012, is a research project aimed at exemplifying Villeroy & Boch's traditional innovative strength and documenting process optimisation with a view to ecological sustainability. As part of this project, energy efficiency-optimised raw material mixtures are being researched with the aid of computer simulations and electron microscopy.

### Environmental Activities

Transparency, legal certainty and resource-friendly production are key factors in Villeroy & Boch's environmental activities. The EMAS certificate and the international environmental management standard ISO 14001 mean that Villeroy & Boch's environmental commitment is regularly reviewed by independent third parties. Many of Villeroy & Boch's sites have already been ISO 14001-certified and validated in accordance with EMAS.

EMAS, which stands for the Eco Management and Audit Scheme, was developed by the European Union and is the eco audit ordinance applicable for EU nations. It is a Community scheme comprising environmental management and environmental auditing for organisations that wish to improve their environmental performance. The EMAS directive (eco-audit directive) ascribes a crucial role to the individual responsibility of an economy to deal with its direct and indirect environmental impact and relates to a defined location.

While two of Villeroy & Boch's plants have been EMAS-validated since 2011 (fittings production in Vargarda, Sweden) and 2009 (sanitary ware plant in Mettlach, Germany), the validation process for the German locations in Torgau and Merzig in the Tableware Division began in 2012. Certification was still outstanding at the reporting date.

ISO 14001, however, is an international environmental management standard which defines globally recognised requirements for an environmental management system. It focuses on a process of continuous improvement as a means to achieve the respective defined environmental targets of an organisation. This process is based on the "planning – execution – monitoring –

optimisation" method. The two Tableware locations of Merzig and Torgau were subject to certification in late 2012; certification was still outstanding at the reporting date. A further six locations were already ISO 14001-certified at this date.

### Occupational Health and Safety

Health and safety – in both production and administration – are at the heart of Villeroy & Boch's activities. Occupational safety management focuses on compliance with the legally prescribed safety measures, prevention and employee awareness of health and safety aspects. In addition to the legally prescribed examinations on the performance of specific activities, Villeroy & Boch regularly offers its employees a range of health campaigns, such as medical checks.

### Innovation

Innovations may relate to the design of a product, the production methods used or their impact on the environment. These aspects are often closely interlinked. One example from the Bathroom and Wellness Division is the Omnia Architectura DirectFlush WC mentioned above. The special feature of the wall-mounted WC is the open, freely accessible rim, making it easier to clean and hence more hygienic than a conventional WC. Using state-of-the-art analysis and testing procedures supported by computer simulations, the water flows within the WC were designed in such a way as to ensure that they are directed precisely into the water lines and the place of use. With water consumption of just 3 or 4.5 litres, the product is a particularly water-saving model.

Activities in the Tableware Division focused in particular on the development of products aimed at the needs of specific target groups and that supplement the traditional portfolio (crockery, cutlery and drinking glasses) with additional products such as gift ideas and accessories.

Projects with design universities and the regular activities of the Group Innovation Committee provide systematic inspiration for product and concept development.

## OPPORTUNITIES

With the planned completion of the sale of the Saltillo sanitary ware plant in Mexico, which primarily produced goods for the Mexican mass market, Villeroy & Boch deliberately withdrew from low-margin project business. In the future, the Company's activities in the Americas will increasingly focus on marketing high-quality ceramic sanitary ware products. To this end, Villeroy & Boch USA entered into a sales partnership with TOTO USA in spring 2012. The alliance will provide Villeroy & Boch with direct access to a broad customer base and will open up considerable synergies in the areas of sales, service and logistics.

Company-specific opportunities for Villeroy & Boch are based on its strong brand and the continuous development of its product range, not least in cooperation with licence partners. Granting brand licences is seen as an instrument for brand capitalisation in the form of licence income, as well as a way of expanding Villeroy & Boch's product range beyond its current core portfolio. The aim is to accelerate the establishment of complete themed ranges in the areas of cooking, eating and living.

All marketing activities are aimed at continuing to provide the customer with innovative, modern concepts that meet their needs while reflecting changes in consumer behaviour and the latest trends. This includes incorporating technological developments in new product and, in particular, communication concepts at an early stage. The aim is to offer the consumer various channels for the provision of information. The Company intends to invest in targeted measures to increase its online presence with the objective of significantly increasing the number of visitors to its website around the world and to ultimately retain these visitors as customers or fans on social networks. Last but not least, the close interplay between online and stationary sales represents a significant opportunity that requires a differentiated approach depending on the respective division and market.

While the Tableware Division primarily focuses on establishing itself as a multi-channel provider, the service range and the targeted direction of customers to specialist installers play a dominant role in the Bathroom and Wellness Division.

Activities in the saturated markets are primarily focused on reinforcing and expanding our market share, whereas our approach in the growth markets is geared towards increasing brand awareness and hence establishing ourselves on the respective market.

Villeroy & Boch has identified China and Russia as the markets offering the greatest growth potential. Both markets are characterised by a growing middle and upper class of keen consumers with strong brand affinity. In the past year, the rapid establishment of a distribution network in Russia was accelerated thanks to the creation of a separate organisation including a local logistics platform. For China, the establishment of such an organisation is planned for this year in order to meet the conditions for further expansion in "Tier 2/3" cities with a population in excess of one million.

Villeroy & Boch believes that there is good potential for increasing the sales volume in its global hotel and project business. The continuous development of customer relationship management means that the majority of projects are recorded and communicated across the divisions as early as the planning stage. Thanks to the adjustments to its industrial network and the optimisation of its cost structures in recent years, the Company believes that it is well equipped to increase both revenues and earnings in its price-sensitive project business in future.

Outside of the Group's operating business, Villeroy & Boch believes that there is considerable earnings potential amounting to more than Euro 50 million in the development and marketing of properties that are no longer required for operating purposes, such as in Luxembourg and Sweden. At the Gustavsberg location in Sweden, preparations for the sale of the property are at an advanced stage, and declarations of intent were signed with potential buyers in the past year.

## RISKS

### Risk Management at the Villeroy & Boch Group

The Company's management is committed to the long-term survival of Villeroy & Boch and the maintenance of its independence. To this extent, it is important that the Company and its long-term enterprise value grow sustainably. The Group also believes that it is important to retain its shareholders on a long-term basis.

Business activities involve both opportunities and risks. In terms of day-to-day business, aside from general economic and industry-specific risks, the Villeroy & Boch Group is exposed to the usual financial and economic risks.

In accordance with Villeroy & Boch's approach to risk, these business risks are identified, evaluated and, where it is economically reasonable to do so, minimised or avoided. 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. The Villeroy & Boch Group has a functional and effective risk management system with a clear functional organisation.

### Risk management system

Villeroy & Boch's risk management system covers all areas at the company and allocates clear responsibilities and duties to all organisational units.

In this system, the Management Board defines the principles of risk policy together with the general principles of corporate strategy and their implementation and ensures that they are monitored. The Group-wide Code of Conduct limiting the risks of possible breaches of the law and regulations is a further component of this system.

Various coordinated risk management, planning and control systems have been put in place in implementing the system as a whole with aim of recognising developments that could jeopardise the company's continued existence in good time and taking appropriate and effective countermeasures.

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. The allocation of risk management to the respective process responsibilities ensures that all areas of the Group are involved. 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 existing Group-wide decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.

At the same time, Group Internal Audit is responsible for identifying, independently evaluating and assessing risks (identification and evaluation function) and presenting the resulting recommendations for improvement (advisory function) and implementing them (tracking function).

The Audit Committee of the Supervisory Board is also integrated in this system. As part of its activities, it monitors the effectiveness of the risk management, internal control and internal audit system and, in particular, the financial reporting process. In this connection, it also exercises a control function with regard to the measures to limit the principal risks.

### General market risks

We monitor and analyse the macroeconomic data and economic and industrial developments having particular relevance to our business on a continuous basis. From these observations, the 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. The specific risks that could arise from the overall economic environment or the industry are presented in the economic outlook.

### Financial and economic risks

As an international Group, Villeroy & Boch is exposed to a number of financial and economics risks. In particular, these are:

- Risks associated with inventories, defaults and credit-worthiness
- Liquidity risks
- Market price risks (exchange rate, interest rate and other price risks)

Financial risk is managed globally by the central Group Treasury. 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, potential usage and changes to individual items. Further information can be found in sections 6 and 11 of the notes to the consolidated financial statements. There is no significant concentration of inventory risks within the Villeroy & Boch Group. There were no changes in the type or extent of these risks or the risk management and measurement methods in the 2012 financial year.

Management of credit and default risks: Credit and default risks describe the uncertainty that a contractual party will fail to meet its contractual obligations. In order to minimise these risks, the guidelines for the Villeroy & Boch Group 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 reporting and a limit system. Compliance with limits is monitored centrally. Villeroy & Boch counteracts potential default risk by receiving collateral deposited by customers (guarantees, mortgages, etc.) 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, 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 only deals with contract partners with an investment grade rating of at least A-/A3 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 credit and default risks within the Villeroy & Boch Group. There were no changes in the type or extent of these risks or the risk management and measurement methods in the 2012 financial year.

Management of liquidity risks: In order to ensure the permanent solvency and financial flexibility of Villeroy & Boch, the Group controls 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 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. Villeroy & Boch utilises international cash pooling systems in order to reduce external finance volumes and optimise its financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit this in exceptional cases. There is no significant concentration of liquidity risks within the Villeroy & Boch Group. There were no changes in the type or extent of these risks or the risk management and measurement methods in the 2012 financial year. Further information on the management of liquidity risks can be found in section 54 of the notes to the consolidated financial statements.

Management of exchange rate risks: In the course of its global business activities, the Group is exposed to exchange rate risk arising from transactions in foreign currencies. Currency futures contracted with first-class banks are employed as hedging transactions. The Villeroy & Boch Group hedges 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. The volume of foreign-currency transactions increased by around 24 % compared with the previous year as a result of the increased sales activities outside Germany and in the Group's growth markets. 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 Villeroy & Boch Group. There were no changes in the type or extent of these risks or the risk management and measurement methods in the 2012 financial year. Further information on the management of exchange rate risks can be found in section 54 of the notes to the consolidated financial statements.

Management of interest rate risks: Interest rate risk occurs 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 managed by way of fixed-interest loan agreements. There were no changes in interest risk positions or the risk management and measurement methods in the 2012 financial year. Further information on the management of interest rate risks can be found in section 54 of the notes to the consolidated financial statements.

Management of other price risks: These risks result from changes in the price of purchased commodities used in the Villeroy & Boch Group's value chain, such as raw materials and supplies. As part of its risk management activities, the Group identifies 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 first-class banks. 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 modification in the management of brass price risks in the past financial year. On conclusion of the contract, the volume cover is checked between the hedge and the actual requirements for the duration of the hedge. Changes in the prices in the contract and the underlying price change in the hedged commodity are compared as at the end of each reporting period. In 2012, 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 Villeroy & Boch Group. There were no changes in the type or extent of these risks or the risk management and measurement methods in the 2012 financial year. Further information on the management of commodity price risks can be found in section 54 of the notes to the consolidated financial statements.

### Risks from pension obligations

The Villeroy & Boch Group has pension and pension-related obligations for the provision of retirement benefits to its employees. Changes in the relevant measurement parameters, such as interest rates, mortality rates and the rate of salary growth, may lead to an increase in the volume of these obligations. An increase in the present value of pension obligations serves to impact earnings in the form of additional expenses. Actuarial losses, which are currently not recognised within the defined corridor, will be required to be adjusted against equity from 1 January 2013. Pension provisions are described in section 26 of the notes to the consolidated financial statements.

### Legal risks

During the EU anti-trust proceedings (COMP/E-1/39.092 – PO/ Bathroom Fittings and Fixtures), the European Commission imposed a fine totalling Euro 71.5 million on the Villeroy & Boch Group on 23 June 2010 for alleged violations of anti-trust law. Villeroy & Boch has filed an action for the annulment of this ruling with the General Court of the European Union. This action remains pending. A verdict is expected in early 2014.

The German Federal Cartel Office is investigating the German porcelain industry and has conducted searches at an industry association and competitors. Villeroy & Boch has not been searched. We do not expect this matter to have negative consequences for us.

The claims against Villeroy & Boch Gustavsberg AB due to the unjustified termination of a licence agreement and breach of copyright have been rejected, meaning that Villeroy & Boch Gustavsberg AB has won the respective case.

### Tax risks

Like all commercial enterprises, Villeroy & Boch is subject to the ongoing examination by the German fiscal authorities of its tax declarations and payments. In quantitative terms, the largest share of the Group's business volume relates to Villeroy & Boch AG.

In 2012, the external tax audit for the financial years 2005 to 2007 was continued. The audit is currently still at the factual analysis stage. As yet, there are no material findings with regard to risks identified in the course of this audit at Villeroy & Boch AG.

The external wage tax audit for the period from 2008 to 2011 began in October 2012. The audit is also currently still at the factual analysis stage. A provision has been recognised for potential risks arising as a result of the findings of the preliminary audit.

### Procurement and sales market risks

The 2013 financial year is expected to see a similar situation on the procurement markets as in the previous year: while most commodity prices are set to move sideways or increase only moderately, individual product groups (e.g. precious metals) are expected to experience considerable price growth due to excess demand or uncertainty concerning economic development. Procurement costs in Asia are also set to rise further. For Germany, the agreement of a 1.7ct/kWh increase in the EEG charge for electricity means that there will be a double-digit increase in electricity prices. The introduction of additional charges to finance the transmission of wind energy and the maintenance of reserve capacities for power generation, which are currently being discussed at a political level, would lead to an even larger rise in electricity prices.

Generally speaking, however, estimates concerning the development of the procurement markets are subject to the continued and substantial lack of clarity with regard to future economic development, meaning that reliable forecasts of price movements in 2013 and the resulting assessment of opportunities and risks in the area of procurement currently involve a high degree of uncertainty.

### Risks from the use of information technology

IT risks relate in particular to the non-availability of IT systems and applications, the delayed provision of important data, the loss or manipulation of data and the disclosure of confidential information. There are detailed Group-wide guidelines and provisions for dealing with information technology. In 2011, the external IT service provider was certified in accordance with ISO 27001, thereby guaranteeing recognised high standards for data protection and security. The Villeroy & Boch Group uses stable and redundant IT systems, back-up procedures, virus protection software, access controls, encryption systems and integrated IT infrastructures and applications.

### Overall risk position

There are no risks that could endanger the continued existence of Villeroy & Boch. The aforementioned individual risks are managed within the risk management system. We do not expect this to have a material influence on the Group's net assets, financial position and results of operation.

### Internal Control System

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 consolidated financial reporting process, including the financial reporting processes of the companies included in consolidation, in accordance with section 315 (2) no. 5 HGB. The risk management system encompasses all organisational provisions and measures aimed at identifying and dealing with business risks. Accordingly, an internal control system is defined as those principles, processes and measures introduced by a company's management with a view to the organisational implementation of management decisions

- to ensure the effectiveness and efficiency of the company's business activities, including the protection of assets and the prevention and coverage of asset losses;
- to ensure the correctness and reliability of accounting and internal and external financial reporting; and
- to ensure compliance with the statutory provisions that are relevant to the company.

The additional disclosures on the structures introduced at Villeroy & Boch and the key characteristics of the internal control and risk management system, particularly those that could have a significant influence on consolidated financial reporting, are based on this definition.

The principles, organisational structure, workflows and processes of the internal control and risk management system with respect to consolidated financial reporting are set out in the relevant specialised Group-wide guidelines that are continuously adjusted to reflect external and internal developments. The provisions contained in these guidelines are based on mandatory legal standards as well as company standards that are defined on a voluntary basis. At an organisational level, this is also reflected in a degree of centralisation that varies from area to area depending on usefulness and materiality considerations and the respective cost/benefit ratio. While the operational functions are oriented as close to the market as possible, services in the areas of financial accounting, IT, financing, the procurement of raw materials and energy capacities primarily used in production, and legal and tax advisory services are, to a large extent, provided on a Group-wide basis.

In particular, the key characteristics of the internal control and risk management system that could have a significant influence on consolidated financial reporting are as follows:

- The Villeroy & Boch Group is characterised by a clear organisational, corporate, controlling and monitoring structure.
- Planning, reporting, controlling and early warning systems and processes have been agreed and reconciled on a Group-wide basis for the comprehensive analysis and management of risk factors affecting the Group's earnings and risks that could endanger the continued existence of the Group. Risk management with regard to the consolidated financial reporting process is integrated into Villeroy & Boch's general risk management system.
- Functions in all areas of the accounting and consolidation process (e.g. financial accounting, controlling, Group reporting, Group treasury) are clearly allocated.
- The completeness and correctness of financial reporting data is examined regularly on the basis of spot checks and plausibility checks, as well as manual controlling and using the software employed. Risk-, process- and content-oriented controls are installed at a divisional level.
- Key processes of relevance to financial reporting are analysed on a regular basis.
- The principle of dual control is applied for all key processes of relevance to financial reporting, and functional separation is also applied in some cases.
- The proper IT-based processing of transactions and data relating to consolidated financial reporting is ensured in particular through the use of a uniform standard software system for processing all accounting-related data at the Group companies.
- Logical access to the IT systems and the granting of functional authorisations are strictly and systematically regulated through appropriate workflows and measures.
- Internal audit forms part of the internal monitoring and opportunity/risk management system and has a corresponding Group-wide mandate delegated by the Management Board. Using a systematic target- and risk-oriented approach, the functionality and effectiveness of the internal control and risk management system and other aspects are examined and assessed primarily on a test basis. Where weaknesses are identified, proposals for improvement are developed and agreed in conjunction with the units under review and their implementation is regularly monitored on the basis of an established follow-up process.

To the extent prescribed by law, the Audit Committee of the Supervisory Board continues to monitor the effectiveness of the internal control, risk management and internal audit system and the audit of the financial statements, among other things, in accordance with section 107 (3) sentence 2 of the German Stock Corporation Act (AktG). The suitability of the risk early warning system is also regularly examined by Villeroy & Boch AG's auditors as part of their statutory audit of the single-entity and consolidated financial statements and the (Group) management report.

With regard to the consolidated financial reporting process, the points described above serve to ensure that business transactions and events are identified and processed correctly and in full and financially assessed. The appropriate human resources, the use of adequate software and clear statutory and internal provisions form the basis for the proper, uniform and continuous financial reporting process. The clear demarcation between areas of responsibility and various control and review mechanisms serve to ensure correct and responsible financial reporting. In the process, the control system relating to financial reporting, irrespective of the degree of care with which it is set up and operated, is able to provide appropriate but not absolute certainty that all errors will be avoided or all wrong assessments identified in a timely manner.

In view of the continual and complex changes in the regulatory environment, the effectiveness of the internal control system is reviewed on a regular basis.

## EVENTS OF PARTICULAR IMPORTANCE AFTER THE END OF THE 2012 FINANCIAL YEAR

There were no events of particular importance after the end of the 2012 financial year.

## PRINCIPLES OF THE REMUNERATION SYSTEM

In past financial years, the Supervisory Board examined the remuneration system for the Management Board with respect to the changes in statutory requirements resulting from the German Act on the Appropriateness of Management Board remuneration, which came into force on 31 July 2009, and the recommendations of the German Corporate Governance Code and made adjustments where it considered this to be necessary or otherwise appropriate.

The Supervisory Board obtained advice in this matter from an independent remuneration consultant. The Supervisory Board continues to regularly review the remuneration system for the Management Board.

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 more than 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, both variable remuneration components are oriented towards the Company's financial targets (return on 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 2012 financial year. Performance targets and remuneration parameters cannot be amended subsequently. 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, 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 either in a vertical comparison or in a horizontal comparison with reference companies.

Supervisory Board remuneration is also composed 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.

## DISCLOSURES IN ACCORDANCE WITH SECTION 315 (4) HGB

With respect to the disclosures in accordance with section 315 (4) HGB, reference is made to note 17 (issued capital) and note 25 (voting right notifications) of the notes to the consolidated financial statements. The disclosure requirements set out in section 315 (4) no. 6 HGB are satisfied in accordance with section 84 AktG (management appointment and dismissal) and sections 179 ff. AktG (amendments to the articles of association).

## DECLARATION BY THE MANAGEMENT BOARD

With regard to the declaration by the Management Board required by section 289a HGB (new version), reference is made to the version printed in the Corporate Governance Report contained in the 2011 Annual Report, which is also available online at *www.villeroy-boch.com/corporate-governance*.

## GROUP OUTLOOK

Over the next year, we expect economic development in our most important sales markets to move sideways and are only forecasting a marginal economic upturn on the whole. Irrespective of the increase in electricity taxes in Germany, the expected stability of global energy prices and the slow reduction in inflation in the euro zone will have a stabilising effect.

However, there remains a risk that the unresolved sovereign debt crisis and the fragile sentiment in the financial sector will result in further disruptions and setbacks in 2013.

### Revenue, earnings and investments at the Group

Despite these modest macroeconomic conditions, Villeroy & Boch is aiming to increase its consolidated revenue by between 3 % and 5 % in 2013. This development will be driven by the planned investments in the high-growth markets of Russia and Asia, as well as organic growth in the saturated markets of Europe.

We expect earnings growth in 2013 (EBIT) to be significantly higher than the forecast revenue growth, i.e. in excess of 5 %.

The planned investments in the growth markets will mainly be financed by further stringent cost management. In the global production network, systematic and sustainable productivity and quality improvements in particular will contribute to improved margins.

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

At around Euro 35 million, investments in property, plant and equipment in the coming year will be in line with the level of depreciation. Key areas in 2013 will be the further automation of production locations outside Germany, the completion of the expansion of sanitary ware production in Thailand, and investments in the Group's own retail activities. Around 60 % of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 40 %.

## DIVIDEND PROPOSAL

At the General Meeting of Shareholders on 22 March 2013, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend as follows:

| | |
|---|---|
| 0.35 Euro | per ordinary share |
| 0.40 Euro | per preference share |

This represents a total dividend distribution of Euro 10.5 million. This amount will change by the share of dividends related to treasury holdings of preference stock at the time the payment is made.

# CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

# 2012

# CONSOLIDATED INCOME STATEMENT

from 1 January to 31 December 2012

| In Euro million | Notes | 2012<br>01/01/– 31/12/ | 2011<br>01/01/– 31/12/ |
|---|---|---|---|
| **Revenue** | 33 | **743.6** | **742.9** |
| Costs of sales | 34 | – 420.6 | – 433.2 |
| **Gross profit** | | **323.0** | **309.7** |
| Selling, marketing and development costs | 35 | – 244.1 | – 235.8 |
| General administrative expenses | 36 | – 47.5 | – 46.1 |
| Other operating income | 37 | 17.1 | 25.4 |
| Other operating expenses | 38 | –18.1 | –16.5 |
| Result of associates accounted for using the equity method | 39 | 0.5 | 0.3 |
| **Operating result (EBIT)** | | **30.9** | **37.0** |
| Interest income | 40 | 1.0 | 1.0 |
| Other finance income | 40 | 0.2 | 0.0 |
| Interest expenses | 41 | –13.7 | –12.2 |
| **Financial result** | | **–12.5** | **–11.2** |
| **Earnings before taxes** | | **18.4** | **25.8** |
| Income taxes | 42 | – 3.7 | – 7.5 |
| **Group result** | | **14.7** | **18.3** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 14.7 | 18.3 |
| Minority interests | 43 | 0.0 | 0.0 |
| | | **14.7** | **18.3** |
| | | | |
| **Earnings per share** | | In Euro | In Euro |
| Earnings per ordinary share | 44 | 0.53 | 0.67 |
| Earnings per preference share | 44 | 0.58 | 0.72 |

During the reporting period there were no dilution effects.

# CONSOLIDATED BALANCE SHEET

as at 31 December 2012

## Assets

| In Euro million | Notes | As at 31/12/2012 | As at 31/12/2011 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 5 | 38.0 | 37.4 |
| Property, plant and equipment | 6 | 145.1 | 151.1 |
| Investment property | 7 | 14.0 | 15.5 |
| Investments accounted for using the equity method | 8 | 1.0 | 0.9 |
| Other financial assets | 9 | 9.1 | 10.2 |
| | | **207.2** | **215.1** |
| Other non-current assets | 13 | 0.1 | 0.4 |
| Deferred tax assets | 10 | 36.5 | 38.6 |
| | | **243.8** | **254.1** |
| **Current assets** | | | |
| Inventories | 11 | 150.9 | 146.0 |
| Trade receivables | 12 | 108.4 | 106.3 |
| Other current assets | 13 | 20.5 | 19.1 |
| Income tax claims | 14 | 2.9 | 2.2 |
| Cash and cash equivalents | 15 | 55.3 | 59.2 |
| | | **338.0** | **332.8** |
| **Non-current asset held for sale** | 16 | **10.0** | **11.4** |
| **Total assets** | | **591.8** | **598.3** |

## Equity and Liabilities

| In Euro million | Notes | As at 31/12/2012 | As at 31/12/2011 |
|---|---|---|---|
| **Equity attributable to Villeroy & Boch AG shareholders** | | | |
| Issued capital | 17 | 71.9 | 71.9 |
| Capital surplus | 18 | 193.6 | 193.6 |
| Treasury shares | 19 | –15.0 | –15.0 |
| Retained earnings | 20 | –72.6 | –76.3 |
| Valuation surplus | 21 | 12.0 | 6.6 |
| | | **189.9** | **180.8** |
| **Equity attributable to minority interests** | 22 | **0.1** | **0.1** |
| **Total equity** | | **190.0** | **180.9** |
| **Non-current liabilities** | | | |
| Provisions for pensions | 26 | 136.6 | 140.7 |
| Non-current provisions for personnel | 27 | 17.3 | 16.4 |
| Other non-current provisions | 28 | 3.0 | 5.0 |
| Non-current financial liabilities | 29 | 50.0 | 50.0 |
| Other non-current liabilities | 30 | 3.4 | 3.6 |
| Deferred tax liabilities | 10 | 11.0 | 12.1 |
| | | **221.3** | **227.8** |
| **Current liabilities** | | | |
| Current provisions for personnel | 27 | 12.6 | 12.0 |
| Other current provisions | 28 | 27.7 | 32.6 |
| Current financial liabilities | 29 | 1.3 | 1.3 |
| Other current liabilities | 30 | 73.9 | 76.7 |
| Trade payables | 31 | 60.9 | 61.4 |
| Income tax liabilities | | 4.1 | 4.4 |
| | | **180.5** | **188.4** |
| **Liabilities directly associated with the assets classified as held for sale** | 32 | **–** | **1.2** |
| **Total liabilities** | | **401.8** | **417.4** |
| **Total equity and liabilities** | | **591.8** | **598.3** |

# CONSOLIDATED STATEMENT OF EQUITY

from 1 January to 31 December 2012

| In Euro million | Equity attributable to Villeroy & Boch AG shareholders: Issued capital | Capital surplus | Treasury shares | Retained earnings | Valuation surplus | Total | Equity attributable to minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Notes | 17 | 18 | 19 | 20 | 21 | | 22 | |
| **As at 01/01/2011** | **71.9** | **193.6** | **–15.0** | **–82.4** | **5.0** | **173.1** | **0.1** | **173.2** |
| Group result | | | | 18.3 | | 18.3 | 0.0 | 18.3 |
| Other comprehensive income* | | | | –6.0 | 1.6 | –4.4 | | –4.4 |
| **Total comprehensive income net of tax** | | | | **12.3** | **1.6** | **13.9** | **0.0** | **13.9** |
| Dividend payments | | | | –6.2 | | –6.2 | | –6.2 |
| Acquisition of non-controlling interests | | | | 0.0 | | 0.0 | 0.0 | 0.0 |
| **As at 31/12/2011** | **71.9** | **193.6** | **–15.0** | **–76.3** | **6.6** | **180.8** | **0.1** | **180.9** |
| | | | | | | | | |
| **As at 01/01/2012** | **71.9** | **193.6** | **–15.0** | **–76.3** | **6.6** | **180.8** | **0.1** | **180.9** |
| Group result | | | | 14.7 | | 14.7 | 0.0 | 14.7 |
| Other comprehensive income* | | | | –1.1 | 5.4 | 4.3 | | 4.3 |
| **Total comprehensive income net of tax** | | | | **13.6** | **5.4** | **19.0** | **0.0** | **19.0** |
| Dividend payments | | | | –9.9 | | –9.9 | | –9.9 |
| **As at 31/12/2012** | **71.9** | **193.6** | **–15.0** | **–72.6** | **12.0** | **189.9** | **0.1** | **190.0** |

* The other comprehensive income consists of amounts, which will be recycled at income statement.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

as at 31 December 2012

| In Euro million | 2012 | | 2011 | |
|---|---|---|---|---|
| **Group result** | | **14.7** | | **18.3** |
| **Other comprehensive income** | | | | |
| **Gains or losses on cash flow hedges (cf. no. 21c)** | | | | |
| Changes recognised directly in the valuation surplus | 1.2 | | –1.5 | |
| Changes transferred from the valuation surplus to the Group result | 2.0 | | –1.5 | |
| | | **3.2** | | **–3.0** |
| **Changes due to foreign currency translation recognised directly in equity** | | | | |
| Conversion of retained earnings in the financial statements of foreign subsidiaries (cf. no. 20) | –1.1 | | –6.0 | |
| Conversion of valuation surpluses in the financial statements of foreign subsidiaries (cf. no. 21a) | 1.2 | | 2.4 | |
| Conversion of net investments in foreign business operation (cf. no.21b) | 1.0 | | 2.9 | |
| | | **1.1** | | **–0.7** |
| **Income taxes offset directly against the valuation surplus (cf. no. 21d)** | | **0.0** | | **–0.7** |
| **Total other comprehensive income** | | **4.3** | | **–4.4** |
| **Total comprehensive income net of tax** | | **19.0** | | **13.9** |
| Thereof attributable to: | | | | |
| Villeroy & Boch AG shareholders | | 19.0 | | 13.9 |
| Minority interests | | 0.0 | | 0.0 |
| | | **19.0** | | **13.9** |

* The other comprehensive income consists of amounts, which will be recycled at income statement.

# CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 December 2012

| In Euro million | Notes | 2012 01/01/ – 31/12/ | 2011 01/01/ – 31/12/ |
|---|---|---|---|
| Group result | | 14.7 | 18.3 |
| Depreciation of non-current assets | 45 | 27.0 | 27.4 |
| Change in non-current provisions | | –14.9 | –14.2 |
| Profit from disposal of fixed assets | | – 2.0 | –10.8 |
| Change in inventories, receivables and other assets | | – 9.4 | 3.8 |
| Change in liabilities, current provisions and other liabilities | | 0.0 | 0.0 |
| Taxes paid/received in the financial year | | – 2.6 | – 3.7 |
| Interest paid in the financial year | | – 4.2 | – 3.9 |
| Interest received in the financial year | | 0.9 | 0.7 |
| Other non-cash income/expenses | 49 | 11.1 | 16.3 |
| **Cash Flow from operating activities** | 49 | **20.6** | **33.9** |
| Purchase of intangible assets, property, plant and equipment | | – 26.4 | – 25.6 |
| Investment in non-current financial assets and cash payments | | 0.0 | – 0.2 |
| Cash receipts from disposals of fixed assets | | 12.0 | 20.3 |
| **Cash Flow from investing activities** | 50 | **–14.4** | **– 5.5** |
| Change in financial liabilities | | – 0.1 | – 0.1 |
| Cash payments for the acquisition of non-controlling interests | | – | 0.0 |
| Dividend payments | 23 | – 9.9 | – 6.2 |
| **Cash Flow from financing activities** | 51 | **–10.0** | **– 6.3** |
| **Sum of cash flows** | | **– 3.8** | **22.1** |
| | | | |
| **Balance of cash and cash equivalents as at 01/01/** | | **59.2** | **37.0** |
| Change based on total cash flows | | – 3.8 | 22.1 |
| Changes due to exchange rates | | – 0.1 | 0.1 |
| Change in consolidated companies | 2 | 0.0 | – |
| **Net increase in cash and cash equivalents** | | **– 3.9** | **22.2** |
| **Balance of cash and cash equivalents as at 31/12/** | 15+52 | **55.3** | **59.2** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF VILLEROY & BOCH AG, METTLACH, FOR THE 2012 FINANCIAL YEAR

## GENERAL INFORMATION

Villeroy & Boch AG, Saaruferstraße 1-3, Mettlach, is a listed public limited company under German law and acts as the parent company to the Villeroy & Boch Group. The Villeroy & Boch Group is an internationally established Group whose activities as a leading lifestyle provider are focused on the Bathroom and Wellness and Tableware segments. Villeroy & Boch AG is listed in the Prime Standard operated by Deutsche Börse AG.

In line with section 315 of the HGB (German Commercial Code), the consolidated financial statements as of 31 December 2012 were prepared in accordance with the current provisions of the International Accounting Standards Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All accounting policies endorsed by the European Commission effective for the financial year beginning on 1 January 2012 were applied. The consolidated financial statements are supplemented by additional explanatory notes in accordance with section 315a 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 (Euro million).

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

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 25 January 2013. 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 Villeroy & Boch in accordance with the relevant provisions.

## 1. ACCOUNTING PRINCIPLES

### 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 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 (asset value) and the value in use (capitalised earnings value) 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 including depreciation. 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 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 | 6–12 |
| Vehicles | 4–8 |
| IT equipment | 3–6 |
| Other operating and office equipment | 3–10 |

The estimated useful lives are reviewed regularly.

In addition to extraordinary 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 all the risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised directly 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.

### Government grants

Grants are only recognised when it is certain that the Group has met the respective conditions 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 generally determined on the basis of the official land value maps, taking into account appropriate premiums or discounts for the respective property.

### Investments accounted for using the equity method

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. Under IAS 39, each financial instrument is allocated to one of four categories in accordance with the classification described in note 54 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. 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
Trade receivables and other current receivables are recognised at cost on acquisition. Impairment losses are recognised if the carrying amount of the receivable is higher than the present value of the future cash inflow. Impairment is used to adequately reflect the default risk, while actual cases of default result in the derecognition of the respective asset.

### Cash and cash equivalents
Cash and 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 nominal amount. 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 is 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, which may result from a change in the discount factor or the difference between expected and actual income from the fund assets, are calculated at the start of the financial year and, up to a range of 10 % of the total obligation, are not taken into account (corridor method). Amounts outside this range are allocated in profit or loss over the average remaining working life of the respective employees. 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 non-current liabilities are recognised at fair value. Current liabilities are carried at their repayment amount.

### Contingent liabilities
Contingent liabilities are possible obligations, predominantly arising from guarantees and liabilities on bills, 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 is recognised at the fair value of the consideration received or due less any rebates or other discounts. Revenue, commission income and other operating income are recognised when the respective goods have been provided or the services rendered and substantially all the risks and rewards of ownership

have been transferred to the customer. Usage fees are recognised on a straight-line basis over the agreed period. Dividend income is recognised when a legal claim to payment arises. Interest income is deferred on the basis of the nominal amount and the agreed 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.

### 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. Both current and deferred taxes are recognised in profit or loss unless they are associated with items recognised outside profit or loss, in which case the corresponding taxes are also recognised outside profit or loss.

**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 recognised for temporary differences between the consolidated statement of financial position and the tax base, as well as for tax reduction claims arising from the expected future utilisation of existing tax loss carryforwards. Deferred taxes are calculated on the basis of the tax rates that are expected to apply when the temporary differences between the financial statements and the tax base are reversed. In accordance with IAS 1, deferred tax assets and deferred tax liabilities are generally classified as non-current in the statement of financial position.

### Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and/or estimates are required to a certain extent. These may affect 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, 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. 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.

### Modifications due to the adoption of accounting principles

With the exception of the IASC publications mandatory for the first time in the financial year, the accounting policies applied are the same as those applied in the previous year.

An amendment to IFRS 7 “Financial Instruments” has introduced reporting obligations for financial assets that have been transferred but not yet derecognised and the corresponding financial liabilities, for example.

The regulations effective for the first time in the 2012 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on new developments within the IASB Framework can be found in note 63.

## 2. BASIS OF CONSOLIDATION

In addition to Villeroy & Boch AG, the consolidated financial statements include all 16 (previous year: 15) German and 42 (previous year: 42) foreign subsidiaries in which Villeroy & Boch AG directly or indirectly holds a majority of the voting rights. The simplification options provided by section 264(3) HGB for the audit and publication of financial statements were exercised for Sanipa Badmöbel Treuchtlingen GmbH and Villeroy & Boch Creation GmbH. The list of shareholdings in accordance with section 313 (2) HGB is shown in note 62.

The changes to the Villeroy & Boch Group are as follows:

| Villeroy & Boch AG and consolidated companies: | Germany | Abroad | Total |
|---|---|---|---|
| As at 1 January 2012 | 16 | 42 | 58 |
| Additions due to acquisition (a) | – | 1 | 1 |
| Additions due to new companies (b) | 1 | – | 1 |
| Disposals due to mergers (c) | – | –1 | –1 |
| **As at 31 December 2012** | **17** | **42** | **59** |

(a) Additions due to acquisition:
With effect from 2 January 2012, the Group acquired 100 % of the voting shares in the Finnish company Famelco Oy, which was subsequently renamed Villeroy & Boch Tableware Oy. The company is included in Villeroy & Boch's consolidated financial statements from this date. The net assets, which primarily consist of the acquired customer base, are carried at fair value. A purchase price of Euro 0.5 million was paid in cash. Since being acquired by the Group, the company has generated revenue of Euro 0.3 million.

(b) Additions due to new formation:
In the Tableware Division, Sales Design Vertriebsgesellschaft mbH, Merzig, was formed on 24 July 2012.

(c) Disposals due to mergers
In order to simplify the Villeroy & Boch Group's holding structure, Villeroy & Boch Immobilier S.à.r.l., Paris (France) was merged into Villeroy et Boch S.A.S., Paris (France) with retrospective effect from 1 January 2012.

| Name | Registered office | Activity | Interest |
|---|---|---|---|
| Villeroy et Boch S.A.S. | Paris, France | Production | 100 % |
| Villeroy & Boch Immobilier S.à.r.l. | Paris, France | Property company | 100 % |

## 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 policies and consolidated in accordance with IAS 27. The end of the reporting period for the consolidated companies is the same as that of the parent company.

The consolidated financial statements include the transactions of those companies in which the Villeroy & Boch Group holds a majority of the voting rights, either directly or indirectly, or over which it exercises economic control to the extent that the majority of the risks and rewards arising from the activities of the company can be allocated to the Group. This is generally the case for equity interests in excess of 50 %. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.

As part of capital consolidation, the carrying amounts 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. 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.

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 accordingly.

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. Intercompany profits and losses for such companies were insignificant in the years under review.

The consolidation principles and accounting policies 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 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). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21). When consolidated companies leave the consolidated group, any translation differences previously taken directly to equity are reversed to profit or loss.

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

| Currency | | **Exchange rate at end of reporting period** | | **Average exchange rate** | |
|---|---|---|---|---|---|
| 1 Euro = | | **2012** | **2011** | **2012** | **2011** |
| Mexican peso | MXN | 17.18 | 18.05 | 17.06 | 17.27 |
| Swedish krona | SEK | 8.58 | 8.91 | 8.73 | 9.03 |
| US dollar | USD | 1.32 | 1.29 | 1.29 | 1.40 |
| Hungarian forint | HUF | 292.30 | 314.58 | 289.53 | 278.54 |

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 5. INTANGIBLE ASSETS

Intangible assets developed as follows:

| In Euro million | Concessions, patents, licences and similar rights | Goodwill | Total |
|---|---|---|---|
| **Accumulative cost** | | | |
| **As at 1 January 2011** | **20.2** | **39.9** | **60.1** |
| Currency adjustments | – 0.1 | 0.0 | – 0.1 |
| Additions | 0.7 | – | 0.7 |
| Disposals | – 2.3 | – | – 2.3 |
| Reclassifications | 0.0 | – | 0.0 |
| **As at 1 January 2012** | **18.5** | **39.9** | **58.4** |
| Currency adjustments | 0.0 | 0.2 | 0.2 |
| Additions | 1.8 | – | 1.8 |
| Disposals | –1.6 | – | –1.6 |
| **As at 31 December 2012** | **18.7** | **40.1** | **58.8** |
| **Accumulative amortisation and impairment** | | | |
| **As at 1 January 2011** | **12.6** | **8.8** | **21.4** |
| Currency adjustments | – 0.1 | – | – 0.1 |
| Amortisation | 0.9 | – | 0.9 |
| Impairment losses | 0.0 | – | 0.0 |
| Disposals | –1.2 | – | –1.2 |
| **As at 1 January 2012** | **12.2** | **8.8** | **21.0** |
| Currency adjustments | 0.0 | – | 0.0 |
| Amortisation | 0.9 | – | 0.9 |
| Disposals | –1.1 | – | –1.1 |
| **As at 31 December 2012** | **12.0** | **8.8** | **20.8** |
| **Residual carrying amounts** | | | |
| **As at 31 December 2012** | **6.7** | **31.3** | **38.0** |
| As at 31 December 2011 | 6.3 | 31.1 | 37.4 |

Concessions, patents, licences and similar rights mainly include capitalised software licences, capitalised key money for rented retail space in French subsidiaries and emission allowances.

In Germany, the Group has software licences amounting to Euro 1.4 million (previous year: Euro 1.7 million). New licences worth Euro 0.4 million were acquired in the past financial year (previous year: Euro 0.3 million). Write-downs on software amounted to Euro 0.2 million in the reporting year (previous year: Euro 0.5 million). Licences no longer required and already completely written down with an original cost of Euro 0.5 million (previous year: Euro 1.0 million) were disposed of.

As in the previous year, impairment testing did not give rise to any indication of impairment with regard to the capitalised key money with a carrying amount of Euro 2.9 million (previous year: Euro 2.9 million).

As at the end of the reporting period, $CO_2$ emission allowances were capitalised in the amount of Euro 0.8 million (previous year: Euro 0.7 million). This carrying amount is offset by equal liability items.

Goodwill in the amount of Euro 31.3 million (previous year: Euro 31.1 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. Adjusted for currency effects, the carrying amount rose by Euro 0.2 million. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 53.

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 2016 were discounted using an interest rate before income tax of 8.1 % p.a. (previous year: 9.8 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 7.4 % p.a. (previous year: 9.1 % p.a.). The present value calculated in this way was greater than the net assets of the division, meaning that no impairment loss was required to be recognised on this item.

In addition to the impairment test, a sensitivity analysis was also performed for the two divisions defined as cash-generating units. Changes in basic assumptions were assumed in these calculations. There were no additional impairment requirements in the event of either a Euro 1.0 million reduction in earnings or a 2 % increase in the discount rates used.

## 6. PROPERTY, PLANT AND EQUIPMENT

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

» See table on page 83

The Villeroy & Boch Group acquired property, plant and equipment in the amount of Euro 24.6 million (previous year: Euro 24.7 million), mainly as part of extension and rationalisation activities. Acquisitions focused on equipment for the further expansion of the centre of competence in Merzig (Tableware) and to expand capacity in Thailand, Eastern Europe and France (Sanitary Ware).

The disposals in the financial year in historical cost of Euro 26.9 million (previous year: Euro 68.3 million) and the accumulative depreciation of Euro 26.2 million (previous year: Euro 67.5 million) predominantly result from the scrapping of assets already written down in full that can no longer be used. This resulted in a total disposal of property, plant and equipment with a residual carrying amount of Euro 0.7 million (Euro 0.8 million).

Assets with a residual carrying amount of Euro 6.1 million (previous year: Euro 7.0 million) were reclassified from property, plant and equipment to "Non-current asset held for sale" (note 16) in the statement of financial position. These were the factory in Sweden available for sale with a residual carrying amount of Euro 5.5 million and the property of the former branch in Frankfurt/Main. The sanitary ware factory sold in Mexico in 2012 was reclassified in the previous year.

In the financial year, government grants in the amount of Euro 0.7 million (previous year: Euro 1.2 million) were offset against the cost of property, plant and equipment. Deferred income (see note 30) includes government grants in the amount of Euro 0.7 million as at the end of the reporting period (previous year: Euro 0.8 million). Euro 0.1 million of this (previous year: Euro 0.1 million) was reversed to profit or loss.

### Operating leases

In the 2012 financial year, rental expenses under operating leases amounted to Euro 34.2 million (previous year: Euro 32.6 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 32 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions.

Table: Development of property, plant and equipment

| In Euro million | Land and buildings | Technical equipment and machinery | Other equipment, operating and office equipment | Property, plant and equipment under construction | Total |
|---|---|---|---|---|---|
| **Accumulative cost** | | | | | |
| **As at 1 January 2011** | **224.7** | **357.0** | **100.2** | **12.0** | **693.9** |
| Currency adjustments | – 2.6 | – 3.1 | – 0.2 | – 0.1 | – 6.0 |
| Additions | 0.9 | 8.1 | 5.1 | 10.6 | 24.7 |
| Disposals | –17.8 | – 38.7 | –11.8 | 0.0 | – 68.3 |
| Reclassifications | –12.0 | 2.5 | 0.4 | – 9.4 | –18.5 |
| **As at 1 January 2012** | **193.2** | **325.8** | **93.7** | **13.1** | **625.8** |
| Currency adjustments | 1.3 | 3.2 | 0.2 | 0.1 | 4.8 |
| Additions | 0.4 | 9.4 | 7.3 | 7.5 | 24.6 |
| Disposals | – 0.5 | –19.3 | – 7.1 | – | – 26.9 |
| Reclassifications | –10.2 | 7.4 | 0.2 | –11.1 | –13.7 |
| **As at 31 December 2012** | **184.2** | **326.5** | **94.3** | **9.6** | **614.6** |
| **Accumulative depreciation and impairment** | | | | | |
| **As at 1 January 2011** | **142.2** | **302.9** | **86.7** | **–** | **531.8** |
| Currency adjustments | – 0.8 | – 2.5 | – 0.1 | – | – 3.4 |
| Depreciation | 5.3 | 14.7 | 5.4 | – | 25.4 |
| Impairment losses | – | – | – 0.1 | – | – 0,1 |
| Disposals | –17.5 | – 38.5 | –11.5 | – | – 67.5 |
| Reclassifications | – 9.1 | – 2.4 | – | – | –11.5 |
| **As at 1 January 2012** | **120.1** | **274.2** | **80.4** | **–** | **474.7** |
| Currency adjustments | 0.4 | 2.7 | 0.2 | – | 3.3 |
| Depreciation | 5.1 | 14.7 | 5.5 | – | 25.3 |
| Impairment losses | – | – | 0.0 | – | 0.0 |
| Disposals | – 0.5 | – 18.8 | – 6.9 | – | – 26.2 |
| Reclassifications | –7.6 | 0.0 | 0.0 | – | –7.6 |
| **As at 31 December 2012** | **117.5** | **272.8** | **79.2** | **–** | **469.5** |
| **Residual carrying amounts** | | | | | |
| **As at 31 December 2012** | **66.7** | **53.7** | **15.1** | **9.6** | **145.1** |
| As at 31 December 2011 | 73.1 | 51.6 | 13.3 | 13.1 | 151.1 |

Income of Euro 0.2 million was generated from subletting unused properties with current leases (previous year: Euro 0.2 million). Any ancillary costs and other obligations are borne by the sublessors. The subleases end no later than the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

| In Euro million | Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| **Future lease payments** | | | |
| as at 31 December 2012 | 18.3 | 26.3 | 5.8 |
| as at 31 December 2011 | 19.6 | 25.6 | 3.0 |
| **Future sublease income** | | | |
| as at 31 December 2012 | 0.2 | 0.2 | – |
| as at 31 December 2011 | 0.2 | 0.4 | – |

## 7. INVESTMENT PROPERTY

Investment property developed as follows:

» See table below

This item includes property in the Saarland, Luxembourg and France.

In the period under review, a location in Italy was sold for a purchase price of Euro 1.0 million, its carrying amount was Euro 0.8 million.

According to appraisals and current land value tables, the market value of properties capitalised as at 31 December 2012 was Euro 51.0 million (previous year: Euro 52.6 million).

The Group generated the following amounts from its investment property:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Rental income | 0.5 | 0.6 |
| Property management and similar expenses | – 0.1 | – 0.1 |

Table: Development of investment property

| In Euro million | Land | Buildings | Investment property 2012 | Investment property 2011 |
|---|---|---|---|---|
| **Accumulative cost** | | | | |
| **As at 1 January** | **1.4** | **96.2** | **97.6** | **89.0** |
| Additions | – | – | – | 0.2 |
| Transfer from property, plant and equipment | – | – | – | 8.5 |
| Disposals | – 0.5 | – 5.6 | – 6.1 | – 0.2 |
| **As at 31 December** | **0.9** | **90.6** | **91.5** | **97.5** |
| **Accumulative depreciation and impairment** | | | | |
| **As at 1 January** | **–** | **82.0** | **82.0** | **72.7** |
| Depreciation | – | 0.8 | 0.8 | 1.0 |
| Transfer from property, plant and equipment | – | – | – | 8.4 |
| Disposals | – | – 5.3 | – 5.3 | – 0.1 |
| **As at 31 December** | **–** | **77.5** | **77.5** | **82.0** |
| **Residual carrying amounts** | | | | |
| **As at 31 December** | **0.9** | **13.1** | **14.0** | **15.5** |

Rental income is expected to develop as follows:

| In Euro million | Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| As at 31 Dec. 2012 | 0.5 | 1.9 | 7.1 |
| As at 31 Dec. 2011 | 0.6 | 2.2 | 7.4 |

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

There are no restrictions on disposal on the investment property held by the Villeroy & Boch Group. Similarly, there are no contractual obligations to acquire the property recognised in this item.

## 8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

As in the previous year, one unlisted company domiciled in Germany is accounted for using the equity method. The Group has a 50 % interest in its voting rights. The carrying amount of the investment, which is not allocated to any of the operating segments, developed as follows in the period under review:

| In Euro million | 2012 | 2011 |
|---|---|---|
| **As at 1 January** | **0.9** | **1.1** |
| Additions | 0.4 | 0.3 |
| Distributions | – 0.3 | – 0.5 |
| **As at 31 December** | **1.0** | **0.9** |

## 9. OTHER FINANCIAL ASSETS

Other financial assets include:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| **Equity investments (a)** | **2.6** | **2.6** |
| **Loans to:** | | |
| Equity investments (b) | 4.7 | 6.0 |
| Third parties (c) | 1.8 | 1.6 |
| **Total** | **9.1** | **10.2** |

(a) A 10 % holding in share capital of V & B Fliesen GmbH, Merzig, with a carrying amount of Euro 2.5 million is reported under equity investments.

(b) This item contains a loan receivable to V & B Fliesen GmbH, Merzig, which was established in connection with the sale of the majority stake in the company in 2007. The repayment of Euro 1.2 million was made in the financial year. The remaining term of the loan is four years. A guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.

(c) Loans to third parties essentially include mandatory government loans and start-up finance for franchisees.

They mature as follows:

» See table below

Table: Maturity of loans to third parties

| In Euro million | 2012 | 2011 |
|---|---|---|
| **Gross carrying amount as at 31 Dec.** | **1.8** | **1.6** |
| of which: Neither impaired nor past due as at end of reporting period | **1.8** | **1.6** |
| Due within one year | 0.1 | 0.1 |
| Due in two to five years | 0.1 | 0.1 |
| With indefinite maturity | 1.6 | 1.4 |
| of which: Impaired but not past due as at end of reporting period | **0.0** | **0.0** |
| of which: Impaired and past due as at end of reporting period | **0.0** | **0.0** |

## 10. DEFERRED TAXES

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

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Deferred tax assets from temporary differences | 20.7 | 24.6 |
| Deferred tax assets from tax loss carryforwards | 15.8 | 14.0 |
| **Deferred tax assets** | **36.5** | **38.6** |
| **Deferred tax liabilities** | **11.0** | **12.1** |

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:

» See table below

Deferred tax on loss carryforwards is as follows:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Deferred taxes on German loss carryforwards | | |
| from corporate income tax and solidarity surcharge | 2.9 | 5.9 |
| from trade tax | 3.6 | 6.4 |
| **Total German share** | **6.5** | **12.3** |
| Deferred taxes on foreign loss carryforwards | 30.1 | 28.1 |
| **Total before value adjustments** | **36.6** | **40.4** |
| Value adjustments | – 20.8 | – 26.4 |
| **Deferred taxes on tax loss carryforwards** | **15.8** | **14.0** |

Whereas German loss carryforwards can be carried forward indefinitely subject to minimum taxation requirements, country-specific time limits apply to some foreign loss carryforwards. Deferred tax assets on tax loss carryforwards were written down in the amount of Euro 20.8 million (previous year: Euro 26.4 million) as the result of an impairment test as it will presumably not be possible to utilise the corresponding pro rata tax loss carryforwards in line with tax planning by the end of the 2013–2017 planning horizon. Villeroy & Boch AG reduced the loss carryforward with profits, while losses at some subsidiaries abroad increased. Furthermore, deferred taxes of Euro 13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards.

Table: Deferred taxes from temporary differences attributable to balance sheet positions

| | | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|---|
| In Euro million | Note | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| Intangible assets | 5 | 0.9 | 1.1 | 1.6 | 1.5 |
| Property, plant and equipment | 6 | 6.1 | 8.0 | 2.5 | 4.5 |
| Financial assets | 9 | 0.0 | 0.2 | 0.0 | 0.0 |
| Inventories | 11 | 2.6 | 2.5 | 0.0 | 0.0 |
| Other assets | 13 | 0.0 | 0.3 | 1.7 | 0.3 |
| Special tax-items | | – | – | 4.4 | 4.8 |
| Provisions for pensions | 26 | 5.5 | 5.6 | 0.3 | 0.5 |
| Other provisions | 28 | 4.5 | 5.4 | 0.0 | 0.0 |
| Liabilities | 30 | 1.1 | 1.5 | 0.5 | 0.5 |
| **Deferred taxes from temporary differences** | | **20.7** | **24.6** | **11.0** | **12.1** |

## 11. INVENTORIES

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

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Raw materials and supplies | 21.2 | 23.0 |
| Work in progress | 14.9 | 16.9 |
| Finished goods and goods for resale | 114.8 | 106.1 |
| Advance payments | 0.0 | 0.0 |
| **Carrying amount** | **150.9** | **146.0** |

Inventories are broken down between the individual divisions as follows:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Bathroom and Wellness | 87.3 | 90.5 |
| Tableware | 63.6 | 55.5 |
| **Total** | **150.9** | **146.0** |

The value adjustments on inventories decreased by Euro 0.9 million in the year under review, from Euro 18.0 million to Euro 17.1 million.

## 12. TRADE RECEIVABLES

Villeroy & Boch grants its customers country- and industry-specific payment terms. The geographical allocation of these receivables by customer domicile is as follows:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Germany | 19.3 | 16.9 |
| Rest of euro zone | 27.6 | 34.8 |
| Rest of world | 64.4 | 57.8 |
| **Gross carrying amount** | **111.3** | **109.5** |
| Write-downs | – 2.9 | – 3.2 |
| **Carrying amount** | **108.4** | **106.3** |

Euro 36.5 million (previous year: Euro 36.2 million) relates to the Tableware Division and Euro 71.9 million (previous year: Euro 70.1 million) to the Bathroom and Wellness Division.

The receivables are composed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| **Items neither impaired nor past due** | **79.4** | **79.1** |
| **Not impaired but past due** | **14.3** | **9.2** |
| Customer in default for 90 days or less | 13.7 | 8.9 |
| Customer in default between 91 and 360 days | 0.6 | 0.2 |
| Customer in default for 361 days or more | 0.0 | 0.1 |
| **Impaired, but not past due[1)]** | **13.8** | **17.6** |
| Receivables due in 90 days or less | 13.5 | 17.2 |
| Receivables due between 91 and 360 days | 0.3 | 0.4 |
| Receivables due in 361 days or more | 0.0 | 0.0 |
| **Impaired and past due** | **3.8** | **3.6** |
| Customer in default for 90 days or less | 1.6 | 1.2 |
| Customer in default between 90 and 360 days | 1.2 | 0.9 |
| Customer in default for 361 days or more | 1.0 | 1.5 |
| **Total gross amount** | **111.3** | **109.5** |
| Write-downs | – 2.9 | –3.2 |
| **Net carrying amount** | **108.4** | **106.3** |

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. Write-downs are generally recognised for receivables from debtors who are more than 90 days in default. The corresponding allowance rates are based on past experience. The Villeroy & Boch Group has received recoverable collateral for the receivables that are past due but not impaired. The Euro 3.8 million reduction in receivables that are impaired but not past due is essentially based on an increase in the insurance rate and a reduction in non-insured receivables from customers in Greece and Mexico. All changes in creditworthiness since granting the payment terms are taken into consideration. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers.

In 2012, a total of Euro 2.1 million (previous year: Euro 2.3 million) of the value adjustments are attributable to the impaired and past due category and Euro 0.8 million (previous year: Euro 0.9 million) to the impaired but not past due category.

The value adjustments developed as follows:

» See table 1 below

As at the end of the reporting period, trade receivables in the amount of Euro 0.1 million (previous year: Euro 0.2 million) were transferred to an insurance company for regulation purposes.

## 13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

» See table 2 below

As at the end of the reporting period, the hedging instruments were currency futures (Euro 3.2 million/previous year: Euro 1.9 million) and brass swaps (Euro 0.0 million/previous year: – ). There is a revaluation surplus in the same amount outside profit or loss (see note 21c). The financial trading transactions exclusively serve the purpose of reducing risk on planned operating transactions (see note 54).

The Group has recognised security deposits in the amount of Euro 1.1 million (previous year: Euro 1.0 million) that were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

"Miscellaneous other assets" include receivables from other investees, receivables from employees, receivables from the sale of non-current assets, creditors with debit balances and a number of individual items.

The tax receivables mainly comprise VAT credit of Euro 4.7 million (previous year: Euro 3.5 million).

In cases of doubt regarding collectibility, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no past due receivables in this item as at 31 December 2012. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of contractual partners.

Table 1: Development of valuation allowences on trade receivables

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| In Euro million | Specific | Global | Total | Specific | Global | Total |
| As at 1 January | **2.3** | **0.9** | **3.2** | **2.8** | **1.0** | **3.8** |
| Additions | 1.1 | 0.3 | 1.4 | 0.6 | 0.2 | 0.8 |
| Exchange rate differences | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Utilisation | –1.2 | –0.3 | –1.5 | –0.9 | –0.2 | –1.1 |
| Reversals | –0.1 | –0.1 | –0.2 | –0.2 | –0.1 | –0.3 |
| **As at 31 December** | **2.1** | **0.8** | **2.9** | **2.3** | **0.9** | **3.2** |

Table 2: Composition of other non-current and current assets

| | Carrying amount | Remaining term | | Carrying amount | Remaining term | |
|---|---|---|---|---|---|---|
| In Euro million | 31/12/2012 | Less than 1 year | More than 1 year | 31/12/2011 | Less than 1 year | More than 1 year |
| Fair values of hedging instruments | **3.2** | 3.2 | 0.0 | **1.9** | 1.6 | 0.3 |
| Advance payments and deposits | **2.3** | 2.2 | 0.1 | **2.1** | 2.0 | 0.1 |
| Miscellaneous other assets | **7.5** | 7.5 | – | **7.5** | 7.5 | – |
| Total financial instruments within meaning of IAS 39* | **13.0** | **12.9** | **0.1** | **11.5** | **11.1** | **0.4** |
| Tax receivables | **5.8** | 5.8 | – | **5.6** | 5.6 | – |
| Prepaid expenses | **1.8** | 1.8 | 0.0 | **2.4** | 2.4 | 0.0 |
| **Total other assets** | **20.6** | **20.5** | **0.1** | **19.5** | **19.1** | **0.4** |

* Financial instruments are described in note 54.

## 14. INCOME TAX RECEIVABLES

The income tax receivables of Euro 2.9 million (previous year: Euro 2.2 million) primarily include outstanding corporate income tax assets. Euro 2.5 million (previous year: Euro 1.4 million) of this figure relates to foreign Group companies.

## 15. CASH AND CASH EQUIVALENTS

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

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Cash on hand incl. cheques | 0.4 | 0.2 |
| Current bank balances | 16.1 | 12.1 |
| Cash equivalents | 38.8 | 46.9 |
| **Total cash and cash equivalents** | **55.3** | **59.2** |

Cash is held at banks of good credit standing that are predominantly a part of a deposit protection system (see note 54).

## 16. NON-CURRENT ASSETS HELD FOR SALE

These assets are recognised at amortised cost or fair value less the expected costs to sell.

The following non-current assets were held for sale in the financial year:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Property (a) | 6.1 | 0.1 |
| Saltillo production location, Mexico (b) | – | 7.6 |
| Equity investments (c) | 3.7 | 3.7 |
| Other (d) | 0.2 | – |
| **As at 31 December** | **10.0** | **11.4** |

(a) In October the management of Villeroy & Boch AG approved a new concept for the use of the property in Gustavsberg, Sweden. The production building is to be replaced with an efficient new building and subsequently sold. The properties were reclassified from property, plant and equipment (see note 6) at a carrying amount of Euro 5.4 million.

The disposal of the former Frankfurt/Main branch was notarised on 20 December 2012. The rights and duties will not be transferred until 2013. The residual carrying amount of these assets is Euro 0.7 million (see note 6).

(b) On 29 February 2012, the ceramic sanitary ware plant in Saltillo, Mexico, was sold to the WoodCrafters Group. The buyer took over the property, the production facilities, raw materials and supplies and work in progress. WoodCrafters and the plant's workforce of around 500 will focus on the manufacture of ceramic sanitary ware products for the DIY store sector in future. Taking into account all costs and guarantees, the purchase price was Euro 1.7 million higher than the net carrying amount of the assets and liabilities sold, which was around Euro 7 million.

(c) In the 2011 financial year 2011, the Eczacıbaşı Group exercised a put option for a 15 % share in V & B Fliesen GmbH. The shares will be transferred by the end of September 2014 at the latest at the carrying amount of Euro 3.7 million, effective 1 January 2014.

(d) Rights to the brands of St. Thomas Creation LLC, USA, and associated inventories were sold on 31 December 2012. Closing is expected to be completed in the first half of 2013.

## 17. ISSUED CAPITAL

The issued capital of Villeroy & Boch AG as at the end of the reporting period was unchanged at Euro 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 annual unappropriated surplus that is Euro 0.05 per share higher than the dividend paid to holders of ordinary shares, or a minimum preferred dividend of Euro 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 | 2012 | 2011 |
|---|---|---|
| **Ordinary shares** | | |
| Ordinary shares outstanding – unchanged – | 14,044,800 | 14,044,800 |
| **Preference shares** | | |
| Ordinary shares issued – unchanged – | 14,044,800 | 14,044,800 |
| Shares held by the Villeroy & Boch Group as of 31 December – unchanged – | 1,683,029 | 1,683,029 |
| Preference shares outstanding | 12,361,771 | 12,361,771 |

A resolution of the General Meeting of Shareholders on 16 May 2012 authorised the Management Board of Villeroy & Boch AG to acquire preference treasury shares in accordance with the following rules:

(a) The Management Board is authorised to acquire treasury shares in the company up to a total notional amount of the share capital of Euro 7,190,937.60 until 15 May 2017 inclusively. The authorisation to acquire treasury shares granted to the company by the General Meeting of Shareholders on 12 May 2010 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 not yet owned or attributable to it in accordance with sections 71a et seq. AktG must not account for more than 10 % of the share capital. The authorisation is limited to the acquisition of preference shares without voting rights in the company. At the discretion of the Management Board, shares can (1) be acquired on the stock exchange or (2) 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.

(1) If acquired on the stock exchange, the consideration paid per 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 acquired 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 the event of a public purchase offer to all preference shareholders, the purchase price offered per share (not including additional costs of acquisition), or

- in the event of a public invitation to all 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 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 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 shareholders or the public invitation to all preference 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 shares tendered exceeds the planned buyback volume, the acquisition can be conducted in the ratio of the issued or offered preference shares; the right of preference shareholders to tender their preference shares in proportion to their ownership interests is excluded in this respect.

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

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

(b) The Management Board is authorised to use the preference treasury shares without voting rights acquired on the basis of the above authorisation 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 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 prise is not significantly less if the purchase price is not more than 5 % less than the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) for the last five trading days before disposal. The number of the 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 disapplied 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 disapplied in accordance with section 186(3) sentence 4 must not exceed 10 % of the share capital, neither at the time of this authorisation becoming effective nor being exercised.

(2) The 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 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.

(4) The 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. 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 disapplied of they are utilised in accordance with the above authorisations under b), items (1) and (2). Shareholders also have no pre-emption rights if the treasury shares acquired are sold on the stock market in accordance with b). If the treasury shares acquired are sold by way of an offer to all shareholders in accordance with b) 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.

## 18. CAPITAL RESERVES

The capital reserves are unchanged at Euro 193.6 million.

## 19. TREASURY SHARES

As in the previous year, the cost for the 1,683,029 preference treasury shares was Euro 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 Euro -72.6 million (previous year: Euro -76.3 million) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

| In Euro million | 2012 | 2011 |
|---|---|---|
| As at 1 January | **–76.3** | **– 82.4** |
| Consolidated earnings attributable to Villeroy & Boch AG shareholders | 14.7 | 18.3 |
| Dividend distribution | – 9.9 | – 6.2 |
| Currency adjustments | –1.1 | – 6.0 |
| Acquisition of non-controlling interests | – | 0.0 |
| **As at 31 December** | **– 72.6** | **– 76.3** |

## 21. VALUATION SURPLUS

The Valuation surplus comprises the reserves of "Other comprehensive income":

» See table 1 on page 93

(a) <u>Reserve for currency translation of financial statements of foreign Group companies</u>
Group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). This resulted in a change in net equity in the financial year of Euro 1.2 million (previous year: Euro 2.4 million).

(b) <u>Reserve for currency translation of long-term loans classified as net investments in foreign group companies</u>
The net change in equity amounts to Euro 1.0 million (previous year: Euro 2.9 million).

(c) <u>Reserve for cash flow hedges</u>
This item arises from the recognition outside profit or loss of fluctuations in the fair value of cash flow hedges (see note 54). This item developed as follows in the reporting period:

» See table 2 on page 93

The total amount of the cash flow hedge reserve broke down as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Positive fair value changes (see note 13) | 3.2 | 1.9 |
| Negative fair value changes (see note 30) | –1.2 | – 3.1 |
| Non-controlling interests | 0.0 | – |
| **As at 31 December** | **2.0** | **–1.2** |

(d) <u>Reserve for deferred taxes</u>
This reserve relates to fair value changes of cash flow hedges and represents the net total of positive and negative change in value. It developed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| As at 1 January | – 0.8 | 0.0 |
| Currency adjustments | 0.0 | 0.0 |
| Additions | 0.3 | 0.4 |
| Disposals | – 0.3 | –1.2 |
| Non-controlling interests | 0.0 | 0.0 |
| **As at 31 December** | **– 0.8** | **– 0.8** |

## 22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to Euro 0.1 million (previous year: Euro 0.1 million). As in the previous year, there are non-controlling interests in two Group companies.

## 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.

Table 1: Composition of valuation surplus

| In Euro million | 2012 | 2011 | Change |
|---|---|---|---|
| Currency translation of financial statements of foreign operations (a) | 10.6 | 9.4 | 1.2 |
| Currency translation of long-term loans classified as net investments in a foreign business operation (b) | 0.2 | – 0.8 | 1.0 |
| Cash flow hedges (c) | 2.0 | –1.2 | 3.2 |
| Deferred taxes (d) | – 0.8 | – 0.8 | 0.0 |
| **As at 31 December** | **12.0** | **6.6** | **5.4** |

Table 2: Reserve for cash flow hedges

| | Forward exchange transactions | | Commodity swaps | | Total cash flow hedges | |
|---|---|---|---|---|---|---|
| In Euro million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| As at 1 January | –1.0 | 0.0 | – 0.2 | 1.6 | –1.2 | 1.6 |
| Changes outside profit or loss | | | | | | |
| Currency adjustments | – 0,1 | 0.0 | 0.0 | 0.0 | – 0.1 | 0.0 |
| Addition to new contracts | 1.4 | –1.0 | – 0.1 | – 0.3 | 1.3 | –1.3 |
| Non-controlling interests | 0.0 | – | – | – | – | – |
| *Total* | *1.3* | *–1.0* | *– 0.1* | *– 0.3* | *1.2* | *–1.3* |
| Reversals to profit or loss (aa) | 1.9 | 0.0 | 0.1 | –1.5 | 2.0 | –1.5 |
| **As at 31 December** | **2.2** | **–1.0** | **– 0.2** | **– 0.2** | **2.0** | **–1.2** |

(aa) The reversal of the reserve from the revaluation of currency forwards and commodity swaps is included in the net operating result.

The net profit of Villeroy & Boch AG for 2012 amounted to Euro 12.3 million. Taking into account the profit carried forward of Euro 0.7 million, the unappropriated surplus amounts to Euro 13.0 million.

At the next General Meeting of Shareholders on 22 March 2013, 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:

| | |
|---|---|
| 0.35 Euro | per ordinary share |
| 0.40 Euro | per preference share |

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

| | |
|---|---|
| Ordinary share: | 4.9 Euro million |
| Preference share: | 5.6 Euro million |
| | **10.5** Euro million |

If the company holds more 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:

| | 16 May 2012 | | 16 May 2011 | |
|---|---|---|---|---|
| Eligible share class | Dividend per unit | Total dividend | Dividend per unit | Total dividend |
| | in Euro | in Euro million | in Euro | in Euro million |
| Ordinary shares | 0.35 | 4.9 | 0.15 | 2.1 |
| Preference shares | 0.40 | 4.9 | 0.33 | 4.1 |
| | | 9.8 | | 6.2 |

## 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 Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Equity | 190.0 | 180.9 |
| Provisions for pensions | 136.6 | 140,7 |
| Financial liabilities | 51.3 | 51.3 |
| **Non-current sources of finance** | **377.9** | **372.9** |

## 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 21(1) or (1a) of the German Securities Trading Act (WpHG) must be disclosed.
The content of disclosures in accordance with **section 21(1) WpHG** is presented below.

(1) On 14 February 2011, Mr. Luitwin-Gisbert von Boch-Galhau, Germany, notified us in accordance with section 21(1) 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 of 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

(2) 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 41(2) WpHG** that their shares of the voting rights in our company were as follows as of 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 ordinary shares 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 ordinary shares 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 ordinary shares are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

(4) 5.51 % of voting rights are attributable to Baron Antoine de Schorlemer, Luxembourg, as at 1 April 2002; 5.14 % of which is 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 is as follows:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Germany | 127.5 | 132.0 |
| Rest of euro zone | 7.7 | 7.7 |
| Rest of world | 1.4 | 1.0 |
| **Provisions for pensions** | **136.6** | **140.7** |

In Germany there are a final salary plan and several points plans. The employees in Luxembourg were switched to a points plan in the financial year. A final salary plan is available in Sweden.

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| In % | Ø | Range | Ø | Range |
| Discount rate | 3.0 | 1.5 to 7.0 | 5.2 | 2.6 to 7.5 |
| Expected long-term wage and salary trend | 2.6 | 0.0 to 5.6 | 2.6 | 2,0 to 5.6 |
| Expected long-term pension trend | 1.6 | 0.2 to 3.5 | 1.6 | 0.1 to 6.7 |
| Expected long-term country-specific inflation | 1.9 | 1.0 to 5.1 | 1.9 | 1.8 to 8.7 |
| Expected country-specific fluctuation | 3.8 | 0.0 to 25.1 | 3.0 | 0.0 to 3.0 |
| Expected return on plan assets | 3.5 | 2.3 to 7.0 | 3.6 | 3.5 to 7.5 |

Average values (ø) are calculated as a weighted average 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 1.5 % in Japan to 7.0 % in Mexico. In Germany, a discount rate of 3.0 % (previous year: 5.4 %) is applied. 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 Heubeck 2005G mortality tables. Country-specific mortality tables were used in the other Group companies. The fluctuation rate is based on long-term observations specific to the company. The figure for the expected return on plan assets is based on the specific structure of these assets. For each plan, the expected return is obtained from the weighted average of expected returns for each of the investment classes held.

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 pension obligations developed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| As at 1 January | 158.0 | 161.0 |
| Current service cost | 2.2 | 1.2 |
| Past service cost | 0.0 | – |
| Interest cost | 8.6 | 8.7 |
| Actuarial gains and losses | 0.0 | 0.0 |
| Currency changes arising from non-euro-denominated plans | 0.4 | 0.1 |
| Benefits paid | –13.3 | –12.7 |
| Plan settlement | – 0.9 | – |
| Plan transfer due to transfer of operations* | 0.0 | – 0.3 |
| **As at 31 December** | **155.0** | **158.0** |

* 2011: Reported as liabilities of disposal groups held for sale (see note 32) as transfer has not yet taken place.

There were the following changes to plan assets:

| In Euro million | 2012 | 2011 |
|---|---|---|
| As at 1 January | 17.3 | 16.5 |
| Return on plan assets | 0.6 | 0.8 |
| Actuarial gains and losses | 0.0 | – |
| Currency changes arising from non-euro-denominated plans | 0.6 | 0.1 |
| Employer contributions | 0.6 | 0.8 |
| Benefits paid | – 0.7 | – 0.9 |
| **As at 31 December** | **18.4** | **17.3** |

The originally expected return of Euro 0.6 million (previous year: Euro 0.8 million) was recognised for the 2012 financial year. Income actually amounted to Euro 0.6 million (previous year: Euro 0.7 million). The difference was included in the unrecognised actuarial effects (see below). A return of Euro 0.6 million is forecast for the 2013 financial year.

The portfolio structure of plan assets is as follows:

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| | In Euro million | In % | In Euro million | In % |
| Annuities/annuity funds | 10.8 | 59 | 10.3 | 60 |
| Equities/equity funds | 5.5 | 30 | 5.2 | 30 |
| Property | 1.6 | 9 | 1.6 | 9 |
| Cash and cash equivalents | 0.3 | 2 | 0.2 | 1 |
| Other assets | 0.2 | 1 | – | – |
| **Plan assets** | **18.4** | **100.0** | **17.3** | **100.0** |

Provisions for pensions reported in the statement of financial position are derived from pension obligations, plan assets and actuarial gains and losses as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Present value of the defined benefit obligation according to expert opinions, total | 213.3 | 167.0 |
| Unrecognised actuarial losses | – 58.3 | – 9.0 |
| Present value of pension obligations | 155.0 | 158.0 |
| Less cover from plan assets | –18.4 | –17.3 |
| Provisions for pensions as at 31 December, net | 136.6 | 140.7 |

Including the actuarial losses not recognised, the total actual obligation following deduction of the cover assets amounts to Euro 194.9 million (previous year: Euro 149.7 million). The strong increase in total obligations as against the previous year resulted from the discount rate, which is based on the current interest rate, and the resulting rise in actuarial losses. The actuarial losses of Euro 58.3 million exceed the corridor by Euro 37 million. If accounting were to remain unchanged, this portion would be recognised over the remaining working life (see note 1). Under the standards to take effect from 1 January 2013, actuarial losses will be offset against the revaluation surplus. Information on this new regulation can be found in note 63.

The following table provides a five-year overview of changes in the provisions for pensions reported in the statement of financial position:

» See table below

In the past financial year, the following amounts were recognised in profit or loss for defined benefit plans:

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Current service cost | – 2.2 | –1.3 |
| Past service cost | – 0.0 | – |
| Interest cost | – 8.6 | – 8.7 |
| Recognised return on plan assets | 0.6 | 0.8 |
| Amortised actuarial gains and losses (reversal of corridor in profit or loss) | 0.0 | 0.0 |
| **Net expense** | **–10.2** | **–9.2** |

The pension expenses presented are included in the cost of sales, selling costs and general administrative expenses. Interest expense and the recognised return on plan assets are reported in net finance costs.

Table: Provision for pensions: Five-year overview

| In Euro million | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Obligations for which there are no plan assets | 150.7 | 148.0 | 144.0 | 140.0 | 135.4 |
| Obligations for which there are plan assets | 17.8 | 15.0 | 17.1 | 18.1 | 19.6 |
| Obligations recognised in liabilities | 168.5 | 163.0 | 161.1 | 158.1 | 155.0 |
| Plan assets | –17.3 | –14.1 | –16.5 | –17.4 | –18.4 |
| Amount recognised in liabilities, net | 151.2 | 148.9 | 144.6 | 140.7 | 136.6 |

## 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. In the period under review, these provisions changed as follows:

» See table below

Subject to certain personal requirements, employees in Germany can reduce their working hours during a statutory period prior to entering retirement. The lower level of compensation paid to such employees due to the reduction in their working hours is offset by the government. The partial retirement programme in Austria ended in the financial year.

Current provisions for personnel mainly include provisions for variable remuneration bonuses in the amount of Euro 12.4 million (previous year: Euro 11.8 million).

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

Table: Development of non-current and current provisions for personnel

| | Non-current provisions for: | | | | Current provisions | Total amount |
|---|---|---|---|---|---|---|
| In Euro million | Partial retirement | Anniversary bonuses | Severance pay | Total | | |
| **As at 1 January 2011** | **8.2** | **5.4** | **4.1** | **17.7** | **10.7** | **28.4** |
| Currency adjustments | – | 0.0 | –0.1 | –0.1 | 0.0 | –0.1 |
| Utilisation | –2.7 | –0.4 | –0.3 | –3.4 | –9.4 | –12.8 |
| Reversals | – | –0.1 | – | –0.1 | –0.1 | –0.2 |
| Additions | 2.4 | 0.3 | 0.5 | 3.2 | 11.1 | 14.3 |
| Reclassifications | – | –0.3 | –0.6 | –0.9 | –0.3 | –1.2 |
| **As at 1 January 2012** | **7.9** | **4.9** | **3.6** | **16.4** | **12.0** | **28.4** |
| Currency adjustments | – | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Utilisation | –2.4 | –0.4 | –0.3 | –3.1 | –10.4 | –13.5 |
| Reversals | – | 0.0 | 0.0 | 0.0 | –0.5 | –0.5 |
| Additions | 2.2 | 1.3 | 0.4 | 3.9 | 11.5 | 15.4 |
| Reclassifications | – | 0.1 | –0.1 | 0.0 | 0.0 | 0.0 |
| **As at 31 December 2012** | **7.7** | **6.0** | **3.6** | **17.3** | **12.6** | **29.9** |

## 28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

» See table below

In particular, non-current provisions relate to future recultivation projects (reporting year: Euro 2.4 million; previous year: Euro 4.4 million).

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

The provision for restructuring contains the share of expenses from the 2009 restructuring programme that has not yet been paid out.

Miscellaneous other provisions primarily reflect provisions for restoration obligations, consulting costs, litigation costs, commission and audit costs.

## 29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Financing was obtained from banks in the following regions:

| In Euro million | 31/12/2012 | thereof non-current | 31/12/2011 | thereof non-current |
|---|---|---|---|---|
| Germany | 25.7 | 25.0 | 25.6 | 25.0 |
| Rest of euro zone | 25.6 | 25.0 | 25.7 | 25.0 |
| **Carrying amount** | **51.3** | **50.0** | **51.3** | **50.0** |

Net receivables from and liabilities to banks amounted to Euro 20.6 million (previous year: Euro 16.2 million). The requirements for offsetting have been met and it is intended to settle them on a net basis.

Table: Development of other non-current and current provisions

| In Euro million | Non-current provisions | Current provisions for: Warranties | Restructuring programme | Other taxes | Miscellaneous | Total | Total amount |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2011** | **5.9** | **7.9** | **20.9** | **0.8** | **9.6** | **39.2** | **45.1** |
| Currency adjustments | –0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –0.1 |
| Utilisation | –1.3 | –1.0 | –7.8 | –0.1 | –4.1 | –13.0 | –14.3 |
| Reversals | 0.0 | –0.7 | – | 0.0 | –0.9 | –1.6 | –1.6 |
| Additions | 0.5 | 0.7 | – | 0.3 | 6.8 | 7.8 | 8.3 |
| Reclassifications | – | – | – | – | 0.2 | 0.2 | 0.2 |
| **As at 1 January 2012** | **5.0** | **6.9** | **13.1** | **1.0** | **11.6** | **32.6** | **37.6** |
| Currency adjustments | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Utilisation | –2.5 | –1.4 | –3.8 | –0.6 | –4.3 | –10.1 | –12.6 |
| Reversals | 0.0 | –0.1 | – | –0.1 | –2.2 | –2.4 | –2.4 |
| Additions | 0.4 | 0.6 | – | 0.2 | 6.8 | 7.6 | 8.0 |
| Reclassifications | – | – | – | – | 0.0 | 0.0 | 0.0 |
| **As at 31 December 2012** | **3.0** | **6.0** | **9.3** | **0.5** | **11.9** | **27.7** | **30.7** |

## 30. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

» See table below

The measurement of hedging instruments (see note 54) relates to currencies in the amount of Euro 1.0 million (previous year: Euro 2.9 million) and commodities in the amount of Euro 0.2 million (previous year: Euro 0.2 million).

Miscellaneous other liabilities include debtors with credit balances, lease liabilities and a number of individual items.

Other tax liabilities primarily include payroll and church tax in the amount of Euro 3.6 million (previous year: Euro 3.4 million) and VAT in the amount of Euro 5.2 million (previous year: Euro 5.7 million).

Deferred income essentially relates to government grants for property, plant and equipment (see note 6) and from the free allocation of emission allowances (see note 5).

## 31. TRADE PAYABLES

Based on the domicile of the respective group company, trade payables relate to:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Germany | 30.4 | 34.7 |
| Rest of euro zone | 9.5 | 7.1 |
| Rest of world | 21.0 | 19.6 |
| **Carrying amount as at 31 December** | **60.9** | **61.4** |

## 32. LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE

These liabilities related to the sale of the Mexican production facility (see note 16):

| In Euro million | 2012 | 2011 |
|---|---|---|
| Pension provision (see note 26) | – | 0.3 |
| Non-current pension provisions (see note 27) | – | 0.8 |
| Other current personnel obligations | – | 0.1 |
| **As at 31 December** | **–** | **1.2** |

Table: Composition of other non-current and current liabilities

| In Euro million | Carrying amount at 31/12/2012 | Remaining term: Less than 1 year | Remaining term: More than 1 year | Carrying amount at 31/12/2011 | Remaining term: Less than 1 year | Remaining term: More than 1 year |
|---|---|---|---|---|---|---|
| Bonus liabilities | **35.7** | 35.7 | – | **36.3** | 36.3 | – |
| Changes in fair values of hedging instruments | **1.2** | 1.2 | 0.0 | **3.1** | 3.1 | 0.0 |
| Advance payments received on account of orders | **4.2** | 4.2 | – | **1.9** | 1.9 | – |
| Miscellaneous other liabilities | **3.5** | 2.0 | 1.5 | **5.1** | 3.6 | 1.5 |
| Total financial instruments within meaning of IAS 39* | **44.6** | **43.1** | **1.5** | **46.4** | **44.9** | **1.5** |
| Personnel liabilities | **21.5** | 20.3 | 1.2 | **22.2** | 20.9 | 1.3 |
| Other tax liabilities | **9.7** | 9.7 | – | **10.3** | 10.3 | – |
| Deferred income | **1.5** | 0.8 | 0.7 | **1.4** | 0.6 | 0.8 |
| **Total carrying amount** | **77.3** | **73.9** | **3.4** | **80.3** | **76.7** | **3.6** |

* Financial instruments are described in note 54.

# NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

## 33. REVENUE

The Villeroy & Boch Group generates revenue from the sale of goods and merchandise. Revenue development is presented as part of segment reporting.

## 34. 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.

## 35. 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 break down into:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Bathroom and Wellness | – 9.1 | – 8.4 |
| Tableware | – 4.2 | – 3.9 |
| **Total** | **–13.3** | **–12.3** |

## 36. GENERAL ADMINISTRATIVE EXPENSES

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

## 37. OTHER OPERATING INCOME

Other operating income is composed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Exchange rate gains | 3.2 | 3.3 |
| License income | 3.2 | 3.6 |
| Book profits on the disposal of non-current assets | 2.7 | 11.1 |
| Reversal of provisions* | 2.2 | 1.2 |
| Reversal of liabilities | 1.2 | 1.8 |
| Reversal of write-downs on receivables | 0.3 | 0.4 |
| Reimbursement for damages | 0.1 | 0.2 |
| Other | 4.2 | 3.8 |
| **Total** | **17.1** | **25.4** |

* not including amounts in other statement of comprehensive income items

The carrying amounts from asset disposals in the previous year included the income from the disposal of the former planer property in Dänischburg.

Miscellaneous other operating income includes a number of individual items.

## 38. OTHER OPERATING EXPENSES

Other operating expenses are composed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Exchange rate losses | – 3.0 | – 2.3 |
| Consulting services | – 2.6 | – 4.1 |
| Addition to write-downs on receivables | –1.5 | – 0.8 |
| Book losses on the disposal of non-current assets | – 0.7 | – 0.3 |
| Costs of maintenance/repairs | – 0.4 | –1.4 |
| Other | – 9.9 | –7.6 |
| **Total** | **–18.1** | **–16.5** |

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.

## 39. RESULTS OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

This item includes the pro rata income from the investment in an associated company in the amount of Euro 0.5 million (previous year: Euro 0.3 million).

## 40. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consists of:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Interest income from | | |
| Cash and cash equivalents | 0.8 | 0.6 |
| Loans and receivables | 0.2 | 0.2 |
| Held-to-maturity investments | – | – |
| Other investments | 0.0 | 0.2 |
| **Total interest income** | **1.0** | **1.0** |
| Other financial income | 0.2 | 0.0 |
| **Total financial income** | **1.2** | **1.0** |

## 41. INTEREST EXPENSES

Finance cost relate to:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Overdraft facilities | –1.2 | –1.1 |
| Non-current loans | –2.8 | –2.7 |
| Other borrowing | –0.0 | –0.0 |
| **Total interest expense** | **–4.0** | **–3.8** |
| Other finance costs | 0.0 | 0.0 |
| **Total external finance costs** | **–4.0** | **–3.8** |
| Interest expense on provisions | –9.7 | –8.4 |
| **Total finance costs** | **–13.7** | **–12.2** |

In the financial year, the interest expense on provisions climbed by Euro 1.3 million to Euro 9.7 million. This is essentially based to the sharp year-on-year drop in discounting rates for obligations similar to pensions such as anniversary bonuses and transitional allowances.

## 42. 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 13.67 %. The corporate income tax rate is 15 % plus a solidarity surcharge of 5.5 %. Rates vary between 10.0 % and 42.9 % for the other countries.

Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These largely comply with the legislation in force or substantially enacted as at the end of the reporting period.

| In Euro million | 2012 | 2011 |
|---|---|---|
| Taxes paid or due in Germany | –1.6 | –1.9 |
| Taxes paid or due outside Germany | –1.7 | –0.6 |
| | –3.3 | –2.5 |
| Deferred taxes | –0.4 | –5.0 |
| **Income taxes** | **–3.7** | **–7.5** |

The reconciliation of the posted income tax based on the consolidated earnings before taxes to the Group's actual tax expense is as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| **Earnings before taxes (EBT)** | **18.4** | **25.8** |
| Expected income tax (EBT x tax rate of 29.5 %) | –5.4 | –7.6 |
| Differences arising from foreign tax rates | 0.3 | 1.4 |
| Tax effects arising from: | | |
| Non-deductible expenses | –1.2 | –1.5 |
| Adjustment/write-downs on deferred taxes | 2.9 | 0.1 |
| Tax-free income | 0.3 | 1.0 |
| Other deferred taxes | –0.6 | –0.9 |
| **Actual income tax expense** | **–3.7** | **–7.5** |
| **Actual tax rate in %** | **20.1** | **29.2** |

As in the previous year, the German income tax rate is 29.5 %.

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

| In Euro million | 2012 | 2011 |
|---|---|---|
| Change in deferred tax assets (note 10) | – 2.1 | –7.0 |
| Change in deferred tax liabilities (note 10) | 1.1 | 2.2 |
| Offset outside profit or loss (note 21d) | 0.5 | 0.7 |
| Currency adjustments | 0.1 | – 0.9 |
| **Deferred taxes recognised in statement of comprehensive income** | **– 0.4** | **– 5.0** |

## 43. MINORITY INTERESTS

Minority interests in consolidated earnings amounted to Euro 0.0 million (previous year: Euro 0.0 million).

## 44. EARNINGS PER SHARE

Earnings per share are calculated by dividing the consolidated net income for the year by the weighted number of shares outstanding:

| **Ordinary shares** | **31/12/2012** | **31/12/2011** |
|---|---|---|
| Number of shares outstanding | 14,044,800 | 14,044,800 |
| Pro rata consolidated net income (Euro thousand) | 7.5 | 9.4 |
| Earnings per share (Euro) | 0.53 | 0.67 |

| **Preference shares** | **31/12/2012** | **31/12/2011** |
|---|---|---|
| Number of shares outstanding | 12,361,771 | 12,361,771 |
| Pro rata consolidated net income (Euro thousand) | 7.2 | 8.9 |
| Earnings per share (Euro) | 0.58 | 0.72 |

Consolidated net income 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.

## 45. DEPRECIATION AND AMORTISATION

Depreciation and amortisation in the financial year break down as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Amortisation of intangible assets | – 0.9 | – 0.9 |
| Impairment losses on intangible assets | – | 0.0 |
| Depreciation of property, plant and equipment | – 25.3 | – 25.4 |
| Impairment losses on property, plant and equipment | – 0.0 | – 0.1 |
| Depreciation of investment property | – 0.8 | –1.0 |
| Impairment losses on investment property | – | – |
| Impairment losses on financial assets | – | – 0.0 |
| **Total depreciation, amortisation and impairments** | **– 27.0** | **– 27.4** |

## 46. COST OF MATERIALS

The cost of materials comprises the following:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Cost of raw materials and supplies (including primary products) | –107.7 | –113.1 |
| Cost of purchased goods | – 95.1 | – 91.7 |
| | **– 202.8** | **– 204.8** |
| Cost of purchased services | – 37.2 | – 40.9 |
| **Total cost of materials** | **– 240.0** | **– 245.7** |

## 47. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Wages and salaries | – 210.7 | – 209.7 |
| Post-employment benefits: | | |
| Defined benefit plans (see note 26) | – 2.2 | –1.3 |
| Defined contribution plans | –14.6 | –17.3 |
| Termination benefits | – 0.8 | –1.1 |
| Other services | – 35.3 | – 33.0 |
| **Total staff costs** | **– 263.6** | **– 262.4** |

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 | 2012 | 2011 |
|---|---|---|
| Wage earners | 4,399 | 5,036 |
| Salaried employees | 3,547 | 3,522 |
| **Total** | **7,946** | **8,558** |

Of the workforce as a whole, a total of 2,508 people are employed in Germany (previous year: 2,536), with the remaining 5,438 employed outside Germany (previous year: 6,022).

| Number of employees | 2012 | 2011 |
|---|---|---|
| Bathroom and Wellness | 5,232 | 5,813 |
| Tableware | 2,306 | 2,362 |
| Other | 408 | 383 |
| **Average** | **7,946** | **8,558** |

## 48. OTHER TAXES

Other taxes amounted to Euro 3.6 million (previous year: Euro 3.7 million) and are composed as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| In Euro million | Germany | Abroad | Germany | Abroad |
| Wealth tax | – | – 0.2 | – | – 0.2 |
| Vehicle tax | – 0.1 | – 0.1 | – 0.1 | – 0.1 |
| Real estate tax | – 0.6 | –1.0 | – 0.7 | –1.0 |
| Miscellaneous other taxes | 0.0 | –1.6 | 0.0 | –1.6 |
| **Total other taxes** | **– 0.7** | **– 2.9** | **– 0.8** | **– 2.9** |

The item “Miscellaneous other taxes” essentially includes expenses for the French “contribution économique territoriale” (Euro 0.8 million) and “taxe organic” (Euro 0.2 million).

# NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## 49. CASH FLOW FROM OPERATING ACTIVITIES

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

The cash flow from operating activities amounted to Euro 20.6 million in the reporting year and therefore deteriorated by Euro 13.3 million. The change essentially related to a Euro 4.9 million increase in inventories, a Euro 2.0 million rise in trade receivables and the utilisation of other provisions.

The "Other non-cash income and expenses" item includes:

| In Euro million | 2012 | 2011 |
|---|---|---|
| Interest from the provision for pensions and similar obligations | 9.7 | 8.3 |
| Additions to tax provisions | 1.0 | 3.4 |
| Expenses/income from deferred taxes | 0.9 | 4.8 |
| Other non-cash items | – 0.5 | – 0.2 |
| **Total** | **11.1** | **16.3** |

## 50. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities declined by Euro 8.9 million as against the previous year and amounted to Euro – 14.4 million (previous year: Euro – 5.5 million).

Investments in the 2012 financial year matched the previous year's level at Euro 26.4 million (previous year: Euro 25.8 million). This also includes asset disposals of Euro 12.0 million, which mainly resulted from the sale of the plant in Saltillo in the first quarter of 2012.

Asset disposals in the previous year included the sale of the Lübeck-Dänischburg property and a 24 % share package in V & B Fliesen GmbH at a total of Euro 18.1 million.

## 51. CASH FLOW FROM FINANCING ACTIVITIES

The cash used in the reporting year is mainly due to the payment of the 2011 dividend.

## 52. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to Euro 55.3 million (previous year: Euro 59.2 million), a drop of Euro 3.9 million as against the previous year. This is primarily due to the increase in inventories. Incoming payments from the sale of the Mexican sanitary ware factory in Saltillo were offset by the outflow of the 2011 dividend. Foreign currency translation effects amounted to Euro – 0.1 million in the year under review (previous year: Euro 0.1 million).

## 53. GROUP SEGMENT REPORTING

The Villeroy & Boch Group reports in two business segments internally:

The **Bathroom and Wellness** segment manufactures ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, bathtubs and shower tubs, whirlpools, fittings and accessories. The product range is rounded off by sauna and spa facilities, kitchen fittings and accessories purchased from third parties, among other things.

The **Tableware** segment covers the complete assortment of tableware, crystal and cutlery, rounded off by accessories, kitchen and tableware textiles as well as a selection of gift articles.

In addition to net revenues, the operating result of the business units is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the units' earnings power. Furthermore, the rolling operating return on net assets is also used to measure the earnings power of the Group and the individual segments. This is calculated from the operating net assets as at the end of the month as an average of the last twelve months as a percentage of 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 business segments. Pricing for inter-segment transfers is based on standard market conditions.

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

| | Revenue from external customers | | Intersegment revenue | | Total | |
|---|---|---|---|---|---|---|
| In Euro million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Bathroom and Wellness | 465.7 | 461.9 | 1.2 | 1.0 | 466.9 | 462.9 |
| Tableware | 277.9 | 281.0 | 0.0 | 0.0 | 277.9 | 281.0 |
| Total segment revenue | 743.6 | 742.9 | 1.2 | 1.0 | 744.8 | 743.9 |
| Eliminations | 0.0 | 0.0 | –1.2 | –1.0 | –1.2 | –1.0 |
| **Consolidated revenue** | **743.6** | **742.9** | **0.0** | **0.0** | **743.6** | **742.9** |

The operating result of the two business units is calculated as operating segment earnings (EBIT):

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Bathroom and Wellness | 22.7 | 19.0 |
| Tableware | 8.2 | 8.8 |
| Dänischburg | – | 9.2 |
| **Total** | **30.9** | **37.0** |
| Net finance cost (see notes 40 and 41) | –12.5 | –11.2 |
| **Earnings before taxes** | **18.4** | **25.8** |
| Income taxes (see note 42) | –3.7 | –7.5 |
| **Consolidated earnings** | **14.7** | **18.3** |

The following assets and liabilities are assigned to the segments:

| | Assets | | Liabilities | | Net assets | |
|---|---|---|---|---|---|---|
| In Euro million | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| Bathroom and Wellness | 301.5 | 307.9 | 116.0 | 114.7 | 185.5 | 193.2 |
| Tableware | 140.6 | 136.4 | 45.4 | 45.1 | 95.2 | 91.3 |
| Reconciliation | 149.7 | 154.0 | 240.4 | 257.6 | –90.7 | –103.6 |
| **Total** | **591.8** | **598.3** | **401.8** | **417.4** | **190.0** | **180.9** |

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

| | Rolling assets | | Rolling liabilities | | Rolling net operating assets | |
|---|---|---|---|---|---|---|
| In Euro million | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| Bathroom and Wellness | 314.2 | 327.3 | 105.5 | 105.2 | 208.7 | 222.1 |
| Tableware | 135.3 | 138.4 | 40.4 | 38.0 | 94.9 | 100.4 |
| **Total** | **449.5** | **465.7** | **145.9** | **143.2** | **303.6** | **322.5** |

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 primarily includes financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities. The provision for restructuring is also allocated there.

Other segment information:

| | Additions to intangible assets and property, plant and equipment | | Depreciation and amortisation | |
|---|---|---|---|---|
| In Euro million | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| Bathroom and Wellness | 17.2 | 17.6 | –18.1 | –18.8 |
| Tableware | 9.2 | 8.0 | –8.9 | –8.5 |
| **Total** | **26.4** | **25.6** | **–27.0** | **–27.3** |

**Depreciation and amortisation** relates to the intangible assets and property, plant and equipment allocated to the individual segments. The Tableware segment reported impairment losses of Euro 0.0 million (previous year: Euro 0.1 million).

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

| | External revenue | | Non-current assets* | |
|---|---|---|---|---|
| In Euro million | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| German companies | 370.9 | 378.3 | 72.5 | 76.3 |
| Rest of euro zone | 155.9 | 159.8 | 28.7 | 28.9 |
| Rest of world | 216.8 | 204.8 | 95.9 | 99.3 |
| **Total** | **743.6** | **742.9** | **197.1** | **204.5** |

* in accordance with IFRS 8.33 (b)

# OTHER NOTES

## 54. FINANCIAL INSTRUMENTS

The recognition of primary and derivative financial instruments is based on their allocation to the measurement categories defined in IAS 39:

- The **"assets or liabilities at fair value through profit or loss"** category includes financial instruments held for trading in particular. As in the previous year, this category is not currently used as the Villeroy & Boch Group has no trading portfolio.
- The **"held-to-maturity investments"** category is for assets with fixed or determinable payments and fixed maturity that the Villeroy & Boch Group has the positive intention and ability to hold to maturity. This category includes demand deposits, for instance, which are recognised at amortised cost using the effective interest method as applicable.
- **"Loans and receivables"** or **"liabilities"** are carried at amortised cost. This category only contains primary financial instruments such as trade receivables or trade payables.
- The "**available-for-sale financial assets**" category contains investments in third-party companies, which are measured at amortised cost.
- In the **"hedge transactions"** 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 IAS 39 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.

### List of financial instruments

The Villeroy & Boch consolidated statement of financial position contains the following financial instruments:

» See table on page 108

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

» See table on page 109

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 entirely on the basis of market prices, the parameters on which the derivatives are based, such as current and forward rates, and yield curves.

### 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 (see page 60).

Table: Financial instruments as at December 2012

| In Euro million | Carrying amount as at 31/12/2012 | Amounts not measured under IAS 39 | Amounts measured under IAS 39: Nominal value – Cash reserve | Amortised cost – Loans and receivables | Amortised cost – Available for sale | Fair value – Cash flow hedge | Carrying amount as at 31/12/2012 | Fair value as at 31/12/2012 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents (note 15) | **55.3** | – | 55.3 | – | – | – | 55.3 | 55.3 |
| Trade receivables (note 12) | **108.4** | – | – | 108.4 | – | – | 108.4 | 108.4 |
| Other financial assets (note 9) | **9.1** | – | – | 6.5 | 2.6 | – | 9.1 | 9.1 |
| Other assets (note 13) | **20.6** | 7.6 | – | 9.8 | – | 3.2 | 13.0 | 13.0 |
| | | | **55.3** | **124.7** | **2.6** | **3.2** | **185.8** | **185.8** |
| Other assets not recognised under IAS 39 (a) | | | | | | | 7.6 | – |
| Non-current assets – not including other financial assets (note 9) | | | | | | | 198.1 | – |
| Inventories (see note 11) | | | | | | | 150.9 | – |
| Deferred tax assets (see note 10) and income tax receivables (see note 14) | | | | | | | 39.4 | – |
| Assets held for sale (see note 16) | | | | | | | 10.0 | – |
| **Total assets** | | | | | | | **591.8** | **–** |

| In Euro million | Carrying amount as at 31/12/ 2012 | Amounts not measured under IAS 39 | Amounts measured under IAS 39: Amortised cost – Liabilities | Fair value – Cash flow hedge | Carrying amount as at 31/12/2012 | Fair value as at 31/12/2012 |
|---|---|---|---|---|---|---|
| Trade payables (note 31) | 60.9 | – | 60.9 | – | 60.9 | 60.9 |
| Financial liabilities (note 29) | 51.3 | – | 51.3 | – | 51.3 | 51.3 |
| Other liabilities (note 30) | 77.3 | 32.7 | 43.4 | 1.2 | 44.6 | 44.6 |
| | | | **155.6** | **1.2** | **156.8** | **156.8** |
| Other liabilities not recognised under IAS 39 (b) | | | | | 32.7 | – |
| Equity | | | | | 190.0 | – |
| Current and non-current provisions (c) | | | | | 197.2 | – |
| Deferred tax liabilities (see note 10) and income tax liabilities | | | | | 15.1 | – |
| Liabilities directly associated with the assets classified as held for sale (see note 32) | | | | | - | – |
| **Total equity and liabilities** | | | | | **591.8** | **–** |

(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 staff liabilities, other tax liabilities and deferred income (see note 30).
(c) The current and non-current provisions include pension provisions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

Table: Financial instruments as at December 2011

| In Euro million | Carrying amount as at 31/12/2011 | Amounts not measured under IAS 39 | Amounts measured under IAS 39: Nominal value | Amortised cost | | Fair value | Carrying amount as at 31/12/2011 | Fair value as at 31/12/2011 |
|---|---|---|---|---|---|---|---|---|
| | | | Cash reserve | Loans and receivables | Available for sale | Cash flow hedge | | |
| Cash and cash equivalents (note 15) | **59.2** | – | 59.2 | – | – | – | 59.2 | 59.2 |
| Trade receivables (note 12) | **106.3** | – | – | 106.3 | – | – | 106.3 | 106.3 |
| Other financial assets (note 9) | **10.2** | – | – | 7.6 | 2.6 | – | 10.2 | 10.2 |
| Other assets (note 13) | **19.5** | 8.0 | – | 9.6 | – | 1.9 | 11.5 | 11.5 |
| | | | **59.2** | **123.5** | **2.6** | **1.9** | **187.2** | **187.2** |
| Other assets not recognised under IAS 39 (a) | | | | | | | 8.0 | – |
| Non-current assets – not including other financial assets (note 9) | | | | | | | 204.9 | – |
| Inventories (see note 11) | | | | | | | 146.0 | – |
| Deferred tax assets (see note 10) and income tax receivables (see note 14) | | | | | | | 40.8 | – |
| Assets held for sale (see note 16) | | | | | | | 11.4 | – |
| **Total assets** | | | | | | | **598.3** | **–** |

| In Euro million | Carrying amount as at 31/12/ 2011 | Amounts not measured under IAS 39 | Amounts measured under IAS 39: Amortised cost | Fair value | Carrying amount as at 31/12/2011 | Fair value as at 31/12/2011 |
|---|---|---|---|---|---|---|
| | | | Liabilities | Cash flow hedge | | |
| Trade payables (note 31) | 61.4 | – | 61.4 | – | 61.4 | 61.4 |
| Financial liabilities (note 29) | 51.3 | – | 51.3 | – | 51.3 | 51.3 |
| Other liabilities (note 30) | 80.3 | 33.9 | 43.3 | 3.1 | 46.4 | 46.4 |
| | | | **156.0** | **3.1** | **159.1** | **159.1** |
| Other liabilities not recognised under IAS 39 (b) | | | | | 33.9 | – |
| Equity | | | | | 180.9 | – |
| Current and non-current provisions (c) | | | | | 206.7 | – |
| Deferred tax liabilities (see note 10) and income tax liabilities | | | | | 16.5 | – |
| Liabilities of disposal groups held for sale (see note 32) | | | | | 1.2 | – |
| **Total equity and liabilities** | | | | | **598.3** | **–** |

(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 staff liabilities, other tax liabilities and deferred income (see note 30).
(c) The current and non-current provisions include pension provisions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

### 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” (see page 61).

The following currency futures will be carried out in 2013:

» See table 1

As at the reporting date, around 30 % of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the following foreign currencies: GBP 5.8 million, CHF 5.0 million and NOK 42.3 million. 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 2012 would have been Euro 1.7 million higher/lower (previous year: Euro 1.4 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income.

### 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” (see page 62).

The following cash flows from the brass commodity swaps in place are due in 2013 and 2014:

» See table 2

As at the reporting date and on the basis of production planning for the 2013 and 2014 financial years, there is an unhedged brass position totalling 1,080 tonnes (previous year: 1,200 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 2012 would have been Euro 0.5 million higher/lower (previous year: Euro 0.5 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income in 2012.

Further information on general procurement market risks can be found in the management report.

Table 1: Currency forwards

| | Assets as at end of reporting period | | Liabilities as at end of reporting period | |
|---|---|---|---|---|
| In Euro million | Transaction volume | Changes in fair value | Transaction volume | Changes in fair value |
| Within the next three months | 17.7 | 0.8 | 11.6 | 0.3 |
| In three to six months | 18.1 | 0.8 | 10.6 | 0.3 |
| In six to twelve months | 34.2 | 1.6 | 19.1 | 0.4 |
| **Total** | **70.0** | **3.2** | **41.3** | **1.0** |

Table 2: Brass futures

| | Assets as at end of reporting period | | Liabilities as at end of reporting period | |
|---|---|---|---|---|
| In Euro million | Transaction volume | Changes in fair value | Transaction volume | Changes in fair value |
| Within the next three months | 0.4 | 0.0 | 0.6 | 0.0 |
| In three to six months | 0.4 | 0.0 | 0.6 | 0.1 |
| In six to twelve months | 0.8 | 0.0 | 1.2 | 0.1 |
| In more than twelve months | 2.0 | 0.0 | 0.8 | 0.0 |
| **Total** | **3.6** | **0.0** | **3.2** | **0.2** |

### 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" (see page 62).

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 2012 financial year of +/– 50 bp and assuming all other variables remained constant, the net finance cost would have been Euro 0.2 million higher/lower (previous year: Euro 0.1 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" (see page 61).

### 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" (see page 61).

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:

» See table below

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.

Table: Cash flow expected on financial liabilities

| In Euro million | Carrying amount as at 31/12/ | Cash outflow expected in the following time bands: Gross | Within three months | Between three months and one year | Between one and five years |
|---|---|---|---|---|---|
| Trade payables | 61.4 | 61.4 | 61.4 | – | – |
| Current and non-current financial liabilities (a) | 51.3 | 73.5 | 16.1 | 2.5 | 54.9 |
| Other liabilities | 43.3 | 43.3 | 40.4 | 1.4 | 1.5 |
| Cash flow hedge liabilities (b) | 3.1 | 52.3 | 10.6 | 39.4 | 2.3 |
| **Total as at 31 December 2011** | **159.1** | **230.5** | **128.5** | **43.3** | **58.7** |
| Trade payables | 60.9 | 60.9 | 60.9 | – | – |
| Non-current and current financial liabilities (a) | 51.3 | 75.5 | 20.6 | 2.0 | 52.9 |
| Other liabilities | 43.4 | 43.6 | 41.2 | 0.9 | 1.5 |
| Cash flow hedge liabilities (b) | 1.2 | 41.9 | 12.2 | 29.7 | 0.0 |
| **Total as at 31 December 2012** | **156.8** | **221.9** | **134.9** | **32.6** | **54.4** |

(a) The cash flow from current and non-current financial liabilities includes future interest payments of Euro 4.9 million (previous year: Euro 7.4 million) that will not be incurred until after 31 December 2012.

(b) The transaction volume of cash flow hedge liabilities in the amount of Euro 41.9 million (previous year: Euro 52.3 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of Euro 1.2 million (previous year: Euro 3.2 million) is forecast, equal to the statement of financial position item. Euro 0.3 million of this will be settled in the next three months (previous year: Euro 0.6 million).

### Net income from financial instruments

In the reporting year, the Villeroy & Boch Group generated the following net income from the use of primary and derivative financial instruments:

| In Euro million | Net interest income | Gain or loss on remeasurement | | | Reversal[1] | Total |
|---|---|---|---|---|---|---|
| | | Fair value | Currency | Write-downs | | |
| Cash and cash equivalents | –0.4 | – | – | – | – | –0.4 |
| Loans and receivables/other liabilities | –2.6 | – | 0.0 | –0.8 | 0.4 | –3.0 |
| Cash flow hedges | – | 1.4 | 0.1 | – | 1.5 | 3.0 |
| **Net result for the 2011 financial year** | **–3.0** | **1.4** | **0.1** | **–0.8** | **1.9** | **–0.4** |
| Cash and cash equivalents | –0.3 | – | – | – | – | –0.3 |
| Loans and receivables/other liabilities | –2.9 | – | 0.0 | –1.1 | 0.2 | –3.8 |
| Cash flow hedges | – | 1.3 | –0.1 | – | 2.0 | 3.2 |
| **Net result for the 2012 financial year** | **–3.2** | **1.3** | **–0.1** | **–1.1** | **2.2** | **–0.9** |

1) Reversal to profit and loss

Net interest income is explained in detail in notes 40 and 41. The development of cash flow hedges is described in note 21c.

## 55. CONTINGENT LIABILITIES AND COMMITMENTS

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Guarantees | 0.3 | 0.2 |
| Trustee obligations | 0.2 | 0.3 |
| Other contingent liabilities | 0.0 | 0.0 |

Trustee obligations relate to default obligations of the development fund. Bank guarantees were primarily provided to a Thai national utility and the Thai customs department.

## 56. OTHER FINANCIAL OBLIGATIONS

| In Euro million | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Obligations arising from orders placed | | |
| for investments in intangible assets | 0.2 | 0.0 |
| for investments in property, plant and equipment | 3.3 | 5.4 |

## 57. 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 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 and are not discussed in this section.

No goods or services were provided to or by the company accounted for using the equity method (see note 8). From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to this company was insignificant.

The Villeroy & Boch Group has reported on its business relations with Rödl System Integration GmbH, Nuremberg, below. This company is considered a related party. V & B Fliesen GmbH, Merzig, lost its status as a related enterprise as, on account of the put option of the Villeroy & Boch Group described in note 16, only 10 % of the shares are recognised as an equity investment (see note 9a.).

Over the course of the financial year, service income of Euro 0.5 million was recognised from **Rödl System Integration GmbH**, Nuremberg. An amount of Euro 0.0 million was recognised under other receivables as at the end of the reporting period (see note 13).

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 Euro million | 2012 | 2011 |
|---|---|---|
| Current employee benefits | 3.6 | 3.1 |
| Post-employment benefits | 1.4 | 1.4 |
| Termination benefits | – | 0.3 |
| **Total** | **5.0** | **4.8** |

Relatives of this group of persons employed within the Villeroy & Boch Group receive the compensation based on their position and/or 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.

## 58. 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 is Euro 20,000. The Chairman receives an additional Euro 45,000, while the Deputy Chairman receives an additional Euro 13,500. Members of the Supervisory Board receive a fee of Euro 1,250 for each meeting of the full Supervisory Board.

The Chairmen of the Investment Committee, the Human Resources Committee and the Audit Committee each receive Euro 4,000 p.a. in addition to their basic remuneration, while the members of the respective committees each receive an additional Euro 2,500 p.a.

The variable remuneration amounts to Euro 195 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share (calculated as the average of the dividends paid for one preference share and 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:

» See table below

A total expense of Euro 491 thousand was reported in consolidated earnings for the 2012 financial year (previous year: Euro 506 thousand). In addition to the fixed remuneration paid and the meeting fees for 2012, this figure includes Euro 63 thousand for the provision for variable remuneration as well as other reimbursements of expenses in the amount of Euro 10 thousand.

### Management Board remuneration

An expense of Euro 2,340 thousand (previous year: Euro 1,935 thousand) was reported in the income statement for the 2012 financial year. This figure consists of fixed salary components of Euro 1,237 thousand (previous year: Euro 1,139 thousand) and variable salary components of Euro 1,103 thousand (previous year: Euro 796 thousand). In the year under review, the Villeroy & Boch Group paid insurance premiums in the amount of Euro 3 thousand (previous year: Euro 2 thousand). The members of the Management Board received remuneration in kind totalling Euro 51 thousand (previous year: Euro 35 thousand).

Provisions for pensions for former members of the Management Board amounted to Euro 23,102 thousand (previous year: Euro 18,210 thousand). In the year under review, former members of the Management Board received pension benefits totalling Euro 1,359 thousand (previous year: Euro 1,371 thousand).

The provisions of section 314 (2) sentence 2 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 2012 financial year.

### Table: Supervisory Board remuneration

| In Euro thousand | Fixed remuneration | Meeting fees | Variable remuneration for 2011 | Total | Previous year |
|---|---|---|---|---|---|
| Wendelin von Boch-Galhau 2*) 3*) | 73 | 6 | 5 | 84 | 81 |
| Ralf Runge 4) | 34 | 8 | 5 | 47 | 42 |
| Peter Prinz Wittgenstein 1) 2) | 39 | 8 | 5 | 52 | 47 |
| Dr. Alexander von Boch-Galhau | 20 | 8 | 5 | 33 | 28 |
| Francois Villeroy de Galhau | 20 | 5 | 5 | 30 | 26 |
| Jürgen Beining | 20 | 6 | 5 | 31 | 28 |
| Werner Jäger 1) 4) | 23 | 8 | 5 | 36 | 31 |
| Dr. Jürgen Friedrich Kammer 3) | 23 | 6 | 5 | 34 | 30 |
| Charles Krombach 1*) | 24 | 8 | 5 | 37 | 31 |
| Dietmar Langenfeld 2) 4) | 23 | 6 | 5 | 34 | 31 |
| Ralf Sikorski 3) 4) | 23 | 6 | 5 | 34 | 30 |
| Dietmar Geuskens 4) | 20 | 5 | 5 | 30 | 28 |
| Rounding differences | –3 | –1 | 3 | –1 | –7 |
| | **339** | **79** | **63** | **481** | **426** |

1) Audit Committee, 2) Investment Committee, 3) Human Resources Committee, * = Chairman of the respective committee
4) Remuneration is deducted in accordance with DGB guidelines for the deduction of supervisory board remuneration.

## 59. AUDITORS' FEES AND SERVICES

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

| In Euro million | 2012 | 2011 |
|---|---|---|
| Audits of financial statements | 0.5 | 0.4 |
| Other assurance or valuation services | – | – |
| Tax advisory services | 0.0 | 0.0 |
| Other services | 0.1 | 0.2 |

## 60. 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 2012 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 29 November 2012. The declaration is permanently available to shareholders on the Internet.

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

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

## 62. LIST OF SHAREHOLDINGS

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

| | | Villeroy & Boch AG investment | | |
|---|---|---|---|---|
| | | Direct | Indirect | Total |
| Germany | | In % | In % | In % |
| 1. | Dritte V & B asset management GmbH & Co. KG, Mettlach | 0 | 100 | 100 |
| 2. | Erste V & B asset management GmbH & Co. KG, Mettlach | 0 | 100 | 100 |
| 3. | Fliesen-Bollmann Beteiligungsgesellschaft mbH, Mettlach | 100 | 0 | 100 |
| 4. | Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach | 100 | 0 | 100 |
| 5. | Heinrich Porzellan GmbH, Selb | 100 | 0 | 100 |
| 6. | INTERMAT - Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach | 100 | 0 | 100 |
| 7. | Sales Design Vertriebsgesellschaft mbH, Merzig | 100 | 0 | 100 |
| 8. | Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen | 100 | 0 | 100 |
| 9. | V & B International GmbH, Mettlach | 100 | 0 | 100 |
| 10. | VilboCeram GmbH, Mettlach | 100 | 0 | 100 |
| 11. | Villeroy & Boch asset management Geschäftsführungsges. mbH, Mettlach | 100 | 0 | 100 |
| 12. | Villeroy & Boch asset management Holding GmbH & Co. KG, Mettlach | 100 | 0 | 100 |
| 13. | Villeroy & Boch Creation GmbH, Mettlach | 100 | 0 | 100 |
| 14. | Villeroy & Boch Interior Elements GmbH, Mettlach | 100 | 0 | 100 |
| 15. | Villeroy & Boch K-Shop GmbH, Mettlach | 100 | 0 | 100 |
| 16. | Zweite V & B asset management GmbH & Co. KG, Mettlach | 0 | 100 | 100 |

| | | Villeroy & Boch AG investment | | |
|---|---|---|---|---|
| | | Direct | Indirect | Total |
| Abroad | | In % | In % | In % |
| 17. | Alföldi Kerámia Kft., Hódmezövásárhely (Hungary) | 0 | 100 | 100 |
| 18. | Delfi Asset S.A., Luxembourg (Luxembourg) | 0 | 100 | 100 |
| 19. | EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hong Kong (China) | 100 | 0 | 100 |
| 20. | Hissnabben Växjö AB, Växjö (Sweden) | 0 | 100 | 100 |
| 21. | International Materials LLC, Delaware (USA) | 0 | 100 | 100 |
| 22. | Kiinteistö Oy, Helsinki (Finland) | 0 | 100 | 100 |
| 23. | Oy Gustavsberg Ab, Helsinki (Finland) | 0 | 100 | 100 |
| 24. | Proiberian S.l., Barcelona (Spain) | 70 | 30 | 100 |
| 25. | Rollingergrund Premium Properties SA, Luxembourg, (Luxembourg) | 0 | 100 | 100 |
| 26. | S.C. Mondial S.A., Lugoj (Romania) | 99.44 | 0 | 99.44 |
| 27. | St. Thomas Creation Inc., San Diego (USA) | 0 | 100 | 100 |
| 28. | St. Thomas Creation S.A. de C.V., Saltillo (Mexico) | 0 | 100 | 100 |

| Abroad | | Villeroy & Boch AG investment Direct | Indirect | Total |
|---|---|---|---|---|
| | | In % | In % | In % |
| 29. | Ucosan BV, Roden (Netherlands) | 100 | 0 | 100 |
| 30. | Vilbomex S.A. de C.V., Saltillo (Mexico) | 88.32 | 11.68 | 100 |
| 31. | Villeroy & Boch (Thailand) Co. Ltd., Bangkok (Thailand) | 0 | 100 | 100 |
| 32. | Villeroy & Boch (U.K.) Ltd., London (England) | 0 | 100 | 100 |
| 33. | Villeroy & Boch Arti della Tavola S.r.l., Milano (Italy) | 0.2 | 99.8 | 100 |
| 34. | Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia) | 0 | 100 | 100 |
| 35. | Villeroy & Boch Austria G.m.b.H., Mondsee (Austria) | 100 | 0 | 100 |
| 36. | Villeroy & Boch Belgium S.A., Brussels (Belgium) | 99.99 | 0.01 | 100 |
| 37. | Villeroy & Boch CreaTable AG, Lenzburg (Switzerland) | 0 | 100 | 100 |
| 38. | Villeroy & Boch Czech s.r.o., Prague (Czech Republic) | 100 | 0 | 100 |
| 39. | Villeroy & Boch Danmark A/S, Brondby (Denmark) | 0 | 100 | 100 |
| 40. | Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden) | 100 | 0 | 100 |
| 41. | Villeroy & Boch Hogar S.L., Barcelona (Spain) | 44 | 56 | 100 |
| 42. | Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary) | 99.99 | 0 | 99.99 |
| 43. | Villeroy & Boch Norge AS, Lorenskog (Norway) | 0 | 100 | 100 |
| 44. | Villeroy & Boch ooo, Moscow (Russia) | 100 | 0 | 100 |
| 45. | Villeroy & Boch Polska Sp.z o.o., Warsaw (Poland) | 0 | 100 | 100 |
| 46. | Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxembourg) | 100 | 0 | 100 |
| 47. | Villeroy & Boch Sales India Private Limited, Mumbai (India) | 100 | 0 | 100 |
| 48. | Villeroy & Boch Sociéte Générale de Carrelage S.A.S., Paris (France) | 0 | 100 | 100 |
| 49. | Villeroy & Boch Tableware (Far East) Ltd., Hong Kong (China) | 0 | 100 | 100 |
| 50. | Villeroy & Boch Tableware B.V., Oosterhout (Netherlands) | 100 | 0 | 100 |
| 51. | Villeroy & Boch Tableware Japan K.K., Tokyo (Japan) | 0 | 100 | 100 |
| 52. | Villeroy & Boch Tableware Ltd., Aurora (Canada) | 0 | 100 | 100 |
| 53. | Villeroy & Boch Tableware Oy, Famelco (Finland) | 100 | 0 | 100 |
| 54. | Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China) | 100 | 0 | 100 |
| 55. | Villeroy & Boch USA Inc., New York (USA) | 0 | 100 | 100 |
| 56. | Villeroy & Boch Wellness N.V., Roeselare (Belgium) | 100 | 0 | 100 |
| 57. | Villeroy et Boch Arts de la Table S.A.S., Paris (France) | 0 | 100 | 100 |
| 58. | Villeroy et Boch S.A.S., Paris (France) | 100 | 0 | 100 |

| Investments | | Villeroy & Boch AG investment Direct | Indirect | Total |
|---|---|---|---|---|
| | | In % | In % | In % |
| 59. | V&B Fliesen GmbH, Merzig (Germany) | 25 | 0 | 25 |

* Section 313 II no. 4 and section 313 II HGB are applied to two German investments.

## 63. DEVELOPMENTS WITHIN THE IASB FRAMEWORK

The following IASB publications were adopted by the EU and are required to be applied for financial years beginning after 31 December 2011:

| Standard | | Name |
|---|---|---|
| IFRS | 7 | Amendment of IFRS 7 Financial Instruments – Transfer of Financial Assets |

The following IASB regulations were endorsed by the EU but are not yet effective for the current financial year:

| Standard | | Name |
|---|---|---|
| IAS | 1 | Amendments to IAS 1 - Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income; effective for financial years beginning on or after 1 July 2012 |
| IAS | 12 | Income Taxes - Deferred Tax: Recovery of Underlying Assets; effective for financial years beginning on or after the date of enactment (2 January 2013) |
| IAS | 19 | Amendments to IAS 19 - Employee Benefits; effective for financial years beginning on or after 1 January 2013 |
| IAS | 27 | Separate Financial Statements; effective for financial years beginning on or after 1 January 2014 |
| IAS | 28 | Investments in Associates and Joint Ventures; effective for financial years beginning on or after 1 January 2014 |
| IAS | 32 | Amendment to IAS 39 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities; effective for financial years beginning on or after 1 January 2014 |
| IFRS | 1 | First-time Adoption - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; partially effective for financial years beginning on or after 1 January 2013 or for financial years beginning on or after the date of enactment (2 January 2013) |
| IFRS | 7 | Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities; partially effective for financial years beginning on or after 1 January 2013 or for financial years beginning on or after 1 January 2014 |
| IFRS | 10 | Consolidated Financial Statements; effective for financial years beginning on or after 1 January 2014 |
| IFRS | 11 | Joint Arrangements; effective for financial years beginning on or after 1 January 2014 |
| IFRS | 12 | Disclosure of Interests in Other Entities; effective for financial years beginning on or after 1 January 2014 |
| IFRS | 13 | Fair Value Measurement, effective for financial years beginning on or after 1 January 2013 |
| IFRIC | 20 | Stripping Costs in the Production Phase of a Surface Mine; effective for financial years beginning on or after 1 January 2013 |

The Villeroy & Boch Group will adopt these regulations from the financial year in which they become effective within the EU.

Accounting for pension obligations has changed fundamentally as a result of the mandatory adoption of the new regulations of IAS 19 on 1 January 2013. At the heart of the changes is the abolition of the corridor method previously used by the Villeroy & Boch Group in line with regulations. From 1 January 2013, all pension obligations must be recognised net of plan assets. The previously unrecognised actuarial gains and losses (see note 26) must be offset against the revaluation surplus in equity. As a result, the equity of the Villeroy & Boch Group including deferred taxes has been reduced by Euro 41 million, corresponding to a drop in the equity ratio of eight percentage points. The introduction of the net interest method for plan assets has only an insignificant effect on the income statement of the Villeroy & Boch Group.

The EU has not yet adopted the following IASB publications:

| Standard | | Name |
|---|---|---|
| IFRS | 1 | Amendments to IFRS 1 - Government Loans (issued 13 March 2012) |
| IFRS | 9 | Financial Instruments (issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011) |
| Var. | | Improvements to IFRSs 2009-2011 (issued on 17 May 2012) |
| Var. | | Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (issued 28 June 2012) |
| Var. | | Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on 31 October 2012) |

The above standards and interpretations will be applied when they become effective within the European Union. Recognition by the EU serves to implement IASB publications in European law. Due to the absence of such recognition, early adoption is not possible. According to current understanding, the new regulations described above will have only an insignificant effect on the Villeroy & Boch Group.

## 64. 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, 25 January 2013

Frank Göring
Jörg Wahlers
Nicolas Luc Villeroy
Andreas Pfeiffer

# AUDIT REPORT

We have issued the following audit opinion for the consolidated financial statements and the Group management report:

"We have audited the consolidated financial statements prepared by Villeroy & Boch AG, Mettlach, comprising the income statement, the statement of financial position, the statement of changes in equity, the statement of comprehensive income, the statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the fiscal year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Mannheim, 28 January 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle, Wirtschaftsprüfer (German Public Auditor)
Waldner, Wirtschaftsprüfer (German Public Auditor)

# GLOSSARY

### Cash Flow
Describes the internal financing potential of the company and is the result of inflows and outflows of cash. In the cash flow statement, these cash flows are broken down into operating, investing and financing activities.

### Cash flow from financing activities
Cash flow resulting from changes in financial liabilities proceeds from sales of or payments for acquisitions of treasury shares and dividend payments.

### Cash flow from investing activities
Cash flow in connection with the acquisition or disposal of financial assets and property, plant and equipment.

### Cash flow from operating activities
Cash flow from operations, such as sales of goods or purchases of materials and services or wages and salaries.

### Cash flow sales profitability
The “cash flow sales profitability” shows the relationship of cash generated by and used in operating activities to consolidated sales and is expressed as a percentage.

### CEO
The Chief Executive Officer (CEO) is the sole managing director or chairman of a company or the chairman of management or the management board.

### CFO
The Chief Financial Officer (CFO) is the commercial managing director or management board member responsible for finance at a stock corporation.

### Corporate Governance
The sound, responsible management and control of a company geared towards long-term value added.

### DAX®
The DAX® is the selection index of Deutsche Börse AG that comprises the 30 biggest German stock corporations listed on the German stock exchange.

### DAX® Performance Index
This is calculated by Deutsche Börse AG and measures the relative change of the equities in the DAX®.

### Earnings per share
The “earnings per share” ratio indicates the proportionate consolidated earnings per share outstanding.

### EBIT
Earnings before interest and tax.

### EBITDA
Earnings before interest, tax, depreciation and amortisation.

### EBT
Earnings before tax.

### Equity ratio
Ratio of equity to balance sheet total.

### Goodwill
The difference by which the purchase price paid to acquire an enterprise exceeds the carrying amount of the net assets acquired.

### Net operating margin
Ratio of EBIT (earnings before interest and tax) to sales.

### NOPAT (net operating profit after tax)
Net total of gross profit, selling, marketing and development costs, general administrative expenses and taxes on income.

### Net Operating Assets
Net total of property, plant and equipment, inventories, trade receivables and other operating assets, liabilities to suppliers, provisions and other operating liabilities.

### Prime Standard
The Prime Standard comprises the companies that are traded on the German stock exchange and that also satisfy particularly high transparency standards at the same time. Deutsche Börse collates its selection indices, such as the DAX® or SDAX®, from these equities.

### Return On Equity (ROE)
Ratio of consolidated earnings to equity including minority interests.

### Return on Rolling Net Operating Assets
Ratio of the result from ordinary activities at a Group level and at the level of the respective divisions before the expenses attributable to the central functions to Net Operating Assets (12 month average). The latter is calculated as the operating result divided by the average operating net assets for the last twelve months.

### SDAX®
The SDAX® is the selection index of Deutsche Börse AG for smaller companies in conventional industries, also referred to as “small caps”. It includes 50 equities that are traded in the Prime Standard® of the official market or the regulated market.

# 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 annual 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.

The annual report has been translated into English and certain chapters are also available in French. In the event of variances, the German version shall take precedence over the English and French translations.

We will be happy to send you additional copies free of charge.

Please feel free to order them by contacting:

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# COMPANY CALENDAR 2013

22 March 2013
General Meeting of Shareholders, Merzig Town Hall

19 April 2013
Report on the first three months 2013

18 July 2013
Report on the first half of 2013

21 October 2013
Report on the first nine months 2013

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Information on Villeroy & Boch can also be found here:

*http://www.facebook.com/VilleroyandBoch*
*http://www.twitter.com/VilleroyundBoch*
*http://www.youtube.com/VilleroyundBoch*

# IMPRINT


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66693 Mettlach
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Design:
FDESiGN
*www.fdesign4u.de*

Printing:
Grafisches Centrum Cuno GmbH & Co. KG
*www.vielfalt-durch-ideen.de*

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FSC www.fsc.org


This Annual Report is available in English and German. This English version is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation. Due to rounding differences, there may be slight discrepancies in the totals and percentages contained in this report. Both versions as well as further information can be downloaded at *www.villeroy-boch.com*.

Villeroy & Boch
1748