# Villeroy & Boch

1748

ANNUAL REPORT
2013

# TABLE OF CONTENT

## *Magazine*



## *Annual Report 2013*



◄ Cover Motif

Mariefleur is an interpretation of the traditional country lifestyle for a young and discerning generation. The collection was introduced in 2012 and immediately became the most successful new product in the past ten years.

# THE GROUP AT A GLANCE

**VILLEROY & BOCH**

in the 2013 financial year

in € million

| | | 2013 | 2012 | Change in % |
|---|---|---|---|---|
| Revenue | | 745.3 | 743.6 | 0.2 |
| Revenue – Germany | | 212.8 | 202.5 | 5.1 |
| Revenue – Abroad | | 532.5 | 541.1 | –1.6 |
| EBITDA | | 69.5 | 57.9 | 20.0 |
| EBITDA (before special proceeds) | | 62.5 | 57.9 | 7.9 |
| EBIT | | 43.2 | 30.9 | 39.8 |
| EBIT (before special proceeds) | | 36.2 | 30.9 | 17.2 |
| EBT | | 33.8 | 18.4 | 83.7 |
| EBT (before special proceeds) | | 26.8 | 18.4 | 45.7 |
| Group result | | 23.9 | 14.7 | 62.6 |
| Net operating assets (12 months average) | | 301.5 | 303.6 | –0.7 |
| Balance sheet total | | 599.6 | 608.8 | –1.5 |
| Cash flow from operating activities | | 31.6 | 20.6 | 53.4 |
| Capital Expenditure | | 26.4 | 26.4 | 0.0 |
| Depreciation and amortisation | | 26.3 | 27.0 | –2.6 |
| Employees (annual average) | | 7,756 | 7,946 | –2 |
| Return on net operating assets | in % | 12.0 | 10.2 | 17.6 |
| Net operating margin (before special proceeds) | in % | 4.9 | 4.2 | 16.9 |
| Return on equity (ROE; before special proceeds) | in % | 10.5 | 9.8 | 7.0 |
| Cash flow sales profitability | in % | 4.2 | 2.8 | 53.0 |
| Equity ratio (incl. minority interests) | in % | 26.8 | 24.5 | 9.1 |
| Earnings per ordinary share | in € | 0.88 | 0.53 | 66.0 |
| Earnings per preference share | in € | 0.93 | 0.58 | 60.3 |
| Dividend per ordinary share | in € | 0.37 | 0.35 | 5.7 |
| Dividend per preference share | in € | 0.42 | 0.40 | 5.0 |

# DIVISIONS

## BATHROOM AND WELLNESS

in the 2013 financial year

in € million

| | 2013 | 2012 | Change in % |
|---|---|---|---|
| Revenue | 456.0 | 465.7 | –2.1 |
| EBIT | 27.8 | 22.7 | 22.5 |
| Net operating assets (12 months average) | 201.3 | 208.7 | –3.5 |
| Return on net operating assets in % | 14.3 | 11.3 | 26.5 |

The product range in the Bathroom and Wellness Division includes ceramic bathroom collections, fittings, bathroom furniture, modern shower, tub and whirlpool systems, saunas, and ceramic kitchen sinks.

## TABLEWARE

in the 2013 financial year

in € million

| | 2013 | 2012 | Change in % |
|---|---|---|---|
| Revenue | 289.3 | 277.9 | 4.1 |
| EBIT | 8.4 | 8.2 | 2.4 |
| Net operating assets (12 months average) | 100.2 | 94.9 | 5.6 |
| Return on net operating assets in % | 8.6 | 8.2 | 4.9 |

Our product range in the Tableware Division features high-quality innovative and traditional crockery series as well as glassware, cutlery, gift items and a wide range of living accessories such as kitchen and tableware textiles.

Villeroy & Boch
1748

# Insights

THE MAGAZINE SUPPLEMENT TO THE ANNUAL REPORT 2013

## *EMPLOYEES: our creative PARTNERS*

HOW PEOPLE SHAPE VILLEROY & BOCH AS A COMPANY

# EDITORIAL

Dear Readers,

You may be surprised to find yourselves reading this, the new magazine accompanying the Annual Report 2013, rather than the usual "Letter to Shareholders". The reason is simple: Every year we collect many interesting stories and themes from the world of Villeroy & Boch, and we want to share these with you to a greater extent than previously. This is why we have created the "Insights" magazine – and it is no exaggeration to say that it lives up to its name!

One of those stories is that of the popular Mariefleur crockery collection, which can be seen on the front page of this magazine and the Annual Report 2013. Launched in 2012, Mariefleur quickly became our most successful new product in the past ten years. This is particularly pleasing for me because floral decors have always been one of our design specialities; indeed, you might say they form part of our DNA. Following a number of years in which the market was dominated by traditional white crockery, floral decors are now all the rage once again. The "Insights" magazine will let you get to know the product developers who are responsible for our various designs.

You can also read about how our marketing experts draw attention to the traditional Villeroy & Boch brand time and time again with values such as provenance, authenticity, design expertise and innovation, thereby generating emotional value added for our customers. In addition to these topics of national and international importance, "Insights" contains regional stories for you to enjoy. Travel with us to the sanitary ware plant in Lugoj, Romania, read about the exciting challenges facing our heads of sales, and learn more about our latest activities in the growth market of Asia-Pacific and the Middle East.

When designing "Insights", we took particular care to ensure that the articles focused on the individual. Our 7,745 employees put a great deal of effort into their work for Villeroy & Boch, every single day – whether in North America, the Far East or our home market of Europe. And if you ask me, I would ideally like to read a story about each and every one of them, because they are what makes our company so special.

I invite you to accept our invitation to get to know Villeroy & Boch even better, and I hope you enjoy reading the magazine.

Yours,

Frank Göring, Chairman of the Management Board
Mettlach, March 2014

*"International and multi-faceted: Our new magazine 'Insights' will get you in the mood for the Annual Report 2013 with stories from the world of Villeroy & Boch."*

**FRANK GÖRING**

# HIGHLIGHTS

## INSIGHT VIEW

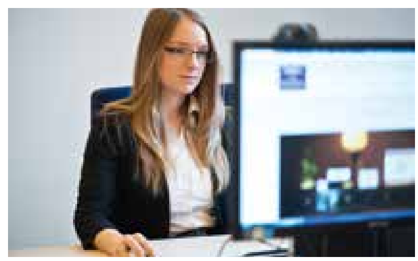
Page 4 – The brand

In their essay, Ernst-Albrecht Klahn and Kai Steffan describe Villeroy & Boch's brand values and how the company bridges the gap between the traditional and the modern.

## VISION

Page 23 – Focus on the Asia/Pacific region

Villeroy & Boch is creating the foundations for future growth: A decentralised organisation in the APAC region, the intensification of Bathroom and Wellness retail business in China, and the Tableware joint venture in India.



## OVERVIEW

Page 8 –
The product range

An interview with the Product Managers for the Bathroom and Wellness and Tableware Divisions on design, inspiration, portfolio management and processes.

## SPOTLIGHTS

Page 14 – Romania: Portrait of the Lugoj plant

How the Romanian sanitary ware plant has developed since its acquisition Villeroy & Boch.

Page 16 – Germany: Interview with Sales

How Jens-Peter Schlingmann and Martin Metzler manage business in Villeroy & Boch's domestic market of Germany.

Page 20 – North America: Sales partnership

How Villeroy & Boch and Toto are jointly driving ahead distribution in the USA and Canada.

AN ESSAY BY ERNST-ALBRECHT KLAHN AND KAI STEFFAN

# ORCHESTRATING A CULTURAL IMPRINT: THE VILLEROY & BOCH BRAND

*Can the value of a brand be calculated? Of course it can: using factors like business figures, the importance of the brand when it comes to buying decisions, and the strength of a company compared with its peer group. Villeroy & Boch's value can also be worked out in this way. But it is brand values, not figures, that give a brand its unmistakeable value added.*

Provenance, authenticity, design expertise, innovative strength: these are just some of the brand values that have shaped Villeroy & Boch over the past 265 years. These values provide the incentive to create something new. And they are the benchmark by which products must be measured – Villeroy & Boch's own products as well as those of its competitors.

Value describes the economic success of a brand. The brand values are what give the brand its essence. But the "Villeroy & Boch" signature is about more than merely ensuring that products enjoy recognition value. People use "Villeroy & Boch" to shape the places where they live, and sometimes also the dreams they seek to live out. For this reason alone, brands need to be defined by more than sales figures. The cultural aspects of a brand must also be taken into account – and hence its attitude towards life, enjoyment and pleasure.

The fact that Princess Diana used Villeroy & Boch crockery virtually in secret shows all too clearly how brands can be a (sometimes highly national) cultural asset. The Villeroy & Boch brand was born in the heart of Europe and forms part of Europe's heritage. This makes it a part of Europe's culture – and adds value to the mere function of the products themselves, whether plates or washbasins.

Many products can boast functionality, design or durability. But "culture" – one of Villeroy & Boch's most important brand values – makes a vast difference. Culture builds the bridge to pleasure: knowing who created a product, the expertise and the people behind it. This knowledge is what makes for an intimate and personal relationship with a product. The result: a uniquely three-dimensional brand.

Villeroy & Boch has the potential for this three-dimensionality because of its "cultural

**Kai Steffan**
is the Creative Director for Villeroy & Boch and other companies. Steffan, who previously worked for various design and advertising agencies, is responsible for the visual appearance of the brand and the design and realisation of the characteristic brand attributes in the areas of product and communication.

An example of decor expertise: the new Artesano Provençal, which was presented at the Ambiente 2014.

Tradition is always in demand: creating a retro atmosphere in the bathroom with the Hommage collection.

imprint" – the background, history and stories that only one of Europe's oldest brands can narrate. Villeroy & Boch's values are as relevant now as they have ever been. The Villeroy & Boch brand is both authentic and accessible. It holds a timeless appeal yet demonstrates its street credibility on a daily basis. After all, provenance and expertise cannot be fabricated as a marketing story.

The cabinets in which people once displayed their "good" Villeroy & Boch china may have disappeared from living rooms, but the visual aspect remains the first point of contact when it comes to winning over a person's heart. And a brand has to please people across generations.

As the saying goes, "If you don't bend, you'll break." But how far should a brand bend to ensure that it remains attractive? How far can it stretch itself without losing its profile? How flexible does its style have to be to prevent it from becoming obsolete? Villeroy & Boch's portfolio provides the answer. The Villeroy & Boch brand is a carefully cut diamond – one stone with many facets.

Villeroy & Boch offers a broad product range in terms of both Tableware and Bathroom and Wellness. Since its earliest days, Villeroy & Boch has sought not to polarise, but to bridge the gap between the traditional and the modern. Time and time again, the brand has created highly successful products by pursuing precisely this approach – and developed its portfolio progressively along the way. The core stylistic elements of Classic and Country are now interpreted and even ▶

**Ernst-Albrecht Klahn**
is the Corporate Marketing Director at Villeroy & Boch. He has many years of experience in brand management at international companies.

> *“The Villeroy & Boch brand is shaped by a company that gives it quality and design features based on expertise and innovative strength.”*

ERNST-ALBRECHT KLAHN

orchestrated in a contemporary manner. The bass notes of the brand can still be heard, even if the arrangements are different nowadays.

One characteristic of modern times is that almost everything is evaluated, measured, ranked and published, brands and products included. And we live in a consumer world where anyone can buy anything in a range of quality levels. At one point, this development was enough for some to forecast the demise of the “brand” as a concept. But the opposite has proven to be true. The abundance that so fascinates consumers means that a major brand like Villeroy & Boch can stand out more than ever before. The Villeroy & Boch brand has an enduring quality and leads the way. It provides orientation and gives people the security of knowing they have made the right choice. It makes its owners proud, increases their pleasure and improves their quality of life.

The Villeroy & Boch brand is shaped by a company that gives it quality and design features based on expertise and innovative strength. It is a brand that has been forged from its provenance, its history and its philosophy. And it is driven by the retailers and consumers who believe in it and place their trust in it.

It is said that brands have the power to change the world. Villeroy & Boch certainly has the strength to change people’s everyday lives. A good start, in other words – and a good approach for the next 265 years, too.

Lumière Pure: Traditional glass art, perfectly realised – and strictly limited to 300 pieces.

THE PRODUCT RANGE

# "ONLY THE BEST COMES OUT"

One company, two divisions, many worlds: Villeroy & Boch offers a wide range of products. Elke Novak and Kirsten Wienberg, responsible for Product Management and Development at Bathroom and Wellness, and Florian Bausch, Head of Product Management for the Tableware Division, discuss how to manage this abundance of different products and enhance it with new innovations.

Kirsten Wienberg, Florian Bausch and Elke Novak discuss product management and development.

*How important is an efficient process for the development and management of products?*

NOVAK Extremely important. After all, product development and man agement work in close cooperation right from the start. We use an overarching standard development process that takes the form of a funnel with five "gates". A lot of ideas go in, but only the best comes out. The less good ideas are eliminated before they can lead to substantial costs.

BAUSCH Creativity needs to be given free rein, but it should be evaluated and refined within a strategic framework. We apply a strict portfolio strategy in order to ensure consistency and because the risk of inflationary product development is too great, not least in terms of the quantity of parts.

*Where do you get the ideas for new products?*

WIENBERG On the one hand, we receive concrete suggestions from outside the company – from architects, end consumers and designers, as well as creative minds from all over the world. We also arrange workshops and take inspiration from external thinkers in generating innovations in particular. We consult trend researchers and screen trade fairs, magazines and material labs presenting new materials and processing methods. On the other hand, we harness our employees' creativity and knowledge of the market. And we keep our eyes open at all times. Sometimes inspiration really does strike when you are in the shower!

*What do you consider to be the greatest challenges facing product management?*

BAUSCH Our task is to generate the greatest possible productivity. This means extending the lifecycle of the existing product range in order to ensure its economic efficiency, but

An urban mix of materials: the successful Artesano Original collection.

*"Design is essential for us and is always derived from the brand DNA."*

Contemporary bathroom design with the Legato furniture series and the new Squaro Edge 12 bathtub.

it also means addressing future consumer trends. We do this with new shapes or decors – indeed, many new products are designed to serve as a platform for decors. Design is essential for us and is always derived from the brand DNA.

*While we are talking about the future: What are the main requirements of consumers and what trends will shape your products over the coming years?*

BAUSCH Urban living with a desire for nature is one of the key trends. People are surrounded by bricks and concrete in their everyday lives, and hence are looking to create "little islands of bliss" at home. Our core competencies of Country and Classic, with or without decor, address precisely this trend – as demonstrated by the success enjoyed by Mariefleur and Artesano. And I am sure Artesano Provençal will soon join this list. We know that the scenarios and utensils of food culture will change in the long term. But even 100 years from now, people will still get hungry and thirsty, and we will ensure that they can tend to their needs in style. ▶

History comes to life – Alt Luxemburg.

*“The Alt Luxemburg decor, for example, which is almost as old as our company!”*

**WIENBERG** When it comes to bathrooms, user-friendliness and individual comfort are key themes. The bidet WC is one example of this development. We are also observing an increase in the frequency with which people shower. And shaping the bathroom as a private space will present a challenge in an era in which the flexibility of the working world is making us increasingly nomadic.

*And what happens if a competitor recognises a trend sooner or presents a similar design?*

**NOVAK** The overall result is what counts. Even if a competitor adopts a similar design direction, what matters in the end is the quality and detailed execution of the products. We want to be the leading end consumer brand in the bathroom sector and the best on the market. This is our aspiration.

**BAUSCH** And we are fulfilling this aspiration. The high quality we offer is precisely what our customers expect. They want our products to look and work just like they did on the first day, even 10 or 20 years later.

*In light of the various markets and target groups around the world, do you also have different strategies for successfully managing your products and the Villeroy & Boch brand?*

**WIENBERG** Some themes are relevant to a wide range of people across different cultures – such as the need for comfort and hygiene, and hence aspects such as flushing performance and surface finish. In general terms, the brand should be perceived in a similar way wherever we may be, and communication and marketing must be centred around the European bathroom culture that lies at the heart of the brand. At the level of the individual products, however, regional preferences do play a role in ensuring our success. This can include WC flushes or specific certification requirements in the respective markets.

BAUSCH From my point of view, ensuring a detailed understanding of all of the cultures in which we sell our products is one of the greatest challenges. China has a different tableware culture, for example, and a knowledge of the basic market requirements is something you need in order to enter the market. In this case, it was necessary for us to appreciate the extent to which bowls and bowl shapes differ from country to country in Asia.

Wienberg: "When it comes to bathrooms, user-friendliness and individual comfort are key themes."

Bringing nature to the bathroom with the My Nature collection.

*"We want to be the leading end consumer brand in the bathroom sector and the best on the market."*

*And this is what makes product management so complex.*

NOVAK At first glance, creating a product that will be liked by as many people as possible is always going to be the most practical approach. And part of our appeal is that we produce particularly durable consumer goods: if you choose a Villeroy & Boch bathroom, you are making an investment that will last 10 or 20 years. As such, consumers take great care when weighing up how long they expect to like a design or a colour. But we naturally also seek to address highly specific target groups such as premium customers, architects and "best agers", and our design and functions are geared towards their requirements. Ultimately, our success depends on our ability to provide the right unique selling point at the right price and the right time.

BAUSCH And yet our classics are no less vital to our success as a brand: take the Alt Luxemburg decor, for example, which is almost as old as our company! At the same time, we are seeing that lifecycles are becoming shorter over time, reflecting changes in consumer demands as well as the competitive situation. And this requires efficient portfolio management on our part – as otherwise the new products of today could be the discontinued lines of tomorrow.

EMPLOYEE SURVEY
GERMANY

# „OPEN AND HONEST“

What is already going well? Where is there still room for improvement? Are employees satisfied with the work organisation, their income, their prospects for development, their managers? The responses from the workforce to these and other questions are extremely important for company management. To this end, the Management Board invited all Villeroy & Boch employees in Germany to participate in an employee survey in autumn 2012. And unlike five years previously, staff were also actively involved in defining the measures to be taken following the evaluation of the results.

Firstly, the key data at a glance: 65 % of the workforce accepted the invitation to complete the 110-question survey. All things considered – including in a peer group comparison – the results largely fell within the medium range. On average, the company's white collar workers had a more positive view than its blue collar workers.
"It is encouraging to note that, since the employee survey in 2008, we have improved in areas that are important to our employees – such as cooperation with colleagues and direct managers," commented CFO Jörg Wahlers. "Our good results in terms of employee affinity show that the vast majority of Villeroy & Boch employees want to continue to work for us in future – an extremely important and positive piece of information!" Another positive finding was that 76% of all participants fully or largely agreed with the brand statement "Villeroy & Boch – Maintaining the tradition", which forms part of the company's corporate guidelines. Wahlers: "This ensures that the Villeroy & Boch brand and story are maintained and strengthened."

***"Villeroy & Boch – Maintaining the tradition."***

And what is being done with the results? Let us briefly turn our minds to 2008, when another comprehensive employee survey was held and measures were implemented as a result. However, the involvement of the employees subsequent to the survey and the communication of the implemented measures could have been more intensive. "To ensure that we got things right this time, we systematically incorporated employees into the process from spring 2013 onwards, asking them to identify both positive aspects and concrete suggestions for improvement as part of moderated workshops and to develop and prioritise measures," explained Sophie Acquaviva, head of the Employee Survey Project Group, which included colleagues from the HR department and the Works Council alongside Acquaviva and CFO Wahlers.
No sooner said than done. The workshops gave rise to 1,900 constructive suggestions from employees. Just over half of them concerned processes in the employees' own areas, with the others relating to central functions such as HR or IT. Acquaviva found

Project manager Sophie Acquaviva discusses the results of the employee survey with HR manager Jörg Hagmaier.

the workforce to be "extremely open and honest", adding: "Everyone was aware that this was a real opportunity to make a difference." A number of more specific areas for improvement were identified, such as the optimisation of intra-departmental coordination and processes – but also wider-ranging topics, such as the office situation at the headquarters in Mettlach or improving the transparency of collectively agreed salary and wage group classifications.

In the first phase, work began on the implementation of 700 proposals that were considered to be particularly urgent or realisable in a short period of time. As of the end of December 2013, 35% of these measures had already been completed, with a further 32% still being implemented. The remaining measures require further clarification or have been deemed to be unrealisable by the respective departments. "It is important that the teams continue to work on the topics raised and that we report regularly on the status of implementation and the results," commented Acquaviva. This reporting takes the form of quarterly information events as well as a dedicated Intranet site. After all, there is one thing the responsible managers have learned, the value of taking action is worth only half without the right communication.

## Statements

*"I find it extremely positive that the company not only conducted the survey, but also actively addressed the concrete ideas raised by us as employees. Certain things have already been implemented directly – and others are at least now clearly established in the minds of the management team."*

Ute Kiefer, Logistics Specialist for goods inward at the Tableware central warehouse in Merzig

*"At large companies in particular, the personal touch is important when it comes to communication and dealing with one another. To my mind, the combination of an anonymous survey to identify the wider mood followed by workshops was ideal. I believe this has helped to strengthen the bond between Villeroy & Boch and its employees."*

Michael Pohl, Field Sales Representative for Sanipa bathroom furniture in North Rhine-Westphalia

ROMANIA

# CALITATE GERMANA AS THE KEY TO SUCCESS: **VILLEROY & BOCH IN ROMANIA**

The Romanian brand Mondial has belonged to Villeroy & Boch since 1996. Today, the sanitary ware plant in Lugoj is one of the Group's most important European locations. We paid a visit.

A conversation with Vasile Ecobici is a real pleasure. Not only because he has a lot to say, but because he can do it in German. Vasile Ecobici has learned his language skills at Villeroy & Boch in his role as production and plant manager at the subsidiary Mondial. All in all, he has been with the company for 15 years. As well as controlling production, he is partially responsible for controlling the fate of the company in Lugoj in western Romania. Mondial is a name that means universal, global, worldwide – and this is very much the name of the game for Ecobici and "his" plant in Romania.

Lugoj – pronounced "Lugosh" – has around 40,000 inhabitants. It is a dynamic town with an eventful history, having found itself on Austrian, Hungarian and ultimately Romanian soil over the centuries. Business and cultural life began to blossom in the mid-19th century, and the infrastructure grew along with the expansion of road and rail. In the early 20th century, the town saw the birth of the industries that would shape its economy for generations to come: footwear, textiles, metal processing, building materials and ceramics. "Muschong & Comp. Dampfziegelwerke Aktiengesellschaft" was one of the most important companies of its day. As the decades passed, it developed into the modern-day Mondial. The manufacturing of faience tiles from 1975 onwards, followed by ceramic sanitary ware products from 1981, pointed the way to the future of the production site. When the Iron Curtain fell in 1989, numerous western companies took the opportunity to invest in the existing structures in the town and the region. Villeroy & Boch was one of them, and it quickly found the right partner: Mondial.

Vasile Ecobici was able to demonstrate his expertise as a ceramic engineer immediately after completing his studies, joining Mondial in 1999. Three years earlier, Villeroy & Boch had acquired a 51 % interest in the company and initiated the process of change. "Around 90 % of the infrastructure has been converted and expanded since then," notes Ecobici.


Since 1999, Vasile Ecobici has worked for the Romanian brand Mondial, which has belonged to Villeroy & Boch since 1996.

Lugoj – a dynamic industrial centre in western Romania – is one of Villeroy & Boch's largest production sites for ceramic sanitary ware products. The plant is set to see further expansion in 2014.

When it was acquired in 1996, the original plant had a capacity of around 350,000 to 400,000 sanitary ware units a year. Villeroy & Boch immediately constructed a new production building and pressed ahead with the successive modernisation of the existing facilities, thereby ensuring state-of-the-art sanitary ware production at the site. Ecobici: "Our management demands the same high quality from every plant – so our infrastructure needs to be on a par with that of sanitary ware production in Mettlach, for example."

In the 1990s, the Villeroy & Boch brand was not particularly well-known in Romania. Ecobici's training in Mettlach represented the first time he had properly encountered the company. Looking back, he appreciates the correlation between the brand and the market: "In those days, the Romanian market was not as developed as it is today and there was no room for the kind of premium and upper mainstream products we manufacture." This has changed considerably – and Villeroy & Boch is one of the reasons why. Following the acquisition, the established local brand Mondial – itself one of Romania's leading providers – was complemented by the introduction of the Villeroy & Boch brand in the luxury segment. Vasile Ecobici believes there is a good reason why Mondial's sales figures have risen continuously since the acquisition: "Villeroy & Boch's sorting standards mean that our product quality is significantly higher than it used to be. After all, we work to the same principle as Villeroy & Boch's other plants: there can be no compromise when it comes to quality!" The sanitary ware products are proudly labelled "Calitate germana". German quality, made in Romania – a convincing sales argument.

Today, the plant in Lugoj is an indispensable part of the Group and its infrastructure. The investments that are planned for 2014 and the associated capacity expansion reflect the confidence that Villeroy & Boch has in the location and the Romanian people – with good reason. Mondial has consistently shown what it is capable of, manufacturing successful collections as well as new product innovations that require Ecobici and his colleagues to break new ground in terms of production technology. The facts are undeniable: Lugoj has a bright future. And Vasile Ecobici is one of the people who are instrumental in its success.

GERMANY

# A GREAT RESPONSIBILITY.

Martin Metzler (left) has worked in the sanitary and heating industry since 1993. He joined Villeroy & Boch in 2000 and has been the Head of Sales for Germany since 2006. Jens-Peter Schlingmann has been with Villeroy & Boch since 1986 and has been the Head of Sales for Germany and Austria since 2004.

Martin Metzler and Jens-Peter Schlingmann have an important role: they are the German Heads of Sales for the Bathroom and Wellness and Tableware Divisions respectively. In the 2013 financial year, they and their teams generated revenue of € 213 million – more than 25 % of the Group's consolidated revenue. In this interview, they talk about the specific challenges facing them and the role of sales in Villeroy & Boch's domestic market.

*Mr. Metzler, Mr. Schlingmann, you have been the German Heads of Sales for the Bathroom and Wellness and Tableware Divisions respectively for several years. What are the sales structures like in the two sectors?*

METZLER In the sanitary ware sector, we traditionally have a three-stage sales channel: we sell to wholesalers, wholesalers sell to plumbers, and plumbers ultimately sell our products to the end customer together with their services.

SCHLINGMANN Things are more complex in the tableware sector. We pursue a multi-channel approach. We operate our own Villeroy & Boch stores, factory outlets and a dedicated e-shop, and cooperate with stationary retail in the form of shop-in-shop displays at specialist retailers and furniture stores and in department stores. This is supplemented by mail order activities – not forgetting our B2B business with hotels and restaurants and the individual designs we produce for customers on demand, of course.

*How easy – or difficult – is it is for your sales teams to place products with customers?*

SCHLINGMANN We benefit from our strong brand and the extremely high level of

Individual bathroom design with the varied Architectura and Omnia Architectura collections.

# Bathroom and Wellness Germany

**55**
Field sales employees

**3,950**
Points of Sale

awareness it enjoys, our excellent visibility at the point of sale thanks to our shop-in-shop activities, and of course our successful products. Being able to enter into discussions with retailers as the market leader is a good starting point. Ultimately, though, the important thing is that our products and their positioning are convincing and that they enjoy a high degree of acceptance among our retail partners, and among end consumers in particular.

METZLER Every sanitary ware wholesaler in Germany currently carries our brand and includes our products in their displays. Plumbers and retail displays are just as important, because the expertise of the staff can have a significant influence on an end consumer's buying decision. When a plumber recommends Villeroy & Boch as a good choice, we know we have done something right. Or better still, when consumers go to plumbers with the specific intention of installing our products in their bathrooms. ▶

*You make it sound as if being Head of Sales for Germany were child's play.*

SCHLINGMANN Of course it isn't quite that simple. Being the Head of Sales for a company's domestic market is a demanding task. You are in the limelight at all times and bear a great responsibility for the brand and its revenue and earnings. And it goes without saying that a traditional German company can be successful globally only if the same is true at home, as this success story can then be transported abroad.

METZLER It is both a pleasure and a challenge to make yourself and your team aware of this great responsibility every day – a responsibility that extends to the jobs of our colleagues in production and other areas, as their employment ultimately depends on the sales we achieve. Fortunately, the German economy is currently in an excellent position and the domestic market is enjoying stable development. At the same time, it is important for us to always listen to the market in order to ensure that our sales organisation is meeting its requirements – and so we can make adjustments if necessary. Another key task is to make innovative products available to the market at an early stage.

SCHLINGMANN The economic conditions are really very good at the minute. Consumer concerns about unemployment are relatively low. Unfortunately, retail is not the first area to benefit from this trend – after all, private households are having to spend substantially more on energy and are investing in long-term assets.

*But this includes porcelain, the "white gold".*

SCHLINGMANN Tableware is no longer seen as an investment. Nowadays we are selling to saturated markets. The buying behaviour of end consumers has changed radically. Today, families no longer purchase the kind of 30-piece crockery sets that used to be a fixture in every household. Even wedding lists are becoming less commonplace. As such, our product ranges are structured according to occasions and themes. A well-conceived calendar of activities and themes is an important tool for making sure that customers always have a new reason to buy.

The new La Classica Nuova tableware collection: timeless elegance meets functional, modern aesthetics.

## Tableware Germany

**30**
Field sales employees

**1,600**
Points of Sale

*Can you give an example?*

SCHLINGMANN Our presentations focus on the barbecue season in the summer. The Oktoberfest takes pride of place from September, and then it is time to highlight our successful Christmas product ranges. This is something we have achieved with great success in recent times.

*How important are staff when it comes to sales?*

METZLER Extremely important – well-trained and, in particular, highly motivated employees are our concept for success. We have almost zero fluctuation and always present the same face to the customer – and this continuity is rewarded.

SCHLINGMANN Three personnel-related aspects are central to determining whether sales activities are successful or not. Firstly, the expertise of our employees – each sales channel requires true specialists who know how to address, attract and look after customers. Secondly, the familiarity and continuity of the people involved and their credibility, authenticity and mutual trust. And thirdly, teamwork. We can be successful in our sales activities only if the entire organisation works as it should.

*Let us turn our attention to the future. What can we expect from you in 2014?*

METZLER We have some ambitious plans and are aiming to significantly increase our revenue. We intend to achieve this by reinforcing our new product ranges on the market, intensifying marketing activities for our DirectFlush WCs with an open rim, and continuing to leverage the positive momentum in the area of bathroom furniture with our subsidiary brand Sanipa. I also have high hopes for our ViClean bidet WC. Contract business is another area with potential.

SCHLINGMANN With year-on-year revenue growth of 10 %, our performance in 2013 was stronger than many thought possible. We want to build on this success in 2014. I expect momentum to be provided by the expansion of our multi-channel sales. We are focusing in particular on the hotel and restaurant sector, the expansion of our second brands Vivo, Gallo Design and Citta e Campagna, and the implementation of our activity and theme calendar.

*And where do you expect Villeroy & Boch to be in 2020?*

METZLER The bidet WC will be a big deal in 2020. I expect 10–15 % of German households to have this type of WC by then because of the improved hygiene it offers. Above and beyond bidet WCs, we intend to meet the demands of consumers with individual wellness and comfort bathrooms. For more and more people, the bathroom is no longer simply a means to an end, but an important place where design, fragrance and lighting are all key factors.

SCHLINGMANN Our activities will focus on the multi-channel approach and the dovetailing of our online and offline business. Another important factor will be the substantially closer link between our Tableware products and the eating and living habits of our customers and their food itself. From breakfast rolls, pizza and pasta through sushi and barbecue to coffee and tea – we want to accompany our customers all day long. High-quality gift items will also be an important lever for future success. Furthermore, we must ensure that a visit to a Villeroy & Boch store is a shopping experience that touches all of the senses: sight, sound, taste and smell. ▮

Schlingmann: “As Head of Sales for the company’s domestic market, we are in the limelight at all times.”

> *“A traditional German company can be successful globally only if the same is true at home, as this success story can then be transported abroad.”*

Architectura bathroom collection: timeless elegance with functional, modern aesthetics.

NORTH AMERICA

# COMPETITORS IN PARTNERSHIP

In April 2012, Villeroy & Boch and the Japanese sanitary ware group Toto announced their sales partnership for the North American market. In the USA and Canada, all of Villeroy & Boch's Bathroom and Wellness products are now available exclusively via Toto USA. This is more than a little unusual, since the two companies are competitors on every other market. A good reason to take a closer look at the collaboration.

Early December 2013: Constantin von Boch is on the road a lot. On the day of our interview, the Bathroom and Wellness Division's Head of Sales for USA and Canada can be found in California, where important meetings with the partner Toto and specialist bathroom retailers are on the agenda. Along with the Chicago area and the major cities on the east coast, California is one of the most interesting sales regions for Villeroy & Boch. "People here are willing to spend what it takes to afford exclusive design," comments Boch.

In order to attract the attention of American homeowners and project developers – or their architects and designers – to Villeroy & Boch products in the first place, a broad-based presence in local displays is required. Andreas Pfeiffer, Head of Bathroom and Wellness, is sure: "After we tried different approaches in the last years to grow on our own, I am confident that we are on the right track now with Toto to sustainably improve our market position." Why? Pfeiffer: "Because Toto's distribution power gives us a degree of access to wholesalers and showrooms that we could not achieve independently." In concrete terms, this has led to Villeroy & Boch collections being on display at more than 150 showrooms in the USA and Canada since late 2013, while the number of wholesalers placing regular orders has risen from 20 to 65. The number of showrooms is set to reach 400 by the end of 2014. Constantin von Boch describes the expansion of the two partner's distribution as "aggressive". "In view of this growth vision, our acquisition of the Mexican sanitary ware plant Ramos in 2006 proves more and more to be an important step in the right direction", Pfeiffer adds. "With this, we are close to the markets in USA and Canada and can deliver goods there with a low logistical effort."

To understand the North American market, however, it is first necessary to appreciate the difficult situation on the ground. Kohler and American Standard are the dominant providers. Each has a market share of around 25 %. Logically enough, this means that independent specialist bathroom retailers – or dealers, as von Boch calls them – are dependent on bonuses from these two companies. It goes without saying that Kohler and American Standard would rather not have any competition from Europe. And the dealers are well aware of this – which is why they are careful to consider whether it is really worth their while including the Villeroy & Boch brand in their displays at the risk of irritating the two major players.

Andreas Pfeiffer, Head of the Bathroom and Wellness Division: "I am extremely confident that we have adopted the right approach with Toto."

Constantin von Boch, Head of Sales for Bathroom and Wellness in North America: "People on the east coast, in the Chicago area and in California are willing to spend what it takes to afford exclusive bathroom design."

By contrast, Toto has established itself as the number three on the North American market over a number of years – and is represented in almost every showroom, whether large or small. "Which now means that we are too," explains von Boch with pleasure.

This is how the partnership works in concrete terms: Toto purchases Villeroy & Boch's products, performs logistics operations from its central warehouse in Atlanta, and is responsible for distribution and aftersales service. This means that Toto is the contractual partner for all dealers and plumbers. All the while, Constantin von Boch and his two sales colleagues take care to ensure "that Toto gives our brand the necessary consideration and presents our products as we wish them to be presented."

Now it is clear as to why Toto's sales and service staff were given detailed training before the partnership began. To act as "brand ambassadors for Villeroy & Boch" (to quote von Boch), they have to understand the concept behind Villeroy & Boch's collections, the differences in technical specifications compared with Toto's products, and what aspects need to be taken into account in installation. Intensive work on the packaging concept and logistics also took place behind the scenes – tasks that lasted several months.

So the benefits for Villeroy & Boch are clear. But what does Toto get out of the cooperation? Firstly, the German products with their excellent design are an extremely good fit for the technical and functional characteristics of Toto's ceramics. "This means that Toto can satisfy different tastes to an even greater extent and position itself on a broader basis," explains Constantin von Boch. "And secondly, Toto gets access to products that it does not manufacture or market itself, such as design-oriented wall-mounted WCs, mirrored cabinets and bathroom furniture. In other words, we complement their portfolio superbly." A further argument is the margin Toto receives for reselling Villeroy & Boch's products.

The expected revenue generated for the two partners by the sales partnership is contractually fixed. In 2013, the focus was on the setup of distribution. 2014 will be the first year in which the performance of Constantin von Boch and his team is measured against the relevant revenue targets.

But for now, Constantin von Boch is focusing on his next meeting in California. And together with his team and Toto as a sales partner, he is working on turning the relationship between two competitors – which looks unusual at first glance – into a true success story.

ASIA/PACIFIC

# DECENTRALISED ORGANISATION FOR MORE RAPID GROWTH.

Well received in Asia and the Middle East: the exclusive Amadea Royal furniture range.

The objective is clearly defined: the Asia/Pacific (APAC) region should contribute 15 % of Villeroy & Boch's consolidated revenue in the medium term. To accelerate the necessary growth, a dedicated organisation with responsibility for both divisions in the wider Asia/Pacific region was established in 2013. "This will allow us to respond more quickly and flexibly to local requirements – a key condition for significantly speeding up our growth in this booming region," explains Frank Göring, CEO of Villeroy & Boch.

The APAC organisation is headed by Jenny Looi Banning and a 25-strong management team spread across various locations in the region, including Singapore, Bangkok, Shanghai, Hong Kong, Tokyo and Sydney. The team consists of officers for central functions such as Human Resources, Finance, Marketing Communication and Product Management as well as country managers with responsibility for controlling the operating business of the Tableware and Bathroom and Wellness Divisions in the respective markets.

"The decentralised organisation, our proximity to the market and the ability to take decisions independently will help to support our planned growth," comments Jenny Looi Banning, whose career has already seen her occupy a number of marketing, sales and management positions for international brands including Mars and Timberland. Looi Banning also expects to see synergies from the more intensive cross-divisional cooperation within the APAC organisation. "In Tokyo, for example, our Tableware products are now represented in the largest showroom of the Japanese sanitary ware group Toto. And Toto's local trading partner Cera will present Villeroy & Boch's Tableware and Bathroom and Wellness products in future," says Looi Banning, citing the first results of the new organisation.

She adds that one of the keys to achieving the Group's ambitious targets will be highly qualified staff. The majority of the employees have been on board for a number of years, and the workforce has been expanded in a targeted manner over recent months. This includes product managers, who need to be optimally informed about the demands of Asian consumers in order to provide the right products, and (online) marketing experts who can improve Villeroy & Boch's brand recognition, increase its presence on the Internet and support sales with target group-appropriate communication materials. "And, of course, the excellent sales staff who ultimately sell our products."

Although the foundations have been laid over recent months, further challenges lie ahead for the APAC management team. Communication between the newly established central functions and the operating units is still getting into gear. The number of points of sale needs to be increased, as does the productivity of the existing points of sale. And relevant key performance indicators for managing the business need to be defined and a rational reporting system implemented, reflecting the principle that "you can't manage what you can't measure."

And beyond this, Jenny Looi Banning also wishes to fulfil the personal mission with which she joined the company in August 2012: "I want to help ensure that, a few years from now, Villeroy & Boch is seen as a perfect example of a European premium brand successively expanding its business in the APAC region."

CHINA

# NEW WEBSITE FOR END CONSUMERS IN CHINA.

Project manager Christel Hassel: "Our website is aimed at inspiring customers to make a purchase."

The moment finally arrived in late 2013: following several months of preparation, Villeroy & Boch's online experts launched the company's new website for the Chinese market. The aim of the comprehensively redesigned site is to generate attention and inspire existing and potential customers to visit Villeroy & Boch's showrooms and points of sale.

The Chinese website is also distinct from the updated website for European and American consumers in many respects. The first difference: the website is responsive. "This means it is equally suited to desktop PCs, notebooks, tablets and smartphones. For example, the window and font size are adjusted automatically depending on the device being used," explains project manager Christel Hassel. This systematic focus on mobile devices is particularly important for the Chinese market because smartphones already command an above-average share of the local market, and their growth shows no sign of stopping. The second difference is the implementation of the design, which is dictated by the higher positioning of Villeroy & Boch's products in China. Hassel: "Our products are positioned between the premium and luxury segments in China, so our brand presence has to be even more high-quality than its European counterpart."

The content of the website is also important: while consumers in Europe are already sufficiently aware of Villeroy & Boch's long history, this aspect is being brought to the forefront in Asia. Hassel: "The Asians are fascinated by our German-French roots and the story of the origins of our company in the mid-1700s. This tradition is one of the reasons they buy our products." Another reason is the list of prominent customers served by the company over the years, from Princess Diana through to numerous Popes and European royal families. This plays a significant role in the perception of Villeroy & Boch as a premium brand. "Our task is to communicate this brand identity to the end consumer online," summarises Hassel. Bringing across the European lifestyle, and particularly the European food, drink and bathroom culture, is also important for the Chinese market. Accordingly, the website offers visitors content on topics such as red wine, which is becoming increasingly fashionable in China. "Our aim is for Chinese customers to feel that they can learn something about European culture by visiting the Villeroy & Boch website," explains Hassel. "And, of course, our products should inspire them and appeal to them so that they visit our points of sale with a view to making a purchase."

Although it was launched at the turn of the year, work on the website is far from complete. As well as producing additional content, the online specialists are working on strategies for search engine optimisation and advertising. After all, as Hassel puts it: "Things never stand still on the Internet – least of all in China."

CHINA

# BATHROOM AND WELLNESS: RETAIL BUSINESS TO BE EXPANDED.

In China, Villeroy & Boch's Bathroom and Wellness products have been marketed mainly in project business to date. Now the company is looking to stimulate traditional retail business with smaller regional dealers. This aim was boosted by the opening of a warehouse in September 2013 that will significantly improve flexibility in the area of logistics.

When houses in Europe are built or renovated, the owners often choose Villeroy & Boch sanitary products. The reason for this is not only the high level of brand awareness, the company's strong presence in displays at wholesalers and plumbers and the high quality of the products offered, but also the fact that they are readily available. In China, however, the project business – equipping office buildings, hotels or high-end residential complexes – is responsible for most of Villeroy & Boch's turnover.

The business model is now set to be supplemented by a strong second pillar: retail. To date, Villeroy & Boch has mainly worked with larger retailers." In future, we intend to expand our retail business and increasingly also use smaller regional dealers to reach end consumers who want to set themselves apart from other households with premium European bathroom products," commented Andreas Pfeiffer, Head of the Bathroom and Wellness Division. However, this also means an increase in the proportion of smaller and medium-sized customers. The requirements in terms of logistics increase substantially when Chinese dealers place time-critical orders or purchase small numbers of units for their customers.

To ensure a more flexible response to the demand from Asia, Villeroy & Boch bought the Thai sanitary ware producer Nahm with its plant in Saraburi already in 2008. At that time, CEO Frank Göring called the acquisition an "important strategic platform in the growth market Asia". And this proved to be true: today, a major part of the goods sold in Asia are produced in Thailand.

In order to deliver the products to the Chinese customers as fast as possible, a dedicated local warehouse was opened in 2013. The facility in Huaqiao – around 40 kilometres west of Shanghai – covers approximately 1,000 square metres and is home to some 950 palettes and around 200 products. The first deliveries left the new warehouse in September 2013. Preparations lasting several months had to be undertaken before the first packages could be shipped.

But Pfeiffer is certain that it was worth the effort: "After all, we have already expanded our field sales team, thereby laying the foundations for another surge in demand." And improved product availability means the sales force now has an important argument on its side.

Project business has been the main revenue driver in China to date – now the company is intensifying its retail business.

CHINA/JAPAN

# 265 YEARS OF VILLEROY & BOCH HIGH DEMAND FOR TRADITION IN THE FUTURE MARKET OF CHINA.

Hai Ye, the Head of China for both Villeroy & Boch divisions, and his team were faced with a Herculean task in the summer: to find a suitable way of celebrating Villeroy & Boch's 265th anniversary with key customers and partners. "After all, the history and tradition of a company

*"We are well aware of the exquisite taste of Chinese consumers."*

and a brand are extremely important in China, because the country itself can look back on an extensive (cultural) history," explains Ye, who comes from Beijing and studied mechanical engineering in Germany between 1990 and 1996.

No wonder, then, that around 150 guests accepted the invitation to the Sinan Mansions in Shanghai's popular French area under the motto "Tradition shapes the future". The most important customers were in attendance, designers and architects, professionals from the hotel and restaurant industry, as well as some 35 journalists from the international and local design, lifestyle and business press.

The evening event was a success, not least thanks to the presentation and live sale of an anniversary edition designed exclusively for the Chinese market: "Amazonia meets Masterpiece". This limited series consists of 38 large bowls from each of the collections NewWave, Flow and Urban Nature with an elegant Amazonia decor. All of the pieces are numbered, making them absolutely unique. "We are well aware of the exquisite taste of Chinese consumers," commented Nicolas Luc Villeroy, Head of the Tableware Division, while moderating the sale. What makes the edition particularly special is that each piece is accompanied by a certificate of authenticity hand-signed by Villeroy – a gesture that was highly appreciated by the Chinese buyers. And as if that was not enough, some even asked Villeroy to autograph the ceramics. This was something he had not anticipated.

An anniversary edition celebrating the company's 265th birthday: "Amazonia meets Masterpiece".

JAPAN

## Anniversary celebrations extend to Japan

Villeroy & Boch's 265th anniversary was also celebrated in Japan – with the festivities lasting a whole week. Mitsukoshi Nihonbashi in Tokyo, one of the country's most prestigious department stores, played host to a presentation of historical Villeroy & Boch products and the latest Tableware collections. "Japanese people are generally extremely interested in the background of a brand and not just the products themselves," commented Hirotaka Ogawa, Villeroy & Boch Managing Director for Japan.

Samarkand Rubin:
a popular range of gift items
becomes a premium collection.

INDIA

# JOINT VENTURE WITH GENESIS BOOSTS TABLEWARE DISTRIBUTION.

The notion that India offers significant potential for the Villeroy & Boch brand is nothing new. The middle class and its purchasing power are expanding, the number of millionaires is on the rise, and a wide range of international premium brands are discovering the sub-continent to be a highly attractive market. Following a first attempt between 2006 and 2010, Villeroy & Boch has reorganised the distribution of its Tableware products: a joint venture with Genesis, India's most successful luxury retail company, now has sole responsibility for distributing crockery, cutlery, glass and more.

“Genesis already works with a number of premium and luxury brands, such as Burberry, Giorgio Armani and Bottega Veneta, and has the necessary expertise and knowledge of the market to ensure the successful distribution of our products, too,” commented Villeroy & Boch Head of Tableware Nicolas Luc Villeroy on the launch of the cooperation in June 2013. “The Indian market for luxury products has enjoyed continuous growth over recent years. For us, this means the partnership with Genesis comes at exactly the right time for us to step up our local presence.”

The first Villeroy & Boch store, at the Palladium Mall in Mumbai, was opened in August by Management Board member Villeroy and Genesis MD Sanjay Kapoor. Guests included affluent customers, important distributors, local celebrities and representatives of the press. Villeroy describes the store, which is around 100 square metres in size, as “ground-breaking in every respect”. The environment of the luxury shopping district is particularly distinguished and the store design corresponds to that of the latest premium flagship stores in Europe, presenting the full range of products for high-quality table settings. Sanjay Kapoor: “With its conviction that luxury should be something you experience and not merely something you pay for, Villeroy & Boch quite literally brings 265 years of tradition, innovation and outstanding design quality to the table.”

Since January 2014, customers in India have also been able to buy Villeroy & Boch products in Bangalore and Kolkata, and a further 13 stores are set to open nationwide between now and 2018.

Nicolas Luc Villeroy, Head of the Tableware Division (right), opens the first Villeroy & Boch store in India together with Genesis MD Sanjay Kapoor.

# BATHROOM AND WELLNESS

Villeroy & Boch sees the Indian luxury segment as a growth market not only for the Tableware Division, but also for its sanitary ware products. The company's Bathroom and Wellness products are currently available from 25 showrooms and 20 dealers.

Although the high-end market in India is seeing considerably slower development than in the other BRIC nations, Thorsten Bies (Head of Sales Middle East, Africa and India) believes that design- and quality-oriented consumers offer significant potential in the medium term. Bies states the objective clearly: “We want to be the first choice in India when it comes to premium and luxury products for Bathroom and Wellness.”

**Bathroom and Wellness India**

**25** Showrooms **20** Dealers

SAUDI ARABIA

# NEW VILLEROY & BOCH STORE OPENS IN RIYADH


The largest Villeroy & Boch store in the region opened its doors in Riyadh in September 2013.

Nicolas Luc Villeroy's destination on 19 September 2013 is Riyadh. The capital of Saudi Arabia, which has a population of five million, is about to become home to the country's largest Villeroy & Boch Tableware store. This is reason enough for the Head of the Tableware Division to pay a visit.

The journey to the new store takes Villeroy right into the heart of the Saudi capital. The surroundings on Tahlia Street are appealing and some other premium brands have already opened stores in the vicinity. "An optimal environment for us," comments Villeroy. The first sighting of the sales floor is no less positive. On an area of around 250 square metres, Villeroy & Boch presents its latest crockery series, glassware, cutlery, gift items and home accessories. Nicolas Luc Villeroy describes as "end-to-end" the approach of offering complete Tableware worlds to customers.

However, Villeroy is not just here to take a look at the new store. He also has a meeting with representatives of the Sara Group. Sara, which is short for Saudi Arabia Agency, has been Villeroy & Boch's local trading partner for a number of years. Sara is responsible for the distribution of both Tableware and Bathroom and Wellness products in the Middle East. "This region is a growth market for us," notes Villeroy. "Our status as a premium brand is an extremely good match for the requirements of local consumers. This is also the reason why numerous luxury hotels and restaurants rely on our products."

Sara and Villeroy & Boch are always on the lookout for new store locations with a view to expanding the distribution network. The partners' next objective is to open additional stores in the United Arab Emirates. To date, Villeroy & Boch has 55 points of sale for Tableware products and 20 for Bathroom and Wellness products in the Middle East.

But the focal point on this September evening is the opening of the store in Riyadh. The event is attended by guests of honour including German Ambassador Dieter W. Haller, as well as numerous representatives of the regional media. All of them are waiting for the big moment: the symbolic cutting of a birthday cake, specially designed for this evening in an Arabian style, to mark the 265th anniversary of Villeroy & Boch.

The latest collections in the new Tableware store.

UNITED ARAB EMIRATES

# VILLEROY & BOCH PROMOTES LOCAL DESIGN TALENT IN THE MIDDLE EAST.

Villeroy & Boch celebrated its 265th anniversary around the world in very different ways. In the Middle East, Villeroy & Boch came together with the leading local interior design magazine Emirates Home to launch a design competition. The task was to design an Arabian-inspired decor for selected items. After examining a large number of submissions from local designers in summer and autumn 2013, Nicolas Luc Villeroy selected the winners together with the editor-in-chief of the magazine, Alpana Depala, in December. The "Abeer" design by the Dubai-based designer Maher Aboul Housn was produced as a limited-edition buffet plate and coffee mug and is now being sold in the United Arab Emirates. The plate is limited to 265 pieces, each of which is numbered.

The winning "Abeer" collection by Maher A. Housn. The local design competition was organised in conjunction with Emirates Home magazine.

Nicolas Luc Villeroy looks back on a successful and inspiring project: "Maher's design brings together stylistic features of the traditional and the contemporary. With 'Abeer', he pays respect to Arabic calligraphy, which is much-loved in the region, and raises it to a new level using expressive, fresh colours combined with an elegant gold trim. The product management and sales teams involved in the project consider these characteristics to be an extremely good fit for the Villeroy & Boch brand and the Middle East region, and I very much agree."

The limited edition is being sold in a total of seven Villeroy & Boch stores in Dubai and Abu Dhabi, including at the largest shopping centres, Dubai Mall and Mall of the Emirates.

# TO OUR SHAREHOLDERS

# LETTER TO SHAREHOLDERS

**FRANK GÖRING**

Chairman of the Management Board (CEO)

Dear Shareholders,

Villeroy & Boch is becoming more profitable with every passing year. In the 2013 financial year, we increased our operating result (EBIT) by 17 % to € 36 million, thereby significantly exceeding our target return.

It is encouraging to note that both divisions contributed to this earnings growth. While Tableware improved its EBIT to € 8.4 million, Bathroom and Wellness achieved significant growth of 22 % to € 28 million. One of the key factors in this development was the "Yield Improvement Programme" we initiated in 2012. This bundle of optimisation measures at our sanitary ware plants is aimed at generating continuous productivity improvements and minimising reject rates. In the past financial year, the success of this programme was reflected in the substantial increase in the gross margin to around € 4 million. Our pronounced cost discipline in the area of administration and the other income we generated, including from the settlement of pension obligations and exchange rate hedges, also contributed to the significant earnings growth.

In addition to the operating earnings we reported, 2013 saw the sale of our plant buildings in Gustavsberg, Sweden. The gains on the disposal will be realised in several tranches, with the net income from the transaction set to total up to € 17 million.

The first tranche was realised in the third quarter of 2013. Including the non-recurring income from the real estate sale, EBIT amounted to € 43 million (+40 %). Consolidated net income improved by 63 % to € 24 million.
Meanwhile, our revenue moved sideways, closing the financial year at € 745 million. Adjusted for exchange rate effects, revenue increased by € 8 million or 1.3 %.
Revenue in the Tableware Division rose by 4 %. I would like to highlight the positive development in our domestic market of Germany, which made a major contribution to our overall success with growth of 10 %. On the product side, the Mariefleur country collection, which proved to be the best-performing new product of the past ten years on its launch in 2012, continued to enjoy outstanding development in the year under review. In 2013, the success story continued with the introduction of the slightly more subtle Mariefleur Gris decor variant. Taken together, the two collections were responsible for revenue of more than Euro 10 million in 2013. These figures underline our product management team's ability to speak directly to the spirit of the times when it comes to decor.
We are also well positioned in terms of distribution in the Tableware Division. We now have a global network of more than 5,700 points of sale, 1,000 of which are under our direct control. In particular, I would like to draw attention to the opening of our first store in the Indian metropolis of Mumbai. Together with our joint venture partner Genesis Luxury Fashion, an established local provider of luxury products, we will expand our presence in this growth market over the coming years in a targeted manner, i.e. at selected premium locations.
Revenue in the Bathroom and Wellness Division declined by 2 % in the past financial year. One reason for this was the sustained weakness of the construction industry in Europe. Residential construction declined by 2.2 %, and some of our key markets, such as the Netherlands, France and Italy, saw a pronounced downturn in construction activity. In addition, technical effects meant that we recorded lower revenue in North America. The change to our distribution model means that we now bill our partner Toto rather than invoicing dealers directly, and we have also sold our local second brand St. Thomas Creations, which has had a corresponding impact on revenue. On the other hand, we succeeded in placing our products in more than 160 showrooms in the first full year of our strategic sales partnership with Toto. This figure is set to increase to 400 by the end of 2014, which will provide a strong foundation for Villeroy & Boch's development into a bathroom brand with a comprehensive presence on the North American market.
Our bathroom furniture business again enjoyed excellent performance in 2013, with revenue increasing by 8 % to € 40 million. The Villeroy & Boch and Sanipa brands both contributed to this growth. The O.novo sanitary ware collection in the entry-level segment, which was launched in 2011 and which is primarily addressed at project business, also continued on the road to success. Meanwhile, our innovative DirectFlush technology, which forms the basis for the new WC generation with an open rim and optimal cleaning comfort, enjoyed extremely promising development. The DirectFlush models outperformed all of our expectations, with incoming orders exceeding forecasts by 60 %. We believe that this area offers considerable potential for retail and project business alike, and intend to expand other collections to include WCs with this innovative technology in the near future.

I would like to follow this detailed overview of the two divisions by taking a look at our activities in the Asia-Pacific region. In 2013, we generated revenue of € 77 million in this region (including the Middle East), up 5 % on the previous year. As announced in the previous year, we have significantly reinforced the local teams in our Asian markets and established a joint regional organisation for both divisions that reports directly to the Group Management Board. We have also implemented a logistics platform in China with the aim of intensifying the expansion of our retail business in this key market. With the successful completion of these measures, we have created the foundations for substantially accelerating our growth in this region and doubling its contribution to consolidated revenue in the medium term.

Dear shareholders, I hope this letter and the following pages will give you an authentic impression of our work over the past financial year and the measures we have implemented for the future. All of this can be attributed to the exemplary commitment of the entire Villeroy & Boch team. It is our 7,745 employees all around the world who steer our company on its path with their diligence, passion and expertise. On behalf of the Management Board, I would like to take this opportunity to express my gratitude to them.
Your company recorded an encouraging operating result in 2013, and we would like you to participate in this success. Accordingly, the Management Board and Supervisory Board will propose to the General Meeting of Shareholders on 21 March 2014 the payment of a dividend of € 0.37 per ordinary share and € 0.42 per preference share, an increase of € 0.02 on the previous year in each case.
My colleagues on the Management Board and I would like to thank you for the confidence you have placed in us, and we would be delighted if you continued to accompany our development as a company at close proximity as shareholders.

Yours,

Frank Göring, Chairman of the Management Board (CEO)
Mettlach, March 2014

# MEMBERS OF THE MANAGEMENT BOARD

**FRANK GÖRING**

CHIEF EXECUTIVE OFFICER

Responsibility: Strategy, Legal, M&A,
Public Relations, Corporate Audit and Innovation

**JÖRG WAHLERS**

CHIEF FINANCIAL OFFICER

Responsibility: Finance, Human Resources,
Purchasing, IT, Real Estate, Taxes and Compliance

**ANDREAS PFEIFFER**

MANAGEMENT BOARD MEMBER RESPONSIBLE
FOR BATHROOM AND WELLNESS DIVISION

**NICOLAS LUC VILLEROY**

MANAGEMENT BOARD MEMBER RESPONSIBLE
FOR TABLEWARE DIVISION

# MEMBERS OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD (F. L. T. R.)

Werner Jäger
Chairman of the Head Office Works Council Villeroy & Boch AG

Ralf Sikorski
Trade Union Secretary, District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland

Francois Villeroy de Galhau
Member of the Executive Committee of BNP Paribas S.A.

Dietmar Langenfeld
Chairman of the Villeroy & Boch AG Central Works Council

Peter Prinz Wittgenstein
Second Vice Chairman of the Supervisory Board, Management Consultant

Wendelin von Boch-Galhau
Chairman of the Supervisory Board

Ralf Runge
First Vice Chairman of the Supervisory Board, Chairman of the Faiencerie Works Council

Christina Rosenberg
Managing Director of Hermès GmbH

Dr. Alexander von Boch-Galhau
Management Consultant

Luitwin Gisbert von Boch-Galhau
Honorary member of the Supervisory Board

Dietmar Geuskens
District Manager of IG Bergbau, Chemie, Energie

Bernd Thömmes
Head of Research and Development Bathroom and Wellness Division Villeroy & Boch AG

Yves Elsen
Managing Partner & CEO HITEC Luxembourg S.A.

# REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

in the 2013 financial year, the Supervisory Board performed the duties prescribed to it by law and the Articles of Association in full. It monitored the course of business and the activities of the Management Board and advised the Management Board in managing the Company. The Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and the individual divisions, including the risk situation and risk management, comprehensively, continuously and in a timely manner in both written and oral reports. The Supervisory Board was also directly involved in all decisions of material importance to the Company, allowing it to intensively discuss and advise on the relevant matters at its meetings. In its resolutions, the Supervisory Board approved the proposed resolutions by the Management Board following its own detailed examination and discussion.

### KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

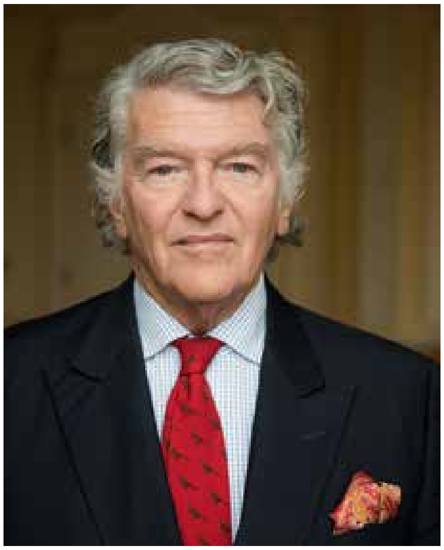
In the 2013 financial year, the Supervisory Board held four ordinary meetings and adopted two resolutions by written circulation procedure. No member of the Supervisory Board attended fewer than half of these meetings. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times.

### KEY TOPICS ADDRESSED IN THE PAST FINANCIAL YEAR

The balance sheet meeting in February 2013 focused on discussing the single-entity and consolidated financial statements for 2012 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 2012 and defined the new targets for 2013. Furthermore, the Management Board informed the Supervisory Board of the Group's current position.

The meeting in March 2013, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders. It also elected the Chairman and Deputy Chairman of the Supervisory Board and the members of the Supervisory Board committees.

At the meeting in September 2013, the Management Board reported to the Supervisory Board on the Group's position. The meeting also discussed the further actions with regard to the EU antitrust proceedings on bathroom fittings. The Chairman of the Supervisory Board again refrained from participating in these discussions in order to



WENDELIN VON BOCH-GALHAU

Chairman of the Supervisory Board

exclude the possibility of a conflict of interests, and will continue to adopt the same approach to any necessary discussions and votes on such matters in future. 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. The meeting in November 2013 focused on the presentation of the figures as of 31 October 2013 and the resulting orientation for the single-entity and consolidated financial statements for 2013, the Management Board's report on the position of the Group, the topic of compliance (both in the past and in the future) and the approval of the positions held by Management Board members on the controlling bodies of subsidiaries. The meeting also adopted the annual planning for 2014, updated 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.

The circular resolutions passed by the Supervisory Board related to changes to the existing D&O insurance policy.

Members of the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee to discuss current issues. This served to ensure that the Supervisory Board was informed about the Company's current operational development, significant transactions, the risk situation and risk management, and the development of key financial indicators at all times.

## REPORT ON THE COMMITTEES

To ensure that the work of the Supervisory Board is performed efficiently, it is conducted to a large extent by the four committees formed for this purpose:

The Audit Committee held two meetings in the year under review. At the meeting in January, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the single-entity financial statements for 2012, 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 2013 financial year. The meeting in November 2013 focused on the status of the preliminary audit of the single-entity and consolidated financial statements by the auditor, risk management, the roles of Management Board members on the controlling bodies of subsidiaries, the reports by Internal Audit, the new appointment of the Chief Compliance Officer and the further actions with regard to the EU antitrust proceedings, as well as discussing the amendment to the Declaration of Conformity.
The Investment Committee met once in the year under review. The meeting of the Investment Committee in November 2013 focused on the preparation of corporate and investment planning for 2014 for resolution by the Supervisory Board.
The members of the Human Resources Committee met in February and November 2013 to discuss the assessment of the level of target attainment in the 2012 financial year, the status of target attainment in 2013 and the objectives for the Management Board for the 2014 financial year 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

The term of office of the Supervisory Board members Peter Prinz Wittgenstein, Dr. Alexander von Boch-Galhau, Dr. Jürgen Friedrich Kammer and Charles Krombach expired with effect from the end of the General Meeting of Shareholders on 22 March 2013. The General Meeting of Shareholders re-elected Peter Prinz Wittgenstein and Dr. Alexander von Boch-Galhau as shareholder representatives and elected Yves Elsen and Christina Rosenberg as new members 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 and the Villeroy & Boch Group for the 2013 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 and February 2014. The single-entity financial statements were also intensively discussed at the balance sheet meeting of the Supervisory Board in February 2014. 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 2013 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 2014 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 members who stepped down in the past financial year for their many years of cooperation in a spirit of mutual trust. We would also like to thank the members of the Management Board and all of the employees of the Villeroy & Boch Group for their great personal commitment and our shareholders for the confidence they have placed in us.

For the Supervisory Board

Wendelin von Boch

Wendelin von Boch-Galhau, Chairman of the Supervisory Board
Mettlach, February 2014

# 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, journalists, customers, employees and the public. Accordingly, the recommendations and suggestions of the Government Commission of the German Corporate Governance Code constitute the basis for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

## DECLARATION ON CORPORATE GOVERNANCE

### RESPONSIBLE MANAGEMENT

The Management Board of Villeroy & Boch AG is responsible for managing the Company as the governing body with the aim of creating short-term and long-term value. The workings of the Management Board are determined by corresponding Rules of Procedure. Resolutions are adopted at meetings of the Management Board, which generally take place at least twice a month. 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, 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 34.

### 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, special attention should be paid to the personality, integrity, commitment, professionalism and independence of the persons proposed for election. The individual knowledge, skills and experience of the individual members of the Supervisory Board should complement each other in such a way that there is sufficient professional expertise available for the work of the Supervisory Board as such and for the business activities of each division at all times to guarantee that the Management Board is monitored professionally and efficiently and provided with advice on a continuous basis. In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience. In proposing members for election, the Supervisory Board shall also seek to ensure appropriate participation by women. 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. The current composition of the Supervisory Board is shown in the list on page 35.

## 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 2013. 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 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 Peter Prinz Wittgenstein.

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 Peter Prinz Wittgenstein (Chairman), Werner Jäger (Vice Chairman) and Yves Elsen. The Chairman of the Audit Committee is independent and is qualified as an independent expert within the meaning of section 100 (5) AktG thanks to his professional background as a former member of the management board of a DAX company and a management consultant, among other things.

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 142 and 143. Links with related parties are shown in the notes to the consolidated financial statements on page 136.

## 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

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.villeroyboch-group.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 2013 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 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 (available in German at www.villeroyboch-group.com/de/investor-relations/corporate-governance/entsprechens-erklaerungen.htm).

## 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. Jörg Wahlers is the member of the Management Board with responsibility for compliance. The Chief Compliance Officer of the Villeroy & Boch Group reports to him. The Chief Compliance Officer is supported by functional compliance officers at the head office and in the divisions as well as local compliance officers at the Group companies.
Our 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 is conducted in a classroom environment and in the form of web-based training. 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 Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (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

The Supervisory Board regularly reviews the remuneration system for the Management Board, particularly with a view to current changes to the German Corporate Governance Code.

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 remuneration is limited in terms of both the total remuneration and the variable components. 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 2013 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. The Supervisory Board intends to take into account the relationship between the remuneration of the Management Board and that of senior management and the staff overall in future, including in terms of its development over time.

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 € 20,000. The Chairman receives an additional € 45,000, while the Vice Chairman receives an additional € 13,500. Members of the Supervisory Board receive a fee of € 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 € 4,000 p.a. in addition to their basic remuneration, while the members of the respective committees each receive an additional € 2,500 p.a.

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

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

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

| In € thousand | Fixed remuneration | Meeting fees | Variable remuneration for 2012 | Total | Previous year |
|---|---|---|---|---|---|
| Wendelin von Boch-Galhau [2*), 3*)] | 73 | 5 | 5 | 83 | 84 |
| Peter Prinz Wittgenstein [1*), 2), 3)] | 42 | 5 | 5 | 52 | 52 |
| Ralf Runge [4)] | 34 | 5 | 5 | 44 | 47 |
| Werner Jäger [1), 4)] | 23 | 5 | 5 | 33 | 36 |
| Dietmar Langenfeld [2), 4)] | 23 | 5 | 5 | 33 | 34 |
| Ralf Sikorski [3), 4)] | 23 | 3 | 5 | 31 | 34 |
| Dr. Alexander von Boch-Galhau | 20 | 5 | 5 | 30 | 33 |
| Francois Villeroy de Galhau | 20 | 5 | 5 | 30 | 30 |
| Dietmar Geuskens [4)] | 20 | 5 | 5 | 30 | 30 |
| Jürgen Beining (until Dec 2013) | 20 | 4 | 5 | 29 | 31 |
| Christina Rosenberg (since Mar 2013) | 16 | 3 | – | 19 | – |
| Yves Elsen (since Mar 2013) [1)] | 17 | 3 | – | 20 | – |
| Dr. Jürgen Friedrich Kammer (until Mar 2013) | 5 | 1 | 5 | 11 | 34 |
| Charles Krombach (until Mar 2013) | 5 | 1 | 5 | 11 | 37 |
| Rounding differences | –2 | 1 | 3 | 2 | –1 |
| | **339** | **56** | **63** | **458** | **481** |

[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.

A total expense of € 480 thousand was reported in consolidated earnings for the 2013 financial year (previous year: € 491 thousand). In addition to the fixed remuneration paid and the meeting fees for 2013, this figure includes € 63 thousand for the provision for variable remuneration (previous year: € 63 thousand) as well as € 22 thousand for reimbursement for other expenses (previous year: € 10 thousand).

## MANAGEMENT BOARD REMUNERATION

An expense of € 2,846 thousand (previous year: € 2,340 thousand) was reported in the income statement for the 2013 financial year. This figure consists of fixed salary components of € 1,444 thousand (previous year: € 1,237 thousand) and variable salary components of € 1,401 thousand (previous year: € 1103 thousand). The fixed remuneration contains remuneration in kind of € 76 thousand (previous year: € 51 thousand), of which € 3 thousand (previous year: € 3 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amounted to € 22,706 thousand (previous year: € 23,102 thousand). In the year under review, former members of the Management Board received pension benefits totalling € 1,437 thousand (previous year: € 1,359 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 2015 financial year, but at the longest until 12 May 2016.

# VILLEROY & BOCH'S SHARES

## VILLEROY & BOCH'S SHARES – THE 2013 STOCK MARKET YEAR

### BOOM ON THE STOCK MARKETS CONTINUES

The green light on the trading floor remained in place in 2013. Following a muted start to the year with no clear upward or downward trend, most share indices around the world rose substantially in the second half of 2013. Equities saw significant price growth on the back of the sustained offensive measures by central banks, whose bond purchases and low interest rates provided considerable impetus.

The German market enjoyed particularly dynamic development. The German leading index DAX closed the year at 9,552 points, up around 25 % across 2013 as a whole. The MDAX saw even stronger growth, closing the year at 16,574 points – a year-on-year rise of around 39 % – while the SDAX climbed by around 29 % in the same period.

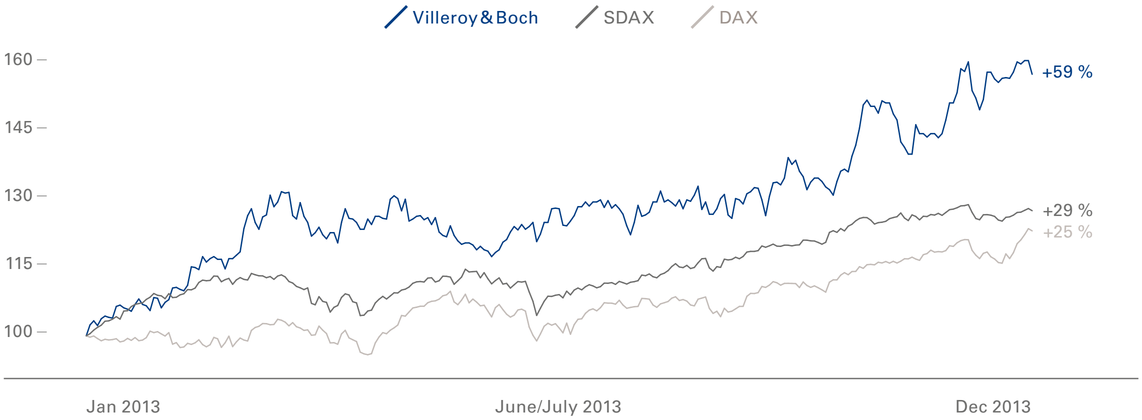
### VILLEROY & BOCH'S PREFERENCE SHARES: 59 % PRICE GROWTH, RETURN TO SDAX

Starting from a price of € 6.63 at the end of 2012, Villeroy & Boch's preference shares recorded growth of around 59 % to € 10.57 at year-end, down only slightly on the highest intra-year closing price of € 10.77. Price performance was characterised by a sharp rise in the first quarter followed by an extended sideways phase lasting until the end of September, when the shares broke through the € 9 barrier for the first time. Villeroy & Boch's preference shares then rose to € 10.57 by the end of the year with only the occasional interruption from temporary corrections. The low for 2013 was the price of € 6.74 at the start of the year. As in the previous year, a dividend of € 0.40 per preference share was paid in the year under review.

Since 27 November 2013, Villeroy & Boch has been included in the SDAX share index once again. The shares of the real estate company GSW had to be removed from the MDAX because their free float had fallen below 10 percent, thereby triggering an extraordinary index adjustment. SGL Carbon replaced GSW in the index for medium caps. The space in the SDAX that was freed up as a result has now been filled by Villeroy & Boch, which was a founder member of the SDAX in 1999 and has since fallen out of the index twice (in 2006 and 2010).

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

in the period from 2 Jan 2013 to 30 Dec 2013 (indexed)

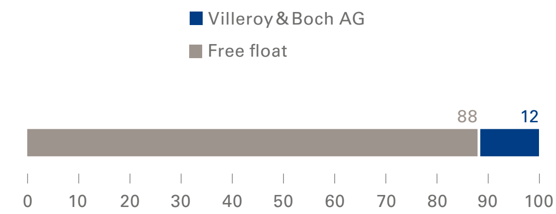


## PROPOSED DIVIDEND

Based on business development in 2013, the Supervisory Board and the Management Board propose to the General Meeting of Shareholders the payment of a dividend of € 0.42 per preference share and € 0.37 per ordinary share, € 0.02 more than in the previous year in each case. This represents a Group distribution ratio of 44 % excluding treasury shares.

### SHAREHOLDER STRUCTURE

in %

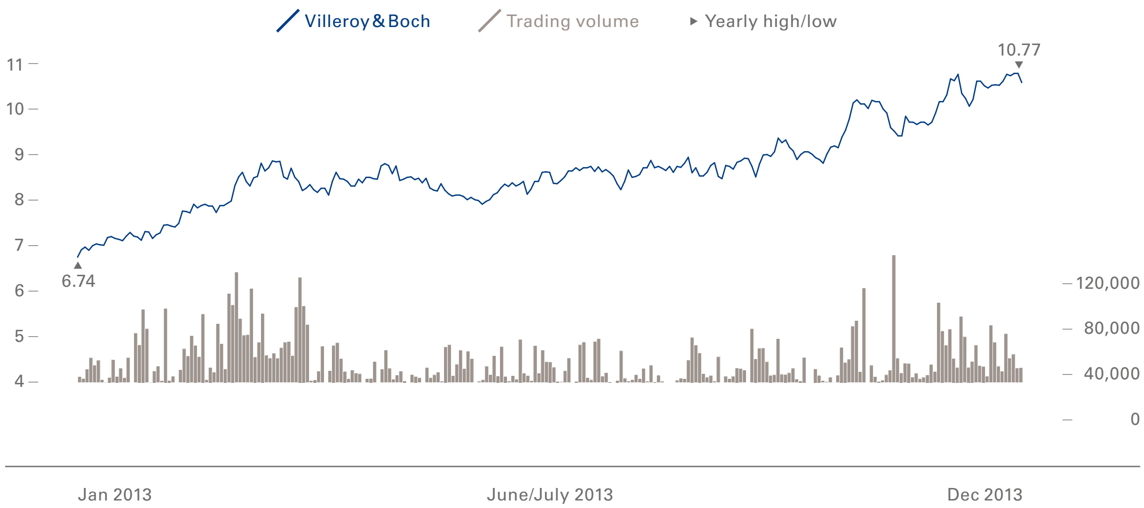



### MASTER DATA

| | |
|---|---|
| ISIN | DE0007657231 |
| GSIN | 765723 |
| Securities exchange symbol | VIB3 |
| Index membership | SDAX |

### PERFORMANCE OF VILLEROY & BOCH'S SHARES

in the period from 2 Jan 2013 to 30 Dec 2013



# "CAPITAL MARKET COMMUNICATIONS INTENSIFIED"

## Interview with CFO Jörg Wahlers

*Mr. Wahlers, Villeroy & Boch returned to the SDAX in late November. What was your reaction to this news?*

WAHLERS We were extremely happy. Our inclusion in the index serves to underline our positive development over recent years. Our aim now is to defend our position in the long term and become an integral part of the SDAX.

*What impact has the company's inclusion in the SDAX had on your work?*

WAHLERS We have already seen a rise in the level of interest in our shares. We are appearing in stock market reports in the media more frequently, which is making us more visible to private shareholders. At the same time, we are being approached by numerous analysts and institutional investors – increasingly also from abroad.

*How did you present the company to capital market participants in 2013?*

WAHLERS In addition to the annual analyst conference and our General Shareholders' Meeting, which are well-established in our calendar, we significantly intensified our capital market communications. We presented the company at roadshows in Frankfurt, Hamburg and Stuttgart, where we took the opportunity to meet with numerous analysts and fund and asset managers. In 2014, our aim is to appear in Munich, Cologne/Düsseldorf, Zurich, Luxembourg and London. We also maintained continuous dialogue throughout the year with analysts and investors from around the world. This shows that our impressive share price performance is not going unnoticed, including outside Western Europe.

JÖRG WAHLERS

CFO

*Why are these personal discussions so important?*

WAHLERS Because both current and potential investors place great importance on getting to know a company's management personally and being regularly updated on its medium-term corporate strategy. For us, it is also extremely interesting and important to know the people behind the funds and corporations investing in our company.

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

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Closing price (in €) | **10.57** | 6.63 | 5.88 | 4.55 | 5.47 |
| Yearly high/low (in €) | **10.77/6.74** | 8.63/5.85 | 7.79/4.40 | 5.65/3.74 | 6.70/3.10 |
| Ordinary shares, 31.12. | **14,044,800** | 14,044,800 | 14,044,800 | 14,044,800 | 14,044,800 |
| Preference shares, 31.12. | **14,044,800** | 14,044,800 | 14,044,800 | 14,044,800 | 14,044,800 |
| ▎ Shares held by Villeroy & Boch | **1,683,029** | 1,683,029 | 1,683,029 | 1,683,029 | 1,683,029 |
| ▎ Shares in free float | **12,361,771** | 12,361,771 | 12,361,771 | 12,361,771 | 12,361,771 |
| Market capitalisation, Xetra year-end (in € million) | **148.5** | 93.1 | 82.6 | 63.9 | 76.8 |
| Average daily turnover, Xetra (in shares) | **22,059** | 14,841 | 19,093 | 12,846 | 17,090 |
| PER based on yearly high/PER based on yearly low (in €) | **11.58/7.25** | 14.88/10.01 | 10.82/6.11 | –/– | –/– |
| Consolidated earnings per ordinary share (in €) * | **0.88** | 0.53 | 0.67 | –2.40 | –3.68 |
| Consolidated earnings per preference share (in €) | **0.93** | 0.58 | 0.72 | –2.35 | –3.63 |

* Ordinary shares not publicly traded

# GROUP MANAGEMENT REPORT





# GROUP MANAGEMENT REPORT

+63 %
**Group result € 24 million**
previous year: € 15 million

€ 36 million
**Operating EBIT +17 %**
including real estate income amounts to € 43 million (+40 %)

€ 745 million
**Consolidated revenue**
unchanged year-on-year

## BASIC INFORMATION ON THE GROUP

### BUSINESS MODEL OF THE GROUP

#### Organisational structure of the Group

Villeroy & Boch is a leading international ceramic manufacturer. Our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. We also sell supplementary products on a licence basis. Group-wide tasks are performed by our central functions.

Villeroy & Boch AG is the Group parent for a total of 55 fully consolidated direct or indirect subsidiaries. The investment structure of the Villeroy & Boch Group reflects operational concerns and the legal and tax situation.

#### Segments and sales markets

Our products are sold in 125 countries. End consumers in the Bathroom and Wellness Division are generally reached through a two- or three-tier sales channel. Our product range includes ceramic bathroom collections in various styles, bathroom furniture, shower, tub and whirlpool systems, ceramic kitchen sinks, and fittings and accessories. Our products in this division are displayed in more than 7,000 showrooms worldwide.

In the Tableware Division, customers are addressed via specialist retailers as well as our own retail activities. Our product range includes high-quality tableware, glasses and cutlery and the corresponding accessories, kitchen and tableware textiles and gift items. All in all, our products are available at around 5,800 points of sale worldwide. Our own points of sale include 155 “The House of Villeroy & Boch” stores, 60 factory outlets and around 570 concession or consignment stores, the latter of which are operated by our staff at rented warehouse space.

In the project business of both divisions, our customers are targeted by a dedicated sales organisation. For sanitary projects, key contacts include the architects, interior designers and planners of public institutions, office buildings, hotels, high-quality residential complexes, etc. For tableware projects, hotel and restaurant operators are our primary target group.

#### Locations

Villeroy & Boch is based in Mettlach in the Saarland region, which is also home to its head office.

We currently have 14 production sites in Europe, Asia and the Americas (see map on page 52). Our products for the Tableware Division are produced at the Merzig and Torgau plants in Germany. The remaining twelve plants manufacture products for the Bathroom and Wellness Division.

In 2013, we established a separate organisation for the Asia-Pacific (APAC) region. A company was formed in Singapore with strategic and operational responsibility for all activities in the region for both divisions. This dedicated organisation will allow us to respond more quickly and flexibly to local requirements.

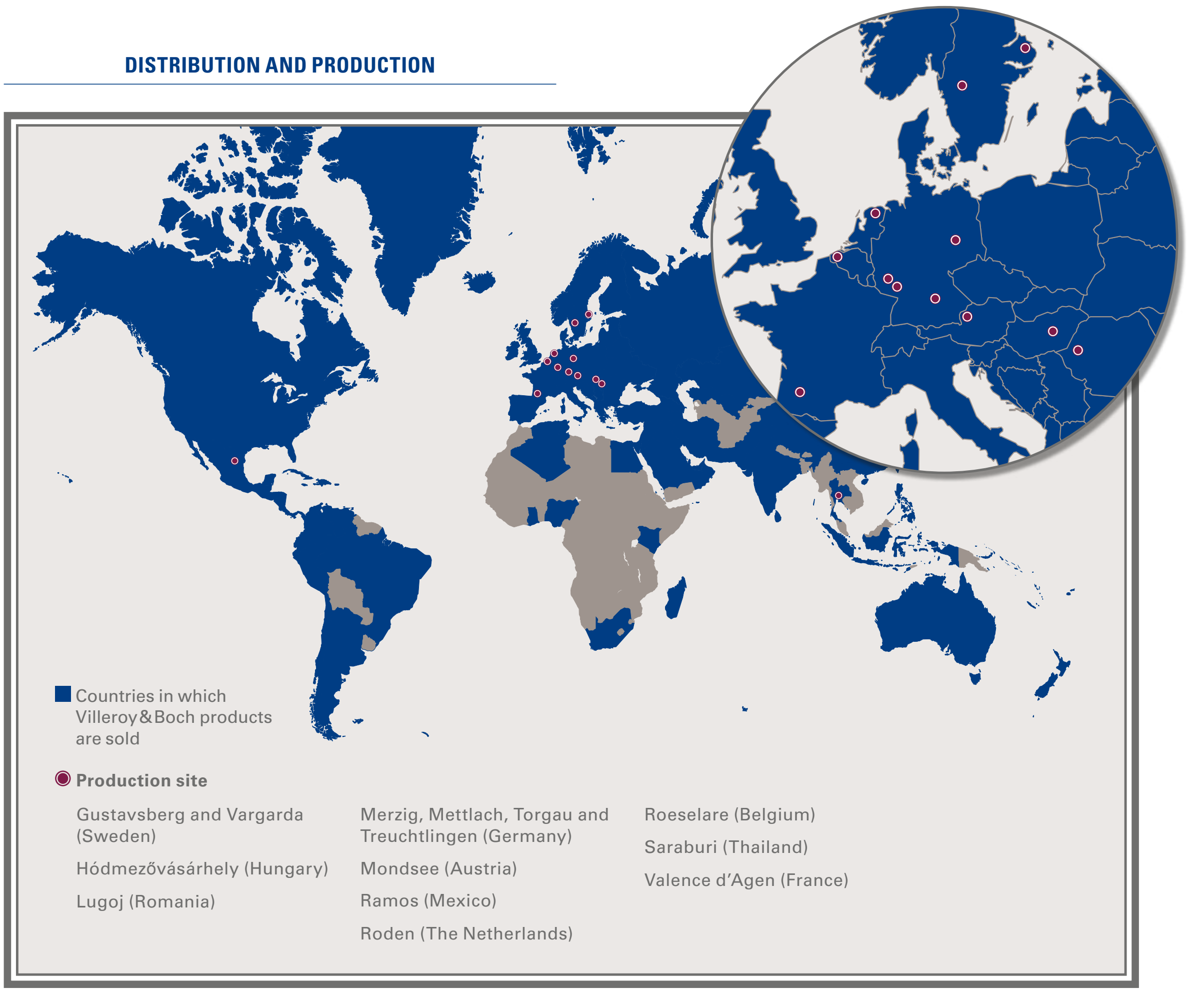
## MANAGEMENT SYSTEM

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

## RESEARCH AND DEVELOPMENT

Research, development and innovation strengthen our competitiveness and hence form the basis for long-term, sustainable economic success.
Including design development, the Villeroy & Boch Group invested € 12.8 million in research and development in 2013 (previous year: € 13.3 million). Of this figure, € 9.3 million (previous year: € 9.1 million) was attributable to the Bathroom and Wellness Division and € 3.5 million (previous year: € 4.2 million) was attributable to the Tableware Division.
In the 2013 financial year, our research and development activities focused on the development of fine ceramic materials with increased resistance. Our aim is to use these optimised materials to manufacture ceramic sanitary ware products with reduced body thickness, i. e. thinner ceramics. Successful development could form the basis for innovative

### DISTRIBUTION AND PRODUCTION



washbasin and WC designs. We have already produced the first prototypes.

As energy-efficient manufacturing systems are an important prerequisite for sustainable production, we also continued a research project aimed at integrating energy-intensive process steps within innovative process engineering. If successful, this could result in savings in terms of energy and raw material consumption. In addition, we tested the use of state-of-the-art, non-destructive testing methods, such as ultrasound detection, in cooperation with Fraunhofer institutes and leading technology providers.

Another project group developed and standardised a new and more efficient method for plaster casting. In future, the newly designed pilot plant, which is currently under construction, will serve as a work and exchange platform for developments in the areas of modelling, materials and process engineering.

### Innovation

Innovation 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 ViClean Ultimate bidet WC, which we are presenting in conjunction with the Japanese sanitary ware group Toto, the global market leader in this product category. What makes this product special is that ViClean Ultimate offers customised washing and drying functions, with the innovative balloon jet technology providing gentle personal cleaning. Furthermore, optimal hygiene and efficient cleaning are guaranteed by the anti-bacterial material, among other things. Despite its elaborate technology and extremely thorough cleaning, ViClean Ultimate uses only 0.4 litres of water per minute for its washing functions, making it up to seven times more efficient than its competitors. An intelligent energy management system enables further automatic savings in terms of electricity and water.

In 2013, innovation in our Tableware Division focused in particular on product design in response to the continuous process of change in the area of tableware. While the majority of sales in the 1980s were still complete tableware sets, current consumer requirements are different, not least thanks to the increasing pace of life and progressive urbanisation – which is also changing the way we eat, and hence how we use tableware. For example, the "Artesano Original" collection, which was presented in 2013, is our answer to the desire among residents of major cities for more nature and greater authenticity. One of the main challenges when designing successful collections is a detailed understanding of the eating habits of different cultures. We reflect this with market-specific products.

In addition, projects with design universities and the regular activities of the Group Innovation Committee provide systematic inspiration for product and concept development in both divisions.

### Idea management

The creativity of our employees is an important source for optimising processes, improving efficiency and increasing our level of innovation. A structured process allows our employees to submit suggestions for improvement at any time. The Idea Management department is responsible for evaluating employee ideas and initiating their implementation.

In 2013, our employees submitted more than 800 ideas, around 35 % of which have already been implemented. The resulting benefit in terms of resource savings and quantifiable efficiency improvements is estimated at around € 0.3 million.

Since the programme was launched in 2005, more than 6,000 ideas have been submitted resulting in a monetary gain of more than € 2.6 million, as well as various unquantifiable benefits. Of this figure, around € 0.7 million has been handed out as prize money to the submitters of the respective ideas.

## PROCUREMENT

With the recovery in the global economy remaining muted and a high degree of liquidity in the market, the average price development of the raw materials required for the manufacture of our ceramic products was more moderate than expected one year ago. While the prices of some individual materials such as precious metals have fallen significantly, purchase prices in Asia again saw above-average growth. By optimising our procurement processes, bundling requirements and generating positive effects from structured energy procurement, we succeeded in limiting the price rise to around 1 %.

### CHANGES IN LEGAL OR REGULATORY CONDITIONS

Following years of deregulation and the removal of trade barriers, there has been a growing trend towards the government regulation of economic conditions in recent times – a development that will lead to an increase in bureaucratic costs. At European Union level, this includes the planned expansion of financial reporting with the aim of establishing integrated reporting, as well as the proposal on the prevention of tax competition, which would require the more comprehensive documentation of cross-border transactions. In Germany, too, the recently concluded coalition agreement includes moves towards greater government regulation with its provisions on the minimum wage, early pensions, the financial transaction tax and new legislation on temporary and subcontracted work.
In the area of financial regulation, the following changes were relevant for us in the 2013 financial year:

#### SEPA (Single European Payments Area)

The EU has set 2014 as the date for the conversion of national bank transfer and direct debit transactions to the uniform Europe-wide payment system SEPA. The use of the SEPA format will be mandatory for all euro payments and direct debits. This will give rise to a Single European Payments Area in which there are no differences between national and cross-border payments. For us, this will lead to a reduction in bank charges and the simplification of our account and cash management structure.
We initiated SEPA implementation in 2008 in order to ensure that we benefit from these effects at an early stage. Our payment factory in Germany has been making euro payments in the SEPA format since 2008, and we collected the first SEPA direct debits in 2011.

#### EMIR (European Market Infrastructure Regulation)

At the G20 summit in Pittsburgh in 2009, the heads of state and government of the leading industrialised nations agreed to make OTC derivatives trading more transparent and secure in the wake of the global financial crisis. This resulted in the European Market Infrastructure Regulation (EMIR) on OTC derivatives trading. The main obligations under EMIR relate to clearing (standardised OTC derivatives are required to be cleared via a central counterparty), risk management (risk mitigation techniques must be applied for OTC derivatives) and reporting (OTC derivatives must be reported to a trade repository).
Villeroy & Boch AG and the affected Group companies are classified as "non-financial counterparties" and are subject to the EMIR provisions. As we use derivatives solely to hedge economic risks arising from our operating activities, the clearing obligation does not apply to us. The provisions on risk management and reporting must be observed. A corresponding system audit in accordance with section 20 (1) and (5) of the German Securities Trading Act (WpHG) will be conducted for our company for the first time for the 2014 financial year.

## ECONOMIC REPORT

### GENERAL ECONOMIC CONDITIONS

The global economy saw a slight recovery in 2013. However, there were pronounced differences in terms of regional development. In the euro zone markets that are important for us, there was a further moderate downturn in economic output. The Mediterranean EU member states have yet to emerge from their recession, and the same is true for France, which failed to see a recovery in 2013.
The German economy expanded in 2013, although growth was slower than anticipated at the start of the year. Development was driven primarily by domestic demand, with high employment and consistently low inflation leading to a stable consumer climate. Many Northern European countries also enjoyed an economic upturn.
The growth rate in Russia was substantially lower in 2013 than in the previous year. The recovery in the USA continued on the back of positive consumer sentiment. The same was true in Japan, where the economy was stimulated by monetary and fiscal policy measures and the depreciation of the yen. Once again, China made the largest contribution to global economic growth in 2013. Following a moderate slowdown in the middle of the year, the Chinese economy returned to a slightly stronger growth path towards the end of 2013.
The European construction industry, which is an important factor for our Bathroom and Wellness Division, saw slightly negative development in 2013 on the whole. However, there were significant differences between the individual markets: while construction in Northern and Central Europe increased, sharp downturns were observed in parts of Western, Eastern and Southern Europe.
In Germany and other key markets in Western and Eastern Europe, economic development in the tableware sector was restrained at the start of 2013 but improved from the second

quarter onwards, resulting in moderate growth for the year as a whole.

## COURSE OF BUSINESS AND POSITION OF THE GROUP

Our assessment of the economic position of the Group is positive. We have laid the foundations for future growth through systematic investments in our growth markets, such as the formation of a distribution joint venture in India and the establishment of a warehouse for bathroom and wellness products in China. At the same time, we are continuing to pursue a policy of stringent cost discipline and continuous process optimisation.

In a market environment that proved more difficult than anticipated, we succeeded in largely achieving our objectives for the 2013 financial year.

The table below shows a comparison of the forecast and actual key figures for 2013 and the forecasts for 2014:

GROUP TARGETS

| | Forecast 2013 | **Actual 2013** | Forecast 2014 |
|---|---|---|---|
| Revenue growth | 3–5 % | 0 % | 3–5 % |
| EBIT growth (operating) | > 5 % | 17 % | > 5 % |
| Return on net operating assets | > 10 % | 12 % | 12 % |
| Investments | € 35 million | € 26 million | > € 26 million |

In the quarterly report for the period ended 30 September 2013, we revised our original revenue growth target from 3–5 % to 2 %. However, the development of the construction industry failed to meet expectations, particularly in the final quarter of the year in Western Europe, and exchange rate effects had a more pronounced impact on our nominal revenue than had been anticipated, meaning that our revenue for the 2013 financial year as a whole remained unchanged as against the previous year.

Our operating result (EBIT) increased by 17 % year-on-year, thereby significantly outperforming the forecast growth rate of 5 %. This positive performance was achieved through productivity and quality improvements in our production network – although these are not reflected in the reported gross margin due to the opposing exchange rate effects – as well as the systematic cost discipline we applied in the area of administration and the other income we generated, particularly from the settlement of pension obligations and exchange rate hedges.

Taking into account the non-recurring income of € 7 million from the sale of plant buildings in Sweden, we increased our earnings before interest and taxes (EBIT) by an impressive 40 %.

This substantial earnings growth allowed us to significantly improve our return on net operating assets by two percentage points to 12 %.

At € 26 million, the investment volume in the 2013 financial year was lower than forecast; this was largely due to project postponements.

## RESULTS OF OPERATIONS

The following information provides an overview of our results of operations in the 2013 financial year.

### STRUCTURE OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

in € million

| | 2013 | % of revenue | 2012 | % of revenue |
|---|---|---|---|---|
| Revenue | 745.3 | 100.0 | 743.6 | 100.0 |
| Cost of sales | −421.3 | −56.5 | −420.6 | −56.6 |
| **Gross profit** | **324.0** | **43.5** | **323.0** | **43.4** |
| Selling, marketing and development costs | −249.5 | −33.5 | −244.1 | −32.8 |
| General administrative expenses | −46.6 | −6.3 | −47.5 | −6.4 |
| Other expenses/income | 8.3 | 1.2 | −0.5 | 0.0 |
| **Operating EBIT (before non-recurring income)** | **36.2** | **4.9** | **30.9** | **4.2** |
| Real estate income from Gustavsberg property | 7.0 | 0.9 | – | – |
| **Earnings before interest and taxes (EBIT)** | **43.2** | **5.8** | **30.9** | **4.2** |
| Financial result | −9.4 | −1.3 | −12.5 | −1.7 |
| **Earnings before taxes (EBT)** | **33.8** | **4.5** | **18.4** | **2.5** |
| Income taxes | −9.9 | −1.3 | −3.7 | −0.5 |
| **Consolidated net income** | **23.9** | **3.2** | **14.7** | **2.0** |

For transparency, our revenue and margin development is presented after adjustment for currency effects in order to illustrate the positive development resulting from efficiency improvements in production.

In € million

| | 2013 | % of revenue | Currency effects 2013 | 2013 (adjusted for currency effects*) | % of revenue | 2012 | % of revenue |
|---|---|---|---|---|---|---|---|
| Revenue | 745.3 | 100.0 | 8.1 | 753.4 | 100.0 | 743.6 | 100.0 |
| Costs of sales | −421.3 | −56.5 | −1.9 | −423.2 | −56.2 | −420.6 | −56.6 |
| **Gross profit** | **324.0** | **43.5** | **6.2** | **330.2** | **43.8** | **323.0** | **43.4** |

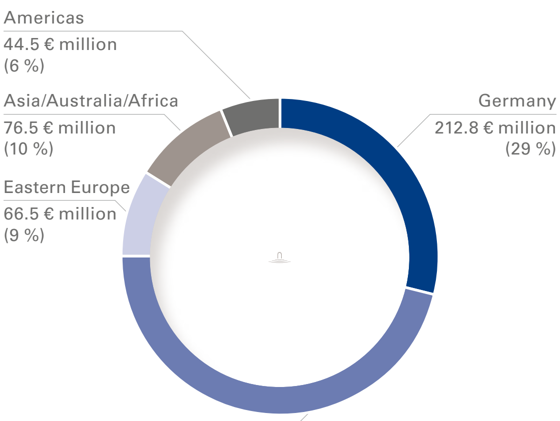
* All foreign-currency amounts translated at prior-year exchange rates

### Consolidated revenue 2013

**Consolidated revenue unchanged year-on-year at € 745 million**

In the 2013 financial year, we generated revenue of € 745.3 million compared with € 743.6 million in the previous year. This corresponds to an absolute increase of 0.2 %. After adjustment for currency effects, revenue increased by 1.3 % year-on-year to € 753.4 million.

CONSOLIDATED REVENUE BY REGION AND COUNTRY




| | | |
|---|---|---|
| Total | 345.0 € million | (46 %) |
| Scandinavia | 105.3 € million | (14 %) |
| France | 66.6 € million | (9 %) |
| Benelux | 54.0 € million | (7 %) |
| United Kingdom | 33.5 € million | (5 %) |
| Rest of Western Europe | 85.6 € million | (11 %) |

Our highest revenue growth in 2013 was recorded in our home market of Germany, where revenue rose by € 10.3 million or 5.1 % year-on-year to € 212.8 million.

Revenue in Western Europe declined by 1.7 % to € 345.0 million, with growth being observed in Spain (+7.5 %) and Scandinavia (+2.5 %) in particular. The weakness of the construction industry led to lower revenue in the Netherlands (–7.1 %), France (–6.4 %) and Italy (–3.7 %) in particular.

In Eastern Europe, revenue increased slightly by 0.5 % year-on-year to € 66.5 million, with Poland (+18.0 %) enjoying especially positive development.

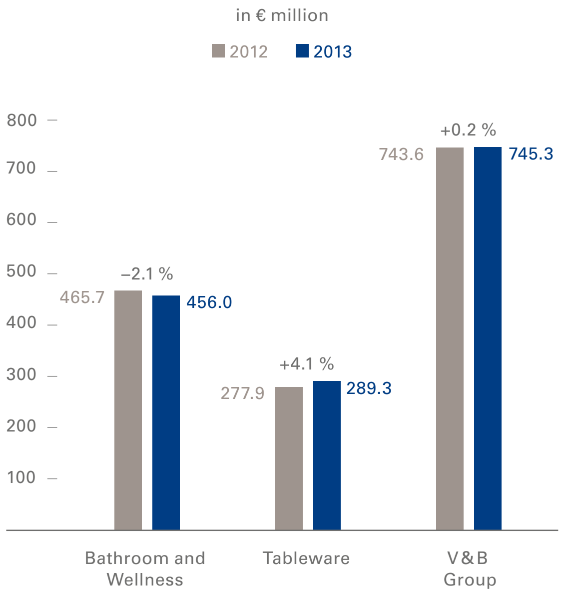
The Asia/Australia/Africa region contributed € 76.5 million to our consolidated revenue, up 5.1 % on the previous year. The encouraging revenue performance in China (+4.3 %) was responsible for this to a large extent.

In the Americas region, technical effects in connection with the change to the distribution model in the Bathroom and Wellness Division in particular meant that revenue declined by 13.1 %. These effects are discussed in greater detail in the “Revenue by division” section.

Our gross margin for the 2013 financial year was unchanged at 43.5 %. After adjustment for currency effects, our gross margin improved by € 6.2 million to 43.8 %.

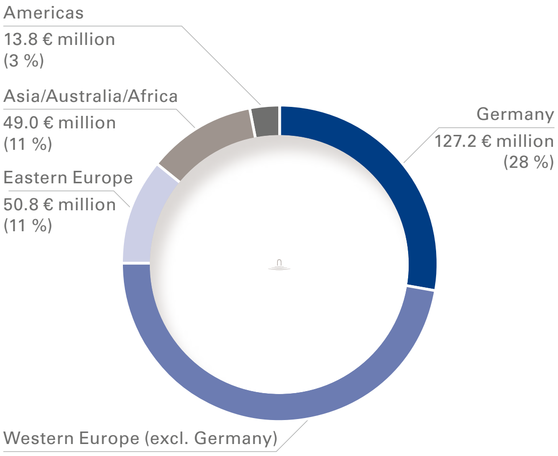
### Revenue by division

CONSOLIDATED REVENUE BY DIVISION



The *Bathroom and Wellness Division* generated revenue of € 456.0 million in the 2013 financial year, down 2.1 % on the previous year.

**BATHROOM AND WELLNESS REVENUE BY REGION AND COUNTRY**




| | |
|---|---|
| Total | 215.2 € million (47 %) |
| Scandinavia | 91.6 € million (20 %) |
| France | 41.0 € million (9 %) |
| Benelux | 36.7 € million (8 %) |
| United Kingdom | 17.2 € million (4 %) |
| Rest of Western Europe | 28.7 € million (6 %) |

The downturn in construction, which is an important industry for the Bathroom and Wellness Division, slowed in Europe compared with the previous year. All in all, the construction sector in our key markets saw patchy development in 2013, a fact that is also reflected in our revenue performance.

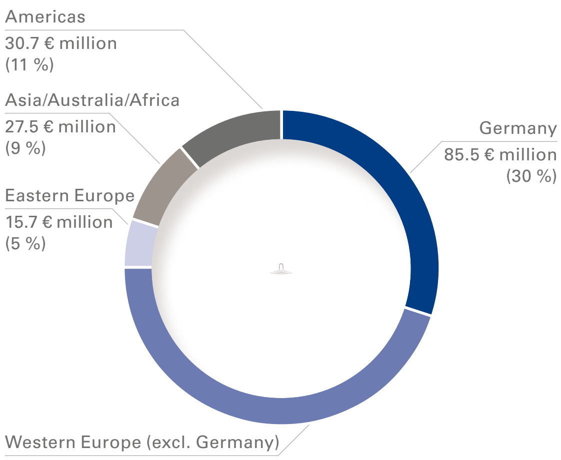
In Germany, revenue improved by 2.0 % year-on-year in line with the construction industry. Revenue growth in Europe was also recorded in Sweden (+7.1 %) and Finland (+7.0 %). By contrast, we saw falling revenue in the Netherlands (–11.5 %) and France (–9.4 %) in particular, with both countries again suffering from the pronounced contraction of the construction market. In light of this development, we expect to have maintained our market position in Europe as a whole.

In the Asia/Australia/Africa region, we generated revenue growth of +10.3 %. This development was driven by a number of countries, particularly Australia (+26.9 %) and China (+6.6).

Revenue performance in the Americas region was affected to a large extent by the decisions made in the previous year. Since forming a strategic distribution partnership with the Japanese sanitary ware group Toto, we have pursued a different distribution policy on the North American market. The downturn in revenue in the USA and Canada (–49.0 %) is attributable primarily to the disposal of the local second brand St. Thomas Creations in line with this policy change. Revenue in Mexico declined due to technical factors resulting from the sale of the sanitary ware plant in Saltillo in the first quarter of 2012, as well as economic factors. The local residential construction market was affected by uncertainty due to the announcement of changes in residential construction legislation, which spurred a general reluctance to invest. These were the main reasons for the substantial downturn in revenue in Mexico (–27.3 %). All in all, our revenue in the Americas region declined by 33.9 % as a result of the factors described above.

Our *Tableware Division* generated revenue of € 289.3 million in the 2013 financial year, up 4.1 % on the previous year.

**TABLEWARE REVENUE BY REGION AND COUNTRY**




| | |
|---|---|
| Total | 129.9 € million (45 %) |
| Scandinavia | 13.7 € million (5 %) |
| France | 25.6 € million (9 %) |
| Benelux | 17.3 € million (6 %) |
| United Kingdom | 16.3 € million (5 %) |
| Rest of Western Europe | 57.0 € million (20 %) |

The Tableware Division proved to be one of the leading brands in a highly fragmented market. In the key European markets, and Germany in particular, the economic environment in this sector picked up from the start of the second quarter of 2013 onwards. Despite the sustained high pressure on prices and margins, we were therefore able to reinforce our market position and strengthen it in some cases.

We enjoyed particularly strong revenue performance in Germany (+10.1 %). This was mainly attributable to the very good sales of our new "Mariefleur Gris" and "Cooking Elements" products, as well as increased marketing efforts and the opening of additional retail stores.

In Western Europe, we also recorded revenue growth in Sweden (+9.6 %), Spain (+8.1 %) and Switzerland and the Netherlands (each +7.2 %). By contrast, France (–1.3 %) and the United Kingdom (–1.0 %) saw slightly lower revenue than in the previous year.

We enjoyed extremely satisfactory revenue growth in Eastern Europe (+15.9 %), with Poland recording the highest growth rate (+30.8 %).

The negative revenue development in the Asia/Australia/Africa region (–6.4 %) was primarily due to currency effects, particularly in Australia and Japan. After adjustment for these effects, revenue in the region increased by 3.6 % year-on-year.

We recorded moderate revenue growth of 1.3 % in the Americas region.

In order to further intensify our sales activities, we continued to expand our retail distribution in 2013 with the opening of new Villeroy & Boch stores in Mumbai (India), Riyadh (Saudi Arabia) and Monaco, among others.

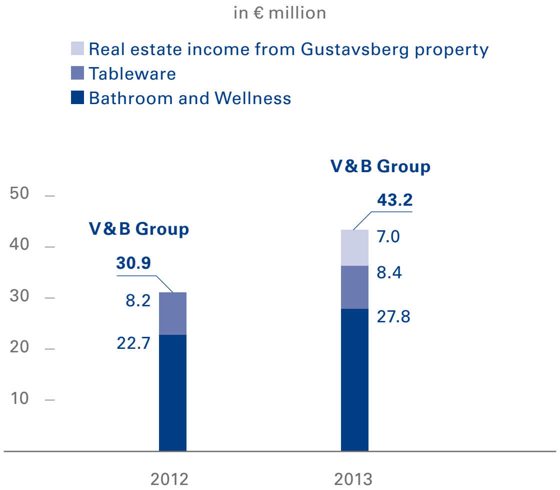
### Orders on hand

Orders on hand amounted to € 45.3 million at 31 December 2013, down slightly on the prior-year figure of € 46.3 million. The Bathroom and Wellness Division accounted for € 31.7 million of orders on hand, with the remaining € 13.6 million attributable to the Tableware Division.

### Consolidated EBIT

Our earnings before interest and taxes (EBIT) developed as follows in the 2013 financial year:

CONSOLIDATED EBIT
INCL. BREAKDOWN BY DIVISION




We generated consolidated EBIT of € 43.2 million in the 2013 financial year. It should be noted that the figure for 2013 contains the first tranche of the non-recurring income from the sale of the plant properties in Sweden (see detailed information under "Real estate income from properties in Gustavsberg, Sweden") in the amount of € 7.0 million. All in all, we recorded year-on-year earnings growth of 39.8 %.

### Real estate income from properties in Gustavsberg, Sweden

As part of our site optimisation and the continuous value growth of our real estate portfolio, the site in Gustavsberg, which was previously used for industrial purposes, was successfully converted for residential development. As a result, we sold the plant site to two investors and, in part, to the municipality of Gustavsberg. The first tranche was realised in the third quarter of 2013 and will be followed by additional tranches, predominantly in 2014. The total net income from the disposal of the plant properties is expected to be up to € 17 million.

We will replace the existing production building with a logistics and assembly centre on another site owned by the company close to the former plant site. The new site will be characterised by near fully-automated processes and state-of-the-art technology and will reflect the importance of the Scandinavian market for our Group.

### Operating EBIT up 17.2 % year-on-year to € 36.2 million (previous year: € 30.9 million)

In the 2013 financial year, our operating EBIT – excluding real estate income – improved by € 5.3 million or 17.2 % as against the previous year. Our gross margin was essentially unchanged year-on-year at 43.5 % (previous year: 43.4 %). After adjustment for exchange rate effects, our gross margin improved by € 6.2 million to 43.8 %.

Selling, marketing and development costs increased by € 5.4 million year-on-year to € 249.5 million, largely as a result of investments in new markets and higher personnel expenses due to collective agreements. General administrative expenses declined by € 0.9 million to € 46.6 million as a result of stringent cost discipline (previous year: € 47.5 million).

Other expenses/income in the 2013 financial year amounted to € +8.3 million (previous year: € –0.5 million). This increase of € 8.8 million was primarily due to the successful hedging of exchange rate risks (€ +4.3 million) and the settlement of pension benefits (€ +2.7 million).

### Operating result (EBIT) by division

#### Bathroom and Wellness Division

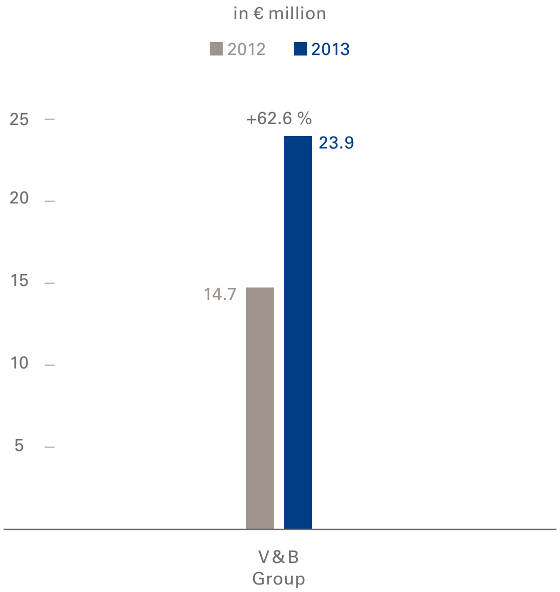
The Bathroom and Wellness Division increased its operating result (EBIT) by 22.5 %, from € 22.7 million in the previous year to € 27.8 million in the 2013 financial year. This was due primarily to the aforementioned productivity improvements (see page 55) and systematic cost management in the area of administration.

#### Tableware Division

The operating result (EBIT) in the Tableware Division increased only slightly by € 0.2 million to € 8.4 million. We used our revenue growth to strengthen our position in a competitive market environment through offensive marketing activities and to make investments in strategically important markets and sales channels.

### Consolidated net income

CONSOLIDATED NET INCOME




We closed the 2013 financial year with consolidated net income of € 23.9 million. This represents significant year-on-year growth of € 9.7 million or 62.6 %.

Tax expense amounted to € –9.9 million, meaning that our tax rate was 29.3 % (previous year: 20.1 %). The low tax rate in the previous year was partially attributable to the reversal of a valuation adjustment on deferred taxes from tax loss carryforwards that was reduced following the adoption of the final tax assessments.

Our financial result amounted to € –9.4 million, an improvement of € 3.1 million on the previous year (€ –12.5 million). This was due to the lower level of interest expenses for pensions as a result of reduced discount rates.

### Dividend proposal

At the General Meeting of Shareholders on 21 March 2014, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

*€ 0.37 per ordinary share*

*€ 0.42 per preference share*

This represents a total dividend distribution of € 11.1 million. This amount will change by the share of dividends relating to treasury holdings of preference stock at the time the payment is made.

## FINANCIAL POSITION

### Principles and objectives of financial management

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

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

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

The resulting financing requirements are generally covered by bank loans. Surplus liquidity is invested on the money market in line with risk/reward considerations. With the proviso that our financial trading partners have a good credit standing, expressed in the form of an investment grade rating of at least A–/A3, we pursue the aim of ensuring an optimal financial result.

Our *cash management* is also organised and managed centrally. In order to ensure economic efficiency, priority is given to the centralisation of cash flows via cash pooling. An in-house cash system ensures that intercompany cash flows are always executed via internal clearing accounts where this is possible for legal and tax purposes. The consolidation of cash inflows and outflows serves to reduce the number of external bank transactions to a minimum. Standardised processes and transmission channels have been established for payment transactions.

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

Further information on risk management can be found on page 68 ff. of the Group Management Report.

### Capital structure

Our financing structure is composed as follows:

| In € million | 2013 | 2012 [1] |
|---|---|---|
| Equity | 160.4 | 149.3 |
| Non-current liabilities | 238.5 | 279.0 |
| Current liabilities | 200.7 | 180.5 |
| **Total equity and liabilities** | **599.6** | **608.8** |

[1] Prior-year figures restated to reflect changes in the accounting treatment of defined benefit and partial retirement plans in accordance with IAS 19R

Our equity increased by € 11.1 million to € 160.4 million. This was due primarily to the consolidated net income of € 23.9 million, which was offset by the dividend payment of € 9.9 million.

Our equity ratio amounted to 26.8 % at the reporting date, an increase of 2.3 percentage points compared with the adjusted figure for the previous year. 77.1 % of the Group's non-current assets in the amount of € 208.0 million were covered by equity.

Non-current liabilities primarily include pension obligations, financial liabilities, provisions for personnel and deferred tax liabilities. In addition to the usual payments, provisions for pensions declined to € 182.7 million in the year under review (previous year: € 194.9 million) as a result of the acceptance of the offer for the early payment of pension benefits (€ 5.3 million). 97.7 % of pension obligations were attributable to the euro zone. Discount rates of between 3.0 % and 3.25 % were applied in measuring these obligations. A rate of 3.0 % was applied in Germany. The discount rates applied were based on the interest rates for first-class debt instruments with the same maturity in the respective economic area.

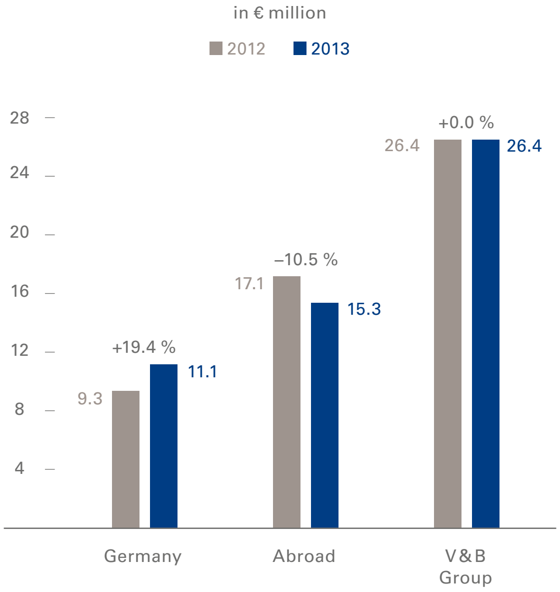
Non-current financial liabilities declined from € 50.0 million to € 25.0 million following the reclassification of items as current liabilities on account of their maturity. The financial liabilities reported in non-current liabilities relate to banks and have a medium-term maturity and a fixed interest rate in euro.

Current liabilities primarily consist of other liabilities, trade payables, financial liabilities and other provisions.

In the year under review, current liabilities increased by a total of € 20.2 million. This was primarily due to the aforementioned reclassification of a non-current loan in the amount of € 25.0 million, which was offset by a reduction in other current provisions of € 6.4 million.

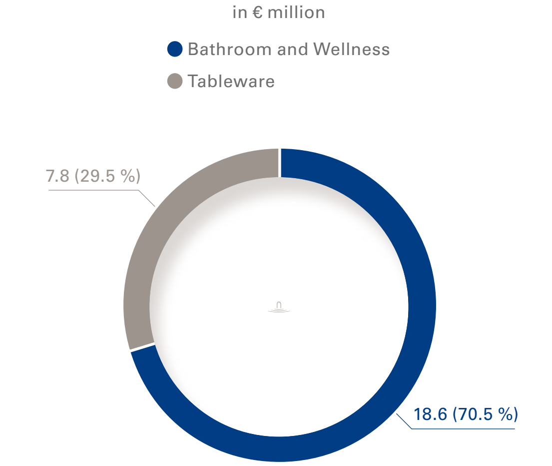
## Investments

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS




As in the previous year, investments in intangible assets and property, plant and equipment amounted to € 26.4 million in the 2013 financial year. 42 % of the investments made in the year under review were attributable to Germany (previous year: 35 %). At 31 December 2013, the Group had obligations to acquire property, plant and equipment in the amount of € 3.7 million. These are financed from the operating cash flow.

BREAKDOWN OF INVESTMENTS BY DIVISION




At 70.5 % or € 18.6 million, investing activities were concentrated on the *Bathroom and Wellness Division*. Of this figure, € 11.7 million was invested outside Germany. 43 % of this amount related to Western Europe, with Eastern Europe accounting for 36 % and Asia for 21 %. Investments related in particular to the expansion of the product range at our wellness company in the Netherlands, expansion and replacement investments in Romania, Hungary and Germany, and continued capacity expansion measures in Thailand.

Investments in the *Tableware Division* accounted for € 7.8 million or 29.5 % of total investments. Of this figure, 54 % related to Germany. Investments focused on the expansion of our distribution network.

In the 2012 Group management report, we forecast an investment volume of € 35 million for the 2013 financial year. The lower level of actual investment was primarily attributable to project postponements.

## Financing

CONDENSED CASH FLOW STATEMENT

in € million

| | 2013 | 2012 |
|---|---|---|
| Consolidated net income | 23.9 | 14.7 |
| Current depreciation and amortisation of non-current assets incl. reversals | 26.3 | 27.0 |
| Change in non-current provisions | –21.8 | –14.9 |
| Profit from disposal of fixed assets | –1.6 | –2.0 |
| Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities | –1.2 | –15.3 |
| Other non-cash income/expenses | 6.0 | 11.1 |
| **Net cash flow from operating activities** | **31.6** | **20.6** |
| **Net cash flow from investing activities** | **–15.5** | **–14.4** |
| **Net cash flow from financing activities** | **–10.0** | **–10.0** |
| **Total cash flows** | **6.1** | **–3.8** |
| **Cash and cash equivalents on 1 Jan** | **55.3** | **59.2** |
| Total cash flows | 6.1 | –3.8 |
| Change in cash and cash equivalents due to exchange rate effects | –1.1 | –0.1 |
| **Cash and cash equivalents on 31 Dec** | **60.3** | **55.3** |

Our net cash flow from operating activities amounted to € 31.6 million, up € 11.0 million on the previous year. This was primarily due to the reduction in receivables from customers and inventories, which totalled € 8.4 million.

The net cash flow from investing activities declined by just € 1.1 million year-on-year to € –15.5 million. Investments totalling € 26.4 million were offset by cash receipts from asset disposals in the amount of € 11.0 million, a figure that included € 5.4 million from the sale of our plant properties in Sweden.

The net cash flow from financing activities was unchanged year-on-year at € –10.0 million and primarily contained the dividend payment for the 2012 financial year.

### Net liquidity

Our net liquidity improved by € 5.1 million year-on-year to € 9.1 million. This development was due in particular to the reduction in trade receivables. These and other cash inflows from the reduction in inventories, the net income for the period and the sale of the plant properties in Sweden were offset by cash outflows for the early settlement of pension benefits, the utilisation of other provisions and the dividend payment for 2012.

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

At 31 December 2013, we had unutilised credit facilities totalling € 122 million.

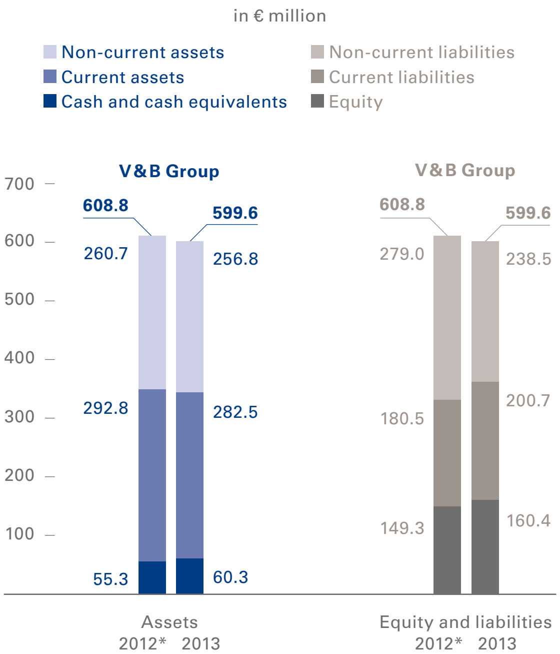
## NET ASSETS

### Balance sheet structure

Total assets amounted to € 599.6 million at the reporting date compared with € 608.8 million in the previous year. The balance sheet structure was as follows:

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

BALANCE SHEET STRUCTURE




* Prior-period figures restated to reflect change in accounting treatment of defined benefit and partial retirement plans in accordance with IAS 19R (see note 26 and 27 of the notes to the consolidated financial statements)

The changes to the balance sheet structure described below are based on the restated prior-year figures, which were adjusted to reflect changes in the accounting treatment of defined benefit and partial retirement plans. These are presented in detail in the notes to the consolidated financial statements (notes 26 and 27).

Non-current assets consist of non-current fixed assets, deferred tax assets and other non-current assets. At the reporting date, non-current assets declined by a total of € 3.9 million to € 256.8 million. Non-current fixed assets rose slightly by € 0.8 million to € 208.0 million. The reduction in property, plant and equipment (€ –4.7 million) was offset by the increase in other financial assets (€ 5.0 million). The change in property, plant and equipment was largely due to the higher level of depreciation and write-downs compared with the investments made. The increase in other financial assets was attributable to a non-current receivable from the buyers of the property in Sweden (€ +6.2 million). This was offset by the planned repayment of a long-term loan by V & B Fliesen GmbH (€ –1.2 million). In addition, deferred tax assets fell by € 4.6 million.

The share of total assets attributable to non-current assets increased to 34.7 % (previous year: 34.0 %).

Current assets are primarily composed of inventories, trade receivables, other current assets and cash and cash equivalents. Current assets declined by € 5.3 million year-on-year, from € 348.1 million to € 342.8 million. This development was primarily reflected in trade receivables (€ –6.3 million) and inventories (€ –2.1 million). Non-current assets held for sale decreased by € 2.3 million (see note 16 of the notes to the consolidated financial statements). In addition, cash and cash equivalents increased by € 5.0 million to € 60.3 million in the year under review.

The items of the equity and liabilities side of the balance sheet are discussed under Capital structure.

## FINANCIAL PERFORMANCE INDICATORS

In addition to the key performance indicators of revenue and earnings before interest and taxes (EBIT), our activities focus on optimising the rolling return on net operating assets. Net operating 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.

The return on net operating assets is calculated as follows:

RETURN ON NET OPERATING ASSETS

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

In the 2013 financial year, the rolling net operating assets of the Villeroy & Boch Group were composed as follows:

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

in € million

| V&B Group | 2013 | 2012 |
|---|---|---|
| **Net operating assets** | **301.5** | **303.6** |
| Property, plant and equipment | 165.3 | 177.0 |
| Inventories | 159.7 | 151.3 |
| Receivables (from third parties) | 110.0 | 107.2 |
| Liabilities | –55.5 | –42.1 |
| Other assets | –78.0 | –89.8 |
| **Operating result (EBIT)** | **36.2** | **30.9** |
| **Return on net operating assets** | **12.0 %** | **10.2 %** |

The return on net operating assets improved from 10.2 % in 2012 to 12.0 % in the year under review, largely as a result of the improved operating result.

The net operating assets of the Bathroom and Wellness Division were composed as follows:

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS (BATHROOM AND WELLNESS)

in € million

| Bathroom and Wellness | 2013 | 2012 |
|---|---|---|
| **Net operating assets** | **201.3** | **208.7** |
| Property, plant and equipment | 130.1 | 138.4 |
| Inventories | 89.0 | 88.4 |
| Receivables (from third parties) | 79.5 | 77.8 |
| Liabilities | –39.1 | –29.8 |
| Other assets | –58.2 | –66.1 |
| **Operating result (EBIT)*** | **28.8** | **23.6** |
| **Return on net operating assets** | **14.3 %** | **11.3 %** |

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

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

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

in € million

| Tableware | 2013 | 2012 |
|---|---|---|
| **Net operating assets** | **100.2** | **94.9** |
| Property, plant and equipment | 35.1 | 38.6 |
| Inventories | 70.7 | 62.9 |
| Receivables (from third parties) | 30.5 | 29.4 |
| Liabilities | –16.4 | –12.3 |
| Other assets | –19.7 | –23.7 |
| **Operating result (EBIT)*** | **8.6** | **7.8** |
| **Return on net operating assets** | **8.6 %** | **8.2 %** |

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

## NON-FINANCIAL PERFORMANCE INDICATORS

### Customers

Target group-specific market cultivation: an important factor for success

Taking into account the individual needs and behavioural structures of our customers gives us an advantage in terms of target group-specific market cultivation, allowing us to better leverage the available sales and profit potential. Our key target groups in the Bathroom and Wellness Division are dealers, craftsmen, architects, interior designers and planners. In the Tableware Division, we address end consumers and dealers alike, from small specialist porcelain retailers to large department store chains. We reflect the individuality of the different target groups with specially trained staff and various communication media. One example is our new Business Portal, which offers a target group-appropriate interface for B2B customers in terms of design, communication and possibilities for use.

The presentation of our products – often including dealers' displays in the case of Bathroom and Wellness products – and the advice provided to end consumers are core drivers of our marketing approach. We use our CRM (customer relationship management) system to continuously measure the presence of our product range, and our new products in particular, with customers. In addition to a strong display presence, qualified advice is a vital factor in our success, and hence in the success of our customers. Every year, we offer wide-ranging employee training in the various requirements and target groups as part of our internal "Global Academy". These measures are paying off and are being recognised by customers – as demonstrated by the award won by the Tableware Division, which was named Service Champion 2013 in the household and gift provider category.

Another leading indicator is our project pipeline, where we also use our CRM system for continuous process analysis and controlling between the specification and realisation phases. In a number of countries, we have also established a dedicated project field sales team to provide support for specific target groups such as architects and project developers.

Proximity to the markets is a key factor in our success. We are continuously expanding our sales organisations, particularly in the strategic growth regions of China and Russia, in order to achieve direct access to the markets and increase our proximity to our customers.

### Customer surveys

We conduct regular internal and external customer surveys for the safeguarding and alignment of our sales and marketing strategies and the quality assurance of our products and services. As well as collecting general data on forecasts and the economy, this allows us to address specific target groups and perform specific evaluations by asking targeted questions – such as with regard to low complaint rates or high service levels – and using state-of-the-art media. As a recent example, Facebook users were invited to choose a new colour for the Joyce bathroom collection by voting and entering a competition. We also frequently use traditional, questionnaire-based customer surveys, giving us permanent access to current, relevant customer data above and beyond our day-to-day business and our CRM system and databases.

### Supplier relationships

Value-wise, our procurement volume is equivalent to more than than 60 % of our revenue. This means that our supplier relationships are extremely important. Accordingly, the positive development and management of these relationships lie at the heart of our procurement activities. We employ systematic category management and tools such as supplier evaluation and development. We also aim to structure our supplier relationships so that all risks are minimised, and hence kept away from the company to the greatest possible extent. To this end, contracts are negotiated accordingly, compliance with statutory provisions is ensured and corresponding risk management is practiced. In particular, our "Supplier Code of Conduct" requires suppliers to commit to the same standards as our company with regard to integrity, business ethics, work conditions and upholding human rights.

### Environment

As companies and individuals, we are all responsible for our environment. Our actions today shape the state of the environment for future generations. As such, the efficient use of raw materials and energy and a commitment to cutting emissions are key elements of our environmental strategy. For example, we have significantly reduced our waste water volume and continuously improved our energy efficiency over recent years by making targeted investments in optimising our production processes.

Four of our production sites are currently validated in accordance with the EU EMAS scheme and eight of our sites are ISO 14001-certified. EMAS certification and the international environmental management standards ISO 14001 and ISO 50001 mean that our environmental commitment is regularly reviewed by independent third parties. EMAS, which stands for the Eco Management and Audit Scheme, was developed by the European Union and is the applicable eco audit ordinance for all 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 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.

Environmental activities in 2013 focused on the establishment of an ISO 50001-compliant energy management

system. An energy management system was introduced at three locations – Merzig, Torgau and Mettlach. The external preliminary audit took place in December 2013 and was followed by the certification audit in January 2014. The aim of energy management activities is to systematically analyse, monitor and improve our company's energy efficiency and to cut energy costs. Energy management is also an important instrument for reducing $CO_2$ emissions and the other adverse environmental effects caused by our work.
In 2013, an environmental management system was also implemented and ISO-certified at the Lugoj plant in Romania. Meanwhile, the Roeselare plant in Belgium has also implemented an environmental management system within its industrial production and is planning to obtain external certification in early 2014. The key aspects of the management system in practice are specific environmental targets which are defined at the sites and achieved by way of specific projects.

### Employees

Our employees are well-trained, capable and motivated. To ensure that this remains the case, our undertaking as a modern, responsible employer is to provide our employees with interesting and stimulating tasks, an attractive working environment and flexible working time models and offer them fair remuneration and interesting monetary and non-monetary benefits.
Pension provision is extremely important to our employees as a way of securing their standard of living after retirement. To support our workforce in selecting the appropriate pension products, we offer a comprehensive, individual consulting concept in cooperation with an insurance broker. For example, a number of information events and individual consultations took place at our German sites in 2013. Our employees can also use the intranet to obtain information about company and collectively agreed pension schemes at Villeroy & Boch, calculate individual offers and clarify detailed questions with the respective contact persons at any time. Deutsche Rentenversicherung also visited our offices to advise employees on several occasions.
Supporting our employees in achieving a better work/life balance is also becoming increasingly important. We co-finance a day care centre at our head office in Mettlach that can be used by employees whose children are at least one year old. In Germany, 2013 saw the introduction of a scheme providing working parents with financial support for reliable childcare during the school holidays.

#### Professional development and training

Vocational training is an important pillar of our sustainable HR policy. At the reporting date, our Saar locations had a total of 99 trainees and students in eleven commercial and technical professions. The aim of the training programmes is to help school-leavers with the first steps in their career and assist them in discovering and developing their talents so that they can take up a vacant position at our company after completing their training.
We support all of our other employees with professional development and training programmes. As well as further training at the internal Global Academy, our employees can apply for financial support for obtaining further education or additional professional qualifications from the Villeroy & Boch support fund, which provides subsidies of up to € 50,000 a year.

#### Incorporating employees into process design

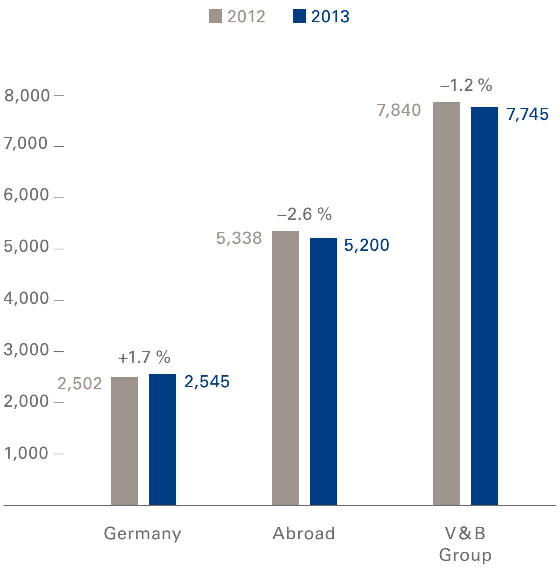
We also believe it is important to actively involve our employees in improving our business processes and reducing their complexity. In the wake of an employee survey in 2012, a number of workshops were held in 2013 and a total of 1,900 suggestions for improvement were collected. 35 % of the suggestions that were considered to be particularly urgent or realisable in a short period of time had been implemented by the end of 2013.

#### Occupational health and safety

Health and safety are also important elements of our HR policy. Occupational safety management focuses on compliance with the legally prescribed safety measures and, in particular, on prevention and employee awareness of occupational health. In addition to the legally prescribed examinations on the performance of specific activities, we regularly offer our employees a range of health campaigns, such as medical checks.

### Workforce

NUMBER OF EMPLOYEES (AT END OF PERIOD)




We had a total of 7,745 employees at 31 December 2013, of which 32.9 % were employed in Germany. Compared with 31 December 2012, the number of employees declined by 95. The Bathroom and Wellness Division accounted for 4,977 employees, while a total of 2,322 people were employed in the Tableware Division and 446 in central functions.
Taken as an average for the year as a whole, the number of employees decreased from 7,946 to 7,756.

### Social responsibility

Social responsibility is an important element of our identity as a company. With our long tradition dating back to 1748, we take this task extremely seriously and are aware of our responsibility to society. This is not least documented in our corporate guidelines and the statement: "Villeroy & Boch – Maintaining the tradition".
Our aim is to be a strong and reliable partner for society. We help to improve the lives of people in need through selected, targeted measures. As well as donating money and goods to social organisations at a regional level, in 2013 we organised a sale of porcelain for charity at the famous Fischmarkt in Hamburg for the second time together with popular TV chef Steffen Henssler. The proceeds of the sale, which we rounded up to € 10,000, were donated to the "RTL – Wir helfen Kindern" campaign and will benefit children in need around the world.
In the past financial year, we offered spontaneous assistance following the serious floods that hit Germany. We provided 500 bathroom packages – each consisting of a WC and a washbasin – free of charge to affected households in the wider Torgau region, where we have manufactured Tableware products since the early 1990s.
We are also a partner of the German Toilet Organisation's "Toiletten machen Schule" competition. Held for the first time in 2012/2013, the aim of the competition is to improve the hygiene situation in school lavatories and bathrooms. In the past financial year, we provided the four winning schools with ceramic sanitary ware products with a total value of around € 20,000.
Another element of our social commitment is the promotion of sporting activities in support of the principles of fair sporting competition. Our national partner is the Stiftung Deutsche Sporthilfe foundation, with its values of achievement, fair play and cooperation. At a regional level, we have been the main sponsor of the SV Mettlach football club for a number of years.

## REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no events of particular importance after the end of the 2013 financial year.

## REPORT ON RISKS AND OPPORTUNITIES

### RISK STRATEGY

Our management is committed to the long-term existence of Villeroy & Boch and the maintenance of its independence. To this end, our aim is to ensure sustainable growth and a long-term increase in our enterprise value. It is also important for us to retain our 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, we are exposed to the usual financial and economic risks.
In accordance with our 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. Within our company, we have a functional and effective risk management system with a clear functional organisation. The risk management system serves to secure our continued existence and help us to achieve our objectives as a company.

## RISK MANAGEMENT SYSTEM

Our risk management system covers all of the areas of the Group and allocates clear responsibilities and duties to all organisational units.
In this system, which encompasses both opportunities and risks, the Management Board defines the principles of the risk policy and their implementation together with the general principles of Group strategy 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 endanger the Group's continued existence in good time and taking appropriate and effective countermeasures.
Our operational risk management covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks and, together with the necessary countermeasures, is primarily the responsibility of process management, i. e. decentrally at divisional level. 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, our Group Internal Audit team 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. The suitability of the risk early warning system is also regularly examined by our auditors as part of their statutory audit of the single-entity financial statements and the management report.

## 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 financial reporting process in accordance with section 289 (2) no. 2a 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 (activities and systems) introduced by a company's management with a view to the organisational implementation of management decisions. The concrete tasks and objectives of the internal control system are:

- to ensure the effectiveness and efficiency of the company's business activities, including the protection of tangible and intangible assets and the prevention and coverage of asset losses caused by the company's staff or third parties;
- 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 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 financial reporting are set out in specialised guidelines and work instructions that are continuously adjusted to reflect external and internal developments. The controls defined on a Group-wide basis are set out in a checklist. The provisions contained in these guidelines and work instructions 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, information technology (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.

The following characteristics of the internal control and risk management system could have a significant influence on financial reporting:

- Our 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 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 financial reporting process is integrated into this general risk management system.
- Functions in all areas of the accounting and consolidation process (e.g. financial accounting and payroll, taxes, 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 financial reporting is ensured in particular through the use of a uniform standard software system for processing all accounting-related data.
- Logical access to the IT systems and the granting of functional authorisations are strictly and systematically regulated through appropriate workflows and measures. The principle of minimum information applies, i.e. employees are only informed about transactions to the extent that this is necessary for their work.
- All material controls are regularly documented and examined for effectiveness.
- 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.

With regard to the 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.

## REPORT ON INDIVIDUAL RISKS

### General market risks

We monitor and analyse the macroeconomic data and economic and industrial developments that are particularly relevant to our business on a continuous basis. Based on these observations, our operating divisions define, prepare and then implement the adjustments and measures that are necessary both in order to avert potential risks and, more importantly, to exploit opportunities that present themselves. The specific risks that could arise from the overall economic environment or the industry are presented in the report on expected developments.

### Financial and economic risks

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

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

Financial risk is managed globally by 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 notes 6 and 11 of the notes to the consolidated financial statements. There is no significant concentration of inventory risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2013.

*Management of default and credit risks:* Default and credit risks describe the uncertainty that a contractual party will fail to meet its contractual obligations. In order to minimise these risks, our guidelines state that business relationships are only entered into with creditworthy business partners and, if necessary, subject to the provision of collateral. The main receivables from customers are protected by trade credit insurance. The default risk for the remaining uninsured receivables is controlled by way of a limit system and reporting. Compliance with limits is monitored centrally. We counteract potential default risks 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, too, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established based on the ratings issued by international rating agencies and the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible as the Group 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 default risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2013.

*Management of liquidity risks:* In order to ensure our permanent solvency and financial flexibility, we control short, medium and long-term liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and through a medium and short-term liquidity projection. The financing requirements of Group companies are generally in full by internal lending. This allows the cost effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. We utilise international cash pooling systems in order to reduce external finance volumes and optimise our financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit this in exceptional cases. There is no significant concentration of liquidity risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2013. Further information on the management of liquidity risks can be found in note 53 of the notes to the consolidated financial statements.

*Management of exchange rate risks:* In the course of our global business activities, we are exposed to exchange rate risk arising from transactions in foreign currencies. Currency futures contracted with banks with good credit ratings are employed as hedging transactions. We hedge exchange rate risk over a period of twelve months, though hedges can extend beyond this horizon in exceptional cases. The required hedging volume is first determined by netting receivables and liabilities through-out the Group for each currency pair. As a matter of principle, the remaining exchange rate risk is initially hedged at a level of 70 % on the basis of past experience. From the conclusion of the contract, it is demonstrated periodically that possible currency fluctuations in the planned hedged item are offset by the opposing effects of the hedge throughout the term of the contract. The volume identity of planned and recognised foreign currency revenues for transactions already settled is also reviewed and documented at the end of each reporting period. There is no significant concentration of exchange rate risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2013. Further information on the management of exchange rate risks can be found in section 53 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 limited by way of fixed-interest loan agreements. There were no changes in interest risk positions or the risk management and measurement methods in 2013. Further information on the management of interest rate risks can be found in section 53 of the notes to the consolidated financial statements.

*Management of other price risks:* These risks result from changes in the price of purchased commodities used in our value chain, such as raw materials and supplies. As part of our risk management activities, we identify the volume of risk with the aim of hedging it. Among other things, we use capital market-oriented financial products for this purpose. The commodity of brass is currently hedged using commodity swaps with banks with good credit ratings. The requirements in accordance with production planning are generally hedged at a level of 70 % for the coming year and 30 % for the subsequent year on the basis of past experience. There was no change in the management of brass price risks in 2013. 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 2013, the volume of hedges was covered by corresponding hedged items on a monthly basis. There is no significant concentration of other price risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2013. Further information on the management of commodity price risks can be found in section 53 of the notes to the consolidated financial statements.

*Impact of the planned financial transaction tax:* Together with ten other EU member states, Germany has agreed to levy a tax on transactions involving financial instruments. The aim of the new tax, which is also contained in the coalition agreement of the new German Federal Government, is to ensure that the financial sector participates in the cost of the financial and economic crisis. Our exchange rate hedging activities in particular mean that we would be affected by the introduction of this new tax, either directly by way of classification as a financial institution or indirectly as a result of banks passing on the tax burden and the reduced availability of derivatives. All in all, the financial transaction tax would increase the cost of hedging financial risks.

### Personnel risks

Our future success also depends on the extent to which we succeed in appointing, integrating and retaining talented and capable specialists and managers in the long term. The human resources instruments we use take these risks into account and help to safeguard new talents and expertise on a targeted basis. For example, our internal Global Academy offers a wide range of management and personality training programmes and tutorials for developing subject-specific skills and expertise. With our workplace design and a wide range of health and safety measures, we are also addressing the demographic development of a workforce that is set to become progressively older in the medium term.

We have pension and pension-related obligations for the provision of retirement benefits to our employees. Changes in the relevant measurement parameters, such as interest rates, mortality rates and the rate of salary growth, may lead to a change 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 were not recognised within the defined corridor under the corridor method that applied until 31 December 2012, have been required to be adjusted against equity since 1 January 2013. Provisions for pensions are described in note 26 of the notes to the consolidated financial statements.

### Legal risks

Although we act in a responsible and legally compliant manner as a matter of principle, as an internationally active company we are still exposed to legal risks.

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

The material individual legal risks to which we are exposed are as follows:

On 16 September 2013, the European Court at first instance announced its verdict on the action filed by the affected Villeroy & Boch companies against the decisions by the EU in the so-called bathroom case. The Court ruled that the decision by the European Commission was invalid in some respects but did not reduce the amount of the fines imposed. Villeroy & Boch has lodged an appeal against this verdict. Sufficient provisions were recognised for the costs of these legal proceedings. The fines in the amount of € 71.5 million were paid in 2010.

### Tax risks

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

In 2013, 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. This audit is also still in progress. A provision has been recognised for potential risks.

## Procurement market risks

In light of the forecast slight economic upturn and the risks arising from the sovereign debt crisis and the financial sector, 2014 is again expected to see a considerable range in terms of the potential development of the economy and market prices. Subject to this caveat, we expect procurement prices to generally rise in line with inflation. However, some primary products for the raw materials used in our ceramic and plastic products are expected to come under increasing price pressure in 2014. Procurement costs in Asia are also set to rise further in line with the development of local factor costs.
Energy prices will be affected by two developments in particular: Firstly, the agreement of a further increase in the EEG (German Renewable Energy Act) charge will lead to a clear double-digit rise in electricity prices. The additional cost to us is estimated at just under € 1 million. Secondly, the state-controlled increase in domestic gas prices in Romania is expected to result in additional expenses for us in the six-digit euro range.
Alongside price risks, we are subject to a range of additional procurement risks. In the critical area of production supply in particular, this includes the risk that the materials delivered to us will be of poor quality, as well as the risk of supplier insolvency or other supply interruptions. Suitable countermeasures for these risks have been defined as part of risk management, e. g. the permanent monitoring of markets and the financial stability of critical suppliers and the definition and implementation of procurement strategies. This also includes preventing single sourcing scenarios to the greatest possible extent. However, in some exceptional cases – including the critical area of ceramic raw materials – the current circumstances are such that there are no alternative sources available on the market.
Finally, the volatility in the market prices of many raw materials which has been observed recently, and which is expected to continue, could embody risks for our procurement prices. Phases of rapidly rising market prices could lead to a deterioration in our cost position, while we may be unable to benefit from phases of falling market prices, at least in full, on account of having locked in prices for the medium or long term.

## Sales market risks

Even in light of the upturn in global economic development, there are numerous risks that could endanger our revenue targets. In the financial sector, for example, the further reduction in risk positions on bank balance sheets could have a dampening effect on the economy that more than offsets the growth impetus from the relaxation in monetary policy. The sustained credit crunch in the Mediterranean EU member states could expand to become a significant sales risk, as could the end of the ultra-expansive monetary policy in a number of states.
Irrespective of this, the reduction in unit labour costs in Greece, Ireland, Portugal and Spain has led to an improvement in competitiveness, and hence rising purchasing power. Similar progress has yet to be observed in France and Italy, however, which is why increased sales risks are anticipated in both of these important markets for us.
Growth potential in the USA is being limited by the necessary reduction in the budget deficit.
In addition to general economic sales risks, our Tableware Division is exposed to the risk of change in consumer demand and consolidation in the retail sector. In the Bathroom and Wellness Division, sales risks could arise from the development of new construction activity and the fact that resources that would otherwise have been committed to bathroom renovations are being redirected to other areas, such as energy efficiency, as a result of government growth incentives.

## Product development risks

As our competitive position and our revenue and earnings development depend to a large extent on the development of commercially successful products and production technologies, we invest significant resources in research and development. However, protracted development processes, technological challenges, regulatory requirements and tough competition mean there is no guarantee that all of the products in our present or future development pipeline will reach the planned market maturity and prove to be commercially successful.
We have implemented an adequate organisational structure to ensure the effective and efficient use of the funds invested in research and development.

### Production and environmental risks

We are exposed to the risk of operational failures and environmental pollution caused by production.

The Management Board bears the ultimate responsibility for environmental protection. One or more officers are appointed to the areas of water protection, waste and emission protection at every site, even where this is not required by law. Cross-site tasks are performed by Environmental Controlling as the service centre for all matters relating to the environment. Environmental Controlling identifies ecological risks and economic opportunities and makes them transparent. We have also formulated quantifiable environmental targets for all production sites around the world, which we review on a continuous basis.

The use of fossil fuels in our furnaces produces greenhouse gases, among other things. Measures have been integrated into the respective processes to reduce and, in some cases, eliminate these emissions. In addition, the ceramic waste and waste water that occurs as a by-product of the manufacturing process is largely reused within the same process, thereby limiting the environmental impact to a level that is consistent with current technical standards.

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

### Risks from the use of information technology

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

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

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

We apply general standards with regard to IT management, data protection and data security in all key aspects. This includes the ITIL (IT Infrastructure Library), organisational and process specifications for IT service management and the BSI standard for information security management. Accordingly, in 2011 the external IT service provider responsible for data centre operation was certified in accordance with ISO 27001. This certification takes into account the provision of redundant IT systems, version-driven backup procedures, virus protection software, access controls and encryption systems.

### Overall risk position

Group-wide risk management consolidates and aggregates the risks reported by the two divisions, the central functions and the Group companies. The Management Board of Villeroy & Boch AG regularly examines the risk situation of

the Group. Our risk profile did not change materially in 2013. The Management Board has satisfied itself as to the effectiveness of the risk management system.
There are no risks that could endanger the continued existence of our company. The aforementioned individual risks are managed within the risk management system. Sufficient risk cover is available for the individual risks. We do not expect the risks to which our Group is exposed to have a material influence on its net assets, financial position and results of operation.

## REPORT ON OPPORTUNITIES

### Growth markets

Our activities in the saturated markets of Europe 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.
We still consider China and Russia to be the markets offering the greatest growth potential for us. Both markets are characterised by a growing middle and upper class of keen consumers with strong brand affinity. In 2012, the rapid establishment of a distribution network in Russia was accelerated thanks to the creation of a separate organisation including a local logistics platform. In the year under review, we established a dedicated warehouse in China for our Bathroom and Wellness products, which means that we can now also reach smaller and medium-sized customers and satisfy time-critical orders at short notice. With the simultaneous expansion of our field sales team, we are aiming to significantly expand the share of revenue attributable to our retail business.
To support our business growth, we established a dedicated organisation based in Singapore with responsibility for the entire APAC region in 2013. The management team for the APAC region is responsible for both divisions and reports directly to the Management Board. This reorganisation will allow us to respond more quickly and flexibly to local requirements in future. In the medium term, we are aiming to increase the revenue share attributable to the APAC region from the current level of 7 % to 15 %.

### Sales and licence partnerships

Sales partnerships in international markets are a key element of our strategic development as a company. In spring 2013, we launched our sales partnership for the North American market with the Japanese sanitary ware group Toto. This will provide us with direct access to a broad customer base and open up considerable synergies in the areas of sales, service and logistics. With the cooperation having been in place for around a year, our sanitary ware products are now on display in approximately 165 Toto showrooms, while the number of wholesalers placing regular orders has risen from 20 to 65.
In India, we have been working in partnership with Genesis Luxury Fashion since June 2013 and have formed a joint venture for the exclusive distribution of our Tableware products in India. Genesis is one of the most successful companies for luxury products in India. It already works with a number of premium and luxury brands and has the expertise and knowledge of the market to ensure the successful distribution of our products, too. The first Villeroy & Boch retail store in India opened in Mumbai in August 2013. A further 15 stores are set to be opened in high-end shopping centres between now and 2018.
Our opportunities are based on our strong brand and the continuous development of our 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 our product range beyond our current core portfolio. The aim is to accelerate the establishment of complete themed ranges in the areas of cooking, eating and living.

### Hotel and project business

We believe that there is good potential for increasing the sales volume in our 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 our industrial network and the optimisation of our cost structures in recent years, we believe that we are well equipped to increase both revenues and earnings in our price-sensitive project business in future.

### Online activities

All marketing activities are aimed at continuing to provide our customers 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. Since 2013, we have been intensifying the level of investment in the expansion of our online presence with the aim of significantly increasing the number of visitors to our website around the world and ultimately retaining these visitors as customers or fans on social networks.
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.

### Efficiency improvements in production and administration

Improvements are still being implemented on the back of our 2009 industrial restructuring programme. We are striving to achieve a further continuous improvement in our productivity with a view to ensuring the ongoing optimisation of the flow rate in our production process, an increase in the first choice share in the Tableware Division and a general reduction in the reject rate.
We also see potential for optimisation in the area of administration, the realisation of which will lead to further significant cost savings.

### Non-operating earnings potential

Outside of our operating business, we believe that there is earnings potential in the development and marketing of properties that are no longer required for operating purposes.
An agreement on the sale of the plant properties in Gustavsberg (Sweden) was signed in June 2013. The first tranche was realised in the past financial year, resulting in non-recurring income of € 7.0 million, and the second major tranche is expected to be realised in 2014. The total income from the disposal of the plant properties is expected to be up to € 17 million.
The marketing of our property in Luxembourg still offers additional earnings potential. As this requires its conversion from industrial to residential development and the accompanying political discussion is proving to be lengthy, however, it is difficult to estimate the realisation date at present. Despite this, we believe that the development of this site continues to offer considerable earnings potential.

## REPORT ON EXPECTED DEVELOPMENTS

With regard to the 2014 financial year, it is our opinion that the economy has now passed its low point and that economic development in our key sales markets will see an improvement, particularly in the euro zone. As the pace of growth in the emerging economies is slowing, however, we expect to see moderate economic growth on the whole.
Risks for the economy will continue to arise from the US debt limit, the unresolved sovereign debt crisis in the euro zone and uncertainty on the financial markets as a result of the asset quality review of the main EU banks by the European Central Bank, which is scheduled for 2014, and the next bank stress test.

### Revenue, earnings and investments at the Group

In light of the improvement in the macroeconomic conditions and the momentum provided by investments in the high-growth markets of Russia and Asia, we are aiming to increase consolidated revenue by between 3 % and 5 % in the 2014 financial year based on our current assessment of the market.
We expect our operating earnings growth (EBIT) in 2014 to be slightly higher than the forecast revenue growth, i. e. in excess of 5 %. Further efficiency improvements in production, which will take the form of process optimisation and standardisation measures and reduced reject rates, will be accompanied by efficiency improvements in administration and improvements to our IT systems.
We also expect to generate non-recurring income from the agreements that have already been concluded for the sale of additional parts of our plant properties in Gustavsberg, Sweden.
Our return on net operating assets is expected to remain unchanged year-on-year in 2014, with the effects of the forecast earnings growth being offset by the increase in the asset volume as a result of substantially higher investments.
Investments in property, plant and equipment in the 2014 financial year will be considerably higher than the prior-year figure of € 26 million, and hence well above the level of depreciation. Key aspects of our investment programme include the construction of a new plant site in Sweden, investments in connection with the industrial efficiency programme and the further expansion of our retail activities. Around 78 % of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 22 %.

## OTHER DISCLOSURES

### 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.

### Declaration on corporate governance

With regard to the declaration by the Management Board required by section 289a HGB, reference is made to the version printed in the Corporate Governance Report contained in the 2013 Annual Report, which is also available online at www.villeroy-boch.com/corporate-governance.

## REMUNERATION REPORT

### 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 financial targets (return on net operating assets, earnings before interest and taxes, earnings before taxes) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2013 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.

## 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, 27 January 2014

Frank Göring

Jörg Wahlers

Andreas Pfeiffer

Nicolas Luc Villeroy



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

as of 31 Dec 2013

in € million

| Assets | Notes | As of 31/12/2013 | As of 31/12/2012 (Restated) | As of 01/01/2012 (Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 5 | 38.1 | 38.0 | 37.4 |
| Property, plant and equipment | 6 | 141.3 | 145.1 | 151.1 |
| Investment property | 7 | 13.1 | 14.0 | 15.5 |
| Investments accounted for using the equity method | 8 | 1.4 | 1.0 | 0.9 |
| Other financial assets | 9 | 14.1 | 9.1 | 10.2 |
| | | **208.0** | **207.2** | **215.1** |
| Other non-current assets | 13 | 0.0 | 0.1 | 0.4 |
| Deferred tax assets | 10 | 48.8 | 53.4 [1), 2)] | 40.9 [1), 2)] |
| | | **256.8** | **260.7** | **256.4** |
| **Current assets** | | | | |
| Inventories | 11 | 148.8 | 150.9 | 146.0 |
| Trade receivables | 12 | 102.1 | 108.4 | 106.3 |
| Other current assets | 13 | 21.0 | 20.6 | 19.1 |
| Income tax receivables | 14 | 2.9 | 2.9 | 2.2 |
| Cash and cash equivalents | 15 | 60.3 | 55.3 | 59.2 |
| | | **335.1** | **338.1** | **332.8** |
| **Non-current asset held for sale** | **16** | **7.7** | **10.0** | **11.4** |
| **Total assets** | | **599.6** | **608.8** | **600.6** |

## as of 31 Dec 2013

in € million

| Equity and Liabilities | Notes | As of 31/12/2013 | As of 31/12/2012 (Restated) | As of 01/01/2012 (Restated) |
|---|---|---|---|---|
| **Equity attributable to Villeroy&Boch AG shareholders** | | | | |
| Issued capital | 17 | 71.9 | 71.9 | 71.9 |
| Capital surplus | 18 | 193.6 | 193.6 | 193.6 |
| Treasury shares | 19 | –15.0 | –15.0 | –15.0 |
| Retained earnings | 20 | –57.4 | –72.1 [2] | –75.2 [2] |
| Valuation surplus | 21 | –32.8 | –29.2 [1] | 0.3 [1] |
| | | **160.3** | **149.2** | **175.6** |
| **Equity attributable to minority interests** | **22** | **0.1** | **0.1** | **0.1** |
| **Total equity** | | **160.4** | **149.3** | **175.7** |
| **Non-current liabilities** | | | | |
| Provisions for pensions | 26 | 182.7 | 194.9 [1] | 149.7 [1] |
| Non-current provisions for personnel | 27 | 15.2 | 16.7 [2] | 14.9 [2] |
| Other non-current provisions | 28 | 1.4 | 3.0 | 5.0 |
| Non-current financial liabilities | 29 | 25.0 | 50.0 | 50.0 |
| Other non-current liabilities | 30 | 2.7 | 3.4 | 3.6 |
| Deferred tax liabilities | 10 | 11.5 | 11.0 | 12.1 |
| | | **238.5** | **279.0** | **235.3** |
| **Current liabilities** | | | | |
| Current provisions for personnel | 27 | 12.9 | 12.6 | 12.0 |
| Other current provisions | 28 | 21.3 | 27.7 | 32.6 |
| Current financial liabilities | 29 | 26.2 | 1.3 | 1.3 |
| Other current liabilities | 30 | 75.2 | 73.9 | 76.7 |
| Trade payables | 31 | 60.7 | 60.9 | 61.4 |
| Income tax liabilities | | 4.4 | 4.1 | 4.4 |
| | | **200.7** | **180.5** | **188.4** |
| **Liabilities directly associated with the assets classified as held for sale** | | **–** | **–** | **1.2** |
| **Total liabilities** | | **439.2** | **459.5** | **424.9** |
| **Total equity and liabilities** | | **599.6** | **608.8** | **600.6** |

[1] Restatement of previous year values as a result of changes in accounting of defined benefit obligation (cp. Notes 26)
[2] Restatement of previous year values as a result of changes in accounting of partial retirment (cp. Notes 27)

## CONSOLIDATED INCOME STATEMENT

### for the period 1 Jan to 31 Dec 2013

in € million

| | Notes | 01/01/2013 –31/12/2013 | 01/01/2012 –31/12/2012 |
|---|---|---|---|
| **Revenue** | **32** | **745.3** | **743.6** |
| Costs of sales | 33 | –421.3 | –420.6 |
| **Gross profit** | | **324.0** | **323.0** |
| Selling, marketing and development costs | 34 | –249.5 | –244.1 |
| General administrative expenses | 35 | –46.6 | –47.5 |
| Other operating income | 36 | 27.0 | 17.1 |
| Other operating expenses | 37 | –12.1 | –18.1 |
| Result of associates accounted for using the equity method | 38 | 0.4 | 0.5 |
| **Operating result (EBIT)** | | **43.2** | **30.9** |
| (Operating result before non-recurring income from real estate sale) | | (36.2) | (30.9) |
| Interest income | 39 | 0.9 | 1.0 |
| Other finance income | 39 | 0.2 | 0.2 |
| Interest expenses | 40 | –10.1 | –13.7 |
| Other finance expenses | 40 | –0.4 | –0.0 |
| **Financial result** | | **–9.4** | **–12.5** |
| **Earnings before taxes** | | **33.8** | **18.4** |
| Income taxes | 41 | –9.9 | –3.7 |
| **Group result** | | **23.9** | **14.7** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 23.9 | 14.7 |
| Minority interests | 42 | 0.0 | 0.0 |
| | | **23.9** | **14.7** |
| **Earnings per share** | | **In €** | **In €** |
| Earnings per ordinary share | 43 | 0.88 | 0.53 |
| Earnings per preference share | 43 | 0.93 | 0.58 |

During the reporting period there were no dilution effects.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 Jan to 31 Dec 2013

in € million

| | 2013 | 2012 |
|---|---|---|
| **Group result** | **23.9** | **14.7** |
| **Other comprehensive income** | | |
| **Items to be reclassified to profit or loss:** | | |
| Gains or losses on cash flow hedge | –1.6 | 3.2 |
| Unrealised exchange differences on translation | –0.1 | 0.8 |
| Deferred income tax effect on items to be reclassified to profit or loss | –1.0 | 0.0 |
| **Items not to be reclassified to profit or loss:** | | |
| Actuarial gains or losses on defined benefit plans | –0.4 | –49.8 |
| Deferred income tax effect on items not to be reclassified to profit or loss | 0.2 | 14.6 |
| **Total other comprehensive income** | **–2.9** | **–31.2** |
| **Total comprehensive income net of tax** | **21.0** | **–16.5** |
| Thereof attributable to: | | |
| Villeroy & Boch AG shareholders | 21.0 | –16.5 |
| Minority interests | 0.0 | 0.0 |
| | **21.0** | **–16.5** |

## CONSOLIDATED STATEMENT OF EQUITY

for the period 1 Jan to 31 Dec 2013

in € 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 of 01/01/2012** | **71.9** | **193.6** | **–15.0** | **–75.2** | **0.3** | **175.6** | **0.1** | **175.7** |
| Group result | | | | 14.7 | | 14.7 | 0.0 | 14.7 |
| Other comprehensive income | | | | –1.7 | –29.5 | –31.2 | | –31.2 |
| **Total comprehensive income net of tax** | | | | **13.0** | **–29.5** | **–16.5** | **0.0** | **–16.5** |
| Dividend payments | | | | –9.9 | | –9.9 | | –9.9 |
| **As of 31/12/2012** | **71.9** | **193.6** | **–15.0** | **–72.1** | **–29.2** | **149.2** | **0.1** | **149.3** |
| **As of 01/01/2013** | **71.9** | **193.6** | **–15.0** | **–72.1** | **–29.2** | **149.2** | **0.1** | **149.3** |
| Group result | | | | 23.9 | | 23.9 | 0.0 | 23.9 |
| Other comprehensive income | | | | 0.7 | –3.6 | –2.9 | | –2.9 |
| **Total comprehensive income net of tax** | | | | **24.6** | **–3.6** | **21.0** | **0.0** | **21.0** |
| Dividend payments | | | | –9.9 | | –9.9 | | –9.9 |
| **As of 31/12/2013** | **71.9** | **193.6** | **–15.0** | **–57.4** | **–32.8** | **160.3** | **0.1** | **160.4** |

## CONSOLIDATED CASH FLOW STATEMENT

for the period 1 Jan to 31 Dec 2013

in € million

| | Notes | 01/01/2013 –31/12/2013 | 01/01/2012 –31/12/2012 |
|---|---|---|---|
| Group result | | 23.9 | 14.7 |
| Depreciation of non-current assets | 44 | 26.3 | 27.0 |
| Change in non-current provisions | | –21.8 | –14.9 |
| Profit from disposal of fixed assets | | –1.6 | –2.0 |
| Change in inventories, receivables and other assets | | 11.6 | –9.4 |
| Change in liabilities, current provisions and other liabilities | | –7.5 | 0.0 |
| Taxes paid/received in the financial year | | –2.2 | –2.6 |
| Interest paid in the financial year | | –3.8 | –4.2 |
| Interest received in the financial year | | 0.7 | 0.9 |
| Other non-cash income/expenses | 48 | 6.0 | 11.1 |
| **Cash Flow from operating activities** | **48** | **31.6** | **20.6** |
| Purchase of intangible assets, property, plant and equipment | | –26.4 | –26.4 |
| Investment in non-current financial assets and cash payments | | –0.1 | 0.0 |
| Cash receipts from disposals of Gustavsberg´s assets | | 5.4 | – |
| Cash receipts from disposals of fixed assets | | 5.6 | 12.0 |
| **Cash Flow from investing activities** | **49** | **–15.5** | **–14.4** |
| Change in financial liabilities | | –0.1 | –0.1 |
| Dividend payments | 23 | –9.9 | –9.9 |
| **Cash Flow from financing activities** | **50** | **–10.0** | **–10.0** |
| **Sum of cash flows** | | **6.1** | **–3.8** |
| | | | |
| **Balance of cash and cash equivalents as of 1 Jan** | | **55.3** | **59.2** |
| Change based on total cash flows | | 6.1 | –3.8 |
| Changes due to exchange rates | | –1.1 | –0.1 |
| **Net increase in cash and cash equivalents** | | **5.0** | **–3.9** |
| **Balance of cash and cash equivalents as of 31 Dec** | **15+51** | **60.3** | **55.3** |

# NOTES

## GENERAL INFORMATION

Villeroy & Boch AG, Saaruferstrasse 1–3, Mettlach, Germany, 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 and, since 27 November 2013, the SDAX operated by Deutsche Börse AG.

In line with section 315 of the HGB (German Commercial Code), the consolidated financial statements as at 31 December 2013 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 2013 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 (€ 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 27 January 2014. 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 POLICIES

#### Intangible assets

Acquired intangible assets are capitalised at the cost necessary to bring the asset to its working condition. Internally generated intangible assets are only capitalised in the year of their creation if they meet the requirements of IAS 38. Initial measurement is at cost including attributable overheads. Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general and administrative expenses.

Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price (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 | 5–12 |
| 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 53 and, depending on the category chosen, measured either at amortised cost or fair value. Financial instruments are derecognised when the claim for settlement expires.

### Inventories

Inventories are carried at the lower of cost or net realisable value. The cost of inventories includes the directly allocable direct costs (e. g. material and labour costs allocable to construction) and overheads incurred in the production process. 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, such as those arising from the change in the discounting factor or assumed mortality rates, are recognised in the revaluation surplus. Of the annual pension costs, the service cost is reported in staff costs and the interest cost in net other finance costs. As at 1 January 2013, accounting for defined benefit plans was retrospectively switched to the new IAS provisions in line with regulations (see "Modifications due to the adoption of accounting principles").

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. Current and deferred taxes are recognised in income unless they are associated with items taken directly to equity. In these cases, the corresponding taxes are also recognised directly in equity.
Current tax expense is determined on the basis of the taxable income for the financial year. Taxable income differs from the result for the year reported in the statement of comprehensive income, as it excludes those income and expense items that are only taxable or tax-deductible in prior/subsequent periods or not at all. The current tax liabilities of the Villeroy & Boch Group are recognised on the basis of the applicable tax rates.
Deferred taxes are 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.

### 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.

The new regulations affecting the Villeroy & Boch Group primarily relate to the accounting treatment of pensions and partial retirement obligations in accordance with IAS 19 "Employee Benefits".

The accounting method for defined benefit pension obligations was retrospectively changed as follows: Actuarial gains and losses are now recognised directly in the revaluation surplus. The corridor approach that was previously permitted was applied for the last time in the consolidated financial statements for the year ended 31 December 2012. The effects resulting from the change in accounting treatment are presented in note 26.

The accounting treatment of partial retirement programmes has been altered as follows: Previously, the top-up amounts paid by the company were classified as termination benefits and a corresponding provision was recognised in full as soon as the obligation arose. Based on the more specific definition set out in the revised IAS 19, these payments are now classified as other long-term employee benefits. Accordingly, the top-up amount is recognised as a liability in the proportionate amount earned up until the end of the respective reporting period. The effects resulting from the change in accounting treatment are presented in note 27.

The IASB has created uniform regulations for fair value measurement in IFRS 13 "Fair Value Measurement". IFRS 13 regulates the measurement of fair value in cases where other standards allow or require measurement at fair value. While the scope of this regulation is virtually unchanged for financial instruments, there are now precise regulations for other items such as investment property, intangible assets and property, plant and equipment. As the Villeroy & Boch Group does not exercise the fair value measurement options, IFRS 13 does not extend its financial statements.

The other regulations effective for the first time in the 2013 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 62.

## 2. BASIS OF CONSOLIDATION

In addition to Villeroy & Boch AG, the consolidated financial statements include all 12 (previous year: 16) German and 43 (previous year: 42) foreign subsidiaries in which Villeroy & Boch AG directly or indirectly holds a majority of the voting rights. The changes to the Villeroy & Boch Group are as follows:

VILLEROY & BOCH AG AND CONSOLIDATED COMPANIES

| | Germany | Abroad | Total |
|---|---|---|---|
| As at 1 Jan 2013 | 17 | 42 | 59 |
| Additions due to new companies (a) | – | 2 | 2 |
| Disposals due to mergers (b) | –4 | –1 | –5 |
| **As at 31 Dec 2013** | **13** | **43** | **56** |

### (a) Additions due to new foundations

On 19 April 2013, Villeroy & Boch Asia Pacific PTE. LTD., Singapore, was formed as a regional administrative office for the Asia-Pacific area. Since 6 August 2013, the newly founded Villeroy & Boch MC S.à.r.l. based in Monaco markets tableware products in the Principality of Monaco.

### (b) Disposals due to mergers

As part of the continuous optimisation of the Group's investment structure, four property companies based in Germany were merged with Villeroy & Boch AG in March 2013.

NAME

in %

| | Registered office | Activity | Interest |
|---|---|---|---|
| Erste V&B asset management GmbH & Co. KG. | Mettlach, Germany | Real estate | 100 |
| Zweite V&B asset management GmbH & Co. KG | Mettlach, Germany | Real estate | 100 |
| Dritte V&B asset management GmbH & Co. KG | Mettlach, Germany | Real estate | 100 |
| V&B asset management Holding GmbH & Co. KG | Mettlach, Germany | Real estate | 100 |

The holding company International Material LLC, Delaware (USA), was merged with its parent company and sole shareholder, Villeroy & Boch USA Inc., New York (USA) on 16 December 2013.

### Other disclosures

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

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

In Germany the Villeroy & Boch Group exercises the options under section 264(3) HGB for the audit and disclosure of annual financial statements for the separate financial statements of Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen, and Villeroy & Boch Creation GmbH, Mettlach.

An audit by an external auditor was waived in accordance with section 479A of the 2006 UK Companies Act for Villeroy & Boch (UK) Ltd., London, entered in the commercial register of England and Wales under 00339567.

The two Dutch companies Ucosan B.V., Roden, and Villeroy & Boch Tableware B.V., Osterhout, are included in the consolidated financial statements of Villeroy & Boch AG in accordance with section 2:403 of the Dutch Civil Code.

## 3. CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group's consolidated financial statements are prepared in accordance with uniform Group accounting principles and 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 applied in the previous year have been 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 21a). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21b). 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

€ 1 =

| | | Exchange rate at end of reporting period | | Average exchange rate | |
|---|---|---|---|---|---|
| | | **2013** | **2012** | **2013** | **2012** |
| Mexican peso | MXN | 18.07 | 17.18 | 17.00 | 17.06 |
| Swedish krona | SEK | 8.86 | 8.58 | 8.64 | 8.73 |
| US dollar | USD | 1.38 | 1.32 | 1.33 | 1.29 |
| Hungarian forint | HUF | 297.04 | 292.30 | 297.14 | 289.53 |

# NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 5. INTANGIBLE ASSETS

Intangible assets developed as follows:

| In € million | Concessions, patents, licences and similar rights | Goodwill | Total |
|---|---|---|---|
| **Accumulative cost** | | | |
| **As at 1 Jan 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 1 Jan 2013** | **18.7** | **40.1** | **58.8** |
| Currency adjustments | –0.3 | –0.1 | –0.4 |
| Additions | 2.2 | – | 2.2 |
| Disposals | –1.0 | – | –1.0 |
| **As at 31 Dec 2013** | **19.6** | **40.0** | **59.6** |
| **Accumulative amortisation and impairment** | | | |
| **As at 1 Jan 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 1 Jan 2013** | **12.0** | **8.8** | **20.8** |
| Currency adjustments | –0.1 | – | –0.1 |
| Amortisation | 1.2 | – | 1.2 |
| Disposals | –0.4 | – | –0.4 |
| **As at 31 Dec 2013** | **12.7** | **8.8** | **21.5** |
| **Residual carrying amounts** | | | |
| **As at 31 Dec 2013** | **6.9** | **31.2** | **38.1** |
| As at 31 Dec 2012 | 6.7 | 31.3 | 38.0 |

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 € 1.4 million (previous year: € 1.7 million). New licences worth € 0.4 million were acquired in the past financial year (previous year: € 0.7 million). Amortisation on software amounted to € 0.7 million in the reporting year (previous year: € 0.2 million).

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 € 3.3 million (previous year: € 2.9 million). Key money of € 0.5 million was acquired in the financial year and key money of € 0.1 million was sold.

As at the end of the reporting period, $CO_2$ emission allowances were capitalised in the amount of € 0.6 million (previous year: € 0.8 million). This carrying amount was offset by equal liability items.

Goodwill in the amount of € 31.2 million (previous year: € 31.3 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. Adjusted for currency effects, the carrying amount dropped by € 0.1 million. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 52.

Capitalised goodwill was tested for impairment. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2017 were discounted using an interest rate before income tax of 7.6 % p.a. (previous year: 8.1 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 7.0 % p.a. (previous year: 7.4 % 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 € –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:

In € 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 Jan 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 1 Jan 2013** | **184.2** | **326.5** | **94.3** | **9.6** | **614.6** |
| Currency adjustments | –2.2 | –4.3 | –1.4 | –0.3 | –8.2 |
| Additions | 1.9 | 6.3 | 5.6 | 10.4 | 24.2 |
| Disposals | –0.5 | –10.8 | –7.4 | 0.0 | –18.7 |
| Reclassifications | 0.0 | 3.8 | 0.6 | –4.9 | –0.5 |
| **As at 31 Dec 2013** | **183.4** | **321.5** | **91.7** | **14.8** | **611.4** |
| **Accumulative depreciation and impairment** | | | | | |
| **As at 1 Jan 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 |
| Disposals | –0.5 | –18.8 | –6.9 | – | –26.2 |
| Reclassifications | –7.6 | 0.0 | 0.0 | – | –7.6 |
| **As at 1 Jan 2013** | **117.5** | **272.8** | **79.2** | **–** | **469.5** |
| Currency adjustments | –0.9 | –3.6 | –1.3 | – | –5.8 |
| Depreciation | 4.9 | 14.0 | 5.4 | – | 24.3 |
| Disposals | –0.4 | –10.4 | –7.0 | – | –17.8 |
| Reclassifications | 0.0 | –0.1 | 0.0 | – | –0.1 |
| **As at 31 Dec 2013** | **121.1** | **272.7** | **76.3** | **–** | **470.1** |
| **Residual carrying amounts** | | | | | |
| **As at 31 Dec 2013** | **62.3** | **48.8** | **15.4** | **14.8** | **141.3** |
| As at 31 Dec 2012 | 66.7 | 53.7 | 15.1 | 9.6 | 145.1 |

The Villeroy & Boch Group acquired property, plant and equipment in the amount of € 24.2 million (previous year: € 24.6 million). In the Bathroom and Wellness Division, these acquisitions focused on moulds for new products in the Netherlands (wellness), new facilities for sanitary ware production in Germany, Romania and Hungary and the continuation of the planned capacity expansion in Thailand (sanitary ware). Investments in the Tableware Division mainly involved the optimisation of the distribution network and the infrastructure outside Europe.

The disposals in the financial year in cost of € 18.7 million (previous year: € 26.9 million) and the cumulative depreciation of € 17.8 million (previous year: € 26.2 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 € 0.8 million (€ 0.7 million).

Assets with a residual carrying amount of € 0.4 million (previous year: € 6.1 million) were reclassified from property, plant and equipment to "Non-current assets held for sale" (note 16) in the statement of financial position. This related to the premises available for sale of the discontinued manufacturing plant in Lerma, Mexico. The plant property in Gustavsberg, Sweden, and property of the former branch in Frankfurt/Main were reclassified in the previous year.

In the financial year, government grants in the amount of € 0.2 million (previous year: € 0.7 million) were offset against the cost of property, plant and equipment. Deferred income (see note 30) includes government grants in the amount of € 0.6 million as at the end of the reporting period (previous year: € 0.7 million). € 0.1 million of this (previous year: € 0.1 million) was reversed to profit or loss.

## Operating leases

In the 2013 financial year, rental expenses under operating leases amounted to € 35.0 million (previous year: € 34.2 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.

Income of € 0.6 million was generated from subletting unused properties with current leases (previous year: € 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 € million | Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| **Future lease payments** | | | |
| As at 31 Dec 2013 | 20.3 | 29.7 | 4.0 |
| As at 31 Dec 2012 | 18.3 | 26.3 | 5.8 |
| **Future sublease income** | | | |
| As at 31 Dec 2013 | 0.5 | 0.2 | – |
| As at 31 Dec 2012 | 0.2 | 0.2 | – |

## 7. INVESTMENT PROPERTY

Investment property developed as follows:

In € million

| | Land | Buildings | Investment property 2013 | Investment property 2012 |
|---|---|---|---|---|
| **Accumulative cost** | | | | |
| **As at 1 Jan** | **0.9** | **90.6** | **91.5** | **97.6** |
| Additions | – | 0.0 | 0.0 | – |
| Disposals | 0.0 | –0.2 | –0.2 | –6.1 |
| **As at 31 Dec** | **0.9** | **90.4** | **91.3** | **91.5** |
| **Accumulative depreciation and impairment** | | | | |
| **As at 1 Jan** | **–** | **77.5** | **77.5** | **82.0** |
| Depreciation | – | 0.8 | 0.8 | 0.8 |
| Disposals | – | –0.1 | –0.1 | –5.3 |
| **As at 31 Dec** | **–** | **78.2** | **78.2** | **77.5** |
| **Residual carrying amounts** | | | | |
| **As at 31 Dec** | **0.9** | **12.2** | **13.1** | **14.0** |

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

According to appraisals and current land value tables, the market value of properties capitalised as at 31 December 2013 was € 50.2 million (previous year: € 51.0 million).

The Group generated the following amounts from its investment property:

In € million

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Rental income | 0.5 | 0.5 |
| Property management and similar expenses | –0.3 | –0.1 |

Rental income is expected to develop as follows:

In € million

| | Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|
| As at 31 Dec 2013 | 0.5 | 1.8 | 6.6 |
| As at 31 Dec 2012 | 0.5 | 1.9 | 7.1 |

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

The Villeroy & Boch Group accounts for two companies (previous year: one company) using the equity method in accordance with IAS 28.

On 16 September 2013, Villeroy & Boch AG founded a joint venture based in New Delhi, India, with Genesis Luxury Fashion Pvt. Ltd., New Delhi, India. The joint venture V & B Lifestyle India Private Limited will develop the marketing of tableware products in India.

As in the previous year, a further unlisted company domiciled in Germany is accounted for using the equity method. This company, to which section 313 II no. 4 HGB applies, is not allocated to an operating segment.

The Villeroy & Boch Group holds 50 % of the voting rights in each company.

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

| In € million | 2013 | 2012 |
|---|---|---|
| **As at 1 Jan** | **1.0** | **0.9** |
| Addition due to measurement at recognition | 0.1 | – |
| Pro rata results of associated companies | 0.5 | 0.4 |
| Distribution to the Villeroy & Boch Group | –0.2 | –0.3 |
| **As at 31 Dec** | **1.4** | **1.0** |

## 9. OTHER FINANCIAL ASSETS

Other financial assets include:

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Equity investments (a)** | **2.6** | **2.6** |
| **Loans to:** | | |
| Equity investments (b) | 3.6 | 4.7 |
| Third parties (c) | 7.9 | 1.8 |
| **Total** | **14.1** | **9.1** |

(a) A 10 % holding in share capital of V & B Fliesen GmbH, Merzig, with a carrying amount of € 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 € 1.2 million was made in the financial year. The remaining term of the loan is three years. A guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.

(c) In connection with the gradual sale of the plant property in Gustavsberg, Sweden, (see note 16), a loan receivable was granted to Porslinsfabriksstaden AB, Gustavsberg, Sweden, a company of the IKANO Bostad Group, in 2013. The loan, which is denominated in SEK, has an equivalent value of € 6.2 million as at 31 December 2013 and a term of eight years. Repayments will be made every two years, starting in 2015. A bank guarantee from Svenska Handelsbanken AB (publ), Stockholm, Sweden, in the same amount and matching maturity was deposited as collateral for the loan.

In addition, loans to third parties essentially include mandatory government loans from France and start-up finance for German franchisees.

They mature as follows:

In € million

| | 2013 | 2012 |
|---|---|---|
| **Gross carrying amount as at 31 Dec** | **7.9** | **1.8** |
| period | 7.9 | 1.8 |
| Due within one year | 0.1 | 0.1 |
| Due in two to five years | 5.9 | 0.1 |
| Due in more than five years | 0.4 | – |
| With indefinite maturity | 1.5 | 1.6 |

No material loans were impaired as at the end of the reporting period.

## 10. DEFERRED TAXES

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

In € million

| | 31/12/2013 | 31/12/2012* |
|---|---|---|
| Deferred tax assets from temporary differences | 35.3 | 37.6 |
| Deferred tax assets from tax loss carryforwards | 13.5 | 15.8 |
| **Deferred tax assets** | **48.8** | **53.4** |
| **Deferred tax liabilities** | **11.5** | **11.0** |

* Prior-year figures restated due to IAS 19 amendments

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

In € million

| | | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|---|
| | Note | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
| Intangible assets | 5 | 0.6 | 0.9 | 1.4 | 1.6 |
| Property, plant and equipment | 6 | 6.4 | 6.1 | 3.3 | 2.5 |
| Financial assets | 9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inventories | 11 | 2.6 | 2.6 | 0.0 | 0.0 |
| Other assets | 13 | 0.4 | 0.0 | 1.2 | 1.7 |
| Special tax items | | 0.0 | 0.0 | 4.7 | 4.4 |
| Provisions for pensions | 26 | 21.3 | 22.6 | 0.3 | 0.3 |
| Other provisions | 28 | 3.0 | 4.3 | 0.1 | 0.0 |
| Liabilities | 30 | 1.0 | 1.1 | 0.5 | 0.5 |
| **Deferred taxes from temporary differences** | | **35.3** | **37.6** | **11.5** | **11.0** |

Deferred tax on loss carryforwards is as follows:

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Deferred taxes on German loss carryforwards** | | |
| from corporate income tax and solidarity surcharge | 1.4 | 2.9 |
| from trade tax | 2.2 | 3.6 |
| **Total German share** | **3.6** | **6.5** |
| Deferred taxes on foreign loss carryforwards | 30.3 | 30.1 |
| **Total before write-downs** | **33.9** | **36.6** |
| Write-downs | –20.4 | –20.8 |
| **Deferred taxes on tax loss carryforwards** | **13.5** | **15.8** |

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 on tax loss carryforwards were written down in the amount of € 20.4 million (previous year: € 20.8 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 2014–2018 planning horizon. Villeroy & Boch AG and essentially four subsidiaries abroad reduced their loss carryforward with profits. Furthermore, deferred taxes of € 13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards.

## 11. INVENTORIES

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

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Raw materials and supplies | 20.0 | 21.2 |
| Work in progress | 14.7 | 14.9 |
| Finished goods and goods for resale | 114.1 | 114.8 |
| Advance payments | 0.0 | 0.0 |
| **Carrying amount** | **148.8** | **150.9** |

Inventories are broken down between the individual divisions as follows:

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Bathroom and Wellness | 84.9 | 87.3 |
| Tableware | 63.9 | 63.6 |
| **Total** | **148.8** | **150.9** |

The write-downs on inventories decreased by € 0.9 million in the year under review, from € 17.1 million to € 16.2 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 € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Germany | 18.9 | 19.3 |
| Rest of euro zone | 26.5 | 27.6 |
| Rest of world | 60.4 | 64.4 |
| **Gross carrying amount** | **105.8** | **111.3** |
| Write-downs | –3.7 | –2.9 |
| **Carrying amount** | **102.1** | **108.4** |

€ 66.4 million (previous year: € 71.9 million) relates to the Bathroom and Wellness Division and € 35.7 million (previous year: € 36.5 million) to the Tableware Division.

The receivables are composed as follows:

| In € million | 2013 | 2012 |
|---|---|---|
| **Items neither impaired nor past due** | **80.0** | **79.4** |
| **Not impaired but past due** | **9.5** | **14.3** |
| Customer in default for 90 days or less | 8.2 | 13.7 |
| Customer in default between 91 and 360 days | 0.6 | 0.6 |
| Customer in default for 361 days or more | 0.7 | 0.0 |
| **Impaired but not past due** [1] | **12.1** | **13.8** |
| Receivables due in 90 days or less | 11.9 | 13.5 |
| Receivables due between 91 and 360 days | 0.2 | 0.3 |
| **Impaired and past due** | **4.2** | **3.8** |
| Customer in default for 90 days or less | 1.7 | 1.6 |
| Customer in default between 90 and 360 days | 1.3 | 1.2 |
| Customer in default for 361 days or more | 1.2 | 1.0 |
| **Total gross amount** | **105.8** | **111.3** |
| Write-downs | –3.7 | –2.9 |
| **Net carrying amount** | **102.1** | **108.4** |

[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 € 4.8 million reduction in receivables not impaired but past due is essentially due to a slight improvement in payment patterns within Western Europe. All changes in credit ratings 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.

As at December 2013, a total of € 2.2 million (previous year: € 2.1 million) of impairments related to the impaired and past due category and € 1.5 million (previous year: € 0.8 million) to the impaired but not past due category.

Impairment developed as follows:

In € million

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Specific | Global | Total | Specific | Global | Total |
| **As at 1 Jan** | **2.1** | **0.8** | **2.9** | **2.3** | **0.9** | **3.2** |
| Additions | 1.7 | 1.0 | 2.7 | 1.1 | 0.3 | 1.4 |
| Exchange rate differences | 0.1 | –0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Utilisation | –1.2 | –0.1 | –1.3 | –1.2 | –0.3 | –1.5 |
| Reversals | –0.5 | –0.1 | –0.6 | –0.1 | –0.1 | –0.2 |
| **As at 31 Dec** | **2.2** | **1.5** | **3.7** | **2.1** | **0.8** | **2.9** |

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

## 13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

In € million

| | Carrying amount | Remaining term | | Carrying amount | Remaining term | |
|---|---|---|---|---|---|---|
| | 31/12/2013 | Less than 1 year | More than 1 year | 31/12/2012 | Less than 1 year | More than 1 year |
| Fair values of hedging instruments | 2.1 | 2.1 | 0.0 | 3.2 | 3.2 | 0.0 |
| Advance payments and deposits | 2.2 | 2.2 | 0.0 | 2.3 | 2.2 | 0.1 |
| Miscellaneous other assets | 7.6 | 7.6 | – | 7.5 | 7.5 | – |
| Total financial instruments within meaning of IAS 39 * | 11.9 | 11.9 | 0.0 | 13.0 | 12.9 | 0.1 |
| Other tax receivables | 7.1 | 7.1 | – | 5.8 | 5.8 | – |
| Prepaid expenses ** | 2.0 | 2.0 | 0.0 | 1.9 | 1.9 | 0.0 |
| **Total other assets** | **21.0** | **21.0** | **0.0** | **20.7** | **20.6** | **0.1** |

* Financial instruments are described in note 53.
** Prior-year figures restated due to IAS 19 amendment

As at the end of the reporting period, the hedging instruments were currency futures (€ 2.1 million/previous year: € 3.2 million) and brass swaps (€ 0.0 million/previous year: € 0.0 million). 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 53).
The Group has recognised security deposits in the amount of € 1.1 million (previous year: € 1.1 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 French government from the "crédit d'impôt compétetivité emploi" receivables from the sale of non-current assets, creditors with debit balances and a number of individual items.
Other tax receivables in the amount of € 7.1 million (previous year: € 5.8 million) primarily include VAT credit of € 5.9 million (previous year: € 4.7 million).
Prepaid mainly include rent payments and insurance premiums. Villeroy & Boch AG has a claim to compensation under the partial retirement programme for work not yet performed. The credit resulting from this was previously taken into account in the measurement of provisions in line with the regulations in effect at the time. A prepaid expense of € 0.1 million was recognised in the previous year as a result of a change in IAS 19 (see note 27). This item was unchanged at € 0.1 million as at 31 December 2013.
In cases of doubt regarding the collectibility of receivables, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no past due receivables in this item as at 31 December 2013. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of contractual partners.

## 14. INCOME TAX RECEIVABLES

The income tax receivables of € 2.9 million (previous year: € 2.9 million) primarily include outstanding corporate income tax assets. € 2.6 million (previous year: € 2.5 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 € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Cash on hand incl. cheques | 0.4 | 0.4 |
| Current bank balances | 17.7 | 16.1 |
| Cash equivalents | 42.2 | 38.8 |
| **Total cash and cash equivalents** | **60.3** | **55.3** |

Cash is held at banks of good credit standing that are predominantly a part of a deposit protection system (see note 53).

## 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 € million | 2013 | 2012 |
|---|---|---|
| Property (a) | 4.0 | 6.1 |
| Equity investment (b) | 3.7 | 3.7 |
| Other (c) | – | 0.2 |
| **As at 31 Dec** | **7.7** | **10.0** |

(a) The property item developed as follows in the reporting year:

### Addition

The property of the former manufacturing plant in Lerma, Mexico, has been actively marketed since June 2013 in accordance with the disposal concept. For this reason, the property was reclassified from property, plant and equipment to this item at a carrying amount of € 0.4 million (see note 6).

### Development

The contracts for the gradual sale of the plant property in Gustavsberg, Sweden, were signed on 20 June 2013. The first tranche was settled in 2013 with income of € 7.0 million (see note 36). The further tranches will mainly be settled in the following year. Total income of around € 17 million is anticipated from this transaction. The previous production building will be replaced by a new building. The premises needed for production until the new building is occupied are secured by contract.
The carrying amount as at the end of the reporting period was € 3.6 million (previous year: € 5.4 million).

### Disposals

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

(b) In the 2011 financial year 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 € 3.7 million, effective 1 January 2014.

(c) Rights to the brands of St. Thomas Creation LLC, USA, and associated inventories were sold 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 € 71.9 million and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital.
The holders of non-voting preference shares receive a dividend from the annual unappropriated surplus that is € 0.05 per share higher than the dividend paid to holders of ordinary shares, or a minimum preferred dividend of € 0.13 per preference share. If the unappropriated surplus in a given financial year is insufficient to cover the payment of this preferred dividend, any amount still outstanding shall be paid from the unappropriated surplus of subsequent financial years, with priority given to the oldest amounts outstanding. The preference dividend for the current financial year is only paid when all amounts outstanding are satisfied. This right to subsequent payment forms part of the profit entitlement for the respective financial year from which the outstanding dividend on preference shares is granted.
Each ordinary share grants one vote.
The numbers of different shares outstanding were as follows:

| Number of shares | 2013 | 2012 |
|---|---|---|
| **Ordinary shares** | | |
| Ordinary shares outstanding – unchanged – | 14,044,800 | 14,044,800 |
| **Preference shares** | | |
| Ordinary shares issued – unchanged – | 14,044,800 | 14,044,800 |
| Treasury shares, as at 31 Dec – unchanged – | 1,683,029 | 1,683,029 |
| Shares outstanding | 12,361,771 | 12,361,771 |

A resolution of the General Meeting of Shareholders on 22 March 2013 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 ordinary/preference shares in the company up to a total notional amount of the share capital of € 7,190,937.60 until 21 March 2018 inclusively. The authorisation to acquire treasury shares granted to the company by the General Meeting of Shareholders on 16 May 2012 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 acquisition can be restricted to the shares of just one class.

At the discretion of the Management Board, preference shares can be acquired either on the stock exchange (1) on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell in accordance with the principle of equal treatment (2). At the discretion of the Management Board, ordinary shares can be acquired either on the basis of a public offer to all ordinary shareholders or on the basis of an invitation to all ordinary shareholders to submit offers to sell in accordance with the principle of equal treatment (2) or from individual ordinary shareholders by disapplying the put options of the other ordinary shareholders (3).

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

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

- in the event of a public purchase offer to all preference/ordinary shareholders, the purchase price offered per share (not including additional costs of acquisition), or
- in the event of a public invitation to all preference/ordinary shareholders to submit offers to sell, the thresholds of the price range stipulated by the company (not including additional costs of acquisition)

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

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

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

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

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

(3) If ordinary shares are acquired from individual shareholders by disapplying the put options of the other ordinary shareholders, the purchase price must not be more than 5 % of the closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange on the day before the acquisition offer. Acquisition at a price below the relevant price as defined above is possible.

(b) The Management Board is authorised to use the shares acquired on the basis of the above authorisation under a) or one or more prior authorisations for all legally permitted purposes. The treasury shares can be sold on the stock market or on the basis of an offer to all shareholders, in accordance with the principle of equal treatment, and used for the following purposes in particular:

(1) The preference shares can be sold in a way other than on the stock market or on the basis of an offer to all shareholders if the cash purchase price to be paid is not significantly less than shares already listed on the stock market with essentially the same features. The price is not significantly less if the purchase price is not more than 5 % less than the average closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) for the last five trading days before disposal. The number of preference 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 treasury preference or ordinary shares can be issued against non-cash consideration, particularly in connection with the acquisition of companies, shares in companies or interests in them and mergers of companies, as well as for the purpose of acquiring other assets including rights and receivables.

(3) The preference or ordinary shares can be redeemed without the redemption or its execution requiring a further resolution of the General Meeting of Shareholders. They can also be redeemed by way of simplified procedure without a capital reduction by adjusting the notional pro rata amount of share capital of the company attributable to the other shares. If redeemed by way of simplified procedure, the Management Board is authorised to adjust the number of shares in the Articles of Association. Ordinary treasury shares can only be redeemed without the simultaneous redemption of at least a corresponding number of preference treasury shares if the pro rata amount of share capital of the total preference shares outstanding does not exceed half of the share capital as a result.

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

## 18. CAPITAL RESERVES

The capital reserves are unchanged at € 193.6 million.

## 19. TREASURY SHARES

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

## 20. RETAINED EARNINGS

The retained earnings of the Villeroy & Boch Group in the amount of € –57.4 million (previous year: € –72.1 million) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

| In € million | 2013 | 2012 |
|---|---|---|
| As at 1 Jan | –72.1 | –75.2 |
| Consolidated earnings attributable to Villeroy & Boch AG shareholders | 23.9 | 14.7 |
| Dividend distribution | –9.9 | –9.9 |
| Currency adjustments | 0.7 | –1.1 |
| Adjustment due to IAS 19 amendment (see note 27) | – | –0.6 |
| Acquisition of non-controlling interests | – | – |
| **As at 31 Dec** | **–57.4** | **–72.1** |

## 21. VALUATION SURPLUS

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

| In € million | 2013 | 2012 | Change |
|---|---|---|---|
| **Items to be reclassified to profit or loss** | | | |
| Currency translation of financial statements of foreign group companies (a) | 10.6 | 10.6 | 0.0 |
| Currency translation of long-term loans classified as net investments in foreign group companies (b) | –0.6 | 0.2 | –0.8 |
| Cash flow hedges (c) | 0.4 | 2.0 | –1.6 |
| Deferred tax effect on items to be reclassified to profit or loss (d) | –1.8 | –0.8 | –1.0 |
| **Items not to be reclassified to profit or loss** | | | |
| Actuarial gains or losses on defined benefit obligations (e) * | –58.7 | –58.3 | –0.4 |
| Deferred tax effect on items not to be reclassified to profit or loss (f) * | 17.3 | 17.1 | 0.2 |
| **As at 31 Dec** | **–32.8** | **–29.2** | **–3.6** |

* Prior-year figures restated due to IAS 19 amendment

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

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 € 0.0 million (previous year: € 1.2 million).

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

The net change in equity amounts to € –0.8 million (previous year: € 1.0 million). The requirement for a loan to be classified as a net investment in a foreign operation ceased to apply in the financial year. An amount of € –0.4 million from this currency reserve was therefore recognised in profit or loss.

### (c) Reserve for cash flow hedges

This item arises from the recognition outside profit or loss of fluctuations in the fair value of cash flow hedges (see note 53). This item developed as follows in the reporting period:

In € million

| | Forward exchange transactions | | Commodity swaps | | Total cash flow hedges | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| **As at 1 Jan** | **2.2** | **–1.0** | **–0.2** | **–0.2** | **2.0** | **–1.2** |
| Changes outside profit or loss | | | | | | |
| ❙ Currency adjustments | 0.0 | –0.1 | 0.0 | 0.0 | 0.0 | –0.1 |
| ❙ Additions to new contracts | 0.8 | 1.4 | –0.1 | –0.1 | 0.7 | 1.3 |
| ❙ Portfolio value | 0.0 | 0.4 | –0.2 | 0.0 | –0.2 | 0.4 |
| ❙ Non-controlling interests | 0.0 | 0.0 | – | – | 0.0 | 0.0 |
| **Total** | **0.8** | **1.7** | **–0.3** | **–0.1** | **0.5** | **1.6** |
| Reversals to profit or loss (aa) | –2.2 | 1.5 | 0.1 | 0.1 | –2.1 | 1.6 |
| **As at 31 Dec** | **0.8** | **2.2** | **–0.4** | **–0.2** | **0.4** | **2.0** |

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

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

In € million

| | **2013** | 2012 |
|---|---|---|
| Positive fair value changes (see note 13) | 2.1 | 3.2 |
| Negative fair value changes (see note 30) | –1.7 | –1.2 |
| Non-controlling interests | 0.0 | 0.0 |
| **As at 31 Dec** | **0.4** | **2.0** |

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

This reserve relates to fair value changes of cash flow hedges as at the end of the reporting period and represents the net total of positive and negative changes in value. It developed as follows:

In € million

| | **2013** | 2012 |
|---|---|---|
| **As at 1 Jan** | **–0.8** | **–0.8** |
| Currency adjustments | –0.1 | 0.0 |
| Additions | 0.2 | 0.3 |
| Disposals | –1.1 | –0.3 |
| Non-controlling interests | 0.0 | 0.0 |
| **As at 31 Dec** | **–1.8** | **–0.8** |

### e) Reserve for actuarial gains and losses on defined benefit obligations

This item arises from the recognition outside profit or loss of fluctuations in the value of defined benefit obligations (see note 26). Since 1 January 2013, actuarial gains on remeasurement are reported in this item that were recognised using the corridor method in the past in line with the regulations in effect at the time. Taking into account the change in accounting due to IAS 19, the figure for the previous year was restated to € –58,3 million. This amount changed by € –0.4 million to € –58.7 million in the reporting period. The changes are described in note 26 Provisions for pensions.

### (f) Reserve for deferred tax on items not to be reclassified to profit or loss

As at the end of the reporting period, this reserve relates solely to fluctuations in the value of defined benefit pension plans. This resulted in a change in net equity of € 0.2 million in the financial year. The prior-year amount was restated to € 17.1 million as a result of the change in accounting due to IAS 19. Further information can be found in note 26 Provisions for pensions.

## 22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to € 0.1 million (previous year: € 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.
The net profit of Villeroy & Boch AG for 2013 amounted to € 11.8 million. Taking into account the profit carried forward of € 3.1 million, the unappropriated surplus amounts to € 14.9 million.
At the next General Meeting of Shareholders on 21 March 2014, 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:

*€ 0.37 per ordinary share*
*€ 0.42 per preference share*

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

| | |
|---|---|
| *Ordinary share:* | *€ 5.2 million* |
| *Preference share:* | *€ 5.9 million* |
| | *€ 11.1 million* |

If the company still holds treasury shares at the time of the resolution on the appropriation of profits, the dividend payment for the preferred capital will be reduced by the amount attributable to the treasury shares. The amount attributable to treasury shares is to be carried forward to new account.
The dividend shown in the table below was paid to the bearers of Villeroy & Boch shares in previous years.

| | **25/05/2013** | | 25/05/2013 | |
|---|---|---|---|---|
| **Eligible share class** | **Dividend per unit in €** | **Total dividend in € million** | **Dividend per unit in €** | **Total dividend in € million** |
| Ordinary shares | 0.35 | 4.9 | 0.35 | 4.9 |
| Preference shares | 0.40 | 4.9 | 0.40 | 4.9 |
| | | **9.8** | | **9.8** |

## 24. CAPITAL MANAGEMENT

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

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

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Equity | 160.4 | 149.3 * |
| Provisions for pensions | 182.7 | 194.9 * |
| Financial liabilities | 51.2 | 51.3 |
| **Non-current sources of finance** | **394.3** | **395.5** |

* Prior-year figures restated due to IAS 19 amendments

## 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) and section 25a(1) WpHG* is shown below.

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

2) On 14 February 2011, Mr. Luitwin-Gisbert von Boch-Galhau, Germany, notified us in accordance with section 21(2) WpHG, that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 15 % on 17 November 2010 and amounted to 17.74 % (2,491,132 voting rights) as at this date. 13.94 % of this (1,957,696 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG, 1.10 % of which (154,000 voting rights) also in accordance with section 22(1) sentence 1 no. 6 WpHG. A further 3.37 % (472,726 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 6 WpHG. Of the following shareholders, 3 % or more of the voting rights are attributable to him in each case:

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

3) 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 at the dates stated below:

1) 18.42 % of voting rights are attributable to Mr. Luitwin Michel von Boch-Galhau, Germany, as at 1 April 2002; 1.55 % of 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 € million | 31/12/2013 | 31/12/2012* |
|---|---|---|
| Germany | 165.9 | 179.2 |
| Rest of euro zone | 12.6 | 11.1 |
| Rest of world | 4.2 | 4.6 |
| **Provisions for pensions** | **182.7** | **194.9** |

* Prior-year figures restated due to IAS 19 amendment

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

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

| In % | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Ø** | **Range** | **Ø** | **Range** |
| Discount rate | 3.0 | 2.0–7.0 | 3.0 | 1.5–7.0 |
| Expected long-term wage and salary trend | 2.5 | 1.0–5.6 | 2.6 | 0.0–5.6 |
| Expected long-term pension trend | 1.6 | 0.6–2.5 | 1.6 | 0.2–3.5 |

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 2.0 % in Switzerland to 7.0 % in Mexico. A discount rate of 3.0 % (previous year: 3.0 %) is used in Germany. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. The pension obligations for the German companies in the Group are measured using the biometric data of the Heubeck 2005G mortality tables. Country-specific mortality tables were used in the other Group companies.

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

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

| In € million | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Present value of defined benefit obligations | 207.2 | 218.5 |
| Fair value of plan assets | –24.5 | –23.6 |
| **Carrying amount** | **182.7** | **194.9** |

The present value of pension obligations developed as follows:

In € million

| | 2013 | 2012 |
|---|---|---|
| **As at 1 Jan** | **218.5** | **170.4** |
| Current service cost | 2.0 | 1.8 |
| Interest income and interest expenses | 6.4 | 8.8 |
| Return on plan assets excluding the above interest | 0.1 | – |
| Actuarial gains and losses arising from | | |
| ▪ changes in demographic assumptions | 0.1 | –0.5 |
| ▪ changes in financial assumptions | 1.2 | 49.1 |
| ▪ changes in other assumptions | –0.3 | 1.0 |
| Gains and losses from plan assets | – | – |
| Past service cost | 0.0 | 0.0 |
| Gains or losses from settlements | –2.1 | –0.5 |
| Contributions from the Villeroy & Boch Group as employer | 0.0 | 0.1 |
| Contributions from plan participants | 0.4 | 0.3 |
| Benefits paid | –12.8 | –11.9 |
| Settlement payments | –5.3 | –1.0 |
| Currency changes arising from non-euro-denominated plans | –1.0 | 0.9 |
| **As at 31 Dec** | **207.2** | **218.5** |

There were the following changes to plan assets:

In € million

| | 2013 | 2012 |
|---|---|---|
| **As at 1 Jan** | **23.6** | **22.4** |
| Interest income and interest expenses | 0.3 | 0.2 |
| Return on plan assets excluding the above interest | 0.5 | 0.4 |
| Gains and losses from plan assets | 0.4 | –0.1 |
| Contributions from the Villeroy & Boch Group as employer | 0.8 | 0.5 |
| Contributions from plan participants | 0.5 | 0.5 |
| Benefits paid | –0.9 | –1.0 |
| Currency changes arising from non-euro-denominated plans | –0.7 | 0.7 |
| **As at 31 Dec** | **24.5** | **23.6** |

The portfolio structure of plan assets is as follows:

| | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| | in € million | in % | in € million | in % |
| Annuities/annuity funds | 9.8 | 40 | 9.7 | 41 |
| Equities/equity funds | 5.2 | 21 | 5.3 | 22 |
| Property | 1.5 | 6 | 1.5 | 6 |
| Cash and cash equivalents | 0.0 | 0 | 0.2 | 1 |
| **Investments on an active market** | **16.5** | **67** | **16.7** | **71** |
| Insurance policies | 8.0 | 33 | 6.9 | 29 |
| **Plan assets** | **24.5** | **100** | **23.6** | **100** |

## Restatement of prior-year amounts

Figures for the previous year changed as follows as a result of the first-time adoption of IAS 19 revised:

| In € million | |
|---|---|
| Net liability as at 31 Dec 2011 (corridor method) | 140.7 |
| Adjustments taken directly to equity | 9.0 |
| **Net liability as at 31 Dec 2011 = 1 Jan 2012 (OCI method)** | **149.7** |
| **Contingent change in other statement of financial position items** | |
| Valuation surplus as at 31 Dec 2011 | –9.0 |
| Deferred tax assets from temporary differences | 2.7 |
| Net liability as at 31 Dec 2012 (corridor method) | 136.6 |
| Adjustments taken directly to equity | 58.3 |
| **Net liability as at 31 Dec 2012 = 1 Jan 2013 (OCI method)** | **194.9** |
| **Contingent change in other statement of financial position items** | |
| Valuation surplus as at 31 Dec 2012 | –58.3 |
| Deferred tax assets from temporary differences | 17.1 |

### Risks

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

Given the minor volumes, the Villeroy & Boch Group considers the risks in connection with the recognised plan assets, such as equity price risk and issuer default risk, to be appropriate. The return on plan assets is assumed in the amount of the discounting rates determined on the basis of senior, fixed-rate industrial bonds. If the actual returns on plan assets fall short or the discounting rates used, the net obligation under pension plans will increase.

### Sensitivities, forecast development and duration

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

| | Change in actuarial assumption | Effect on defined benefit obligation as at 31/12/2013 in € million | in % |
|---|---|---|---|
| **Present value of defined benefit obligations** | | **207.2** | **–** |
| | Increase by 0.25 % | 202.5 | –2.3 |
| Discount rate | Reduction by 0.25 % | 214.4 | 3.5 |
| | Increase by 0.25 % | 207.5 | 0.1 |
| Wage and salary trend | Reduction by 0.25 % | 206.4 | –0.4 |
| | Increase by 0.25 % | 212.2 | 2.4 |
| Pension trend | Reduction by 0.25 % | 203.4 | –1.8 |

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

| In € million | Forecast 2014 |
|---|---|
| Defined benefit obligations as at 31 Dec 2013 | 207.2 |
| Forecast service cost | 1.9 |
| Forecast interest costs | 5.4 |
| Forecast pension payments | –10.6 |
| **Forecast defined benefit obligations** | **203.9** |

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

The weighted duration of pension provisions in the Villeroy & Boch Group as at 31 December 2013 was 12.0 years. The weighted duration for the pension plans of German companies is 11.5 years.

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

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

In € million

| | Non-current provisions for: | | | | Current provisions | Total amount |
|---|---|---|---|---|---|---|
| | Partial retirement | Anniversary bonuses | Severance pay | Total | | |
| **As at 1 Jan 2012*** | **6.4** | **4.9** | **3.6** | **14.9** | 12.0 | 26.9 |
| 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 | 3.1 | 1.3 | 0.4 | 4.8 | 11.5 | 16.3 |
| Reclassifications | – | 0.1 | –0.1 | 0.0 | 0.0 | 0.0 |
| **As at 1 Jan 2013*** | **7.1** | **6.0** | **3.6** | **16.7** | **12.6** | **29.3** |
| Currency adjustments | – | 0.0 | –0.1 | –0.1 | –0.3 | –0.4 |
| Utilisation | –2.4 | –0.5 | –0.3 | –3.2 | –11.1 | –14.3 |
| Reversals | – | –0.2 | – | –0.2 | –0.4 | –0.6 |
| Additions | 0.6 | 0.8 | 0.6 | 2.0 | 12.1 | 14.1 |
| Reclassifications | – | – | – | – | – | – |
| **As at 31 Dec 2013** | **5.3** | **6.1** | **3.8** | **15.2** | **12.9** | **28.1** |

* Prior-year figures restated due to IAS 19 amendment.

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

| In € million | |
|---|---|
| Net liability as at 31 Dec 2011 – as reported – | 7.9 |
| Adjustments taken directly to equity | –1.7 |
| Increase in staff costs | 0.2 |
| **Net liability as at 31 Dec 2011 = 1 Jan 2012** | **6.4** |
| **Contingent change in other statement of financial position items** | |
| Retained earnings as at 31 Dec 2011 | 1.5 |
| Deferred tax assets from temporary differences | –0.4 |
| Net liability as at 31 Dec 2012 – as reported – | 7.7 |
| Adjustments taken directly to equity | –1.5 |
| Increase in staff costs | 0.9 |
| **Net liability as at 31 Dec 2012 = 1 Jan 2013** | **7.1** |
| **Contingent change in other statement of financial position items** | |
| Retained earnings as at 31 Dec 2012 | 0.6 |
| Deferred tax assets from temporary differences | –0.2 |

A prepaid expense of € 0.1 million was recognised as at 1 January 2012 for work not yet done by plan participants. This item was unchanged at € 0.1 million as at 31 December 2013 (see note 13).

Current provisions for personnel include mainly provisions for variable remuneration bonuses in the amount of € 12.8 million (previous year: € 12.4 million).

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

## 28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

In € million

| | Non-current provisions (total) | Current provisions for | | | | | Total amount |
|---|---|---|---|---|---|---|---|
| | | Warranties | Restructuring programme | Other taxes | Miscellaneous | Total | |
| **As at 1 Jan 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 1 Jan 2013** | **3.0** | **6.0** | **9.3** | **0.5** | **11.9** | **27.7** | **30.7** |
| Currency adjustments | 0.0 | –0.1 | –0.1 | 0.0 | –0.2 | –0.4 | –0.4 |
| Utilisation | –1.0 | –0.8 | –4.0 | –0.1 | –5.8 | –10.7 | –11.7 |
| Reversals | –0.9 | –0.1 | – | 0.0 | –2.9 | –3.0 | –3.9 |
| Additions | 0.3 | 0.7 | – | 0.1 | 6.9 | 7.7 | 8.0 |
| Reclassifications | – | – | – | – | 0.0 | 0.0 | 0.0 |
| **As at 31 Dec 2013** | **1.4** | **5.7** | **5.2** | **0.5** | **9.9** | **21.3** | **22.7** |

In particular, non-current provisions relate to future recultivation projects (reporting year: € 1.0 million; previous year: € 2.4 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 restructuring programme that has not yet been paid out.

Miscellaneous other provisions include provisions for litigation risks, commission, restoration obligations, consulting costs, audit costs and a large number of individual items.

## 29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Financing was obtained from banks in the following regions:

In € million

| | **31/12/2013** | **thereof non-current** | 31/12/2012 | thereof non-current |
|---|---|---|---|---|
| Germany | 25.8 | – | 25.7 | 25.0 |
| Rest of euro zone | 25.4 | 25.0 | 25.6 | 25.0 |
| **Carrying amount** | **51.2** | **25.0** | **51.3** | **50.0** |

Non-current financial liabilities declined by € 50.0 million to € 25.0 million as they were reclassified to current financial liabilities on the basis of their remaining terms. Net receivables from and liabilities to banks amounted to € 13.8 million (previous year: € 20.6 million). The requirements for offsetting have been met and it is intended to settle them on a net basis.

## 30. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

In € million

| | Carrying amount 31/12/2013 | Remaining term | | Carrying amount 31/12/2012 | Remaining term | |
|---|---|---|---|---|---|---|
| | | **Less than 1 year** | **More than 1 year** | | **Less than 1 year** | **More than 1 year** |
| Bonus liabilities | 33.9 | 33.9 | – | 35.7 | 35.7 | – |
| Changes in fair values of hedging instruments | 1.7 | 1.7 | 0.0 | 1.2 | 1.2 | 0.0 |
| Advance payments received on account of orders | 3.5 | 3.5 | – | 4.2 | 4.2 | – |
| Miscellaneous other liabilities | 7.5 | 6.0 | 1.5 | 3.5 | 2.0 | 1.5 |
| Total financial instruments within meaning of IAS 39* | 46.6 | 45.1 | 1.5 | 44.6 | 43.1 | 1.5 |
| Personnel liabilities | 20.6 | 20.0 | 0.6 | 21.5 | 20.3 | 1.2 |
| Other tax liabilities | 9.4 | 9.4 | – | 9.7 | 9.7 | – |
| Deferred income | 1.3 | 0.7 | 0.6 | 1.5 | 0.8 | 0.7 |
| **Total carrying amount** | **77.9** | **75.2** | **2.7** | **77.3** | **73.9** | **3.4** |

* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) relates to currencies in the amount of € 1.3 million (previous year: € 1.0 million) and commodities in the amount of € 0.4 million (previous year: € 0.2 million). 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 53).

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

Other tax liabilities primarily include payroll and church tax in the amount of € 3.4 million (previous year: € 3.6 million) and VAT in the amount of € 5.1 million (previous year: € 5.2 million).

Deferred income essentially consists of 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 € million | 2013 | 2012 |
|---|---|---|
| Germany | 32.1 | 30.4 |
| Rest of euro zone | 7.3 | 9.5 |
| Rest of world | 21.3 | 21.0 |
| **Carrying amount as at 31 Dec** | **60.7** | **60.9** |

## NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### 32. REVENUE

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

### 33. COST OF SALES

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

### 34. SELLING, MARKETING AND DEVELOPMENT COSTS

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

The expenses for research and technical development break down into:

| In € million | 2013 | 2012 |
|---|---|---|
| Bathroom and Wellness | –9.3 | –9.1 |
| Tableware | –3.5 | –4.2 |
| **Total** | **–12.8** | **–13.3** |

### 35. GENERAL ADMINISTRATIVE EXPENSES

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

### 36. OTHER OPERATING INCOME

Other operating income is composed as follows:

| In € million | 2013 | 2012 |
|---|---|---|
| Income from property transactions | 7.0 | - |
| Exchange rate gains | 5.4 | 3.2 |
| Reversal of provisions * | 3.6 | 2.2 |
| License income | 3.3 | 3.2 |
| Book profits on the disposal of non-current assets | 2.0 | 2.7 |
| Reversal of liabilities | 1.9 | 1.2 |
| Reversal of write-downs on receivables | 0.6 | 0.3 |
| Reimbursement for damages | 0.1 | 0.1 |
| Other | 3.1 | 4.2 |
| **Total** | **27.0** | **17.1** |

* Not including amounts in other statement of consolidated income items

Income from property transactions includes the net result generated in the 2013 financial year from the sale of the Swedish plant property (see page 59 of the management report) of € 7.0 million. The property in Gustavsberg, the risks and rewards of which had not yet been transferred to the buyer in 2013, is recognised as a non-current asset held for sale (see note 16).

Miscellaneous other operating income includes a number of individual items.

## 37. OTHER OPERATING INCOME

Other operating expenses are composed as follows:

| In € million | 2013 | 2012 |
|---|---|---|
| Addition to write-downs on receivables | –2.7 | –1.5 |
| Consulting services | –1.2 | –2.6 |
| Exchange rate losses | –0.9 | –3.0 |
| Book losses on the disposal of non-current assets | –0.4 | –0.7 |
| Costs of maintenance/repairs | –0.2 | –0.4 |
| Other | –6.7 | –9.9 |
| **Total** | **–12.1** | **–18.1** |

The additions to write-downs on receivables relate to trade receivables (see note 12) and other receivables.

Miscellaneous other operating expenses include a number of individual items.

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

This item includes the pro rata income from the investment in an associated company in the amount of € 0.4 million (previous year: € 0.5 million).

## 39. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consists of:

| In € million | 2013 | 2012 |
|---|---|---|
| **Interest income from:** | | |
| Cash and cash equivalents | 0.8 | 0.8 |
| Loans and receivables | 0.1 | 0.2 |
| Held-to-maturity investments | – | – |
| Other investments | 0.0 | 0.0 |
| **Total interest income** | **0.9** | **1.0** |
| Other financial income | 0.2 | 0.2 |
| **Total financial income** | **1.1** | **1.2** |

## 40. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Finance expenses relate to:

| In € million | 2013 | 2012 |
|---|---|---|
| **Interest expenses from:** | | |
| Provisions | –6.2 | –9.7 |
| Overdraft facilities | –2.1 | –1.2 |
| Non-current loans | –1.8 | –2.8 |
| Other borrowing | –0.0 | –0.0 |
| **Total interest expenses** | **–10.1** | **–13.7** |
| Other finance costs | –0.4 | 0.0 |
| **Total finance costs** | **–10.5** | **–13.7** |

Interest expenses on provisions fell by € 3.5 million from € 9.7 million to € 6.2 million in the 2013 financial year. This is essentially due to the repeated sharp year-on-year drop in discounting rates for obligations similar to pensions. The interest expenses for the current year were calculated using the discounting rate from the previous year. This interest expenses for this year were therefore affected by the 2012 drop in interest rates from 5.4 % to 3.0 %.

## 41. INCOME TAXES

Income taxes include the taxes on income paid or due and deferred taxes. Villeroy & Boch Group companies in Germany are subject to an average trade tax rate of 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 € million | 2013 | 2012 |
|---|---|---|
| Taxes paid or due in Germany | –1.8 | –1.6 |
| Taxes paid or due outside Germany | –4.5 | –1.7 |
| **Current taxes** | **–6.3** | **–3.3** |
| Deferred taxes | –3.6 | –0.4 |
| **Income taxes** | **–9.9** | **–3.7** |

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 € million | 2013 | 2012 |
|---|---|---|
| **Earnings before taxes (EBT)** | **33.8** | **18.4** |
| Expected income tax (EBT × tax rate of 29.5 %) | –10.0 | –5.4 |
| Differences arising from foreign tax rates | 2.7 | 0.3 |
| **Tax effects arising from:** | | |
| ▪ Non-deductible expenses | –1.9 | –1.2 |
| ▪ Adjustment/write-downs on deferred taxes | –0.1 | 2.9 |
| ▪ Tax-free income | 0.2 | 0.3 |
| ▪ Other deferred taxes | –0.8 | –0.6 |
| **Actual income tax expense** | **–9.9** | **–3.7** |
| **Actual tax rate in %** | **29.2** | **20.1** |

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 to the deferred taxes recognised in the statement of comprehensive income is as follows:

| In € million | 2013 | 2012 |
|---|---|---|
| Change in deferred tax assets (note 10) * | –4.6 | 14.8 |
| Change in deferred tax liabilities (note 10) | –0.5 | 1.1 |
| Offset outside profit or loss (note 21d) * | 1.0 | –16.4 |
| Currency adjustments | 0.5 | 0.1 |
| **Deferred taxes recognised in statement of comprehensive income** | **–3.6** | **–0.4** |

* Prior-year figures restated due to IAS 19 amendments

## 42. MINORITY INTERESTS

Non-controlling interests in consolidated earnings amounted to € 0.0 million (previous year: € 0.0 million).

## 43. 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 | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Number of shares outstanding | 14,044,800 | 14,044,800 |
| Pro rata consolidated net income (€ million) * | 12.4 | 7.5 |
| Earnings per share (€) * | 0.88 | 0.53 |

| Preference shares | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Number of shares outstanding | 12,361,771 | 12,361,771 |
| Pro rata consolidated net income (€ million) * | 11.5 | 7.2 |
| Earnings per share (€) * | 0.93 | 0.58 |

* Each in relation to the shares outstanding

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.

## 44. DEPRECIATION AND AMORTISATION

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

| In € million | 2013 | 2012 |
|---|---|---|
| Amortisation of intangible assets | –1.2 | –0.9 |
| Impairment losses on intangible assets | – | – |
| Depreciation of property, plant and equipment | –24.3 | –25.3 |
| Impairment losses on property, plant and equipment | – | 0.0 |
| Depreciation of investment property | –0.8 | –0.8 |
| Impairment losses on investment property | – | – |
| Impairment losses on financial assets | – | – |
| **Total depreciation, amortisation and impairments** | **–26.3** | **–27.0** |

## 45. COST OF MATERIALS

The cost of materials comprises the following:

| In € million | 2013 | 2012 |
|---|---|---|
| Cost of raw materials and supplies (including primary products) | –109.6 | –107.7 |
| Cost of purchased goods | –95.1 | –95.1 |
| | **–204.7** | **–202.8** |
| Cost of purchased services | –38.9 | –37.2 |
| **Total cost of materials** | **–243.6** | **–240.0** |

## 46. PERSONNEL EXPENSES

Personnel expenses are composed as follows:

| In € million | 2013 | 2012 |
|---|---|---|
| Wages and salaries | –211.5 | –210.7 |
| Post-employment benefits: | | |
| ▌ Expenses for defined benefit plans (see note 26) * | –2.0 | –1.8 |
| ▌ Income from settlement of defined benefit obligations (see note 26) | 2.0 | 0.5 |
| ▌ Expenses for defined contribution plans | –14.2 | –14.6 |
| Termination benefits * | –2.0 | –1.7 |
| Other services | –36.6 | –36.2 |
| **Total staff costs *** | **–264.3** | **–265.4** |

* Prior-year figures restated due to IAS 19 amendments.

The composition of the cost of defined benefit pension plans was altered by the entry into force as at 1 January 2013 of the change in accounting due to the new IAS 19 "Employee Benefits" (see note 26 Provisions for pensions). The effects of the new IAS 19 on the partial retirement programme are shown in note 27.

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

| | 2013 | 2012 |
|---|---|---|
| Wage earners | 4,229 | 4,399 |
| Salaried employees | 3,527 | 3,547 |
| **Average** | **7,756** | **7,946** |

Of the workforce as a whole, a total of 2,516 people are employed in Germany (previous year: 2,508), with the remaining 5,240 employed outside Germany (previous year: 5,438).

NUMBER OF EMPLOYEES

| | 2013 | 2012 |
|---|---|---|
| Bathroom and Wellness | 5,048 | 5,232 |
| Tableware | 2,280 | 2,306 |
| Other | 428 | 408 |
| **Average** | **7,756** | **7,946** |

## 47. OTHER TAXES

Other taxes amounted to € 3.5 million (previous year: € 3.6 million) and are composed as follows:

| In € million | 2013 | | 2012 | |
|---|---|---|---|---|
| | Germany | Abroad | Germany | Abroad |
| Wealth tax | – | –0.2 | – | –0.2 |
| Vehicle tax | –0.1 | –0.1 | –0.1 | –0.1 |
| Real estate tax | –0.5 | –1.3 | –0.6 | –1.0 |
| Miscellaneous other taxes | –0.1 | –1.2 | 0.0 | –1.6 |
| **Total other taxes** | **–0.7** | **–2.8** | **–0.7** | **–2.9** |

The item “Miscellaneous other taxes” essentially includes expenses for the French “contribution économique territoriale” (€ 0.5 million) and “taxe organic” (€ 0.2 million).

# NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## 48. 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 € 31.6 million in the reporting year (31 December 2012: €20.6 million) and therefore improved by € 11.0 million. The change is mainly due to a reduction in trade receivables of € 6.3 million and in inventories of € 2.1 million. Further cash proceeds in connection with current operating earnings are offset by outflows for the utilisation of other provisions.

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

| In € million | 2013 | 2012 |
|---|---|---|
| Interest from the provision for pensions and similar obligations | 6.1 | 9.7 |
| Expenses/income from deferred taxes | 4.3 | 0.9 |
| Additions to tax provisions | 3.0 | 1.0 |
| Income from property | –7.0 | – |
| Other non-cash items | –0.4 | –0.5 |
| **Total** | **6.0** | **11.1** |

## 49. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities changed slightly by € 1.1 million as against the previous year to €–15.5 million (previous year: € –14.4 million).

Investments in the 2013 financial year matched the previous year's level at € 26.4 million (previous year: € 26.4 million). Furthermore, there were asset disposals of € 5.6 million (previous year: € 12.0 million) that mainly result from the disposal of the former Frankfurt/Main branch and the annual repayment of the loan issued to V & B Fliesen GmbH (previous year: sale of plant in Saltillo, Mexico). The sale of plant property in Sweden resulted in an incoming payment of € 5.4 million.

## 50. CASH FLOW FROM FINANCING ACTIVITIES

As in the previous year, net cash used in financing activities amounted to € –10.0 million. The cash outflow in the reporting year, as in the previous year, was mainly due to the payment of the dividend for the respective financial year.

## 51. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to € 60.3 million (previous year: € 55.3 million), a rise of € 5.0 million as against the previous year. This is primarily due to the reduction in customer receivables and inventories.

## 52. GROUP SEGMENT REPORT

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:

in € million

| | Revenue from external customers | | Intersegment revenue | | Total | |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Bathroom and Wellness | 456.0 | 465.7 | 1.1 | 1.2 | 457.1 | 466.9 |
| Tableware | 289.3 | 277.9 | 0.0 | 0.0 | 289.3 | 277.9 |
| **Total segment revenue** | **745.3** | **743.6** | **1.1** | **1.2** | **746.4** | **744.8** |
| Eliminations | 0.0 | 0.0 | –1.1 | –1.2 | –1.1 | –1.2 |
| **Consolidated revenue** | **745.3** | **743.6** | **0.0** | **0.0** | **745.3** | **743.6** |

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

In € million

| | **31/12/2013** | 31/12/2012 |
|---|---|---|
| Bathroom and Wellness | 27.8 | 22.7 |
| Tableware | 8.4 | 8.2 |
| Real estate income from Gustavsberg property | 7.0 | – |
| **Operating result (EBIT)** | **43.2** | **30.9** |
| Net finance cost (see notes 39 and 40) | –9.4 | –12.5 |
| **Earnings before taxes** | **33.8** | **18.4** |
| Income taxes (see note 41) | –9.9 | –3.7 |
| **Consolidated earnings** | **23.9** | **14.7** |

The following assets and liabilities are assigned to the segments:

In € million

| | Assets | | Liabilities | | Net assets * | |
|---|---|---|---|---|---|---|
| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
| Bathroom and Wellness | 292.3 | 301.5 | 113.1 | 116.0 | 179.2 | 185.5 |
| Tableware | 137.3 | 140.6 | 42.6 | 45.4 | 94.7 | 95.2 |
| Reconciliation | 170.0 | 166.7 | 283.5 | 298.1 | –113.5 | –131.4 |
| **Total** | **599.6** | **608.8** | **439.2** | **459.5** | **160.4** | **149.3** |

* Prior-year figures restated due to IAS 19 amendments

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

In € million

| | Rolling assets | | Rolling liabilities | | Rolling net assets * | |
|---|---|---|---|---|---|---|
| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
| Bathroom and Wellness | 308.2 | 314.2 | 106.9 | 105.5 | 201.3 | 208.7 |
| Tableware | 140.2 | 135.3 | 40.0 | 40.4 | 100.2 | 94.9 |
| **Total** | **448.4** | **449.5** | **146.9** | **145.9** | **301.5** | **303.6** |

* Prior-year figures restated due to IAS 19 amendments

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:

In € million

| | Additions to intangible assets and property, plant and equipment | | Depreciation and amortisation | |
|---|---|---|---|---|
| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
| Bathroom and Wellness | 18.6 | 17.2 | –17.3 | –18.1 |
| Tableware | 7.8 | 9.2 | –9.0 | –8.9 |
| **Total** | **26.4** | **26.4** | **–26.3** | **–27.0** |

*Depreciation and amortisation* relates to the intangible assets and property, plant and equipment allocated to the individual segments.
The following table shows the revenue from external customers and non-current assets by domicile of the respective national companies:

In € million

| | External revenue | | Non-current assets* | |
|---|---|---|---|---|
| | 31/10/2014 | 31/12/2012 | 31/10/2014 | 31/12/2012 |
| German companies | 372.6 | 370.9 | 70.7 | 72.5 |
| Rest of euro zone | 145.3 | 155.9 | 28.8 | 28.7 |
| Rest of world | 227.4 | 216.8 | 91.7 | 95.9 |
| **Total** | **745.3** | **743.6** | **191.2** | **197.1** |

* In accordance with IFRS 8.33 (b)

# OTHER NOTES

## 53. FINANCIAL INSTRUMENTS

The recognition of primary and derivative financial instruments is based on their allocation to the 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"* and *"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 *"hedges"* category, the Villeroy & Boch Group uses financial derivatives exclusively to reduce the risks of planned operating transactions *(cash flow hedge*). These are recognised in the statement of financial position at fair value. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge. Changes in fair value that prove effective in accordance with 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:

| In € million | | | Amounts measured under IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Nominal value | Amortised cost | | Fair value | | |
| | **Carrying amount as at 31 Dec 2013** | **Amounts not measured under IAS 39** | **Cash reserve** | **Loans and receivables** | **Available for sale** | **Cash flow hedges** | **Carrying amount as at 31 Dec 2013** | **Fair value as at 31 Dec 2013** |
| Cash and cash equivalents (note 15) | 60.3 | – | 60.3 | – | – | – | 60.3 | 60.3 |
| Trade receivables (note 12) | 102.1 | – | – | 102.1 | – | – | 102.1 | 102.1 |
| Other financial assets (note 9) | 14.1 | – | – | 11.5 | 2.6 | – | 14.1 | 14.1 |
| Other assets (note 13) | 21.0 | 9.1 | – | 9.8 | – | 2.1 | 11.9 | 11.9 |
| | | | **60.3** | **123.4** | **2.6** | **2.1** | **188.4** | **188.4** |
| Other assets not recognised under IAS 39 (a) | | | | | | | 9.1 | – |
| Non-current assets – not including other financial assets (note 9) | | | | | | | 193.9 | – |
| Inventories (see note 11) | | | | | | | 148.8 | – |
| Deferred tax assets (see note 10) and income tax receivables (see note 14) | | | | | | | 51.7 | – |
| Assets held for sale (see note 16) | | | | | | | 7.7 | – |
| **Total assets** | | | | | | | **599.6** | **–** |

| In € million | Carrying amount as at 31 Dec 2013 | Amounts not measured under IAS 39 | Amounts measured under IAS 39 – Amortised cost – Liabilities | Amounts measured under IAS 39 – Fair value – Cash flow hedges | Carrying amount as at 31 Dec 2013 | Fair value as at 31 Dec 2013 |
|---|---|---|---|---|---|---|
| Trade payables (note 31) | 60.7 | – | 60.7 | – | 60.7 | 60.7 |
| Financial liabilities (note 29) | 51.2 | – | 51.2 | – | 51.2 | 51.2 |
| Other liabilities (note 30) | 77.9 | 31.5 | 44.7 | 1.7 | 46.4 | 46.4 |
| | | | **156.6** | **1.7** | **158.3** | **158.3** |
| Other liabilities not recognised under IAS 39 (b) | | | | | 31.5 | – |
| Equity | | | | | 160.4 | – |
| Current and non-current provisions (c) | | | | | 233.5 | – |
| Deferred tax liabilities (see note 10) and income tax liabilities | | | | | 15.9 | – |
| **Total equity and liabilities** | | | | | **599.6** | **–** |

(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 provisions for pensions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

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

In € million

| | | | Amounts measured under IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Nominal value | Amortised cost | | Fair value | | |
| | Carrying amount as at 31 Dec 2012 | Amounts not measured under IAS 39 | Cash reserve | Loans and receivables | Available for sale | Cash flow hedges | Carrying amount as at 31 Dec 2012 | Fair value as at 31 Dec 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) * | 20.7 | 7.7 | – | 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) | | | | | | | 7.7 | – |
| 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) * | | | | | | | 56.3 | – |
| Assets held for sale (see note 16) | | | | | | | 10.0 | – |
| **Total assets** | | | | | | | **608.8** | **–** |

In € million

| | | | Amounts measured under IAS 39 | | | |
|---|---|---|---|---|---|---|
| | | | Amortised cost | Fair value | | |
| | Carrying amount as at 31 Dec 2012 | Amounts not measured under IAS 39 | Liabilities | Cash flow hedges | Carrying amount as at 31 Dec 2012 | Fair value as at 31 Dec 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 * | | | | | 149.3 | – |
| Current and non-current provisions (c) * | | | | | 254.9 | – |
| Deferred tax liabilities (see note 10) and income tax liabilities | | | | | 15.1 | – |
| **Total equity and liabilities** | | | | | **608.8** | **–** |

* Prior-year figures restated due to IAS 19 amendments

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.

### Management of exchange rate risks

Exchange rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in exchange rates. The Villeroy & Boch Group uses currency futures to hedge these risks. The procedure for hedging exchange rate fluctuations is described in the management report under "Management of exchange rate risks". The following currency futures will be carried out in 2014 (see table at the bottom of this page).

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 5.6 million, NOK 40.0 million and CHF 5.1 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 2013 would have been € 1.6 million higher/lower (previous year: € 1.7 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income.

| In € million | Assets as at end of reporting period | | Liabilities as at end of reporting period | |
|---|---|---|---|---|
| | **Transaction volume** | **Changes in fair value** | **Transaction volume** | **Changes in fair value** |
| Within the next three months | 13.5 | 0.5 | 9.8 | 0.3 |
| In three to six months | 15.7 | 0.6 | 11.9 | 0.5 |
| In six to twelve months | 27.8 | 1.0 | 20.5 | 0.5 |
| **Total** | **57.0** | **2.1** | **42.2** | **1.3** |

### Management of commodity price risks

Commodity price risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market prices. The hedging strategy of the Villeroy & Boch Group is described in the management report under "Management of other price change risks". The following cash flows from the brass commodity swaps in place are due in 2014 and 2015:

| In € million | Assets as at end of reporting period | | Liabilities as at end of reporting period | |
|---|---|---|---|---|
| | **Transaction volume** | **Changes in fair value** | **Transaction volume** | **Changes in fair value** |
| Within the next three months | – | – | 1.0 | 0.1 |
| In three to six months | – | – | 1.0 | 0.1 |
| In six to twelve months | – | – | 2.0 | 0.2 |
| In more than twelve months | 0.7 | 0.0 | 0.7 | 0.0 |
| **Total** | **0.7** | **0.0** | **4.7** | **0.4** |

As at the reporting date and on the basis of production planning for the 2014 and 2015 financial years, there is an unhedged brass position totalling 1,380 tonnes (previous year: 1,080 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 2013 would have been € 0.5 million higher/lower (previous year: € 0.5 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income in 2013.

General procurement market risk is explained in the management report.

### Management of interest rate risks

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

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. According to a sensitivity analysis before tax effects, in the event of a theoretical change in interest rates in the 2013 financial year of +/– 50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.2 million higher/lower (previous year: € 0.2 million).

### Management of default and credit risks

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

### Management of liquidity risks

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

In € million

| | Carrying amount as at 31 Dec | 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 | 60.9 | 60.9 | 60.9 | – | – |
| Current and non-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 Dec 2012** | **156.8** | **221.9** | **134.9** | **32.6** | **54.4** |
| Trade payables | 60.7 | 60.7 | 60.7 | – | – |
| Non-current and current financial liabilities (a) | 51.2 | 66.5 | 13.7 | 27.0 | 25.8 |
| Other liabilities | 44.9 | 44.9 | 41.0 | 2.4 | 1.4 |
| Cash flow hedge liabilities (b) | 1.7 | 45.7 | 10.6 | 12.7 | 22.4 |
| **Total as at 31 Dec 2013** | **158.5** | **217.8** | **126.0** | **42.1** | **49.6** |

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 2.8 million (previous year: € 4.9 million) that will not be incurred until after 31 December 2013.

(b) The transaction volume of cash flow hedge liabilities in the amount of € 45.7 million (previous year: € 41.9 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 1.7 million (previous year: € 1.2 million) is forecast, equal to the statement of financial position item. € 0.4 million of this will be settled in the next three months (previous year: € 0.3 million).

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

### Net income from financial instruments

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

In € million

| | | Gain or loss on remeasurement | | | | |
|---|---|---|---|---|---|---|
| | Net interest income | Fair value | Currency | Write-downs | Reversal | Total |
| 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 hedge | – | 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** |
| Cash and cash equivalents | –1.3 | – | – | – | – | –1.3 |
| Loans and receivables/other Liabilities | –1.6 | – | 0.0 | –2.7 | 0.6 | –3.7 |
| Cash flow hedge | – | 0.5 | 0.0 | – | –2.1 | –1.6 |
| **Net result for the 2013 financial year** | **–2.9** | **0.5** | **0.0** | **–2.7** | **–1.5** | **–6.6** |

Net interest income is explained in detail in notes 39 and 40. The development of cash flow hedges is described in note 21c.

## 54. CONTINGENT LIABILITIES AND COMMITMENTS

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

In € million

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Guarantees | 28.0 | 0.3 |
| Trustee obligations | 2.0 | 0.2 |
| Other contingent liabilities | 0.1 | 0.0 |

The maximum guarantee commitments assumed that can be claimed from the Villeroy & Boch Group are shown as at 31 December 2013. The same figure for the previous year was € 30.4 million. The prior-year amount shown in the table above is merely the value of the maximum volume assumed.

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.

## 55. OTHER FINANCIAL OBLIGATIONS

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

In € million

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Obligations arising from orders placed: | | |
| ▪ for investments in intangible assets | 0.1 | 0.2 |
| ▪ for investments in property, plant and equipment | 3.7 | 3.3 |

60.5 % of the obligations to acquire property, plant and equipment in the amount of € 3.7 million relates to Villeroy & Boch AG, followed by Villeroy Boch (Thailand) Co. Ltd. (17.9 %).

## 56. RELATED PARTY DISCLOSURES

### Related company disclosures

In the course of our operating activities, we purchase materials, inventories and services from a large number of business partners around the world. This includes business partners in which the Villeroy & Boch Group holds equity interests and 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.

The Villeroy & Boch Group accounts for two companies using the equity method (see note 8). The newly founded V & B Lifestyle India Private Limited was launched in the reporting period with one sales office. For this reason, there are only minor trade relationships from the point of view of the Villeroy & Boch Group. No goods or services were provided to or by the German company accounted for using the equity method. From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to associated companies was immaterial.

Rödl System Integration GmbH, Nuremberg, is considered a related party in the Villeroy & Boch Group. The Villeroy & Boch Group generated service income of € 0.5 million in 2013 (previous year: € 0.5 million). An amount of € 0.0 million (previous year: € 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 € million | 2013 | 2012 |
|---|---|---|
| Current employee benefits | 3.7 | 3.6 |
| Post-employment benefits | 1.6 | 1.4 |
| Termination benefits | – | – |
| **Total** | **5.3** | **5.0** |

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

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

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

### Supervisory Board remuneration

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive fixed basic remuneration and a variable remuneration component.

The fixed annual basic remuneration is € 20,000. The Chairman receives an additional € 45,000, while the Deputy Chairman receives an additional € 13,500. Members of the Supervisory Board receive a fee of € 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 € 4,000 p. a. in addition to their basic remuneration, while the members of the respective committees each receive an additional € 2,500 p. a.

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

The above remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.
The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration for performing their duties in the financial year:

| In € thousand | Fixed remuneration | Meeting fees | Variable remuneration for 2012 | Total | Previous year |
|---|---|---|---|---|---|
| Wendelin von Boch-Galhau [2*), 3*)] | 73 | 5 | 5 | 83 | 84 |
| Peter Prinz Wittgenstein [1*), 2), 3)] | 42 | 5 | 5 | 52 | 52 |
| Ralf Runge [4)] | 34 | 5 | 5 | 44 | 47 |
| Werner Jäger [1), 4)] | 23 | 5 | 5 | 33 | 36 |
| Dietmar Langenfeld [2), 4)] | 23 | 5 | 5 | 33 | 34 |
| Ralf Sikorski [3), 4)] | 23 | 3 | 5 | 31 | 34 |
| Dr. Alexander von Boch-Galhau | 20 | 5 | 5 | 30 | 33 |
| Francois Villeroy de Galhau | 20 | 5 | 5 | 30 | 30 |
| Dietmar Geuskens [4)] | 20 | 5 | 5 | 30 | 30 |
| Jürgen Beining (until Dec 2013) | 20 | 4 | 5 | 29 | 31 |
| Christina Rosenberg (since Mar 2013) | 16 | 3 | – | 19 | – |
| Yves Elsen (since Mar 2013) [1)] | 17 | 3 | – | 20 | – |
| Dr. Jürgen Friedrich Kammer (until Mar 2013) | 5 | 1 | 5 | 11 | 34 |
| Charles Krombach (until Mar 2013) | 5 | 1 | 5 | 11 | 37 |
| Rounding differences | –2 | 1 | 3 | 2 | –1 |
| | **339** | **56** | **63** | **458** | **481** |

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.

A total expense of € 480 thousand was reported in consolidated earnings for the 2013 financial year (previous year: € 491 thousand). In addition to the fixed remuneration paid and the meeting fees for 2013, this figure includes € 63 thousand (previous year: € 63 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 22 thousand (previous year: € 10 thousand).

## Management Board remuneration

An expense of € 2,846 thousand (previous year: € 2,340 thousand) is reported in the income statement for the 2013 financial year. This figure is composed of fixed (€ 1,144 thousand; previous year: € 1,237 thousand) and variable salary components (€ 1,401 thousand; previous year: € 1,103 thousand). The fixed remuneration includes remuneration in kind of € 76 thousand (previous year: € 51 thousand), of which € 3 thousand (previous year: € 3 thousand) relates to insurance premiums.
Provisions for pensions for former members of the Management Board amount to € 22,706 thousand (previous year: € 23,102 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,437 thousand (previous year: € 1,359 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 2013 financial year.

## 58. AUDITORS' FEES AND SERVICES

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

| In € million | 2013 | 2012 |
|---|---|---|
| Audits of financial statements | 0.4 | 0.5 |
| Other assurance or valuation services | – | – |
| Tax advisory services | 0.0 | 0.0 |
| Other services | 0.0 | 0.1 |

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

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG (German Stock Corporation Act) for the 2013 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 28 November 2013. The declaration is permanently available to shareholders on the Internet.

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

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

## 61. LIST OF SHAREHOLDINGS

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

| In % | | Villeroy & Boch AG investment | | |
|---|---|---|---|---|
| | **Germany** | **Direct** | **Indirect** | **Total** |
| 1. | Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach | 100 | 0 | 100 |
| 2. | Heinrich Porzellan GmbH, Selb | 100 | 0 | 100 |
| 3. | INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach | 100 | 0 | 100 |
| 4. | Sales Design Vertriebsgesellschaft mbH, Merzig | 100 | 0 | 100 |
| 5. | Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen | 100 | 0 | 100 |
| 6. | V&B asset management Holding GmbH & Co. KG, Mettlach | 100 | 0 | 100 |
| 7. | V&B International GmbH, Mettlach | 100 | 0 | 100 |
| 8. | VilboCeram GmbH, Mettlach | 100 | 0 | 100 |
| 9. | Villeroy & Boch Creation GmbH, Mettlach | 100 | 0 | 100 |
| 10. | Villeroy & Boch Gastronomie GmbH, Mettlach | 100 | 0 | 100 |
| 11. | Villeroy & Boch Interior Elements GmbH, Mettlach | 100 | 0 | 100 |
| 12. | Villeroy & Boch K-Shop GmbH, Mettlach | 100 | 0 | 100 |
| | **Abroad** | **Direct** | **Indirect** | **Total** |
| 13. | Alföldi Kerámia Kft., Hódmezövásárhely (Hungary) | 0 | 100 | 100 |
| 14. | Delfi Asset S.A., Luxembourg (Luxembourg) | 0 | 100 | 100 |
| 15. | EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hong Kong (China) | 100 | 0 | 100 |
| 16. | Hissnabben Växjö AB, Växjö (Sweden) | 0 | 100 | 100 |
| 17. | Kiinteistö Oy, Helsinki (Finland) | 0 | 100 | 100 |
| 18. | Oy Gustavsberg Ab, Helsinki (Finland) | 0 | 100 | 100 |
| 19. | Proiberian S.l., Barcelona (Spain) | 70 | 30 | 100 |

| | | | | |
|---|---|---|---|---|
| 20. | Rollingergrund Premium Properties SA, Luxembourg, (Luxembourg) | 0 | 100 | 100 |
| 21. | S.C. Mondial S.A., Lugoj (Romania) | 99.44 | 0 | 99.44 |
| 22. | Ucosan BV, Roden (Netherlands) | 100 | 0 | 100 |
| 23. | Vilbomex S.A. de C.V., Ramos Arizpe, Coahuila (Mexico) | 88.32 | 11.68 | 100 |
| 24. | Vilbona Inc., San Diego (USA) | 0 | 100 | 100 |
| 25. | VILBONA MEXICO S.A. de C.V., Ramos Arizpe, Coahuila (Mexico) | 0 | 100 | 100 |
| 26. | Villeroy & Boch (Thailand) Co. Ltd., Bangkok (Thailand) | 0 | 100 | 100 |
| 27. | Villeroy & Boch (U.K.) Ltd., London (England) | 0 | 100 | 100 |
| 28. | Villeroy & Boch Arti della Tavola S.r.l., Milan (Italy) | 0.2 | 99.8 | 100 |
| 29. | Villeroy & Boch Asia Pacific PTE. LTD., Singapore (Singapore) | 100 | 0 | 100 |
| 30. | Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia) | 0 | 100 | 100 |
| 31. | Villeroy & Boch Austria G.m.b.H., Mondsee (Austria) | 100 | 0 | 100 |
| 32. | Villeroy & Boch Belgium S.A., Brussels (Belgium) | 99.99 | 0.01 | 100 |
| 33. | Villeroy & Boch Czech s.r.o., Prague (Czech Republic) | 100 | 0 | 100 |
| 34. | Villeroy & Boch Danmark A/S, Brondby (Denmark) | 0 | 100 | 100 |
| 35. | Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden) | 100 | 0 | 100 |
| 36. | Villeroy & Boch Hogar S.L., Barcelona (Spain) | 44 | 56 | 100 |
| 37. | Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary) | 99.99 | 0 | 99.99 |
| 38. | Villeroy & Boch MC S.à.r.l., Monaco (Monaco) | 99.89 | 0.11 | 100 |
| 39. | Villeroy & Boch Norge AS, Lorenskog (Norway) | 0 | 100 | 100 |
| 40. | Villeroy & Boch ooo, Moscow (Russia) | 100 | 0 | 100 |
| 41. | Villeroy & Boch Polska Sp.z o.o., Warsaw (Poland) | 0 | 100 | 100 |
| 42. | Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxembourg) | 100 | 0 | 100 |
| 43. | Villeroy & Boch Sales India Private Limited, Mumbai (India) | 100 | 0 | 100 |
| 44. | Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland) | 0 | 100 | 100 |
| 45. | Villeroy & Boch Sociéte Générale de Carrelage S.A.S., Paris (France) | 0 | 100 | 100 |
| 46. | Villeroy & Boch Tableware (Far East) Ltd., Hong Kong (China) | 0 | 100 | 100 |
| 47. | Villeroy & Boch Tableware B.V., Oosterhout (Netherlands) | 100 | 0 | 100 |
| 48. | Villeroy & Boch Tableware Japan K.K., Tokyo (Japan) | 0 | 100 | 100 |
| 49. | Villeroy & Boch Tableware Ltd., Aurora (Canada) | 0 | 100 | 100 |
| 50. | Villeroy & Boch Tableware Oy, Famelco (Finland) | 100 | 0 | 100 |
| 51. | Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China) | 100 | 0 | 100 |
| 52. | Villeroy & Boch USA Inc., New York (USA) | 0 | 100 | 100 |
| 53. | Villeroy & Boch Wellness N.V., Roeselare (Belgium) | 100 | 0 | 100 |
| 54. | Villeroy et Boch Arts de la Table S.A.S., Paris (France) | 0 | 100 | 100 |
| 55. | Villeroy et Boch S.A.S., Paris (France) | 100 | 0 | 100 |

| | **Investments** | **Direct** | **Indirect** | **Total** |
|---|---|---|---|---|
| 56. | Rödl System Integration GmbH | 49 | 0 | 49 |
| 57. | V&B Fliesen GmbH, Merzig (Germany) | 25 | 0 | 25 |
| 58. | V&B Lifestyle India Private Limited, New Delhi (India) | 50 | 0 | 50 |

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

## 62. 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 2012:

| Standard | | Name |
|---|---|---|
| IAS | 1 | Amendments to IAS 1 – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income |
| IAS | 19 | Amendments to IAS 19 – Employee Benefits |
| IFRS | 1 | First-time Adoption – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| IFRS | 1 | First-time Adoption – Government loans |
| IFRS | 7 | Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| IFRS | 13 | Fair Value Measurement |
| IFRIC | 20 | Stripping Costs in the Production Phase of a Surface Mine |
| Var. | | Improvements to the International Financial Reporting Standards, 2009–2011 cycle |

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

| Standard | | Name |
|---|---|---|
| IAS | 12 | Income Taxes – Deferred Tax: Recovery of Underlying Assets; effective for financial years beginning on or after the date of enactment (2 Jan 2013) |
| IAS | 27 | Separate Financial Statements; effective for financial years beginning on or after 1 Jan 2014 |
| IAS | 28 | Investments in Associates and Joint Ventures; effective for financial years beginning on or after 1 Jan 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 Jan 2014 |
| IAS | 36 | Amendment of IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets; effective for financial years beginning on or after 1 Jan 2014 |
| IAS | 39 | Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, effective for financial years beginning on or after 1 Jan 2014 |
| IFRS | 10 | Consolidated Financial Statements; effective for financial years beginning on or after 1 Jan 2014 |
| IFRS | 11 | Joint Arrangements; effective for financial years beginning on or after 1 Jan 2014 |
| IFRS | 12 | Disclosure of Interests in Other Entities; effective for financial years beginning on or after 1 Jan 2014 |
| Var. | | Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12), effective for financial years beginning on or after 1 Jan 2014 |
| Var. | | Investment companies (amendments to IFRS 10, IFRS 12 and IAS 27), effective for financial years beginning on or after 1 Jan 2014 |

The Villeroy & Boch Group will adopt these regulations from the financial year in which they are effective within the EU. The introduction of the consolidation project with the standards IFRS 10, IFRS 11 and IFRS 12 will not result in the reclassification of our Group companies. According to current information, the impact of the amendments described above is only minor.

The EU has not yet adopted the following IASB publications:

| Standard | | Name |
|---|---|---|
| IAS | 19 | Defined Benefit Plans: Employee Contributions (amendments to IAS 19) (issued 21 Nov 2013) |
| IFRS | 9 | Financial Instruments (issued 12 Nov 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transaction Disclosures issued 16 Dec 2011; Hedge Accounting and amendment to IFRS 9, IFRS 7 and IAS 39 issued 19 Nov 2013) |
| IFRIC | 21 | Levies (issued 20 May 2013) |
| Var. | | Annual Improvements to IFRSs 2010–2012 cycle (issued 12 Dec 2013) |
| Var. | | Annual Improvements to IFRSs 2010–2013 cycle (issued 12 Dec 2013) |

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 immaterial effect on the Villeroy & Boch Group.

# ADDITIONAL INFORMATION

## 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 the Villeroy & Boch AG, Mettlach, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2013. 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 legal representatives of the company. 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 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Ketterle,<br>Wirtschaftsprüfer<br>(German Public Auditor) | Waldner,<br>Wirtschaftsprüfer<br>(German Public Auditor) |

# MANDATES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

## MANDATES OF THE MANAGEMENT BOARD

### FRANK GÖRING

Chairman of the Management Board (CEO)

### ANDREAS PFEIFFER

Management Board member responsible for Bathroom and Wellness Division

*b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary*
*Villeroy & Boch Trading Shanghai Co., Ltd*

### NICOLAS LUC VILLEROY

Management Board member responsible for Tableware Division

### JÖRG WAHLERS

Finance and Human Resources (CFO)

*b) Linnenbecker GmbH & Co. KG, Erkrath*
*Rödl System Integration GmbH, Nürnberg (since 01.01.2013)*

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)

## MANDATES 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, Überherrn
- Managing Director of Solarpark Linslerhof GmbH, Überherrn
- Managing Director of Windenergie Britten GmbH, Britten

*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 * *(until 31 December 2013)*

Head of Sales Europe/Middle East/Africa Bathroom and Wellness Division

### DR. ALEXANDER VON BOCH-GALHAU

Management Consultant

*b) Union Stiftung, Saarbrücken*

**YVES ELSEN** *(since 22 March 2013)*
Managing Partner & CEO HITEC Luxembourg S.A.
*b) BGP Investment S.à r.l., Luxemburg*
*CBRail S.à r.l., Luxemburg*
*Ascendos Rail Leasing S.à r.l., Luxemburg*
*Fonds National de la Recherche, Luxemburg (Chair)*
*Carrosserie Robert Comes & Compagnie S.A., Luxemburg*

**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** *(until 22 March 2013)*
Former Chairman of the Management Board and Supervisory Board of Industrie-Chemie AG, Munich
*b) Wittelsbacher Ausgleichsfonds, Munich (Vice Chairman)*

**CHARLES KROMBACH** *(until 22 March 2013)*
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

**CHRISTINA ROSENBERG** *(since 22 March 2013)*
Managing Director of Hermès GmbH, Munich

**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*

**BERND THÖMMES *** *(since 27 January 2014)*
Head of Research and Development, Bathroom and Wellness Division

* 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)

# GLOSSARY

### Bull market
Bull market is a term used on the stock exchange to describe a scenario in which there is a sustained rise in share prices.

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

### PER (price-earnings ratio)
Performance indicator used in share valuation. The share price of a company is compared with its earnings per share. This shows the multiple at which earnings per share is valued by the stock market.

### 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 non-controlling interests.

### Return on Net Operation 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 Operation 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.

## COMPANY CALENDAR 2014

21 March 2014 – General Meeting of Shareholders, Merzig Town Hall

22 April 2014 – Report on the first three months of 2014

18 July 2014 – Report on the first half of 2014

21 October 2014 – Report on the first nine months of 2014

## IMPRINT

### EDITOR/CONTACT

Villeroy & Boch AG
Saaruferstraße – 66693 Mettlach – Germany
www.villeroy-boch.com

#### Investor Relations

We will be happy to send you additional copies of this Annual Report free of charge. Please feel free to order them by contacting:
Tel. +49 6864 81-2715 – Fax +49 6864 81-71331
investor-relations@villeroy-boch.com

#### Public Relations

Tel. +49 6864 81-1331 – Fax +49 6864 81-71331
presse@villeroy-boch.com

#### Careers

www.villeroyboch-group.com/en/careers

### CONCEPT/LAYOUT

IR-One AG & Co.
Hamburg – www.ir-1.com

#### Translation

EVS Translations GmbH
Offenbach – www.evs-translations.de

#### Photography

Bernd Hartung
Frankfurt a. M. – www.berndhartung.de

Chris Schuff
Saarbrücken – www.chris-schuff.com

#### Printing

Grafisches Centrum Cuno GmbH & Co. KG
www.cunodruck.de

### DISCLAIMER

#### Forward-looking statements

This annual report contains forward-looking statements based on management estimates of future developments at the time this report was prepared. These statements are subject to risks and uncertainties that Villeroy & Boch is largely unable to influence or precisely evaluate. Among other things, this includes the future economic and legal market conditions, the behaviour of other market participants and expected synergy effects. If these or other uncertain factors were to occur in reality or the assumptions underlying the forward-looking statements were to prove incorrect, the actual results could deviate from the expected results described herein. Villeroy & Boch does not intend to update these forward-looking statements after the reporting date in order to reflect future events or developments.

#### Rounding differences

The percentages and figures in this report may be subject to rounding differences.

#### Technical discrepancies

There may be discrepancies between the accounting documents contained in this 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.

Villeroy & Boch
1748