

# 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](http://www.villeroyboch-group.com) contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports 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](http://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 <sup>2), 3)</sup>	73	6	6	85	85
Peter Prinz Wittgenstein <sup>1), 2), 3)</sup>	43	6	6	55	55
Ralf Runge <sup>4)</sup>	34	6	6	46	46
Werner Jäger <sup>1), 4)</sup>	23	6	6	35	35
Dietmar Langenfeld <sup>2), 4)</sup>	23	6	6	35	35
Yves Elsen <sup>1)</sup>	23	6	6	35	33
Francesco Grioli <sup>3)</sup>	23	6	5	34	23
Dr. Alexander von Boch-Galhau	20	6	6	32	33
Dietmar Geuskens <sup>4)</sup>	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
<b>Total</b>	<b>344</b>	<b>75</b>	<b>72</b>	<b>491</b>	<b>479</b>

<sup>1)</sup> Audit Committee

<sup>2)</sup> Investment Committee

<sup>3)</sup> Human Resources Committee

<sup>4)</sup> 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.