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LOOKING TO THE FUTURE

Key innovations and projects at Villeroy & Boch

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EDITORIAL

Frank Göring,
Chairman of the Management Board

Dear Readers,

As the name of our magazine suggests, this year we want to provide you with some more insights into the varied work we do at Villeroy & Boch. You can expect to read about a wide range of topics, but there is one key word you will encounter again and again: innovation. From the Bathroom and Wellness Division to the Tableware Division, from production to customer services, Villeroy & Boch seeks to innovate in every single area. Insights presents these new developments and the people who have worked on them.

A pioneering spirit has always been one of the strengths of Villeroy & Boch. The innovations of the past have made the company what it is today. And the innovations of today and tomorrow will ensure that Villeroy & Boch continues to set new standards. Today's innovations include software for 3D glasses that allows customers to walk through their planned new bathroom in virtual reality, as well as new services in the Tableware Division to connect the in-store and online sales channels.

"We reflect the spirit of the times with our products"

Villeroy & Boch is also typically innovative when it comes to design – and another three of our products won awards this year. I am always particularly pleased by accolades like this, because they show that we reflect the spirit of the times with our products.

The awards are not restricted to our products, however: in the past year, we were also highly ranked in a survey on consumer confidence conducted by WirtschaftsWoche magazine and the analysis and consulting firm ServiceValue, in which more than 278,000 customer ratings were evaluated. Villeroy & Boch achieved first place in the household goods category, while our brand also enjoyed a strong tenth place in the overall ranking of 973 companies from 62 industries, with a consumer confidence index of 90.9 percent. We are pleased that our high standards in terms of product and service quality, design and functionality are being rewarded in the form of customer confidence in our brand. At the same time, this award also provides us with inspiration to continue to do our very best.

I hope you enjoy reading the magazine.
Yours,

Frank Göring

HIGHLIGHTS

NETWORKED THINKING: CROSS CHANNEL AT VILLEROY & BOCH

The innovative ideas developed by the Tableware Division are not restricted to new product ranges, décors or ceramic shapes, but also extend to intelligent customer services. "Cross Channel" is the keyword. Insights looks at the background to the networking of the company's online and offline distribution channels and the new opportunities this opens up for Villeroy & Boch customers.

The days when in-store sales were the only distribution channel are over. For example, today's customers also enjoy searching online then buying in person, or vice versa. Studies show that around 40 percent of in-store purchases are preceded by a search in the online store. This makes it all the more important to ensure that the various sales channels are optimally networked.

"We no longer view sales channels in isolation but are increasingly seeking to integrate them," explains Erik Walter, who manages the "Cross Channel" project team in his role as Head of Own Retail International at Villeroy & Boch. A seamless shopping experience and a strong focus on the customer are the driving forces: "We want to give our customers a wide range of options when it comes to experiencing our brand and buying our products," says Laurent Turmes, Director of Sales for the Tableware Division. "For example, Click & Collect is one of the services we launched in 2015: customers can buy online then pick up their purchase at a store of their choice. There is also an online search function for finding nearby stores," adds Walter.

Villeroy & Boch's IT, Own Retail, Marketing, Supply Chain Management and Sales department are working in close cooperation to optimally network the channels and establish various new tools. "All with the same goal – to make Cross Channel services as accessible and usable as possible for our customers," says Walter.

Challenges like synchronising information from the stores, the e-shop and the central warehouse have been successfully overcome, employees have been trained and a wide range of Cross Channel services have already been established (see illustration). And the response has been positive, as demonstrated by the user numbers for the "Check & Reserve" service for example: In December 2015 alone, 8,500 customers used the e-shop to check whether an item they viewed online was also available in their branch of choice.

> *"Our aim is a global roll-out."*

Having begun in the German-speaking markets, Cross Channel activities are now being expanded into neighbouring countries such as France, Luxembourg, Belgium and the Netherlands. Walter: "Our aim is a global roll-out. Needless to say, we will also continue to permanently develop our tools and work on establishing additional Cross Channel services."

Erik Walter is in charge of the "Cross Channel" project. One of the tools is the Personal Sales Assistant, which shows customers in store the entire product range.

VILLEROY & BOCH'S CROSS CHANNEL SERVICES AT A GLANCE

PERSONAL SALES ASSISTANT

Personalised assistance is and remains important for customers. The Personal Sales Assistant (PSA) helps sales employees to provide customers with targeted support. The tablet contains the entire product range in digital form, so items that are not in stock can be displayed and ordered. They are then delivered to the customer's home or to the store for collection as preferred. One useful side-effect is that more targeted delivery according to demand means less storage space is needed at the Villeroy & Boch stores.

CLICK & COLLECT

Order online, collect in-store: this service allows customers to order products from the comfort of their own home and collect them "offline" at a store of their choice. Another advantage is that customers can take a look at the items in person and return them immediately if they are not to their liking.

IN-STORE AVAILABILITY

In the age of mobile devices, customers often quickly check online to see where the next store is and what products are in stock. This information can be called up flexibly online.

GIFT LIST

Villeroy & Boch has provided an offline gift service for a number of years, allowing bridal couples or people celebrating their birthday to make a wish list of Villeroy & Boch products for their guests to order from. Now the offline gift list has been linked up to the e-shop and can be created and edited both online and in-store. This gives customers greater flexibility when it comes to buying gifts: now they can make their purchase in person or in the e-shop, with the option of having the products delivered or collecting them in a store of their choice.

ONLINE RETURNS

Customers who place orders online can return items free of charge either online or in-store.

CHECK & RESERVE

This function allows items to be reserved for 72 hours if they are in stock, so the customer can be sure they will still be available when they visit the selected store at a time that suits them.

ONLINE & OFFLINE GIFT VOUCHERS

Whether they are purchased online or offline, all Villeroy & Boch gift vouchers can be used both in the e-shop and in-store.

"WHAT WE HAVE ACHIEVED HERE IS SOMETHING UNIQUE"

Modern technology is changing our ways of communicating, our habits, and our world. At Villeroy & Boch, it is even making it possible to see the future – at least when it comes to planning a new bathroom. 3D glasses are the reason. Welcome to virtual reality.

Cor de Rooij knows all about high-tech and digital gadgets – they form the basis of his work at Villeroy & Boch. The multimedia manager is in charge of one of the most exciting innovation projects in Mettlach: the virtual bathroom, viewed using 3D glasses, which represents an entirely new form of bathroom planning.

The project was launched in September 2014 and the results were already presented at the ISH, the leading trade fair for the sanitary ware industry, in Frankfurt in March 2015. Seven months from the initial idea to the première: a challenge, without a doubt. The success of the tight schedule was due in part to the Hamburg-based innovation agency Nerdindustries, which develops 3D software for virtual reality glasses – predominantly for gaming. But as de Rooij explains: "A visionary project like this means taking new approaches."

The appearance at the ISH was a big hit and the virtual bathroom met with great enthusiasm. The main ingredients for the digital spatial experience: the "Oculus Rift" 3D glasses, which bring a bathroom to life before the user's eyes, and special 3D cameras that record the user's movements to ensure that the space is displayed realistically.

> *"In the next phase, we will improve the bathroom animation"*

A "walk-through" of four virtual bathrooms was initially available at the ISH. Since then, the system has been developed further to allow the measurements of the bathroom to be set in advance. Another development is aimed at removing the need for a dedicated showroom space in future: users will be able to stay comfortably seated, using a joystick to control their virtual tour and move the bathroom around them instead of vice versa. De Rooij: "In the next phase, we will improve the bathroom animation so that users can open drawers, for example."

One key element when it comes to providing optimal service for retailers is the connection to the other bathroom planning and product software that is already in development, with the release date set for August 2016. This means it will soon be possible to virtually integrate every collection and hence plan bathrooms creatively – a

Looking through the 3D glasses brings the planned bathroom to life.

unique service offered by Villeroy & Boch to its retail partners. A pilot phase using the 3D glasses has already begun at the House of Living in Lübeck, and a wholesaler in Dülmen has also been using the system since late January 2016. A total of ten pilots are planned in the major cities of Milan, London and Paris and at seven locations throughout Germany.

> *"The 3D glasses are intended to supplement the showroom concept"*

Will the 3D glasses make the bathroom showroom a thing of the past? "The 3D glasses are intended to supplement the showroom concept – after all, people will still want to touch 'their' washbasin, see how the surface feels, and so on. At the same time, what we have achieved here at Villeroy & Boch is something technologically unique. The virtual bathroom serves to demonstrate our innovative strength. And it means we can offer one thing above all else: truly unrivalled, groundbreaking service."

Multimedia Manager **Cor de Rooij** is in charge of the virtual bathroom project.

INSPIRE WITH GIFTS

Birthdays, weddings, Christmas, Easter, Valentine's and Mother's Day, as an invitation or to say thank you – there are all kinds of reasons for making someone happy with a gift. Gifts are a key area for Villeroy & Boch. The current product portfolio features a wide range of gift items aimed at satisfying a broad spectrum of customer demand. Nicolas Luc Villeroy, Management Board member responsible for Tableware, talks about the ideas and strategies behind the company's gifts.

Appealing packaging is key when it comes to gifts.

Mr Villeroy, Villeroy & Boch has been focusing on gifts for some time now. Why?

Villeroy: Gifts are a diverse and emotional field with a large market – a market in which Villeroy & Boch now also has a share. People looking for a suitable gift might not have previously thought of Villeroy & Boch right away. We changed that: since early 2015, we offer special gift series like Little Gallery and Rose Cottage, which are enjoying an extremely positive response among customers. But we also offer items from our existing ranges as gift items. After all, almost anything can be given as a gift – the only limit is your imagination! *(laughs)* It doesn't always have to be a full service. Individual items from our coffee and tea range also make good gifts, for example.

> *"Since early 2015, we offer special gift series"*

One of our aims was to help consumers to come to a decision and make a spontaneous choice thanks to inspirational presentation at the point of sale (POS), our new „online gift finder" and appealing packaging, for example. Attractively packaged gifts can also potentially attract more customers.

What is the target group for the gift items?

Villeroy: Broadly speaking, there is no such thing as the specific target group – after all, who does not enjoy giving gifts? We try to appeal to consumers who are looking for a gift for a specific occasion. But for fans of Villeroy & Boch, we have also transferred some of our favourite décors, such as Mariefleur and Amazonia, to existing popular forms from our product range. These can be given as standalone gift items or added to a collection or an existing service. For example, one particularly special item for passionate collectors is the limited-edition tureen Lucia's, which is produced at our Luxembourg manufacturing plant.

Gifts enjoy a particular status in many countries of the world, such as in Asia and the Middle East. Does the range also meet different regional requirements?

Villeroy: Yes, this naturally formed part of our thinking. As an international company with a presence in more than 125 countries, it is important for us to demonstrate foresight, recognise customer demand and develop product ranges that meet this demand. We identified key markets for the different collections and décors. For example, Mariefleur, Mariefleur Gris and Petite Fleur are extremely popular in our Central European markets, the Asian market likes Design Naif and Samarkand is popular in the Middle East, while Rose Cottage is especially appealing to consumers in the United Kingdom and Australia.

The gift item concept was introduced at the Ambiente trade fair in 2015. What has the response been like to date?

Villeroy: We are extremely satisfied with the response. Our customers appreciate the high quality of our gift items. Particularly popular ranges, such as the Rose Cottage collection or the Nek, Numa and Tiko mini-vases, will be expanded further in 2016 and accompanied by new collections and items.

Popular décor: The **Rose Cottage** gift series will be expanded further in 2016.

To finish with a personal question: if you could pick out an item to receive as a gift, what would it be?

Villeroy: That is a very difficult question for me to answer. *(laughs)* I like surprises. But if it is a Villeroy & Boch product, I will certainly like it!

Nicolas Luc Villeroy, Head of the Tableware Division

Small vases, big pleasure: The **Nek, Numa** and **Tiko** mini-vases are extremely popular gift items.

TITANCERAM – A MATERIAL WITH A BRIGHT FUTURE

Ceramics are the area of expertise for Villeroy & Boch. The company has strongly influenced the development of ceramic ware and the products and materials used over the past centuries. In 2015, Villeroy & Boch introduced TitanCeram, an innovative addition to its range of ceramic materials.

THREE FACTS ABOUT TITANCERAM

FACT 1

TitanCeram is a material developed by Villeroy & Boch and produced in Mettlach.

FACT 2

Ceramic sanitary ware loses water during the firing process, meaning it shrinks in size. TitanCeram sees approximately 50 percent less shrinkage during productioncompared with traditional ceramic sanitary ware, resulting in products with greater dimensional accuracy.

FACT 3

TitanCeram is very strong, which enables delicate designs to be produced with walls that are up to 50 percent thinner than traditional ceramic sanitary ware.

He has been with Villeroy & Boch for three decades and knows the company and, in particular, the materials inside and out: **Bernhard Thömmes,** Head of Ceramic Development at Villeroy & Boch. The capabilities of the TitanCeram material are clearly demonstrated by the Octagon washbasin: exact angles, thin walls and precise edges combine with a brilliant-cut effect to give the interior an impressive diamond look.

One series, four shapes: the **Artis** washbasin. Artis is available in four shapes: round, oval, rectangular and square. What they all have in common is a delicate and light appeal.

Ceramics are perfect for the bathroom, natural and sustainable, yet it is also a high-tech material that is used in a number of industries and that is continuously evolving. Including at Villeroy & Boch, where TitanCeram is setting new standards in terms of material properties. Its strength makes very thin walls possible, opening up new and delicate shapes and designs that are popular among consumers. Strong dimensional stability, resistance to continuous use and a high standard of hygiene are also in demand. In addition to these consumer requirements, ensuring the lowest possible cost of materials in production and limited loss of material in the firing process are important factors for Villeroy & Boch. TitanCeram combines the best ceramic properties.

The material is composed of well-known ceramic ingredients: "TitanCeram is produced using the natural materials of clay, kaolin, feldspar, quartz and pegmatite enriched with titanium oxide – hence the name TitanCeram. But the exact recipe, i.e. the percentage composition of the raw materials, is and remains a company secret," explains Bernhard Thömmes, Head of Research & Development for Ceramic Development at Villeroy & Boch, with a twinkle in his eye. TitanCeram is an innovative material, an in-house product that is manufactured in Mettlach following the delivery and strict inspection of the incoming raw materials.

Thömmes and his team spent two and a half years working on the ceramic development of TitanCeram. There was research, testing and development. The company's marketing and production teams and its suppliers were involved at every stage of the process. The impetus for a new material or product can come from different sources. "In this case, the design specifications from the marketing department were extremely high. For us, that meant the production process also had to be enhanced. The only way to achieve an optimal result is through close cooperation between all of the internal and external participants," says Thömmes. The result is astounding: in March 2015, TitanCeram was presented at the ISH trade fair in the form of the Octagon column bathroom sink and the Artis washbasin series.

Thömmes: "We are continuing to work on the material and new premium products are in the planning phase. After all, that is why we developed TitanCeram – as a material with a bright future."

FROM FIRECLAY TO TITANCERAM

Washbasins in the 18th century took the form of jugs and bowls, large and bulky. They were made from **fireclay,** a coarse material that absorbed water and became porous over time, leading to fine cracks. An aesthetic quality in the art world, but a defect when it comes to ceramic sanitary ware.

The further development of the material led to **fine fireclay,** which offered greater strength, suffered from fewer tension problems and enabled smaller and more elegant shapes. This should not be confused with traditional sanitary porcelain, **vitreous china,** which loses a lot of water and shrinks considerably during the firing process, making it well suited to robust products. These materials were used for many years (indeed, vitreous china is still in use today) and gradually evolved until **VilboPlus** came along.

Villeroy & Boch presented **VilboPlus** in the mid-1980s. An enhancement of the existing fine fireclay with improved strength for more delicate shapes, but also with increased shrinkage during firing and higher material consumption.

Finally, the permanent development and improvement of ceramic materials resulted in the birth of **TitanCeram.** A material that not only experiences little shrinkage during the firing process, but is also extremely strong, making it ideal for the production of particularly delicate washbasins with straight lines – a popular trend in the field of ceramic sanitary ware.

Pasta Passion boasts refined features: A notch on the edge of the pasta plate (left) makes it easy to get the last noodle onto the fork. The two pasta plates as well as the spaghetti plate have a cutlery rest to stop forks and spoons from sliding while serving or clearing up. The spaghetti plate also has an indent that allows the pasta to be twisted easily using one hand, without a spoon.

One plate, three compartments: **BBQ Passion** has separate areas for sauces and dips, salads, and the BBQ food itself.

ENJOYING PASTA AND BBQ

Special pasta and grill plates, noodle bowls and BBQ platters: the Tableware Division has been focusing on stylish and functional standalone items like these since 2015. They are ideal for modern eating habits – including beyond traditional table-based dining – and represent a successful addition to Villeroy & Boch's existing product portfolio.

Villeroy & Boch presented the BBQ Passion series at the start of 2015. Reflecting the current popularity of BBQ cooking, the items are tailored towards different BBQ dishes. BBQ is popular all over the world, all year round. The range of BBQ specialities is vast, from sausages to vegetable kebabs to steaks – and this variety is reflected in the features the corresponding tableware needs to offer. "A desire to meet these requirements as best as possible was what inspired the development of BBQ Passion," explains Sandra Ehlen, Tableware Product Manager. The modular product range of the new series encompasses special BBQ tableware in different sizes, with separate compartments for sauces or dips and specific food items. The BBQ Passion serving platters have ridges to help keep meat and vegetable skewers juicy without becoming soggy. The sausage plate is just the right size for a Thuringian bratwurst, while the XL plate can fit a T-bone steak.

"Consumer behaviour was a key element in the development process. Dining traditionally takes place at the table, but nowadays there are many other occasions to eat. Our items need to be flexible in terms of how they are used," adds Ehlen. The BBQ Passion products certainly fit the bill, whether at the traditional dining table, on the couch or in the garden. And they are enjoying a good response among more than just BBQ enthusiasts: in 2015, BBQ Passion received the Red Dot Design Award for innovative product design [for more information see p. 37].

Villeroy & Boch has also been offering functional standalone items for pasta fans since 2015. Reflecting the different pasta shapes, special shapes were developed for the Pasta Passion series, which consists of two pasta plates, one spaghetti plate and one pasta bowl. All of them have a cutlery rest to stop forks and spoons from sliding while serving or clearing up. "Terms like 'twisting indent' and 'pushing feature' may sound amusing, but they describe the refined features offered by Pasta Passion," explains Nina Stoltenberg, who works in Brand Management for Tableware, with a chuckle. The indent means that spaghetti can be twisted onto the fork easily and gracefully with one hand – without a spoon, just like real Italians. And a notch on the edge of the plate makes it easy to get that last noodle onto your fork or spoon. "Half of all Germans eat pasta once a week. Pasta is popular; a good reason for Villeroy & Boch to develop the Pasta Passion series. The result is standalone items for pasta fans that are not only functional, but also attractive and stylish," adds Stoltenberg.

For centuries, Villeroy & Boch has identified trends and turned them into new products that are stylish and refined at the same time. Changing lifestyles are leading to growing worldwide demand for individual solutions. Which is precisely what is offered by BBQ Passion and Pasta Passion.

Product Manager **Sandra Ehlen** (left) and Brand Manager **Nina Stoltenberg** discussing **BBQ Passion** and **Pasta Passion**.

Artis combines technical perfection with harmonious colour concepts for the bathroom.

COLOUR IS KEY

The days of restraint are over: colourful ceramic ware is conquering the bathroom and kitchen. A good reason to take a look behind the scenes of colour development at Villeroy & Boch.

The trend in recent years has been towards discreet colours in the bathroom, but this is now changing. Colour accents are in demand, with both pastel and stronger colours enjoying increased popularity," explains Julia Stuckert, Product Manager for Ceramic Sanitary Ware. "Light blue or rosé may not have been people's first choice for their bathroom in the previous years, but in combination with other colours and materials, they can open up entirely new design avenues," Stuckert continues. Danish-German designer Gesa Hansen has developed the colour concept for Villeroy & Boch's Artis washbasin edition. Artis is white on the inside but colourful on the outside – with no fewer than 15 shades available.

40 years of experience in colourful ceramics

The inspiration for new colours can come from furniture, fashion, or the automotive industry. Often though, an idea does not take shape until designers get involved – such as the Paris-based Gesa Hansen, who has developed four distinct colour concepts for Artis: "Paris seasons" is the theme behind her colour palettes in yellow, rosé, blue and green, accompanied by three more neutral shades. These colour formulations are not the only global première. The innovative application method for Artis, which enables an exceptionally precise separating line between the white and coloured surfaces, has been developed exclusively by Villeroy & Boch.

An eye-catcher in the kitchen: Colourful sinks open up new possibilities for customised kitchen design. The colour concept by designer Gesa Hansen encompasses **Midnight** (top), **Emerald** (bottom), **Coral** and **Sunset**.

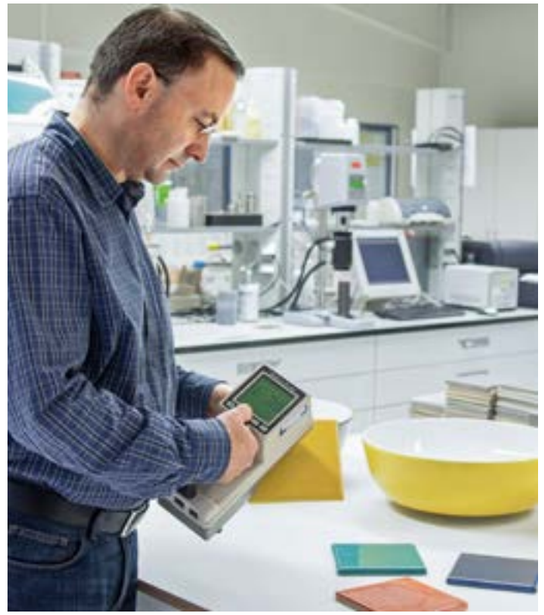
Colourful bathroom ceramics – this is an area where Villeroy & Boch can look back on more than 40 years of experience. "As early as the 1970s, our portfolio encompassed 19 ceramic colours, including creations such as curry, moss green and Bermuda. Today the range of colours numbers around 40," says Arno Stutz, a ceramic engineer in material development. Glazes, colour formulations and surfaces with a special look or feel are his area of expertise. When it comes to glazing, Stutz has a lot of interesting things to say: about how the ceramic pigments are fired for 22 hours at 1,200 degrees Celsius; the vital role played by product safety and durability; and the strict and uncompromising standards that have to be met, from Germany to Australia.

The biggest challenge when it comes to coloured ceramics is "translating" the colour concept from paper into ceramic pigments. Samples are fired and initially evaluated purely in visual terms. "Based on past experience, we know roughly what pigments we need to mix into the basic glaze to create a certain colour," explains Stutz. If the result comes very close to the paper sample, it is defined even more closely using colorimeters. These determine the LAB values for both the paper sample and the glaze: L for Lightness, A for the red/green axis and B for the yellow/blue axis. The difference between the individual measurements for the two samples shows which pigments still need to be added to the glaze. Once all of the measurements are correct, the next step takes place at the plant, where the colour glaze for the item is tested and validated for production. Colour formulations and new methods like those being used for Artis are, of course, trade secrets. Arno Stutz: "I don't like the word 'secret', but we are talking about the expertise that sets us apart from the competition."

Villeroy & Boch is also making a real impression when it comes to kitchen sinks – and compared with its washbasins, the colours here are strong tones named Coral, Sunset, Emerald and Midnight. Here, too, Gesa Hansen has developed the colour concepts based on the four seasons. "Vibrant colours are becoming increasingly popular in living areas. Colourful ceramic sinks open up additional possibilities for customised kitchen design," explains Product Manager Fidan Sudzadinowa. "Part of the idea was to develop the right material concepts to accompany the colour concepts, so that interested customers could easily be provided with inspiration on how to harmoniously combine colourful sinks with different materials within their kitchen."

"Villeroy & Boch has always been a trend-setter!"

After many years of restraint, the kitchen and the bathroom are becoming more colourful places again. And there are likely to be even more new colours and new design ideas in future. Arno Stutz: "When we have a new idea, we do everything to implement it as best as we can. We frequently approach things from a new angle and develop them completely differently. Villeroy & Boch has always been a trend-setter!"



Ceramic engineer **Arno Stutz** uses a colorimeter to check whether the colour on the product matches the paper sample.

COLOURFUL CERAMICS — PAST HIGHLIGHTS

A collection by **Luigi Colani,** 1975: Colour and design reflecting the spirit of the time.

Virginia Flammé: A glaze for the modern kitchen — in the 1970s.

Loop & Friends grabbed the attention at the turn of the millennium with colourful inner surfaces.

THREE QUESTIONS TO DESIGNER GESA HANSEN

Ms Hansen, what was the inspiration behind the colour concepts you have created for Villeroy & Boch?

I was inspired by nature and the four seasons: the fresh green of springtime, the bright summer sun, the rusty-coloured autumn leaves and the coolness of winter. And, of course, Paris — the special flair, the joie de vivre and the culture of the French capital also had an influence on my colours.

You have developed colours for ceramic sinks as well as washbasins. What are the differences?

The colours for the ceramic sinks are stronger than those for the washbasins. They deliberately create a stronger impression in the sink area, making them into an eye-catcher. And the ceramic sinks are fully coloured, while the colourful Artis washbasins have a dual-colour effect with a bright white interior and a colourful exterior. Their design as a surface-mounted washbasin also means they have a different impact.

Do the kitchen and bathroom colours match?

Yes, they do. The same colour family can be used in the kitchen and the bathroom or different colours can be combined. The kitchen and bathroom colours are designed in such a way as to create a harmonious ambience using a single colour concept as well as allowing accentuated designs using different colours. But whichever version you go for, the result is always an interior design with a coherent, expressive colour palette.

"OUR TECHNOLOGY IS SUPERIOR"

Villeroy & Boch has made a big splash with DirectFlush. Insights tells the story of a WC technology that has won over retailers, consumers and project planners alike.

+95%

In 2015, sales of DirectFlush and HygieneFlush WCs doubled year-on-year to 385,000 units.

The rimless **DirectFlush** WC is a big success. A reason to celebrate for **Andreas Pfeiffer,** Head of the Bathroom and Wellness Division (top right), and **Thomas Kannengießer,** Head of Product Management Projects.

When do you know an innovation will be a success? According to Thomas Kannengießer, Head of Product Management Projects, the answer is very early on. "As soon as we developed the initial ideas for DirectFlush, we were confident that it was going to cause a sensation." What they had invented was a technology that casts doubt on the good old WC flush, combining optimal flush performance, easy-care hygiene and low water consumption with maximum effectiveness.

DirectFlush is not a miracle of high-tech electronics, but the result of intelligent engineering. The concept for the rimless WC also won over the innovation management team and was quickly green-lighted for final product development – a process "that resembles the Papal conclave in the Sistine Chapel," says Kannengießer with a chuckle. "The white smoke (purely figurative, of course) appears once the team of marketing, controlling, the development departments and production have found the perfect solution. We have to be satisfied in every respect: with the forecast economic success, the design, the technology, the production methods and, of course, the validity of the figures."

Nine months passed between the idea and the prototype, before the first DirectFlush WC was presented in Germany in summer 2012. It quickly picked up a head of steam all by itself. Kannengießer talks about the "chip effect": "The capacity of storage media doubles every year. Our DirectFlush sales are doing the same thing."

DirectFlush offers the user a number of benefits all at once

This comes as no real surprise, as DirectFlush offers the user a number of benefits all at once. The rimless design makes it not only easier to reach many parts of the WC for cleaning, but the technology is so intelligent that it rinses the bowl equally thoroughly despite its low water consumption of just 3 or 4.5 litres, thereby minimising the need for cleaning right from the start. Initially designed as a solution for Villeroy & Boch's project business, with potential uses in hospitals or other public buildings where hygiene is essential and cleaning is an important cost and time factor, end consumers quickly also took an interest in the product and its combination of ideal flush performance, low water consumption and easy cleaning. "With DirectFlush, we have given retailers an innovation that they can talk about and explain. The benefits of the product are visible and easy to understand for the consumer," explains Andreas Pfeiffer, Head of the Bathroom and Wellness Division.

"The German market has turned around completely"

The DirectFlush family has continued to grow since its launch in 2012. Starting from an initial range of five, it now encompasses 21 different models offering extensive scope when it comes to bathroom design. And there will be even more choice in future: all newly developed WCs will be fitted with DirectFlush technology as standard. At present, existing WC models generally come in one of two variants. In Germany and Scandinavia, DirectFlush is already very well established: "The German market has turned around completely," notes Pfeiffer. At Gustavsberg in Scandinavia, the HygieneFlush, as the DirectFlush is called there, is already the market leader in its segment. Now DirectFlush is looking to conquer new markets in Europe, the Middle East and Asia. All of which comes as no surprise to Andreas Pfeiffer: "DirectFlush is a superior technology. It is the WC standard of the future."

INTELLIGENT ENGINEERING

In the rimless DirectFlush WCs, the conventional flushing rim is replaced with an intelligent water flow that rinses the entire interior of the bowl, without over-splashing — this is ensured by the special splash guard on the upper edge of the bowl and the higher positioning of the water jets.

With a water consumption of only 3 or 4.5 litres, DirectFlush maintains a consistently high flushing efficiency. The rimless surface is completely glazed, allowing quick and easy cleaning.

INVESTING IN THE FUTURE

Villeroy & Boch and Mettlach: A company and a location that have been inseparably linked for more than 200 years. Now a visionary location development project is giving this relationship a new quality.

The redevelopment of the **Abteigarten restaurant** — the first sub-project of Mettlach 2.0 — was completed in summer 2015.

Around 50 percent. That is the share of the built-up area in Mettlach currently occupied by Villeroy & Boch – for now, at least. In just a few years, "Mettlach 2.0" will be a reality. By then, old factories will have been demolished, existing buildings will have been renovated, converted, dismantled or repurposed, and the abbey grounds and surrounding area will have grown together as a green public space. Mettlach 2.0 will provide Villeroy & Boch's employees with a working environment that is fit for the future – as well as creating new leisure and shopping facilities and discovery space for residents, guests and tourists. This, along with a desire to make better use of the unique features of the Old Abbey site, was the impetus behind the project.

> *"The former 'forbidden city' is opening its doors"*

"The former 'forbidden city' is opening its doors," is how CEO Frank Göring sums up the Mettlach 2.0 project. The initial idea was followed by discussions with politicians, leading to design concepts, surveys, land use plans, approvals and subsidy applications. The community and Villeroy & Boch signed a cooperation agreement on the future development of the site and its integration into the local area.

The vision for the company's headquarters.
Open space planning: MESS/Laport; architecture: bochem.schmidt architekten and inhouse; illustration: KULLE | Art Direction

20 million is the other key figure when it comes to the project. This is the amount in euros that Villeroy & Boch will invest in Mettlach 2.0 over the next years. CFO and client representative Dr. Markus Warncke: "It is not an excessive amount when you look at the scale of the task at hand. After all, we are talking about a site of around 60,000 square metres. For us, this project is a vital one from a Group perspective. It represents an investment in the next generation."

The first Mettlach 2.0 sub-project was completed in summer 2015 with the redevelopment of the employee restaurant Abteigarten. The changing working environment, which is increasingly characterised by project structures and interdisciplinary, international teams, is reflected in a new workplace concept: 2017 will see the completion of a new office and conference centre with open structures and a wide range of meeting places intended to promote communication and cooperation between all employees. And future development will not be limited to indoors: Outside working spaces in the park will add further variety to the working environment. Plans also include the transformation of Keravision, the Tableware exhibition, the museum, the Bathroom and Wellness information centre and an outlet store functioning as a new brand discovery centre, thereby adding a further highlight to the booming field of industrial and shopping tourism. Additional buildings will be developed in the following years for the construction of new working areas, as well as retail space for product ranges that fit the Villeroy & Boch brand. The grounds, car parks and thoroughfares will also be newly designed so that the Old Abbey, the park and Mettlach town centre can grow together – more attractively than ever before.

Mettlach 2.0 combines opportunities for the company and the community alike, as Frank Göring explains: "Villeroy & Boch is providing young talents and professionals with a ground-breaking, modern place to work while Mettlach offers a pleasant working and living environment. This represents an investment in our competitive advantages." Strolling and shopping, relaxing and working, a high-quality place to live and work, and the unique experience of the Villeroy & Boch brand – all of this will give the location a new quality.

Frank Göring,
Chairman of the Management Board

Dr Markus Warncke,
CFO and client representative

An automated storage and retrieval system removes the containers with the ordered items.

Break-proof packaging is particularly important when shipping porcelain.

Automatic strapping takes place just before the package is dispatched. On peak days, more than 3,000 packages leave the central warehouse in Merzig.

FROM THE HIGH-BAY WAREHOUSE TO THE DINING ROOM

One last click, and the message appears on the screen: "Your order has been placed." For customers, this is the last step in ordering from the Villeroy & Boch online shop. But for the company, it is only the beginning of the delivery process. It takes around 48 hours for an order to be delivered – but what exactly happens behind the scenes during this time? We accompany a product on its journey to the customer.

ORDER ACCEPTANCE

"The first steps after an order is placed are entirely digital," explains Marius Kettenbaum, Supply Chain Process Manager for Villeroy & Boch's Tableware Division. As the customer receives an automated order confirmation immediately after making their purchase, the order is fed into the goods management system, which tracks the goods flows in their entirety. The system generates a delivery order and automatically removes the ordered items from the quantities available in the online shop. To ensure that the right items are packaged in the depot, the warehouse management system automatically generates a picking request containing all of the relevant data on the items ordered (including the item number, order quantity and storage location).

ORDER PICKING

The picking request kicks off the physical part of the delivery process. The warehouse management system automatically sends the order to the automatic storage and retrieval system (ASRS) based on the information contained in the order. The ASRS removes the containers with the ordered items from the high-bay warehouse before a conveyor system transports them to a picking station, where an employee puts together the customer's entire order in a designated container. The goods are then taken into temporary storage until a packaging station is available.

PACKAGING

The conveyor belt automatically transports the goods to a packaging station as soon as one becomes available. "At this point, the delivery note is printed and a final check of the goods takes place before they are packaged," explains Kettenbaum. One particularly important aspect: to ensure that porcelain is not damaged in transit, the packaging must be break-proof. The parcel is then automatically strapped and weighed before the shipping label is applied.

DISPATCH

Now the last stage of the product journey begins. Securely packaged and labelled with the customer's address, the parcel is collected by the parcel service. As part of the goods issue posting, the customer automatically receives a shipping confirmation via e-mail. The parcel is then transported to its destination via various distribution centres. The deliverer rings the customer's doorbell and the order is complete, having successfully made its way from the high-bay warehouse to the customer's dining room.

Marius Kettenbaum,
Supply Chain Process Manager

THE TABLEWARE PLANT IN TORGAU: A PORTRAIT

It is one of the many tales shaped by the separation of Germany following the Second World War: the story of Villeroy & Boch in Torgau.

Formed in 1925 as a Villeroy & Boch earthenware factory, the plant became a "state-owned enterprise of the German Democratic Republic" in 1948. Ownership of the plant finally returned to the founders in 1990, thereby closing the circle for Villeroy & Boch at the Torgau site. In summer 2015, Torgau celebrated the 25th anniversary of its return to the Villeroy & Boch fold. A good opportunity to take a closer look at the history and development of the plant. There were persuasive arguments behind Villeroy & Boch's decision to establish an earthenware factory in Torgau, a small town on the Elbe River, back in 1925: the proximity to important raw materials and sales regions; the Elbe itself as a key waterway leading to Hamburg, thereby opening the door to global exports; and the fact that the building and site of a former steel foundry was available at a good price. The plant began producing earthenware dishes in 1927, followed by ceramic sanitary ware three years later. By 1933, the Torgau plant employed more than 1,200 people and had become an important and state-of-the-art earthenware factory in the heart of Europe. Like Villeroy & Boch's other locations, the site also set an example in terms of its approach to social welfare: the plant had its own doctor and nurse, small single-family homes were constructed for master craftsmen and foremen, and garden plots and sports pitches were built in the neighbourhood.

Delighted by the location's success story: **Nicolas Luc Villeroy,** Head of the Tableware Division, **Andrea Staude,** Mayor of Torgau, **Wendelin von Boch,** Chairman of the Supervisory Board, and **Randolf Maaß,** Plant Manager (from left to right) in June 2015.

But there were bad times too. After the end of the Second World War, dismantling began at the site, with 75 percent of the plant being shipped to Russia. In 1946, reconstruction began with a team of around 100 employees under the former factory management. Two new kilns were built and production was ultimately restarted. However, almost all of the ceramic sanitary ware ended up in Russia as reparations, while most of the tableware was seized. Expropriation without compensation followed in 1948, and the Villeroy & Boch plant became a state-owned enterprise of the GDR, "VEB Steingutwerk Torgau".

Torgau's second life began in 1990 when Villeroy & Boch took over the factory once again. "We did everything in our power to bring Villeroy & Boch back to Torgau. We had no doubt in our minds that we wanted to invest in making the Torgau plant fit for the future," recalls Wendelin von Boch, formerly responsible for the Tableware Division and now the Chairman of the Supervisory Board, regarding the events surrounding the fall of the Berlin Wall. At that time, employees were retrained and taught new skills, biscuit porcelain – fired but not yet glazed – was produced for Luxembourg and Mettlach, and an initial renovation project put the site in the position to produce vitreous porcelain. Things quickly progressed from there: just two years later, the Torgau plant was already producing around four million units. In 1999, the site switched to pressure casting, becoming one of the world's most state-of-the-art and specialised plants for tableware products. The centrepiece of its operations today is the fully automated production of symmetrical and asymmetrical cups. The team of some 160 employees headed by plant manager Randolf Maaß broke through a magical barrier in 2013, producing more than 10 million cups, plates and related items for the first time. And development at Torgau is showing no signs of slowing down: in 2014, for example, a new glazing line was established to increase capacity through the use of even more powerful technologies. "The development of the Torgau site since the turn of the millennium is a true success story," summarises Nicolas Luc Villeroy, Management Board member responsible for Tableware. As this success story continues, the plant with its remarkable history can look forward to a no less remarkable future.

The state-of-the-art plant in Torgau. The centrepiece of operations at the factory in Saxony is the fully automated production of cups. However, the human eye remains indispensable when it comes to precision work like quality control.

SOCIAL MEDIA @VILLEROY & BOCH

Around three billion people worldwide are online – and every day, one in two of them uses Facebook, one in three uses YouTube and one in eight uses Instagram. Social media channels are booming. And they provide an excellent platform for companies, brands and products to present themselves. For Villeroy & Boch, the social web is one of the main ways of reaching a target group that includes young international users and encouraging interaction.

357,000
Villeroy & Boch fans on **Facebook**

1,150
Villeroy & Boch fans on **WeChat**

2,443
Villeroy & Boch fans on **Pinterest**

8,344
Villeroy & Boch fans on **Twitter**

35,961
Villeroy & Boch fans on **Instagram**

1,700,000
Villeroy & Boch Video views on **YouTube**

Growth rate 2015 compared with 2014: Facebook 86 %, Pinterest 73 %, Instagram 578 %, YouTube 41 %, Twitter 13 %, WeChat 38 %.
* This graph shows a selection of social media channels important for Villeroy & Boch as at January 2016.

The videos for the **"Bathroom Poetry"** campaign, featuring interviews with supermodel Tatjana Patitz, the designers of Kaviar Gauche and designer Kilian Kerner, can be viewed using this QR code.

Rudi Bedy is the Head of Social Media Marketing at Villeroy & Boch. Together with his team, he designs the company's social media presence on Facebook, Instagram, Twitter, and others.

This QR code links to the **"In 60 seconds"** videos, in which product managers explain the uses, benefits and new features of selected Bathroom and Wellness products

Facebook, Instagram, YouTube, Twitter, Pinterest and WeChat: Amongst others Villeroy & Boch is present on those of the world's most popular social media channels so that it can actively engage with its large international fan community. Depending on which campaigns are in progress, a total of around 100 pieces of Villeroy & Boch content are published every week, reaching a potential audience of some 990,000 persons and receiving around 18,000 likes, shares or comments on average. A big community that enjoys engaging with Villeroy & Boch and that wants to be kept up-to-date about new developments, photos of the company's top collections and informative videos.

Villeroy & Boch's social media presence is intended to inspire and enthuse new fans – and, above all, to encourage online communication with the company. "Our aim is to prompt people to enter into a dialogue with us. On the World Wide Web, content is spread and multiplied extremely quickly," explains Rudi Bedy, Head of Social Media Marketing at Villeroy & Boch. What drives the platforms and makes them something special is the viral spread of content and direct and open dialogue between the company and its fans – all in real time. "Our target response time is no more than 24 hours. Posts and questions are answered within this timeframe, and usually sooner – even at the weekend," adds Bedy.

Every social platform uses different forms of presentation and communication: "It always depends on the content we are presenting, what we are trying to achieve and the target groups we want to reach. And it is important for us to select the right channels for the respective marketing and communication strategies," Bedy notes. For the "Bathroom Poetry" online campaign, which was launched by the Bathroom and Wellness Division in 2015, the ideal social media platform was clear from the start: YouTube. Villeroy & Boch used its own channel on the world's largest video portal to present videos on different collections and styles, including interviews with supermodel Tatjana Patitz, the designers of Kaviar Gauche and designer Kilian Kerner. The campaign achieved its goal of reaching and inspiring as many YouTube users as possible: in total, the Bathroom Poetry videos had around 871,000 views.

Jessika Rauch is responsible for blogger relations in her role as Global PR Manager in the Tableware Division.

Alongside consumers, plumbers, architects and designers are an important target group for Villeroy & Boch. The Bathroom and Wellness Division therefore also used the company's YouTube channel to present the "In 60 seconds" videos, for example, in which product managers explain the uses, benefits and new features of selected products in German and English in just 60 seconds.

Social platforms are also home to bloggers, many of whom can boast follower numbers in the six digits. "Bloggers are increasingly becoming the opinion leaders worldwide. Their fans are stylish and trend-conscious – and an important target group for the Villeroy & Boch brand. We work in cooperation with popular blogs dedicated to food, interiors, design and gift ideas to bring our brand and our new products to a younger, trend-aware and style-conscious audience. Bloggers are brand ambassadors with the ability to shape the views of those who literally 'follow' them," explains Jessika Rauch, who is responsible for blogger relations in her role as Global PR-Manager in the Tableware Division.

The cooperation between companies and successful international bloggers is flourishing, taking in blog carnivals where numerous bloggers write about the same topic, blog partnerships with product presentations in picture and written form, meetings with successful interior design bloggers, and blogger events at which specific products are presented.

One particular success in 2015 was the global blogger campaign "Festive Table Styles Around the World", which took place during the festive season from October to December. The five participating bloggers from Germany, the UK, the USA, Australia and Dubai were given the task of designing a table for a festive dinner with friends and family using Villeroy & Boch tableware. During the campaign, they challenged their readers and their around 765,000 (!) Instagram followers to arrange a festive dinner of their own and post pictures using the hashtag #inspiredbyVB, which was also the aim of the engagement campaign: to motivate as many people as possible to participate and interact by commenting and liking. The hashtag also directly addressed the around 36,000 people who follow Villeroy & Boch on Instagram. More than 11,000 people accepted the challenge and visited the website that was specially designed for the campaign. The online campaign was accompanied by festive decorations, tables and shop windows at House of Villeroy & Boch stores.

"Instagram is a rapidly growing platform with more than 400 million users worldwide. While Facebook combines text and images and Twitter uses short text messages, Instagram is all about the visual impact of the image. Telling stories creatively in picture form and stirring up emotions is one of the defining features of the platform, and one of the reasons why we used Instagram for our 'Festive Table Styles' campaign", explains Bedy.

VILLEROY & BOCH IN AN INTERVIEW WITH AMANDA SAIONTZ GLUCK FROM FASHIONABLE HOSTESS

The American Amanda Saiontz Gluck is an internationally successful blogger. The blog FashionableHostess.com of the Decor Expert, Party Stylist, and Lifestyle Blogger is read by 26,000 fans per month, 64,000 follow her on Instagram. She knows not only the world of bloggers; she also has a special relationship to the brand of Villeroy & Boch through her participation in the Festive Table Styles Around the World campaign.

When working together with brands, what is most important to you for a good cooperation?
I am always sure to partner with brands I love, whether it's aesthetic, style, or price, I always take these all into account! What I particularly like about Villeroy & Boch is the high quality and unique design of the collections – La Classica Contura was ideal for my festive dinner at the table styles campaign: a stylish, elegant décor with fine lines.

What did you like about the Festive Table Styles campaign from Villeroy & Boch?
I love that it allows a glimpse into people's homes around the world. I am always taking in new ideas and inspirations, so this has been a fun way to see endless gorgeous tables.

Who reads your blog?
Women who love to entertain in their home for family and friends. They are predominately newlyweds and new mothers.

Here you find the presences of Amanda:
Instagram: https://www.instagram.com/fashionablehostess/
Pinterest: https://www.pinterest.com/fashionablehost/
Facebook: https://www.facebook.com/pages/FashionableHostesscom/217659204934517
Twitter: https://twitter.com/FashionableHost

PROJECT BUSINESS HIGHLIGHTS

From hotels and restaurants to public institutions and residential construction, project business is a key factor in Villeroy & Boch's success. Architects and planners, companies and organisations around the world are keen to harness the expertise and charisma of a strong brand for their projects. Insights presents selected highlights from 2015.


Cologne, Germany

HOTEL SUITE COMFORT

"Natural Bliss" is a newly designed comfort suite at the renovated Radisson Blu hotel in Cologne that is designed to provide maximum relaxation – and Villeroy & Boch has its part to play.

The interior design of the suite features bright colours, textile structures and natural materials like wood, wicker and leather. The bathroom keeps up the atmosphere of cosiness and high-end comfort. The My Nature washbasin sits on a Legato cabinet whose counter top appears to float in mid-air – an effect accentuated by the integrated LED lighting. The generous My Nature bathtub is accompanied by Cult fittings, which are also used in the shower, while the Subway 2.0 ViClean DirectFlush WC ensures optimum hygiene. The walls use Moonlight stoneware tiles, while the mosaic floor has a natural stone design from the Astoria porcelain stoneware series.

Villeroy & Boch was also called upon to demonstrate its outdoor expertise, with chairs from the Torino series providing comfortable and stylish seating on the suite's private roof terrace.

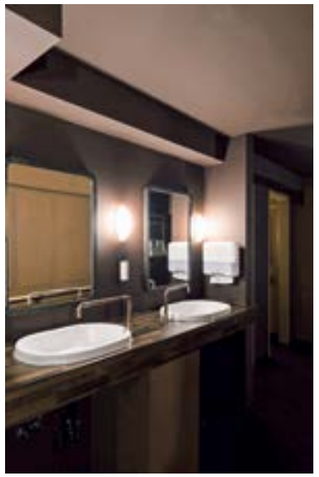

Frankfurt, Germany

INDIAN CULTURE MEETS CERAMIC EXPERTISE FROM METTLACH

Importing and interpreting the traditional cuisine and authentic atmosphere of India is the goal of the trendy new restaurant eatDOORI in the heart of Frankfurt. The interior is a bright design patchwork of materials, surfaces and colours. The restaurant features products from both Villeroy & Boch divisions.

The highlight in the middle of the guest area is a light installation made of copper tubes leading to an Octagon pedestal washbasin. In India, washing your hands before and after eating is a sign of good manners as well as a ritual in itself, so the washbasin for diners is extremely important. Food is also served on Villeroy & Boch products, with items from the Artesano Professionale and Artesano Barista collections and the Corpo professional series as well as Oscar cutlery ensuring stylish enjoyment.

The restrooms blend allusions to Indian train compartments with the luxury of the legendary Venice Simplon-Orient-Express. They feature striking washbasins from the Architectura series, Subway 2.0 WCs with DirectFlush and extra flat SlimSeats, and Villeroy & Boch Subway suction urinals.



Groningen, The Netherlands

HYGIENE AND EFFICIENCY ON A GRAND SCALE

The University Medical Center Groningen (UMCG) is a "city within a city". The facility has 1,300 inpatient beds, is frequented by 18,000 outpatients and visitors every day, and is the workplace of 12,000 employees and around 3,500 students.

These dimensions make the modernisation of 2,000 WCs during operation into a challenging, multi-stage task that has been in progress since 2014. The use of CeramicPlus and DirectFlush technology means the new WCs, urinals and washbasins from the Memento and Omnia Architectura series meet the highest standards in terms of hygiene; with 2,000 toilets and around 150 flushes every hour, the controlled, low water consumption of 3 or 4.5 litres is a further argument in favour of efficient redevelopment.

Eastern & Oriental Express, Southeast Asia

TRAVELLING IN LUXURY, EATING IN STYLE

Since 2014, Villeroy & Boch's Tableware Division has been the preferred supplier of the Belmond Group, meaning it supplies new products and line extensions for the Group's luxury trains, cruise liners and hotels around the world. Following on from the legendary Venice Simplon-Orient-Express (2012), this partnership saw another highlight in 2015 in the form of the luxury Eastern & Oriental Express, which serves Singapore, Malaysia and Thailand.

The crockery that has been exclusively designed for the train is based on premium bone porcelain from the Stella Hotel series, while the décor in gold and pine green, the colours of the Eastern & Oriental Express, ensure a unified interior design aesthetic. It features the unmistakeable initials and discreetly includes the tiger that adorns the train's logo, representing power, strength and dynamism. The tableware is used in both restaurant cars as well as for serving breakfast to guests directly in their cabins.

DESIGNED AND MADE IN LUXEMBOURG

Traditional handcraft and modern design – the results of the "Design Challenge" show how well these two aspects can go together. The competition in Luxembourg was organised by Villeroy & Boch in cooperation with Luxinnovation, the National Agency for Innovation and Research. The result were three unusual ceramic objects that Villeroy & Boch has produced at the workshop of its porcelain manufacturing plant in Rollingergrund as a limited collector's edition.

What the items have in common is that they are all evocative of Luxembourg. Christophe de la Fontaine designed the "Old Luxembourg in Motion" coffeepot, an impressive reinterpretation of Villeroy & Boch's classic décor; Anne Kieffer created a storage box that depicts four major geographical symbols of Luxembourg; and Trixie Weis designed a sculptured jewellery box with small drawers that draws its inspiration from the Mullerthal region.

"We are impressed by the creativity of the objects that were originated for the Design Challenge. We are delighted to have been able to organise this event in Luxembourg, a place that has a long association with our company," commented Laurent Turmes, Managing Director of Villeroy & Boch Luxembourg. The Grand Duke and Grand Duchess of Luxembourg were also impressed by the creativity on show when they met the artists at Septfontaines Castle in June 2015 to get a personal impression of the results of the Design Challenge.

A film providing more information on the project and the origins of the unusual objects can be accessed via **QR code**.

The ceramic objects originated for the Design Challenge met with an enthusiastic response from the **Grand Duke and Grand Duchess of Luxembourg** (above) as well as from **Laurent Turmes,** Managing Director of Villeroy & Boch Luxembourg (left).

DESIGN AWARDS 2015

The design competence of Villeroy & Boch received awards in 2015 as well. Three pricewinning products are the washbasin Octagon, the whirlpool Just Silence and the Tableware series BBQ Passion.

JUST SILENCE

Simplicity is one of the reasons why the Just Silence outdoor whirlpool excels. It has been an award-winner since February 2015. A jury of 50 design experts selected the whirlpool as a winner of the iF Design Award early in the year. In addition to its minimalist colours and different lying positions, the 2.13m by 2.24m pool impressed thanks to its innovative seating concept, which places up to five people across from one another in a staggered formation without sacrificing legroom.

OCTAGON

The Octagon premium pedestal washbasin received the GOOD DESIGN™ Award from the Chicago Athenaeum Museum of Design and Architecture and the European Centre for Architecture Art Design and Urban Studies. The inside of the unusual basin resembles a polished octagonal crystal. Its highly precise edges, angles and facets were made possible by TitanCeram, the new material developed by Villeroy & Boch. But that is not the only extraordinary feature: the placement of the basin on a pedestal finished in leather, real wood veneer, or stone veneer make the free-standing washbasin into a true design highlight in the bathroom.

BBQ PASSION

Every year, a jury of 38 experts selects the innovative product designs that will take home the Red Dot Design Award. One of the winners in 2015 was BBQ Passion. With special BBQ skewer platters and plates with separate compartments for meat, salads and sauces, BBQ Passion combines multifunctionality with a modern design.

2015 IN NUMBERS

13,400,000

people visited Villeroy & Boch Tableware stores around the world in 2015. They were inspired by the in-store product presentations, received expert advice and shopped for new tableware items. December is traditionally the month with the strongest footfall.

385,000

DirectFlush WCs were sold in 2015, meaning that sales of the rimless WC doubled compared with the previous year.

82,000

visitors were welcomed at Villeroy & Boch's stand at the ISH trade fair last year. A total of around 200,000 people visited the world's leading trade fair for innovative bathroom design, energy-efficient heating and air conditioning technology and renewable energies in Frankfurt.

2,500

plates were used to decorate the ceramic Christmas tree in Mettlach town centre, which has become an established institution at the home of Villeroy & Boch for three years now. The already remarkable nine-metre Christmas tree was made all the more special by the fact that around one-third of the plates were painted by children at the Villeroy & Boch Discovery Centre.

284

customer groups from all around the world were welcomed at the company's headquarters in Mettlach in 2015. They came from more than 50 different countries and took the opportunity to get an impression of the brand, participate in product training, or visit the production facilities. September was the busiest month, with no fewer than 48 groups of visitors.

PUBLICATION DETAILS

The "Insights" magazine is part of the Villeroy & Boch Annual Report 2015. You can find a digital version of the report here: http://www.villeroyboch-group.com/de/investor-relations/online-geschaeftsbericht-2015.html

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Villeroy & Boch

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Villeroy & Boch

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ANNUAL REPORT 2015

CONTENT

DIVISIONS

BATHROOM AND WELLNESS (in the 2015 financial year)

In € million

		2015	2014	Change in %
Revenue		496.9	469.3	5.9
EBIT		32.8	29.1	12.7
Net operating margin	in %	6.6	6.2	6.5

TABLEWARE (in the 2015 financial year)

In € million

		2015	2014	Change in %
Revenue		306.9	297.0	3.3
EBIT		9.3	9.3	0.0
Net operating margin	in %	3.0	3.1	–3.2

THE GROUP AT A GLANCE

VILLEROY & BOCH

in the 2015 financial year

In € million

		2015	2014	Change in %
Revenue		803.8	766.3	4.9
Revenue – Germany		227.8	218.8	4.1
Revenue – Abroad		576.0	547.5	5.2
EBITDA (before special proceeds)		69.6	65.3	6.6
EBITDA		71.0	70.1	1.3
EBIT (before special proceeds)		42.1	38.4	9.6
EBIT		43.5	43.2	0.7
EBT (before special proceeds)		36.5	30.1	21.3
EBT		37.9	34.9	8.6
Group result		27.3	24.3	12.3
Net operating assets (12 months average)		310.6	295.0	5.3
Balance sheet total		636.6	623.1	2.2
Cash flow from operating activities		34.1	50.9	–33.0
Capital Expenditure		29.1	44.6	–34.8
Depreciation and amortisation		27.5	26.7	3.0
Employees (annual average)		7,673	7,675	0.0
Return on net operating assets	in %	13.6	13.0	4.6
Net operating margin (before special proceeds)	in %	5.2	5.0	4.0
Return on equity (ROE; before special proceeds)	in %	15.7	13.5	16.3
Cash flow sales profitability	in %	4.2	6.6	–36.4
Equity ratio (incl. minority interests)	in %	26.0	23.2	12.1
Earnings per ordinary share	in €	1.01	0.90	12.2
Earnings per preference share	in €	1.06	0.95	11.6
Dividend per ordinary share	in €	0.44	0.39	12.8
Dividend per preference share	in €	0.49	0.44	11.4

TO OUR SHAREHOLDERS

LETTER TO SHAREHOLDERS

FRANK GÖRING
Chairman of the Management Board

Dear Shareholders,

2015 was again a very successful year for Villeroy & Boch! We increased our revenue by 4.9 % and thus finished the past twelve months at the upper end of our target range of between 3 % and 5 %. We have not seen such strong growth in any year since the economic crisis of 2009 – our business has thus gained momentum. And we are growing profitably, for our operating result has improved by an impressive 9.6 % to € 42.1 million at the same time. The return on net operating assets – our third key performance indicator – grew by 0.6 percentage points to 13.6 %.

It is also gratifying to note that both divisions contributed to this revenue growth. While revenue in Bathroom and Wellness rose by 5.9 %, revenue in Tableware was up – thanks in part to strong foreign currencies such as the US dollar and pound sterling – by 3.3 %. However, as this currency development also led to higher costs and because the high-margin Russian market experienced a currency and economic slump as well, the operating result in the Tableware Division was on par with the previous year at € 9.3 million. By contrast, the earnings situation in the Bathroom and Wellness Division was significantly more positive: Here the higher revenue level – coupled with an improvement in margins – and the lower energy costs resulted in an increase of 12.7 % to € 32.8 million.

Something that my fellow Management Board members and I are especially proud of is that we thus impressively continued the trend of ongoing improvements in results in 2015. As a reminder, in the 2010 financial year our operating EBIT was just € 23.6 million – since then we have gradually increased our profits to currently

€ 42.1 million. Over the same period, the EBIT margin before non-recurring income has risen from 3.3 % to 5.2 % – Villeroy & Boch is therefore becoming more profitable with each year that passes. And in view of the efficiency programmes in production and administration still ongoing, and the prospects for further revenue growth, we believe that there is potential yet. Specifically, we anticipate a further improvement in margins of up to 7 % in the years ahead.

In addition to operating EBIT of € 42.1 million, in 2015 we generated further non-recurring income from the disposal of the factory in Gustavsberg, Sweden. However, this was lower than in 2014 at € 1.4 million (€ 4.8 million). Including this property income, EBIT amounted to € 43.5 million in the financial year, therefore slightly higher than the previous year's level.

Thanks to improved net finance costs and a slightly lower tax rate, the Group result climbed by € 3.0 million or 12.3 % to € 27.3 million. And you, dear shareholders, are to benefit from this very positive performance. Thus, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 1 April 2016 the payment of a dividend of € 0.44 per ordinary share and € 0.49 per preference share, an increase of € 0.05 on the previous year in each case. So you see, when Villeroy & Boch earns more money, the dividend rises as well.

Having looked at the key financial data, I would now – as usual – also like to tell you about the progress in current projects and describe our growth markets outside Western Europe. We begin in China, where we have increased our revenue by 22.3 % to € 27.7 million, seamlessly continuing the success of previous years and now having achieved a significant size. Specifically, a key success driver on the product side was our ViClean series shower-toilets. At the same time, we also invested in our market presence in 2015. This is reflected in the number of showrooms, which we have increased by 40 % year-on-year to 159 as well as in the expansion of the sales team by 12 more members. Contrary to all economic question marks, our signs in China therefore still point to growth.

One year ago I reported here on Russia, also one of our known key future markets, stating that the looming recession and the development of the rouble did not make for good conditions for further growth. This proved to be true in 2015. While Tableware business slumped by approximately 40 %, revenue in the Bathroom and Wellness Division still matched the previous year's level in euro, our Group currency. However, this figure conceals our true business performance, which was characterised by local growth of +34 % as against the previous year. This means we are performing well on the market itself – not least because we have stepped up our distribution, similarly to China, by 35 % to 760 showrooms. One thing is certain: Even if Russia remains a genuine challenge in 2016, we will stand by our commitment and, in the medium and long term, will have much to enjoy from its free-spending middle and upper classes.

Let us now take a look at what our two divisions also have to report.

Within the Tableware Division, the hotel and restaurant division responsible for project business continued the strong performance of the previous year and increased its revenue by 6.7 % to € 31.5 million. We also succeeded in continuing to develop our secondary brand business with brands such as Vivo and Gallo for more price-sensitive trade channels as an additional pillar alongside the core business with the Villeroy & Boch brand. In this segment, our revenue volume increased by 81.8 % to € 11.8 million. The sales channel with the strongest growth was again our own e-commerce business with an increase of 30.5 % over the previous year. Meanwhile, a look at the product side shows that we are further expanding our offering of occasion and themed assortments – for food trends such as barbecue, pizza, pasta, salad or soup, for example – and our world of gifts. These categories are key pillars of our product strategy and reflect changing consumer habits and requirements. We are confident that we have recognised this trend in time and drawn the correct conclusions for our portfolio and marketing. Accordingly, we are excited and optimistic for the future in equal measure.

In the Bathroom and Wellness Division, the product category of rimless DirectFlush WCs once again enjoyed an outstanding performance with a revenue surge of 95 %, thus making a significant contribution to growth in Western Europe. This new class of WC developed a few years ago is the best evidence of how crucial technical leadership is for success on the market. And therefore we continue to cherish and tend our core competence in ceramics. Other recent examples of USPs are the material innovation TitanCeram, which we use for extremely thin-walled ceramics and delicate washbasin designs, and our individually customisable ceramic shower tubs, which can also be printed with a tiled appearance. Yet while focusing on innovative and high quality ceramics, we are still expanding our supplementary product area. With growth of 11.1 % to € 48.1 million, our bathroom furniture business once again turned in a very strong performance. Comparing against 2010, this marks an increase of € 20 million. By contrast, our business with outdoor whirlpools is still in its infancy – the growth of 25.8 % to € 4.6 million shows that there is still plenty of revenue potential for the future.

Dear shareholders, this letter and the following report should make it clear that we have found a healthy balance between positive current revenue and earnings development on one hand and the vision of Villeroy & Boch's market position in the medium to long term on the other. But without the exemplary commitment of our 7,673 employees worldwide that would be unthinkable. It is they who are taking care of our customers every day in 125 countries around the world, while at the same time working passionately on the products of tomorrow. I would therefore like to offer my warmest thanks on behalf of the Management Board.

We also thank all our shareholders for the trust they have shown in us. We would be delighted if you continued to accompany the development of the company at close quarters as shareholders.

Yours,

Frank Göring, Chairman of the Management Board
Mettlach, March 2016

MEMBERS OF THE MANAGEMENT BOARD

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

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

NICOLAS LUC VILLEROY
Management Board member responsible for Tableware Division

ANDREAS PFEIFFER
Management Board member responsible for Bathroom and Wellness Division

MEMBERS OF THE SUPERVISORY BOARD

BERNHARD THÖMMES
Head of Research and Development Bathroom and Wellness Division Villeroy & Boch AG

RALF RUNGE
First Vice Chairman of the Supervisory Board, Chairman of the Faiencerie Merzig Works Council Villeroy & Boch AG

DOMINIQUE VILLEROY DE GALHAU
General Director La Financière Tiepolo SAS

PETER PRINZ WITTGENSTEIN
Second Vice Chairman of the Supervisory Board, Management Consultant

YVES ELSEN
Managing Partner & CEO HITEC Luxembourg S.A.

CHRISTINA ROSENBERG
Managing Director of Hermès GmbH

WENDELIN VON BOCH-GALHAU
Chairman of the Supervisory Board

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

DIETMAR GEUSKENS
District Manager of IG Bergbau, Chemie, Energie

DR. ALEXANDER VON BOCH-GALHAU
Management Consultant

DIETMAR LANGENFELD
Chairman of the Villeroy & Boch AG Central Works Council

WERNER JÄGER
Chairman of the Head Office Works Council Villeroy & Boch AG

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

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2015 financial year, the Supervisory Board performed the duties prescribed to it by law and the Articles of Association in full. It monitored the course of business and the activities of the Management Board and advised the Management Board in managing the Company. The Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and the individual divisions, including the risk situation and risk management, comprehensively, continuously and in a timely manner in both written and oral reports. The Supervisory Board was also directly involved in all decisions of material importance to the Company, allowing it to intensively advise on the relevant matters at its meetings. In its resolutions, the Supervisory Board approved the proposed resolutions by the Management Board and the Committees following its own detailed examination and discussion.

KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

In the 2015 financial year, the Supervisory Board held five ordinary meetings and adopted one resolution by written circulation procedure. No member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board or the committees of which they are members. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times.

KEY TOPICS ADDRESSED IN THE PAST FINANCIAL YEAR

The balance sheet meeting in February 2015 focused on discussing the single-entity and consolidated financial statements for 2014 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 2014 and defined the new targets for 2015. Furthermore, the Management Board informed the Supervisory Board of the Group's current position. The meeting in March 2015, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders. At the meeting in June 2015, the Management Board reported to the Supervisory Board on the Group's position. The strategic projects were presented and the Group's strategic development was discussed. The topic of demographics was also discussed

WENDELIN VON BOCH-GALHAU
Chairman of the Supervisory Board

and the target for the proportion of women on the Management Board was resolved. At the meeting in September 2015, the Management Board reported to the Supervisory Board on the Group's position and the expected revenue and earnings situation for 2015 as a whole. A further core element of this meeting was business development in the USA and Mexico. The Management Board's strategic Group projects were presented to the Supervisory Board and discussed.
The meeting in November 2015 focused on the presentation of the figures as of 31 October 2015 and the resulting orientation for the single-entity and consolidated financial statements for 2015, the Management Board's report on the position of the Group and the review of the risk management system, as well as receiving the compliance report (both in the past and in the future), submitting the updated declaration of conformity (section 161 AktG) and approving the positions held by Management Board members on the controlling bodies of subsidiaries. The annual planning for 2016 was adopted and a resolution was passed on the further procedure with regard to the so-called EU bathroom case.
In 2015, the Supervisory Board also adopted a resolution on the EU bathroom case by written circulation procedure. Time-limited waivers of the statutory period of limitations were agreed with three former members of the Management Board in order to protect the Company against any resulting claims for damages. As a precautionary measure, a declaratory action was brought against a former member of the Management Board who had not declared a waiver of the statutory period of limitations. In light of potential conflicts of interest, the Chairman of the Supervisory Board refrained from, and will continue to refrain from, participating in the discussions and resolutions on the EU bathroom case.

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 three regular and two extraordinary 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 2014, 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 2015 financial year. The meetings in June and September discussed the further procedure and conclusions on the EU bathroom case. The main topics discussed at the meeting in November 2015 were the preparation of the forthcoming Supervisory Board meeting, and in particular the status of the preliminary audit of the single-entity and consolidated financial statements by the auditor.
The Investment Committee met once in the year under review. The meeting of the Investment Committee in November 2015 focused on the preparation of corporate and investment planning for 2016 for resolution by the Supervisory Board.
The members of the Human Resources Committee met twice in 2015 to discuss the assessment of the level of target attainment in the 2014 financial year, the status of target attainment in 2015 and the objectives for the Management Board for the 2016 financial year that are required to be presented to the full Supervisory Board for resolution in preparation for the corresponding 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 IN THE SUPERVISORY BOARD

By resolution of the Saarbrücken Local Court, Dominique Villeroy de Galhau was appointed to the Supervisory Board as a shareholder representative succeeding Francois Villeroy de Galhau, who stepped down from his position with effect from 1 October 2015.

AUDIT OF THE SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS

The single-entity financial statements, the IFRS consolidated financial statements and the Management Report of Villeroy & Boch AG and the Villeroy & Boch Group for the 2015 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 2016. The single-entity financial statements were also intensively discussed at the balance sheet meeting of the Supervisory Board in February 2016. 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 Management Report for the 2015 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 2016 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 its former member Francois Villeroy de Galhau, who stepped down in the past financial year, for his many years of cooperation in a spirit of mutual trust. The Supervisory Board would also like to thank the members of the Management Board and all of the employees of the Villeroy & Boch Group for their commitment and achievements and our shareholders for the confidence they have placed in us.

For the Supervisory Board

Wendelin von Boch-Galhau, Chairman of the Supervisory Board
Mettlach, February 2016

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 of the German Commercial Code (HGB) and the remuneration report on the remuneration paid to the Management Board and Supervisory Board. The remuneration report is also part of the Group Management Report.

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

DECLARATION ON CORPORATE GOVERNANCE

RESPONSIBLE MANAGEMENT

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

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

COMPOSITION OF THE MANAGEMENT BOARD

The Management Board of Villeroy & Boch AG currently consists of four members. The members of the Management Board are appointed by the Supervisory Board in accordance with the provisions of the German Codetermination Act. In appointing members to the Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates. With respect to the overall composition of the Management Board, it seeks to ensure diversity.

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. 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, skills and professional experience to properly perform their tasks and that its objectives for the composition of the Supervisory Board have been fulfilled. 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. In addition, the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector ("German Equality Act") of May 2015 means that, since 1 January 2016, the Supervisory Board of Villeroy & Boch AG has been required to gradually implement a minimum ratio of 30 % female and 30 % male members in newly available positions on the Supervisory Board.

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

Since 2011, the Management Board and Supervisory Board have adopted a Group-wide policy for promoting diversity and an appropriate proportion of women in management positions. The proportion of women in the two management levels below the Management Board is already 32 %. The German Equality Act means that, for the first time, Villeroy & Boch AG is obliged to set targets for the proportion of female members of the Management Board and the next two levels of management as well as the date by which these proportions are to be achieved. These targets were determined by the Management Board on 5 May 2015, thereby meeting the defined deadline of 30 September 2015.

The Management Board has established a target of 35 % and an implementation date of 30 June 2017 for the first and second levels of management below the Management Board. This does not exclude the possibility of an increase in the proportion of female members in excess of these targets. The implementation periods are consistent with the statutory periods for initial implementation. In the long term, the Management Board is seeking to achieve a proportion of female members of 40 %.

Taking into account the company-specific situation, and in particular the purpose of the company, the size of the company and the current composition of the Management Board, on 24 June 2015 the Supervisory Board adopted a target of 0 % female members of the Management Board of Villeroy & Boch AG for the aforementioned period.

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 2015. 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 Francesco Grioli.
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), Francesco Grioli 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 in this report as well. Links with related parties are shown in the notes to the consolidated financial statements.

EFFICIENCY REVIEW

The Supervisory Board of Villeroy & Boch AG performs a regular efficiency review, most recently at its meeting on 10 March 2015 for the fiscal year 2014. 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

The directors' dealings reported to us in the 2015 financial year are published on the following website: http://www.villeroyboch-group.com/de/investor-relations/corporate-governance/directors-dealings.
At the end of the year under review, the members of the Supervisory Board held 3.05 % 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, 1.65 % 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 2015 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 2015, the Management Board and the Supervisory Board issued the annual 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/entsprechenserklaerungen.html). An amended and updated version of the declaration of conformity for the previous year, which is also available via the aforementioned link, was published on 5 October 2015.

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. CEO Frank Göring is the member of the Management Board with responsibility for compliance. The Chief Compliance Officer of the Villeroy & Boch Group reports to him. The Chief Compliance Officer is supported by functional compliance officers at the head office and in the divisions as well as local compliance officers at the Group companies.
Our 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.
Our compliance management system was reviewed in 2012 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. The next required audit of the effectiveness of the compliance management system is scheduled to be conducted by the end of the first half year of 2016.

REMUNERATION REPORT

The remuneration report is part of the Group Management Report.

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 2015 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 exceeds 10.5 cents per share. The shareholder dividend is calculated as the average of

In € thousand

	Fixed remuneration	Meeting fees	Variable remuneration for 2014	Total	Previous year
Wendelin von Boch-Galhau [2*), 3*)]	73	6	6	85	85
Peter Prinz Wittgenstein [1*), 2), 3)]	43	6	6	55	55
Ralf Runge [4)]	34	6	6	46	46
Werner Jäger [1), 4)]	23	6	6	35	35
Dietmar Langenfeld [2), 4)]	23	6	6	35	35
Yves Elsen [1)]	23	6	6	35	33
Francesco Grioli [3)]	23	6	5	34	23
Dr. Alexander von Boch-Galhau	20	6	6	32	33
Dietmar Geuskens [4)]	20	6	6	32	32
Christina Rosenberg	20	6	6	32	28
Bernhard Thömmes	20	6	6	32	25
François Villeroy de Galhau (until Oct 2015)	20	5	6	31	32
Dominique Villeroy de Galhau (since Oct 2015)	5	1	–	6	–
Ralf Sikorski (until Mar 2014)	–	–	1	1	13
Rounding differences	–3	3	–	0	4
Total	**344**	**75**	**72**	**491**	**479**

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

the dividends paid for one preference share and one ordinary share.
The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.
The members of the Supervisory Board of Villeroy & Boch AG received the abovementioned remuneration for performing their duties in the financial year.
A total expense of € 649 thousand was reported in consolidated earnings for the 2015 financial year (previous year: € 631 thousand). In addition to the fixed remuneration paid and the meeting fees for 2015, this figure includes € 75 thousand (previous year: € 75 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 69 thousand (previous year: € 43 thousand) as well as insurance premiums in the amount of € 89 thousand (previous year: € 97 thousand).

MANAGEMENT BOARD REMUNERATION

An expense of € 2,796 thousand (previous year: € 2,126 thousand) is reported in the income statement for the 2015 financial year. This figure is composed of fixed (€ 1,481 thousand; previous year: € 1,189 thousand) and variable salary components (€ 1,315 thousand; previous year: € 937 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 689 thousand (previous year: € 509 thousand) and a remuneration for several years in the amount of € 626 thousand (previous year: € 428 thousand). The fixed remuneration includes remuneration in kind of € 68 thousand (previous year: € 64 thousand), of which € 3 thousand (previous year: € 2 thousand) relates to insurance premiums.
Provisions for pensions for former members of the Management Board amount to € 23,233 thousand (previous year: € 25,451 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,597 thousand (previous year: € 1,620 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 and until 12 May 2016 at the latest.

VILLEROY & BOCH'S SHARES

STOCK MARKETS 2015

SOLID GROWTH ACCOMPANIED BY FAILURE TO REPEAT INTRA-YEAR HIGHS

2015 was a good year at first glance, with the leading DAX index enjoying solid growth and highly encouraging price rises on the indices for medium and small caps, the MDax, TecDax and SDax. However, this should not hide the fact that the markets closed the year down significantly on the highs recorded at the start of the second quarter. From the economic slowdown in China and the Volkswagen emissions scandal to the continued problems in Greece and the armed conflicts in Syria and Ukraine, the capital markets were impacted by a wide range of factors leading to dramatic fluctuations.

Ultimately, the sustained policy of low interest rates was probably the reason why the German stock markets still recorded growth compared with the previous year. The DAX rose by 9.6 % over the year as a whole, closing at 10,743 points, while the MDax increased by 22.7 % to 20,775 points. The strongest growth was enjoyed by the TecDax, which improved by 33.5 % to 1,831 points, while the SDax climbed by 26.6 % to 9,099 points.

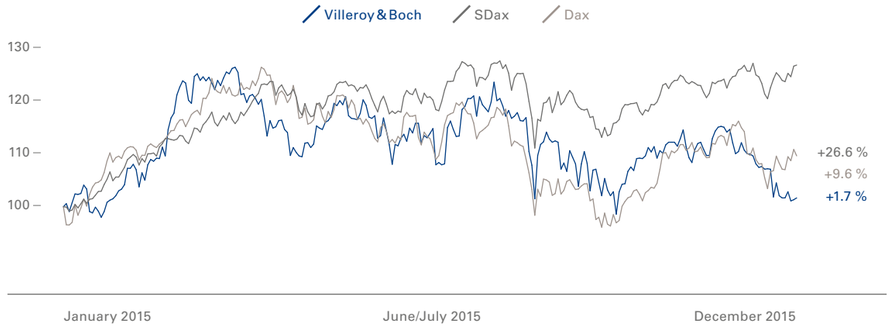
VILLEROY & BOCH'S PREFERENCE SHARES: FIFTH SUCCESSIVE YEAR OF PRICE GROWTH

Starting from a price of € 12.05 at the end of 2014, Villeroy & Boch's preference shares recorded growth of 1.7 % to € 12.25 in 2015, marking their fifth successive year of positive performance.

In the first quarter, Villeroy & Boch's shares kept pace with the bullish market, recording their highest closing price of € 15.21 on 26 March. Despite fundamentally solid quarterly figures that met all of the analyst expectations, Villeroy & Boch's preference shares were caught in the undertow of the falling markets in the months that followed, meaning they failed to defend this intra-year high. This was exacerbated by the fact that the shares were no longer included in the SDax from September onwards. All in all, Villeroy & Boch's preference shares closed the year with comparatively moderate growth of 1.7 %. In addition to this gain, shareholders participated in the company's success once again: March 2015 saw the payment of a dividend of € 0.44 per preference share for the 2014 financial year.

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

in the period from 2 Jan 2015 to 30 Dec 2015 (indexed)



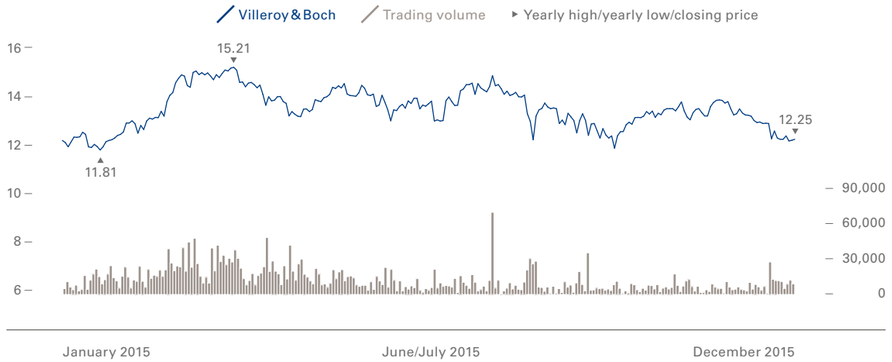
INVESTOR RELATIONS ACTIVITIES

We maintained close contact with private investors, analysts and institutional investors in the 2015 financial year. At the General Meeting of Shareholders on 27 March 2015, the management presented the results for the past financial year to all shareholders and answered all of the questions on the current situation and the outlook for the company. To strengthen communications with private investors and help promote the culture of shareholding in Germany, in November 2015 we participated for the first time in an Equity Forum held in Saarbrücken and organised by Deutsche Schutzvereinigung für Wertpapierbesitz (German Protective Association for Security Holdings). CFO Dr. Markus Warncke presented the company's latest developments and key strategic projects before answering questions from the audience of around 100 guests.

We also significantly intensified our communication with analysts and institutional investors in the past financial year. In addition to the annual analyst and investor conference in February, we invited interested IR contacts to Frankfurt for the main trade fairs, Ambiente and ISH, where we held numerous one-on-one meetings. Visiting our trade fair stand is particularly interesting for analysts and investors because it gives them the opportunity to get to know our product portfolio in greater detail, obtain a personal impression of the quality of Villeroy & Boch's products and compare them with the competition. We also participated in the German Equity Forum in Frankfurt and investor conferences in Paris and London for the first time. At these three events alone, we held more than 30 one-on-one meetings with existing and potential investors. We also took roadshows to Frankfurt,

PERFORMANCE OF VILLEROY & BOCH'S SHARES

in the period from 2 Jan 2015 to 30 Dec 2015 (in €)



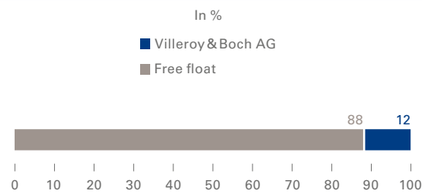
Cologne, Düsseldorf, Munich and Paris to present our company to potential institutional investors. Meanwhile, other investors visited our head office in Mettlach, where they were informed about the ceramic production process during a tour of our sanitary ware and tableware production facilities.

There was also encouraging news concerning the analyst coverage of Villeroy & Boch's shares: In 2015, WGZ Bank, Düsseldorf, became the fifth bank to closely observe our share performance. There was another change in January 2016: while Deutsche Bank ended their coverage, Bankhaus Lampe started observing our share. Our company is also covered by analysts from research specialist Montega, Quirin Bank and Oddo Seydler. As of year-end 2015, the average target price issued by these analysts was € 15.66. Four analysts rate our shares as a "Buy" recommendation, with one issuing a "Hold" recommendation. One year previously, the average target price was € 13.40, meaning that the analysts are acknowledging our positive business performance.

PROPOSED DIVIDEND

Based on business development in 2015, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 1 April 2016 the payment of a dividend of € 0.49 per preference share and € 0.44 per ordinary share; this represents an increase of € 0.05 on the previous year. This results in a Group distribution ratio of 45 % excluding treasury shares.

STRUCTURE OF PREFERENCE SHAREHOLDERS



MASTER DATA

ISIN:	DE0007657231
GSIN:	765723
Securities exchange symbol:	VIB3

KEY FIGURES OF VILLEROY & BOCH'S SHARES

	2015	2014	2013	2012	2011
Closing price (in €)	**12.25**	12.05	10.57	6.63	5.88
Yearly high/low (in €)	**15.21/11.81**	14.78/10.32	10.77/6.74	8.63/5.85	7.79/4.40
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)	**172.0**	169.2	148.5	93.1	82.6
Average daily turnover, Xetra (in shares)	**12,252**	19,521	22,059	14,841	19,093
PER based on yearly high/PER based on yearly low (in €)	**14.32/11.14**	15.56/10.86	11.58/7.25	14.88/10.01	10.82/6.11
Consolidated earnings per ordinary share (in €) *	**1.01**	0.90	0.88	0.53	0.67
Consolidated earnings per preference share (in €)	**1.06**	0.95	0.93	0.58	0.72

* Ordinary shares not publicly traded

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

- **Consolidated revenue up 4.9 % to € 803.8 million.**
- **Operating EBIT improves by 9.6 % to € 42.1 million.**
- **Group result up 12.3 % year-on-year to € 27.3 million.**

BASIC INFORMATION ON THE GROUP

BUSINESS MODEL OF THE GROUP

Organisational structure of the Group

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

Villeroy & Boch AG is the Group parent for a total of 52 fully consolidated direct or indirect subsidiaries. Comprehensive information on the basis of consolidation and the investment structure of the Villeroy & Boch Group can be found in notes 2 and 61 of the notes to the consolidated financial statements.

Divisions and sales markets

Our products are sold in 125 countries. 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 7,600 showrooms worldwide.

In the Tableware Division, end consumers are addressed via specialist retailers as well as our own retail stores. Our product range includes high-quality tableware, glasses, cutlery and corresponding accessories, kitchen and tableware textiles and gift items. All in all, our products are available at more than 5,600 points of sale worldwide. Our own retail activities include 130 Villeroy & Boch stores and around 560 points of sale operated by our own staff at high-profile department stores. We also sell our Tableware products via our online shops in more than 20 countries.

We also stock supplementary products on a licence basis.

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

Locations

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

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

CONTROLLING SYSTEM

The Management Board of Villeroy & Boch AG manages the Group as a whole using a strictly defined management structure and operational targets whose achievement is monitored by way of prescribed key figures. This focuses on key financial indicators, while non-financial performance indicators do not yet play a significant role in internal Group controlling.

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

RESEARCH AND DEVELOPMENT

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

Including design development, the Villeroy & Boch Group invested € 15.6 million in research and development in 2015 (previous year: € 13.9 million). Of this figure, € 11.9 million (previous year: € 10.1 million) was attributable to the Bathroom and Wellness Division and € 3.7 million (previous year: € 3.8 million) was attributable to the Tableware Division.

In the past financial year, our research and development activities focused on the development of new and improved ceramic materials and innovative production techniques for the Bathroom and Wellness Division.

With the development of TitanCeram, we have set new standards in terms of material properties. TitanCeram – made from a special composite of natural materials like clay, feldspar and quartz enriched with titanium dioxide – is extremely strong, making it suitable for more delicate designs. This allows us to produce sanitary products with very thin walls while reducing product weight as well as the cost and volume of the materials used. With the Octagon pedestal washbasin, we presented an entirely new washbasin design at the ISH, the world's leading trade fair for bathroom design and air conditioning technology in Frankfurt, in 2015.

Thanks to an innovative printing technique, we have been able to print ceramic shower trays with photorealistic décors since 2015. Direct inkjet printing means that a natural stone look can be applied, for example. When combined with flush-fit installation and the precise edges of the shower tub, this creates a near-seamless transition between the shower tray and the tiles in terms of both design and shape, giving the entire bathroom floor area a uniform look.

One example of the economic success of our research and development activity is the WC flush technology DirectFlush, which has been available since 2012. In a DirectFlush WC, the conventional flushing rim is replaced with an intelligent water flow that rinses the entire interior of the bowl without over-splashing, while the open rim makes cleaning quick and easy. Sales of DirectFlush WCs almost doubled in 2015 and already account for around one-quarter of our total WC sales. Accordingly, the product range had been expanded to include more than 20 models using the innovative flushing technology as of the end of the financial year.

Another functional innovation is our antibacterial ceramic glaze AntiBac, which reduces the growth of bacteria by almost 100 %. The effectiveness of the silver ion glaze in accordance with international standards has been confirmed by several testing institutes, while the product also meets the strict criteria of the EU Biocidal Products Regulation.

Innovations in the Tableware Division concentrated on new product designs in particular. Work on new products was intensified in 2015 in response to changing customer requirements and consumer-relevant megatrends such as mobility, urbanisation and individualisation. These involve

food and drink trends like BBQ, pizza, pasta, coffee and tea. The items are characterised by their aesthetic design and functional unique selling points. With these product trends, we are addressing primarily those people who no longer think solely in terms of full collections, particularly when it comes to food and drink, but who are increasingly also looking to purchase individual items tailored to the specific occasion or more varied solutions.

The content of our development activity in the Tableware Division included formal product designs as well as new design options for ceramic surfaces (e.g. stone look) and their implementation in terms of process technology. We are also working to continuously improve and extend our automated production, including special topics such as optical sorting.

In terms of cross-divisional activities, we focused on the further development of our innovative production techniques as part of the "Glazeforming" joint project supported by the German Federal Ministry of Education and Research (BMBF) in the 2015 financial year. Together with Fraunhofer institutes and suppliers we are working, for example, on the energy- and resource-efficient technology of glaze spraying using superheated steam ("steam glazing") and ultrasonic sensor technology, which is used in quality assurance.

Another focal point of Group-wide research and development activity are additive production techniques such as laser-aided slip deposition and 3D printing using ceramic powders. Unlike traditional production techniques, additive techniques involve the layering of geometries and structures, allowing a freedom of design that cannot be achieved using conventional production methods or handicraft. Due to the potential offered by this technology, we intend to press ahead with the feasibility studies we have initiated with external experts.

CUSTOMERS

Our key target groups in the Bathroom and Wellness Division include 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 – while our project business is aimed at the investors and operators of hotels and restaurants.

Regular customer surveys

Our actions are geared towards our customers' needs and requirements. Their expectations are an important benchmark when it comes to determining potential, permanently improving our range and securing our product and service quality. For this reason, we conduct regular internal and external customer surveys on various topics. As well as providing us with valuable information on trends and forecasts, these surveys also show how customers rate our performance. Targeted questions on subjects such as advanced materials in ceramic sanitary ware or consumer-relevant aspects including various food and drink trends in the area of tableware give us an insight into how our existing products are perceived by the customer, what aspects could be improved further and what products should be added to our portfolio. The results allow us to derive and successfully implement targeted improvement measures, thereby ensuring that our products and services are appropriately tailored to the respective target groups.

Continuous customer surveys to determine our net promoter score (NPS) also show that many customers recommend our brand to others. We regularly achieve a high NPS, reflecting the remarkable loyalty of our customers to the Villeroy & Boch brand and their high level of satisfaction with our products and services. In autumn 2015, this was further confirmed by an independent survey on consumer confidence conducted by the analysis organisation ServiceValue in conjunction with the German business magazine Wirtschaftswoche. Villeroy & Boch took first place, meaning it enjoys the highest consumer confidence among all providers of household goods in Germany. We took tenth place across all industries and companies, with a score of 90.9 %. A total of 973 companies from 62 industries were included in the survey.

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

The appropriate presentation of our products is a core element of our marketing strategy. 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 the Bathroom and Wellness Division, product presentation largely takes place via dealers' displays. We also reach the relevant target groups using different forms of communication, including a dedicated section on our website for architects, planners and tradespeople, which contains extensive information on new products, references and planning tools including technical product specifications. Our end consumers can also get information on our products online and use tools like the Bathroom Inspirator and the Bathroom Planner to virtually design and plan complete bathrooms that meet their every wish.

As part of our own retail activities in the Tableware Division, our cross-sales channel approach combines product presentations and services at our retail stores with the various functions of our online shop. For example, the use of tablet PCs in our stores makes it easier for our employees to provide advice and offer a range of products above and beyond what is physically in stock at the respective store. This service allows our customers to easily add the products they have viewed in-store to their online shopping basket and then continue the shopping process online at a time and place of their choosing, for instance. We are also continuously working to expand our global online presence. The online shop has been comprehensively overhauled and went live in October 2015 with a new design, increased functionality and extended services.

In our project business, where there can be a long period of time between initial contact and delivery in the Bathroom and Wellness Division in particular, the project pipeline is an important leading indicator of future business development. We use our CRM system for continuous process analysis and controlling between the specification and realisation phases. At the same time, proximity to the international markets is a key factor in our success. Accordingly, we are continuing to employ a dedicated project field sales team in a number of countries to provide support for specific target groups such as architects and project developers. In a global context, we are also further expanding our sales organisations in a targeted manner, particularly in the strategic growth regions of Asia-Pacific and Eastern Europe.

In addition to a strong display presence, qualified advice is a vital factor in our success, and hence in the success of our customers. Accordingly, every year we offer a wide-ranging training programme for our sales employees as well as dealers, tradespeople and architects. The corresponding training measures are conducted as part of our internal "Global Academy".

PROCUREMENT

The Villeroy & Boch Group's procurement portfolio encompasses raw materials, energy and supplies for its own production facilities as well as finished and semi-finished goods. The Group also purchases capital goods, packaging materials, transport services and a wide range of additional services. All in all, the value of our procurement volume including investments corresponds to over 60 % of our revenue. The overarching aim of our procurement organisation and procurement strategies is to select reliable suppliers that can provide the required materials and services in the required quality and volume at the right time and the right price.

Purchasing prices in 2015 were largely influenced by two contrasting market developments. On the one hand, the enormous pressure on commodity prices, and oil and gas in particular, meant it was possible to reduce procurement prices in local currency compared with 2014. On the other hand, exchange rate developments – especially the substantial depreciation of the euro compared with most foreign currencies – meant that the cost of purchases made largely in US dollars increased significantly.

Supplier relationships are extremely important to us. As part of our systematic strategic procurement management, we use a standardised catalogue of criteria to continuously evaluate our suppliers in the categories of quality, cost, logistics, service, technology and environment with a view to furthering our cooperation on this basis. We also aim to structure our supplier relationships so that all risks are minimised to the greatest possible extent. To this end, contracts with suppliers are negotiated, compliance with statutory provisions is ensured and corresponding risk management is practised. In particular, our "Supplier Code of Conduct" requires suppliers to commit to the same standards as our company with regard to integrity, business ethics, work conditions and upholding human rights.

CHANGES IN LEGAL OR REGULATORY CONDITIONS

The international positioning of the Villeroy & Boch Group means it can expect to see an increase in the relevant regulatory requirements. This includes the planned expansion of financial reporting with the aim of establishing integrated reporting, measures to prevent tax competition and the more comprehensive documentation of cross-border transactions. In Germany, too, recently implemented or planned legislation on the financial transaction tax, the minimum wage, early pensions and temporary and subcontracted work suggest a move towards greater government regulation.

Meanwhile, the planned European free trade agreements with the USA (TTIP) and Canada (CETA) could lead to deregulation. Both agreements are intended to facilitate mutual market access for companies with transatlantic operations. In specific terms, they involve the removal of customs and the equal treatment of European and American companies when it comes to public tenders. The respective free trade agreements are not expected to come into force prior to 2017.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

According to the International Monetary Fund, global economic growth amounted to 3.1 % in 2015, down 0.3 percentage points compared with the already moderate figure for the previous year. The slowdown in the global economy was due in particular to the difficult situation in the emerging economies, with the structural problems affecting the Chinese economy leading to a weakening of economic momentum that had a direct impact on global trade. In addition to falling commodity and oil prices, the pace of expansion in many emerging economies was adversely affected by capital outflows and currency depreciation. Severe recessions followed in Russia and Brazil.

The economic situation in the euro zone recovered in 2015 following the weakness seen in the previous year. The main drivers for this development were increased employment, real wage growth and favourable financing conditions, which served to stimulate private consumption. The German economy saw a solid upward movement in 2015 with GDP growth of 1.7 %. The other major European economies also experienced the start of a recovery, although France and Italy are continuing to record below-average growth.

In the USA, the economic upturn continued on the back of strong domestic demand in particular, with the sustained improvement in the situation on the employment market helping to boost consumer spending.

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry, which recorded an overall growth rate of 1.8 % in 2015, up 0.3 percentage points on the previous year. However, the picture in the individual markets was varied. While the construction volume in France and Italy declined again as it had in the previous year, residential construction in other key markets for Villeroy & Boch – particularly Germany, the United Kingdom, Belgium, the Netherlands, Sweden and Norway – enjoyed solid and, in some cases, increased growth.

A key factor for sales success in the Tableware Division is the consumer climate among private households, which improved year-on-year in most European countries in 2015 as a whole. During the course of the year, sentiment among European consumers was adversely affected by the conflicts in the Middle East and the continued debt crisis in Greece. At the same time, the massive depreciation of the Russian rouble led to a sustained reduction in purchasing power in Russia.

COURSE OF BUSINESS AND POSITION OF THE GROUP

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

In the 2015 financial year, we again systematically invested in our growth markets – particularly in Asia-Pacific and, above all, China – thereby further improving the basis for stronger growth outside our core markets in Western Europe. At the same time, we made substantial progress in the optimisation of our processes and successfully pressed ahead with our policy of strict cost management.

We achieved all of the revenue and return targets we set ourselves for the 2015 financial year. The table below shows a comparison of the forecast and actual key figures for 2015 and the forecasts for 2016:

GROUP TARGETS

	Forecast 2015	**Actual 2015**	Forecast 2016
Revenue growth	3–5 %	4.9 %	3–6 %
EBIT growth (operating)	> 5 %	9.6 %	5–10 %
Return on net operating assets	> 13 %	13.6 %	> 13,6 %
Investments	> € 30 million	€ 29.1 million	> € 30 million

With consolidated revenue of € 803.8 million and an equally important increase in revenue of 4.9 %, we closed the 2015 financial year at the upper end of our forecast range and hence met our revenue target in full. On a constant currency basis, i. e. assuming unchanged exchange rates against the previous year, we recorded revenue growth of 4.1 %. This meant there was a net positive exchange rate effect, which was largely due to the weak development of the euro against the US dollar, the pound sterling, the Swiss franc and the Chinese renminbi yuan. Opposing effects, i. e. lower revenue in euro due to the weak performance of local currencies, were recorded in Russia, Sweden and Norway in particular.

With growth in operating EBIT (excluding real estate income from Gustavsberg) of 9.6 % as against the previous year, we also achieved our target of an increase of at least 5 %. This was largely attributable to two factors. Firstly, we benefited from our strong revenue growth in the 2015 financial year, which represented our best performance since the economic crisis in 2009. Secondly, we succeeded in achieving further efficiency improvements, particularly in production – a fact that is reflected in an improvement in the gross margin of 0.3 percentage points to 44.9 % (previous year: 44.6 %). This corresponds to gross profit of € 361.3 million, up € 19.9 million on the previous year.

The return on net operating assets improved from 13.0 % in the previous year to 13.6 %, with the significant increase in rolling net operating assets as a result of the above-average investment volume in the previous year more than offset by the Group's extremely strong earnings performance.

At € 29.1 million, our investments were within close reach of our forecast. Two major projects, namely the construction of our new assembly and logistics centre in Sweden and the investment in our new combined heat and power plant in Mettlach, meant that the investment volume for 2014 was € 44.6 million.

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

RESULTS OF OPERATIONS

The following information provides an overview of our results of operations in the 2015 financial year.

STRUCTURE OF THE CONSOLIDATED INCOME STATEMENT (IFRS)

In € million

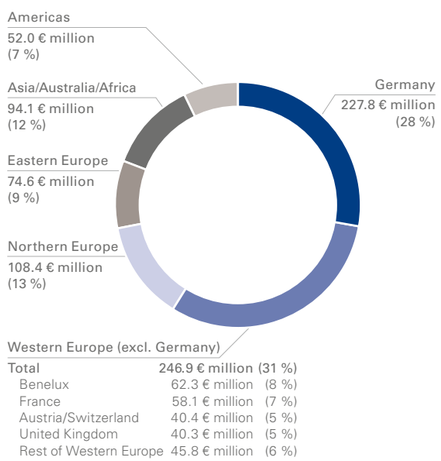
	2015	% of revenue	2014	% of revenue
Revenue	803.8	100.0	766.3	100.0
Cost of sales	–442.5	–55.1	–424.9	–55.4
Gross profit	**361.3**	**44.9**	**341.4**	**44.6**
Selling, marketing and development costs	–269.1	–33.5	–255.1	–33.3
General administrative expenses	–46.6	–5.8	–45.1	–5.9
Other expenses/income	–3.5	–0.4	–2.8	–0.4
Operating EBIT (before non-recurring income)	**42.1**	**5.2**	**38.4**	**5.0**
Real estate income from Gustavsberg property	1.4	0.2	4.8	0.6
Earnings before interest and taxes (EBIT)	**43.5**	**5.4**	**43.2**	**5.6**
Financial result	–5.6	–0.7	–8.3	–1.1
Earnings before taxes (EBT)	**37.9**	**4.7**	**34.9**	**4.5**
Income taxes	–10.6	–1.3	–10.6	–1.3
Group result	**27.3**	**3.4**	**24.3**	**3.2**

Consolidated revenue 2015

Consolidated revenue up 4.9 % in nominal terms

We generated revenue of € 803.8 million in the 2015 financial year, up 4.9 % on the prior-year figure of € 766.3 million. On a constant currency basis, revenue increased by 4.1 % as against the previous year.

CONSOLIDATED REVENUE BY REGION AND COUNTRY



As in the previous years, we enjoyed robust revenue growth in our home market of Germany, where revenue rose by € 9.0 million or 4.1 % year-on-year to € 227.8 million.

Our revenue in Western Europe (excluding Germany) increased by 1.6 % as against the previous year to € 246.9 million. In particular, strong revenue growth was recorded in the United Kingdom (+14.6 %), Spain (+7.0 %) and the Netherlands (+5.9 %). By contrast, there was a downturn in revenue in France (–5.8 %) and Italy (–3.7 %) in particular, with the economy continuing to see below-average development, although a slight improvement was observed in the second half of the year.

In Northern Europe, our revenue increased by 3.6 % year-on-year to € 108.4 million, with significant gains in Norway (+8.9 %) and Sweden (+5.1 %).

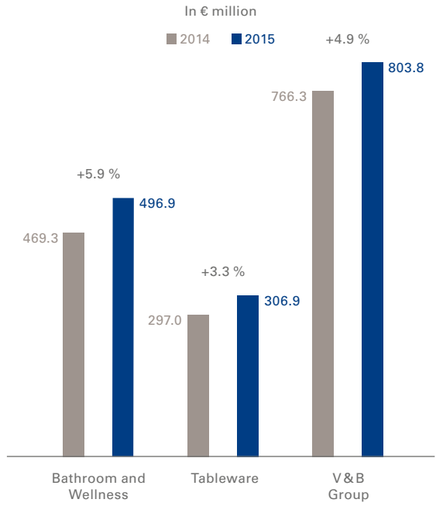
In Eastern Europe, we achieved strong year-on-year revenue growth of 8.1 % to € 74.6 million. The best performers in terms of revenue development were Hungary (+59.4 %), Romania (+24.0 %) and Poland (+13.1 %), as well as the Baltic States (+18.9 %). By contrast, revenue in Russia declined largely as a result of exchange rate factors (–8.4 %).

Our business in the Asia/Australia/Africa region enjoyed extremely positive development. Thanks to strong project business in particular, we recorded year-on-year revenue growth of 9.2 % and further expanded our market position with a revenue volume of € 94.1 million. In particular, China – our largest and most important market in this region – saw a significant year-on-year increase in revenue to € 27.7 million (+22.3 %). We also increased our revenue volume in other important markets such as Japan (+24.1 %) and the Gulf States (+13.1 %). The only one of our important regional markets to see a downturn in revenue was Thailand (–8.8 %).

The Americas region contributed € 52.0 million to consolidated revenue, up an encouraging 16.6 % on the previous year. This development was achieved in both of our core markets, with revenue in the USA climbing 17.4 % and growth of 14.2 % recorded in Mexico.

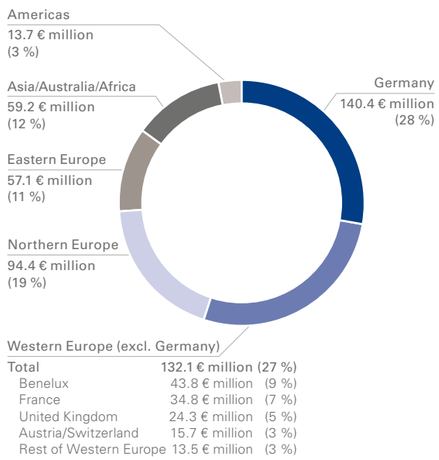
Revenue by division

CONSOLIDATED REVENUE BY DIVISION



The *Bathroom and Wellness Division* recorded revenue of € 496.9 million in the 2015 financial year, up 5.9 % on the previous year in nominal terms. Revenue growth on a constant currency basis was even stronger at 6.9 %.

BATHROOM AND WELLNESS REVENUE
BY REGION AND COUNTRY



In our important home market of Germany, revenue increased by 6.9 % to € 140.4 million, thereby outperforming the sanitary ware sector and the construction industry. In the other markets of Western Europe, we recorded our strongest revenue growth in the United Kingdom (+21.5 %), the Netherlands (+9.3 %) and Belgium (+7.0 %). Once again, bathroom furniture contributed to our successful performance in Europe with total growth of 11.1 %. Another outstanding performer was our rimless DirectFlush WC category, sales of which almost doubled in the past financial year. Negative development was only recorded in France (–5.7 %) and Italy (–5.4 %), where continued restraint in the construction industry led to lower revenue. However, improved revenue performance in the second half of the year and the positive leading indicators from the construction industry suggest that the situation will stabilise from 2016 onwards.

In Northern Europe, we recorded year-on-year revenue growth of 4.2 % to € 94.4 million, with strong performance in the two major markets of Sweden (+7.0 %) and Norway (+6.6 %).

We also developed well in Eastern Europe, with revenue growth of 7.5 % to € 57.1 million. The strongest performers in this region were Hungary (+21.7 %), Romania (+19.0 %) and Poland (+12.9 %). In Russia, one of our strategic growth markets, the difficult economic and political conditions and the massive depreciation of the rouble meant that our revenue stagnated compared with the previous year (–0.5 %); however, we recorded significant revenue growth of 33.7 % in local currency.

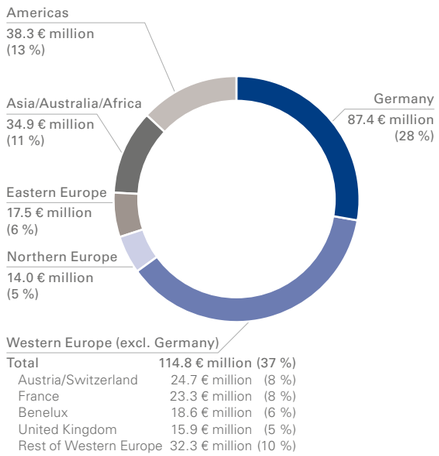
In the Asia/Australia/Africa region, we recorded year-on-year revenue growth of 5.7 % to € 59.2 million. China in particular saw a strong increase in revenue of 22.4 %, which was driven in particular by the launch of the ViClean shower toilet collection in the final quarter. We also recorded growth in the Gulf States (+13.9 %). By contrast, the division reported a downturn in revenue in Australia (–14.7 %) and, due in part to economic factors, in Thailand (–9.4 %).

Meanwhile, we generated revenue of € 13.7 million in the Americas region, an increase of 4.6 % as against the previous year.

The *Tableware Division* recorded revenue of € 306.9 million in the 2015 financial year, a nominal increase of 3.3 % on the previous year. Revenue adjusted for exchange rate effects was essentially unchanged year-on-year (–0.4 %).

Across all of its sales markets, the division benefited from the strong performance of our project business with hotels and restaurants (+6.7 %) and the rapid growth of our own e-commerce activities (+30.5 %). We also succeeded in successfully expanding our business with secondary brands such as Vivo and Gallo for more price-sensitive trade channels, establishing this as an additional pillar alongside the core business with the Villeroy & Boch brand. In this segment, which is operated by a dedicated sales company, we increased our revenue volume by 81.8 % to € 11.8 million.

TABLEWARE REVENUE
BY REGION AND COUNTRY



In our European markets, we recorded revenue growth in Norway (+17.6 %), the United Kingdom (+4.6 %) and Spain (+2.6 %). Tableware revenue in Germany remained largely stable at € 87.4 million (–0.1 %). By contrast, lower revenue was unavoidable in France (–5.8 %) and Italy (–3.0 %) in particular on account of the continued muted economic performance in these countries.

Meanwhile, we gained additional market share in Eastern Europe, with revenue increasing by 10.1 % year-on-year to € 17.5 million. With revenue increasing many times over in Hungary and the Baltic States – where our revenue volume rose to a total of € 4.7 million – we were able to offset the significant downturn in revenue in Russia in particular (–39.4 %), which was caused by the massive depreciation of the rouble and the resulting muted consumer behaviour.

The Asia/Australia/Africa region again enjoyed strong performance with revenue growth of 15.5 % to a total of € 34.9 million. The highest growth rates were recorded in South Korea (+43.6 %), Japan (+22.9 %), China (+21.7 %) and Australia (+10.0 %).

We generated even stronger revenue growth in the Americas region, where our revenue improved by 21.6 % to € 38.3 million. The main driver was our business in the USA (+23.5 %) and, in particular, growth in e-commerce and rising demand in our project business.

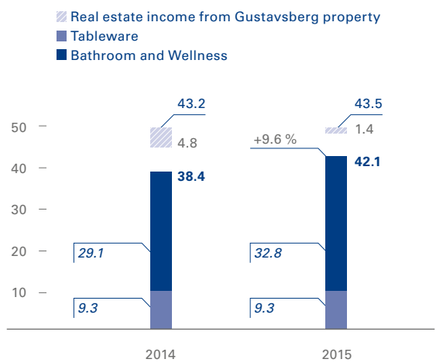
Orders on hand

Orders on hand increased significantly year-on-year to € 63.3 million at 31 December 2015 (previous year: € 51.4 million). The Bathroom and Wellness Division accounted for € 50.9 million of orders on hand, with the remaining € 12.4 million attributable to the Tableware Division.

Consolidated EBIT

Our earnings before interest and taxes (EBIT) developed as follows in the 2015 financial year:

CONSOLIDATED EBIT
INCL. BREAKDOWN BY DIVISION



Operating EBIT up 9.6 % year-on-year to € 42.1 million

In the 2015 financial year, our operating EBIT – excluding real estate income from Gustavsberg – increased by 9.6 % to € 42.1 million (previous year: € 38.4 million).

The improvement in earnings was primarily attributable to the strong revenue development (+4.9 %) and a further increase in the gross margin of 0.3 percentage points to 44.9 %. Following on from the previous years, the upward trend in

terms of margins serves to underline the sustainable productivity improvements we have achieved at our production sites. We also benefited from lower energy and commodity prices and the effects of the ongoing optimisation of our product mix, and hence the steady improvement in our revenue quality.
On the cost side, we have expanded our sales, marketing and development structures in a targeted manner largely in our growth markets in the Asia-Pacific region and Russia, resulting in total expenditure of € 269,1 million, that means € 14,0 million more than in the previous year. General administrative expenses rose by a moderate € 1.5 million year-on-year to € 46.6 million. In addition to the slight increase in the workforce, this was attributable to the higher level of staff costs due to collective wage agreements in particular. Other expenses/income amounted to € –3.5 million, representing a negative change of € 0.7 million compared with the previous year (€ –2.8 million).

Real estate income from properties in Gustavsberg, Sweden

We signed additional purchase agreements as part of our property project in Sweden in the 2015 financial year, thereby generating further non-recurring income of € 1.4 million (previous year: € 4.8 million). The conversion of our site in Gustavsberg, which was used for industrial purposes up until 2013, for residential development has significantly increased the value of the property. As a result, we gradually sold the site to two investors and, in part, to the municipality of Värmdö. To date, this has resulted in total non-recurring income of € 13.2 million in the period from 2013 to 2015. As previously, we assume that the total income from this property transaction will amount to around € 17 million.
Including the non-recurring income of € 1.4 million realised in the 2015 financial year, we generated consolidated EBIT of € 43.5 million in total. This represented a slight increase on the prior-year figure of € 43.2 million, meaning that we succeeded in compensating for the € 3.4 million reduction in real estate income through our operating improvements alone.

Operating result (EBIT) by division

Bathroom and Wellness Division

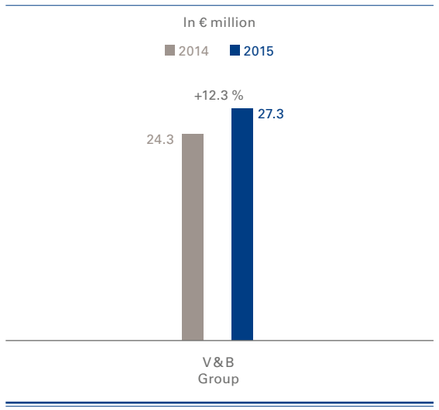
The Bathroom and Wellness Division increased its operating result (EBIT) to € 32.8 million in the 2015 financial year, an improvement of 12.7 % compared with the previous year (€ 29.1 million). This was primarily attributable to the higher volume and quality of the revenue generated. In particular, earnings growth was driven by the increase in revenue from higher-priced product groups with strong margins. In the past financial year, we also benefited from the aforementioned productivity improvements and lower energy and commodity prices – illustrated by the increase in the gross margin of 0.5 percentage points – as well as the efficiency of cost management in the area of administration.

Tableware Division

The Tableware Division saw stable year-on-year development with an operating result of € 9.3 million. All in all, we succeeded in offsetting the massive downturn in revenue in the high-margin Russian market in particular thanks to growth in our project business, e-commerce and secondary brands as well as strict cost discipline in our sales, marketing and administrative structures.

Group result

CONSOLIDATED GROUP RESULT



We generated a Group result of € 27.3 million in the 2015 financial year. This represents a substantial increase of € 3.0 million or 12.3 % compared with the previous year. The main driver for this development was our continued extremely encouraging operating performance, which fully offset the € 3.4 million year-on-year reduction in non-recurring income from the sale of the plant property in Gustavsberg. At the same time, our net finance cost improved by € 2.7 million to € –5.6 million in the 2015 financial year (previous year: € –8.3 million), which is reflected directly in earnings before taxes (EBT). This improvement was primarily attributable to the lower level of interest expense for pension obligations following the reduction in the discount rate for defined benefit pension plans from 3.0 % to 1.75 % in 2014. Further information can be found in note 40 of the notes to the consolidated financial statements.
Tax expense amounted to € –10.6 million, corresponding to a tax rate of 28.0 % (previous year: 30.4 %). The improvement in the tax rate was due among other things to the expenses recognised in the previous year for back payments of taxes as a result of external tax audits.

Dividend proposal

At the General Meeting of Shareholders on 1 April 2016, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of
€ 0.44 per ordinary share
€ 0.49 per preference share
This represents a total dividend distribution of € 13.1 million. Based on the number of preference shares held by the company at the payment date, the total cash outflow will be € 12.2 million.

FINANCIAL POSITION

Principles and objectives of financial management

We operate a central financial management system encompassing global liquidity management, cash management and the management of market price risks.
The central Group Treasury department performs uniform financial management for the entire Group. The framework is provided by external statutory and regulatory requirements as well as internal guidelines and limits.
Our liquidity management ensures that we are able to meet our payment obligations at all times. Cash inflows and outflows from our operating business form the basis for daily cash account management and short-term and medium-term liquidity planning.
The resulting financing requirements are generally covered by bank loans. Surplus liquidity is invested on the money market in line with risk/reward considerations. With the proviso that our financial trading partners have a good credit standing, expressed in the form of an investment grade rating, we pursue the aim of ensuring an optimal financial result.
Our cash management is also organised and managed centrally. In order to ensure economic efficiency, priority is given to the centralisation of cash flows via cash pooling. An 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. Internal offsetting therefore reduces the number of external bank transactions to a minimum. Standardised processes and transmission channels have been established for payment transactions.
The management of market price risks encompasses exchange rate risks, interest rate risks and other price risks. Our aim is to limit the impact of fluctuations on the results of the divisions and the Group. Group-wide risk potential is calculated on a regular basis and corresponding decisions on hedging are taken.
Further information on risk management can be found in the "Report on Risks and Opportunities" section of the Group Management Report.

Capital structure

Our financing structure as shown in the table below changed as follows in the 2015 financial year:

CAPITAL STRUCTURE

In € million

	2015	2014
Equity	165.3	144.4
Non-current liabilities	274.9	266.1
Current liabilities	196.4	212.6
Total equity and liabilities	**636.6**	**623.1**

Equity increased by € 20.9 million to € 165.3 million in the 2015 financial year. In addition to the Group result of € 27.3 million, this significant rise was due primarily to the following factors: The increase in the discount rate for pension obligations from 1.75 % in the previous year to 2.0 % meant that an additional € 9.4 million was taken directly to equity (including the deferred tax assets requiring recognition). This discount rate, which is based on the interest rates for first-class debt instruments with the same maturity in the respective economic area, is applied in measuring provisions for pensions and, in addition to other parameter changes, contributed to a reduction in pension obligations to € 192.7 million (previous year: € 212.0 million). At the same time, the dividend payment of € 10.9 million in particular led to a reduction in equity in the same amount. All in all, our equity ratio improved to 26.0 % (previous year: 23.2 %). At the reporting date, 73.8 % of the Group's non-current assets in the amount of € 224.0 million were covered by equity.

Non-current liabilities, which include pension obligations, financial liabilities, provisions for personnel and deferred tax liabilities, increased by € 8.8 million overall to € 274.9 million (previous year: € 266.1 million). The main factors included the aforementioned € 19.3 million reduction in pension obligations and the increase in non-current financial liabilities, which increased by € 25.0 million to € 50.0 million in connection with long-term follow-up financing. In this context, a bank loan that was previously classified as current was reclassified to non-current financial liabilities. The bank loans were concluded with a medium-term maturity and a fixed interest rate in euro.

Current liabilities consist primarily of trade payables, other liabilities, financial liabilities and other provisions. In the year under review, current liabilities decreased by a total of € 16.2 million. This was mainly due to the aforementioned reclassification of our bank loan, which was offset in particular by a € 7.4 million increase in trade payables and a rise of € 1.3 million in other liabilities.

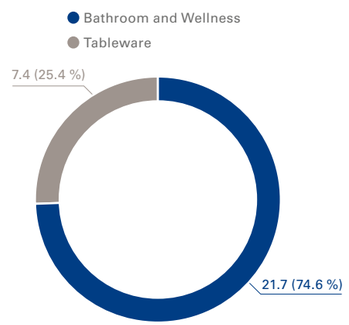
Investments

Investments in property, plant and equipment and intangible assets

Our investments in property, plant and equipment and intangible assets amounted to € 29.1 million in the 2015 financial year (previous year: € 44.6 million). The high prior-year figure was due in particular to investments in our new assembly and logistics centre in Sweden and our new combined heat and power plant at the Mettlach site, which accounted for € 16.1 million in total. 37 % of the investments made in the 2015 financial year were attributable to Germany (previous year: 41 %). At 31 December 2015, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 2.8 million. These are financed from the operating cash flow.

BREAKDOWN OF INVESTMENTS BY DIVISION

In € million



At € 21.7 million or 75 %, investing activities were concentrated primarily on the *Bathroom and Wellness Division*. We invested a total of € 15.4 million outside Germany. 38 % of this amount related to Western Europe, with Eastern Europe accounting for 34 % and Asia for 28 %. As in the previous year, investments focused on the optimisation of our production network with the aim of further increasing our productivity and adjusting our capacities to reflect changes on the market – including the remarkable levels of demand for DirectFlush – and requirements in our growth markets.

Investments in the Bathroom and Wellness Division concentrated on production at the Mettlach site and our international production sites in Ramos (Mexico), Saraburi (Thailand), Lugoj (Romania), Hódmezövársárhely (Hungary), Gustavsberg (Sweden), Vargarda (Sweden), Valence d'Agen (France) and Roden (Netherlands).

Investments in the *Tableware Division* amounted to € 7.4 million or 25 % of total investments. Of this figure, € 4.4 million or 60 % was attributable to Germany. Our investment activity concentrated on the expansion and optimisation of our sales network, i. e. the opening, expansion or renovation of numerous stores in locations including Oldenburg (Germany), Vienna (Austria), Toulouse (France), Warsaw (Poland), Cookstown (Canada) and Singapore, as well as investments in the Merzig and Torgau plants including the acquisition of new presses.

Financing

Our net cash flow from operating activities amounted to € 34.1 million, down € 16.8 million on the previous year. This was primarily due to the € 11.7 million increase in our inventories compared with the previous year, which was mainly attributable to the Bathroom and Wellness Division. This increase in inventories was a precautionary measure reflecting the further expansion of the distribution network in our growth markets. It addition, our ability to deliver new products in the first quarter of 2016 is safeguarded. A further € 3.6 million (net) were a result of the rise in trade receivables (€ 11.0 million), which resulted in particular from the higher level of revenue; this was partially offset by an increase in trade payables (€ 7.4 million).

CONDENSED CASH FLOW STATEMENT

In € million

	2015	2014
Group result	27.3	24.3
Current depreciation and amortisation of non-current assets incl. reversals	27.5	26.9
Change in non-current provisions	–9.3	–12.7
Profit from disposal of fixed assets	0.4	–0.9
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	–21.0	5.8
Other non-cash income/expenses	9.2	7.5
Net cash flow from operating activities	**34.1**	**50.9**
Net cash flow from investing activities	**–23.9**	**–33.1**
Net cash flow from financing activities	**–11.4**	**–10.5**
Total cash flows	**–1.2**	**7.3**
Balance of cash and cash equivalents on 1 Jan	**66.8**	**60.3**
Change based on total cash flows	–1.2	7.3
Change due to exchange rate effects	0.0	–0.8
Balance of cash and cash equivalents on 31 Dec	**65.6**	**66.8**

The net cash flow from investing activities decreased by € 9.2 million year-on-year to € –23.9 million. This figure primarily consisted of investments totalling € 29.1 million less cash receipts from asset disposals in the amount of € 6.1 million.
The net cash flow from financing activities amounted to € –11.4 million (previous year: € –10.5 million) and primarily contained the dividend for the 2014 financial year that was paid in March 2015.

Liquidity

Net liquidity

Our net liquidity amounted to € 15.0 million at the reporting date, down slightly on the prior-year figure of € 15.8 million. Cash inflows from the improved Group result and the sale of the former plant property in Sweden offset the financing requirements in connection with our increased inventories.
Cash and cash equivalents, current financial assets and current and non-current financial liabilities were combined in calculating net liquidity.
At 31 December 2015, we had unutilised credit facilities totalling € 191 million (31 December 2014: € 170 million) that were not subject to any restrictions.

NET ASSETS

Structure of the statement of financial position

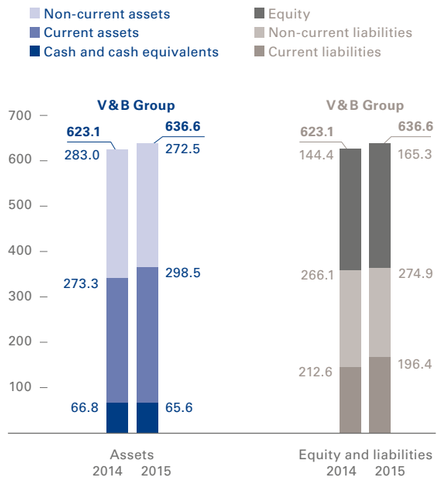
Total assets amounted to € 636.6 million at the reporting date compared with € 623.1 million in the previous year. The structure of the statement of financial position is shown in the accompanying graphic.

Year-on-year comparison of the structure of the statement of financial position

Non-current assets consist of fixed assets, deferred tax assets and other non-current assets. At the reporting date, the total of non-current assets decreased by € 10,5 million to € 272.5 million. Fixed assets fell by € 4.5 million year-on-year to € 224.0 million. This was primarily due to the decrease in other financial assets (€ –4.7 million) as a result of the repayment of a loan receivable in connection with the gradual sale of our plant property in Sweden. Deferred tax assets also declined by € 6.3 million.
The share of total assets attributable to non-current assets decreased to 35.2 % (previous year: 36.7 %).

BALANCE SHEET STRUCTURE

In € million



Current assets are primarily composed of inventories, trade receivables, other current assets and cash and cash equivalents. Current assets increased by € 24.0 million year-on-year to € 364.1 million (previous year: € 340.1 million). In particular, this was reflected in the € 11.7 million increase in inventories, the € 11.0 million rise in trade receivables due to the higher level of revenue in particular, and the € 3.0 million increase in other current assets.
The items of the equity and liabilities side of the balance sheet are discussed in the "Capital structure" section of the management report.

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 intangible assets, property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities.
The return on net operating assets is calculated as follows:

RETURN ON NET OPERATING ASSETS

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

As of 31 December 2015, 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

Group	2015	2014
Net operating assets	**310.6**	**295.0**
Property, plant and equipment	181.6	171.3
Inventories	152.3	147.8
Receivables (from third parties)	118.8	112.3
Liabilities	–66.4	–61.1
Other assets	–75.7	–75.3
Operating result (EBIT)	**42.1**	**38.4**
Return on net operating assets	**13.6 %**	**13.0 %**

In the 2015 financial year, we succeeded in improving our operating return on net assets by 0.6 percentage points to 13.6 %. This was due to the improvement in the operating result compared with the previous year, which more than offset the increase in rolling net operating assets. The rise in net operating assets was primarily attributable to the increase in average property, plant and equipment, which was due in turn to the above-average investment volume in the Bathroom and Wellness Division in the previous year. In particular, this included investments in the construction of our new Swedish logistics and assembly centre in Gustavsberg and our new combined heat and power plant in Mettlach.

EMPLOYEES, ENVIRONMENT AND SOCIETY

EMPLOYEES

An attractive range of services for our employees

Our employees are well-trained, capable and motivated. To ensure that this remains the case, our objective as a modern, responsible employer is to provide our employees with interesting and stimulating tasks and a varied working environment and to offer them fair remuneration and attractive benefits.
We also offer our employees different working time models, such as flexible working hours, part-time work and mobile work. The continuing process of internationalisation is allowing us to give many employees the opportunity to spend time on placements abroad, thereby advancing not only their professional development but, in particular, also their intercultural skills.
To support our workforce in selecting the appropriate pension products, we offer comprehensive and individual consulting concepts in cooperation with an insurance agency. Our employees can obtain information about company and collectively agreed pension schemes at Villeroy & Boch, calculate individual offers and clarify detailed questions with the respective advisers at any time. Supporting our employees in achieving a better work/life balance is also extremely important to us. We co-finance nursery places in a day care centre at our head office in Mettlach that can be used by employees with children. In 2015, we repeated a scheme in Germany providing working parents with financial support for reliable childcare during the school holidays.

The demographic development of our society is also becoming increasingly important, with our workforce set to become progressively older in the medium term. We are addressing this change with a wide range of workplace health and safety measures. On the basis of agreements with the employee representatives, we also offer programmes for professional integration management and flexible provisions for family nursing care that go beyond the statutory provisions.

Professional development and training

Vocational training is an important pillar of our sustainable HR policy. At the end of the 2015 financial year, we employed a total of 128 trainees and students in eight commercial and nine technical professions, primarily in Germany. In addition to the major training locations in Mettlach and Merzig, we are also using smaller locations and organisational units to train our new talents.

At the same time, we offer a three-year junior management programme to encourage qualified graduates from commercial and technical courses to start their career with Villeroy & Boch. 45 young talents are currently being prepared to perform specialist and management functions in various departments, including four at our foreign locations.

Our "Global Academy" also helps to safeguard new talents and expertise on a targeted basis with a wide range of management and personality training programmes aimed at developing subject-specific skills and expertise.

The expediency of our HR activities was recognised with our successful performance in an extensive employer survey that is conducted every year by the consulting firm Universum on behalf of Wirtschaftswoche magazine. Germany's most popular employers were identified based on a survey of more than 30,000 students at over 170 German universities, and Villeroy & Boch once again occupied a position in the top 100 in 2015.

Incorporating our employees into process design

The tools we use to actively involve our employees in designing and optimising our business processes include employee surveys and corresponding workshops in order to collect suggestions for improvement from all departments and prioritise and implement them in a timely manner. In addition to this structured methodology, our employees are welcome to submit proposals for process optimisation or innovative ideas concerning new products at all times as part of our idea management programme.

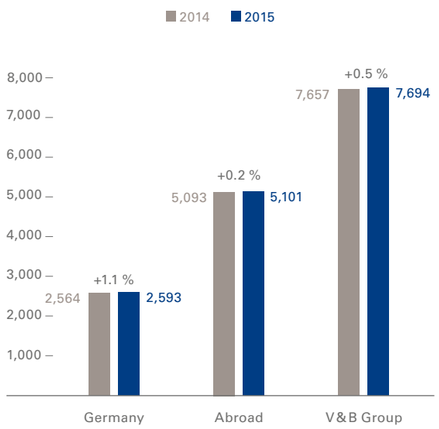
Occupational health and safety

Occupational 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 employee awareness of occupational safety and healthcare. We not only comply with key statutory limits – e. g. with regard to dust exposure – but also fall significantly below these limits in some cases. One concrete example is the fitting of special white fettling cabins at the Mettlach sanitary ware factory, which has significantly reduced the dust levels to which our employees are exposed. The cabins, which represent a new standard in the prevention of health risks in the ceramic industry, were developed as part of a joint pilot project with the employers' liability insurance association and are set to become mandatory for sanitary ware factories throughout Europe in 2016.

Another important aspect is the definition of and compliance with safety standards, which are tied to strict criteria and have been successively harmonised throughout the Group. The measurable indicators of accidents are also subject to uniform evaluation in order to identify the results achieved and the areas for improvement. At year-end 2015, for example, our Swedish fittings factory in Vargarda completed its fourth accident-free year in succession. As part of a pilot project, our Belgian wellness production site in Roeselare became the first location in the Villeroy & Boch Group to be certified in accordance with the OHSAS 18001 (Occupational Health and Safety Assessment Series) standard. The individual workstations are also systematically assessed at all locations throughout the Group. To ensure that all of the locations are working to improve occupational health and safety, we conduct international audits with internal experts with a view to assessing the organisation, as well as analysing projects and measures aimed at protecting employees and preventing accidents and damage to health in the workplace. Where there is a need for optimisation, we initiate the corresponding organisational, technical or medical measures. 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 and preventive orthopaedic measures. At our site in Mexico, for example, health campaigns in the past financial year focused on the early identification of diabetes and coronary heart disease as well as hepatitis C and tetanus vaccination. There is a growing focus on preventive healthcare measures at all locations. Training and education on health, hygiene and safety complete our activities in this area.

Workforce

NUMBER OF EMPLOYEES (AT END OF PERIOD)



We had a total of 7,694 employees as at 31 December 2015. Compared with 31 December 2014, the number of employees increased by 37 (previous year: 7,657). 33.7 % of the workforce was employed in Germany (previous year: 33.5 %). The Bathroom and Wellness Division accounted for 4,875 employees (previous year: 4,879), while a total of 2,309 people were employed in the Tableware Division (previous year: 2,305) and 510 in central functions (previous year: 473).

Taken as an average for the year as a whole, the number of employees remained essentially unchanged year-on-year at 7,673 (previous year: 7,675).

ENVIRONMENTAL PROTECTION

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. The commissioning of a new combined heat and power plant will reduce our CO_2 emissions at the Mettlach site by 4,000 tonnes a year. The reduction in emissions also means that the location has no longer been subject to emissions trading since 2015. Another positive effect is that the commissioning of the combined heat and power plant means our Mettlach site is largely unaffected by the development of energy prices, making our energy costs easier to plan. Reduced electricity requirements mean that our annual expenditure on energy and heat supply at the Mettlach sanitary ware factory and our head office will be reduced by a high six-figure amount.

At the Villeroy & Boch Group, we have set ourselves the target of a 15 % reduction in our specific energy consumption (electricity and gas) across all Group locations by 2024 at the latest. We also intend to increasingly focus on renewable energies and increase our energy efficiency by renovating existing building structures, for example.

At an operational level, we have defined ambitious targets for all of the ISO 50001-certified sites in the past, and these targets were successfully implemented in 2015. The focus of this was reducing energy use and CO_2 emissions, which are

also the basis for the new environmental target at operational level that we determined recently. These targets are built upon concrete measures, such as the use of particularly efficient dryers in production or the use of heat recovery.
The Group's largest sanitary ware factories in Lugoj (Romania) and Hódmezővásárhely (Hungary), where we introduced an energy management system in 2014, were successfully certified in accordance with ISO 50001 in early 2015. The energy management system is currently being implemented at the ceramic plant in Valence d'Agen (France) and our two wellness production sites in Roeselare (Belgium) and Roden (Netherlands) and will be certified in the course of 2016. Additional locations will follow in 2016 and 2017. We will continue to give energy consumption, and hence CO_2 emissions, the very highest priority in light of their impact on the environment. We will also successively investigate our administrative areas with regard to the energy-efficient use of electrical energy in order to define location-specific targets. Plans of action for reducing energy consumption will be realised in the next stage of the process.

SOCIAL RESPONSIBILITY

Taking social responsibility is a key element of our identity as a company. With our long tradition dating back to 1748, we see ourselves as having a responsibility to get involved in our cultural and social environment. This is not least documented in our corporate guidelines by the principle: "Villeroy & Boch – Maintaining the tradition".
Our aim is to be a strong and reliable partner for society. In the 2015 financial year, our activities focused on donations of money and goods to social organisations at a regional level. We also encourage our employees to assume responsibility themselves. To help support refugees arriving in Saarland, a team was formed to collect and sort donations from employees in a targeted manner and transport them to the relevant facilities in close cooperation with the coordinating organisations. In another project, 60 Villeroy & Boch trainees worked on the construction of a summer house for the nursery in Mettlach. The "Wunschweihnachtsbaum" (wishing tree), in which children from three homes were asked to wish for small gifts from our employees, again enjoyed an excellent response this year. After being held for the first time in 2014, the project was extended to three locations in 2015, thereby almost doubling the number of children receiving gifts.
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 supporting the football club SV Mettlach for a number of years and the handball club in the neighbouring town of Merzig since 2013.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no events of particular importance after the end of the 2015 financial year.

REPORT ON RISKS AND OPPORTUNITIES

RISK STRATEGY

Our business policy is aimed at sustainably increasing the performance and earnings strength of our company, and hence its enterprise value, for the benefit of our shareholders and other stakeholders. To this end, the Villeroy & Boch Group's business activities open up a wide range of opportunities, but are also accompanied by risks. In the course of our business activities, we are exposed to general economic and industry-specific risks as well as the usual financial and economic risks.
In accordance with our approach to risk, potential business risks are identified at an early stage, evaluated and – where possible – minimised or avoided altogether using recognised methods and measures. Risks are consciously accepted when the prospects for success are suitably attractive. The risks in question must also be calculable and manageable in terms of their size, as well as having a low probability of occurrence. Within our company, we have a functional and effective risk management system that is intended to secure the continued existence of the Group and ensure the achievement of our objectives as a company, and especially our financial, operational and strategic objectives.

RISK MANAGEMENT

Risk management system and internal control system

Our risk management system encompasses both risks and opportunities. In contrast to risk reduction measures, opportunities generally do not serve to reduce risks; they are discussed separately in the "Report on opportunities" section.
The risk management system covers all of the areas of our Group and allocates clear responsibilities and duties to all organisational units. In this system, the Management Board defines the principles of the risk policy and risk treatment above and beyond the general principles of Group strategy and ensures that they are implemented. The Code of Conduct limiting the risks of possible breaches of the law and regulations, which applies to all employees and managers throughout the Group, is a further component of this system.
Various coordinated planning, reporting and control processes and early warning systems have been put in place in implementing the system as a whole with the aim of recognising developments that could endanger the Group's continued existence in good time and taking appropriate and effective countermeasures.
Our operational risk management covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks and, together with the necessary countermeasures, is primarily the responsibility of process management, i. e. decentrally at divisional level. Risk Controlling identifies, measures and evaluates all risks. In particular, the involvement of the controlling team for the respective division serves to ensure that risk management is integrated into the decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.
The internal control system is a central component of risk management at Villeroy & Boch. It comprises the principles, procedures and measures introduced by management in order to

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

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

Monitoring of the risk management processes

Based on a mandate delegated by the Management Board of the Villeroy & Boch Group, Group Internal Audit regularly examines the efficiency of the workflows and the effectiveness of the internal controls installed in the decentralised divisions and the risk management system. It reports on its findings in a timely manner. This ensures that the Management Board is continuously informed about weaknesses and any resulting risks and the derivation of adequate recommendations for rectifying these weaknesses. Specifically, our Group Internal Audit Team is responsible for identifying risks in the course of its activities (identification function), independently and objectively evaluating these risks (evaluation function) and presenting recommendations for improvement (advisory function) and tracking their implementation (tracking function).
The Audit Committee of the Supervisory Board also monitors the effectiveness of the risk management, internal control and internal audit system and, in particular, the financial reporting process. In addition, the effectiveness of the internal control system for financial reporting and the effectiveness of the risk early warning system are regularly confirmed by our external auditor as part of its annual audit of the consolidated financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR GROUP FINANCIAL REPORTING

As Villeroy & Boch AG is a publicly traded corporation within the meaning of section 264d of the German Commercial Code (HGB), it is required to describe the key characteristics of its internal control and risk management system with respect to the Group financial reporting process in accordance with section 315 (2) no. 5 HGB. The purpose of this system is to guarantee with reasonable assurance that the Group financial reporting process is reliable and that it complies with the generally accepted principles of proper accounting.

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

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

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

INDIVIDUAL RISKS

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

The overview below provides a general summary of the individual risks. Applying a one-year forecast period, it shows the relative importance of the individual risks based on their probability of occurrence and potential financial impact following any risk mitigation measures (net risk). A probability of less than 30 % is classified as "low", while a probability of more than 60 % is classified as "high". The assessment of the potential financial impact is based on the qualitative criteria "insignificant" (loss < € 1 million), "moderate" (loss between € 1 million and € 5 million) and "significant" (loss > € 5 million).

RISK PROFILE OF THE VILLEROY & BOCH GROUP

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

General and industry-specific market risks

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

Specifically, macroeconomic developments – such as an economic slowdown in the industrialised nations and emerging economies, or exchange rate fluctuations – can impair the propensity and the ability of our customers to invest or lead to postponements of investment decisions. Although the global economy is generally expected to grow, the sustained slowdown in economic growth rates in China, for example, entails a not inconsiderable risk for our planned revenue targets, particularly since this could have a knock-on effect on our business in other Asian countries. Although economic development in the nations of southern Europe has improved, it remains moderate and hence continues to pose a fundamental risk to our sales performance in Europe.

In addition, consumer spending on the markets and consumer confidence can be negatively impacted by sociopolitical factors such as military conflicts, civil unrest, or the growing threat of terrorism around the world. Among other things, we see the crises in Ukraine and Russia and the political instability in the Middle East as posing corresponding risks to the Group's revenue and earnings development.

Sales forecasts in the Bathroom and Wellness Division are not only subject to the aforementioned general market risks, but also depend in particular on the performance of the construction industry. All in all, the European residential construction industry saw a higher growth rate in 2015 than in the previous year. The stable development of the residential construction volume is expected to continue in 2016. This positive trend suggests that there are no specific relevant risks at present. Meanwhile, the sustained consolidation within the sanitary ware industry could strengthen the competition and lead to a change in our relative market position. On the manufacturer side, the mergers of our competitors Lixil/Grohe and Sanitec/Geberit are not expected to have a tangible impact on our business, at least in the short term. At the same time, however, concentration is increasing in the sanitary ware wholesale market, leading to rising price pressure on us as a manufacturer. We are also seeing a growing trend among German wholesalers to offer private label products instead of branded products.

As well as general economic sales risks, the Tableware Division is subject to the additional challenges of the dynamic change in our customers' consumer behaviour. Falling visitor numbers at retail stores in the western European markets represent a not inconsiderable sales risk that we are counteracting in particular by improving the connectivity of our offline and online sales channels in order to ensure that our product and service range is tailored to the needs of our customers to an even greater extent. In addition, consolidation within the retail sector is increasing the market power of major retail chains, meaning that we are also exposed to growing pressure on prices and margins in this area.

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

Economic performance risks

Procurement risks

In the critical area of production supply in particular, general procurement risks include the risk that the materials delivered to us will be of poor quality, as well as the risk of supplier insolvency or other supply interruptions. Suitable countermeasures for these risks have been defined as part of risk management, e. g. the permanent monitoring of markets and the financial stability of 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 raw materials – the current circumstances are such that there are very few alternative sources available on the market.

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

Product development risks

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

Additional information on our research and development activities can be found in the section of the same name under "Basic Information on the Group".

Production risks

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

Environmental protection risks

Environmental protection is firmly enshrined in our corporate culture. Despite this, the possibility of environmental pollution caused by production cannot be ruled out. Our employees are a key element of our preventive activities, and we ensure that they are made aware of current environmental and energy-related topics on a regular basis. Employees are included in various operational projects in their respective area in order to leverage potential and minimise risk. We have also established an environmental management system in accordance with the international standard ISO 14001 and obtained certification at most of our sites. Four of the Villeroy & Boch Group's production sites meet the more stringent requirements of EMAS III (Eco-Management and Audit Scheme), a voluntary instrument of the European Union for the continuous improvement of operational environmental performance.

Financial and economic risks

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

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

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

Management of inventory risks: For property, plant and equipment and inventories, the necessary insurance cover is in place to protect against the various risks of their actual loss. A detailed reporting system exists for the size, structure, range of coverage and changes to individual items, counteracting the risk of loss in value due to limited usability of inventories. Further information can be found in notes 6 and 11 of the notes to the consolidated financial statements. There is no significant concentration of inventory risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2015.

Management of default and credit risks: Default and credit risks describe the uncertainty that a contractual party will fail to meet its contractual obligations. In order to minimise these risks, our guidelines state that business relationships are only entered into with creditworthy business partners and, if necessary, subject to the provision of collateral. The main receivables from customers are protected by trade credit insurance. The default risk for the remaining uninsured receivables is controlled by way of a limit system and reporting. Compliance with limits is monitored centrally. We counteract potential default risks through the collateral deposited by customers, such as guarantees and mortgages, and through prompt collection measures. Specific valuation allowances are recognised for default risks that occur despite this, and particularly in the event of significant financial difficulties on the part of the debtor and impending bankruptcy (see section 12 of the notes to the consolidated financial statements). For banks, too, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established based on the ratings issued by international rating agencies and

the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible as the Group deals only with contract partners with an investment grade rating from an international rating agency. External security is also ensured for the respective instrument, for example through deposit guarantee systems. There is no significant concentration of default risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2015.

Management of liquidity risks: In order to ensure our permanent solvency and financial flexibility, we control short, medium and long-term liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and through a medium and short-term liquidity projection. The financing requirements of Group companies are generally met in full by internal lending. This allows the cost-effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. We utilise international cash pooling systems in order to reduce external finance volumes and optimise our financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit internal lending in exceptional cases. There is no significant concentration of liquidity risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2015. Further information on the management of liquidity risks can be found in note 53 of the notes to the consolidated financial statements.

Management of exchange rate risks: In the course of our global business activities, we are exposed to exchange rate risks arising from transactions in foreign currencies. Currency futures contracted with banks with good credit ratings are employed as hedging transactions. We generally hedge exchange rate risk over a period of twelve months, though hedges can extend beyond this horizon in exceptional cases. The required hedging volume is first determined by netting receivables and liabilities 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 of these risks or the risk management and measurement methods in 2015. However, we countered increased exchange rate risks compared with the previous year due to the considerable turbulence affecting the Russian rouble, and these risks are expected to remain in place in 2016. We are using a dynamic hedging approach to address this risk. Further information on the management of exchange rate risks can be found in note 53 of the notes to the consolidated financial statements.

Management of interest rate risks: Interest rate risks occur as a result of interest rate fluctuations on the market when funds are invested or borrowed at fixed- and variable-interest rates. The earnings risk arising from interest rate changes is determined on the basis of sensitivity analyses and controlled by Group Treasury, which maintains an appropriate relationship between fixed- and variable-interest borrowings. The risk of volatile interest markets is limited by way of fixed-interest loan agreements. There were no changes in interest risk positions or the risk management and measurement methods in 2015. In 2015, a few banks discussed the possibility of passing on the negative deposit rates imposed by the European Central Bank to business customers. However, the Villeroy & Boch Group has a sufficient number of alternative banking partners and investment options, meaning it is not subject to negative deposit rates at present and does not expect this to be the case in 2016. Further information on the management of interest rate risks can be found in section 53 of the notes to the consolidated financial statements.

Management of other price risks: Other financial risks result from changes in the price of purchased commodities used in our value chain, such as raw materials and supplies. As part of our risk management activities, we identify the volume of risk with the aim of hedging it. Among other things, we use capital market-oriented financial products for this purpose. The commodity of brass is currently hedged using commodity swaps with banks with good credit ratings. The requirements in accordance with production planning are generally hedged at a level of 70 % for the coming year and 30 % for the subsequent year on the basis of past experience. There was no change in the management of brass price risks in 2015. In 2015, 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 2015. Further information on the management of commodity price risks can be found in section 53 of the notes to the consolidated financial statements.

Tax risks

The global activities of the Villeroy & Boch Group mean we are subject to the respective country-specific tax laws and regulations. Potential changes in the applicable tax law situation could have an adverse effect on the taxation of the Group companies.

Tax risks are continuously identified and assessed as part of our risk management system.

Like all commercial enterprises, the Group companies are subject to the ongoing examination of their tax declarations and payments by the national fiscal authorities. The largest absolute share of the Group's business volume is attributable to the parent company, Villeroy & Boch AG. The external tax audit of Villeroy & Boch AG for the period from 2005 to 2007 was finally completed in late 2015. The key findings of the audit related to the cost of acquisition or disposal of equity interests, the interest rates for loans and cost allocations with foreign subsidiaries. An appropriate provision has been recognised for potential back payments of taxes. The German tax authorities are currently conducting a routine audit of the company for the assessment period from 2008 to 2010. One of the focal points of the review by the fiscal authorities is the antitrust fine paid in 2010, including its recognition as an operating expense.

Tax audits are also taking place at foreign subsidiaries. Any additional taxes for tax audits completed in the 2015 financial year have been paid.

The external tax audit at our subsidiary in Thailand is primarily concentrated on the level of realised revenue. An objection has been lodged against the back payment that has already taken place for 2010. The present decision on the objection largely concurred with our arguments. The acceptance of the decision on the objection is currently being examined.

The possibility that external tax audits could lead to an increase in the tax burden in future cannot be excluded.

Personnel risks

The long-term success of the Villeroy & Boch Group depends to a large extent on its committed and skilled employees and managers. Accordingly, insufficient availability of qualified staff and fluctuation in key positions could have an adverse effect on business development. In order to secure new talents and expertise for the long term, the Group places great value on a targeted human resources policy including the

recruitment and training of new, qualified employees and the continuous further education of established staff in the form of management and personality training and specialised learning programmes. Additional information on the programmes we operate for employee promotion and development can be found in the "Employees" section of the Group management report.
We have pension and pension-related obligations for the provision of retirement benefits to our employees. Changes in the relevant measurement parameters, such as interest rates, mortality rates and the rate of salary growth, constitute a financial risk as they may lead to a change in the volume of these obligations and negatively impact our equity and our earnings. Provisions for pensions are described in note 26 of the notes to the consolidated financial statements.

Legal risks

The progressive internationalisation of our business activities is accompanied by an increase in the number and complexity of the statutory provisions we are required to observe. Accordingly, we are permanently exposed to risks in connection with guarantee obligations and material defects, product liability, competition and antitrust law, industrial property rights and claims arising from breaches of contract. To the extent that it is foreseeable and economically reasonable to do so, we cover the existing legal risks by concluding insurance policies that are typical for the industry and recognise provisions to a sufficient extent for obligations going above and beyond this. To reduce the potential cost of legal risks, we ensure the high quality standards of our products by regularly monitoring production and making continuous improvements. In addition, responsible and legally compliant behaviour is ensured by the compliance organisation established by the Management Board.
On 16 September 2013, the European Court announced its verdict at first instance on the action filed by the affected Villeroy & Boch companies against the decisions by the EU in the antitrust proceedings known as the 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. The appeal was still pending in the 2015 financial year. Sufficient provisions were recognised for the costs of these legal proceedings. The fines in the amount of € 71.5 million were already expensed and paid in 2010. After obtaining legal advice, the Supervisory Board has come to the conclusion that claims for recourse could be asserted against four former members of the Management Board if the fines imposed in connection with the aforementioned proceedings were to become legally effective. Time-limited waivers of the statutory period of limitations were agreed with three of the former members of the Management Board. A declaratory action was brought against one former member of the Management Board in order to safeguard all of Villeroy & Boch's rights. No specific claims for reimbursement or recourse have been recognised to date.

IT risks

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

- Non-availability of IT systems and applications,
- Missing or incorrect provision of data,
- Loss or manipulation of data,
- 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 auditors and Group Internal Audit to ensure compliance and effectiveness. Our central IT organisational structure and the use of standardised, Group-wide systems and processes are additional measures aimed at minimising the probability of risks occurring.

Overall risk position

The Management Board of Villeroy & Boch AG regularly examines the risk situation of the Group and has satisfied itself as to the effectiveness of the risk management system. In the 2015 financial year, the risk profile did not change materially compared with the previous year. In the opinion of the Management Board, based on the probability of occurrence and potential impact of the risks described above, they do not represent a risk to the continued existence of the Group either in isolation or cumulatively. The individual risks are controlled using the risk management system and sufficient risk cover is available. The Management Board does not expect this to have a material influence on the Group's net assets, financial position and results of operation.

REPORT ON OPPORTUNITIES

Growth markets

Our activities in the saturated markets of Europe are primarily focused on expanding our market share, whereas our approach in the growth regions is geared towards increasing brand awareness and hence establishing our position on the respective market.
We still consider China and – despite the continued economic and currency-related uncertainty in 2015 – Russia to be the individual markets offering the greatest growth potential for us. Both markets are characterised by a growing middle and upper class of keen consumers with, in particular, a strong brand affinity; we believe that this will offer good opportunities for above-average growth in the coming years, particularly in the Bathroom and Wellness Division. We have intensified the expansion of our distribution network in recent years by establishing independent organisations, including local logistics platforms. Accordingly, we systematically pressed ahead with our plans to increase the number of local points of sale in both markets in the 2015 financial year.

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 not only provides us with direct access to a broad customer base, but also allows us to leverage synergies in the areas of sales, service and logistics. At the end of 2015, our sanitary ware products were represented in around 340 showrooms in the USA and Canada, meaning that we have more than doubled our local distribution reach over the past two years. We have also extended our product range to include various ceramic sanitary ware and bathroom furniture products that are specially tailored to the needs of North American customers.
In India, we have been working in partnership with Genesis Luxury Fashion, one of the most successful Indian trading companies for premium and luxury brands, since June 2013 and have formed a joint venture for the exclusive distribution of our Tableware products in the country. Following on from our market entry and the opening of India's first Villeroy & Boch retail store in Mumbai, we are now represented with a total of four stores in luxury shopping centres. Additional stores will follow by the end of 2018, including in less high-end premium shopping centres for the aspirational middle class.
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, while licence business is also a way of attracting new target groups and expanding our product range beyond our current core portfolio. Our licensing partners currently offer tiles, wooden flooring, lighting, fittings, garden furniture and accessories for the tableware and bathroom environment using the Villeroy & Boch brand.

Project business

We believe that there remains good potential for increasing the sales volume in our global project business. Both divisions have a specialist sales team and an extensive range of products and services that is precisely tailored to the needs of our professional partners. In cooperating with our customers, we also benefit from the continuous development of our customer relationship management, where the majority of projects are recorded early in the planning phase and which is used for acquisition across the divisions.
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 expand our competitive position in the price-sensitive project business in future. In the 2015 financial year, we increased our revenue from project business by 10.9 % in the Bathroom and Wellness Division and as much as 19.9 % in the Tableware Division, both of which represented above-average growth rates.

Online activities

Since 2013, we have massively expanded our structures and investments in the area of digitalisation. All of our marketing activities are geared towards providing our customers with innovative, modern concepts that meet their needs, both offline and online. Our aim is to have a presence wherever customers look for us and to provide them with a consistent information and shopping experience. To ensure that we meet the individual needs of end consumers and business partners in terms of information, inspiration, entertainment, service and dialogue in full and in a targeted manner, we have significantly expanded our online presence by improving our website and intensifying our social media activities. For the Tableware Division, e-commerce is a strategically important sales channel encompassing our own online shops as well as the sales platforms of other providers, and is also the fastest-growing sales channel. Global revenue from our dedicated e-shops increased by 30.5 % in the 2015 financial year, and we expect to continue to see above-average growth rates in the years ahead.

In the Bathroom and Wellness Division, the service range also plays a primary role. With tools like our Bathroom Planner and Bathroom Inspirator and the augmented reality app we launched in 2015, consumers can plan their ideal bathroom and project the selected products into the virtual room using a smartphone or tablet PC for a lifelike 3D view. As well as this additional benefit for the customer, this generates valuable leads that we pass on to our dealers with the customer's permission, thereby potentially leading to revenue.

Efficiency improvements in production and administration

The continuous optimisation of our cost structures encompasses productivity improvements in our production workflows as well as in administrative areas. In 2012, we launched the yield improvement programme with the aim of leveraging the full potential offered by our plants. The core of the programme is a bundle of optimisation measures with which we are aiming to systematically increase output at our sanitary ware factories. The levers for improving this figure are statistical fault analyses, the stabilisation of environmental parameters and process integration. We expect the successive roll-out of the programme across all of our plants to lead to further relevant earnings improvements in the coming years. In the area of administration, we have defined concrete measures for efficiency improvements in the support functions and are currently in the implementation phase. The optimisation potential lies in the Group-wide harmonisation and standardisation of processes, particularly in the areas of human resources, procurement and finance. At an organisational level, one of our aims is the bundled processing of business transactions at shared service centres. In the past financial year, for example, we continued to expand the shared service centre for financial accounting in Hungary. As well as providing location-independent support for our companies in Austria, the Czech Republic, Romania and Poland, the shared service centre now also incorporates our accounting systems for Russia, Scandinavia and Finland.

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.

As part of our real estate project in Sweden, we initiated the sale of the plant property in Gustavsberg in June 2013. By the end of December 2015, non-recurring income of € 13.2 million had been realised in various tranches, with € 1.4 million of this figure attributable to the 2015 financial year. The total income from the disposal of the plant properties is expected to be up to € 17 million.

The development of our property in Luxembourg still offers additional earnings potential. However, realisation will be dependent on the conversion of the property from industrial to residential development. This must be compliant with the relevant urban development plans and requirements and necessitates the involvement of political bodies. We are currently still in a phase of the process that means a reliable statement on a potential realisation date is not possible.

REPORT ON EXPECTED DEVELOPMENTS

We expect global momentum in the 2016 financial year to improve compared with 2015, albeit still at a moderate level. To this end, the International Monetary Fund is forecasting global economic growth of 3.4 % (2015: 3.1 %). However, we believe there is little prospect of a broad-based, self-perpetuating global economic upturn, not least due to the various growth risks.

The situation in the emerging economies remains uncertain, particularly in China, where signs suggest that there will be a further slowdown in economic expansion. Falling energy and commodity prices will also impair the conditions for commodity-exporting nations. The slow increase in interest rates in the wake of the turnaround in US interest rate policy will also lead to a reduction in the flow of foreign capital to the emerging economies and the deterioration of financing conditions in these markets. General risks for global economic development are expected to continue to arise from the geopolitical conflicts in Russia/Ukraine and the Middle East. Together with the intensification of the terrorist threat in Europe, this could lead to uncertainty among consumers and investors. The considerable tension on the international financial markets also risks spreading to the real economy, particularly since the financial sector in many countries is still undergoing a process of restructuring.

The fragile situation in the emerging markets is likely to be largely offset by the comparatively stable situation in the advanced economies. For the euro zone, and hence also for Germany, stable overall economic growth is forecast for 2016 at a slightly higher level than in the previous year. It can be assumed that the stimulatory effects of rising employment, growth in real income and the expansionary fiscal policy of the European Central Bank will endure. At the same time, the upturn in the US economy seems to be continuing, with corporate investment poised to pick up significantly once again on the back of the sustained improvement in the employment market, growth in private consumption and the more favourable outlook in terms of sales.

Revenue, earnings and investments at the Group

Based on a fundamentally positive assessment of the market and a range of supporting factors, we are aiming to increase consolidated revenue by between 3 % and 6 % in the 2016 financial year.

Our operating earnings growth (EBIT) in 2016 is expected to fall within a range of 5 % to 10 %.

We also expect to generate further non-recurring income in 2016 from the agreements that have already been concluded for the sale of additional parts of our plant property in Gustavsberg, Sweden.

Our return on net operating assets in 2016 is set to be slightly higher than the level for the 2015 financial year (13.6 %), as the anticipated earnings growth is likely to have a more pronounced effect than the increase in our assets.

Our operating investments in property, plant and equipment and intangible assets will amount to more than € 30 million in the 2016 financial year, thereby exceeding the level recorded in 2015 (€ 29.1 million). Around 74 % of the investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 26 %. Investment activity in the Bathroom and Wellness Division will focus on extending capacities for our new material TitanCeram and expanding our development centre. In the Tableware Division, we will invest in intensifying our own retail activities and increasing our order picking capacity (Merzig logistics centre) in particular.

We are also planning to make real estate investments of around € 9 million at the Mettlach site in 2016 as part of the "Mettlach 2.0" project, which primarily involves the restructuring of the grounds at Villeroy & Boch's headquarters, the Old Abbey.

OTHER DISCLOSURES

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 2015 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 2015 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, 2 February 2016

Frank Göring

Nicolas Luc Villeroy

Andreas Pfeiffer

Dr. Markus Warncke

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as of 31 Dec 2015

In € million

Assets	Notes	As of 31/12/2015	As of 31/12/2014
Non-current assets			
Intangible assets	5	37.1	36.8
Property, plant and equipment	6	161.2	160.2
Investment property	7	11.4	12.2
Investments accounted for using the equity method	8	1.5	1.8
Other financial assets	9	12.8	17.5
		224.0	**228.5**
Other non-current assets	13	1.3	1.0
Deferred tax assets	10	47.2	53.5
		272.5	**283.0**
Current assets			
Inventories	11	151.3	139.6
Trade receivables	12	119.9	108.9
Other current assets	13	24.3	21.3
Income tax receivables	14	2.6	2.3
Cash and cash equivalents	15	65.6	66.8
		363.7	**338.9**
Non-current assets held for sale	16	**0.4**	**1.2**
Total assets		**636.6**	**623.1**

as of 31 Dec 2015

In € million

Equity and liabilities	Notes	As of 31/12/2015	As of 31/12/2014
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	17	71.9	71.9
Capital surplus	18	193.6	193.6
Treasury shares	19	–15.0	–15.0
Retained earnings	20	–20.8	–51.5
Revaluation surplus	21	–64.5	–54.7
		165.2	**144.3**
Equity attributable to minority interests	22	**0.1**	**0.1**
Total equity		**165.3**	**144.4**
Non-current liabilities			
Provisions for pensions	26	192.7	212.0
Non-current provisions for personnel	27	16.3	15.6
Other non-current provisions	28	2.4	1.3
Non-current financial liabilities	29	50.0	25.0
Other non-current liabilities	30	3.3	2.4
Deferred tax liabilities	10	10.2	9.8
		274.9	**266.1**
Current liabilities			
Current provisions for personnel	27	14.9	13.4
Other current provisions	28	18.0	19.4
Current financial liabilities	29	0.6	26.0
Other current liabilities	30	81.4	80.1
Trade payables	31	77.8	70.4
Income tax liabilities		3.7	3.3
		196.4	**212.6**
Total liabilities		**471.3**	**478.7**
Total equity and liabilities		**636.6**	**623.1**

CONSOLIDATED INCOME STATEMENT

for the period 1 Jan to 31 Dec 2015

In € million

	Notes	01/01/2015 –31/12/2015	01/01/2014 –31/12/2014
Revenue	32	**803.8**	**766.3**
Costs of sales	33	–442.5	–424.9
Gross profit		**361.3**	**341.4**
Selling, marketing and development costs	34	–269.1	–255.1
General administrative expenses	35	–46.6	–45.1
Other operating income	36	20.2	17.7
Other operating expenses	37	–22.5	–15.9
Result of associates accounted for using the equity method	38	0.2	0.2
Operating result (EBIT)		**43.5**	**43.2**
(Operating EBIT before real estate income)		(42.1)	(38.4)
Interest income and other finance income	39	1.6	1.3
Interest expenses and other finance expenses	40	–7.2	–9.6
Financial result		**–5.6**	**–8.3**
Earnings before taxes		**37.9**	**34.9**
Income taxes	41	–10.6	–10.6
Group result		**27.3**	**24.3**
Thereof attributable to:			
Villeroy & Boch AG shareholders		27.3	24.3
Minority interests	42	0.0	0.0
		27.3	**24.3**
Earnings per share		**In €**	**In €**
Earnings per ordinary share	43	1.01	0.90
Earnings per preference share	43	1.06	0.95

During the reporting period there were no dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 Jan to 31 Dec 2015

In € million

	2015	2014
Group result	**27.3**	**24.3**
Other comprehensive income		
Items to be reclassified to profit or loss:		
Gains or losses on cash flow hedges	–0.9	1.2
Gains or losses on translations of exchange differences	–2.9	–4.7
Gains or losses on value changes of securities	0.0	0.0
Deferred income tax effect on items to be reclassified to profit or loss	–0.9	–0.9
Items not to be reclassified to profit or loss:		
Actuarial gains or losses on defined benefit plans	13.1	–35.9
Deferred income tax effect on items not to be reclassified to profit or loss	–3.7	10.4
Total other comprehensive income	**4.7**	**–29.9**
Total comprehensive income net of tax	**32.0**	**–5.6**
Thereof attributable to:		
Villeroy & Boch AG shareholders	32.0	–5.6
Minority interests	0.0	0.0
	32.0	**–5.6**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 Jan to 31 Dec 2015

In € million

	Equity attributable to Villeroy & Boch AG shareholders							
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	**Total**	Equity attributable to minority interests	**Total equity**
Notes	17	18	19	20	21		22	
As of 01/01/2014	**71.9**	**193.6**	**–15.0**	**–57.4**	**–32.8**	**160.3**	**0.1**	**160.4**
Group result				24.3		24.3	0.0	24.3
Other comprehensive income				–8.0	–21.9	–29.9		–29.9
Total comprehensive income net of tax				**16.3**	**–21.9**	**–5.6**	**0.0**	**–5.6**
Dividend payments				–10.4		–10.4		–10.4
Acquisition of non-controlling interests				0.0		0.0	0.0	0.0
As of 31/12/2014	**71.9**	**193.6**	**–15.0**	**–51.5**	**–54.7**	**144.3**	**0.1**	**144.4**
As of 01/01/2015	**71.9**	**193.6**	**–15.0**	**–51.5**	**–54.7**	**144.3**	**0.1**	**144.4**
Group result				27.3		27.3	0.0	27.3
Other comprehensive income					4.5	4.5		4.5
Others				14.3	–14.3	0.0		0.0
Total comprehensive income net of tax				**41.6**	**–9.8**	**31.8**	**0.0**	**31.8**
Dividend payments				–10.9		–10.9		–10.9
As of 31/12/2015	**71.9**	**193.6**	**–15.0**	**–20.8**	**–64.5**	**165.2**	**0.1**	**165.3**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 Jan to 31 Dec 2015

In € million

	Notes	**01/01/2015 –31/12/2015**	01/01/2014 –31/12/2014
Group result		27.3	24.3
Depreciation of non-current assets	44	27.5	26.9
Change in non-current provisions		–9.3	–12.7
Profit from disposal of fixed assets		0.4	–0.9
Change in inventories, receivables and other assets		–27.5	–1.5
Change in liabilities, current provisions and other liabilities		15.6	13.0
Taxes paid/received in the financial year		–7.4	–3.0
Interest paid in the financial year		–3.0	–3.6
Interest received in the financial year		1.3	0.9
Other non-cash income/expenses	48	9.2	7.5
Cash flow from operating activities	48	**34.1**	**50.9**
Purchase of intangible assets, property, plant and equipment		–29.1	–44.6
Investment in non-current financial assets and cash payments		–0.9	–1.7
Cash receipts from disposals of Gustavsberg's assets		3.9	6.4
Cash receipts from disposals of fixed assets		2.2	6.8
Cash flow from investing activities	49	**–23.9**	**–33.1**
Cash proceeds from long-term borrowing	29	25.0	–
Cash repayments of amounts borrowed	29	–25.5	–0.1
Dividend payments	23	–10.9	–10.4
Cash flow from financing activities	50	**–11.4**	**–10.5**
Sum of cash flows		**–1.2**	**7.3**
Balance of cash and cash equivalents as of 1 Jan		**66.8**	**60.3**
Change based on total cash flows		–1.2	7.3
Changes due to exchange rates		0.0	–0.8
Net increase in cash and cash equivalents		**–1.2**	**6.5**
Balance of cash and cash equivalents as of 31 Dec	15+51	**65.6**	**66.8**

NOTES

GENERAL INFORMATION

Villeroy & Boch Aktiengesellschaft, domiciled in Mettlach, Saaruferstrasse 1–3, is a listed stock corporation under German law. It is the parent company of the Villeroy & Boch Group. The Villeroy & Boch Group is a leading international ceramic manufacturer. As a full-service provider for the bathroom and the "perfectly laid table", our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. Villeroy & Boch AG is listed in the Prime Standard operated by Deutsche Börse AG. Villeroy & Boch's preference shares are listed in the CDAX operated by Deutsche Börse AG. Until 21 September 2015, our preference shares were also listed in 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 2015 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) as adopted by the European Union. 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 Aktiengesellschaft 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 2 February 2016. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

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

1. ACCOUNTING POLICIES

Intangible assets

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

Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general and administrative expenses.

Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price and the value in use of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with payments in the years beyond the planning horizon derived from the situation in the final year of the planning period. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account.

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

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

Property, plant and equipment

Property, plant and equipment are carried at cost less depreciation in accordance with the useful life. Cost includes all net costs necessary to bring the asset to its working condition. Cost is determined on the basis of the directly attributable costs of the asset plus the pro rata materials and manufacturing overheads 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 ordinary depreciation, impairment losses are recognised on property, plant and equipment if the value in use or the net realisable value of the respective asset concerned has fallen below the depreciated cost. If the reasons for the recognition of an impairment loss cease to exist in a future period, the impairment loss is reversed accordingly.

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

Leases

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

If beneficial ownership remains with the Villeroy & Boch Group (finance lease), the leased asset is capitalised at its fair value or the lower present value of the lease instalments. Depreciation is allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability is recognised for the discounted corresponding payment obligations arising from future lease instalments.

Government grants

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

Investment property

Land and buildings held to earn regular rental income (investment property) are reported separately from assets used in operations. Mixed-use property is classified proportionately as a financial investment if the leased portion of the building could be sold separately. If this criterion is not met, the entire property is classified as investment property if the owner-occupied portion is insignificant. Investment property is carried at amortised cost. Depreciation is performed in the same way as for property, plant and equipment used in operations. Market values are calculated by independent experts, usually applying the gross rental method and the

asset value method at the same time, and by in-house staff. The basis for the internal determination of market values is mainly the official comparative prices from the land value maps of expert committees, supplemented by property-specific fair values.

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 income statement.

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 of a portfolio is based on the basis of experience. 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 short-term investments (cash equivalents) are defined as cash on hand, demand deposits and time deposits with an original term of up to three months. Cash is carried at its 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.

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.

SUMMARY OF SELECTED MEASUREMENT METHODS

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

Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and estimates are required to a certain extent that affect the reporting and the amount of the recognised assets, liabilities, income, expenses and contingent liabilities. These can affect, for example, the possibility of control in determining the basis of consolidation, impairment testing for the assets recognised in the statement of financial position, the Group-wide determination of economic lives, the timing of the settlement of receivables, 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. Changes in estimates had no significant impact in the financial year. In individual cases, actual values may deviate from the projected amounts. Changes are recognised as soon as better information becomes available. The carrying amounts of the affected items are presented separately in the respective notes.

Modifications due to the adoption of accounting principles

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

The changes to the regulations requiring mandatory application for the first time in the 2015 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on 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: 12) German and 40 (previous year: 43) foreign subsidiaries that Villeroy & Boch AG – directly or indirectly – controls and has included in consolidation. The changes to the Villeroy & Boch Group are as follows:

VILLEROY & BOCH AG AND CONSOLIDATED COMPANIES:

	Germany	Abroad	Total
As at 1 Jan 2015	13	43	56
Additions due to new companies (a)	–	1	1
Disposals due to liquidation (b)	–	–3	–3
Disposals due to mergers (b)	–	–1	–1
As at 31 Dec 2015	**13**	**40**	**53**

(a) Additions due to new companies

Vilbomex Inmobiliaria S. de R.L. de C.V., based in Ramos Arizpe, Mexico, was founded on 17 December 2015 as a property company. In future it will manage the properties in Mexico.

(b) Disposals due to liquidation

Alföldi Kerámia Gyártó Kft., based in Hódmezövársárhely, Hungary, was liquidated as at 28 February 2015. Its operating activities were transferred to Villeroy & Boch Magyarország Kft., Hódmezövársárhely, Hungary. The inactive company Proiberian SL, Barcelona, Spain, was liquidated retroactively as at 27 May 2015. The property company with no portfolio Hissnabben Växjö AB, based in Växjö, Sweden, was deleted from the commercial register on 12 November 2015.

(c) Disposals due to mergers

The inactive company Villeroy & Boch Société Générale de Carrelage S.A.S., based in Paris, France, was merged with its sole parent company, Villeroy & Boch S.A.S., Paris, retroactively as at 1 January 2015.

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) Limited, London, entered in the commercial register of England and Wales under 00339567.
The two Dutch companies Ucosan B.V., Roden, und Villeroy & Boch Tableware B.V., Osterhout, exercise the options relating to the preparation, publication and auditing of annual financial statements in accordance with Part 9, section 403(1b), Book 2 of the Dutch Civil Code. The accounting data of both companies, as consolidated subsidiaries, are included in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Dutch commercial register.

3. CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group's consolidated financial statements are prepared in accordance with uniform Group accounting principles and included in the consolidation. The end of the reporting period for the consolidated companies is the same as for Villeroy & Boch AG as the ultimate parent company. The consolidated financial statements include the transactions of those companies that are considered subsidiaries and associated companies to the Villeroy & Boch AG at the reporting date.
Subsidiaries are those companies in which the Villeroy & Boch AG can determine the relevant business activities unilaterally – either directly or indirectly. The relevant business activities include all activities that have an essential influence on the profitability of the company. Domination is given only if the Villeroy & Boch AG can control the relevant activities of the subsidiary company, has a legal claim to variable returns on investment in the subsidiary company and can influence the amounts of dividends. In general, domination within the Villeroy & Boch Group is given when the Villeroy & Boch AG holds a direct or indirect majority of the voting rights. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.
As part of capital consolidation, the acquisition costs of the subsidiaries at the acquisition date are offset against the remeasured equity interest attributable to them with any resulting differences recognised as goodwill. Differences resulting from increasing the ownership interest in subsidiaries that are already consolidated are offset directly against retained earnings. 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.

In this financial year, the composition of the consolidated entity was examined regularly. The Villeroy & Boch AG dominates all subsidiaries up to this date. Until the reporting date, there were no operations as defined by IFRS 11. The consolidation principles applied in the previous year were retained.

4. CURRENCY TRANSLATION

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. They are measured at the closing rate as at the end of the respective reporting period. The single-entity statements of financial position of consolidated companies prepared in foreign currencies are translated into euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate at the end of the reporting period, while all statement of comprehensive income items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised outside profit or loss (see note 21(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21(b)). 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	
		2015	2014	**2015**	2014
Hungarian forint	HUF	315.98	315.54	310.02	308.12
Mexican peso	MXN	18.91	17.87	17.56	17.66
Norwegian krone	NOK	9.60	9.04	8.94	8.32
Romanian new leu	RON	4.53	4.48	4.44	4.44
Russian rouble	RUB	80.67	72.34	67.42	49.11
Swedish krona	SEK	9.19	9.39	9.40	9.09
Thai baht	THB	39.25	39.91	38.02	43.46
US dollar	USD	1.09	1.21	1.12	1.34

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. INTANGIBLE ASSETS

Intangible assets developed as follows:

In € million

	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As at 1 Jan 2014	**19.6**	**40.0**	**59.6**
Currency adjustments	0.0	–0.3	–0.3
Additions	1.3	–	1.3
Disposals	–0.6	–	–0.6
Reclassifications	–0.3	–	–0.3
As at 1 Jan 2015	**20.0**	**39.7**	**59.7**
Currency adjustments	0.0	0.1	0.1
Additions	1.5	–	1.5
Disposals	–1.7	–	–1.7
Reclassifications	0.0	–	0.0
As at 31 Dec 2015	**19.8**	**39.8**	**59.6**
Accumulative amortisation and impairment			
As at 1 Jan 2014	**12.7**	**8.8**	**21.5**
Currency adjustments	0.0	–	0.0
Amortisation	1.5	–	1.5
Disposals	–0.1	–	–0.1
As at 1 Jan 2015	**14.1**	**8.8**	**22.9**
Currency adjustments	0.0	–	0.0
Amortisation	0.6	–	0.6
Disposals	–1.0	–	–1.0
As at 31 Dec 2015	**13.7**	**8.8**	**22.5**
Residual carrying amounts			
As at 31 Dec 2015	**6.1**	**31.0**	**37.1**
As at 31 Dec 2014	5.9	30.9	36.8

The asset group "Concessions, patents, licences and similar rights" essentially includes key money capitalised by subsidiaries for rented retail space worth € 3.3 million (previous year: € 3.2 million), capitalised software licences in the amount of € 1.8 million (previous year: € 1.6 million) and emission allowances of € 0.9 million (previous year: € 1.0 million).

Goodwill in the amount of €31.0 million (previous year: € 30.9 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 52.

Capitalised goodwill was tested for impairment. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2019 were discounted using an interest rate before income tax of 6.7 % p.a. (previous year: 7.4 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 6.2 % p.a. (previous year: 6.8 % p.a.). The present value calculated in this way was greater than the net assets of the division, so that no impairment loss was required to be recognised on this item.

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 2014	**183.4**	**321.5**	**91.7**	**14.8**	**611.4**
Currency adjustments	0.9	–1.2	0.6	–0.4	–0.1
Additions	0.9	14.2	7.6	20.6	43.3
Disposals	–0.9	–28.0	–7.0	0.0	–35.9
Reclassifications	0.9	11.0	0.8	–12.7	0.0
As at 1 Jan 2015	**185.2**	**317.5**	**93.7**	**22.3**	**618.7**
Currency adjustments	0.0	0.4	0.8	0.2	1.4
Additions	1.4	7.0	6.2	13.0	27.6
Disposals	–1.5	–8.0	–4.1	–0.4	–14.0
Reclassifications	13.8	6.5	1.3	–21.6	0.0
As at 31 Dec 2015	**198.9**	**323.4**	**97.9**	**13.5**	**633.7**
Accumulative depreciation and impairment					
As at 1 Jan 2014	**121.1**	**272.7**	**76.3**	**–**	**470.1**
Currency adjustments	0.2	–1.6	0.6	–	–0.8
Depreciation	4.9	13.7	5.7	–	24.3
Impairments	–	0.1	–	0.1	0.2
Disposals	–0.8	–27.6	–6.9	–	–35.3
Reclassifications	0.0	0.0	0.0	–	0.0
As at 1 Jan 2015	**125.4**	**257.3**	**75.7**	**0.1**	**458.5**
Currency adjustments	0.0	0.3	0.7	–	1.0
Depreciation	5.1	14.8	6.2	–	26.1
Disposals	–1.4	–7.9	–3.7	–0.1	–13.1
Reclassifications	0.0	0.0	0.0	–	0.0
As at 31 Dec 2015	**129.1**	**264.5**	**78.9**	**0.0**	**472.5**
Residual carrying amounts					
As at 31 Dec 2015	**69.8**	**58.9**	**19.0**	**13.5**	**161.2**
As at 31 Dec 2014	59.8	60.2	18.0	22.2	160.2

The Villeroy & Boch Group acquired property, plant and equipment in the amount of € 27.6 million (previous year: € 43.3 million). The Bathroom and Wellness Division focused on modernisation measures and new facilities for the sanitary ware factories in Saraburi (Thailand), Ramos (Mexico), Lugoj (Romania) and Hódmezövársárhely (Hungary), new moulds for the Wellness series in Roden (Netherlands) and a new processing centre for thermostatic fittings in Vargarda (Sweden). Investment in the Tableware Division included the further expansion of our retail network. For example, retail stores were reopened or opened for the first time in Toulouse (France), Singapore (Singapore), Vienna (Austria), Mühlheim (Germany), Cookstown (Canada) and Warsaw (Poland). Moreover a new press each and pressing tools were bought for the two production sites in Merzig and Torgau.

The high prior-year figure was due in particular to investments in our new assembly and logistics centre in Sweden and our new combined heat and power plant at the Mettlach site.

Facilities worth € 21.6 million were completed and integrated into operational value added in the reporting period (previous year: € 12.7 million). € 15.7 million was reclassified in Sweden, essentially as a result of the new assembly and logistics centre in Gustavsberg going live this year. In the previous year new equipment was being used for the first time mainly in Thailand (€ 4.0 million) and Germany (€ 3.3 million).

The disposals in the financial year in cost of € 14.0 million (previous year: € 35.9 million) and the cumulative depreciation of € 13.1 million (previous year: € 35.3 million) predominantly result from the scrapping of assets already written down in full that can no longer be used.

Operating leases

In the 2015 financial year, rental expenses under operating leases amounted to € 38.3 million (previous year: € 35.5 million). The Group leases sales premises, warehouses, office space and other facilities and movable assets. The leases have basic terms of between six months and 30 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions.

Income of € 0.5 million was generated from subletting unused properties with current leases (previous year: € 0.5 million). Any ancillary costs and other obligations are borne by the sublessees. The subleases end before or at the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

In € million

	Less than 1 year	1 to 5 years	More than 5 years
Future lease payments			
As at 31 Dec 2015	22.1	33.0	4.5
As at 31 Dec 2014	21.1	31.5	4.1
Future sublease income			
As at 31 Dec 2015	0.4	0.4	–
As at 31 Dec 2014	0.3	0.6	–

7. INVESTMENT PROPERTY

Investment property developed as follows:

In € million

	Land	Buildings	Investment property 2015	2014
Accumulative cost				
As at 1 Jan	**0.9**	**90.4**	**91.3**	**91.3**
Disposals	–	–4.9	–4.9	–
As at 31 Dec	**0.9**	**85.5**	**86.4**	**91.3**
Accumulative depreciation and impairment				
As at 1 Jan	**–**	**79.1**	**79.1**	**78.2**
Depreciation	–	0.8	0.8	0.9
Disposals	–	–4.9	–4.9	–
As at 31 Dec	**–**	**75.0**	**75.0**	**79.1**
Residual carrying amounts				
As at 31 Dec	**0.9**	**10.5**	**11.4**	**12.2**

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

Buildings in the Saarland that had already been written down in full and that were no longer lettable were derecognised in the reporting period.

In total, the market value of properties capitalised as at 31 December 2015 was € 48.9 million (previous year: € 49.5 million). A market value of € 33.5 million (previous year: € 33.5 million) was calculated by independent surveyors. € 15.4 million (previous year: € 16.0 million) is based on own calculations. These market values are categorised in level 3 of the fair value hierarchy of IFRS 13.

The Group generated the following amounts from its investment property:

In € million

	31/12/2015	31/12/2014
Rental income	0.8	0.8
Property management and similar expenses	–0.1	–0.1

Rent is expected to develop as follows:

In € million

	less than 1 year	1 to 5 years	more than 5 years
As at 31 Dec 2015	0.5	1.7	6.2
As at 31 Dec 2014	0.5	1.9	6.6

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

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

V & B Lifestyle India Private Limited, New Delhi, India, markets Tableware products in India. A further unlisted company domiciled in Germany, to which section 313(2) no. 4 HGB applies, is not allocated to a business unit.

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	2015	2014
As at 1 Jan	**1.8**	**1.4**
Pro rata results of associated companies	0.2	0.4
Distribution to the Villeroy & Boch Group	–0.5	–
As at 31 Dec	**1.5**	**1.8**

9. OTHER FINANCIAL ASSETS

Other financial assets include:

In € million	31/12/2015	31/12/2014
Equity investments (a)	**2.5**	**2.6**
Loans to:		
Equity investments (b)	2.4	2.4
Third parties (c)	6.4	11.2
Securities (d)	**1.5**	**1.3**
Total	**12.8**	**17.5**

(a) A 5.71 % holding in the share capital of V & B Fliesen GmbH, Merzig, with a carrying amount of € 2.5 million is reported under equity investments. The equity interest held was reduced from 10.0 % to 5.71 % as a result of the capital increase performed on 27 January 2015.

(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. 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, 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 € 4.6 million as at 31 December 2015 (previous year: € 9.3 million) and a remaining term of six years. A repayment of € 5.1 million (previous year: € 2.0 million) was made in December 2015. Further repayments are made every two years. A bank guarantee from Svenska Handelsbanken AB (publ), Stockholm, Sweden, and transferred ownership rights to material assets serve as collateral for the loan.

In addition, loans to third parties essentially include mandatory government loans from France.

Loans to third parties mature as follows:

In € million	2015	2014
Gross carrying amount as at 31 Dec	**6.4**	**11.2**
of which: Neither impaired nor past due as at end of reporting period	6.4	11.2
Due within one year	0.0	4.9
Due in two to five years	4.5	4.5
Due in more than five years	1.9	1.8

(d) Villeroy & Boch AG manages a fund that was provided by the ordinary shareholders on the occasion of the 100-year anniversary of the Mettlach mosaic factory on 17 January 1970. These special assets are used for sponsoring the professional education and training for employees of the Villeroy & Boch Group and their family, for the promotion of research and science and for Investor Relations and Corporate Governance of the Villeroy & Boch Group. A portion of the fund was invested in listed securities. These securities are recognised outside profit and loss at their current market value in accordance with IAS 39. In the fair value hierarchy of IFRS 13, these market values are assigned to level 1. Changes in value are recognised in equity in the revaluation surplus (see note 21(d)).

10. DEFERRED TAXES

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

In € million	31/12/2015	31/12/2014
Deferred tax assets from temporary differences	37.4	42.5
Deferred tax assets from tax loss carryforwards	9.8	11.0
Deferred tax assets	**47.2**	**53.5**
Deferred tax liabilities	**10.2**	**9.8**

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	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Intangible assets	5	0.3	0.5	1.2	1.2
Property, plant and equipment	6	8.2	7.3	2.4	2.8
Financial assets	9	0.0	0.0	0.3	0.0
Inventories	11	0.3	1.7	0.0	0.0
Other assets	13	0.1	0.1	1.0	0.7
Special tax items		0.0	0.0	4.2	4.3
Provisions for pensions	26	25.2	29.0	0.9	0.2
Other provisions	28	2.1	2.6	0.1	0.2
Other liabilities		1.5	1.3	0.4	0.4
Subtotal		**37.7**	**42.5**	**10.5**	**9.8**
Offsetting of deferred tax assets/liabilities		–0.3	0.0	–0.3	0.0
Deferred taxes from temporary differences		**37.4**	**42.5**	**10.2**	**9.8**

The € 5.1 million reduction in deferred tax assets to € 37.4 million is due primarily to the change in deferred taxes on provisions for pensions, the decrease in which was due mainly to the rise in the discount rate from 1.75 % to 2.0 %.

Deferred tax on loss carryforwards is as follows:

In € million	31/12/2015	31/12/2014
Deferred taxes on German loss carryforwards		
from corporate income tax and solidarity surcharge	0.0	0.0
from trade tax	0.0	0.5
Total German share	**0.0**	**0.5**
Deferred taxes on foreign loss carryforwards	9.8	10.5
Deferred taxes on tax loss carryforwards	**9.8**	**11.0**

Whereas German loss carryforwards can be carried forward indefinitely subject to minimum taxation requirements, country-specific time limits apply to some foreign loss carryforwards. Of the total tax loss carryforwards of € 100.0 million in the Group as a whole, € 34.7 million will expire within a period of between 5 and 15 years. Deferred tax assets on tax loss carryforwards were written down in the amount of € 21.3 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 2016-2020 planning horizon. The impairment losses recognised also take into account any risks arising from the non-utilisation of expiring tax loss carryforwards. Villeroy & Boch AG utilised its loss carryforward in full. The loss carryforwards were reduced as a result of utilisation by subsidiaries abroad in particular. 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	31/12/2015	31/12/2014
Raw materials and supplies	21.2	19.4
Work in progress	14.7	13.1
Finished goods and goods for resale	115.4	107.1
Advance payments	0.0	0.0
Carrying amount	**151.3**	**139.6**

Inventories were broken down between the individual divisions as follows:

In € million	31/12/2015	31/12/2014
Bathroom and Wellness	87.9	77.8
Tableware	63.4	61.8
Total	**151.3**	**139.6**

The write-downs on inventories increased by € 0.4 million in the year under review, from € 16.8 million to € 17.2 million.

12. TRADE RECEIVABLES

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

In € million	31/12/2015	31/12/2014
Germany	21.3	21.4
Rest of euro zone	27.6	26.8
Rest of world	73.6	62.8
Gross carrying amount	**122.5**	**111.0**
Write-downs	–2.6	–2.1
Carrying amount	**119.9**	**108.9**

€ 81.9 million (previous year: € 72.4 million) relates to the Bathroom and Wellness Division and € 38.0 million (previous year: € 36.5 million) to the Tableware Division.

The receivables were composed as follows:

In € million	2015	2014
Items neither impaired nor past due	**91.7**	**80.1**
Not impaired but past due	**11.2**	**11.6**
Customer in default for 90 days or less	10.2	11.1
Customer in default between 91 and 360 days	0.9	0.5
Customer in default for 361 days or more	0.1	0.0
Impaired but not past due [1]	**17.4**	**15.9**
Impaired and past due	**2.2**	**3.4**
Total gross amount	**122.5**	**111.0**
Write-downs	–2.6	–2.1
Net carrying amount	**119.9**	**108.9**

[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 were 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. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers.

The amount of receivables impaired but not past due increased by € 1.5 million to € 17.4 million in the reporting year. This was essentially due to a rise in the receivables not covered by trade credit insurance, as the maximum cover agreed with credit insurers was exceeded as a result of increased sales revenue for some customers. A flat-rate write-down was recognised on the uninsured share for general risk provisioning.

As at 31 December 2015 a total of € 1.8 million (previous year: € 1.1 million) of impairment related to the impaired and past due category and € 0.8 million (previous year: € 1.0 million) to the impaired but not past due category. Specific valuation allowances exclusively relate to the category "Impaired and past due".

13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows

In € million	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2015	Less than 1 year	More than 1 year	31/12/2014	Less than 1 year	More than 1 year
Fair values of hedging instruments	2.4	2.4	0.0	2.7	2.7	–
Advance payments and deposits	2.8	1.5	1.3	2.8	1.8	1.0
Miscellaneous other assets	8.0	8.0	–	6.6	6.6	–
Total financial instruments within meaning of IAS 39 *	13.2	11.9	1.3	12.1	11.1	1.0
Other tax receivables	9.8	9.8	–	8.0	8.0	–
Prepaid expenses	2.6	2.6	0.0	2.2	2.2	0.0
Total other assets	**25.6**	**24.3**	**1.3**	**22.3**	**21.3**	**1.0**

* Financial instruments are described in note 53.

As at the end of the reporting period, the only hedging instruments were currency futures (€ 2.4 million/previous year: € 2.5 million). In the previous year brass swaps were also recognised (€ 0.2 million).

The Group has recognised security deposits in the amount of € 1.5 million (previous year: € 1.4 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 the French government from the "crédit d'impôt pour la compétetivité et l'emploi", receivables from employees, creditors with debit balances and a number of individual items.

Other tax receivables in the amount of € 9.8 million (previous year: € 8.0 million) primarily include VAT credit of € 8.1 million (previous year: € 6.6 million).

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

In cases of doubt regarding the collectibility of receivables, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no past due receivables in this item as at 31 December 2015. 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 € 2.6 million (previous year: € 2.3 million) primarily include outstanding corporate income tax assets. € 2.1 million (previous year: € 1.7 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	31/12/2015	31/12/2014
Cash on hand incl. cheques	0.4	0.3
Current bank balances	19.2	22.4
Cash equivalents	46.0	44.1
Total cash and cash equivalents	**65.6**	**66.8**

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

Non-current assets held for sale are carried at amortised cost. This item exclusively includes properties at the Gustavsberg location in Sweden with a residual carrying amount of € 0.4 million (previous year: € 1.2 million). Here the previous production building was replaced by a modern assembly plant with an integrated logistics centre. Areas not needed for production are gradually being sold to third parties for residential development. Income of € 1.4 million (previous year: € 4.8 million) was generated in the 2015 financial year. Further information can be found in the management report under "Results of operations".

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	2015	2014
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 still 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) or on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell in accordance with the principle of equal treatment (2). At the discretion of the Management Board, ordinary 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 % higher than 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 AktG must not exceed 10 % of the share capital, neither at the time of this authorisation becoming effective nor being exercised.

(2) The treasury preference or ordinary shares can be issued against non-cash consideration, particularly in connection with the acquisition of companies, shares in companies or interests in them and mergers of companies, as well as for the purpose of acquiring other assets including rights and receivables.

(3) The preference or ordinary 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 if 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 € –20.8 million (previous year: € –51.5 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

	2015	2014
As at 1 Jan	–51.5	–57.4
Consolidated earnings attributable to Villeroy & Boch AG shareholders	27.3	24.3
Dividend distribution	–10.9	–10.4
Currency adjustments	14.3	–8.0
Acquisition of non-controlling interests (see note 22)	–	0.0
As at 31 Dec	**–20.8**	**–51.5**

The retained earnings included total currency effects of € 14.3 million. These were reclassified to the revaluation surplus in the financial year. In future the effects of the currency translation of the financial statements of foreign Group companies will be recognised exclusively in the revaluation surplus.

21. REVALUATION SURPLUS

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

In € million

	2015	2014	Change
Items to be reclassified to profit or loss:			
Currency translation of financial statements of foreign group companies (a)	–2.3	14.6	–16.9
Currency translation of long-term loans classified as net investments in foreign group companies (b)	–1.6	–1.3	–0.3
Cash flow hedges (c)	0.5	1.6	–1.1
Valuation results on securites (d)	0.0	0.0	0.0
Deferred tax effect on items to be reclassified to profit or loss (e)	–3.6	–2.7	–0.9
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit obligations (f)	–81.5	–94.6	13.1
Deferred tax effect on items not to be reclassified to profit or loss (g)	24.0	27.7	–3.7
As at 31 Dec	**–64.5**	**–54.7**	**–9.8**

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

Results of Group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). Currency effects of € 14.3 million were reclassified to the revaluation surplus in the financial year. Currency translation resulted in a net effect of € –2.6 million in the 2015 financial year (previous year: € 4.0 million).

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

Within the Villeroy & Boch Group there are loans that finance a net investment in a foreign operation. Loans in foreign currency are measured using the respective closing rate at the end of the reporting period. Currency effects from a loan classified as a net investment are therefore reported in this revaluation surplus. This net change in equity in the period under review amounted to € –0.3 million (previous year: € –0.7 million).

(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	
	2015	2014	**2015**	2014	**2015**	2014
As at 1 Jan	**1.4**	**0.8**	**0.2**	**–0.4**	**1.6**	**0.4**
Changes outside profit or loss						
Currency adjustments	–0.1	–0.1	0.0	0.0	–0.1	–0.1
Additions to new contracts	1.4	1.4	–0.8	0.1	0.6	1.5
Portfolio valuation	0.0	0.0	0.0	0.2	0.0	0.2
Non-controlling interests	0.0	0.0	–	–	0.0	0.0
Total	**1.3**	**1.3**	**–0.8**	**0.3**	**0.5**	**1.6**
Reversals to profit or loss (aa)	–1.4	–0.7	–0.2	0.3	–1.6	–0.4
As at 31 Dec	**1.3**	**1.4**	**–0.8**	**0.2**	**0.5**	**1.6**

(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	**2015**	2014
Positive fair value changes (see note 13)	2.4	2.7
Negative fair value changes (see note 30)	–1.9	–1.1
Non-controlling interests	0.0	0.0
As at 31 Dec	**0.5**	**1.6**

(d) Reserve for valuation results on securities

The Villeroy & Boch Group recognises listed securities as part of a fund (see note 9(d)), which are classified as "available-for-sale financial assets" in accordance with IAS 39 (see note 53).

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

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

In € million	**2015**	2014
As at 1 Jan	**–2.7**	**–1.8**
Currency adjustments	0.0	0.0
Additions	–1.9	0.3
Disposals	1.0	–1.2
Non-controlling interests	0.0	0.0
As at 31 Dec	**–3.6**	**–2.7**

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

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

The reserve for actuarial gains and losses on defined benefit plans (see note 26) arises on the remeasurement of benefit obligations as a result of the modification at the end of the reporting period of actuarial parameters, such as the discount rate, the benefit period or the long-term salary trend. In the reporting period, this item changed by € 13.1 million from € –94.6 million to € –81.5 million (see note 26).

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

As at the end of the reporting period, this reserve exclusively contained the deferred tax on the reserve for actuarial gains and losses on defined benefit plans. This resulted in a change in net equity in the financial year of € –3.7 million (previous year: € 10.4 million).

22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to € 0.1 million (previous year: € 0.1 million). There are, as in the previous year, non-controlling interests in one Group company.

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 2015 amounted to € 12.7 million. Taking into account the profit carried forward of € 4.7 million, the unappropriated surplus amounts to € 17.4 million.

At the next General Meeting of Shareholders on 1 April 2016, 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:

€ 0.44 per ordinary share
€ 0.49 per preference share

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

Ordinary share:	*€ 6.2 million*
Preference share:	*€ 6.9 million*
	€ 13.1 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:

	30/03/2015		24/03/2014	
Eligible share class	**Dividend per unit in €**	**Total dividend in € million**	**Dividend per unit in €**	**Total dividend in € million**
Ordinary shares	0.39	5.5	0.37	5.2
Preference shares	0.44	5.4	0.42	5.2
		10.9		**10.4**

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	31/12/2015	31/12/2014
Equity	165.3	144.4
Provisions for pensions	192.7	212.0
Financial liabilities	50.6	51.0
Non-current sources of finance	**408.6**	**407.4**

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 et seq. WpHG as at the editorial deadline is shown below.

1) *Villeroy and Boch Saarufer GmbH, Mettlach*, Germany, informed us in accordance with section 41(4) f WpHG on 15 January 2016:
   Since 26 November 2015, Villeroy & Boch Saarufer GmbH, Mettlach, Germany, has held instruments in accordance with section 25a(1) no. 2 WpHG that could theoretically enable it to purchase voting shares of Villeroy & Boch AG under certain conditions (purchase option). This relates to a share of the voting rights of 98.73 % or 13,866,852 voting rights, meaning that the thresholds of 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % and 75 % could theoretically be exceeded. There are not currently any voting rights due to instruments in accordance with section 25 WpHG or any voting rights in accordance with sections 21, 22 WpHG.

2) On 13 June 2014, *Baroness Ghislaine de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the thresholds of 3 % and 5 % on 27 February 2014 as a result of inheritance (testator: Baron Antoine de Schorlemer) and amounted to 5.92 % (831,575 voting rights) at this date. On 13 June 2014, Baroness Ghislaine de Schorlemer, Luxembourg, further informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG returned to below the thresholds of 3 % and 5 % on 28 March 2014 and has amounted to 0 % since this date.

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

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

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

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

7) 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

8) 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 shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

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

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

26. PROVISIONS FOR PENSIONS

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

In € million	31/12/2015	31/12/2014
Germany	173.5	190.7
Rest of euro zone	12.7	13.9
Rest of world	6.5	7.4
Provisions for pensions	**192.7**	**212.0**

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

In the Villeroy & Boch Group, 9,154 people (previous year: 8,762) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31/12/2015	31/12/2014
Germany		
Members	2,318	1,941
Vested former members	1,241	1,242
Pensioners	2,754	2,714
Total	**6,313**	**5,897**
Rest of euro zone		
Members	459	479
Vested former members	17	16
Pensioners	71	70
Total	**547**	**565**
Rest of world		
Members	1,857	1,859
Vested former members	158	158
Pensioners	279	283
Total	**2,294**	**2,300**
Persons with a commitment	**9,154**	**8,762**

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

In %	2015		2014	
	Ø	Range	Ø	Range
Discount rate	2.0	0.9–6.5	1.7	1.2–6.5
Expected long-term wage and salary trend	2.5	1.0–5.6	2.5	1.0–5.6
Expected long-term pension trend	1.3	1.2–2.0	1.5	0.1–2.0

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 0.9 % in Switzerland to 6.5 % in Mexico. A discount rate of 2.0 % (previous year: 1.75 %) is used in Germany. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. The pension obligations for the German companies in the Group are measured using the biometric data of the 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	31/12/2015	31/12/2014
Present value of defined benefit obligations	219.1	237.6
Fair value of plan assets	–26.4	–25.6
Carrying amount	**192.7**	**212.0**

The present value of pension obligations developed as follows:

In € million	2015	2014
As at 1 Jan	**237,6**	**207.2**
Current service cost	2.4	2.1
Interest income and interest expenses	4.1	6.1
Actuarial gains and losses arising from		
changes in financial assumptions	–10.8	30.7
changes in other assumptions	–1.6	7.6
Past service cost	–0.1	–
Gains or losses from settlements	–	–0.6
Contributions from the Villeroy & Boch Group as employer	0.0	0.0
Contributions from plan participants	0.5	0.3
Benefits paid	–13.6	–13.9
Settlement payments	–	–0.9
Currency changes arising from non-euro-denominated plans	0.6	–1.0
As at 31 Dec	**219.1**	**237.6**

There were the following changes to plan assets:

In € million	2015	2014
As at 1 Jan	**25.6**	**24.5**
Interest income and interest expenses	0.1	0.2
Return on plan assets excluding the above interest	0.4	0.6
Gains and losses from plan assets	0.3	1.8
Contributions from the Villeroy & Boch Group as employer	0.5	0.5
Contributions from plan participants	0.5	0.3
Benefits paid	–2.0	–1.8
Settlement payments	–	–0.3
Currency changes arising from non-euro-denominated plans	1.0	–0.2
As at 31 Dec	**26.4**	**25.6**

The portfolio structure of plan assets was as follows:

	31/12/2015		31/12/2014	
	In € million	In %	In € million	In %
Annuities/annuity funds	11.8	45	11.8	46
Equities/equity funds	6.1	23	5.7	22
Property	1.6	6	1.6	7
Cash and cash equivalents	0.1	0	0.3	1
Investments on an active market	**19.6**	**74**	**19.4**	**76**
Insurance policies	6.8	26	6.2	24
Plan assets	**26.4**	**100**	**25.6**	**100**

Risks

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

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

Sensitivities, forecast development and duration

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

	Change in actuarial assumption	Effect on defined benefit obligation in € million	
		31/12/2015	31/12/2014
Present value of defined benefit obligations		**219,1**	**237,6**
	Increase by 0.25 %	212.7	230.5
Discount rate	Reduction by 0.25 %	225.8	245.2
	Increase by 0.25 %	219.7	243.1
Pension trend	Reduction by 0.25 %	218.5	232.6

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

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

In € million

	Forecast 2016	Forecast 2015
Defined benefit obligations as at 31 Dec. 2015 or 2014 resp.	219.1	237.6
Forecast service cost	2.2	2.4
Forecast interest costs	4.3	4.1
Forecast pension payments	–13.3	–12.9
Forecast defined benefit obligations	**212.3**	**231.2**

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

The weighted duration of pension provisions in the Villeroy & Boch Group as at 31 December 2015 was 12.7 years (previous year: 12.4 years). The weighted duration for the pension plans of German companies is 11.7 years (previous year: 12.3 years).

27. NON-CURRENT AND CURRENT PROVISIONS FOR STAFF

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

In € million

	Non-current provisions for:					Current provisions	Total amount
	Anniversary bonuses	Partial retirement	Severance pay	Other	Total		
As at 1 Jan 2014	**6.1**	**5.3**	**3.8**	**0.0**	**15.2**	**12.9**	**28.1**
Currency adjustments	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Utilisation	–0.5	–2.9	–0.4	–	–3.8	–11.4	–15.2
Reversals	0.0	–	–	–	0.0	–0.3	–0.3
Additions	1.1	1.5	0.7	–	3.3	13.0	16.3
Reclassifications	–	–	–	0.9	0.9	–0.9	0.0
As at 1 Jan 2015	**6.7**	**3.9**	**4.1**	**0.9**	**15.6**	**13.4**	**29.0**
Currency adjustments	0.0	0.0	0.0	0.0	0.0	–0.1	–0.1
Utilisation	–0.6	–2.6	–0.3	–0.1	–3.6	–13.7	–17.3
Reversals	–0.1	–	–	–	–0.1	–0.4	–0.5
Additions	0.8	2.1	1.5	0.0	4.4	15.7	20.1
Reclassifications	–	–	–	–	–	0.0	0.0
As at 31 Dec 2015	**6.8**	**3.4**	**5.3**	**0.8**	**16.3**	**14.9**	**31.2**

Provisions for anniversary bonuses are recognised by Group companies that have undertaken to pay their employees cash or non-cash benefits on the occasion of work anniversaries. Villeroy & Boch AG accounted for 72.6 % (previous year: 75.6 %) of this provision.

Under the partial retirement programme, employees in Germany have the option to reduce their working hours in accordance with certain personal requirements for a period determined by law prior to retirement.

The provisions for severance pay are recognised for termination benefits prescribed by law. These are generally non-recurring payments for employees in Austria, Thailand, Italy and Australia.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of € 13.4 million (previous year: € 12.3 million).

The measurement of current and non-current provisions for staff 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

	Other non-current provisions	Other current provisions for:					Total amount
		Warranties	Legal and consultancys fees	Other taxes	Miscella-neous	Total	
As at 1 Jan 2014	**1.4**	**5.7**	**1.3**	**0.5**	**13.8**	**21.3**	**22.7**
Currency adjustments	–0.1	0.0	0.0	0.0	0.1	0.1	0.0
Utilisation	–0.3	–1.2	–0.5	–0.1	–5.2	–7.0	–7.3
Reversals	–	–0.1	–0.2	–	–0.6	–0.9	–0.9
Additions	0.3	1.4	1.0	0.2	4.1	6.7	7.0
Reclassifications	–	–	–	–	–0.8	–0.8	–0.8
As at 1 Jan 2015	**1.3**	**5.8**	**1.6**	**0.6**	**11.4**	**19.4**	**20.7**
Currency adjustments	0.0	0.1	–0.1	0.0	–0.1	–0.1	–0.1
Utilisation	–0.4	–0.2	–3.2	–0.9	–4.9	–9.2	–9.6
Reversals	0.0	–0.1	–0.2	0.0	–1.1	–1.4	–1.4
Additions	0.7	1.5	3.5	1.7	3.9	10.6	11.3
Reclassifications	0.8	–	–	–	–1.3	–1.3	–0.5
As at 31 Dec 2015	**2.4**	**7.1**	**1.6**	**1.4**	**7.9**	**18.0**	**20.4**

In particular, non-current provisions relate to future reculti-vation projects (reporting year: € 0.6 million; previous year: € 0.7 million).

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

Miscellaneous other provisions included provisions for com-mission, 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

	31/12/2015	thereof non-current	31/12/2014	thereof non-current
Germany	50.6	50.0	25.5	25.0
Rest of euro zone	–	–	25.5	–
Carrying amount	**50.6**	**50.0**	**51.0**	**25.0**

Non-current financial liabilities increased by € 25.0 million as a new bank loan with a term of five years was agreed. This was offset by a decline in current loan liabilities. A special right of termination in the event of a change of control at Villeroy & Boch AG was agreed for the lending bank for this follow-up financing. Net receivables from and liabilities to banks amounted to € 17.4 million (previous year: € 12.7 mil-lion). 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 were composed as follows:

In € million

	Carrying amount 31/12/2015	Remaining term		Carrying amount 31/12/2014	Remaining term	
		Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
Bonus liabilities	40.3	40.3	–	34.8	34.8	–
Changes in fair values of hedging instruments	1.9	1.1	0.8	1.1	1.1	–
Advance payments received on account of orders	3.9	3.9	–	3.9	3.9	–
Miscellaneous other liabilities	4.3	3.0	1.3	9.4	7.9	1.5
Total financial instruments within meaning of IAS 39*	**50.4**	**48.3**	**2.1**	**49.2**	**47.7**	**1.5**
Personnel liabilities	20.7	20.5	0.2	20.8	20.4	0.4
Other tax liabilities	11.7	11.7	–	10.6	10.6	–
Deferred income	1.9	0.9	1.0	1.9	1.4	0.5
Total carrying amount	**84.7**	**81.4**	**3.3**	**82.5**	**80.1**	**2.4**

* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) re-lates to currencies in the amount of € 1.1 million (previous year: € 1.1 million) and commodities in the amount of € 0.8 million (previous year: € 0.0 million).

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

Other tax liabilities primarily included payroll and church tax in the amount of € 3.8 million (previous year: € 3.5 mil-lion) and VAT in the amount of € 6.6 million (previous year: € 6.1 million).

Deferred income essentially consisted 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 related to:

In € million	2015	2014
Germany	35.6	34.1
Rest of euro zone	7.9	7.7
Rest of world	34.3	28.6
Carrying amount as at 31 Dec	**77.8**	**70.4**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

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 broke down into:

In € million	2015	2014
Bathroom and Wellness	–11.9	–10.1
Tableware	–3.7	–3.8
Total	**–15.6**	**–13.9**

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	2015	2014
Exchange rate gains	6.3	1.4
License income	5.3	3.9
Income from property transactions	1.4	4.8
Reversal of provisions *	1.4	0.8
Reversal of liabilities	1.4	1.4
Reversal of write-downs on receivables	0.9	1.0
Book profits on the disposal of non-current assets	0.5	1.3
Reimbursement for damages	0.1	0.2
Other	2.9	2.9
Total	**20.2**	**17.7**

* Not including amounts in other statement of consolidated income items

The line "Income from property transactions" includes the net result already generated in the 2015 financial year from the sale of the former Swedish plant property (see "Results of operations" in the management report) of € 1.4 million (previous year: € 4.8 million).
Miscellaneous other operating income includes a number of individual items.

37. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

In € million	2015	2014
Exchange rate losses	–5.1	–2.6
Customs claim	–2.8	–
Consulting services	–2.3	–2.4
Addition to write-downs on receivables	–1.8	–1.2
Book losses on the disposal of non-current assets	–0.9	–0.4
Costs of maintenance/repairs	–0.1	–0.1
Other	–9.5	–9.2
Total	**–22.5**	**–15.9**

The cost of subsequent customs receivables relates to a subsequent payment in December 2015 of customs duties for goods imported from non-EU countries. We consider the subsequent classification of the customs tariff by the customs authorities to be unjustified. We have therefore filed an objection to this claim and will have the matter resolved by the courts if necessary.
The additions to write-downs on receivables relate to trade receivables (see note 12) and other receivables.
Miscellaneous other operating expenses include a number of individual items.

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

This item includes the pro rata income from the investment in two associated companies in the amount of € 0.2 million (previous year: € 0.2 million).

39. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consisted of:

In € million	2015	2014
Interest income from:		
Cash and cash equivalents	1.2	1.1
Loans and receivables	0.3	0.2
Held-to-maturity investments	–	–
Other investments	0.0	0.0
Total interest income	**1.5**	**1.3**
Dividends from securities available-for-sale	0.1	0.0
Other financial income	0.0	0.0
Total financial income	**1.6**	**1.3**

40. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Finance costs related to:

In € million	2015	2014
Interest expenses from:		
Provisions	–3.9	–6.4
Overdraft facilities	–1.4	–1.7
Non-current loans	–1.2	–1.5
Other borrowing	–0.6	–0.0
Total interest expenses	**–7.1**	**–9.6**
Other finance costs	–0.1	0.0
Total finance costs	**–7.2**	**–9.6**

The interest expense on provisions fell by € 2.5 million from € 6.4 million to € 3.9 million in the 2015 financial year. In the reporting period the amount of interest expenses on pension plans was affected by the cut in interest rates in 2014 from 3.0 % to 1.75 %. The interest expenses for pension obligations for the current year were calculated using the discounting rate from the previous year.

The current rise in interest rates from 1.75 % to 2.0 % will therefore not affect pensions in the income statement until 2016.
The interest expense on current and non-current loans declined by € 0.6 million from € 3.2 million to € 2.6 million, essentially as a result of the generally lower market interest rates.

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 % of the trade earnings. The corporate income tax rate is 15 % plus a solidarity surcharge of 5.5 % of the corporate income tax. Rates vary between 10.0 % and 37.12 % 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

	2015	2014
Taxes paid or due in Germany	–3.1	–1.4
Taxes paid or due outside Germany	–5.6	–5.7
Current taxes	**–8.7**	**–7.1**
Deferred taxes	–1.9	–3.5
Income taxes	**–10.6**	**–10.6**

The rise in current taxes essentially relates to Villeroy & Boch AG, which was able to utilise loss carryforwards to a small extent only compared to previous years.
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

	2015	2014
Earnings before taxes (EBT)	**37.9**	**34.9**
Expected income tax (EBT x tax rate of 29.5 %)	–11.2	–10.3
Differences arising from foreign tax rates	1.9	2.2
Tax effects arising from:		
▪ Non-deductible expenses	–2.4	–1.5
▪ Adjustment/write-downs on deferred taxes	–0.8	–0.2
▪ Tax-free income	0.5	0.2
▪ Other deferred taxes	1.4	–1.0
Actual income tax expense	**–10.6**	**–10.6**
Actual tax rate in %	**28.0**	**30.4**

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 income statement is as follows:

In € million

	2015	2014
Change in statement of financial position item:		
▪ deferred tax assets (note 10)	–6.3	4.7
▪ deferred tax liabilities (note 10)	–0.4	1.7
Subtotal	**–6.7**	**6.4**
▪ Transfer to reserve for deferred taxes in other comprehensive income	3.6	–9.7
▪ Reversal of reserve for deferred taxes on items to be reclassified to profit or loss (note 21(e))	1.0	–1.2
Currency adjustments	0.2	1.0
Deferred taxes recognised in income statement	**–1.9**	**–3.5**

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	31/12/2015	31/12/2014
Number of shares outstanding	14, 044,800	14,044,800
Pro rata consolidated net income (in € million) *	14.2	12.6
Earnings per share (in €) *	1.01	0.90

Preference shares	31/12/2015	31/12/2014
Number of shares outstanding	12,361,771	12,361,771
Pro rata consolidated net income (in € million) *	13.1	11.7
Earnings per share (in €) *	1.06	0.95

* 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, AMORTISATION AND IMPAIRMENTS

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

In € million

	2015	2014
Amortisation of intangible assets	–0.6	–1.5
Depreciation of property, plant and equipment	–26.1	–24.3
Impairment losses on property, plant and equipment	–	–0.2
Depreciation of investment property	–0.8	–0.9
Total depreciation, amortisation and impairments	**–27.5**	**–26.9**

45. COST OF MATERIALS

The cost of materials comprised the following:

In € million

	2015	2014
Cost of raw materials and supplies (including primary products)	–118.2	–109.8
Cost of purchased goods	–111.7	–93.5
	–229.9	**–203.3**
Cost of purchased services	–37.5	–36.8
Total cost of materials	**–267.4**	**–240.1**

46. PERSONNEL EXPENSES

Personnel expenses were composed as follows:

In € million	2015	2014
Wages and salaries	–219.9	–213.4
Post-employment benefits:		
▌ Expenses for defined benefit plans (see note 26)	–2.3	–2.1
▌ Income from settlement of defined benefit obligations (see note 26)	–	0.6
▌ Expenses for defined contribution plans	–17.1	–15.0
Termination benefits	–3.0	–3.2
Other services	–33.8	–35.0
Total staff costs	**–276.1**	**–268.1**

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	2015	2014
Wage earners	4,082	4,080
Salaried employees	3,591	3,595
Average	**7,673**	**7,675**

Of the workforce as a whole, a total of 2,569 people are employed in Germany (previous year: 2,554), with the remaining 5,104 employed outside Germany (previous year: 5,121).

NUMBER OF EMPLOYEES	2015	2014
Bathroom and Wellness	4,922	4,910
Tableware	2,264	2,307
Other	487	458
Average	**7,673**	**7,675**

47. OTHER TAXES

The cost of other taxes was € –4.3 million in the reporting period (previous year: € –3.9 million). Companies based in Germany accounted for € –1.1 million (previous year: € –0.8 million) and Group companies abroad for € –3.2 million (previous year: € –3.1 million).

"Other taxes" include mainly real estate tax expenses of € –1.8 million (previous year: € –1.8 million), expenses for the French "contribution economique territoriale" of € –0.5 million (previous year: € –0.5 million) and the French "taxe organic" of € –0.1 million (previous year: € –0.2 million).

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

48. CASH FLOW FROM OPERATING ACTIVITIES

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

The net cash flow from operating activities amounted to € 34.1 million, and was therefore down by € 16.8 million on the previous year. Above all, the reduction was due to the increase in our inventories by € 11.7 million compared to the previous year. A further net amount of € 3.6 million is mainly due to the revenue-related rise in trade receivables (€ 11.0 million), which we partially compensated with the increase in trade payables (€ 7.4 million). Furthermore, an increase in other current assets virtually offset an increase in other current liabilities.

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

In € million	2015	2014
Interest from the provision for pensions and similar obligations	3.9	6.3
Expenses/income from deferred taxes	1.9	3.3
Additions to tax provisions	4.7	2.9
Income from property	–1.4	–4.8
Other non-cash items	0.1	–0.2
Total	**9.2**	**7.5**

49. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities changed by € 9.2 million as against the previous year to € –23.9 million (previous year: € –33.1 million).

At € 29.1 million, investments in intangible assets, property, plant and equipment were € 15.5 million lower in the 2015 financial year than in the previous year (€ 44.6 million). The high investment volume in 2014 was mainly caused by the construction of our new assembly and logistics centre in Sweden (€ 11.0 million) and the new power house in Mettlach (€ 5.1 million).

Offsetting this, cash receipts from property disposals in Gustavsberg were € 2.5 million lower than in the previous year and disposals of assets in the amount of € 2.2 million were € 4.6 million below the previous year's level. The previous year benefited in particular from the sale of a 15 % share in V & B Fliesen GmbH (€ 3.8 million).

50. CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to € –11.4 million (previous year: € –10.5 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. A loan agreement with a term of five years and a volume of € 25.0 million was also concluded in the 2015 financial year. Current financial liabilities declined by the same amount.

51. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to € 65.6 million (previous year: € 66.8 million), a decrease of € 1.2 million as against the previous year.

52. GROUP SEGMENT REPORT

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

The *Bathroom and Wellness* Division manufactures ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, bathtubs and shower tubs, whirlpools, 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* Division covers the complete assortment of tableware, crystal and cutlery, supplemented by accessories, kitchen and tableware textiles as well as a selection of gift articles.
In addition to net revenues, the operating result of the divisions is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the divisions' earnings power. Furthermore, the rolling operating return on net assets is also used to measure the earnings power of the Group and the individual divisions. This is calculated from the operating net assets as at the end of the month as an average of the last twelve months in relation to earnings before interest and taxes (before central function expenses). Group financing and income taxes are managed on a Group-wide basis and are not allocated to the individual divisions. Pricing for inter-division transfers is based on standard market conditions.
The divisions of the Villeroy & Boch Group generated the following revenue:

In € million

	Revenue from external customers		Intersegment revenue		Total	
	2015	2014	**2015**	2014	**2015**	2014
Bathroom and Wellness	496.9	469.3	0.0	0.2	496.9	469.5
Tableware	306.9	297.0	0.0	0.0	306.9	297.0
Total segment revenue	**803.8**	**766.3**	**0.0**	**0.2**	**803.8**	**766.5**
Eliminations	0.0	0.0	0.0	–0.2	0.0	–0.2
Consolidated revenue	**803.8**	**766.3**	**0.0**	**0.0**	**803.8**	**766.3**

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

In € million

	31/12/2015	31/12/2014
Bathroom and Wellness	32.8	29.1
Tableware	9.3	9.3
Real estate income Gustavsberg	1.4	4.8
Operating result (EBIT)	**43.5**	**43.2**
Net finance cost (see notes 39 and 40)	–5.6	–8.3
Earnings before taxes	**37.9**	**34.9**
Income taxes (see note 41)	–10.6	–10.6
Group result	**27.3**	**24.3**

The following assets and liabilities were assigned to the divisions:

In € million

	Assets		Liabilities		Net assets	
	31/12/2015	31/12/2014	**31/12/2015**	31/12/2014	**31/12/2015**	31/12/2014
Bathroom and Wellness	339.4	311.9	139.5	121.8	199.9	190.1
Tableware	134.9	133.2	43.0	43.7	91.9	89.5
Reconciliation	162.3	178.0	288.8	313.2	–126.5	–135.2
Total	**636.6**	**623.1**	**471.3**	**478.7**	**165.3**	**144.4**

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	
	31/12/2015	31/12/2014	**31/12/2015**	31/12/2014	**31/12/2015**	31/12/2014
Bathroom and Wellness	333.9	309.7	118.6	108.5	215.3	201.2
Tableware	136.9	136.0	41.6	42.2	95.3	93.8
Total	**470.8**	**445.7**	**160.2**	**150.7**	**310.6**	**295.0**

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

Other segment information:

In € million	Additions to intangible assets and property, plant and equipment		Depreciation and amortisation	
	31/12/2015	31/12/2014	**31/12/2015**	31/12/2014
Bathroom and Wellness	21.7	37.7	–18.2	–17.3
Tableware	7.4	6.9	–9.3	–9.4
Total	**29.1**	**44.6**	**–27.5**	**–26.7**

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual divisions. In the previous year, the Bathroom and Wellness Division reported impairment losses of € 0.2 million (see note 6).
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*	
	31/12/2015	31/12/2014	**31/12/2015**	31/12/2014
German companies	402.8	384.4	73.3	76.5
Rest of euro zone	144.3	146.2	25.4	25.7
Rest of world	256.7	235.7	108.9	104.8
Total	**803.8**	**766.3**	**207.6**	**207.0**

* In accordance with IFRS 8.33 (b)

OTHER NOTES

53. FINANCIAL INSTRUMENTS

The recognition of primary and derivative financial instruments is based on their allocation to the four measurement categories defined in IAS 39. The following categories were used in the Villeroy & Boch group in the reporting period:

- *"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, debt instruments and investment fund shares. Listed assets are carried at fair value. Changes in value are taken to equity and are reported in profit or loss upon realization of the bond. All other assets are measured at amortised costs.

- 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 2015	**Amounts not measured under IAS 39**	**Cash reserve**	**Loans and receivables**	**Available for sale**	**Available for sale**	**Cash flow hedges**	**Carrying amount as at 31 Dec 2015**	**Fair value as at 31 Dec 2015**
Cash and cash equivalents (note 15)	65.6	–	65.6	–	–	–	–	65.6	65.6
Trade receivables (note 12)	119.9	–	–	119.9	–	–	–	119.9	119.9
Other financial assets (note 9)	12.8	–	–	8.9	2.5	1.4	–	12.8	12.8
Other assets (note 13)	25.6	12.4	–	10.8	–	–	2.4	13.2	13.2
			65.6	**139.6**	**2.5**	**1.4**	**2.4**	**211.5**	**211.5**
Other assets not recognised under IAS 39 (a)								12.4	–
Non-current assets – not including other financial assets (note 9)								211.2	–
Inventories (see note 11)								151.3	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								49.8	–
Assets held for sale (see note 16)								0.4	–
Total assets								**636.6**	**–**

In € million

	Carrying amount as at 31 Dec 2015	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 2015	Fair value as at 31 Dec 2015
Trade payables (note 31)	77.8	–	77.8	–	77.8	77.8
Financial liabilities (note 29)	50.6	–	50.6	–	50.6	50.6
Other liabilities (note 30)	84.7	34.3	48.5	1.9	50.4	50.4
			176.9	**1.9**	**178.8**	**178.8**
Other liabilities not recognised under IAS 39 (b)					34.3	–
Equity					165.3	–
Current and non-current provisions (c)					244.3	–
Deferred tax liabilities (note 10) and income tax liabilities					13.9	–
Total equity and liabilities					**636.6**	**–**

(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

	Carrying amount as at 31 Dec 2014	Amounts not measured under IAS 39	Amounts measured under IAS 39: Nominal value – Cash reserve	Amounts measured under IAS 39: Amortised cost – Loans and receivables	Amounts measured under IAS 39: Amortised cost – Available for sale	Amounts measured under IAS 39: Fair Value – Available for sale	Amounts measured under IAS 39: Fair Value – Cash flow hedges	Carrying amount as at 31 Dec 2014	Fair value as at 31 Dec 2014
Cash and cash equivalents (note 15)	66.8	–	66.8	–	–	–	–	66.8	66.8
Trade receivables (note 12)	108.9	–	–	108.9	–	–	–	108.9	108.9
Other financial assets (note 9)	17.5	–	–	13.6	2.6	1.3	–	17.5	17.5
Other assets (note 13)	22.3	10.2	–	9.4	–	–	2.7	12.1	12.1
			66.8	**131.9**	**2.6**	**1.3**	**2.7**	**205.3**	**205.3**
Other assets not recognised under IAS 39 (a)								10.2	–
Non-current assets – not including other financial assets (note 9)								211.0	–
Inventories (note 11)								139.6	–
Deferred tax assets (note 10) and income tax receivables (note 14)								55.8	–
Assets held for sale (note 16)								1.2	–
Total assets								**623.1**	**–**

In € million

	Carrying amount as at 31 Dec 2014	Amounts not measured under IAS 39	Amounts measured under IAS 39: Amortised cost	Amounts measured under IAS 39: Fair Value	Carrying amount as at 31 Dec 2014	Fair value as at 31 Dec 2014
			Liabilities	Cash flow hedges		
Trade payables (note 31)	70.4	–	70.4	–	70.4	70.4
Financial liabilities (note 29)	51.0	–	51.0	–	51.0	51.0
Other liabilities (note 30)	82.5	33.3	48.1	1.1	49.2	49.2
			169.5	**1.1**	**170.6**	**170.6**
Other liabilities not recognised under IAS 39 (b)					33.3	–
Equity					144.4	–
Current and non-current provisions (c)					261.7	–
Deferred tax liabilities (note 10) and income tax liabilities					13.1	–
Total equity and liabilities					**623.1**	**–**

(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).

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

Basis of fair value measurement

As in the previous year, the fair values of recognised financial instruments are calculated, in the case of hedge transactions, on the basis of market prices of the parameters on which the derivatives are based, such as current and forward rates, and yield curves. The fair values of the listed securities of the Villeroy & Boch support fund are determined using market prices as at the reporting date (see note 9(d)).

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 2016:

In € million

	Assets as at end of reporting period: Transaction volume	Assets as at end of reporting period: Changes in fair value	Liabilities as at end of reporting period: Transaction volume	Liabilities as at end of reporting period: Changes in fair value
Within the next three months	15.1	0.7	15.1	0.3
In three to six months	14.0	0.5	15.2	0.3
In six to twelve months	28.9	1.2	27.7	0.5
Total	**58.0**	**2.4**	**58.0**	**1.1**

As at the reporting date, around 30 % of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the foreign currencies Russian rouble (RUB), pound (GBP) and Norwegian krone (NOK). 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 2015 would have been € 2.6 million higher/lower (previous year: € 2.7 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income.

Management of commodity price risks

Commodity price risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market prices. The hedging strategy of the Villeroy & Boch Group is described in the management report under "Management of other price change risks". The following cash flows from the brass commodity swaps in place are due in 2016:

In € million

	Liabilities as at end of reporting period	
	Transaction volume	**Changes in fair value**
Within the next three months	1.0	0.2
In three to six months	1.0	0.1
In six to twelve months	1.7	0.3
After twelve months	1.3	0.2
Total	**5.0**	**0.8**

As at the reporting date and on the basis of production planning for the 2016 financial year, there is an unhedged brass position totalling 1,380 tonnes (previous year: 390 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 2015 would have been € 0.4 million higher/lower (previous year: € 0.1 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income in 2015.

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 2015 financial year of +/–50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.1 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

		Cash outflow expected in the following time bands			
	Carrying amount as at 31 Dec	**Gross**	**Within three months**	**Between three months and one year**	**Between one and five years**
Trade payables	70.4	70.4	70.4	–	–
Current and non-current financial liabilities (a)	51.0	66.7	12.7	26.5	27.5
Other liabilities	48.0	48.2	43.5	3.2	1.5
Cash flow hedge liabilities (b)	1.1	62.2	15.8	46.4	-
Total as at 31 Dec 2014	**170.5**	**247.5**	**142.4**	**76.1**	**29.0**
Trade payables	77.8	77.8	77.8	–	–
Non-current and current financial liabilities (a)	50.6	71.7	17.4	1.0	53.3
Other liabilities	48.5	48.6	45.9	1.2	1.5
Cash flow hedge liabilities (b)	1.9	62.9	16.0	45.6	1.3
Total as at 31 Dec 2015	**178.8**	**261.0**	**157.1**	**47.8**	**56.1**

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 4.3 million (previous year: € 4.0 million) that will not be incurred until after 31 December 2015.

(b) The transaction volume of cash flow hedge liabilities in the amount of € 62.9 million (previous year: € 61.6 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 1.9 million (previous year: € 1.1 million) is forecast, equal to the statement of financial position item. € 0.5 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 a net result of € –2.9 million (previous year: € –1.0 million) from the use of primary and derivative financial instruments.

54. CONTINGENT LIABILITIES AND COMMITMENTS

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

In € million

	31/12/2015	31/12/2014
Guarantees	31.5	28.7
Trustee obligations	0.1	0.0
Other contingent liabilities	0.0	0.0

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

55. OTHER FINANCIAL OBLIGATIONS

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

In € million	31/12/2015	31/12/2014
Obligations arising from orders placed:		
for investments in intangible assets	0.1	0.0
for investments in property, plant and equipment	2.7	1.5

74.5 % of the obligations to acquire property, plant and equipment in the amount of € 2.7 million related to Villeroy Boch AG, followed by Ucosan B.V. (10.6 %) and Vilbomex S.A. de C.V. (10.3 %). In the previous year, 40.3 % related to Villeroy Boch AG, followed by Vilbomex S.A. de C.V. (26.6 %) and Ucosan B.V. (26.1 %).

56. RELATED PARTY DISCLOSURES

Related company disclosures

In the course of our operating activities, we purchase materials, inventories and services from a large number of business partners around the world. This includes business partners in which the Villeroy & Boch Group holds equity interests and some that have relationships with companies or members of the executive bodies of Villeroy & Boch AG. All transactions are conducted at arm's-length conditions.

Villeroy & Boch AG, Germany, is the ultimate controlling entity of the Villeroy & Boch Group. Transactions between Villeroy & Boch AG and its subsidiaries and between individual subsidiaries primarily relate to the exchange of work in process, finished goods and merchandise and services. These transactions were eliminated in accordance with the consolidation principles (see note 3) and are not discussed in this section.

The Villeroy & Boch Group accounts for two companies using the equity method (see note 8). The V & B Lifestyle India Private Limited was founded in 2013 for the sale and distribution of the tableware products in India. It has four sales offices as at the end of the reporting period (previous year: five).

There are only minor delivery and service relations at the moment from the point of view of the Villeroy & Boch Group. No goods or services were provided to or by the German company accounted for using the equity method. From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to associated companies was immaterial.

Rödl System Integration GmbH, Nuremberg, is considered a related party in the Villeroy & Boch Group. The Villeroy & Boch Group generated service income of € 0.1 million in 2015 (previous year: € 0.4 million). An amount of € 0.0 million (previous year: € 0.1 million) was recognised at the reporting date. The shares in Rödl System Integration GmbH were sold effective 31 December 2015.

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	2015	2014
Current employee benefits	3.8	3.1
Post-employment benefits	1.9	1.8
Termination benefits	–	–
Total	**5.7**	**4.9**

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 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 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 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 2014	Total	Previous year
Wendelin von Boch-Galhau [2*), 3*)]	73	6	6	85	85
Peter Prinz Wittgenstein [1*), 2), 3)]	43	6	6	55	55
Ralf Runge [4)]	34	6	6	46	46
Werner Jäger [1), 4)]	23	6	6	35	35
Dietmar Langenfeld [2), 4)]	23	6	6	35	35
Yves Elsen [1)]	23	6	6	35	33
Francesco Grioli [3)]	23	6	5	34	23
Dr. Alexander von Boch-Galhau	20	6	6	32	33
Dietmar Geuskens [4)]	20	6	6	32	32
Christina Rosenberg	20	6	6	32	28
Bernhard Thömmes	20	6	6	32	25
François Villeroy de Galhau (until Oct 2015)	20	5	6	31	32
Dominique Villeroy de Galhau (since Oct 2015)	5	1	–	6	–
Ralf Sikorski (until Mar 2014)	–	–	1	1	13
Rounding differences	–3	3	–	0	4
Total	**344**	**75**	**72**	**491**	**479**

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

A total expense of € 649 thousand was reported in consolidated earnings for the 2015 financial year (previous year: € 631 thousand). In addition to the fixed remuneration paid and the meeting fees for 2015, this figure includes € 75 thousand (previous year: € 75 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 69 thousand (previous year: € 43 thousand) as well as insurance premiums in the amount of € 89 thousand (previous year: € 97 thousand).

Management Board remuneration

An expense of € 2,796 thousand (previous year: € 2,126 thousand) is reported in the income statement for the 2015 financial year. This figure is composed of fixed (€ 1,481 thousand; previous year: € 1,189 thousand) and variable salary components (€ 1,315 thousand; previous year: € 937 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 689 thousand (previous year: € 509 thousand) and a remuneration for several years in the amount of € 626 thousand (previous year: € 428 thousand). The fixed remuneration includes remuneration in kind of € 68 thousand (previous year: € 64 thousand), of which € 3 thousand (previous year: € 2 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 23,233 thousand (previous year: € 25,451 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,597 thousand (previous year: € 1,620 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 and until 12 May 2016 at the latest.

58. AUDITORS' FEES AND SERVICES

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

In € million

	2015	2014
Audits of financial statements	0.4	0.4
Other assurance or valuation services	0.0	–
Tax advisory services	0.1	0.2
Other services	0.0	0.0

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 2015 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 27 November 2015. A supplement to the previous declaration of conformity was published on 5 October 2015. The declarations are permanently available to shareholders on the Internet.

60. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

61. LIST OF SHAREHOLDINGS

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

In %

	Fully consolidated subsidiaries	Villeroy & Boch AG investment		
	Germany	**Direct**	**Indirect**	**Total**
1.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach	100	–	100
2.	Heinrich Porzellan GmbH, Selb	100	–	100
3.	INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach	100	–	100
4.	Sales Design Vertriebsgesellschaft mbH, Merzig	100	–	100
5.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen	100	–	100
6.	Keraco GmbH, Wadgassen	100	–	100
7.	V&B International GmbH, Mettlach	100	–	100
8.	VilboCeram GmbH, Mettlach	100	–	100
9.	Villeroy & Boch Creation GmbH, Mettlach	100	–	100
10.	Villeroy & Boch Gastronomie GmbH, Mettlach	100	–	100
11.	Villeroy & Boch Interior Elements GmbH, Mettlach	100	–	100
12.	Villeroy & Boch K-Shop GmbH, Mettlach	100	–	100
	Abroad	**Direct**	**Indirect**	**Total**
13.	Delfi Asset S.A., Luxembourg (Luxembourg)	–	100	100
14.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	–	100
15.	Kiinteistö Oy, Helsinki (Finland)	–	100	100
16.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	–	100	100
17.	Rollingergrund Premium Properties SA, Luxembourg (Luxembourg)	–	100	100
18.	S.C. Mondial S.A., Lugoj (Romania)	99.44	–	99.44
19.	Ucosan B.V., Roden (Netherlands)	100	–	100
20.	Vilbomex S.A. de C.V., Ramos Arizpe, Coahuila (Mexico)	88.32	11.68	100
21.	Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe, Coahuila (Mexico)	–	100	100
22.	VILBONA MEXICO S.A. de C.V., Ramos Arizpe, Coahuila (Mexico)	–	100	100
23.	Villeroy & Boch (Thailand) Co. Ltd., Bangkok (Thailand)	17.73	82.27	100
24.	Villeroy & Boch (U.K.) Ltd., London (England)	–	100	100
25.	Villeroy & Boch Arti della Tavola S.r.l., Milano (Italy)	0.2	99.8	100
26.	Villeroy & Boch Asia Pacific PTE. LTD., Singapur (Singapore)	100	–	100
27.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	–	100	100
28.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	–	100
29.	Villeroy & Boch Belgium S.A., Brussels (Belgium)	99.99	0.01	100
30.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100	–	100
31.	Villeroy & Boch Danmark A/S, Brondby (Denmark)	–	100	100
32.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	–	100
33.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
34.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	100	–	100
35.	Villeroy & Boch MC S.à.r.l., Monaco (Monaco)	99.99	0.01	100
36.	Villeroy & Boch Norge AS, Lorenskog (Norway)	–	100	100
37.	Villeroy & Boch ooo, Moscow (Russia)	100	–	100

	Abroad (Continuation)	Direct	Indirect	Total
38.	Villeroy & Boch Polska Sp.z o.o., Warsaw (Poland)	–	100	100
39.	Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxembourg)	100	–	100
40.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99.99	0.01	100
41.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	–	100	100
42.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	–	100	100
43.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	–	100
44.	Villeroy & Boch Tableware Japan K.K., Tokyo (Japan)	–	100	100
45.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	–	100	100
46.	Villeroy & Boch Tableware Oy, Helsinki (Finland)	100	–	100
47.	Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China)	100	–	100
48.	Villeroy & Boch Ukraine TOV, Kiev (Ukraine)	100	–	100
49.	Villeroy & Boch USA Inc., New York (USA)	–	100	100
50.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99.99	0.01	100
51.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	–	100	100
52.	Villeroy et Boch S.A.S., Paris (France)	100	0	100

	Investments accounted for using the equity method	Direct	Indirect	Total
53.	V&B Lifestyle India Private Limited, Gurgaon (India)	50	–	50

* Section 313 III HGB is 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 2014:

Standard		Name
IFRIC	21	Levies
Var.		Annual improvements to International Financial Reporting Standards, 2011-2013 cycle

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

Standard		Name
IAS	19	Defined Benefit Plans: Employee Contributions; effective for financial years beginning on or after 1 February 2015
IFRS	11	Acquisition of an Interest in a Joint Operation (Amendments to IFRS 11); effective for financial years beginning on or after 1 January 2016
IAS	1	Disclosure Initiative (Amendments to IAS 1); effective for financial years beginning on or after 1 January 2016
IAS	27	Equity Method in Separate Financial Statements (Amendments to IAS 27); effective for financial years beginning on or after 1 January 2016
Var.		Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38); effective for financial years beginning on or after 1 January 2016
Var.		Annual improvements to International Financial Reporting Standards. 2010–2012 cycle; effective for financial years beginning on or after 1 February 2015
Var.		Annual improvements to International Financial Reporting Standards. 2012-2014 cycle; effective for financial years beginning on or after 1 January 2016
Var.		Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41); effective for financial years beginning on or after 1 January 2016

The Villeroy & Boch Group will adopt these regulations from the financial year in which they are effective within the EU. 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
IFRS	9	Financial Instruments (issued on 24 July 2014)
IFRS	15	Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015)
IFRS	16	Leases (issued on 13 January 2016)
IAS	7	Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016)
IAS	12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
Var.		Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)

The standard IFRS 15 "Revenue from Contracts with Customers" specifies comprehensive new regulations for the recognition of revenue from contracts with customers. This replaces the regulations previously found in a variety of standards and interpretations with uniform basic principles that are applicable across a range of industries and to a large number of revenue transactions. IFRS 15 contains significantly more extensive application guidance, including on revenue from licences and services and on commission agreements. The disclosure requirements in the notes to the consolidated financial statements will also be more extensive. No significant changes for the Villeroy & Boch Group are currently discernible. IFRS 15 was released on 28 May 2014 and amended on 11 September 2015. According to the IASB, the regulations are effective for reporting periods beginning on or after 1 January 2018. The EU has not yet endorsed this standard in European law. For this reason, the date of first-time adoption of this regulation in the Villeroy & Boch Group has not yet been stipulated.

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.

The European Commission has resolved not to endorse the following IASB publication in European law:

Standard	First-time adoption
IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014)	01/01/2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	01/01/2016

As they have not been implemented in EU law, the Villeroy & Boch Group is not permitted to apply these regulations in the preparation of exempting consolidated financial statements in accordance with section 315a(1) HGB. The Villeroy & Boch Group would not be affected by either regulation.

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 2015. 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 spot 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 IFRS 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, 03. February 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Witsch,
Wirtschaftsprüfer
(German Public Auditor)

G. Becker,
Wirtschaftsprüfer
(German Public Auditor)

MANDATES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

MANDATES OF THE MANAGEMENT BOARD

FRANK GÖRING
Chairman of the Management Board

ANDREAS PFEIFFER
Management Board member responsible for Bathroom and Wellness Division
b) within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary
Villeroy & Boch Trading Shanghai Co., Ltd

NICOLAS LUC VILLEROY
Management Board member responsible for Tableware Division

DR. MARKUS WARNCKE
Chief Financial Officer

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/Germany
- Managing Director of Solarpark Linslerhof GmbH, Überherrn/Germany
- Managing Director of Windenergie Britten GmbH, Britten/Germany

b) V & B Fliesen GmbH, Merzig/Germany

RALF RUNGE *
- First Vice Chairman of the Supervisory Board
- Chairman of the Villeroy & Boch European Works Council
- Chairman of the Faiencerie Merzig Works Council

PETER PRINZ WITTGENSTEIN
- Second Vice Chairman of the Supervisory Board
- Management Consultant

DR. ALEXANDER VON BOCH-GALHAU
Management Consultant
b) Union Stiftung, Saarbrücken/Germany

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

DIETMAR GEUSKENS *
District Manager of IG Bergbau, Chemie, Energie, Saarbrücken/Germany
a) Steag Power Saar GmbH, Saarbrücken/Germany

FRANCESCO GRIOLI *
- Trade Union Secretary
- District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz/Germany

a) BASF SE, Ludwigshafen/Germany
Gerresheimer AG, Düsseldorf/Germany (Vice Chairman)
b) Steag New Energies GmbH, Saarbrücken/Germany (Vice Chairman)
V & B Fliesen GmbH, Merzig/Germany

WERNER JÄGER *
- IT Administrator
- Chairman of the Head Office Works Council

DIETMAR LANGENFELD *
- Industrial Foreman for Logistics
- Chairman of the Villeroy & Boch AG Central Works Council
- Chairman of the Sanitary Ware Plant Mettlach Works Council

CHRISTINA ROSENBERG
Managing Director of Hermès GmbH, Munich/Germany

FRANÇOIS VILLEROY DE GALHAU *(until 1 October 2015)*
Member of the Executive Committee (Directeur general délégué) of BNP Paribas S.A., Paris/France
b) BGL – BNP PARIBAS, Luxembourg (until 30 April 2015)
BNP Paribas Fortis S.A., Brussels/Belgium (until 30 April 2015)
BNP Paribas Leasing Solutions, Puteaux/France (until 30 April 2015)
Banca Nazionale del Lavoro S.p.A., Rome/Italy (until 30 April 2015)
Cortal Consors S.A., Paris/France (until 30 April 2015)
Arval, Rueil-Malmaison/France (until 30 April 2015)
Bayard Presse S.A., Montrouge/France (until 30 October 2015)

DOMINIQUE VILLEROY DE GALHAU *(since 2 October 2015)*
General Director of La Financière Tiepolo SAS, Paris/France
b) Adolphe de Galhau'sche Sophienstiftung, Wallerfangen/Germany (Vice Chairman)

BERNHARD THÖMMES *
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)

COMPANY CALENDAR 2016

01 April 2016 – General Meeting of Shareholders, Merzig Town Hall

20 April 2016 – Report on the first three months of 2016

20 July 2016 – Report on the first half of 2016

21 October 2016 – Report on the first nine months of 2016

IMPRINT

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