

# CORPORATE GOVERNANCE REPORT

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

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

## DECLARATION ON CORPORATE GOVERNANCE

### RESPONSIBLE MANAGEMENT

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

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

### COMPOSITION OF THE MANAGEMENT BOARD

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

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

### COMPOSITION OF THE SUPERVISORY BOARD

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

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

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

continuous basis. In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience. Diversity is also taken into account when selecting potential candidates for vacant positions on the Supervisory Board, particularly with respect to age, cultural background and educational and professional background.

In accordance with the statutory provisions and its Articles of Association, the Supervisory Board of Villeroy & Boch AG is composed of six shareholder representatives and six employee representatives. Following the entry into effect of the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector on 1 May 2015 ("German Equality Act"), there is a 30 % minimum ratio for women and men on the Supervisory Board, which has been taken into account in new appointments since 1 January 2016. By way of a resolution dated 5 October 2017, the shareholder representatives on the Supervisory Board objected to the statutory minimum share of men and women being fulfilled at the level of the entire Supervisory Board. The minimum share must therefore be fulfilled separately by both the shareholder representatives and the employee representatives. This means the shareholder representatives and the employee representatives must each be composed of at least 30 % women and 30 % men. The shareholder representatives and the employee representatives must each include at least two women and two men. In the election of employee representatives to the Supervisory Board on 24 January 2018, one woman was elected as an employee representative. This meant the gender quota set out in section 7 (3) of the German Codetermination Act (MitbestG) was not achieved. Accordingly, one position on the Supervisory Board was left unoccupied. This unoccupied position in accordance with section 18a (2) MitbestG must be filled by way of appointment in accordance with section 104 of the German Stock Corporation Act (AktG) or a special election. The minimum share is fulfilled by the shareholder representatives.

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

With Yves Elsen, Christina Rosenberg, Peter Prinz Wittgenstein, Dr Renate Neumann-Schäfer, Dietmar Geuskens and Francesco Grioli, the Supervisory Board has an appropriate number of members without significant personal or business relationships with the company, its governing bodies, a

controlling shareholder or a company affiliated with a controlling shareholder.

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

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

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

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

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

On 27 June 2017, the Management Board resolved a target of 35 % and an implementation period to the end of 30 June 2022 for the first and second levels of management below the Management Board. At the reporting date, women occupied 36 % of the positions in the two levels of management below the Management Board. Our long-term target remains for women to occupy 40 % of the positions in both levels of management.

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

take gender into account in future appointments to the Management Board, but will continue to be guided primarily by the knowledge, skills and experience of the candidates in order to ensure that these statutory duties are performed correctly and conscientiously.

#### **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 2017. This was seen in the meetings of the Supervisory Board and in the discussions between members of the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. In the year under review, the reports by the Management Board to the Supervisory Board focused specifically on the direction and implementation of corporate strategy, the company's business development, the Group's position and questions relating to the risk situation, risk management, the internal control system, the recognition and evaluation of non-financial performance indicators and compliance management.

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

#### **SUPERVISORY BOARD COMMITTEES**

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

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

proposals for the appointment or the revocation of the appointment of Management Board members to the Supervisory Board if the requisite majority of two-thirds of the votes of Supervisory Board members is not reached in the first ballot. The Conciliation Committee consists of the Chairman and First Vice Chairman of the Supervisory Board, one shareholder representative and one employee representative. The current members are Yves Elsen (Chairman of the Supervisory Board), 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 Yves Elsen (Chairman of the Supervisory Board), 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 Yves Elsen (Chairman of the Supervisory Board), Peter Prinz Wittgenstein (Vice Chairman) and Dietmar Langenfeld.

The Audit Committee addresses the topics of accounting, risk management, the internal control and audit system, reporting of non-financial information, compliance and issues relating to the audit of the annual financial statements. It is composed of a financial expert in accordance with section 100 (5) AktG and one representative each for the shareholders and the employees. The current members are Peter Prinz Wittgenstein (Chairman), Werner Jäger (Vice Chairman) and Dr Renate Neumann-Schäfer. 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. There are no significant personal or business relationships with governing bodies, shareholders or affiliated companies. Roles in other statutory supervisory boards and comparable domestic and foreign controlling bodies of commercial enterprises held by members of the Management Board and the Supervisory Board can be found in this report as well. Links with related parties are shown in the notes to the consolidated financial statements.

#### EFFICIENCY REVIEW

The Supervisory Board of Villeroy & Boch AG performs a regular efficiency review, most recently at its meeting on 7 February 2017 for the fiscal year 2016. This is a self-assessment of the workings of the Board and is carried out by its members. The efficient work of the Supervisory Board is driven in particular by the work of the committees, which meet as required and, if they do not have their own decision-making authority, prepare the resolutions to be passed by the full Supervisory Board.

#### MANAGERS' TRANSACTIONS

The managers' transactions reported to us in the 2017 financial year are published on the following website: [www.villeroyboch-group.com/en/investor-relations/financial-news/managers-transactions](http://www.villeroyboch-group.com/en/investor-relations/financial-news/managers-transactions).

At the end of the year under review, the members of the Supervisory Board held 2.04 % of all the ordinary and preference shares issued by the Company either directly or indirectly as defined by Article 19 of the European Market Abuse Regulation (Regulation (EU) No. 596/2014). Of this figure, 1.36 % were attributable to Dr Alexander von Boch-Galhau. The members of the Management Board held 0.47 % 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 and the Group management report set out in section 7.1.2 of the German Corporate Governance Code was again observed this year. The annual financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

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

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

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

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

The Supervisory Board again commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to audit the annual and consolidated financial statements for the 2017 financial year as the auditor appointed by the General Meeting of Shareholders. The Audit Committee and the Supervisory Board had previously satisfied themselves as to the independence of the auditor. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the auditor of the annual and consolidated financial statements of Villeroy & Boch AG since the 2009 financial year. The responsible auditors are Heiko Hummel and Markus Plein. The statutory provisions regarding the rotation of the auditor and the responsible auditors in accordance with Article 17 of EU Regulation No. 537/2014 of the European Parliament and of the Council of 14 July 2014 and the grounds for exclusion in accordance with sections 319 and 319a HGB have been observed.

In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman of the Audit Committee would be informed immediately of any potential grounds for disqualification or partiality and any facts and events of importance for the proper performance of the tasks of the

Supervisory Board arising during the performance of the audit. If the audit gives rise to facts that show a misstatement in the declaration of conformity issued by the Management Board and the Supervisory Board in accordance with section 161 of the German Stock Corporation Act (AktG), the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

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

The Management Board and the Supervisory Board are obliged to issue a Declaration of Conformity regarding the adoption of the recommendations of the German Corporate Governance Code once a year in accordance with section 161 AktG. Following discussions at the meeting of the Supervisory Board in November 2017, 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 at [www.villeroyboch-group.com/en/investor-relations/corporate-governance/declaration-of-compliance](http://www.villeroyboch-group.com/en/investor-relations/corporate-governance/declaration-of-compliance)).

## COMPLIANCE AT THE VILLEROY & BOCH GROUP

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

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

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

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

Our employees are provided with continuous information and training on compliance issues. The extensive 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 last audited in 2016 in accordance with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). The subject of the external audit was the effectiveness of the compliance management system in the areas of antitrust law and combating corruption in Germany. BAY GmbH Wirtschaftsprüfungsgesellschaft Rechtsanwalts-gesellschaft has confirmed that the principles and measures of our compliance management system are suitable for detecting and preventing risks relating to violations of legal provisions early on with reasonable assurance.

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

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

## REMUNERATION REPORT

The remuneration report is part of the Group management report (see page 49f.) and the Notes (see note 57 on page 112f.).