Villeroy & Boch
1748

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

2017 Financial Year

Please note:

This document contains the complete, audited Group Management Report and Consolidated Financial Statements of the Villeroy & Boch AG for the 2017 financial year. We are still working on the final layout or our Annual Report 2017 and plan to make it available for download at www.villeroyboch-group.com/en/investor-relations/publications/annual-reports in early March 2018.

GROUP MANAGEMENT REPORT

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GROUP MANAGEMENT REPORT

Consolidated revenue up 2.0 % to € 836.5 million or 2.7 % on a constant currency basis.

Operating EBIT increases by 8.5 % to € 49.8 million.

Operating margin improves from 5.6 % to 6.0 %.

EBT up 9.1 % year-on-year to € 45.4 million.

Return on net operating assets rises from 15.7 % to 17.7 %.

1 BASIC INFORMATION ON THE GROUP

1. 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 53 (previous year: 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. Our product range in the Bathroom and Wellness Division includes ceramic bathroom collections in various styles, bathroom furniture, shower, tub and whirlpool systems, ceramic kitchen sinks, and fittings and accessories. We typically address end consumers through a two- or three-tier sales channel. Our key target groups are dealers, craftsmen, architects, interior designers and planners. Our products in this division are displayed in more than 10,500 showrooms worldwide. We also reach the relevant target groups using different forms of communication, including a dedicated professional section on our website for architects, planners and tradespeople, which contains extensive information on new products, references and planning tools including technical product specifications. With the Bathroom Inspirator, the Bathroom Planner and the augmented reality app, end consumers also have access to practical applications allowing them to individually plan and design complete bathrooms in a virtual environment.

Our product range in the Tableware Division includes high-quality tableware, glasses, cutlery and corresponding accessories, kitchen and tableware textiles and gift items. We supply specialist retailers – from small porcelain retailers to large department store chains and specialist e-commerce providers – and reach end customers through our own retail activities, which include more than 100 Villeroy & Boch stores and around 510 points of sale operated by our own staff at high-profile department stores. We are also continuously working to expand our global online presence as part of our own retail activities. We now sell our Tableware products in more than 20 countries via our online shops. All in all, our products are available at around 4,750 points of sale worldwide.

Our product range is also supplemented by licence-based products for house and home, particularly lighting, bathroom accessories, garden furniture and flooring.

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 is 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).

PRODUCTION SITES BY REGION

AMERICAS

Ramos (Mexico)

EUROPE

Gustavsberg and Vårgårda (Sweden)

Hódmezővásárhely (Hungary)

Lugoj (Romania)

Merzig, Mettlach, Torgau and Treuchtlingen (Germany)

Mondsee (Austria)

Roden (The Netherlands)
Roeselare (Belgium)

Valence d'Agen (France)

APAC

Saraburi (Thailand)

2. 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.

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 economic report.

Although Group-wide controlling is not currently performed on the basis of non-financial performance indicators, these play an important role at an operating level in areas such as the environment, employees, the supply chain, product responsibility and compliance. Extensive information on our non-financial performance can be found in the Villeroy & Boch Group's sustainability report. This separate non-financial Group report for the 2017 financial year prepared in accordance with section 315b (3) of the German Commercial Code (HGB) is available online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports. For further details, please refer to the "Sustainability" section.

3. 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 € 15.9 million in research and development in the 2017 financial year (previous year: € 15.2 million). Of this figure, € 12.2 million (previous year: € 11.7 million) was attributable to the Bathroom and Wellness Division and € 3.7 million (previous year: € 3.5 million) was attributable to the Tableware Division.

Our research and development activities in the 2017 financial year again concentrated on the continuous enhancement of our ceramic materials, products and production technologies.

Research partnerships for innovative solutions

Villeroy & Boch maintains a network of external partners in the field of applied research and industrial development. This allows us to pursue the objective of generating innovative solutions in order to create products with concrete value added for our customers, enable efficient production technologies and press ahead with process digitalisation. To this end, we continued our partnership with the Luxembourg Institute of Science and Technology (LIST) that has been in place since 2016, which involves conducting various feasibility studies on the topics of surface finishing and energy-efficient processing techniques.

Another important partnership is the collaborative "HYFLY" project as part of the "InfectControl 2020" research initiative of the German Federal Ministry of Education and Research (BMBF). Together with partners from university institutions, we continued the development work that began in the

previous year on new types of easy-care antibacterial surfaces. The aim is to design products for use in special environments requiring high standards of hygiene and infection prevention, such as clinical facilities and public buildings and areas.

We also conducted research in the area of thermal process technology, which concerns the thermal treatment of all kinds of products and hence represents one of the most energy-intensive and complex steps in the production process, particularly in the ceramic industry. We are using software-based simulations to pursue targeted process optimisation in order to enable the more efficient use of raw materials and resources while increasing output levels.

Digitalisation in occupational health and safety

As part of occupational health and safety, we intensified our efforts in terms of process digitalisation in 2017 with a view to meeting the increasingly dynamic requirements in these areas. The use of state-of-the-art information and communication technology (ICT) plays an important role in this regard. ICT is one of the key technologies for German industry. This was underlined by the German Federal Government with the launch of the BMBF funding programme "ICT 2020 – Research for Innovation", which forms part of its high-tech strategy 2020 and in which Villeroy & Boch is actively participating. In the year under review, we worked with the German Research Centre for Artificial Intelligence (DFKI) on a joint research project with the aim of largely automating processes in occupational hazardous substance management that are currently manual, particularly in the area of substance substitution.

Internal enhancement of production techniques

As part of the internal enhancement of our production techniques, projects were initiated with the aim of creating robust processes and achieving material and resource efficiency and standardisation, thereby improving output levels. This was supported by the use of new management methods and statistical data analysis techniques and the design of new production facilities.

We are also working continuously to optimise our technologies under the umbrella of "Industry 4.0". Newly available technologies are evaluated in terms of their potential and the options for integrating them into existing manufacturing facilities at our production sites.

Bathroom and Wellness product development

Product-related development activity in the Bathroom and Wellness Division focused on the expansion of premium collections. An important role was played by the continuous enhancement of our innovative material TitanCeram, whose high dimensional stability and robustness enable particularly delicate product designs with extremely thin walls. The limited number of washbasin collections available in this material since its launch in 2015 became a thing of the past in 2017, as we successively expanded our product range to include collections such as our new premium series Finion and Antheus.

In the 2017 financial year, our development work also continued to focus on the product category of shower toilets, which are particularly popular in the Asia region and are now also enjoying steady growth in demand in Europe. We worked intensively on the continuous improvement of our models in terms of design and user comfort in order to optimally meet the high aesthetic and functional standards of our customers. We also concentrated on implementing a user-friendly, easy-maintenance installation technique. At the ISH 2017 trade fair, we presented our new model platform ViClean-I 100, which sets new design standards for shower toilets: As all of the technology is integrated into the ce-

ramics rather than the seat, there are no visual differences compared with a conventional toilet. In addition to minimalist visuals, the shower toilets in the new ViClean-I 100 series boast an intuitive operating concept and comfortable shower functions.

Digitalisation in the area of domestic technology also offers substantial innovation potential for the Bathroom and Wellness Division, which is why our product development work also takes the integration of smart home features into account. Examples include wireless smartphone charging stations and intelligent light and music functions integrated into bathroom furniture.

Tableware product development

Our development activities in the Tableware Division focused primarily on the expansion of our Food Specials collections. As well as expanding the existing concepts to include additional functional highlights, development work concentrated on coffee in particular. "Coffee Passion" is a new collection that allows customers to enjoy barista-style coffee in the comfort of their own home, with product features specifically designed to enhance the natural coffee aroma. The division also worked on product development and design for new eating habits. This involved different shapes and sizes of bowls, as well as the topics of mobility and healthy eating in the workplace. With all these product trends, we are addressing primarily those people who no longer purchase full collections, particularly when it comes to food and drink, but increasingly prefer individual items tailored to the specific occasion or more varied solutions.

In addition to formal product designs, our development focus included new design options for ceramic surfaces – such as visuals with a metallic appearance – and their implementation in terms of process technology. In late 2017, a digital printing system was also implemented in production. The inkjet technology involved enables a wide range of eye-catching décors.

We also intensified our development activities in the area of additive production techniques, also called 3D printing, and the resulting freedom of design for materials such as metal and plastic. Feasibility studies with external knowledge partners were used to test various techniques with the primary aim of optimising printing speed and size as well as the quality and performance characteristics of the printed ceramic products. The options for combining our conventional ceramic products with other materials were also evaluated in numerous studies with the aim of enabling innovative designs and a unique feel for our products.

4. 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 aim of our procurement organisation and procurement strategies is to make a sustained contribution to the company's long-term success by providing the required materials and services in the required quality and volume at the right time and the best possible price.

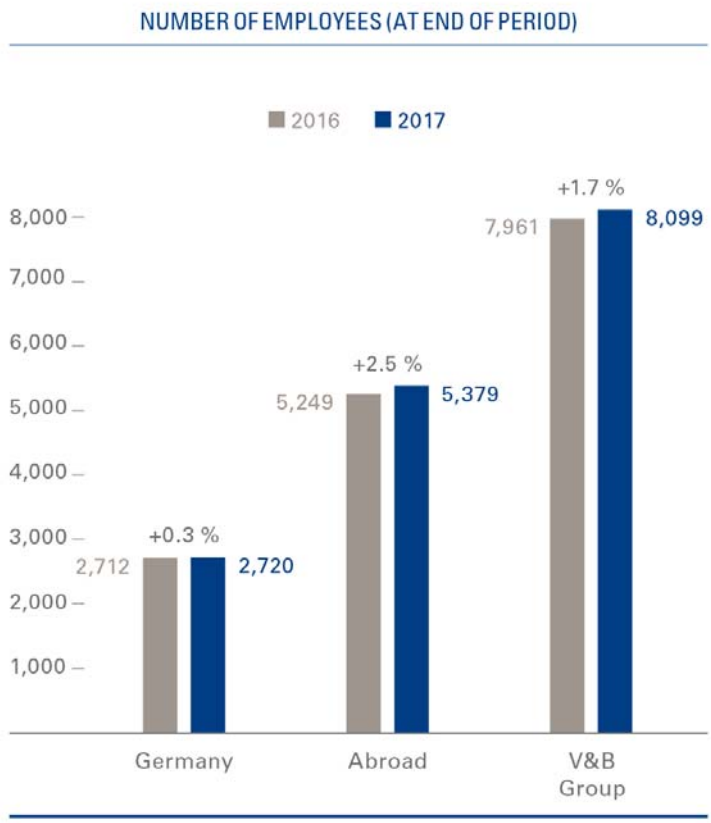
The Group encountered higher costs on the procurement market in the 2017 financial year. The sustained robust growth in the world economy meant the purchase prices for many raw materials increased in 2017 in response to demand. This meant we were forced to accept higher prices for materials for production, energy, packaging, transportation and externally sourced goods in particular. This was at least partially offset by corresponding cost-cutting measures in procurement management. Ex-

change rate developments also had a moderate positive impact on our procurement costs on the whole. Among other things, we benefited from the fact that the US dollar – the functional currency for certain procurement volumes – depreciated against the Group reporting currency, the euro.

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.

5. Employees

*Workforce**



* Prior year figures adjusted

The Villeroy & Boch Group had a total of 8,099 employees as at 31 December 2017, an increase of 138 compared with the end of the previous year (7,961). 33.6 % of the workforce was employed in Germany (previous year: 34.1 %). The Bathroom and Wellness Division accounted for 5,241 employees (previous year: 4,995), while a total of 2,302 people were employed in the Tableware Division (previous year: 2,405) and 556 in central functions (previous year: 561).

Taken as an average for the year as a whole, our workforce increased from 7,894 in the previous year to 8,090.

Further information on our strategic focus and activities in the area of human resources (HR) is presented in our separate sustainability report for the 2017 financial year, which is available online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports.

2 ECONOMIC REPORT

1. General Economic conditions

The world economy enjoyed a sustained upturn in 2017 with a higher growth rate than in the previous year. The pace of expansion in the German economy increased, thanks in particular to strong export performance and a higher level of corporate investment. Construction activity also continued to be stimulated by low interest rates and increased demand for housing. The euro zone economy also saw an upward trend on all fronts, driven by impetus from domestic and external demand as well as positive development on the employment market. However, the British economy weakened significantly more than a year after the Brexit referendum. Outside Europe, overall economic momentum in the United States picked up substantially following a weak start to the year. The Chinese economy also enjoyed sustained strong growth on the back of expansive lending and a high level of public investment.

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry. All in all, the key indicator of residential construction declined slightly compared with the previous year. Growth in the construction industry in our important domestic market of Germany also slowed because of a shortage of craftsmen and plumbers. At the same time, residential construction enjoyed considerably more dynamic development in other key markets such as Sweden and the Netherlands.

A key factor for business performance in the Tableware Division is the consumer climate among private households. At 1.8 %, private consumer spending in Europe saw less pronounced growth than in the previous year (+2.1 %). In addition, consumer activity is reflected in the frequency of visits to retail outlets, an indicator that also declined in many parts of Europe in the period under review. In Villeroy & Boch's extremely important domestic market of Germany, visitor frequency fell by 3.5 % year-on-year.

2. 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.

We achieved the earnings and return targets we set ourselves for the 2017 financial year. We also achieved the revised revenue target that we issued at the end of the first half of the year 2017 in response to changes in market conditions.

The table below shows a comparison of the key figures forecast in the 2017 Group management report with the actual figures as well as the forecasts for 2018:

Group Targets

	Forecast 2017	Actual 2017	Forecast 2018
Revenue growth [1]	3 - 5 % [2]	2,0 % (2,7 %)	3 - 5 %
EBIT growth	5 - 10 %	8,5 %	5 - 10 %
Return on net operating assets	> 15,7 %	17,7 %	17 - 18 %
Investments	> € 35 million	€ 35,9 million	> € 40 million

[1] Figures for revenue growth shown as nominal values; in brackets: on a constant currency basis
[2] Updated to 2-3 % during the year

All in all, we increased our consolidated revenue by 2.0 % to € 836.5 million. On a constant currency basis, i.e. assuming unchanged exchange rates against the previous year, we generated revenue growth of 2.7 %. Negative exchange rate effects primarily resulted from the depreciation of the pound sterling, the Chinese renminbi, the Swedish krona and the US dollar.

One encouraging development is that we reached the upper end of our growth target for our operating result of between 5 % and 10 %. Operating EBIT increased by a total of 8.5 % to € 49.8 million (previous year: € 45.9 million). As a result, our EBIT margin improved from 5.6 % to 6.0 % on the back of a higher operating margin in both divisions.

The Group's return on net operating assets increased by 2.0 percentage points year-on-year to 17.7 %. This improved profitability was attributable primarily to our strong earnings performance accompanied by a reduction in rolling net operating assets.

Investments in property, plant and equipment and intangible assets in the 2017 financial year were in line with our forecast at € 35.9 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 "Other financial performance indicators" sections of the Group management report.

3. Results of operations

The following information provides an overview of our results of operations in the 2017 financial year.

Structure of the consolidated income statement (IFRS)

in € million	2017	% of revenue	2016	% of revenue
Revenue	836,5	100,0	820,1	100,0
Cost of sales	-466,4	-55,8	-456,1	-55,6
Selling, marketing and development costs	-275,3	-32,9	-270,0	-32,9
General administrative expenses	-47,2	-5,6	-45,6	-5,6
Other expenses/income	1,7	0,2	-2,6	-0,3
Result on financial investments accounted according to the equity method	0,5	0,1	0,1	0,0
Operating EBIT (before non-recurring income)	**49,8**	**6,0**	**45,9**	**5,6**
Real estate income from Gustavsberg property	0,0	0,0	1,7	0,2
Earnings before interest and taxes (EBIT)	**49,8**	**6,0**	**47,6**	**5,8**
Financial result	-4,4	-0,6	-6,0	-0,7
Earnings before taxes (EBT)	**45,4**	**5,4**	**41,6**	**5,1**
Income taxes	-15,6	-1,8	-12,5	-1,5
Group result	**29,8**	**3,6**	**29,1**	**3,6**

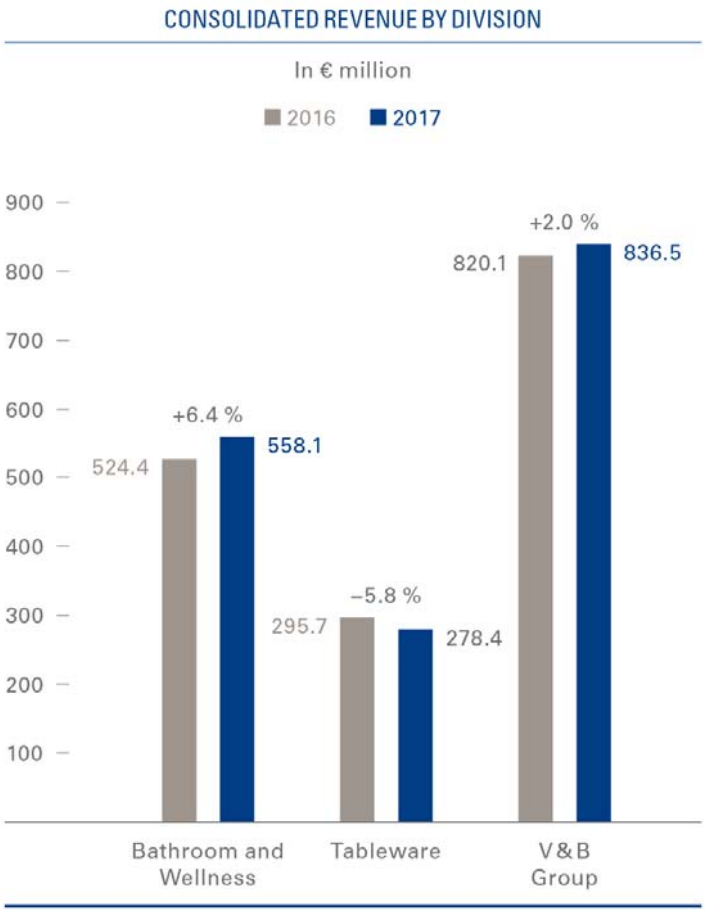
Consolidated Revenue 2017

Consolidated revenue up 2.0 %

The Villeroy & Boch Group generated revenue of € 836.5 million in the 2017 financial year (previous year: € 820.1 million). This represents a year-on-year improvement of 2.0 % in nominal terms or 2.7 % on a constant currency basis.

Revenue development was characterised by extremely heterogenous performance in the two divisions. At Group level, our revenue in Europe declined by 1.1 % (on a constant currency basis: -0.7 %). This was due primarily to lower revenue in the Tableware Division. The same applies to the Americas region, where revenue declined by 8.8 % in nominal terms and 6.4 % on a constant currency basis. At the same time, however, we enjoyed above-average development in the growth regions of the Middle East/Africa (+17.9 % to € 30.3 million) and especially Asia-Pacific (+30.5 % to € 99.0 million). This positive performance is also helping us to achieve our objective of expanding our market position outside the relatively saturated regions in order to reduce our dependence on our home market of Europe.

Revenue by division



In the 2017 financial year, revenue in the **Bathroom and Wellness Division** increased substantially by 6.4 % to € 558.1 million (previous year: € 524.4 million). On a constant currency basis, this revenue growth amounted to 7.0 %. While we enjoyed growth across all four product segments – ceramic sanitary ware, wellness, tap fittings and bathroom furniture – our revenue performance varied from region to region.

In our home market of Europe, development was driven in particular by the high level of demand for our rimless DirectFlush WCs and thin-walled TitanCeram washbasins. These products were introduced to the portfolio in recent years and have superseded existing ceramic product ranges more quickly than anticipated. Although we have already massively expanded our production capacities for these products and increased our investment volume further, we were unable to fully meet demand in the past financial year. This is reflected in orders on hand within the division as a whole, which increased by € 32.8 million to € 96.2 million.

In selected European markets including Germany, growth was also curbed by a shortage of fitting capacity. Compared with the high level recorded in the previous year, we increased our revenue in Germany by 1.7 % to € 157.9 million. All in all, we recorded revenue growth of 1.5 % to € 452.1 million in Europe, or 1.8 % on a constant currency basis.

Revenue outside Europe increased by 34.0 % to € 106.0 million. Successful project business helped us to record revenue growth in the Middle East/Africa region of 25.6 % to € 21.0 million. This was driv-

en primarily by the Gulf States (+40.7 %), where construction activity developed extremely well in preparation for major international events.

We recorded even stronger performance in the Asia-Pacific region. Our most important growth market, China, was the standout with revenue growth of 45.0 %. In 2017, we generated revenue of € 75.1 million in the region as a whole. This includes € 8.4 million from Argent Australia Pty. Ltd., which was acquired during the year with a view to sustainably increasing our business volume in Australia. Adjusted for this acquisition, growth in the Asia-Pacific region amounted to 31.0 %.

The **Tableware Division** contributed € 278.4 million to consolidated revenue for the 2017 financial year, down 5.8 % (on a constant currency basis: -4.9 %) on the previous year.

The global downturn in visitor numbers at retail stores and the growing substitution of traditional sales channels by online retail had a negative effect on Tableware revenue in the past financial year. The division's revenue situation was also characterised by key strategic decisions. Firstly, we systematically withdrew from unprofitable business and closed loss-making stores as part of the optimisation of our retail network. Secondly, we pressed ahead with intensifying our focus on higher-margin trade channels while pursuing a more restrictive discount policy. Thanks to this measure, which is aimed at supporting the premium status of the Villeroy & Boch brand and, in particular, reinforcing our revenue quality at a high level in the long term, we were able to substantially improve our operating margin by 0.7 percentage points to 58.7 %.

These market factors and strategic decisions resulted in lower revenue in most markets. With a handful of isolated exceptions, the core market of Europe saw falling revenue in the period under review (-6.2 %). In the United States, revenue development of -6.9 % was due among other things to site closures by a major distribution partner. At the same time, however, we recorded notable positive performance in the markets of South Korea (+20.5 %) and – thanks to strong project business – the Gulf States (+18.9 %).

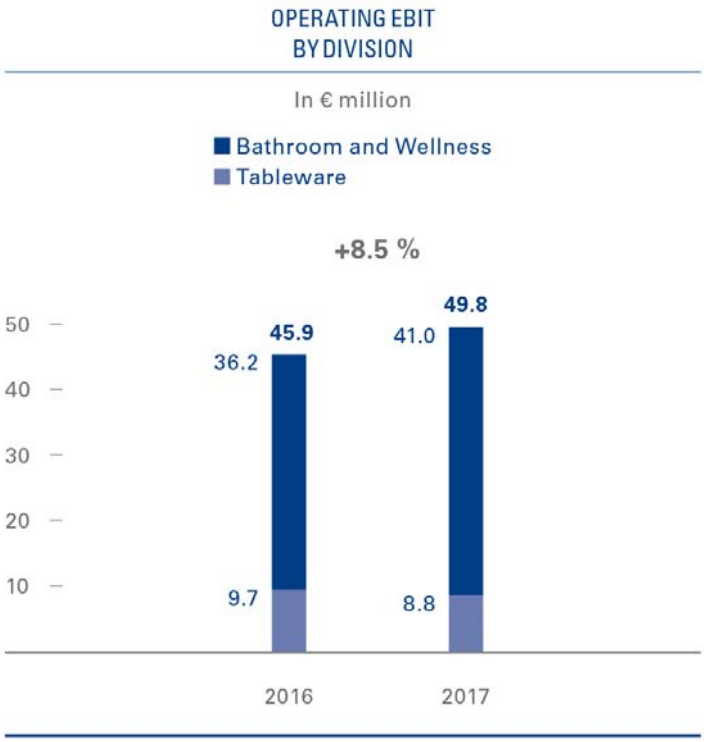
Orders on hand

Orders on hand in the Group increased significantly year-on-year to € 107.0 million as at 31 December 2017 (previous year: € 73.9 million). After repeatedly hitting record levels during the course of the year, orders on hand in the Bathroom and Wellness Division amounted to € 96.2 million at the reporting date (previous year: € 63.4 million). The Tableware Division accounted for orders on hand of € 10.8 million (previous year: € 10.5 million).

Consolidated EBIT

Operating EBIT up 8.5 % year-on-year to € 49.8 million

In the 2017 financial year, we increased our operating EBIT by 8.5 % or € 3.9 million to € 49.8 million. This also corresponds to our entire consolidated EBIT, as the net income generated from our real estate project in Gustavsberg (Sweden) in the period under review was negligible. By contrast, consolidated EBIT in the previous year (€ 47.6 million) included extraordinary real estate income from this project in the amount of € 1.7 million.



Selling, marketing and development costs increased by € 5.3 million year-on-year to € 275.3 million. General and administrative expenses also rose by € 1.6 million to € 47.2 million. This was attributable primarily to increased personnel expenses due to collective wage agreements and appointments to vacant positions. We also invested in the global expansion of our sales structures, particularly in our growth markets outside Europe.

Net other operating expenses and income amounted to € 1.7 million. This represents a year-on-year improvement of € 2.6 million, as the prior-year figure was impacted in particular by non-recurring expenses for reorganisation measures.

Operating result (EBIT) by division

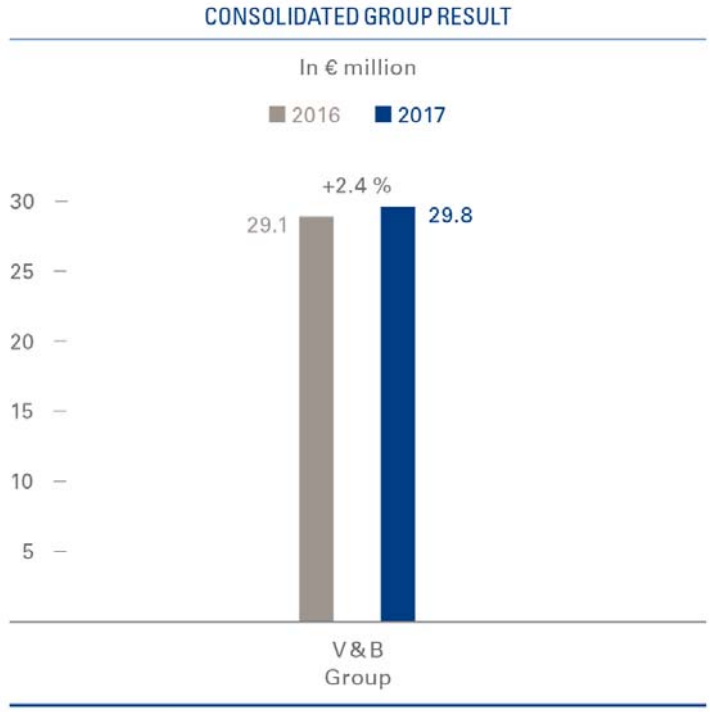
Bathroom and Wellness division

The Bathroom and Wellness Division recorded an operating result (EBIT) of € 41.0 million in the 2017 financial year, an improvement of 13.3 % on the previous year (€ 36.2 million). In addition to our strong revenue growth, we benefited from the optimisation of our revenue quality and the resulting improvement in our operating margins. This was driven in particular by the increased share of revenue generated from the sale of products from our main Villeroy & Boch brand, while the volume of less high-margin business in the markets of Mexico and Europe was reduced.

Tableware division

The Tableware Division closed the 2017 financial year with an operating result of € 8.8 million (previous year: € 9.7 million). Thanks to a more restrictive discount policy, we succeeded in partially offsetting the lower revenue volume by improving our operating margin by 0.7 percentage points. We continued to relieve the division's cost structures by closing unprofitable stores. We also generated savings in our sales, marketing and logistics structures and in administrative areas. This was accompanied by higher income from licence business.

Group result



The Group result rose by € 0.7 million or 2.4 % year-on-year to € 29.8 million, thereby only reflecting the substantial improvement in operating EBIT to a limited extent. This was due to the increase in tax expenses to € 15.6 million (previous year: € 12.5 million), largely as a result of the US tax reform that came into force on 22 December 2017. One of the main elements of the reform is a reduction in the federal corporate income tax from 35 % to 21 % from the start of 2018. The extended utilisation interval for loss carryforwards resulted in an additional non-cash tax expense. The change in the basis of

measurement in response to this new legislation meant that the Group tax rate increased from its usual level of around 30 % to 34.4 %. This tax effect was at least partially offset by the year-on-year improvement in net finance expense to € -4.4 million (previous year: € -6.0 million), which was achieved thanks to a reduction in interest expenses for pension obligations following the adjustment of the underlying discount rate to reflect the low interest rate in 2016.

Dividend proposal

At the General Meeting of Shareholders on 23 March 2018, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

0,52 € per ordinary share
0,57 € per preference share

This represents a total dividend distribution of € 15.3 million. Based on the number of preference shares held by the company at the payment date, the total cash outflow will be € 14.3 million.

4. 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 negative 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 2017 financial year:

in € million	31.12.2017	31.12.2016
Equity	194,6	172,6
Non-current liabilities	273,7	294,5
Current liabilities	218,8	209,2
Total equity and liabilities	**687,1**	**676,3**

Equity increased by € 22.0 million year-on-year to € 194.6 million in the period under review. Retained earnings rose by € 16.6 million, with the Group profit of € 29.8 million generated in the 2017 financial year offset by the dividend distribution in spring 2017 (€ -13.3 million). The intra-year acquisition of the subsidiary Argent Australia Pty. Ltd. served to increase non-controlling interests in equity by € 5.3 million. All in all, our equity ratio (including non-controlling interests) improved to 28.3 % at the reporting date (previous year: 25.5 %). 85.6 % of the Group's non-current assets in the amount of € 227.3 million were covered by equity.

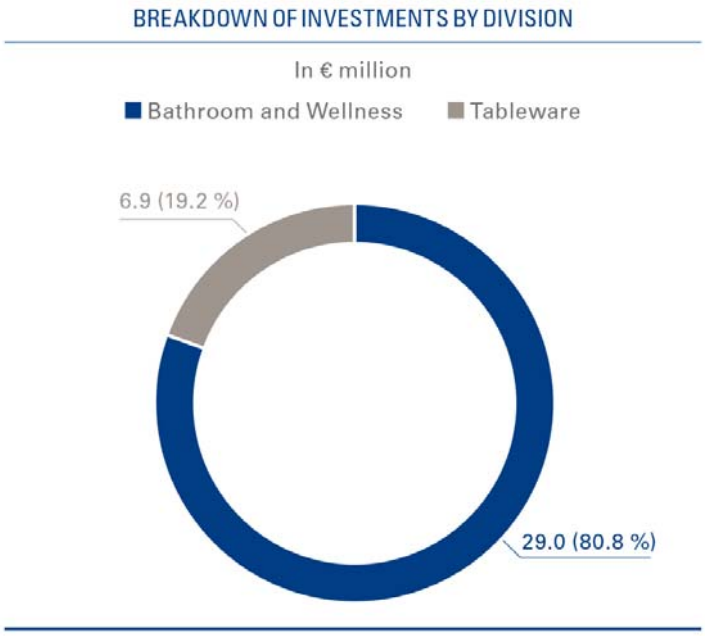
Non-current liabilities in the amount of € 273.7 million comprised pension provisions, financial liabilities, provisions for personnel, other liabilities and deferred tax liabilities. Non-current liabilities declined by € 20.8 million compared with the previous year. € 16.0 million of this figure related to the reduction in pension obligations, which was partially attributable to the increase in the underlying interest rate from 1.25 % to 1.75 %. In addition, a portion (€ 4.1 million) of the dismantling and renovation obligation recognised in the previous year in connection with our real estate development project in Luxembourg was reclassified to current liabilities.

Current liabilities in the amount of € 218.8 million comprised primarily other liabilities, trade payables, other provisions, current provisions for personnel, income tax liabilities and financial liabilities. Current liabilities rose by € 9.6 million compared with the previous year, with the main changes relating to the increase in advance payments received on account of orders (€ 6.0 million) and the aforementioned reclassification from non-current liabilities (€ 4.1 million).

Investments

Investments in property, plant and equipment and intangible assets

Our investments in property, plant and equipment and intangible assets totalled € 35.9 million in the 2017 financial year (previous year: € 26.2 million). 54 % of this figure was attributable to Germany (previous year: 56 %). At 31 December 2017, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 2.0 million. Our investments are financed from operating cash flow.



At € 29.0 million or 81 %, our investments were concentrated primarily on the **Bathroom and Wellness Division**. The focus was on the establishment of new production facilities for our ceramic sanitary ware plants in Germany and abroad, particularly in Mettlach, Hódmezövásárhely (Hungary), Ramos (Mexico) and Valence d'Agen (France). € 14.9 million of the investment volume related to our locations outside Germany, with 40 % of this figure attributable to Western Europe, 36 % to Eastern Europe and 24 % to plants in the rest of the world.

We invested € 6.9 million in the **Tableware Division**, corresponding to 19 % of the total investment volume. € 5.5 million of this figure related to Germany. We acquired new machinery and tools for production at our Merzig and Torgau plants. Moreover, we invested in the further optimisation of our retail network, for example renovating and opening stores in the UK, Australia and Switzerland.

Financing

Condensed cash flow statement

in € million	2017	2016
Group result	29,8	29,1
Current depreciation and amortisation of non-current assets	26,2	27,8
Change in non-current provisions	-10,2	-7,7
Profit from disposal of fixed assets	-0,4	0,8
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	-13,4	18,1
Other non-cash income/expenses	9,0	9,8
Net cash flow from operating activities	**41,0**	**77,9**
Net cash flow from investing activities	**-27,3**	**-19,9**
Net cash flow from financing activities	**-14,1**	**-12,3**
Total cash flows	**-0,4**	**45,7**
Balance of cash and cash equivalents on 1 January	**111,2**	**65,6**
Change based on total cash flows	-0,4	45,7
Change due to exchange rate effects	-2,1	-0,1
Balance of cash and cash equivalents on 31 December	**108,7**	**111,2**

Net cash from operating activities amounted to € 41.0 million (previous year: € 77.9 million). The year-on-year change was due among other things to the € 9.8 million increase in inventories, receivables and other assets within net current assets, as well as net tax payments of € -10.2 million in the period under review.

Net cash used in investing activities in the amount of € -27.3 million (previous year: € -19.9 million) included payments totalling € 47.4 million for investments in property, plant and equipment, intangible assets and non-current financial assets as well as the acquisition of the shares in Argent Australia Pty. Ltd. This was offset by cash receipts from disposals of fixed assets in the amount of € 20.1 million.

Net cash used in financing activities amounted to € -14.1 million (previous year: € -12.3 million). This related primarily to the dividend payment in spring 2017 (€ 13.3 million).

Liquidity

Net liquidity

Our net liquidity amounted to € 57.6 million at the reporting date. This corresponds to a year-on-year decrease of € 3.1 million, which is due to the fact that we used some of our liquidity (€ 7.2 million) to increase our interest in a freely marketable investment for return purposes during the course of the 2017 financial year.

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

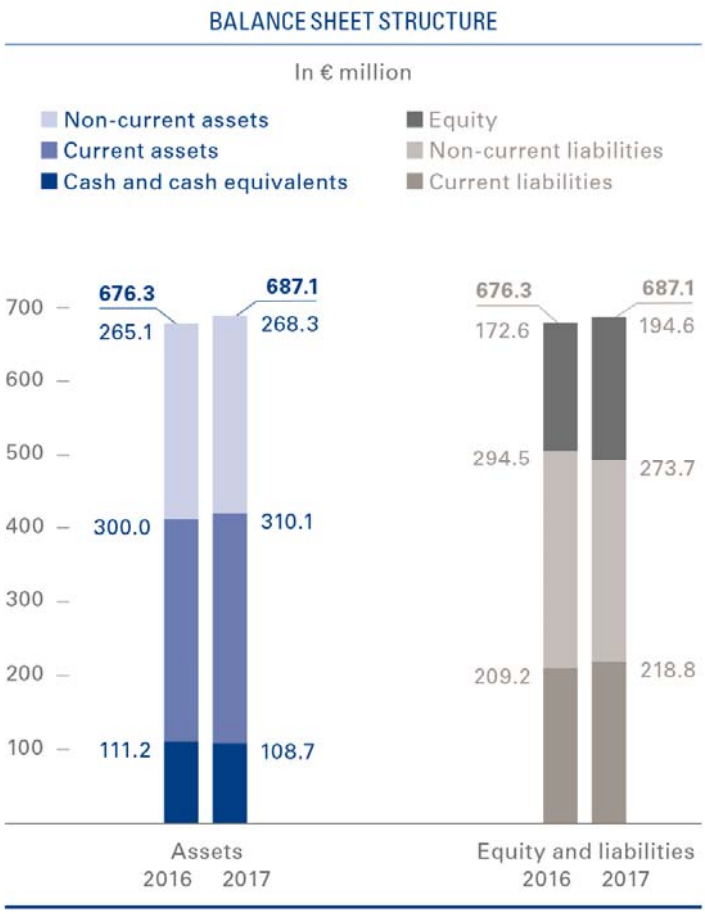
At 31 December 2017, we had unutilised credit facilities totalling € 245 million (31 December 2016: € 203 million) that were not subject to any restrictions.

5. Net assets

Balance Sheet

The Villeroy & Boch Group had total assets of 687.1 € million at 31 December 2016 compared with € 676.3 million at the end of the previous year. The balance sheet structure is shown in the graphic below:

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



Non-current assets in the amount of € 268.3 million (previous year: € 265.1 million) comprised non-current fixed assets, deferred tax assets and other non-current assets. The share of total assets attributable to non-current assets increased to 33.1 % (previous year: 31.7 %).

Current assets were composed primarily of inventories, trade receivables, cash and cash equivalents and other current assets. Current assets (including non-current assets held for sale) increased by € 7.6 million year-on-year to € 418.8 million. Inventories and trade receivables rose by € 13.2 million and € 11.2 million respectively, largely as a result of acquisitions: The first-time inclusion of Argent Australia Pty. Ltd. in our consolidated financial statements served to increase inventories by € 11.2 million and trade receivables by € 4.0 million. The biggest opposing change within current assets was the € -14.1 million decrease in other current assets following the settlement in February 2017 of the purchase price receivable for the sale of a section of our former tableware plant in Luxembourg to the City of Luxembourg in late 2016.

The items of the equity and liabilities side of the balance sheet are discussed in the “Capital structure” section of the management report.

6. Other financial performance indicators

In addition to the key performance indicators of revenue and earnings before interest and taxes (EBIT), whose development in the past financial year is discussed under "Results of operations", our activities are focused 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 2017, the rolling net operating assets of the Villeroy & Boch Group were composed as follows:

V&B Group *(in € million)*	**2017**	**2016**
Net operating assets	**280,4**	**292,5**
Property, plant and equipment	173,3	176,5
Inventories	150,1	152,6
Receivables (from third parties)	114,8	111,8
Liabilities	- 67,2	- 66,1
Other net assets	- 90,6	- 82,3
Operating result (EBIT)	49,8	45,9
Return on net operating assets	**17,7%**	**15,7%**

In the 2017 financial year, we succeeded in improving our return on net operating assets by 2.0 percentage points to 17.7 %. This was due to the improvement in the operating result compared with the previous year as well as the reduction in rolling net operating assets to € 280.4 million (previous year: € 292.5 million). The latter development was attributable largely to the decrease in net other assets, as well as the reduction in the average level of property, plant and equipment and inventories.

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

Bathroom and Wellness *(in € million)*	**2017**	**2016**
Net operating assets	**202,1**	**208,6**
Property, plant and equipment	149,2	149,3
Inventories	86,4	87,8
Receivables (from third parties)	86,6	82,0
Liabilities	- 51,1	- 49,6
Other net assets	- 69,0	- 60,9
Operating result (EBIT) *	47,5	42,9
Return on net operating assets	**23,5%**	**20,6%**

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

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

Tableware *(in € million)*	**2017**	**2016**
Net operating assets	**78,3**	**83,9**
Property, plant and equipment	24,1	27,2
Inventories	63,7	64,8
Receivables (from third parties)	28,2	29,8
Liabilities	- 16,1	- 16,5
Other net assets	- 21,6	- 21,4
Operating result (EBIT) *	9,3	11,4
Return on net operating assets	**11,9%**	**13,6%**

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

3 SUSTAINABILITY

For us, achieving our financial targets is closely connected to the various aspects of sustainability and corporate social responsibility (CSR), which ensure that our actions as a company are consistent with not only economic, but also ecological and social considerations. As such, trust-based cooperation with our stakeholders – and particularly our customers, suppliers, employees, shareholders and lenders – and a responsible approach to the environment play a particularly important role within our organisation and our processes.

Sustainable management in the sense of good and transparent corporate governance requires all Villeroy & Boch employees to act with integrity and in accordance with the law in order to ensure the company's long-term success. Compliance with statutory and official provisions and internal guidelines and directives – especially our Code of Conduct, which is required to be observed by all employees – is ensured by means of a Group-wide compliance management system. As the company's success is also inextricably linked to the dedication of creative, motivated employees, our human resources strategy focuses on ensuring an attractive employment environment with healthy and safe

working conditions, fair payment, targeted training opportunities and an active commitment to diversity and equal opportunity.

Our customers place their confidence in the high quality of our products – and this is based on stylish design, extremely high durability and maximum product safety in equal measure. We intend to continue to earn this confidence in future with technically superior products and sustainable value creation. This is why the requirements we make of our suppliers and our in-house production are so stringent. Alongside compliance with the law and labour and environmental standards, our aim is to achieve our outstanding product quality with the greatest possible resource and energy efficiency. The use of management systems and standardised processes helps us to achieve this.

Under the German CSR Directive Implementation Act of 11 April 2017, Villeroy & Boch AG is obliged to supplement the Group management report with a non-financial Group declaration in accordance with section 315b of the German Commercial Code (HGB) starting from the 2017 financial year. Reportable aspects within the meaning of section 315c in conjunction with section 289c HGB include company-related disclosures on environmental, employee and social matters, respect for human rights and combating bribery and corruption – meaning they relate directly to our sustainability-related activities in the aforementioned areas. In preparing the non-financial Group declaration, Villeroy & Boch AG has exercised the option provided by section 315b (3) HGB to prepare a non-financial Group report separately from the Group management report. This is published online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports. This link contains the first sustainability report of the Villeroy & Boch Group for the financial year from 1 January to 31 December 2017, in which we report extensively on our non-financial performance; the sustainability report will be published annually from now on.

4 REPORT ON RISKS AND OPPORTUNITIES

1. 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.

2. 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.

3. 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 (4) 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, promptly 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. Furthermore, 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 companies' 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.

4. 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).

Our assessment of the individual risks in terms of their probability of occurrence and potential financial impact has not changed compared with the previous year.

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. Brexit had a tangible adverse effect on economic development in the United Kingdom during 2017, with consumer sentiment suffering as a result. The sustained depreciation of the pound sterling is also driving up the price

of imported goods. In terms of our sales performance on the British market in the 2017 financial year, this meant revenue decreased due to exchange rate effects but increased on a constant currency basis.

In addition, consumer spending and consumer confidence on the markets can be negatively impacted by sociopolitical factors such as military conflicts or civil unrest. In the same way as for all companies, the Group's business development is also subject to potential risks in the form of terrorist activity, although these are hard to quantify. Tragic cases in the recent past have shown that terrorist attacks and the resulting debate about public safety and security can have a negative impact on business development and demand on a supra-regional basis.

Sales forecasts in the Bathroom and Wellness Division are subject not only to the aforementioned general market risks, but also depend in particular on the performance of the construction industry. All in all, the robust growth in European residential construction slowed slightly in 2017 when compared directly with 2016 but remained above-average in terms of a multi-year comparison. The positive trend that is also forecast for 2018 suggests that there are no specific acute 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. At the same time 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 key 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 important 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 dete-

rioration 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

The environmental impact of production cannot be avoided altogether. In order to prevent the resulting environmental risks, especially in light of increasingly stringent legislation, environmental and occupational safety laws are analysed at regular intervals and organisational measures are subsequently initiated where relevant. We also continuously monitor emission levels at all our locations. As well as analysing the specific environmental impact, this includes taking account of the related occupational safety aspects (e.g. exposure at the respective workplaces). The central basis for continuous monitoring is a dedicated reporting system in which location-related information is bundled and presented for the Group as a whole. We respond by making corresponding investments in environmental and occupational safety as required.

Our employees are another 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.

More extensive information on the environmental performance of our production sites and the measures taken in the field of occupational health and safety can be found in the Villeroy & Boch sustainability report (the edition for the 2017 financial year is available online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports).

Financial 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 2017.

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 2017.

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 2017. 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 throughout the Group for each currency pair. As a matter of principle, the remaining exchange rate risk is initially hedged at a level of 70 % on the basis of past experience. 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 2017. As in the previous years, however, there is an increased risk due to the volatility of the Russian rouble and the pound sterling. Both currencies can be expected to see a heightened exchange rate risk once again in 2018. We use a dynamic hedging approach to address these risks. 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 2017. In 2017, a few banks discussed the possibility of passing on the negative deposit rates imposed by central banks 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. 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 2017. In 2017, 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 2017. 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 business activities of the Villeroy & Boch Group mean it is subject to a wide range of country-specific tax laws and regulations. Changes in the applicable tax law situation could have an adverse effect on the taxation of the Group companies.

The Group companies domiciled in Germany and abroad may be subject to an external audit of their tax declarations and payments by the responsible local fiscal authorities. As a matter of principle, the resulting risks relate to all outstanding assessment periods and arise primarily in connection with differing or more restrictive interpretations of existing provisions by the fiscal authorities, which can result in additional financial burdens. The OECD's Base Erosion and Profit Shifting (BEPS) project, an internationally coordinated package of measures aimed at preventing international corporations from engaging in base erosion and profit shifting as a means of tax avoidance, is expected to result in greater audit intensity.

Local tax legislation and case law may also change to the detriment of the Group.

Tax risks are continuously identified and systematically reviewed and assessed as part of our risk management system. The corresponding technical issues are analysed and evaluated by the central Group tax department in conjunction with external tax advisors. Adequate provisions have been recognised in previous financial years for tax risks that are already known.

Personnel risks

The long-term success of the Villeroy & Boch Group depends to a large extent on its committed and skilled employees and managers. In order to secure new talents and expertise for the long term, the Group places great value on a targeted human resources policy whose content involves 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. A growing challenge for us as an employer is the increasingly tough competition for new employees as societal developments, and especially demographic change, lead to a shift in terms of supply and demand on the employment market. Finding the necessary replacements for qualified employees in key positions involves recruitment processes that can be lengthy. This can result in capacity bottlenecks.

Further information on our strategic focus and activities in the area of human resources (HR) is presented in our separate sustainability report for the 2017 financial year, which is available online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports.

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. Further information on the structure and content of our compliance management system can be found in the "Corporate Governance and Compliance" section of the Villeroy & Boch sustainability report, which is available online at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports.

On 26 January 2017, the European Court in the last instance rejected the appeal filed by the affected Villeroy & Boch companies against the decisions by the EU in the antitrust proceedings known as the bathroom case. 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. Time-limited waivers of the statutory period of limitations were agreed with three of the former members of the Management Board. An action for performance is pending against one former member of the Management Board. A hearing has yet to take place. 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,
- Cybercrime
- 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.

As part of the continued digitalisation of our business and production processes, the topic of cybersecurity has become significantly more important in recent years. To provide effective protection against potential threats, we employ standardised, state-of-the-art firewall technology at all Group locations and have established a central point of contact for this area in the form of the Security Officer position, which was newly created in 2017. The Group has concluded cybercrime insurance to protect it financially against loss.

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 2017 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.

5. Report on Opportunities

The Villeroy & Boch Group has a wide range of opportunities to secure its long-term future business success. The following section describes the material opportunities available to the Group involving additional earnings potential.

Opportunities through ceramic expertise

Expertise with ceramic materials is in Villeroy & Boch's DNA and a key factor in our successful 270-year history as a company. We focus on combining product design and raw material and production expertise with product functionality and quality. With successful products like the rimless DirectFlush WC and innovative materials like TitanCeram, which combines selected natural materials such as feldspar, quartz, clay and titanium dioxide for particularly delicate yet stable washbasins, we are underlining our claim to be the market leader for ceramic sanitary ware. We are working on the ceramics of the future at our own development centre and in cooperation with selected research partners, and we are confident that this will allow us to continue to set ourselves apart from the competition in future.

Opportunities through addressing current trends in society

One key opportunity in the Tableware Division involves identifying trends in society with regard to how people enjoy food and drink at an early stage so that we can benefit by offering a corresponding product range. In order to improve our response times and increase the importance of this area within the organisation, we have supplemented our traditional tableware business by introducing a product segment to develop and market specific ranges for current food trends, such as BBQ, pasta, soup, salad, coffee and tea. We also have a separate product segment for gift items to be given on big or small occasions. This product range includes vases, decorative bowls and various glass sets.

Opportunities through growth markets

While our activities in the saturated markets of Europe are primarily focused on expanding our market share, 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 difficult economic conditions in 2017 – Russia to be the individual markets offering the greatest growth potential for us. Both markets are characterised by a middle and upper class of keen consumers with, in particular, a strong brand affinity; in China, these population groups are continuing to grow. We also believe that both growth markets will provide Villeroy & Boch with 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 2017 financial year.

Opportunities through project business

We believe that there remains good potential for increasing the sales volume in our global project business in the Bathroom and Wellness Division. We 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 2017 financial year, we increased our revenue from project business in the Bathroom and Wellness Division by 21.7 %, thereby recording above-average growth. Incoming orders increased by as much as 37.4 % in the same period. The expansion of project business also represents an opportunity in the Tableware Division, where our sales activities are focused on cruise ships and care homes in addition to hotels and restaurants.

Opportunities through licence partnerships

Granting brand licences is another instrument we use to position the Villeroy & Boch brand outside our core business areas. Accordingly, licence business is a way of attracting new target groups and expanding our product range. 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.

Opportunities through digitalisation

Opportunities of digitalisation for marketing

Since 2013, we have massively expanded our structures and investments in the area of digitalisation. 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. This includes continuously improving our website, intensifying our social media activities, increasing the use of online marketing channels and optimising our web content for search engines. In this context, we continued to optimise the content of the Villeroy & Boch website in 2017, including additional search functions. In our professional portal, we have comprehensively revised our offering for professionals, adapting the functions provided to reflect the changed information behaviour of customers as a result of growing digitalisation in order to ensure that we offer an optimal user experience. Online marketing measures are also increasingly being used to advertise new product

ranges to the appropriate target group using state-of-the-art targeting. We also pressed ahead with and improved the activation of existing customers using channels such as e-mail marketing.

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. We expect to see above-average growth rates in online business in the years ahead, particularly as we address additional e-commerce platforms more intensively. To this end, we continued to expand the human resources capacities of the specialist departments in 2017 and created the necessary processes to make us fit for the future and to further intensify our cooperation with e-commerce platforms.

In the Bathroom and Wellness Division, digital services and tools play 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 a video of the allocated room using a smartphone or tablet PC for a lifelike 3D view. We also allow customers to plan their bathrooms in virtual reality, e.g. by using cardboard. In this way, the use of new technologies generates additional benefit for customers. Digital channels can also be used to reach both end customers and business customers (including architects, planners and plumbers) in a targeted and efficient manner. This allows us to generate valuable leads with additional revenue potential that we pass on to our dealers with the customer's permission. Additional contact paths via digital channels were established in the year under review in order to provide customers with optimal support during the information and buying phase.

Opportunities of digitalisation for production

Digitalisation is opening up new opportunities and vast potential for our production sites. Our task is to evaluate the wide range of potential applications of digitalisation for our production sites and successively implement them following a successful pilot phase. The current roll-out of standardised, consistent online IT systems and the networking of machines within the production process at our sanitary ware factories will form the basis for further uses of digitalisation.

We are continuing to leverage the available potential for improvement through statistical fault analysis and the stabilisation of process parameters. Predictive analytics are another element of the digitalisation environment. The basis for leveraging the resulting potential is provided by recording and collecting all of the relevant data for a product within the manufacturing process. At sanitary ware factories, all products are initially identified at measurement stations using barcodes. Quality-related data for each product is then stored in a central analysis system. This data may relate to ceramic composition, material flow, or the climatic conditions, tools used and process parameters applied in the production systems. The aim is to connect the data recorded in order to identify the influence, critical value ranges and interdependencies of the process parameters in the first instance, thereby allowing predictions about the risk of a faulty product at the end of the production process to be made as reliably as possible in the long term. In processes controlled using defined thresholds, products are discarded at an early stage if the probability of failure exceeds a predefined level. This prevents unnecessary process costs and improves energy efficiency, particularly with regard to the energy-intensive firing process. We expect the successive roll-out and continuous improvement of these analysis systems at all our plants to result in relevant long-term improvements in earnings.

State-of-the-art technologies are also being examined, such as the use of collaborative robots for largely manual and physically demanding steps within the production process. To this end, we are working

in close cooperation with robot manufacturers and research institutions such as the German Research Centre for Artificial Intelligence.

Opportunities of digitalisation for administration

Last but not least, digitalisation is having a positive effect in terms of efficiency in our administrative areas. The use of uniform IT systems, the performance enhancement of these systems and the minimisation of media discontinuities are making a significant contribution to continuous efficiency improvement. The optimisation potential lies in the Group-wide harmonisation and standardisation of repetitive processes across all areas of activity. In the areas of human resources, procurement and finance, our aims also include the bundled processing of business transactions at shared service centres. further digitalisation of processes using new digital tools is aimed at improving the performance and quality of our processes while also increasing efficiency.

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 the 2017 financial year, non-recurring income totalling € 14.9 million had been realised in various tranches, with only negligible net income relating to the 2017 financial year. The total income from the disposal of the plant properties is expected to be up to € 17 million.

We also expect the development of our property in Luxembourg to continue to offer additional earnings potential. Working in close cooperation with the City of Luxembourg, the entire plant site was converted into a mixed-use commercial and residential area in 2017. At the same time, we began work on a development plan together with the City of Luxembourg. Numerous studies and plans have been initiated, particularly with a view to the traffic concept and water engineering. A reliable estimate of the likely completion date and the earnings potential is not possible at the moment due to the extensive amount of work still required in connection with the development plan.

5 REPORT ON EXPECTED DEVELOPMENTS

We expect global economic expansion to remain robust in 2018. Dynamic economic development in the euro zone is likely to continue in the coming year on the back of a sustained upturn on the employment market and a financial environment that will remain favourable at least for the time being. This applies in particular to the German economy, which is fast approaching a boom in the light of production capacity utilisation that is already above-average. The growth prospects for the United Kingdom have been curbed by the uncertainty concerning future economic conditions as a result of Brexit. The solid growth in the US economy is expected to continue to be driven by private consumption and improved investment momentum in the period ahead. Additional fiscal policy stimuli will be generated by the US tax reform that was adopted in late 2017, which includes substantial tax reductions for companies and households. Our largest growth market, China, is expected to see above-average economic growth, albeit at a slightly slower rate.

European residential construction, which is a key indicator for successful business development in the Bathroom and Wellness Division, has enjoyed sustained positive performance in the recent past, and

we expect the transnational growth rate to be a little slower but still robust in 2018. However, limited fitting capacity in the sanitary ware industry is likely to continue to curb development. In terms of private consumption, which is one of the key factors for our Tableware business, we are anticipating solid development at slightly below the prior-year level. Visitor numbers at retail stores have been on the wane recently, and there are no signs of a sustained improvement for the time being. Traditional retail is expected to continue to be squeezed out by e-commerce.

The forecasts for the development of macroeconomic and industry-specific conditions presented here are based on the figures published by various relevant research institutions.

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 5 % in the 2018 financial year.

We are forecasting an improvement in our operating result (EBIT) of between 5 % and 10 % in 2018.

Our return on net operating assets is expected to amount to between 17 % and 18 % in the coming year.

Our operating investments in property, plant and equipment and intangible assets are forecast to amount to more than € 40 million in the 2018 financial year, thereby exceeding the investment volume recorded in 2017 (€ 35.9 million). Around 80 % of the investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 20 %. One focal point of our investment activity in the Bathroom and Wellness Division will be the targeted expansion of the technical capacities at our ceramic sanitary ware plants, particularly for the production of rimless WCs (DirectFlush) and high-quality washbasins for our premium collections. Activity will also focus on replacement investments and the continued improvement of working and other specific conditions in the important areas of environment, health, occupational safety and fire protection. In the Tableware Division, we will invest in the optimisation of our own store network and in the Merzig and Torgau production sites in the 2018 financial year.

The investment plan for the 2018 financial year also includes additional investments of almost € 4 million for “Mettlach 2.0”, a site development project that pertains mainly to the redevelopment of Villeroy & Boch’s headquarters, the Alte Abtei (Old Abbey) in Mettlach.

The forward-looking statements contained in this management report are based on assessments made by the Management Board of Villeroy & Boch AG to the best of its knowledge at the preparation date of the consolidated financial statements. They are subject to various risks and uncertainties as a matter of principle. Accordingly, actual results could deviate from expectations of future performance if any of the uncertainties listed in the report on risks and opportunities or other uncertainties were to occur or if the assumptions underlying the statements proved to be inaccurate.

6 OTHER DISCLOSURES

Disclosures on the acquisition of treasury shares

Disclosures on the acquisition of treasury shares in accordance with section 160 (1) no. 2 of the German Stock Corporation Act (AktG) can be found in note 19 of the notes to the consolidated financial statements.

Group declaration on corporate governance

With regard to the Group declaration on corporate governance required by section 315d in conjunction with section 289f of the German Commercial Code (HGB), reference is made to the version printed in the Corporate Governance Report contained in the 2017 Annual Report, which is available online at www.villeroyboch-group.com/en/investor-relations/corporate-governance.

7 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. Maximum limits are defined for total remuneration and the variable remuneration 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 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 2017 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 governed by Article 7 (9) of the Articles of Association and also comprises a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

8 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, 30 January 2018

Frank Göring

Nicolas Luc Villeroy

Andreas Pfeiffer

Dr. Markus Warncke

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CONSOLIDATED BALANCE SHEET

as of 31 December 2017

in € million **Assets**	Notes	**As of 31.12.2017**	**As of 31.12.2016**
Non-current assets			
Intangible assets	5	37,5	36,7
Property, plant and equipment	6	165,3	157,2
Investment property	7	8,2	8,9
Investments accounted for using the equity method	8	1,5	1,5
Other financial assets	9	14,8	10,1
		227,3	**214,4**
Other non-current assets	13	3,7	3,3
Deferred tax assets	10	37,3	47,4
		268,3	**265,1**
Current assets			
Inventories	11	154,6	141,4
Trade receivables	12	127,2	116,0
Other current assets	13	25,3	39,4
Income tax receivables	14	2,5	2,7
Cash and cash equivalents	15	108,7	111,2
		418,3	**410,7**
Non-current assets held for sale	16	**0,5**	**0,5**
Total assets		**687,1**	**676,3**
Equity and Liabilities			
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	12,7	-3,9
Revaluation surplus	21	-74,0	-74,1
		189,2	**172,5**
Equity attributable to minority interests	22	**5,4**	**0,1**
Total equity		**194,6**	**172,6**
Non-current liabilities			
Provisions for pensions	26	185,1	201,1
Non-current provisions for personnel	27	19,0	18,8
Other non-current provisions	28	11,3	16,2
Non-current financial liabilities	29	50,2	50,0
Other non-current liabilities	30	4,7	4,1
Deferred tax liabilities	10	3,4	4,3
		273,7	**294,5**
Current liabilities			
Current provisions for personnel	27	15,4	17,8
Other current provisions	28	20,0	19,8
Current financial liabilities	29	0,9	0,5
Other current liabilities	30	92,5	82,7
Trade payables	31	83,5	77,2
Income tax liabilities		6,5	11,2
		218,8	**209,2**
Total liabilities		**492,5**	**503,7**
Total equity and liabilities		**687,1**	**676,3**

CONSOLIDATED INCOME STATEMENT

for the period 1 January to 31 December 2017

in € million	Notes	2017 01.01.- 31.12.	2016 01.01.-31.12.
Revenue	32	**836,5**	**820,1**
Costs of sales	33	-466,4	-456,1
Gross profit		**370,1**	**364,0**
Selling, marketing and development costs	34	-275,3	-270,0
General administrative expenses	35	-47,2	-45,6
Other operating income	36	17,0	20,4
Other operating expenses	37	-15,3	-21,3
Result of associates accounted for using the equity method	38	0,5	0,1
Operating result (EBIT)		**49,8**	**47,6**
Interest income and other finance income	39	1,3	1,4
Interest expenses and other finance expenses	40	-5,7	-7,4
Financial result		**-4,4**	**-6,0**
Earnings before taxes		**45,4**	**41,6**
Income taxes	41	-15,6	-12,5
Group result		**29,8**	**29,1**
Thereof attributable to:			
Villeroy & Boch AG shareholders		29,9	29,1
Minority interests	42	-0,1	0,0
Group result		**29,8**	**29,1**
Earnings per share		In Euro	In Euro
Earnings per ordinary share	43	1,11	1,08
Earnings per preference share	43	1,16	1,13

During the reporting period there were no dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 31 December 2017

in € million	2017	2016
Group result	**29,8**	**29,1**
Other comprehensive income		
● Items to be reclassified to profit or loss:		
Gains or losses on cash flow hedges	0,4	2,6
Gains or losses on translations of exchange differences	-6,1	-1,2
Gains or losses on value changes of securities	0,1	0,0
Deferred income tax effect on items to be reclassified to profit or loss	-0,6	-0,9
● Items not to be reclassified to profit or loss:		
Actuarial gains or losses on defined benefit plans	9,0	-14,3
Deferred income tax effect on items not to be reclassified to profit or loss	-3,0	4,2
Total other comprehensive income	**-0,2**	**-9,6**
Total comprehensive income net of tax	**29,6**	**19,5**
Thereof attributable to:		
Villeroy & Boch AG shareholders	30,0	19,5
Minority interests	-0,4	0,0
Total comprehensive income net of tax	**29,6**	**19,5**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 31 December 2017

in € million	Equity attributable to Villeroy & Boch AG shareholders						Equity attributable to minority	**Total equity**
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	**Total**		
Notes	17	18	19	20	21		22	
As of 01.01.2016	**71,9**	**193,6**	**-15,0**	**-20,8**	**-64,5**	**165,2**	**0,1**	**165,3**
Group result				29,1		29,1	0,0	29,1
Other comprehensive income					-9,6	-9,6		-9,6
Total comprehensive income net of tax				**29,1**	**-9,6**	**19,5**	**0,0**	**19,5**
Dividend payments				-12,2		-12,2		-12,2
As of 31.12.2016	**71,9**	**193,6**	**-15,0**	**-3,9**	**-74,1**	**172,5**	**0,1**	**172,6**
As of 01.01.2017	**71,9**	**193,6**	**-15,0**	**-3,9**	**-74,1**	**172,5**	**0,1**	**172,6**
Group result				29,9		29,9	-0,1	29,8
Other comprehensive income					0,1	0,1	-0,3	-0,2
Total comprehensive income net of tax				**29,9**	**0,1**	**30,0**	**-0,4**	**29,6**
Dividend payments				-13,3		-13,3		-13,3
Acquisition of non-controlling interests				0,0		0,0	5,7	5,7
As of 31.12.2017	**71,9**	**193,6**	**-15,0**	**12,7**	**-74,0**	**189,2**	**5,4**	**194,6**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 31 December 2017

in € million	Notes	2017 01.01.-31.12.	2016 01.01.-31.12.
Group result		29,8	29,1
Depreciation of non-current assets	44	26,2	27,8
Change in non-current provisions		-10,2	-7,7
Profit from disposal of fixed assets		-0,4	0,8
Change in inventories, receivables and other assets		-9,8	12,5
Change in liabilities, current provisions and other liabilities		8,8	12,4
Taxes paid/received in the financial year		-10,2	-4,8
Interest paid in the financial year		-3,1	-2,9
Interest received in the financial year		0,9	0,9
Other non-cash income/expenses	48	9,0	9,8
Cash flow from operating activities	48	**41,0**	**77,9**
Purchase of intangible assets, property, plant and equipment		-35,9	-26,2
Investment in non-current financial assets and cash payments		-8,2	-0,5
Payments for the acquisition of consolidated companies	2	-3,3	-
Cash receipts from disposals of Gustavsberg´s assets		2,5	2,1
Cash receipts from disposals of fixed assets		17,6	4,7
Cash flow from investing activities	49	**-27,3**	**-19,9**
Cash proceeds from long-term borrowing	29	13,3	0,0
Cash repayments of amounts borrowed	29	-13,0	-0,1
Dividends paid to minority shareholders	22	-1,1	-
Dividends paid to shareholders of Villeroy & Boch AG	23	-13,3	-12,2
Cash flow from financing activities	50	**-14,1**	**-12,3**
Sum of cash flows		**-0,4**	**45,7**
Balance of cash and cash equivalents as of 01.01.		**111,2**	**65,6**
Change based on total cash flows		-0,4	45,7
Changes due to exchange rates		-2,1	-0,1
Net increase in cash and cash equivalents		**-2,5**	**45,6**
Balance of cash and cash equivalents as of 31.12.	15+51	**108,7**	**111,2**

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.

In line with section 315e of the HGB (German Commercial Code), the consolidated financial statements as at 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are supplemented by additional explanatory notes in accordance with HGB 315e 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 Bundesanzeiger (Federal Gazette).

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 30 January 2018. 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, unchanged from the previous year, 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 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 and by in-house staff. The experts contracted typically calculate market values using the gross rental method. In these cases, the market value is also calculated using the asset value method as a control. The basis for the internal determination of market values are mainly the official comparative prices from the land value maps of expert committees, supplemented by property-specific fair values for the respective structures.

Investments accounted for using the equity method

An associate is a company over which the Villeroy & Boch Group has significant influence. The Villeroy & Boch Group has significant influence when it has the opportunity to participate in the financial and operating policy decisions of the investee without control or joint management. 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. Measurement is performed using the standard cost method. For the majority of raw materials, supplies and merchandise, cost is determined using the moving average method and contains all expenses incurred in order to bring such inventory items to their present location and condition. Value allowances are recognised to an appropriate extent for inventory risks arising from the storage period and/or impaired realisability. Net realisable value is defined as the proceeds that are expected to be realised less any costs incurred prior to the sale. In the event of an increase in the net realisable value of inventories written down in prior periods, write-downs are reversed in profit or loss as a reduction of the cost of goods sold in the statement of comprehensive income.

Receivables

Trade receivables and other current receivables are recognised at cost on acquisition. Impairment losses are recognised if the carrying amount of the receivable is higher than the present value of the future cash inflow. Impairment 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 are 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 effective 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 calculated in the individual countries on the basis of the expected tax rates at the realisation date. These comply with the legislation in force or substantially enacted as at the end of the reporting period.

Summary of selected valuation 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. At the end of the year under review, there were no assumptions concerning the future or other major sources of estimation uncertainty at the end of the reporting period with a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next 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 IFRS regulations 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 IFRS regulations requiring mandatory application for the first time in the 2017 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on developments within the IFRS Framework can be found in note 62.

2. Basis of consolidation

In addition to Villeroy & Boch AG, the consolidated financial statements include all 13 (previous year: 13) German and 41 (previous year: 40) foreign subsidiaries that Villeroy & Boch AG – directly or indirectly – controls and has included in consolidation. The change in the basis of consolidation of the Villeroy & Boch Group was as follows:

Villeroy & Boch AG and consolidated companies:	Germany	Abroad	Total
As at 1 January 2017	13	40	53
Additions due to acquisition	-	1	1
As at 31 December 2017	13	41	54

Addition due to business acquisition:

Villeroy & Boch AG acquired 45.36 % of shares in Argent Australia Pty. Ltd., Brisbane, Australia, on 23 June 2017. The company, which has 82 employees, primarily sells and distributes bathroom and kitchen fittings to specialist retailers and project customers. The Villeroy & Boch Group is a long-standing supplier of products from the Bathroom and Wellness Division to this company.

The shares assumed in the course of the acquisition were acquired with equivalent voting rights. Furthermore, there are options for the future acquisition of further shares partly subject to certain condi-

tions. In particular, an option for the acquisition of a further 10 % of shares can be exercised at any time. The Villeroy & Boch Group could therefore quickly acquire a simple majority of votes that, according to the Articles of Association and the Shareholders' Agreement, would be sufficient to determine key business activities unilaterally. Argent Australia Pty. Ltd. must therefore be included in the Villeroy & Boch consolidated financial statements.

Costs of the acquisition

The net purchase price of € 4.5 million was settled in cash as follows:

in € million	2017
Purchase price	5,6
Plus variable, future purchase price components (a)	1,2
Total purchase price (forecast)	**6,8**
Less dividend payment received (see note 22)	-1,1
Costs of the acquisition	**5,7**

(a) The seller will receive additional remuneration for the next five years on the basis of the net income generated. This variable remuneration is capped at AUD 1.8 million. This corresponds to a current forecast figure of € 1.2 million, which was included in the total purchase price. A corresponding liability was recognised in the same amount.

Assets and liabilities acquired

All acquired assets and liabilities were carried at fair value as follows as at the acquisition date:

in € million	Note	23.06.2017
Intangible assets	5	0,5
Property, plant and equipment	6	0,9
Inventories	11	11,2
Trade receivables	12	5,1
Other non-current and current assets	13	1,0
Cash and cash equivalents	15	2,3
Assets acquired		21,0
Non-controlling interests	22	5,3
Provisions for pensions	26	0,0
Non-current and current provisions for personnel	27	0,8
Other non-current and current provisions	28	0,8
Financial liabilities	29	0,6
Miscellaneous liabilities	30	8,7
Liabilities assumed		16,2
Fair value of net assets		**4,8**
Goodwill	5	0,9
Costs of the acquisition		5,7

The orders on hand acquired were recognised as an intangible asset of € 0.4 million (AUD 0.6 million) on initial measurement. This will be written down over the projected realisation period, i.e. by mid-2019 at the latest.

Goodwill arising from acquisition

The acquisition gave rise to goodwill of € 0.9 million. This essentially represents the customer directory and the market and industry knowledge of Argent's employees. These benefits cannot be separated from goodwill.

As a component of the Bathroom and Wellness cash-generating unit, the goodwill resulting from the acquisition was taken into account in the current impairment test. As in the previous year, the value in use exceeded the Division's net assets (see note 5). The acquisition did not give rise to an impairment loss.

Acquisition of non-controlling interests

Non-controlling interests (54.64 % shareholding in Argent Australia Pty. Ltd.) were recognised as at the acquisition date. They were measured at € 5.2 million including the net assets acquired and reported in equity under non-controlling interests in the consolidated statement of financial position (see note 22). Transactions with non-controlling interests that do not result in a loss of control, such as a dividend payment, are recognised in equity as an equity transaction (see note 22).

Net cash outflow from acquisition

in € million	2017
Purchase price	5,6
Less cash assumed with the acquisition	-2,3
Net cash outflow from acquisition	**3,3**

Effect on 2017 consolidated financial statements

Since first-time consolidation, Argent Australia Pty. Ltd. generated revenue with external customers of € 10.1 million and a result of € -0.2 million. Other Group companies generated revenue of € 1.7 million with the newly acquired company over the same period. The adjusted revenue of Argent Australia Pty. Ltd. within the Villeroy & Boch Group amounts to € 8.4 million. The company generated revenue of € 24.6 million and a result of € 0.4 million in the period from 1 January 2017 to 31 December 2017.

Other disclosures

The primary purposes and registered offices of the individual companies of the Villeroy & Boch Group are as follows:

Number of Group companies	Germany	Abroad	2017	Germany	Abroad	2016
Shareholding: 100%						
Division						
Bathroom and Wellness	3	28	**31**	3	28	**31**
Tableware	5	18	**23**	5	18	**23**
Other business purposes	6	3	**9**	6	3	**9**
Reconciliation	-1	-10	**-11**	-1	-10	**-11**
Total	**13**	**39**	**52**	**13**	**39**	**52**
Shareholding: 50% to 99%						
Bathroom and Wellness	-	2	**2**	-	1	**1**
Group total	**13**	**41**	**54**	13	40	53

Property and operator companies for restaurants in the Villeroy & Boch Group are shown in the "Other business purposes" category. Some companies, such as Villeroy & Boch AG, operate in both divisions. Multiple entries are eliminated in the "Reconciliation" line.

Details of the subsidiaries not wholly owned in which the Villeroy & Boch Group holds significant non-controlling interests can be found in note 22. Further information on the structure of the Villeroy & Boch Group can be found under "Business model of the Group" in the management report.

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:

The Villeroy & Boch Group is exercising the exemption from the preparation, audit and disclosure of separate financial statements and possibly a separate management report provided for by section 264(3) HGB for nearly all German subsidiaries in the 2017 financial year. The formal requirements have been satisfied by the respective Group company and by Villeroy & Boch AG. The companies in question are indicated accordingly in the list of shareholdings (see note 61). The consolidated financial statements of Villeroy & Boch AG are the exempting consolidated financial statements for these companies.

An audit by an external auditor was waived in accordance with section 479A UK of the 2006 UK Companies Act for Villeroy & Boch (U.K.) 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., Oosterhout, 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.

In accordance with section 314 of the Luxembourg Commercial Code, no consolidated financial statements or Group management report are prepared for Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg. The accounting data of the company is included as a consolidated subsidiary in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Luxembourg commercial and companies 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. Potential voting rights are also taken into consideration. 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 (see note 1 – Accounting policies: Intangible Assets). 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.

Non-controlling interests in the acquired company are measured in the amount of the corresponding share of the identifiable net assets of the acquired company. They are reported in equity under non-controlling interests in the consolidated statement of financial position of Villeroy & Boch AG (see note 22). Transactions with non-controlling interests that do not result in a loss of control are recognised in equity as an equity transaction.

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.

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. 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)). They continue to be reported in this item of the statement of financial position even in the event of a partial repayment of the net investment. When

consolidated companies leave the consolidated group, any exchange rate differences previously not affecting the net income are reversed to profit or loss.

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

Currency		Exchange rate at end of		Average exchange rate	
€1 =		2017	2016	2017	2016
Chinese Renminbi Yuan	CNY	7,80	7,32	7,63	7,31
Hungarian forint	HUF	310,33	309,83	309,18	312,32
Mexican peso	MXN	23,66	21,77	21,21	20,47
Norwegian krone	NOK	9,84	9,09	9,28	9,33
Romanian new leu	RON	4,65	4,54	4,56	4,49
Russian rouble	RUB	69,39	64,30	65,61	75,19
Swedish krona	SEK	9,84	9,55	9,63	9,42
Thai baht	THB	39,12	37,73	38,29	38,98
US dollar	USD	1,20	1,05	1,13	1,10

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. 2016	**19,8**	**39,8**	**59,6**
Currency adjustments	0,0	-0,1	**-0,1**
Additions	1,3	-	**1,3**
Disposals	-1,8	-	**-1,8**
As at 1 Jan. 2017	**19,3**	**39,7**	**59,0**
Currency adjustments	0,0	-0,1	**-0,1**
Additions	1,0	-	**1,0**
Additions from acquisitions	0,4	0,9	**1,3**
Disposals	-0,6	-	**-0,6**
As at 31 Dec. 2017	**20,1**	**40,5**	**60,6**
Accumulative amortisation and impairment			
As at 1 Jan. 2016	**13,7**	**8,8**	**22,5**
Currency adjustments	0,0	-	**0,0**
Amortisation	0,8	-	**0,8**
Impairment losses	0,1	-	**0,1**
Disposals	-1,1	-	**-1,1**
As at 1 Jan. 2017	**13,5**	**8,8**	**22,3**
Currency adjustments	0,0	-	**0,0**
Amortisation	1,0	-	**1,0**
Disposals	-0,2	-	**-0,2**
As at 31 Dec. 2017	**14,3**	**8,8**	**23,1**
Residual carrying amounts			
As at 31 Dec. 2017	**5,8**	**31,7**	**37,5**
As at 31 Dec. 2016	5,8	30,9	36,7

A description of "additions due to business acquisition" can be found in note 2.

The asset group "Concessions, patents, licences and similar rights" essentially includes key money capitalised by subsidiaries for rented retail space worth € 2.8 million (previous year: € 2.9 million), capitalised software licences in the amount of € 1.8 million (previous year: € 2.0 million) and emission allowances of € 1.0 million (previous year: € 0.8 million).

Goodwill in the amount of € 31.7 million (previous year: € 30.9 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The increase is essentially due to the first-time consolidation of Argent Australia Pty. Ltd. (see note 2). 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 2021 were discounted using an interest rate before income tax of 6.4 % p.a. (previous year: 6.4 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 5.8 % p.a. (previous year: 5.9 % 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	Total
Accumulative cost					
As at 1 Jan. 2016	**198,9**	**323,4**	**97,9**	**13,5**	**633,7**
Currency adjustments	-0,5	-0,7	-0,3	-0,1	**-1,6**
Additions	1,8	5,2	5,5	12,4	**24,9**
Disposals	-3,9	-6,4	-7,0	-0,2	**-17,5**
Reclassifications	1,1	9,3	0,9	-11,3	**0,0**
Transfer to asset classified as held for sale	-4,0	-	-	-	**-4,0**
As at 1 Jan. 2017	**193,4**	**330,8**	**97,0**	**14,3**	**635,5**
Currency adjustments	-2,0	-3,0	-1,4	-0,4	**-6,8**
Additions from acquisitions	-	-	0,9	-	**0,9**
Additions	1,2	7,6	5,6	20,4	**34,8**
Disposals	-3,7	-8,4	-7,6	-	**-19,7**
Reclassifications	0,5	6,9	0,3	-7,7	**0,0**
As at 31 Dec. 2017	**189,4**	**333,9**	**94,8**	**26,6**	**644,7**
Accumulative depreciation and impairment					
As at 1 Jan. 2016	**129,1**	**264,5**	**78,9**	**-**	**472,5**
Currency adjustments	0,1	-0,4	-0,2	-	**-0,5**
Depreciation	4,1	14,9	6,7	-	**25,7**
Disposals	-2,9	-6,3	-6,6	-	**-15,8**
Reclassifications	-0,1	-	0,1	-	**0,0**
Transfer to asset classified as held for sale	-3,6	-	-	-	**-3,6**
As at 1 Jan. 2017	**126,7**	**272,7**	**78,9**	**-**	**478,3**
Currency adjustments	-1,0	-2,3	-1,2	-	**-4,5**
Depreciation	3,4	14,4	6,7	-	**24,5**
Disposals	-3,5	-8,2	-7,2	-	**-18,9**
Reclassifications	-	-	-	-	**-**
As at 31 Dec. 2017	**125,6**	**276,6**	**77,2**	**-**	**479,4**
Residual carrying amounts					
As at 31 Dec. 2017	**63,8**	**57,3**	**17,6**	**26,6**	**165,3**
As at 31 Dec. 2016	66,7	58,1	18,1	14,3	157,2

A description of "additions due to business acquisition" can be found in note 2.

Property, plant and equipment amounting to € 34.8 million was acquired in the period under review (previous year: € 24.9 million). At € 24.1 million (previous year: € 15.3 million), our investments primarily concentrated on the Bathroom and Wellness Division. We mainly invested in the modernisa-

tion of our production. The focus was on sanitary ware production, mainly in Mettlach, Hódmezövásárhely (Hungary), Ramos (Mexico) and Valence d'Agen (France). Furthermore, moulds were acquired for new wellness products in Roden (Netherlands) and a new metal lathe was purchased in Vargarda (Sweden).

We invested € 4.6 million (previous year: € 5.0 million) in the Tableware Division. New machinery and tools valued at € 2.0 million (previous year: € 1.9 million) were acquired for production in our Merzig and Torgau plants. Moreover, we invested in the further optimisation of our retail network, for example renovating and opening stores in the UK, Australia and Switzerland.

Property, plant and equipment amounting to € 6.1 million (previous year: € 4.6 million) was acquired for central functions. We invested € 4.1 million of this in total in the redevelopment of our headquarters in Mettlach.

Facilities worth € 7.7 million were completed and integrated into operational value added in the reporting period (previous year: € 11.3 million). € 3.3 million related to Germany, where – among other things – a CNC processing centre (€ 0.9 million) and two new toilet presses (€ 0.6 million) began operation at the Mettlach sanitary ware plant. The production site in Mondial used new facilities worth € 1.4 million. A majority was accounted for by new workbenches for the manufacture of DirectFlush WCs. In the previous year, new facilities were used for the first time mainly in Germany (€ 3.7 million) and Hungary (€ 1.8 million).

The disposals in the financial year of € 19.7 million (previous year: € 17.5 million) and the cumulative depreciation of € 18.9 million (previous year: € 15.8 million) result predominantly from the scrapping of assets already written down in full that can no longer be used.

A part of the former production location in Selb with a residual carrying amount of € 0.4 million was reclassified to "Non-current assets held for sale" in the previous year (see note 16).

Leased property, plant and equipment with a carrying amount of € 0.4 million (first-time consolidation: € 0.5 million) were included in "Other equipment, operating and office equipment" for the first time as a result of the integration of Argent Australia Pty. Ltd. (see note 2). Argent Australia Pty. Ltd. essentially leases motor vehicles. Write-downs of € 0.1 million were incurred in the reporting period. Payment obligations from future lease instalments are recognised as a liability, though the future interest expense is not taken into account (see note 28). Apart from these finance leases, the Group had only leases that qualify as operating leases according to their economic substance.

Operating leases

In the 2017 financial year, rental expenses under operating leases amounted to € 34.2 million (previous year: € 37.9 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 € 0.6 million was generated from subletting unused properties with current leases (previous year: € 0.6 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. 2017	18,3	27,6	6,3
As at 31 Dec. 2016	21,3	27,6	4,5
Future sublease income			
As at 31 Dec. 2017	0,6	0,8	-
As at 31 Dec. 2016	0,6	0,8	-

7. Investment property

Investment property developed as follows:

in € million	Land	Buildings	Investment property 2017	Investment property 2016
Accumulative cost				
As at 1 Jan.	**0,6**	**73,9**	**74,5**	**86,4**
Disposals	-0,1	0,0	**-0,1**	-11,9
Additions	0,1	-	**0,1**	-
As at 31 Dec.	**0,6**	**73,9**	**74,5**	**74,5**
Accumulative depreciation and impairment				
As at 1 Jan.	**-**	**65,6**	**65,6**	**75,0**
Depreciation	-	0,7	**0,7**	0,8
Disposals	-	0,0	**0,0**	-10,2
As at 31 Dec.	**-**	**66,3**	**66,3**	**65,6**
Residual carrying amounts				
As at 31 Dec.	**0,6**	**7,6**	**8,2**	**8,9**

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

Three smaller plots of land were sold in Lübeck-Dänischburg on 12 May 2017. We sold a section of our former tableware plant in Luxembourg in the previous year.

Following the aforementioned sales transaction, the total market value of the properties reported in this item as at 31 December 2017 was € 42.2 million (previous year: € 43.2 million). A market value of € 28.5 million (previous year: € 28.5 million) is based on an independent valuation report. 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	31.12.2017	31.12.2016
Rental income	0,7	0,8
Property management and similar expenses	-0,3	-0,5

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. 2017	0,5	1,8	5,5
As at 31 Dec. 2016	0,5	1,7	5,9

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, Gurgaon, India, markets Tableware products in India. A further unlisted company domiciled in Germany, to which section 313(3) HGB applies, is not allocated to a business unit.

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

in € million	2017	2016
As at 1 Jan.	**1,5**	**1,5**
Pro rata results of associated companies	0,5	0,5
Distribution to the Villeroy & Boch Group	-0,5	-0,5
As at 31 Dec.	**1,5**	**1,5**

The Villeroy & Boch Group holds 50 % of the voting rights in each company. There were no joint arrangements within the meaning of IFRS 11 at the reporting date.

9. Other financial assets

Other financial assets include:

in € million	31.12.2017	31.12.2016
Equity investments (a)	**2,1**	2,1
Loans (b)	**4,0**	6,5
Securitites (c)	**8,7**	1,5
Total	**14,8**	**10,1**

(a) A 2.29 % holding in the share capital of V&B Fliesen GmbH, Merzig, with a carrying amount of € 2.1 million (previous year: € 2.1 million) is reported under equity investments. The carrying amount was impaired in the previous year.

(b) 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 Swedish krona, has an equivalent value of € 2.1 million (previous year: € 4.5 million) and a remaining term of four years. A repayment of € 2.4 million was made in December 2017. 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	2017	2016
Gross carrying amount as at 31 Dec.	**4,0**	**6,5**
of which: Neither impaired nor past due as at end of reporting period	**4,0**	**6,5**
Due within one year	0,1	2,6
Due in two to five years	2,6	2,6
Due in more than five years	1,3	1,3

(c) Listed bonds, equities and investment funds are recognised as securities at their current market value in accordance with IAS 39, not affecting net income. Changes in value are recognised in equity in the revaluation surplus (see note 21(d)). The investments break down as follows:

in € million	31.12.2017	31.12.2016
Special assets provided by the ordinary shareholders	**1,5**	1,5
Other free assets	**7,2**	-
Total	**8,7**	1,5

On the occasion of the 100-year anniversary of the Mettlach mosaic factory on 17 January 1970, the ordinary shareholders provided a fund intended to pay for the professional education and training of employees of the Villeroy & Boch Group and their families, the promotion of research and science and for the Investor Relations and Corporate Governance of the Villeroy & Boch Group. The capital is invested to achieve an optimal return.

These items are assigned to level 1 in the fair value hierarchy of IFRS 13.

10. Deferred tax assets and liabilities

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

in € million	31.12.2017	31.12.2016
Deferred tax assets from temporary differences	24,8	31,9
Deferred tax assets from tax loss carryforwards	12,5	15,5
Deferred tax assets	**37,3**	**47,4**
Deferred tax liabilities	**3,4**	**4,3**

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:

		Deferred tax assets		Deferred tax liabilities	
in € million	Note	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Intangible assets	5	0,1	0,3	1,2	1,2
Property, plant and equipment	6	5,0	4,7	2,5	2,3
Financial assets	9	0,1	0,0	0,1	0,3
Inventories	11	0,0	0,0	1,6	1,0
Other assets	13	0,1	0,1	0,4	0,9
Special tax items		0,0	0,1	4,2	4,3
Provisions for pensions	26	26,9	29,4	3,6	2,0
Other provisions	28	2,5	3,6	0,0	0,0
Other liabilities		1,7	1,8	1,4	0,4
Subtotal		**36,4**	**40,0**	**15,0**	**12,4**
Offsetting of deferred tax assets/liabilities		-11,6	-8,1	-11,6	-8,1
Deferred taxes from temporary differences		**24,8**	**31,9**	**3,4**	**4,3**

The € 7.1 million reduction in deferred tax assets from temporary differences to € 24.8 million is attributable to the reduction in deferred taxes on provisions for pensions, which mainly resulted from the reduction in the discount rate (see note 26), as well as the increased offsetting against deferred tax liabilities.

Deferred tax assets from tax loss carryforwards amounted to € 12.5 million (previous year: € 15.5 million) and related to loss carryforwards at foreign Group companies.

The loss carryforwards are subject to restrictions on offsetting. As such, no deferred tax assets are recognised for loss carryforwards whose utilisation due to future taxable income is not probable. As a result, deferred taxes of € 13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards. Loss carryforwards of € 79.3 million (previous year: € 65.1 million) are subject to restrictions on offsetting (periods of between 5 and 20 years).
Based on impairment testing for the period from 2018 to 2022, deferred tax assets from tax loss carryforwards were written down in the amount of € 16.4 million (previous year: € 20.0 million).

11. Inventories

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

in € million	31.12.2017	31.12.2016
Raw materials and supplies	21,1	20,9
Work in progress	17,5	16,3
Finished goods and goods for resale	116,0	104,2
Carrying amount	**154,6**	**141,4**

The increase in inventories by € 13.2 million to € 154.6 million is due mainly to the first-time inclusion of the inventories of Argent Australia Pty. Ltd. in the amount of € 11.2 million (see note 2). These finished goods and merchandise are assigned to the Bathroom and Wellness Division.

Inventories were broken down between the individual divisions as follows:

in € million	31.12.2017	31.12.2016
Bathroom and Wellness	96,4	83,3
Tableware	58,2	58,1
Total	**154,6**	**141,4**

The write-downs on inventories decreased by € 0.7 million in the year under review, from € 16.1 million to € 15.4 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	31.12.2017	31.12.2016
Germany	26,8	23,7
Rest of euro zone	29,0	29,4
Rest of world	74,5	66,0
Gross carrying amount	**130,3**	**119,1**
Write-downs	-3,1	-3,1
Carrying amount	**127,2**	**116,0**

€ 89.8 million (previous year: € 79.3 million) relate to the Bathroom and Wellness Division and € 37.4 million (previous year: € 36.7 million) to the Tableware Division.

The trade receivables of our new Group company Argent Australia Pty. Ltd. (see note 2) of € 4.0 million as at 31 December 2017 are included in the "Rest of world" region and allocated to the "Bathroom and Wellness" division. None of the acquired receivables were impaired. They are expected to be recoverable.

The receivables were composed as follows:

in € million	2017	2016
Items neither impaired nor past due	**101,6**	**90,4**
Not impaired but past due	**16,3**	**14,7**
Customer in default for 90 days or less	14,9	13,4
Customer in default between 91 and 360 days	1,3	1,2
Customer in default for 361 days or more	0,1	0,1
Impaired but not past due[1)]	**9,0**	**11,0**
Impaired and past due	**3,4**	**3,0**
Total gross amount	**130,3**	**119,1**
Write-downs	-3,1	-3,1
Net carrying amount	**127,2**	**116,0**

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 trade credit insurance or recoverable collateral for 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 decreased by € 2.0 million to € 9.0 million in the reporting year. This was mainly due to an increase in the volume of receivables covered by trade credit insurance. A flat-rate write-down was recognised on the uninsured share for general risk provisioning.

As at 31 December 2017 a total of € 2.7 million (previous year: € 2.7 million) of impairment related to the impaired and past due category and € 0.4 million (previous year: € 0.4 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 31.12.2017	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount 31.12.2016	Remaining term Less than 1 year	Remaining term More than 1 year
Fair values of hedging instruments	**4,5**	2,7	1,8	**4,0**	2,7	1,3
Advance payments and deposits	**3,0**	1,1	1,9	**3,1**	1,1	2,0
Miscellaneous other assets	**10,0**	10,0	-	**22,8**	22,8	-
Total financial instruments within meaning of IAS 3	**17,5**	**13,8**	**3,7**	**29,9**	**26,6**	**3,3**
Other tax receivables	**9,4**	9,4	-	**10,7**	10,7	-
Prepaid expenses	**2,1**	2,1	-	**2,1**	2,1	-
Total other assets	**29,0**	**25,3**	**3,7**	**42,7**	**39,4**	**3,3**

* Financial instruments are described in note 53.

As at the end of the reporting period, the Group's hedging instruments comprised currency futures (€ 3.4 million; previous year: € 2.7 million) and brass swaps (€ 1.1 million; previous year: € 1.3 million).

The Group has recognised security deposits in the amount of € 2.0 million (previous year: € 2.1 million) that were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

"Miscellaneous other assets" include receivables from the French government from the "crédit d'impôt pour la compétetivité et l'emploi", receivables from other investees, creditors with debit balances, rental receivables, receivables from employees and a number of individual items. In the first half of 2017, the City of Luxembourg paid the purchase price of € 14.3 million for the acquisition of a section of our former tableware plant in Luxembourg that was agreed on 15 December 2016.

Other tax receivables in the amount of € 9.4 million (previous year: € 10.7 million) primarily include VAT credit of € 6.8 million (previous year: € 8.7 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 2017. 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 € 2.5 million (previous year: € 2.7 million) primarily include outstanding corporate income tax assets. € 1.6 million (previous year: € 2.6 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	31.12.2017	31.12.2016
Cash on hand incl. cheques	0,5	0,4
Current bank balances	48,6	41,2
Cash equivalents	59,6	69,6
Total cash and cash equivalents	**108,7**	**111,2**

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. In this balance-sheet item we account:

in € million	31.12.2017	31.12.2016
Property		
(a) in Sweden	-	0,1
(b) in Germany	0,5	0,4
Total non-current assets held for sale	**0,5**	**0,5**

The items developed as follows in the year under review:

(a) In May 2017, additional properties at the Gustavsberg site in Sweden with a carrying amount of € 0.1 million were sold to the IKANO Bostad Group. Therefore no Swedish properties were accounted for as held for sale as at the end of the reporting period (previous year: € 0.1 million). A modern assembly plant with an integrated logistics centre was constructed in Gustavsberg. Areas of our former plant site not required for production were gradually sold to third parties for residential development. Income of € 0.0 million (previous year: € 1.7 million) was generated in the 2017 financial year.

(b) A long-term development agreement for a section of the former production site in Selb was signed with an external project developer in July 2017. The sale option was cancelled in favour of the new agreement. The carrying amount of the assets in question of € 0.4 million was transferred from property, plant and equipment in the previous year (see note 6).

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	2017	2016
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 December – 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. of the German Stock Corporation Act (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 € 12.7 million (previous year: € -3.9 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	2017	2016
As at 1 Jan.	**-3,9**	**-20,8**
Consolidated earnings attributable to Villeroy & Boch AG shareholders	29,9	29,1
Dividend distribution	-13,3	-12,2
As at 31 Dec.	**12,7**	**-3,9**

21. Revaluation surplus

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

in € million	2017	2016	Change
Items to be reclassified to profit or loss:			
Currency translation of financial statements of foreign group companies (a)	-3,3	-1,6	-1,7
Currency translation of long-term loans classified as net investments in foreign group companies (b)	-7,5	-3,5	-4,0
Cash flow hedges (c)	3,5	3,1	0,4
Valuation results on securities (d)	0,1	0,0	0,1
Deferred tax effect on items to be reclassified to profit or loss (e)	-5,2	-4,5	-0,7
Items not to be reclassified to profit or loss:			
Actuarial gains and losses on defined benefit obligations (f)	-86,8	-95,8	9,0
Deferred tax effect on items not to be reclassified to profit or loss (g)	25,2	28,2	-3,0
As at 31 December	**-74,0**	**-74,1**	**0,1**

(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). The translation of these financial statements resulted in a net effect of € -1.7 million in the 2017 financial year (previous year: € 0.7 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 € -4.0 million (previous year: € -1.9 million).

(c) Reserve for cash flow hedges

The Villeroy & Boch Group uses financial derivatives to reduce the risks of planned operating currency and brass transactions (see note 53). These hedges are reported at fair value in the statement of financial position as other assets (see note 13) or other liabilities (see note 30). Changes in fair value amounted to € 2.1 million in the period under review (previous year: € 3.4 million). Cumulative prior-period changes in value in the amount of € -1.7 million (previous year: € -0.8 million) were reclassified to profit or loss in the year under review as the hedged item was also recognised in profit or loss at the same time. The net change in equity in the period under review amounted to € 0.4 million (previous year: € 2.6 million).

(d) Reserve for valuation results on securities

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

(e) Reserve for deferred tax effect 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	2017	2016
As at 1 January	-4,5	-3,6
Additions	-1,3	-0,4
Disposals	0,6	-0,5
As at 31 December	**-5,2**	**-4,5**

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 € 9.0 million from € -95.8 million to € -86.8 million (see note 26).

(g) Reserve for deferred tax effect 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 € -3.0 million (previous year: € 4.2 million).

22. Equity attributable to minority interests

Non-controlling interests in equity amounted to € 5.4 million (previous year: € 0.1 million). The intra-year acquisition of the subsidiary Argent Australia Pty. Ltd. increased non-controlling interests in equity by € 5.3 million on 31 December 2017 (see note 2). Non-controlling interests in Argent Australia Pty. Ltd. therefore amount to 54.64 %. The new subsidiary distributed a dividend of € 2.2 million (converted) to all shareholders following our acquisition. Our share of the dividend of € 1.1 million was offset against the carrying amount of the equity investment (see note 2). There are non-controlling interests in one additional group company (see note 61).

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 2017 amounted to € 20.8 million. Taking into account the profit carried forward of € 5.6 million, the unappropriated surplus amounts to € 26.4 million.

At the next General Meeting of Shareholders on 23 March 2018, 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:

0,52 €	per ordinary share
0,57 €	per preference share

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

Ordinary share:	**7,3**	Mio. €
Preference share:	**8,0**	Mio. €
	15,3	Mio. €

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:

	04 April 2017		**04 April 2016**	
Eligible share class	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0,48	6,7	0,44	6,2
Preference shares	0,53	6,6	0,49	6,0
		13,3		12,2

24. Capital management

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

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

in € million	**31.12.2017**	**31.12.2016**
Equity	194,6	172,6
Provisions for pensions (note 26)	185,1	201,1
Financial liabilities (note 29)	51,1	50,5
Non-current sources of finance	**430,8**	**424,2**

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 33(1) or (2) of the German Securities Trading Act (WpHG) (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) must be disclosed.

The content of disclosures in accordance with sections 33 et seq. WpHG (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) as at the time of going to press is shown below.

(1) On 11 November 2016, Ms. **Thalea von Boch-Reichel**, Germany, 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 9 November 2016 and amounted to 3.16 % (444,020 voting rights) at this date.

(2) On 11 November 2016, Ms. **Alida-Kirsten von Boch-Galhau**, Germany, 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 9 November 2016 and amounted to 3.16 % (444,020 voting rights) at this date.

(3) **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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) 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 accord-

ance 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

(10) 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 127(2) WpHG (section 41(2) WpHG of the version applicable prior to 3 January 2018) 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	31.12.2017	31.12.2016
Germany	167,0	182,0
Rest of euro zone	9,9	11,8
Rest of world	8,2	7,3
Provisions for pensions	**185,1**	**201,1**

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, 8,644 people (previous year: 8,765) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31.12.2017	31.12.2016
Germany		
Members	2.213	2.280
Vested former members	1.252	1.243
Pensioners	2.697	2.714
Total	**6.162**	**6.237**
Rest of euro zone		
Members	445	445
Vested former members	21	17
Pensioners	65	68
Total	**531**	**530**
Rest of world		
Members	1.528	1.459
Vested former members	160	265
Pensioners	263	274
Total	**1.951**	**1.998**
Persons with a commitment	**8.644**	**8.765**

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

In %	2017		2016	
	Ø	Range	Ø	Range
Discount rate	1,8	0,7 bis 7,5	1,3	0,3 bis 7,5
Expected long-term wage and salary trend	2,5	1,0 bis 5,6	2,5	1,3 bis 5,7
Expected long-term pension trend	1,3	0,0 bis 2,0	1,3	0,0 bis 1,3

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 0.7 % in Switzerland to 7.5 % in Mexico. In the previous year, the country-specific discount rates ranged from 0.3 % in Japan to 7.5 % in Mexico. A discount rate of 1.75 % (previous year: 1.25 %) 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 2005 G 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	31.12.2017	31.12.2016
Present value of defined benefit obligations	209,3	225,7
Fair value of plan assets	-24,2	-24,6
Carrying amount	**185,1**	**201,1**

The present value of pension obligations developed as follows:

in € million	2017	2016
As at 1 Jan	**225,7**	**219,1**
Current service cost	2,6	2,4
Interest income and interest expenses	3,0	4,2
Actuarial gains and losses arising from		
- changes in demographic assumptions	1,1	-0,1
- changes in financial assumptions	-10,4	15,3
- changes in other assumptions	0,8	-0,3
Past service cost	-	-
Contributions from plan participants	0,9	0,5
Benefits paid	-13,1	-14,8
Currency changes arising from non-euro-denominated plans	-1,3	-0,6
As at 31 Dec	**209,3**	**225,7**

There were the following changes to plan assets:

in € million	2017	2016
As at 1 Jan	**24,6**	**26,4**
Interest income and interest expenses	0,5	0,5
Return on plan assets excluding the above interest	0,0	0,0
Gains and losses from plan assets	0,5	0,6
Contributions from the Villeroy & Boch Group as employer	0,3	0,5
Contributions from plan participants	0,9	0,5
Benefits paid	-1,4	-3,3
Currency changes arising from non-euro-denominated plans	-1,2	-0,6
As at 31 Dec	**24,2**	**24,6**

The portfolio structure of plan assets was as follows:

	31.12.2017		31.12.2016	
	in € million	**%**	**in € million**	**%**
Annuities / annuity funds	11,0	45	11,7	48
Equities / equity funds	5,5	23	6,0	24
Property / REITs	2,3	10	1,6	7
Cash and cash equivalents	0,1	0	0,1	0
Investments on an active market	**18,9**	**78**	**19,4**	**79**
Insurance policies	5,3	22	5,2	21
Plan assets	**24,2**	**100**	**24,6**	**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 as at 31.12.2017	31.12.2016
Present value of defined benefit obligations		209,3	225,7
Discount rate	Increase by 0.25%	203,2	218,9
	Reduction by 0.25%	215,7	233,1
Pension trend	Increase by 0.25%	213,7	230,8
	Reduction by 0.25%	205,1	220,9

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 2018**	**Forecast 2017**
Defined benefit obligations as at 31 Dec. 2017 or 2016 resp.	209,3	225,7
Forecast service cost	2,2	2,5
Forecast interest costs	3,6	3,0
Forecast pension payments	-12,9	-13,0
Forecast defined benefit obligations	**202,2**	**218,2**

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 2017 was 12.4 years (previous year: 13.0 years). As in the previous year, the weighted duration for the pension plans of German companies is about 12 years.

27. Non-current and current provisions for personnel

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

	Non-current provisions for:						
in € million	Anniversary bonuses	Partial retirement	Severance pay	Other	Total	Current provisions	Total amount
As at 1 Jan. 2016	**6,8**	**3,4**	**5,3**	**0,8**	**16,3**	**14,9**	**31,2**
Currency adjustments	0,0	0,0	0,1	0,0	0,1	0,0	0,1
Utilisation	-0,6	-1,8	-0,3	0,0	-2,7	-13,7	-16,4
Reversals	0,0	-	-	-	0,0	-0,7	-0,7
Additions	0,9	3,4	0,7	0,1	5,1	17,3	22,4
As at 1 Jan. 2017	**7,1**	**5,0**	**5,8**	**0,9**	**18,8**	**17,8**	**36,6**
Currency adjustments	0,0	0,0	-0,1	0,0	-0,1	-0,3	-0,4
Utilisation	-0,9	-2,2	-3,9	-0,1	-7,1	-14,4	-21,5
Reversals	0,0	-	-	-	0,0	-1,8	-1,8
Additions	0,6	1,9	3,8	0,0	6,3	14,4	20,7
Additions from acquisitions	0,4	-	0,4	-	0,8	-	0,8
Reclassifications	-	0,3	-	0,0	0,3	-0,3	0,0
As at 31 Dec. 2017	**7,2**	**5,0**	**6,0**	**0,8**	**19,0**	**15,4**	**34,4**

A description of “additions due to business acquisition” can be found in note 2.

Provisions for anniversary bonuses are recognised by Group companies that have undertaken to pay their employees corresponding cash or non-cash benefits on the occasion of work anniversaries. Villeroy & Boch AG recognises an obligation of € 4.8 million (previous year: € 5.0 million). This corresponds to 66.7 % (previous year: 70.1 %) of this provision.

Under the partial retirement programme, employees have the option to reduce their working hours in accordance with certain personal requirements for a period determined by law prior to retirement. 93.3 % of the provision relates to the employees of Villeroy & Boch AG (previous year: 100 %). A new programme was set up for employees in Luxembourg in the financial year.

The provisions for severance pay are recognised for legally required termination benefits that must be paid when an employee changes employer or retires. These are generally non-recurring payments for employees in Thailand, Austria, Italy, Australia, Rumania and India.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of € 14.0 million (previous year: € 14.2 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: Warranties	Legal and consultancy fees	Other taxes	Miscellaneous	Total	Total amount
As at 1 Jan. 2016	**2,4**	**7,1**	**1,6**	**1,4**	**7,9**	**18,0**	**20,4**
Currency adjustments	-0,1	0,0	0,0	-0,1	0,0	-0,1	-0,2
Utilisation	-0,5	-1,0	-0,6	-1,2	-2,3	-5,1	-5,6
Reversals	0,0	-	-0,2	-	-1,0	-1,2	-1,2
Additions	12,9	0,7	0,9	1,0	7,1	9,7	22,6
Reclassifications	1,5	-	0,0	-	-1,5	-1,5	0,0
As at 1 Jan. 2017	**16,2**	**6,8**	**1,7**	**1,1**	**10,2**	**19,8**	**36,0**
Currency adjustments	0,0	-0,1	-	0,0	-0,2	-0,3	-0,3
Utilisation	-0,6	-0,9	-0,7	-1,1	-5,1	-7,8	-8,4
Reversals	-0,6	-	-0,1	-	-1,4	-1,5	-2,1
Additions	0,4	0,8	0,8	0,5	2,8	4,9	5,3
Additions from acquisitions	-	0,4	-	-	0,4	0,8	0,8
Reclassifications	-4,1	-	-	-	4,1	-	-
As at 31 Dec. 2017	**11,3**	**7,0**	**1,7**	**0,5**	**10,8**	**20,0**	**31,3**

A description of "additions due to business acquisition" can be found in note 2.

Non-current provisions relate in particular to contractually agreed demolition, dismantling and renovation obligations at the site of our former tableware plant in Luxembourg as well as other environmental and renovation obligations, obligations to remove leasehold improvements and recultivation obligations. Utilisation for measures on this land in the amount of € 4.1 million is expected in the next twelve months.

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 commission, licensing fees and a large number of individual items.

29. Non-current and current financial liabilities

Current and non-current financial liabilities developed as follows in the financial year:

in € million	Non-current financial liabilities to Banks	Lessors	Total	Current financial liabilities to Banks	Lessors	Total	Total amount
As at 1 Jan. 2017	**50,0**	**-**	**50,0**	**0,5**	**-**	**0,5**	**50,5**
Addition due to business acquisition (see note 2)	-	0,2	0,2	0,5	0,4	0,9	1,1
Cash changes	-		0,0	13,4	-0,1	13,3	13,3
Non-cash changes:							
- Offsetting (see note 15)	-	-	0,0	-14,2	-	-14,2	-14,2
- Interest capitalisation	0,4	0,0	0,4	0,0	0,0	0,0	0,4
- Reclassifications	-0,4	0,0	-0,4	0,4	0,0	0,4	0,0
- Currency adjustments	-	0,0	0,0	0,0	0,0	0,0	0,0
As at 31 Dec. 2017	**50,0**	**0,2**	**50,2**	**0,6**	**0,3**	**0,9**	**51,1**

Non-current financial liabilities in the amount of € 50.0 million relate to banks domiciled in Germany. For one loan agreement, a special right of termination in the event of a change of control at Villeroy & Boch AG was agreed for the lending bank. The debt service is repeated annually. Net receivables from and liabilities to banks amounted to € 14.2 million (previous year: € 14.6 million). The requirements for offsetting have been met and it is intended to settle them on a net basis.

The lessor liabilities reported under financial liabilities result from the acquisition of Argent Australia Pty. Ltd. (see note 2), which has motor vehicles under finance leases.

30. Other non-current and current liabilities

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

in € million	Carrying amount 31.12.2017	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount	Remaining term Less than 1 year	Remaining term More than 1 year
Bonus liabilities	**43,7**	43,7	–	**42,6**	42,6	–
Fair values of hedging instruments	**1,0**	0,8	0,2	**0,9**	0,9	0,0
Advance payments receivedon account of orders	**11,5**	11,5	–	**5,5**	5,5	–
Miscellaneous other liabilities	**5,7**	3,1	2,6	**3,8**	2,4	1,4
Total financial instruments within meaning of IAS 39*	**61,9**	**59,1**	**2,8**	**52,8**	**51,4**	**1,4**
Personnel liabilities	**20,3**	20,1	0,2	**19,4**	19,1	0,3
Other tax liabilities	**12,1**	12,1	–	**11,3**	11,3	–
Deferred income	**2,9**	1,2	1,7	**3,3**	0,9	2,4
Total carrying amount	**97,2**	**92,5**	**4,7**	**86,8**	**82,7**	**4,1**

* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) relates solely to currencies in the amount of € 1.0 million (previous year: € 0.9 million).

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

Other tax liabilities primarily included VAT in the amount of € 7.2 million (previous year: € 6.6 million) and payroll and church tax in the amount of € 4.0 million (previous year: € 3.9 million).

Deferred income mainly consisted of compensation for a long-term rental agreement with the City of Luxembourg (see note 7), the free allocation of emission allowances (see note 5), government grants for property, plant and equipment (see note 6) and rent payments received.

31. Trade payables

Based on the domicile of the respective Group company, trade payables related to:

in € million	31.12.2017	31.12.2016
Germany	35,8	37,8
Rest of euro zone	11,6	10,3
Rest of world	36,1	29,1
Carrying amount as at 31 Dec.	**83,5**	**77,2**

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	2017	2016
Bathroom and Wellness	-12,2	-11,7
Tableware	-3,7	-3,5
Total	**-15,9**	**-15,2**

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	2017	2016
Exchange rate gains	5,9	5,7
License income	3,2	5,8
Reversal of provisions*	3,2	1,7
Reversal of liabilities	0,9	1,3
Reimbursement for damages	0,7	0,1
Book profits on the disposal of non-current assets	0,6	0,3
Reversal of write-downs on receivables	0,3	0,4
Income from property transactions	0,0	1,7
Other	2,2	3,4
Total	**17,0**	**20,4**

* not including amounts in other statement of consolidated income items

The line “Income from property transactions” includes the net result already generated in the 2017 financial year from the sale of the former Swedish plant property (see "Results of operations" in the management report) of € 0.0 million (previous year: € 1.7 million).

Miscellaneous other operating income includes a number of individual items.

37. Other operating expenses

Other operating expenses were composed as follows:

in € million	2017	2016
Consulting services	-3,1	-2,5
Exchange rate losses	-2,1	-1,7
Addition to write-downs on receivables	-1,5	-1,8
Reorganisation costs	-1,1	-4,1
Costs for maintenance/repairs	-0,4	-0,5
Book losses on the disposal of non-current assets	-0,3	-1,1
Other	-6,8	-9,6
Total	**-15,3**	**-21,3**

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 € 0.5 million (previous year: € 0.1 million).

39. Interest income and other financial income

Financial income consisted of:

in € million	2017	2016
Interest income from:		
Cash and cash equivalents	1,1	1,1
Loans and receivables	0,1	0,2
Held-to-maturity investments	-	-
Total interest income	**1,2**	**1,3**
Dividends from securities available-for-sale	0,1	0,1
Total financial income	**1,3**	**1,4**

40. Interest expenses and other financial expenses

Finance costs related to:

in € million	2017	2016
Interest expenses from:		
Provisions	-2,5	-4,4
Overdraft facilities	-2,2	-1,7
Non-current loans	-1,0	-1,3
Other borrowing	0,0	-0,0
Total interest expenses	**-5,7**	**-7,4**
Other finance costs	0,0	-0,0
Total finance costs	**-5,7**	**-7,4**

The interest expense on provisions decreased by € -1.9 million in the 2017 financial year, from € -4.4 million to € -2.5 million. In the reporting period, the amount of interest expenses on pension plans was affected by the change in interest rates from 2.0 % in 2016 to 1.3 %. The interest expenses for pension obligations for the current year were calculated using the discounting rate from the previous year. The current increase in interest rates for pensions from 1.3 % to 1.8 % at Group level and 1.75 % at the German companies will therefore not affect the income statement until 2018.

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 9.0 % and 34.6 % for the other countries.

in € million	2017	2016
Taxes paid or due in Germany	-4,4	-7,9
Taxes paid or due outside Germany	-6,9	-5,9
Current taxes	**-11,3**	**-13,8**
Deferred taxes	-4,3	1,3
Income taxes	**-15,6**	**-12,5**

The expected income tax expense (current and deferred) based on the overall German tax rate of 29.5 % differs from the reported income tax expense as follows:

in € million	2017	2016
Earnings before taxes (EBT)	**45,4**	**41,6**
Expected income tax (EBT x tax rate of 29.5%)	-13,4	-12,3
Differences arising from foreign tax rates	2,3	1,1
Tax effects arising from:		
Non-deductible expenses	-2,5	-1,8
Adjustment / write-downs on deferred taxes	0,4	-1,4
Tax-free income	0,5	1,8
Change of Tax-rates	-2,9	-
Other deferred taxes	0,0	0,1
Actual income tax expense	**-15,6**	**-12,5**
Actual tax rate in %	**34,4**	**30,0**

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	2017	2016
Change in statement of financial position item:		
• Deferred tax assets (note 10)	-10,1	0,3
• Deferred tax liabilities (note 10)	0,6	-5,9
Sub-total	**-9,5**	**-5,6**
• Pass to other comprehensive income (note 21(e))	4,3	5,5
• Currency adjustments	0,9	1,4
Deferred taxes recognised in income statement	**-4,3**	**1,3**

42. Minority interests

Non-controlling interests in consolidated earnings amounted to € 0.1 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	31.12.2017	31.12.2016
Number of shares outstanding	14.044.800	14.044.800
Pro rata consolidated net income (in € million) *	15,5	15,1
Earnings per share (in €) *	1,11	1,08

Preference shares	31.12.2017	31.12.2016
Number of shares outstanding	12.361.771	12.361.771
Pro rata consolidated net income (in € million) *	14,3	14,0
Earnings per share (in €) *	1,16	1,13

* 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. There were no dilution effects during the reporting periods.

44. Depreciation, amortisation and impairments

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

in € million	2017	2016
Amortisation of intangible assets	-1,0	-0,8
Impairment losses on intangible assets	-	-0,1
Depreciation of property, plant and equipment	-24,5	-25,7
Impairment losses on property, plant and equipment	-	-
Depreciation of investment property	-0,7	-0,8
Impairment losses on financial assets	-	-0,4
Total depreciation, amortisation and impairments	**-26,2**	**-27,8**

45. Cost of materials

The cost of materials comprised the following:

in € million	2017	2016
Cost of raw materials and supplies (including primary products)	-132,2	-129,0
Cost of purchased goods	-115,9	-117,7
	-248,1	**-246,7**
Cost of purchased services	-37,6	-37,1
Total cost of materials	**-285,7**	**-283,8**

46. Personnel expenses

Personnel expenses were composed as follows:

in € million	2017	2016
Wages and salaries	-229,6	-221,2
Post-employment benefits:		
Expenses for defined benefit plans (see note 26)	-2,6	-2,4
Expenses for defined contribution plans	-17,3	-17,2
Termination benefits	-2,5	-6,2
Other services	-34,1	-33,7
Total staff costs	**-286,1**	**-280,7**

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	2017	2016 *
Wage earners	4.260	4.081
Salaried employees	3.830	3.813
Average	**8.090**	**7.894**

Of the workforce as a whole, a total of 2,698 people are employed in Germany (previous year: 2,701*), with the remaining 5,392 employed outside Germany (previous year: 5,193*).

Number of employees	2017	2016 *
Bathroom and Wellness	5.221	4.945
Tableware	2.322	2.401
Other	547	548
Average	**8.090**	**7.894**

* Prior year adjusted

47. Other taxes

The cost of other taxes was € -4.5 million in the reporting period (previous year: € -3.9 million). Companies based in Germany accounted for € -0.8 million (previous year: € -0.8 million) and Group companies abroad for € -3.7 million (previous year: € -3.1 million).

"Other taxes" include mainly real estate tax expenses of € -1.9 million (previous year: € -1.8 million), expenses for the French "contribution economique territoriale" of € -0.8 million (previous year: € -0.7 million) and the French "taxe organic" of € -0.1 million (previous year: € -0.1 million).

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

48. Cash flow from operating activities

Cash flow from operating activities is calculated by 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 € 41.0 million, down € 36.9 million on the previous year. This change results essentially from an increase in current assets of € 9.8 million, a rise in current liabilities of € 8.8 million and tax payments of € 10.2 million.

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

in € million	2017	2016
Additions to tax provisions	5,5	-2,7
Interest from the provision for pensions and similar obligations	2,5	4,4
Expenses / income from deferred taxes	0,5	10,1
Income from property	0,0	-1,7
Other non-cash items	0,5	-0,3
Total	**9,0**	**9,8**

49. Cash flow from investing activities

The cash flow from investing activities changed by € 7.4 million as against the previous year to € -27.3 million (previous year: € -19.9 million). We invested € 35.9 million in new intangible assets and property, plant and equipment (previous year: € 26.2 million) and € 11.5 million in financial assets (previous year: € 0.5 million) in the reporting period. The Villeroy & Boch Group generated proceeds of € 20.1 million from disposals of assets, including in particular the sale of part of the former Tableware plant in Luxembourg in the amount of € 14.3 million (see note 6) and the sale of property in Gustavsberg in the amount of € 2.5 million (previous year: € 2.1 million).

50. Cash flow from financing activities

Net cash used in financing activities amounted to € -14.1 million (previous year: € -12.3 million). The cash outflow in the reporting year, as in the previous year, was due mainly to the payment of the dividend to the shareholders of Villeroy & Boch AG. The other shareholders of Argent Australia Pty. Ltd. received a dividend of € 1.1 million (see note 2).

51. Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents amounted to € 108.7 million (previous year: € 111.2 million), a decrease of € 2.5 million as against the previous year.

NOTES TO THE GROUP SEGMENT REPORT

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 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, 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	
	2017	2016	2017	2016	2017	2016
Bathroom and Wellness	558,1	524,4	0,0	0,0	558,1	524,4
Tableware	278,4	295,7	0,0	0,0	278,4	295,7
Total segment revenue	**836,5**	**820,1**	**0,0**	**0,0**	**836,5**	**820,1**
Eliminations	0,0	0,0	0,0	0,0	0,0	0,0
Consolidated revenue	**836,5**	**820,1**	**0,0**	**0,0**	**836,5**	**820,1**

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

in € million	31.12.2017	31.12.2016
Bathroom and Wellness	41,0	36,2
Tableware	8,8	9,7
Real estate income from Gustavsberg	0,0	1,7
Operating result (EBIT)	**49,8**	**47,6**
Net finance cost (see notes 39 and 40)	-4,4	-6,0
Earnings before taxes	**45,4**	**41,6**
Income taxes (see note 41)	-15,6	-12,5
Group result	**29,8**	**29,1**

The following assets and liabilities were assigned to the divisions:

	Assets		Liabilities		Net assets	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bathroom and Wellness	358,8	329,5	157,6	141,4	201,2	188,1
Tableware	124,4	125,1	42,7	49,5	81,7	75,6
Reconciliation	203,9	221,7	292,2	312,8	-88,3	-91,1
Total	**687,1**	**676,3**	**492,5**	**503,7**	**194,6**	**172,6**

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

	Rolling assets		Rolling liabilities		Rolling net assets	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bathroom and Wellness	339,3	333,8	137,2	125,2	202,1	208,6
Tableware	120,8	126,9	42,5	43,0	78,3	83,9
Total	**460,1**	**460,7**	**179,7**	**168,2**	**280,4**	**292,5**

Segment assets include intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities include provisions, trade payables and other liabilities. Reconciliation 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:

	intangible assets and property, plant and equipment		Depreciation and amortisation	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bathroom and Wellness	29,0	19,1	-19,0	-18,6
Tableware	6,9	7,1	-7,2	-8,7
Total	**35,9**	**26,2**	**-26,2**	**-27,3**

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual divisions. The Tableware Division reported impairment losses of € 0.1 million in the previous year (see note 5). Other financial assets are impaired by € 0.4 million (see note 9). Other financial assets were impaired by € 0.4 million in the previous year (see note 9).

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

	External revenue		Non-current assets*	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
German companies	416,5	415,9	77,0	73,7
Rest of euro zone	142,3	147,0	24,7	26,4
Rest of world	277,7	257,2	100,9	106,0
Total	**836,5**	**820,1**	**202,6**	**206,1**

* in accordance with IFRS 8.33 (b)

OTHER NOTES

53. Financial instruments

The recognition of primary and derivative financial instruments is based on their allocation to the 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	Carrying amount as at 31 Dec. 2017	Amounts not measured under IAS 39	Amounts measured under IAS 39					Carrying amount as at 31 Dec. 2017	Fair value as at 31 Dec. 2017
			Nominal value	Amortised cost		Fair value			
			Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow hedges		
Cash and cash equivalents (note 15)	108,7	–	108,7	–	–	-	–	108,7	108,7
Trade receivables (note 12)	127,2	–	–	127,2	–	-	–	127,2	127,2
Other financial assets (note 9)	14,8	–	–	3,9	2,2	8,7	-	14,8	14,8
Other assets (note 13)	29,0	11,5	–	13,0	–	-	4,5	17,5	17,5
			108,7	**144,1**	**2,2**	**8,7**	**4,5**	**268,2**	**268,2**
Other assets not recognised under IAS 39 (a)								11,5	–
Non-current assets – not including other financial assets (note 9)								212,5	–
Inventories (see note 11)								154,6	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								39,8	–
Assets held for sale (see note 16)								0,5	–
Total assets								**687,1**	–

in € million	Carrying amount as at 31 Dec. 2017	Amounts not measured under	Amounts measured under IAS 39		Carrying amount as at	Fair value as at 31 Dec. 2017
			Amortised cost	Fair value		
			Liabilities	Cash flow hedges		
Trade payables (note 31)	83,5	–	83,5	–	83,5	83,5
Financial liabilities (note 29)	51,1	–	51,1	–	51,1	51,1
Other liabilities (note 30)	97,2	35,4	61,8	-	61,8	61,8
			196,4	**0,0**	**196,4**	**196,4**
Other liabilities not recognised under IAS 39 (b)					35,4	–
Equity					194,6	–
Current and non-current provisions (c)					250,8	–
Deferred tax liabilities (see note 10) and income tax liabilities					9,9	–
Total equity and liabilities					**687,1**	–

(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 personnel liabilities, other tax liabilities and deferred income (see note 30).

(c) The current and non-current provisions include provisions for pensions (see note 26), provisions for personnel (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. 2016	Amounts not measured under IAS 39	Amounts measured under IAS 39					Carrying amount as at 31 Dec. 2016	Fair value as at 31 Dec. 2016
			Nominal value	Amortised cost		Fair value			
			Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow		
Cash and cash equivalents (note 15)	**111,2**	–	111,2	–	–	-	–	111,2	111,2
Trade receivables (note 12)	**116,0**	–	–	116,0	–	-	–	116,0	116,0
Other financial assets (note 9)	**10,1**	–	–	6,5	2,1	1,5	-	10,1	10,1
Other assets (note 13)	**42,7**	12,8	–	25,9	–	-	4,0	29,9	29,9
			111,2	**148,4**	**2,1**	**1,5**	**4,0**	**267,2**	**267,2**
Other assets not recognised under IAS 39 (a)								12,8	–
Non-current assets – not including other financial assets (note 9)								204,3	–
Inventories (see note 11)								141,4	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								50,1	–
Assets held for sale (see note 16)								0,5	–
Total assets								**676,3**	–

in € million	Carrying amount as at 31 Dec. 2016	Amounts not measured under IAS 39	Amounts measured under IAS 39		Carrying amount as at 31 Dec. 2016	Fair value as at 31 Dec. 2016
			Amortised cost	Fair value		
			Liabilities	Cash flow hedges		
Trade payables (note 31)	77,2	–	77,2	–	77,2	77,2
Financial liabilities (note 29)	50,5	–	50,5	–	50,5	50,5
Other liabilities (note 30)	86,8	34,0	51,9	0,9	52,8	52,8
			179,6	**0,9**	**180,5**	**180,5**
Other liabilities not recognised under IAS 39 (b)					34,0	–
Equity					172,6	–
Current and non-current provisions (c)					273,7	–
Deferred tax liabilities (note 10) and income tax liabilities					15,5	–
Total equity and liabilities					**676,3**	–

(a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).

(b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).

(c) The current and non-current provisions include provisions for pensions (see note 26), provisions of personnel (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. Quoted prices are used to measure the securities of the Villeroy & Boch support fund and free investments (see note 9c).

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 after the end of the reporting period 31 December 2017:

	Assets as at end of reporting period		Liabilities as at end of reporting period	
in € million	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	11,5	0,4	8,9	0,2
In three to six months	11,5	0,4	9,0	0,2
In six to twelve months	23,2	0,8	15,8	0,4
After twelve months	26,2	1,8	5,2	0,2
Total	**72,4**	**3,4**	**38,9**	**1,0**

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 Swedish krone (SEK). 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 2017 would have been € 5.2 million higher/lower (previous year: € 2.6 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 after the balance sheet date 31 December 2017:

	Assets as at end of reporting period	
in € million	Transaction volume	Changes in fair value
Within the next three months	0,5	0,3
In three to six months	0,5	0,5
In six to twelve months	1,0	0,5
After twelve months	-	-
Total	**2,0**	**1,3**

As at the reporting date and on the basis of production planning for the 2018 financial year, there is an unhedged brass position totalling 678 tonnes (previous year: 1,068 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 2017 would have been € 0.4 million higher/lower (previous year: € 0.3 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income in 2017.

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 2017 financial year of +/-50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.3 million higher/lower (previous year: € 0.2 million).

Management of default and credit risks

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

Management of liquidity risks

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

on the contractual maturities of financial liabilities, cash outflows are expected in the following time bands:

in € million	Carrying amount as at 31 Dec.	Cash outflow expected in the following time bands			
		Gross	Within three months	Between four months and one year	Between one and five years
Trade payables	77,2	77,2	77,2	–	–
Current and non-current financial liabilities (a)	50,5	68,0	14,6	1,0	52,4
Other liabilities	51,9	46,5	44,1	1,0	1,4
Cash flow hedge liabilities (b)	0,9	46,2	9,3	23,5	13,4
Total as at 31 Dec. 2016	**180,5**	**237,9**	**145,2**	**25,5**	**67,2**
Trade payables	83,5	83,5	83,5	-	-
Non-current and current financial liabilities (a)	51,1	67,6	14,2	1,0	52,4
Other liabilities	57,8	46,4	44,4	0,5	1,5
Cash flow hedge liabilities (b)	1,0	38,9	8,9	24,8	5,2
Total as at 31 Dec. 2017	**193,4**	**236,4**	**151,0**	**26,3**	**59,1**

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 2.4 million (previous year: € 3.3 million) that will not be incurred until after 31 December 2017.

(b) The transaction volume of cash flow hedge liabilities in the amount of € 38.8 million (previous year: € 46.2 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 1.0 million (previous year: € 0.9 million) is forecast, equal to the statement of financial position item. € 0.2 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 € -2.3 million (previous year: € 0.3 million) from the use of primary and derivative financial instruments. The decrease was due mainly to the hedges newly concluded in the year under review (see note 21 c).

54. Contingent liabilities and commitments

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

in € million	31.12.2017	31.12.2016
Guarantees	42,8	34,0
Trustee obligations	0,1	0,1

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	31.12.2017	31.12.2016
Obligations arising from orders placed:		
for investments in intangible assets	0,1	0,1
for investments in property, plant and equipment	2,1	5,5

59.0 % of the obligations to acquire property, plant and equipment in the amount of € 2.1 million related to Villeroy Boch AG, followed by Villeroy & Boch Gustavsberg AB (24.8 %) and Villeroy et Boch S.A.S. (7.4 %). In the previous year, 91.6 % related to Villeroy Boch AG, followed by Ucosan B.V. (4.6 %) and Villeroy & Boch Gustavsberg AB (1.7 %).

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 three sales offices as at the end of the reporting period (previous year: three). 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.

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	2017	2016
Current employee benefits	4,2	4,1
Post-employment benefits	1,6	1,9
Termination benefits	-	-
Total	**5,8**	**6,0**

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

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

57. Remuneration of the Supervisory Board and Management Board

Supervisory Board remuneration

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

The fixed annual basic remuneration for each member of the Supervisory Board amounts to € 24,000. The Chairman receives an additional € 53,000, while the Deputy Chairman receives an additional € 16,500. Members of the Supervisory Board receive a fee of € 1,500 for each meeting of the full Supervisory Board.

The Chairman of the Audit Committee receives € 10,000 p.a. and the Chairmen of the Investment Committee and the Human Resources 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 members of the Supervisory Board receive variable remuneration of an additional € 195 for each cent per share by which the dividend payable to shareholders exceeds 10.5 cents. The shareholder dividend is calculated as the average of the dividends paid for one preference share or 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 2016	Total	Previous year
Yves Elsen [2*), 3*)]	71	9	8	88	42
Peter Prinz Wittgenstein [1*), 2), 3)]	56	9	8	73	66
Ralf Runge [4)]	41	9	8	58	53
Dietmar Langenfeld [2), 4)]	27	9	8	44	42
Werner Jäger [1), 4)]	27	8	8	43	42
Francesco Grioli [3), 4)]	27	8	8	43	40
Dr. Alexander von Boch-Galhau	24	9	8	41	39
Dominique Villeroy de Galhau	24	9	8	41	32
Dietmar Geuskens [4)]	24	9	8	41	37
Christina Rosenberg	24	4	8	36	37
Susanne Ollmann	24	9	0	33	0
Wendelin von Boch-Galhau (bis 03/2017)	20	1	8	29	98
Dr. Renate Neumann-Schäfer (seit 03/2017) [1)]	20	6	-	26	-
Bernhard Thömmes (bis 11/2016)	-	-	7	7	37
François Villeroy de Galhau (bis 10/2015)	-	-	-	-	5
Rounding	-2	-	-1	-3	-
Total	**407**	**99**	**94**	**600**	**570**

[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 € 768 thousand was reported in the Group result for the 2017 financial year (previous year: € 808 thousand). In addition to the fixed remuneration paid and the meeting fees for 2017, this figure includes € 98 thousand (previous year: € 89 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 66 thousand (previous year: € 65 thousand), plus insurance premiums in the amount of € 98 thousand (previous year: € 168 thousand).

Management Board remuneration

An expense of € 2,936 thousand (previous year: € 2,898 thousand) is reported in the income statement for the 2017 financial year. This figure is composed of fixed (€ 1,504 thousand; previous year: € 1,533 thousand) and variable salary components (€ 1,432 thousand; previous year: € 1,365 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 671 thousand (previous year: € 664 thousand) and a remuneration for several years in the amount of € 761 thousand (previous year: € 701 thousand). The fixed remuneration includes remuneration in kind of € 64 thousand (previous year: € 71 thousand), including € 2 thousand (previous year: € 2 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 20,672 thousand (previous year: € 23,855 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,538 thousand (previous year: € 1,598 thousand).

The provisions of section 314(3) sentence 1 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 2018 financial year.

58. Auditors' fees and services

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

in € million	2017	2016
Audits of financial statements	0,4	0,4
Other assurance or valuation services	-	-
Tax advisory services	0,0	0,1
Other services	0,2	0,1

59. Declaration of conformity with the German Corporate Governance Code in accordance with section 161 AktG

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG (German Stock Corporation Act) for the 2017 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 29 November 2017. 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:

		Villeroy & Boch AG investment		
	Fully consolidated subsidiaries	**Direct**	**Indirect**	**Total**
	Germany	In %	In %	In %
1.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach [1]	100	-	100
2.	Heinrich Porzellan GmbH, Selb [1]	100	-	100
3.	INTERMAT - Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach [1]	100	-	100
4.	Keraco GmbH, Wadgassen	100	-	100
5.	Sales Design Vertriebsgesellschaft mbH, Merzig [1]	100	-	100
6.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen [1]	100	-	100
7.	V & B International GmbH, Mettlach [1]	100	-	100
8.	VilboCeram GmbH, Mettlach [1]	100	-	100
9.	Villeroy & Boch Creation GmbH, Mettlach [1]	100	-	100
10.	Villeroy & Boch Gastronomie GmbH, Mettlach [1]	100	-	100
11.	Villeroy & Boch Interior Elements GmbH, Mettlach [1]	100	-	100
12.	Villeroy & Boch K-Shop GmbH, Mettlach [1]	100	-	100
		Direct	**Indirect**	**Total**
	Abroad	In %	In %	In %
13.	Argent Australia Pty. Ltd., Brisbane (Australien)	45,36	-	45,36
14.	Delfi Asset S.A., Luxemburg (Luxembourg)	-	100	100
15.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	-	100
16.	Kiinteistö Oy, Helsinki (Finland)	-	100	100
17.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	-	100	100
18.	Rollingergrund Premium Properties SA, Luxemburg (Luxembourg)	-	100	100
19.	S.C. Mondial S.A., Lugoj (Romania)	99,44	-	99,44
20.	Ucosan B.V., Roden (Netherlands)	100	-	100
21.	Vilbomex S.A. de C.V., Ramos Arizpe (Mexico)	88,32	11,68	100
22.	Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe (Mexico)	-	100	100
23.	Vilbona Mexiko S.A. de C.V., Ramos Arizpe (Mexico)	-	100	100
24.	Villeroy & Boch (Thailand) Co. Ltd., Saraburi (Thailand)	23,74	76,26	100
25.	Villeroy & Boch (U.K.) Ltd., London (UK)	-	100	100
26.	Villeroy & Boch Arti della Tavola S.r.l., Mailand (Italy)	0,2	99,8	100
27.	Villeroy & Boch Asia Pacific Pte. Ltd., Singapur (Singapore)	100	-	100
28.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	-	100	100
29.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	-	100
30.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99,99	0,01	100
31.	Villeroy & Boch Czech s.r.o., Prag (Czech Rupublic)	100	-	100
32.	Villeroy & Boch Danmark A/S, Rødovre (Denmark)	-	100	100
33.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	-	100
34.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
35.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	100	-	100
36.	Villeroy & Boch MC S.à r.l. , Monaco (Monaco)	99,99	0,01	100
37.	Villeroy & Boch Norge AS, Lorenskog (Norway)	-	100	100
38.	Villeroy & Boch OOO, Moskau (Russia)	100	-	100
39.	Villeroy & Boch Polska Sp. z o.o., Warschau (Poland)	-	100	100
40.	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg, Luxemburg (Luxembourg)	100	-	100
41.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99,99	0,01	100
42.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	-	100	100
43.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	-	100	100
44.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	-	100
45.	Villeroy & Boch Tableware Japan K.K., Tokio (Japan)	-	100	100
46.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	-	100	100
47.	Villeroy & Boch Tableware Oy, Helsinki (Finland)	100	-	100
48.	Villeroy & Boch Trading (Shanghai) Co. Ltd., Shanghai (China)	100	-	100
49.	Villeroy & Boch Ukraine TOV, Kiew (Ukraine)	100	-	100
50.	Villeroy & Boch USA Inc., New Jersey (USA)	-	100	100
51.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99,99	0,01	100
52.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	-	100	100
53.	Villeroy et Boch S.A.S., Paris (France)	100	0	100
		Direct	**Indirect**	**Total**
	Investments accounted for using the equity method	In %	In %	In %
54	V&B Lifestyle India Private Limited , Gurgaon (India)	50	-	50

[1] Section 264 (3) HGB is applied to this subsidiary.
* Section 313(2) no. 4 HGB plus section 313(2) HGB are applied to two German investments.

62. Developments within the IFRS framework

The following pronouncements by the international standard-setter, the IASB (International Accounting Standards Board), were endorsed by the EU and are required to be applied for financial years beginning after 31 December 2016:

Standard		Name
IAS	7	Amendments to IAS 7: Disclosure Initiative
IAS	12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The application of these new standards had no material effect on the accounting policies of the Villeroy & Boch Group.

The following IASB pronouncements were endorsed by the EU and were not yet effective for the past 2017 financial year:

Standard		Name
IFRS	9	Financial Instruments (effective for financial years beginning on or after 1 January 2018)
IFRS	15	Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)
IFRS	15	Clarification of IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)
Various		Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018)
IFRS	16	Leases (effective for financial years beginning on or after 1 January 2019)

Implications relevant to the Villeroy & Boch Group are expected from the adoption of these new IFRSs exclusively in connection with IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases”. These standards will be adopted in the Group for the first time as at their respective effective date in the EU.

IFRS 9 "Financial Instruments" describes the classification and measurement of financial instruments and hedge accounting. It supersedes the existing guidance of IAS 39 "Financial Instruments: Recognition and Measurement".

In future, a financial instrument will be assigned to one of three categories (previously five) based on the characteristics of its contractual cash flows and the nature of its business model. It will be measured either at amortised cost or at fair value, with remeasurement gains and losses recognised either through other comprehensive income or through profit or loss. Trade receivables, the Villeroy & Boch Group's most important financial assets in terms of volume (see note 53), will continue to be measured at amortised cost.

In future, the determination of whether a financial asset is impaired will take into account the change in credit risk. If default is expected, the present value of the expected losses for the remaining term of the financial asset must be recognised in profit or loss immediately. This means impairment is recognised earlier than before as the reporting entity may no longer wait until there is an objective indication of impairment, e.g. when a receivable is past due. Among other things, specific guidance is provided for trade receivables. For all trade receivables that are not past due, the expected loss over the remaining term of the receivable may be calculated on the basis of historical default data adjusted for the current economic situation. We expect the exercise of this option to result in a slight increase in impairment losses (see note 12).

With regard to hedge accounting, IFRS 9 takes over the fundamental requirements of IAS 39 unchanged. Relief is only provided with respect to recognising hedging relationships and demonstrating hedge effectiveness, meaning that effectiveness is no longer required to be demonstrated retrospectively. For the purposes of prospective effectiveness testing, it is sufficient for the reporting entity to demonstrate that the hedged item and the hedging instrument have identical terms. Own use contracts, which the Villeroy & Boch Group uses for purposes such as hedging the price of physical energy deliveries, do not fall within the scope of hedge accounting and will continue to be recognised in accordance with IAS 37.

As required by the EU, we will apply the new IFRS 9 to reporting periods beginning on or after 1 January 2018.

IFRS 15 "Revenue from Contracts with Customers" is effective for reporting periods beginning on or after 1 January 2018 and replaces IFRS regulations on accounting for revenue, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes", from this date. The essence of the new standard is a single, principles-based model for the recognition and measurement of revenue to be applied to contracts with customers across all industries. It is supplemented by specific application guidance on different subjects and comprehensive disclosures in the notes.

In the 2017 financial year, the project ongoing at the Villeroy & Boch Group since 2016 for the launch of IFRS 15 focused on verifying the identified impact of IFRS 15 regarding completeness and materiality. There was also a focus on providing the operating Group companies with technical instructions to ensure compliant accounting throughout the Group from the effective date.

The Group is not anticipating significant transition effects from IFRS 15 overall; there have therefore been no material new findings compared to the initial impact analysis performed in 2016. The following areas relevant to the Villeroy & Boch business model were examined:

- Timing of revenue recognition: In accordance with IFRS 15, revenue is recognised when the customer obtains control of the goods or services. In view of the usual timing of the recognition of revenue from transactions for the sale of our products – for which we use both simple sales channels and also consignment or commission models – no changes will arise under the new regulations.

- Amount and reporting of revenue: Relevant specifications in the standard regarding sales deductions, payments to customers, rights of return and principal/agent relationships are already implemented in our current accounting practice; the amount of revenue recognised from the operative sale of our products will therefore not be influenced.
- Licence revenue: Revenue from licences to use our brand granted to third parties are recognised in line with the revenue generated from the sale of licensed products. IFRS 15 does not result in any changes in this regard. However, as part of the first-time adoption of the new standard, licence revenue previously reported in the income statement as other operating income (see note 36) will be reclassified to revenue.

The Villeroy & Boch Group will use the modified retrospective method for the first-time adoption of IFRS 15 for the financial year beginning on 1 January 2018. Using this transition method, the amounts of adjustments compared to previous IAS 18 accounting for every item of the financial statements affected will be disclosed separately in the 2018 reporting period. In our opinion, there are no relevant transition effects from the remeasurement of prior-year items that would have to be recognised cumulatively in the opening amount of retained earnings as at 1 January 2018.

IFRS 16 "Leases" sets out the accounting treatment and disclosure requirements for leases. It supersedes the guidance of IAS 17 "Leases" and various interpretations.

In accordance with IFRS 16, a contract is, or contains, a lease if it conveys the right to use an asset for a period of time in exchange for consideration. In future, the lessee must recognise all leases for which it holds the right to use the leased asset (the "right-of-use asset"). Recognition exemptions are available for short-term and low-value leases. The cost of the right-of-use asset includes the present value of the lease liability as well as any additional payments at or prior to conclusion of the lease, other direct costs incurred by the lessee and any restoration or demolition obligations. When calculating lease payments, there is an option regarding the consideration of remuneration for additional services, such as for maintenance expenses. Lease incentives, i.e. payments by the lessor to the lessee, are deducted from the cost of the asset. The present value of the lease liability is the sum of all outstanding lease payments discounted to the date of initial recognition. The right-of-use asset is subsequently measured at amortised cost in accordance with the principles of IAS 16 "Property, Plant and Equipment".

The interest cost of the lease liabilities is reported separately from depreciation and amortisation in the income statement. In the cash flow statement, cash outflows for repayments are reported in net cash from financing activities. All other lease payments continue to be reported in net cash from operating activities.

IFRS 16 extends the disclosure requirements for lease transactions in the notes to the lessee's consolidated financial statements.

For lessors, there is no change to the accounting treatment of the assets transferred.

According to the IASB, IFRS 16 "Leases" is effective for reporting periods beginning on or after 1 January 2019. For existing leases, the modified retrospective approach may be applied for transition purposes. Under this method, lease liabilities are compared with right-of-use assets of the same value. Prior-year comparative disclosures are not required. The accounting treatment is not required to be converted in the case of contracts with a remaining term of less than one year at the transition date. We are examining the potential consequences of this new standard. As required by the EU, we will apply the new IFRS 16 to reporting periods beginning on or after 1 January 2019. The exact quantitative effects of the aforementioned new standard will be determined in the 2018 financial year.

The EU has not yet adopted the following IASB pronouncements:

Standard		Name
• New standards		
IFRS	16	Leases (issued on 13 January 2016)
IFRIC	22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)
• Changes and additions to existing standards		
IFRS	2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)
IFRS	4	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)
IFRS	15	Clarifications to IFRS 15: Revenue from Contracts with Customers (issued on 12 April 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 (issued on 19 January 2016)
IAS	40	Amendments to IAS 40: Tranfers of Investmenty Property (issued on 8 December 2016)
DIV		Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)

We will apply the above new and amended standards when they become effective within the EU. In the absence of an official German translation, the standards are shown with their English titles. Early application is not possible as the standards have not been endorsed.

IFRIC 23 applies, among other things, to unused tax losses (see note 10) and to the determination of tax rates (see note 41) if there is uncertainty regarding their income tax treatment when they are measured. Either the most probable value or the expected value must be used when considering probability. IFRIC 23 is effective for reporting periods beginning on or after 1 January 2019.

The amendment to IAS 40 serves to clarify cases in which the classification of a property as “investment property” begins or ends if the property is still under construction or in development. Within our investment property portfolio, we are still developing only the properties in Luxembourg (see note 7). The amended IAS 40 is effective for reporting periods beginning on or after 1 January 2018.

According to present knowledge, the new standards listed above will have only an immaterial effect on the Villeroy & Boch Group.

The European Commission has resolved not to endorse the following IASB pronouncements 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 315e (1) HGB. The Villeroy & Boch Group would not be affected by either regulation.

INDEPENDENT AUDITOR'S REPORT

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German:

"Independent auditor's report

To Villeroy & Boch Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Villeroy & Boch Aktiengesellschaft, Mettlach, and its subsidiaries (of the Group), which comprise the consolidated balance sheet as at 31 December 2017, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2017 to 31 December 2017 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Villeroy & Boch Aktiengesellschaft for the fiscal year from 1 January 2017 to 31 December 2017.
In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities

in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Measurement of inventories

Reasons why the matter was determined to be a key audit matter

Inventories constitute a significant item in the consolidated financial statements. They are measured at production cost. For this purpose, the standard costs used during the year are adjusted to the respective actual costs at the end of the year with the help of revaluation factors. The adjustment is highly dependent on the assumptions with respect to the overhead costs of the production process that have to be included.

Corresponding valuation allowances take into account inventory risks arising from the period of storage and/or reduced usability. In particular, the determination of the write-down rates and the allocation to various valuation classes in the IT-supported write-down procedure as well as the calculation of additional manual write-downs, where necessary, which are not taken into account in this write-down procedure, are at the discretion of the executive directors of the Group.

Auditor's response

In our audit, we examined the method and the underlying controls of the measurement of inventories.

We verified the method to calculate the standard costs. We analyzed the revaluation factors used for the adjustment of the standard costs to the actual costs on a spot test basis. We also examined whether production-related overhead costs were only taken into account in the calculation of the production costs to the extent that they are incurred with normal utilization of technical and personnel production capacities. In addition, we examined significant changes in production costs at item level compared to the prior year.

We confirmed the suitability of the IT-supported write-down procedure for the assessment of inventory risks. We assessed the system-based implementation of the write-down procedure with the assistance of internal IT experts. We compared the computational logic of the model with the accounting and measurement policies used by the Group and arithmetically verified it on a test basis. We further assessed the write-downs calculated based on past experience through analytical comparisons with the write-downs of individual items and of total inventory applied in prior years.

Our audit did not lead to any reservations concerning the measurement of inventories.

Reference to related disclosures in the consolidated financial statements
Disclosures of the Group on the measurement of inventories are included in the notes to the consolidated financial statements.

2. Recognition and measurement of deferred taxes

Reasons why the matter was determined to be a key audit matter
For the recognition and measurement of deferred taxes, the calculation of all differences between their recognition pursuant to the respective local tax regulations and pursuant to the IFRS accounting requirements as well as the calculation of tax loss carryforwards is required at the level of the tax object. On account of the varied and usually complex local tax regulations, this requires elaborate calculations.
The assessment of the recoverability of deferred tax assets from temporary differences and tax loss carryforwards is based on the assessment of usability in the future through future taxable income. The executive directors therefore make estimates with regard to the economic development of the respective companies based on discretionary judgment.

Auditor's response
Due to the complexity of the tax calculations taking into account the local tax regulations and legislation, we consulted internal tax experts for the assessment of deferred taxes.
For the assessment of the recognition and measurement of deferred taxes, we examined the underlying processes for the recognition and measurement of deferred taxes at the group companies, among other things. We also verified the identification and quantification of deviations between the recognition and the measurement of liabilities on a test basis in accordance with tax regulations and financial reporting pursuant to IFRS, as well as the calculation of the deferred taxes and the application of the tax rate.
For the assessment of the recoverability of tax assets from temporary differences as well as from tax loss carryforwards, we examined, on a test basis, whether the tax planning was derived from the corporate planning and the applicable national tax regulations were observed for the utilization of loss carryforwards. Furthermore, we confirmed the assumptions of the tax planning of the individual companies based on the taxable income generated in the past.
Our audit did not lead to any reservations concerning the recognition and measurement of deferred taxes.

Reference to related disclosures in the consolidated financial statements
Disclosures of the Group on the recognition and measurement of deferred tax assets are included in the notes to the consolidated financial statements.

3. Recognition of pension provisions

Reasons why the matter was determined to be a key audit matter
The estimates made by the executive directors with respect to the existence of an obligation as well as the projection of future cash flows in connection with this obligation have a direct impact on the recognition and measurement of provisions. Particularly for pension provisions, assumptions are to be

made regarding the discount rate to be used, life expectancy and wage and salary developments in the respective countries.

Auditor's response

The Group commissioned an external actuary to determine the amount of pension provisions. We assessed whether the experts have the competence, abilities and objectivity necessary for the purposes of our audit, gained an understanding of the experts' work, and assessed the suitability of the experts' work as audit evidence for the relevant assertions. We gained an understanding of the process of determining the calculation parameters.

We reviewed the plausibility of the calculation parameters used, including the discount rate, inflation rate, and salary development, as well as the mortality tables used, based on internal and external market data.

Our audit procedures revealed that the discount rate used is within an acceptable range and that the other assumptions are also sufficiently documented.

Reference to related disclosures in the consolidated financial statements

Disclosures of the Group on the measurement of pension provisions are included in the notes to the consolidated financial statements.

Other information

The executive directors are responsible for the other information.

The other information comprises:

- the responsibility statement of the executive directors
- the corporate governance report

The supervisory board is responsible for the following other information:

- the supervisory board report

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.
Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.
The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the management report.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.
We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements
Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on 24 March 2017. We were engaged by the supervisory board on 20 September 2017. We have been the group auditor of Villeroy & Boch Aktiengesellschaft without interruption since fiscal year 2009.
We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Mr. Heiko Hummel."

Stuttgart, 31 January 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hummel	Plein
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

DISCLAIMER

Forward-looking statements

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

Rounding differences

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

Technical discrepancies

There may be discrepancies between the accounting documents contained in this report and the accounting documents submitted to the Bundesanzeiger (Federal Gazette) due to technical reasons (e. g. conversion of electronic formats). In this case, the version submitted to the Bundesanzeiger shall be binding. This report has been translated into English. In the event of variances, the German version shall take precedence over the English translation.