GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

2019 Financial Year

Please note:

This document contains the complete, audited Group Management Report and Consolidated Financial Statements of the Villeroy & Boch AG for the 2019 financial year. We are still working on the final layout of our Annual Report 2019 and plan to make it available for download at www.villeroyboch-group.com/en/investor-relations/publications/annual-reports in early March 2020.

GROUP MANAGEMENT REPORT

Content

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- **Consolidated revenue (€ 833.3 million) and operating EBIT (€ 51.0 million) after good fourth quarter in line with the forecast updated after first six months.**
- **Non-recurring effects – in particular real estate income in Luxembourg – spark significant increase in consolidated EBIT to € 103.4 million.**
- **Group result more than doubles year-on-year to € 80.4 million (previous year: € 33.9 million).**

1. BASIC INFORMATION ON THE GROUP

1.1. 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 54 (previous year: 55) consolidated direct or indirect subsidiaries. The change in the basis of consolidation was caused mainly by the disposal of a Luxembourg property company. In addition, two new subsidiaries were founded in the 2019 financial year to develop new digital business areas. It was decided not to include these two companies in the consolidated financial statements of Villeroy & Boch AG as they so far have only minor business activities and their overall impact on the assets, liabilities, financial position and profit or loss of the Group is immaterial. Further information on the basis of consolidation and the investment structure of the Villeroy & Boch Group can be found in notes 2 and 63 of the notes to the consolidated financial statements.

Divisions and sales markets

Our products are sold in around 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 12,000 showrooms worldwide. We also reach the relevant target groups using different forms of communica-

tion, 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 almost 500 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 15 countries via our online shops. All in all, our products are available at around 4,000 points of sale worldwide.

Our product range is also supplemented by licence-based products for house and home, particularly lighting, bathroom accessories, flooring and, from 2019, home furniture.

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

Locations

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

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

PRODUCTION SITES BY REGION

1.2. 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. The operating result used here is the result of operating activities at group level. 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 2019 financial year prepared in accordance with section 315b (3) of the German Commercial Code (HGB) is available online at https://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports.html. For further details, please refer to the "Sustainability" section.

1.3. 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 € 16.6 million in research and development in the 2019 financial year (previous year: € 15.9 million). Of this figure, € 12.2 million (previous year: € 11.8 million) was attributable to the Bathroom and Wellness Division and € 4.4 million (previous year: € 4.1 million) was attributable to the Tableware Division.

Our research and development activities in the 2019 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.

The development work as part of the "HyFly" collaborative project, which was initiated in 2016 under the "InfectControl 2020" research initiative launched by the German Federal Ministry of Education and Research (BMBF), was continued in 2019. Here we are working with research institutions and universities to design functional surfaces that combine antibacterial and easy-care properties. Scien-

tific methods from the fields of fluid mechanics and numerical simulation have enabled us to develop new concepts for WCs and washbasins with special hygienic advantages and to test their effectiveness in the design stage. Together with a research group from Saarland University, the feasibility of innovative methods for the manufacture of functional surfaces was investigated. The aim of these activities is to create products for sanitary facilities requiring high standards of hygiene and infection prevention, for instance public buildings or infrastructure projects such as airports or railway stations. In the "KARMIN" research project, another subproject under the "InfectControl 2020" initiative, we are participating as an associate industrial partner to create a hygiene-optimised wet room designed for installation in hospital patient rooms.

Other research cooperations in the reporting period worked towards the launch of state-of-the-art testing methods in quality control and assurance. In addition to the qualification of raw materials and ceramic slurries, methods were investigated to improve the understanding of the processing properties of intermediate products in ceramic sanitary ware production.

Digitalisation in occupational health and safety

As part of occupational health and safety, we continued our efforts in terms of process digitalisation in 2019 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 completed our cooperation in a research project with the German Research Centre for Artificial Intelligence (DFKI) and two other partners as planned. The goal was to automate currently manual processes in occupational hazardous substance management as far as possible.

The pilot project has shown that the use of the future programme with artificial intelligence (AI) entails potential savings in occupational hazardous substance management. In particular, the automatic read out of safety data sheets and the AI-based search for substitute materials allow time and thus cost savings. It is expected that the implementation of the demonstrator in holistic hazardous substance management software will result in further savings potential relating to the creation of hazard assessments. Overall, this will serve to avoid and reduce risks to employees and customers in line with the latest knowledge available.

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. Advanced manufacturing processes are often needed to make new ideas for designing sophisticated products a reality. Various product and process developments are emerging from the intelligent use and combination of existing technologies.

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

Product development

Product-related development activities in the Bathroom and Wellness Division included the continuous enhancement of our innovative ceramic material TitanCeram, which makes it possible to produce designs with extremely thin walls and clearly defined edges, and is also very stable and robust.

Thanks to the ongoing evolution of TitanCeram, the innovative material has now also been placed in the mainstream segment. The washbasins of the Collaro collection are winning over consumers in this price segment with their state-of-the-art design and delicate profiles. In addition, new colours have been developed, such as the new matte colours for Memento 2.0 and the new Glossy Black for ViClean-I 100, our new generation of shower toilets. RockLite, the shower tray technology developed by Villeroy & Boch is being used for the first time. A new type of core based on high-quality polyurethane enables a new back design for acrylic shower trays with the goal of maximum material stability. Also new is the addition of accessories such as wall handles and hanging seats to our ViCare accessibility collection.

Our development activities in the Tableware Division focused on glazes and various surfaces. Copper Glow is the new metallic-looking surface finish, a purely inorganic material with unusually high scratch resistance, which is extremely durable and can even be used in a microwave. Copper Glow was developed for all application techniques (painting, spraying, decoration) and can be used accordingly.

We also further advanced 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. The existing research project with external knowledge partners has been extended with the primary aim of further optimising printing speed and size as well as the quality and performance characteristics of the printed ceramic products.

1.4. 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. Through close cooperation with our suppliers, we are also aiming to continuously improve the quality of our products and business processes while advancing innovation.

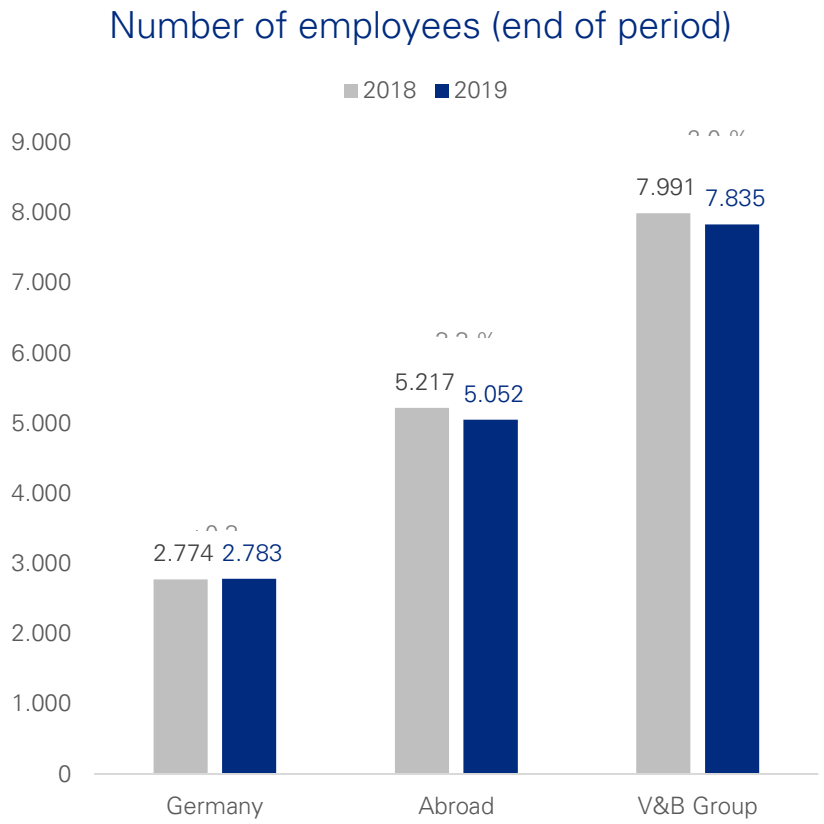
The Group's procurement prices increased slightly overall in the 2019 financial year. As before, higher prices for transport, energy and raw materials in particular contributed to the rise in costs. There were also negative effects from exchange rates. The countermeasures taken in the context of procurement management were unable to fully offset price increases.

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 min-

imised to the greatest possible extent. To this end, contracts with suppliers are negotiated, compliance with statutory provisions is pursued 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.

1.5. Employees

Workforce



The Villeroy & Boch Group had a total of 7,835 employees as at 31 December 2019, a decrease of 156 compared with the end of the previous year (7,991.) 35.5 % of the workforce was employed in Germany (previous year: 34.7 %). The Bathroom and Wellness Division accounted for 4,982 employees (previous year: 5,184), while a total of 2,273 people were employed in the Tableware Division (previous year: 2,244) and 580 in central functions (previous year: 563).

Taken as an average for the year as a whole, our workforce decreased from 8,018 in the previous year to 7,846. This particularly affected the Bathroom and Wellness Division.

2 ECONOMIC REPORT

2.1. General Economic conditions

Global economic growth continued to slow as the year progressed, and was below the previous year's level. The intensification of the trade conflict between the United States and China had a substantial negative impact on the world economy this year. In October 2019, the International Monetary Fund (IMF) lowered its growth forecast for 2019 for the fourth time in a row to currently 3.0 %.

Economic performance in the euro area was highly subdued compared to the previous year, but defined by robust expansion overall. Brexit uncertainty had a tangible impact on the economy. Despite the weakness in the euro area, the economy was robust in the Central and Eastern European Member States. The German economy again moved down a gear under the weight of trade wars, global conflict and the weaker world economy. Owing to the dependence on export business and industry in particular, the IMF estimates that economic output is likely to have risen by an average of 0.5 % in 2019.

Overseas, the economic growth of the world's two biggest economies was more downbeat. The US economy is undergoing a moderate rising trend, with exports and corporate investment tending to be weak, while private consumer spending – buoyed by a robust labour market – grew quite strongly until recently. The expansion of the Chinese economy slowed on account of the influence of the trade conflict with the US and the country's structural problems and was lower than expected. This economic downturn is now also affecting our industries.

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry. The positive development in residential construction in Europe declined slightly following an initially strong start. Despite consistently favourable financing conditions, construction on our key domestic market of Germany expanded only modestly. This is due to steady high capacity utilisation in the industry, which has been limiting the growth in construction investment for some time, above all on account of capacity bottlenecks at companies.

A key factor for business performance in the Tableware Division is the consumer climate among private households. According to the market research institute GfK, growth in private consumer spending in Germany stabilised at a level of 1.5 % in 2019 in spite of the economic downturn. In addition, consumer activity is reflected in the frequency of visits to retail outlets. Bucking the trend to date, our shops in Germany, our key domestic market, and Austria, Switzerland, France and the Benelux countries reported a slight increase in visitor frequency compared to the previous year. By contrast, visitor frequency is in decline above all in the Scandinavian region and overseas.

2.2. Course of business and position of the Group

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

Taking our intra-year forecast adjustment into account, we achieved our revenue and EBIT targets for the 2019 financial year. The table below shows a comparison of the adjusted forecast and actual key figures for 2019 and the forecasts for 2020:

Group targets

	Forecast 2019 [1]	Actual 2019	Forecast 2020
Revenue	€ 825 - 850 million	€ 833.3 million	slight growth
Operating EBIT	€ 48 - 52 million	€ 51.0 million	slight growth
Return on net operating assets	slightly below 16 %	14.4%	at 2019 year's level
Investments (without leasing)	€ 30 - 35 million	€ 33.2 million	moderate increase

1) Forecast updated during year

In the 2019 financial year, consolidated revenue amounted to € 833.3 million in total (previous year: € 853.1 million) and was therefore within the target corridor adjusted during the year. Thanks to a strong business performance in both divisions in the fourth quarter of 2019, we continued the improved trend of the third quarter and partially compensated for the weak start to the year. Overall, consolidated revenue declined by 2.3 % year-on-year on account of the revenue development in the Bathroom and Wellness Division.

We also achieved the target for our operating result that was adjusted after the first half of the year. With operating EBIT of € 51.0 million, we were at the upper end of our forecast of € 48 million to € 52 million. This achievement was aided by both the improved business performance in the second half of the year and our systematic cost management.

Furthermore, we generated a non-operating result of € 52.4 million from the sale of the real estate in Luxembourg. EBIT therefore amounted to € 103.4 million in total.

The Group's rolling return on net operating assets was 14.4 % as at the end of the year. The change as against the previous year (16.7 %) was caused by the rise in rolling net operating assets to € 354.6 million (previous year: € 320.4 million). This is as a result of an accumulation of assets mainly reflected in non-current assets and inventories.

At € 33.2 million (previous year: € 43.6 million) in total, investments in property, plant and equipment and intangible assets in the 2019 financial year were also within our forecast corridor updated during the year of between € 30 million and € 35 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.

2.3. Results of operations

The following information provides an overview of our results of operations in the 2019 financial year.

Consolidates Revenue 2019

Consolidated revenue down 2.3 %

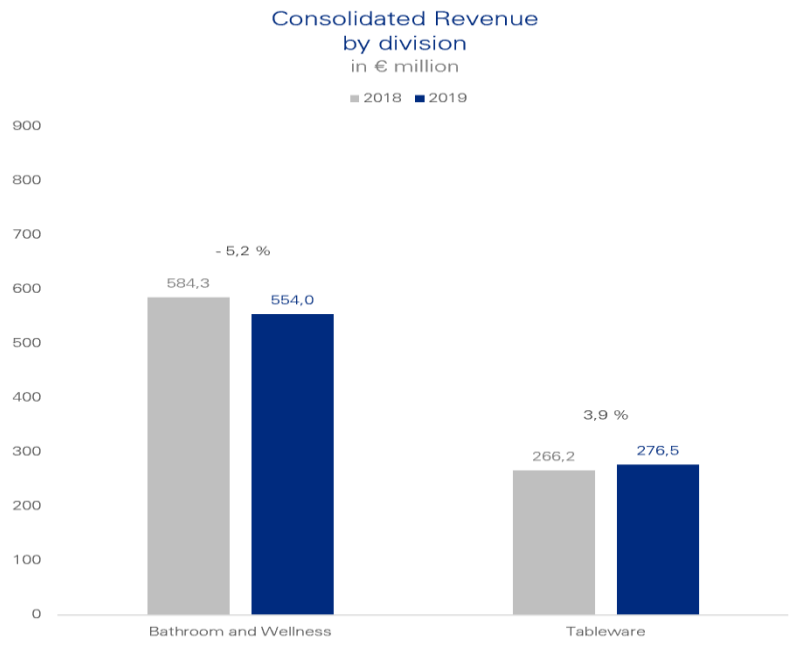
The Villeroy & Boch Group generated revenue of € 833.3 million in the 2019 financial year. Revenue nominally declined by 2.3 % as against the previous year (€ 853.1 million). On a constant currency basis, exchange rate effects of an insignificant amount resulted in a reduction in revenue of 2.5 %.

Of the license income included in revenue of € 7.1 million (previous year: € 6.1 million), € 0.6 million (previous year: € 0.5 million) was attributable to the Bathroom and Wellness Division and € 3.7 million (previous year: € 3.0 million) to the Tableware Division. € 2.8 million (previous year: € 2.6 million) related to licence agreements in central functions.

We reported a revenue decline of 1.6 % in our main EMEA region (Europa, Middle East, Africa). In the second half of the year, we more than compensated for the revenue deficit from the first half in various countries – for example, on our domestic market of Germany (+2.4 %), in Eastern European countries such as Hungary (+9.1 %) or Poland (+8.4 %) and in Russia (+1.4 %). By contrast, the effects of the anticipated Brexit in the UK caused revenue to slide by 5.5 %. Furthermore, tension in various countries in the Middle East triggered revenue losses of 21.9 %.

Overseas we experienced a decline in revenue of 5.6 %. This was especially apparent in China, where revenue was 4.9 % lower than in the previous year as a result of the trade conflict with the US.

Revenue by division



The **Bathroom and Wellness Division** generated revenue of € 554.0 million in the 2019 financial year. Revenue development varied in our different business areas. While revenue grew by 4.1 % and 1.1 % respectively in wellness and kitchen business, it was in decline in the business areas of ceramic sanitary ware (-8.3 %), fittings (-1.4 %) and bathroom furniture (-1.3 %).

The increase in wellness revenue was above all thanks to a good performance in bathtubs and shower tubs in a number of countries. The main exceptions to this were the markets of France and the UK.

The revenue contraction in sanitary ware products principally resulted from the difficult first half of the year, which was characterised by the reduction in inventories by our customers and delays in project business in China in particular. Figures were also affected by the trade dispute between the US and China. Thankfully, business stabilised in the third quarter, and even returned to growth once again in the fourth quarter. This allowed the division to partially make up for the significant year-on-year revenue deficit seen earlier in the year.

The reduction in tap fittings was partially due to currency effects. While we achieved marginal revenue growth in bathroom furniture through the Sanipa brand, this only partially countered the revenue losses on Villeroy & Boch brand bathroom furniture.

In the **Tableware Division**, we generated a revenue volume of € 276.5 million in the 2019 financial year, outperforming the previous year by a substantial € 10.3 million or 3.9 %. On a constant currency basis, this revenue growth amounted to 3.0 %.

E-commerce activities were our biggest growth driver on almost all relevant markets (+16.3 %). Our decision to focus on this growing channel, combined with greater investment in personnel and IT structures, as well as the enhanced professionalism this entailed, paid off significantly. This found support in a significant rise in demand for Villeroy & Boch branded products, such as the new Manufacture Rock collection. E-commerce activities now account for around 19.6 % of the Tableware Division's total revenue across all regions.

The development in project business was just as encouraging, with growth of 3.9 % thanks in particular to the more intensive involvement of our project partners. Markets in Europe and the Americas mainly contributed to this.

Also, optimised shop management at our retail stores allowed us to achieve slight growth of 1.3 % once again after the declines of recent years. In addition to this growth, this sales channel is still especially important to us as a brand ambassador and showcase.

Meanwhile, business with our retail outlet partners, above all on the American market, experienced a marginal decline in revenue of 1.0 %. By contrast, the European markets enjoyed a positive performance as a result of the further expansion of our distribution activities.

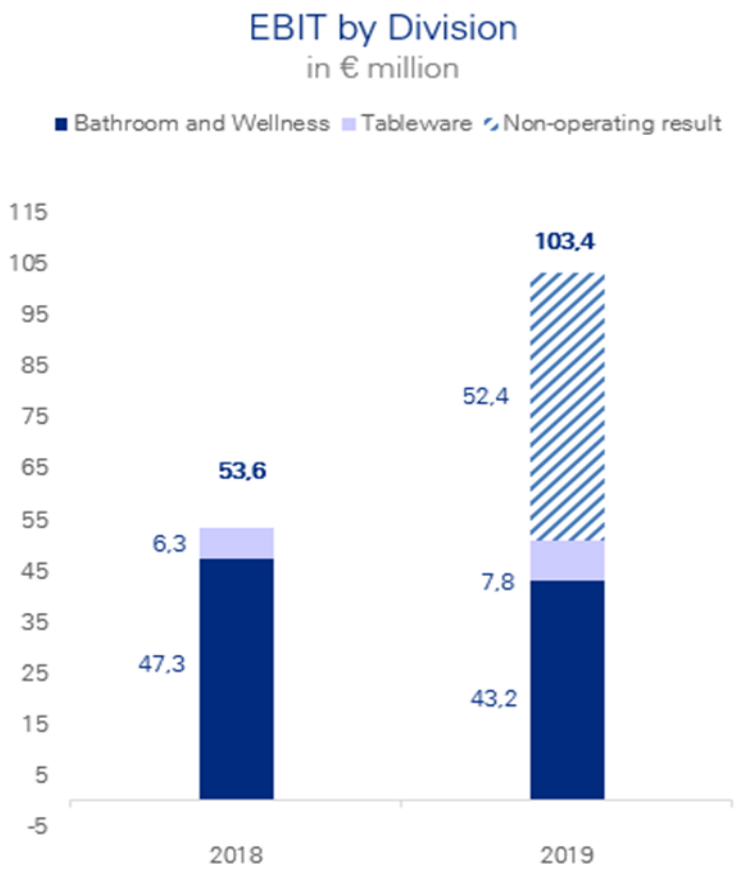
Orders on hand

The Villeroy & Boch Group's orders on hand declined from € 59.8 million in the previous year to € 44.8 million. The Bathroom and Wellness Division accounted for € 35.3 million of this figure (previous year: € 48.7 million). The decline was due to the strong final quarter in particular. The Tableware Division accounted for € 9.5 million (previous year: € 11.1 million) as at the end of the reporting period.

Consolidated EBIT

EBIT up significantly by € 49.8 million year-on-year at € 103.4 million

Our earnings before interest and taxes (EBIT) amounted to € 103.4 million in the 2019 financial year, significantly higher – by € 49.8 million – than the previous year's figure of € 53.6 million. It should be noted that we benefited from non-recurring income of € 52.4 million in the past financial year, mainly as the result of the real estate sale in Luxembourg. At € 51.0 million, operating EBIT was slightly lower than the previous year's figure of € 53.6 million on account of revenue effects.



In particular, the stand-out examples of the continuing success of cost management in the past financial year included the absolute reduction of selling, marketing and development costs to € 261.6 million (previous year: € 266.9 million €) and general and administrative expenses to € 42.3 million (previous year: € 43.8 million).

At € 0.8 million, other operating expenses and income were at a similarly low level to the previous year (€ -1.6 million).

The non-operating result of € 52.4 million mainly included the income from the sale of our former plant property in Luxembourg (€ 87.7 million), which was offset by non-recurring expenses of € 35.3 million in total. These essentially comprised expenses for recultivation and demolition activities totalling € 18.8 million – above all for French and German locations – in addition to expenses for the implementation of a transformation and efficiency enhancement programme under IAS 37.72-79 (€ 10.6 million) and project costs in connection with the strategic orientation of the Group (€ 4.3 million).

The non-operating result includes all income statement functions, which are assigned to consolidated income statement items as circumstances dictate.

Operating result (EBIT) by Division

Bathroom and Wellness Division

The Bathroom and Wellness Division closed the 2019 financial year with an operating result (EBIT) of € 43.2 million (previous year: € 47.3 million). The drop in earnings was largely a result of lower revenue.

Tableware Division

The Tableware Division generated an operating result (EBIT) of € 7.8 million (previous year: € 6.3 million) in the 2019 financial year, up 23.8 % on the previous year thanks to the positive development in business.

Group result

In the 2019 financial year, we more than doubled our Group result compared to the previous year at € 80.4 million (€ 33.9 million). The significant increase is mainly based on the non-operating result generated in the financial year.

Net finance costs were € -2.3 million below the previous year's figure at € -6.7 million (€ -4.4 million). The change was due in part to higher interest expenses for pension obligations (€ -0.8 million) and the change in accounting for leases under the new IFRS 16 (€ -0.8 million).

Income tax expense was up slightly on the previous year at € 16.3 million (€ 15.3 million). As a result of the tax-free non-recurring income from the property project in Luxembourg in particular, the tax rate was 16.9 % (previous year: 31.1 %). A tax rate at the usual level is expected again for the 2020 financial year (approximately 30 %).

Structure of the consolidated income statement (IFRS)

In summary, the results of operations for the 2019 financial year were as follows:

in Euro million	2019	% of revenue	2018	% of revenue
Revenue	833,3	100,0	853,1	100,0
Cost of sales	-479,0	-57,5	-487,3	-57,1
Selling, marketing and development costs	-261,6	-31,4	-266,9	-31,3
General administrative expenses	-42,3	-5,1	-43,8	-5,1
Other expenses/income	0,8	0,1	-1,6	-0,2
Result on financial investments accounted according to the equity method	-0,2	0,0	0,1	0,0
Operating EBIT	**51,0**	**6,1**	**53,6**	**6,3**
Non-operating result	52,4	6,3	-	-
EBIT	**103,4**	**12,4**	**53,6**	**6,3**
Financial result	-6,7	-0,8	-4,4	-0,5
Earnings before taxes (EBT)	**96,7**	**11,6**	**49,2**	**5,8**
Income taxes	-16,3	-2,0	-15,3	-1,8
Group result	**80,4**	**9,6**	**33,9**	**4,0**

Dividend proposal

At the General Meeting of Shareholders on 27 March 2020, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

0,55 € per ordinary share
0,60 € per preference share

This represents a total dividend distribution of € 16.1 million. Based on the unchanged number of preference shares held by the company at the payment date, the total cash outflow will probably be € 15.1 million.

2.4. 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 2019 financial year:

in € million	31/12/2019	31/12/2018
Equity	254,0	209,4
Non-current liabilities	364,5	236,6
Current liabilities	274,6	235,6
Total equity and liabilities	**893,1**	**681,6**

Equity increased by € 44.6 million year-on-year to € 254.0 million in the period under review. This is essentially thanks to the improved Group result. Retained earnings rose by a net amount of € 65.1 million, with the Group profit of € 80.4 million generated in the 2019 financial year offset by the dividend distribution in April 2019 (€ 15.1 million). In total, our equity ratio dropped to 28.4 % as against the previous year's 30.7 %. This is above all due to the higher total assets as a result of the adoption of the new IFRS 16 "Leases" (-1.6 percentage points), the borrowing of bank loans and the reduction of equity owing to the effect of the lower discount rate for pension provisions (-1.6 percentage points). 85.4 % of the Group's non-current assets in the amount of € 297.4 million were covered by equity.

Non-current liabilities in the amount of € 364.5 million comprised pension provisions, financial liabilities, lease liabilities, other provisions, other liabilities, provisions for personnel and deferred tax liabilities. Non-current liabilities grew by € 127.9 million as against the previous year. Financial liabilities rose by € 45.0 million, other liabilities by € 24.5 million, other provisions by € 15.0 million and pension provisions by € 12.7 million. Furthermore, the first-time recognition of lease liabilities (€ 30.2 million) also caused this item to grow. The rise in other liabilities mainly relates to the repayment obligation from the real estate sale in Luxembourg (€ 24.7 million). The increase in other provisions includes the provisions recognised in 2019 for recultivation and demolition obligations (total: € 19.3 million) with a non-current component of € 14.9 million.

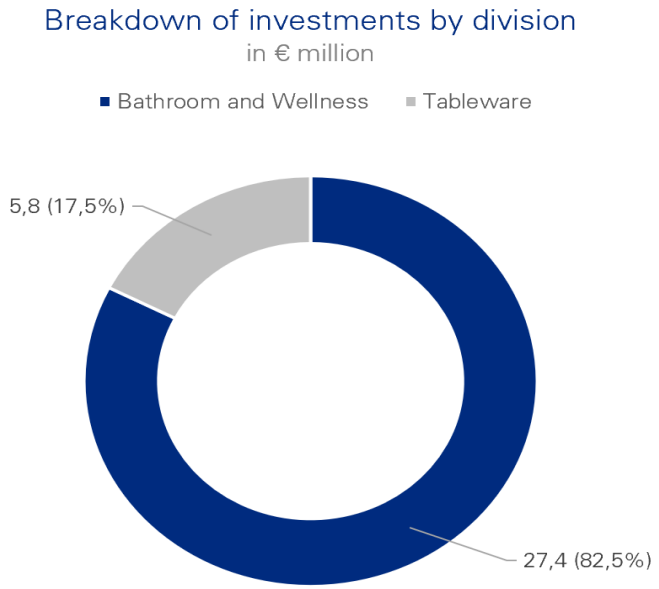
Current liabilities, consisting of other liabilities, trade payables, financial liabilities, other provisions, personnel provisions, lease liabilities and income tax liabilities, climbed by € 39.0 million as against the previous year to € 274.6 million. The increase is largely due to the first-time recognition of lease liabilities in the amount of € 13.1 million, the rise in financial liabilities of € 9.4 million and the

growth in other provisions of € 11.7 million. The increase in other provisions includes obligations of € 10.4 million in connection with the transformation and efficiency enhancement programme for the Group's ongoing development in terms of efficient structures.

Investments

Investments in property, plant and equipment and intangible assets

Our investments in property, plant and equipment and intangible assets totalled € 33.2 million in the 2019 financial year (previous year: € 43.6 million). 31 % of this figure was attributable to Germany (previous year: 43 %). At the end of the year 2019, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 6.3 million. Our investment obligations are financed from operating cash flow.



At € 27.4 million or 82.5 %, our investments were concentrated primarily on the **Bathroom and Wellness Division**. The focus was on the establishment of new production facilities for our ceramic plants in Germany and abroad, particularly in Thailand, Hungary and France.

We invested € 5.8 million in the **Tableware Division**, corresponding to 17.5 % of the total investment volume. 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 Germany, China and the United States.

Please see note (6) to the consolidated financial statements for further information on the Group's material investing activities in the reporting period.

Financing

Condensed cash flow statement

in € million	2019	2018
Group result	80,4	33,9
Current depreciation and amortisation of non-current assets	41,7	23,5
Change in non-current provisions	7,5	-18,8
Profit from disposal of fixed assets	-88,0	-3,3
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	-6,7	-41,3
Other non-cash income/expenses	11,4	8,1
Net cash flow from operating activities	**46,3**	**2,1**
Net cash flow from investing activities	**81,3**	**-44,6**
Net cash flow from financing activities	**24,6**	**-7,6**
Total cash flows	**152,2**	**-50,1**
Balance of cash and cash equivalents on 1 January	**57,6**	**108,7**
Change based on total cash flows	152,2	-50,1
Change due to exchange rate effects	0,5	-1,0
Balance of cash and cash equivalents on 31 December	**210,3**	**57,6**

Our cash flow from operating activities amounted to € 46.3 million (previous year: € 2.1 million). The cash flow from operating activities improved by € 14.2 million in the 2019 financial year as a result of the adoption of IFRS 16 “Leases”, as the net cash used is now reported under cash flow from financing activities. This change is included in the increased depreciation and amortisation of non-current assets. The profit from disposal of fixed assets mainly includes the income from the sale of our former plant property in Luxembourg (€ 87.7 million). An increase in trade receivables (€ 5.7 million) and inventories (€ 9.9 million) is offset by higher provisions, mainly from the addition of provisions for recultivation and demolition obligations (€ 19.3 million, € 4.4 million of which is current) and the provision for the transformation and efficiency enhancement programme (€ 10.4 million).

Net cash from investing activities of € 81.3 million (previous year: € -44.6 million) mainly included the proceeds from the disposal of the former plant property in Luxembourg of € 114.0 million and other proceeds from the disposal of assets amounting to € 5.0 million, which were offset by investments of € 37.7 million in total for acquisitions of property, plant and equipment, non-current financial assets and intangible assets.

Net cash from financing activities amounted to € 24.6 million (previous year: € -7.6 million). The rise in financial liabilities (€ 54.4 million) was offset by the payments of principal portion of lease liabilities (€ 14.2 million) shown here for the first time as a result of the adoption of IFRS 16 “Leases” and the dividend distribution paid out in April 2019 (€ 15.1 million).

Liquidity

Net liquidity

Our net liquidity amounted to € 97.8 million as at the end of the reporting period (previous year: € -0.5 million). The rise in net liquidity resulted in particular from the purchase price payment received in

connection with the disposal of the former plant property in Luxembourg (€ 114.0 million), which was mainly offset by the rise in inventories (€ 9.9 million) and trade receivables (€ 5.8 million).

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

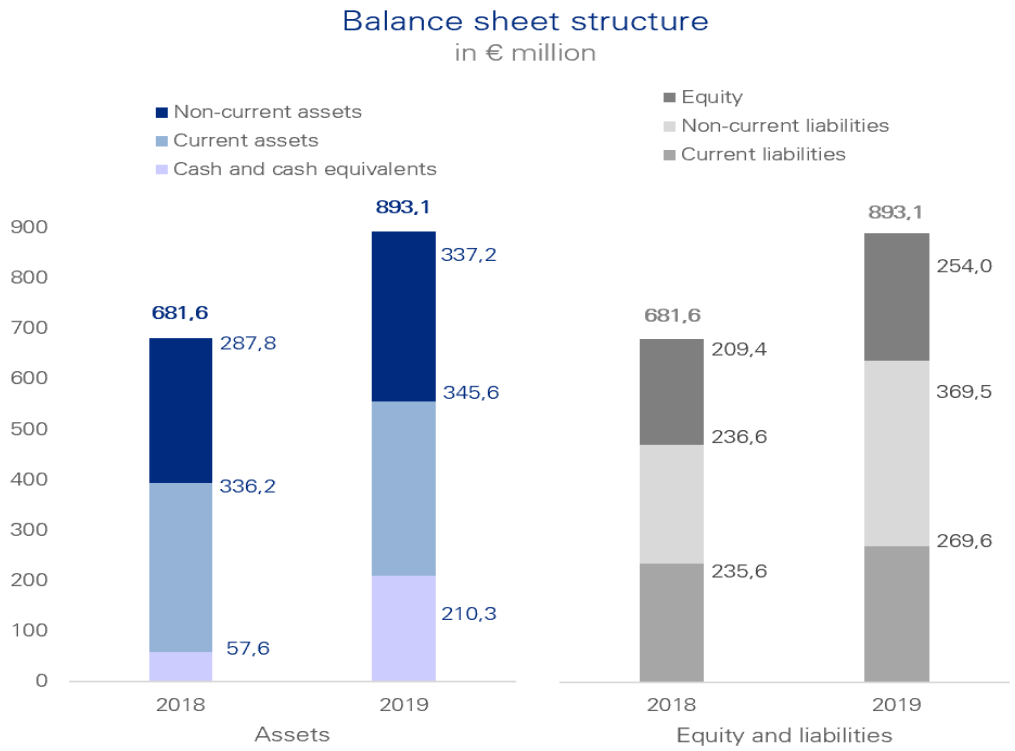
At 31 December 2019, we had unutilised credit facilities totalling € 233 million (31 December 2018: € 220 million) that were not subject to any restrictions.

2.5. Net assets

Balance sheet

The Villeroy & Boch Group had total assets of 893.1 € million at 31 December 2019 compared with € 681.6 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 € 337.2 million (previous year: € 287.8 million) comprised non-current fixed assets including right-of-use assets, deferred tax assets and other assets. The difference essentially results from the transition to accounting under IFRS 16 “Leases”, which resulted in right-of-use assets of € 42.0 million being recognised for the first time. Further information on the effects of IFRS 16 can be found in the notes to the consolidated financial statements (note 7). Moreover, intangible assets rose by € 3.3 million and property, plant and equipment by € 4.7 million.

The share of total assets attributable to non-current assets amounted to 33.3 % (previous year: 36.4 %).

Current assets were mainly composed of cash and cash equivalents, inventories, trade receivables and other current assets. Current assets (including assets held for sale) declined by € 162.1 million year-on-year to € 555.9 million.

Cash and cash equivalents amounted to € 210.3 million, € 152.7 million higher than the previous year's level. This mainly related to the purchase price payment received for the property in Luxembourg in December 2019 (€ 114.0 million) and the borrowing of loans (€ 70.0 million). This was offset by the payment of the dividend (€ 15.1 million) and the financing of our operating assets, which is predominantly reflected in inventories (€ 9.9 million) and trade receivables (€ 5.8 million).

Current assets increased by € 9.4 million from € 336.2 million to € 345.6 million. The growth in inventories and trade receivables was offset by a decline in other assets of € 6.9 million.

The items of the equity and liabilities side of the statement of financial position are discussed in the "Capital structure" section of the management report.

2.6. 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 non-current assets (comprising intangible assets, property, plant and equipment and right-of-use assets) plus inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities (including lease 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 2019, the rolling net operating assets of the Villeroy & Boch Group were composed as follows:

V&B Group *(in € million)*	**2019**	**2018**
Net operating assets	**354,6**	**320,4**
Property, plant and equipment	237,0	183,5
Inventories	181,0	169,7
Receivables (from third parties)	127,2	123,9
Liabilities	- 66,8	- 70,2
Other assets	-123,7	- 86,5
Operating result (EBIT)	51,0	53,6
Return on net operating assets	**14,4%**	**16,7%**

The Group's return on net operating assets declined by 2.3 percentage points to 14.4 % as at the end of 2019. In addition to a slight decline in operating result, this is predominantly as a result of an accumulation of assets mainly reflected in non-current assets and inventories. There is also a reduction in trade payables and other net assets. The adoption of IFRS 16 had only a minor impact. The right-of-

use assets (€ 42.0 million) contained in non-current assets are virtually offset by the lease liabilities (€ 43.3 million) contained in other net assets.

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

Bathroom and Wellness *(in € million)*	**2019**	**2018**
Net operating assets	**269,7**	**234,4**
Property, plant and equipment	184,8	160,4
Inventories	114,9	103,3
Receivables (from third parties)	97,0	94,2
Liabilities	- 51,8	- 54,1
Other assets	- 75,2	- 69,4
Operating result (EBIT) *	47,0	54,8
Return on net operating assets	**17,4%**	**23,4%**

* 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 return on net operating assets for the Bathroom and Wellness Division decreased to 17.4 % (previous year: 23.4 %). This was a consequence of the lower result and the rise in operating net assets (€ +35.3 million) – mainly in non-current assets, but also in inventories. The Bathroom and Wellness Division includes non-current assets of € 10.5 million and other net assets of € 10.3 million from the adoption of IFRS 16.

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

Tableware *(in € million)*	**2019**	**2018**
Net operating assets	**84,9**	**86,0**
Property, plant and equipment	52,3	23,1
Inventories	66,1	66,4
Receivables (from third parties)	30,1	29,7
Liabilities	- 15,0	- 16,1
Other assets	- 48,5	- 17,1
Operating result (EBIT) *	7,3	3,0
Return on net operating assets	**8,6%**	**3,5%**

* 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 return on net operating assets in the Tableware Division improved by 5.1 percentage points from 3.5 % to 8.6 % thanks to the gratifying trend in earnings. The adoption of IFRS 16 has resulted in non-current assets of € 30.0 million and other net assets of € 30.3 million.

3. SUSTAINABILITY

3.1. General explanations [1]

For us, achieving our financial targets is closely connected to the various aspects of sustainability and corporate social responsibility, 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.

[1] This section is an unaudited part of the Group management report.

3.2. Non-financial declaration

In accordance with sections 289b, 315b of the *Handelsgesetzbuch* (HGB – German Commercial Code), Villeroy & Boch AG is required to supplement its (Group) management report with a non-financial declaration. Reportable aspects within the meaning of 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 declaration, we have exercised the option provided by law of alternatively producing a combined, separate non-financial report for the Villeroy & Boch Group and Villeroy & Boch AG. This is published online at https://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports.html. This non-financial report is integrated into our sustainability report for the financial year from 1 January to 31 December 2019, in which we report extensively on our non-financial performance.

4. REPORT ON RISKS AND OPPORTUNITIES

4.1. 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.

4.2. 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.

4.3. 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 *Handelsgesetzbuch* (HGB – German Commercial Code), 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 financial reporting is reliable and that the accounting is consistent with legal requirements, generally accepted principles of proper accounting and internal guidelines.

The internal control and risk management system relating to financial reporting is integrated into our Group-wide risk management system, which allows us to avoid redundancies. 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 transparently, 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 uniform accounting, 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 avoid unauthorised data access to accounting content.

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 and communicating weaknesses, initiating improvement measures and examining whether weaknesses have been rectified.

4.4 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).

Compared to the previous year, our assessment of the individual risks in terms of the potential financial impact has been reduced to "moderate" for product development risks and increased to "significant" for environmental protection risks (see information on individual risks).

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 around 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. In the event of a hard, no-deal Brexit we foresee not inconsiderable repercussions for our sales on the UK market: In addition to a lower revenue volume on account of the economic situation, we above all anticipate risks from adverse exchange rate changes and customs duties, which would significantly increase the costs of reciprocal trading with the UK. On our largest growth market, China, the trade war with the United States caused a tangible slump in the economy in 2019, which is now affecting our industry as well. Not least, our markets in the emerging economies are exposed to the general economic risk that the further tightening of US interest rate policy could exacerbate the withdrawal of capital by foreign investors. In addition, consumer spending and consumer confidence on the individual markets can be negatively impacted by socio-political factors such as military conflicts or civil unrest.

In the Bathroom and Wellness Division, in the face of rising concentration within the sanitary ware industry, we anticipate increased competitive pressure and the associated risk of changes in market share. Specifically in project business, we face the challenge of tapping additional growth potential in order to successfully defend our market position against the competition.

As well as economic sales risks, the Tableware Division is subject to the additional challenges of the dynamic change in our customers' consumer behaviour. Achieving our revenue targets is therefore closely tied to the successful operational implementation of our sales measures, particularly in the growth channels of e-commerce and project business. As for our product areas requiring intensive marketing – new products and secondary brands – the inherent uncertainty in terms of future acceptance by our business partners is naturally unavoidable. Consistent declines in customer numbers at retail stores in the western European markets represent a not inconsiderable sales risk for our own outlets as well, which we are counteracting in particular by improving the connectivity of our offline and online sales channels. 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 deterioration in our cost position, while we would be unable to benefit in full from phases of falling market prices on account of having locked in prices for the medium or long term.

Product development risks

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

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

Production risks

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

Environmental protection risks

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. In the 2019 financial year, provisions of € 19.3 million were recognised for recultivation and demolition obligations, mainly in connection with locations in France and Germany. For example, such obligations arose following the closure of the tile production location in France and the cancellation of the current lease by V&B Fliesen GmbH in December of this year.

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.

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 12 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 2019.

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 13 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 2019.

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 2019. Further information on the management of liquidity risks can be found in note 55 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 predominantly 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 2019. As in the previous years, however, there is an increased risk due to the volatility of various currencies, for example the pound sterling, the Swedish krona, the Norwegian krona and the Chinese renminbi. These currencies can be expected to see a heightened exchange rate risk once again in 2020. We use a dynamic hedging approach to address these risks. Further information on the management of exchange rate risks can be found in note 55 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 2019. In 2019, 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 55 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 2019. In 2019, 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 2019. Further information on the management of commodity price risks can be found in section 55 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.

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. Furthermore, in light of digitalisation, we must adapt to the changes in the job profiles that will be required moving ahead.

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. This was seen in the 2019 financial year on account of the significant decline in interest rates. Provisions for pensions are described in note 27 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.

After obtaining legal advice, the Supervisory Board has come to the conclusion that claims for recourse could be made against four former members of the Management Board in connection with the EU's decision on bathroom manufacturer antitrust proceedings. Actions for performance are pending against all four. No 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, firewall technology at all Group locations. 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 2019 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.

4.5. 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 Direct-Flush WC and innovations such as the state-of-the-art ViClean-I 100 shower toilet, in which all the technology is integrated inside the WC's ceramic, we are underlining our claim to innovation leadership in ceramic sanitary ware. Further examples include innovative materials like TitanCeram, which combines selected natural materials such as feldspar, quartz, clay and titanium dioxide for particularly delicate yet stable washbasins, and our matte TitanGlaze, which gives the ceramic a very scratch- and impact-resistant finish thanks to a high-purity, crystalline aluminium oxide. 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. Looking ahead, we are therefore focusing especially on the global boom in mobility and sustainability trends, which we intend to address with our growing "To Go" series – reusable products for eating and drinking away from the home. We are also continuing to step up our "Giftware & Accessories" product field.

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. The biggest growth potential in the Bathroom and Wellness Division still lies on our Chinese market, which is characterised by an ever larger middle and upper class with a propensity for consumer spending and, above all, a strong affinity for brands. Even the current economic dip in the Chinese construction sector does not alter this fundamental assessment. We have intensified the expansion of our distribution network in recent years by establishing independent organisations, including local logistics platforms. Accordingly, we continued to expand our local points of sale in the 2019 financial year as well. The Chinese market will become considerably more important for the Tableware Division as it expands its distribution. On the US market and selected European markets, we are focusing on strengthening the existing retail structure through a more differentiated assortment policy.

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 order to manage our international activities even more efficiently, we have expanded the new central organisational unit "Global Projects", based in London, through which we actively reach out to top interior designers and the major hotel groups and project developers. The expansion of project business also represents an opportunity in the Tableware Division, where our sales activities are mainly focused on cruise ships in addition to hotels and restaurants. We are capable of providing customised products.

Furthermore, we are committing to the trend for sustainable products in the “to go” area, which is becoming increasingly important for cities and major companies.

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. In the brand licence area, our licensing partners currently offer tiles, fittings, wooden flooring, lighting and – since the start of 2019 – furniture under the Villeroy & Boch brand.

Opportunities through digitalisation

Opportunities of digitalisation for marketing

In recent years, we have massively upgraded our structures and investment in digitalisation, and are gearing our online activities towards providing our customers with innovative, needs-driven concepts, 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. 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, in recent years we have continuously optimised the content of the Villeroy & Boch website and added additional functions. 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. As a result, Villeroy & Boch’s visibility and presence in digital channels has been increased significantly in all regions. Thanks to the implementation of a completely new technical platform for our online presence, in the years ahead we will create additional opportunities to actively serve new and existing customers even more effectively.

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. After having continued to expand the human resources capacities of the specialist departments and improving processes, our online revenue grew by around 17 % year-on-year in the 2019 financial year. Our dedicated online shops are a key pillar of this growth. This positive development is to be continued and advanced further in the years ahead.

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, 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. 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 are continuously being established and enhanced, while further improving lead processing with our dealers.

Opportunities of digitalisation for production

Digitalisation is opening up new opportunities and vast potential for our production sites. Initial pilot projects are already being implemented. The current expansion of standardised, consistent 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.

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 and performance enhancement of uniform IT systems as well as new technologies 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. The further digitalisation of processes using new digital tools, such as robotic process automation and bots, is aimed at improving the performance and quality of our processes while also increasing efficiency. Initial pilot projects have already been successfully implemented in this context.

Opportunities through digital transformation

In addition to the application areas described above, and the digitalisation opportunities they entail, since 2018 there has been a separate organisational unit to advance the digital transformation of the entire company and thereby leverage the opportunities afforded by digitalisation in day-to-day work. This will focus, for instance, on activities to establish new digital business models within the company or investments in digital start-ups to tap new business areas and sales opportunities, or the development of methods and expertise in the field of data science, such as using big data or artificial intelligence in all value-added processes. We can confirm the benefits of these initiatives with initial pilot projects. Furthermore, a number of internal programmes were again implemented in 2019 to oversee digital transformation and improve digital fitness among our employees.

5. REPORT ON EXPECTED DEVELOPMENT

We are forecasting moderate growth on the global economy in 2020. This forecast is based on the partial easing in the trade dispute between the US and China and the consistently loose monetary policy of central banks, which is intended to boost consumer spending. Despite the uncertainty regarding the effects of the UK's exit deal with the European Union, which has yet to be negotiated, and political uncertainty in individual Member States such as Italy and Spain, the economy of the euro area should also prove robust. Only little momentum is anticipated from the German economy.

Overseas, the economic momentum in the United States is expected to continue to diminish. Also, general economic expansion in China will slow further.

In addition, there are still several risks, such as that of a renewed escalation of the trade dispute between the US and China or geopolitical tension such as between the US and Iran. Anti-government protests in various countries could also harm the economy. Furthermore, the effects of the spread of the corona virus on economic development, particularly in China, are not predictable.

We expect that European residential construction, a key indicator for business development in the Bathroom and Wellness Division, will experience stable rates of expansion across all countries in the forecast period, albeit with these rates slowing in Germany and Sweden. The capacity limits reached in the construction industry are likely to continue to curb development.

Private consumer spending – one of the key factors for our Tableware business – is likely to experience a stable development on our European markets compared to 2019. Private consumer spending is expected to pick up slightly in Germany, benefiting from the relatively high number of working days.

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

Revenue, earnings and investments at the Group

Based on a fundamentally consistently positive assessment of the market, we are aiming for slight growth in revenue and EBIT in the 2020 financial year.

Our return on net operating assets is expected to match the level of the 2019 financial year in 2020.

Regarding our operating investments in property, plant and equipment and intangible assets, we are assuming a moderate increase in investment activity in the 2020 financial year. The Bathroom and Wellness Division will account for around 70 % of the total investment volume. One focal point of our investment activity in the Bathroom and Wellness Division will be the targeted optimisation of technical capacity in line with existing market requirements at our ceramic sanitary ware plants. In the Tableware Division, we will increasingly focus on optimisation and extension at our Merzig and Torgau production plants and the expansion of our distribution network in the 2020 financial year.

Furthermore, over the next few months, we will be working on the further details of the transformation and efficiency enhancement programme to bolster our competitive capability. We expect to begin implementing this plan within the first half of this year.

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 20 of the notes to the consolidated financial statements.

Takeover disclosures

The disclosures relevant to takeovers in accordance with section 315a(1) HGB can be found in notes 18 and 26 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 2019 Annual Report, which is available online at https://www.villeroyboch-group.com/en/investor-relations/corporate-governance.html.

7. REMUNERATION REPORT

Remuneration System

The Supervisory Board regularly examines the remuneration system for the Management Board with respect to the statutory requirements of the German Act on the Appropriateness of Management Board Remuneration and the recommendations of the German Corporate Governance Code, and makes adjustments when it considers this to be necessary or otherwise appropriate. The Supervisory Board also consults an independent remuneration consultant to the necessary extent.

The remuneration system for the members of the Management Board is performance-oriented, with fixed remuneration being supplemented by a performance-based variable component. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes at least 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, 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 2019 financial year. 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, under the advice of an independent remuneration consultant engaged by the Supervisory Board, the 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 compared to peer group companies.

Please refer to the respective version of the declaration of conformity. In accordance with Articles of Association, Supervisory Board remuneration likewise consists of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

8. COMBINED RESPONSIBILITY STATEMENT [1]

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, 4 February 2020

Frank Göring

Gabriele Schupp

Andreas Pfeiffer

Dr Markus Warncke

[1] This section is an unaudited part of the Group management report.

CONSOLIDATED FINANCIAL STATEMENTS

Content

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2019

in € million **Assets**	Notes Tz.	**As of 31.12.2019**	**As of 31.12.2018**
Non-current assets			
Intangible assets	5	42,2	38,9
Property, plant and equipment	6	187,9	183,2
Rigth-of-use Assets	7	42,0	-
Investment property	8	6,4	7,0
Investments accounted for using the	9	1,4	1,6
Other financial assets	10	17,5	17,1
		297,4	**247,8**
Other non-current assets	14	2,0	3,5
Deferred tax assets	11	37,8	36,5
		337,2	**287,8**
Current assets			
Inventories	12	176,4	166,5
Trade receivables	13	143,2	137,4
Other current assets	14	20,7	27,6
Income tax receivables	15	5,3	3,9
Cash and cash equivalents	16	210,3	57,6
		555,9	**393,0**
Non-current assets held for sale	17	**-**	**0,8**
Total assets		**893,1**	**681,6**
Equity and Liabilities			
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	18	71,9	71,9
Capital surplus	19	193,6	193,6
Treasury shares	20	-15,0	-15,0
Retained earnings	21	97,0	31,9
Revaluation surplus	22	-98,1	-77,9
		249,4	**204,5**
Equity attributable to minority inter	23	**4,6**	**4,9**
Total equity		**254,0**	**209,4**
Non-current liabilities			
Provisions for pensions	27	189,9	177,2
Non-current provisions for personnel	28	18,5	17,1
Other non-current provisions	29	23,8	8,8
Non-current financial liabilities	30	70,0	25,0
Non-current lease liabilities	31	30,2	-
Other non-current liabilities	32	28,9	4,4
Deferred tax liabilities	11	3,2	4,1
		364,5	**236,6**
Current liabilities			
Current provisions for personnel	28	15,4	15,2
Other current provisions	29	31,7	20,0
Current financial liabilities	30	42,5	33,1
Current lease liabilities	31	13,1	-
Other current liabilities	32	85,6	86,6
Trade payables	33	81,3	77,3
Income tax liabilities		5,0	3,4
		274,6	**235,6**
Total liabilities		**639,1**	**472,2**
Total equity and liabilities		**893,1**	**681,6**

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2019

in € million	Notes Tz.	2019 01.01.- 31.12.	2018 01.01.-31.12.
Revenue	34	**833,3**	**853,1**
Costs of sales	35	-479,6	-487,3
Gross profit		**353,7**	**365,8**
Selling, marketing and development costs	36	-271,1	-266,9
General administrative expenses	37	-44,5	-43,8
Other operating income	38	102,8	14,2
Other operating expenses	39	-37,3	-15,8
Result of associates accounted for using	40	-0,2	0,1
Operating result (EBIT)		**103,4**	**53,6**
Interest income and other finance income	41	1,5	1,8
Interest expenses and other finance expenses	42	-8,2	-6,2
Financial result		**-6,7**	**-4,4**
Earnings before taxes		**96,7**	**49,2**
Income taxes	43	-16,3	-15,3
Group result		**80,4**	**33,9**
Thereof attributable to:			
Villeroy & Boch AG shareholders		80,2	33,5
Minority interests	44	0,2	0,4
Group result		**80,4**	**33,9**

Earnings per share		In Euro	In Euro
Earnings per ordinary share	45	3,01	1,25
Earnings per preference share	45	3,06	1,30

During the reporting period there were no dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2019

in € million	2019	2018
Group result	**80,4**	**33,9**
Other comprehensive income		
• **Items to be reclassified to profit or loss:**		
Gains or losses on translations of exchange differences	-3,1	-1,3
Gains or losses on cash flow hedges	-4,3	-1,0
Deferred income tax effect on items to be reclassified to profit or loss	-0,9	0,6
• **Items not to be reclassified to profit or loss:**		
Actuarial gains or losses on defined benefit plans	-18,0	-3,1
Gains or losses on value changes of securities	0,5	-0,4
Deferred income tax effect on items not to be reclassified to profit or loss	5,6	0,7
Total other comprehensive income	**-20,2**	**-4,5**
Total comprehensive income net of tax	**60,2**	**29,4**
Thereof attributable to:		
Villeroy & Boch AG shareholders	60,0	29,6
Minority interests	0,2	-0,2
Total comprehensive income net of tax	**60,2**	**29,4**

CONSOLIDATED STATEMENT OF EQUITY

FROM 1 JANUARY TO 31 DECEMBER 2019

in € million	Equity attributable to Villeroy & Boch AG shareholders						Equity	**Total**
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	**Total**	attributable to minority	**equity**
Notes	18	19	20	21	22		23	
As of 01.01.2018	**71,9**	**193,6**	**-15,0**	**12,7**	**-74,0**	**189,2**	**5,4**	**194,6**
Group result				33,5		33,5	0,4	33,9
Other comprehensive income					-3,9	-3,9	-0,6	-4,5
Total comprehensive income net of tax				**33,5**	**-3,9**	**29,6**	**-0,2**	**29,4**
Dividend payments				-14,3		-14,3	-0,3	-14,6
As of 31.12.2018	**71,9**	**193,6**	**-15,0**	**31,9**	**-77,9**	**204,5**	**4,9**	**209,4**
As of 01.01.2019	**71,9**	**193,6**	**-15,0**	**31,9**	**-77,9**	**204,5**	**4,9**	**209,4**
Group result				80,2		80,2	0,2	80,4
Other comprehensive income					-20,2	-20,2	0,0	-20,2
Total comprehensive income net of tax				**80,2**	**-20,2**	**60,0**	**0,2**	**60,2**
Dividend payments				-15,1		-15,1	-0,5	-15,6
Acquisition of non-controlling interests				-0,0		0,0	0,0	0,0
As of 31.12.2019	**71,9**	**193,6**	**-15,0**	**97,0**	**-98,1**	**249,4**	**4,6**	**254,0**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2019

in € million	Notes	2019 01.01.-31.12.	2018 01.01.-31.12.
Group result		80,4	33,9
Depreciation of non-current assets	46	41,7	23,5
Change in non-current provisions		7,5	-18,8
Profit from disposal of fixed assets		-88,0	-3,3
Change in inventories, receivables and other assets		-17,6	-25,1
Change in liabilities, current provisions and other liabilities		21,5	-3,2
Taxes paid/received in the financial year		-8,3	-11,0
Interest paid in the financial year		-3,1	-2,7
Interest received in the financial year		0,8	0,7
Other non-cash income/expenses	50	11,4	8,1
Cash flow from operating activities	50	**46,3**	**2,1**
Purchase of intangible assets, property, plant and equipment		-33,2	-43,6
Investment in non-current financial assets and cash payments		-4,5	-5,1
Cash receipts from disposals of fixed assets		5,0	4,1
Cash receipts from disposals of real estate Luxemburg		114,0	-
Cash flow from investing activities	51	**81,3**	**-44,6**
Cash proceeds from long-term borrowing	30	92,5	34,3
Cash repayments of amounts borrowed	30	-38,1	-27,3
Cash repayments of lease liabilities	31	-14,2	-
Dividends paid to minority shareholders	23	-0,5	-0,3
Dividends paid to shareholders of Villeroy & Boch AG	24	-15,1	-14,3
Cash flow from financing activities	52	**24,6**	**-7,6**
Sum of cash flows		**152,2**	**-50,1**
Balance of cash and cash equivalents as of 01.01.		**57,6**	**108,7**
Change based on total cash flows		152,2	-50,1
Changes due to exchange rates		0,5	-1,0
Net increase in cash and cash equivalents		**152,7**	**-51,1**
Balance of cash and cash equivalents as of 31.12.	16+53	**210,3**	**57,6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF VILLEROY & BOCH AG, METTLACH, FOR THE 2019 FINANCIAL YEAR

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 2019 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 4 February 2020. 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

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.

First-time application of IFRS 16

In the context of the transition to accounting in accordance with IFRS 16 “Leases”, the Villeroy & Boch Group recognised right-of-use assets of € 47.5 million for the first time as at 1 January 2019;

these assets are offset by lease liabilities of the same amount. € 12.3 million of these lease liabilities totalling € 47.5 million were due within one year.

The new standard on accounting for leases was adopted applying the modified retrospective method. In accordance with the rules, the comparative figures presented for the previous year 2018 were not adjusted. The previous criteria for assessing the existence of a lease in accordance with IAS 17 have been retained for pre-existing leases. In the reconciliation of the previous operating leases, a uniform discount rate was applied to comparable leases and the initial direct costs were not included in the measurement of the right-of-use asset. Payments under leases expiring as at 31 December 2019 were recognised as expenses for short-term leases. Based on the operating lease obligations as at 31 December 2018, the reconciliation to the opening value of lease liabilities in the statement of financial position as at 1 January 2019 was as follows:

in € million	1/1/2019
Off-balance sheet lease and rental obligations as at 31 December 2018 (see note 7)	50,0
Practical expedient for leases on transition date	-1,1
Gross lease liabilities as at 1 January 2019	**48,9**
Discounting effect	1,4
Additionally recognised liabilities due to adoption of IFRS 16	**47,5**
Finance lease liabilities as at 31 December 2018	0,3
Lease liabilities as at 1 January 2019	**47,8**

The lease liabilities were discounted applying the incremental borrowing rate as at 1 January 2019. The change in accounting method was implemented applying a weighted average interest rate of 1.8 %. Interest reference rates were derived from the money market yields in the transaction currencies to determine the incremental borrowing rate. These interest reference rates are supplemented by a risk premium dependent on the term of the lease that reflects the company's credit rating and is based on the difference in yield to first-class bonds with a term of up to 15 years.

In accordance with the relevant provisions, payments under recognised leases have been divided into payments of principal and interest in accordance with the effective interest method since 1 January 2019. The total amount of lease payments recognised as rental expenses by 31 December 2018 is therefore reported pro rata in operating earnings and net finance costs in the income statement for the 2019 financial year. The finance cost of interest expenses under lease liabilities of € 0.8 million mainly reduced operating rental expenses in the area of selling, marketing and development costs (€ 0.7 million).

The Villeroy & Boch Group generates additional income from subletting unused properties held under uncancelled leases (see note 7). The previous classification as operating leases was continued after 1 January 2019.

Information on right-of-use assets and lease liabilities, in addition to other details, can be found under the corresponding statement of financial position items (see notes 7 and 31).

The other changes to the IFRS regulations effective for the first time in the 2019 financial year are presented under note 64 and had no material effect on the accounting policies of the Villeroy & Boch Group.

In addition, various new financial reporting standards were published that were not effective for reporting periods ended 31 December 2019. The Villeroy & Boch Group has not adopted these early. The effects of these new regulations on current and future reporting periods, and on foreseeable transactions, are not considered material. Information on developments within the IFRS Framework can be found in note 64.

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. 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

A lease is a contract that establishes the right to use an asset (the lease asset) for an agreed period in return for payment of a fee.

If the Villeroy & Boch Group leases assets for a total period of fewer than twelve months, or if these are low-value assets, the lease payments are recognised as an expense on a straight-line basis over the lease term.

For all other leases in which the Villeroy & Boch Group is the lessee, the present value of the future leasing payments is carried as a liability. Lease payments are divided into payments of principal and interest in accordance with the effective interest method. Correspondingly, the right to use the lease asset is capitalised at the inception of the lease, generally at the present value of the liability plus directly attributable costs and restoration and demolition obligations. Payments made prior to the inception of the lease and rental incentives granted by the lessor are also included in the carrying amount of the right-of-use asset. The right-of-use asset is depreciated on a straight-line basis over the shorter of the term of the lease and the useful life of the lease asset. The regulations for calculating and recognising impairment losses on assets also apply to capitalised right-of-use assets. The liability is remeasured If the expected lease payments change, e.g. as a result of index-linked fees or new assessments of contractual options. The new carrying amount is adjusted in equity with a corresponding adjustment of the capitalised carrying amount of the right-of-use asset. Variable lease payments not linked to an index or interest rate are recognised as an expense when incurred.

The present value of the lease payments is calculated using the incremental borrowing rate derived from the interest reference rates for the money market yields in the transaction currency. These interest reference rates are supplemented by a risk premium dependent on the term of the lease that reflects the company's credit rating and is based on the difference in yield to first-class bonds with a term of up to

15 years. All facts and circumstances that offer an economic incentive to exercise renewal options or not to exercise termination options are taken into account when determining the term of leases. Changes in the term of a lease as a result of exercising or not exercising such options are only taken into account when they are reasonably certain.

Leases in which the Villeroy & Boch Group is the lessor and does not transfer the significant risks and rewards of the use of the asset to the partner are recognised as operating leases. The lease asset continues to be reported under non-current assets and the lease payments are recognised as rental income on a straight-line basis over the lease term. If the lessee receives the significant risks and rewards of the use of the asset, the present value of the outstanding minimum lease payments is recognised as a finance lease receivable. Payments by the lessee are recognised as payments of principal or interest income. Interest income is recognised over the lease term using the effective interest method.

Until 31 December 2018, all leases were classified as either finance or operating leases. If assets were leased by the Villeroy & Boch Group and the lessor substantially bore the risks and rewards incidental to ownership (operating lease), the lease instalments or rental expenses were recognised as expenses in the statement of comprehensive income on a straight-line basis over the term of the lease. If beneficial ownership was remained with the Villeroy & Boch Group (finance lease), the leased asset was capitalised at its fair value or the lower present value of the lease instalments. Depreciation was allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability was recognised for the discounted corresponding payment obligations arising from future lease instalments.
Accounting for leases in which the Villeroy & Boch Group is the lessor was included under the new IFRS 16 “Leases” with no changes.

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, among other factors. Resulting 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. In accordance with IFRS 9, based on the characteristics of the contractual cash flows and the nature of the respective business model, each financial instrument is allocated to one of four measurement categories in accordance with the classification described in note 55 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

On recognition, trade receivables and other current receivables are carried at their transaction price less expected losses over the agreed payment period. An additional impairment loss is recognised if there are objective indications that a receivable may be defaulted on. The loss allowances to be recognised are calculated in the amount of the expected losses over the total remaining term.

Non-current receivables are initially measured at cost using the effective interest method. A provision is recognised for the potential risk of default that could arise within the next 12 months. If the credit risk increases significantly during the term of the contract, the impairment loss is increased by the amount of a possible default over the total remaining term. Examples of indications include a deterioration in the rating or becoming past due by more than 90 days. The impairment loss is increased if

there are further objective indications that a receivable may be defaulted on, such as filing for insolvency.

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 amortised cost. 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 liabilities are recognised at fair value and subsequently measured at amortised cost.

Contingent liabilities

Contingent liabilities are possible obligations, predominantly arising from guarantees, 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 from the sale of goods is recognised when the related performance obligation has been fulfilled by transferring the goods to the customer. Goods are deemed to have been transferred when the customer gains control of them. For wholesale transactions, the time at which this occurs must be assessed based on the individually agreed terms of delivery. For consignment or consignment agency models, revenue is recognised at the time of resale to the end customer. In the Group's retail outlets, revenue is recognised immediately at the time of the transaction when the goods are paid for, whereas – in the Group's online shop – revenue is recognised when goods are delivered to customers.

Regarding the key terms of payment, the Group grants commercial customers terms of payment specific to their country and industry, though these do not usually exceed 90 days. Similarly, the agreement of advance and down payments is not uncommon for individual customer groups. The underlying contracts do not include significant financing components in either scenario.

The amount of revenue to be recognised is determined by the transaction price, i.e. the amount of consideration that Villeroy & Boch is expected to receive in exchange for the transfer of goods – less trade discounts, rebates, and customer bonuses. Unlike trade discounts and rebates, bonuses are not granted on invoices – rather, they are subsequent, performance-based repayments made to customers. As soon as it is assumed that the customer has satisfied the agreed terms for granting bonuses, this amount is deferred as a revenue deduction by way of a corresponding liability. Projections for customers bonuses deferred over a year are prepared on the basis of data specific to the customer and country (the most likely amount method). Some contracts allow customers to return products within a set period. These rights of return give rise to variable consideration, which is recognised at its expected value. Estimates of variable consideration are not limited as the uncertainty regarding the amounts to be included is only temporary because projections are constantly updated.

Furthermore, Villeroy & Boch also generates revenue from licensing its brand rights to third parties. The underlying performance obligation is fulfilled by the licensee during the term of the contract by way of production under the label of the Villeroy & Boch Group. The resulting sales-based licence income is recognised on an accrual basis in accordance with the terms of the licence agreement.

Recognition of miscellaneous income and expenses

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. Rental expenses from short-term leases, i.e. contracts with a term of not more than 12 months, and rental expenses from contracts for low-value assets are recognised on a straight-line basis over the agreed period. Rental expenses on the basis of variable lease payments that were not taken into account in the measurement of the right-of-use asset are recognised in profit or loss.

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 exist-

ing 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.

Rounding of amounts

Unless stated otherwise, all amounts reported in the financial statements and the notes are rounded to full millions of euro with one decimal place.

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: 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	
Other liabilities	At amortised cost through profit or loss
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 were required to a certain extent that affected the reporting and the amount of the recognised assets, liabilities, income, expenses and contingent liabilities. These affect, for example, the assessment of control options for de-

termining the basis of consolidation, impairment testing for the assets recognised in the statement of financial position, the Group-wide determination of economic lives, the assessment of the contractual term of leases, the timing of the settlement of receivables, the amount of variable purchase prices (see note 17), assessments of the risk of default and the expected loss given default, the evaluation of the utilisation of tax loss carryforwards and the recognition of provisions.

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.

2. Basis of consolidation

In addition to Villeroy & Boch AG, the consolidated financial statements include all 14 (previous year: 13) German and 41 (previous year: 43) 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:

As at 1 January 2019	13	43	56
Additions due to acquisition (a)	1	-	1
Disposals due to liquidation (b)	-	-1	-1
Disposals due to asset sale (c)	-	-1	-1
Additions due to new companies (d)	-	-	-
As at 31 December 2019	14	41	55

(a) Addition due to acquisition:

Villeroy & Boch AG acquired all shares in HoL Badshop und Service GmbH, which is an inactive shelf company.

(b) Disposal due to liquidation:

Villeroy & Boch Tableware Japan K.K. was liquidated on 15 October 2019 after its operating activities were suspended in the previous year as a result of the change in the sales model.

(c) Disposal due to asset sale:

On 6 December 2019, Villeroy & Boch S.à r.l., Luxembourg, sold all shares in the property company Rollingergrund Premium Properties SA to a property project developer. The main asset of this company was the land on which stood the dismantled tableware plant in Luxembourg. In terms of the substance of the transaction, this direct share transaction is an indirect disposal of property assets (see note 17).

(d) Additions due to formation of new companies:

V & B South Africa Pty. Ltd., Cape Town, South Africa, and Villeroy et Boch Valence d'Agen S.A.S., Valence d'Agen, France, were formed in the previous year. Both companies are assigned to the Bathroom and Wellness Division.

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	2019	Germany	Abroad	2018
Shareholding: 100%						
Division						
Bathroom and Wellness	3	24	**27**	3	30	**33**
Tableware	4	21	**25**	5	18	**23**
Other business purposes	8	3	**11**	6	3	**9**
Reconciliation	-1	-9	**-10**	-1	-10	**-11**
Total	**14**	**39**	**53**	**13**	**41**	**54**
Shareholding: 50% to 99%						
Bathroom and Wellness	-	2	**2**	-	2	**2**
Group total	**14**	**41**	**55**	**13**	**43**	**56**

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 23. Further information on the structure of the Villeroy & Boch Group can be found under "Business model of the Group" in the management report.

Furthermore, the Villeroy & Boch consolidated financial statements include two associates accounted for using the equity method, unchanged from 31 December 2019 (see note 9). The most recent annual financial statements available were used as the basis for accounting using the equity method.

The Villeroy & Boch Group is recognising immaterial shares in two newly formed Group companies as financial assets for the first time (see note 10(a)). On 15 April 2019, Villeroy & Boch AG formed Villeroy & Boch Innovations GmbH, Mettlach. Villeroy & Boch Innovations GmbH bundles additional equity investments in the digital sector as a holding company. Villeroy & Boch Venture GmbH, Mettlach, was formed as the first equity investment. It engages in the digital finishing and subsequent sale and distribution of tableware products. Villeroy & Boch AG directly or indirectly holds 100 % of the respective shares (see note 63). These unconsolidated subsidiaries are not material to the presentation of the earnings, asset and financial situation of the Villeroy & Boch Group, either individually or cumulatively.

The list of shareholdings in accordance with section 313(2) HGB is shown in note 63.

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 2019 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 63). 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 (UK) Limited, London, entered in the commercial register of England and Wales under 00339567.

The two Dutch companies Ucosan B.V., Roden, und Villeroy & Boch Tableware B.V., 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.

In acquisition accounting, the cost of subsidiaries as at the acquisition date is offset against the remeasured equity interest attributable to them. Any positive differences arising are recognised as goodwill (see note 1 – Accounting policies: Intangible assets). Negative differences are recognised immediately in profit or loss after being checked again. Incidental costs of acquisition for business combinations are recognised in other operating expenses. In the course of subsequent consolidation, disclosed hidden reserves and liabilities are carried forward in line with 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 and reported in equity under "Non-controlling interests" in the consolidated statement of financial position of Villeroy & Boch AG (see

note 23). Transactions with non-controlling interests that do not result in a loss of control are recognised as an equity transaction. For a business acquisition achieved in stages, the acquirer's previously held equity interest in the acquiree as at the time it achieves control is remeasured in profit or loss. Subsequent adjustments of contingent purchase price components are recognised in profit or loss.

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 this company were insignificant in the years under review.

Shares in affiliates companies of minor significance are recognised at fair value (see note 10 (a)). Changes in value are added to the reserve for miscellaneous gains and losses on remeasurement, as these are held for strategic purposes.

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 22(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 22(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 reporting period		Average exchange rate	
€1 =		**2019**	**2018**	**2019**	**2018**
Swedish krona	SEK	10,45	10,25	10,57	10,24
Chinese Renminbi Yuan	CNY	7,82	7,88	7,74	7,82
US dollar	USD	1,12	1,15	1,12	1,19
Australian Dollar	AUD	1,60	1,62	1,61	1,58
Thai baht	THB	33,42	37,05	34,96	38,35
Norwegian krone	NOK	9,86	9,95	9,85	9,62
Hungarian Forint	HUF	330,53	320,98	325,00	318,88
Mexican Peso	MXN	21,22	22,49	21,63	22,79
Romanian Leu	RON	4,78	4,66	4,73	4,65

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5. Intangible assets

Intangible assets developed as follows:

in € million	Concessions, patents, licences and similar rights	Intangible assets under development	Goodwill	Total
Accumulative cost				
As at 1 Jan. 2018	**20,1**		**40,5**	**60,6**
Currency adjustments	0,0		-0,2	**-0,2**
Additions	3,0		-	**3,0**
Disposals	-0,6		-	**-0,6**
As at 1 Jan. 2019	**22,5**	**-**	**40,3**	**62,8**
Currency adjustments	0,0	-	-0,1	**-0,1**
Additions	2,2	1,6	-	**3,8**
Disposals	-1,2	-	-	**-1,2**
Reclassifications	0,4	1,2	-	**1,6**
As at 31 Dec. 2019	**23,9**	**2,8**	**40,2**	**66,9**
Accumulative amortisation and impairment				
As at 1 Jan. 2018	**14,3**	**-**	**8,8**	**23,1**
Currency adjustments	0,0	-	-	**0,0**
Amortisation	1,0	-	-	**1,0**
Disposals	-0,2	-	-	**-0,2**
As at 1 Jan. 2019	**15,1**	**-**	**8,8**	**23,9**
Currency adjustments	0,1	-	-	**0,1**
Amortisation	0,9	-	-	**0,9**
Impairment losses	0,2	-	-	**0,2**
Disposals	-0,4	-	-	**-0,4**
As at 31 Dec. 2019	**15,9**	**-**	**8,8**	**24,7**
Residual carrying amounts				
As at 31 Dec. 2019	**8,0**	**2,8**	**31,4**	**42,2**
As at 31 Dec. 2018	7,4	-	31,5	38,9

The asset group "Concessions, patents, licences and similar rights" essentially includes key money capitalised by subsidiaries for rented retail space worth € 2.4 million (previous year: € 2.6 million), capitalised software licences in the amount of € 1.9 million (previous year: € 1.6 million) and emission allowances of € 3.4 million (previous year: € 3.1 million).

Intangible assets under development exclusively comprise software still being introduced. Software licences of € 1.6 million were reclassified to this item in the financial year (see note 6).

Goodwill in the amount of € 31.4 million (previous year: € 31.5 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures for the Bathroom and Wellness Division are presented in the segment report in note 54. 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 2023 are discounted using an interest rate before income tax of 5.8 % p.a. (previous year: 6.9 % p.a.), while subsequent cash flows are discounted using an interest rate before income tax of 5.2 % p.a. (previous year: 6.2 % p.a.) applying a growth rate. This growth rate is the same as the long-term average rate for the ceramic sanitary ware industry. 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. 2018	**189,4**	**333,9**	**94,8**	**26,6**	**644,7**
Currency adjustments	0,0	-0,3	-0,3	0,0	**-0,6**
Additions	2,6	10,1	4,4	23,2	**40,3**
Disposals	-5,4	-7,8	-7,0	-	**-20,2**
Reclassifications	10,2	9,6	1,9	-21,7	**0,0**
As at 1 Jan. 2019	**196,8**	**345,5**	**93,8**	**28,1**	**664,2**
Currency adjustments	0,9	1,6	0,4	0,5	**3,4**
Additions	1,7	7,0	4,3	16,4	**29,4**
Disposals	-1,4	-5,3	-6,4	-	**-13,1**
Reclassifications	5,8	21,3	0,7	-25,5	**2,3**
As at 31 Dec. 2019	**203,8**	**370,1**	**92,8**	**19,5**	**686,2**
Accumulative depreciation and impairment					
As at 1 Jan. 2018	**125,6**	**276,6**	**77,2**	**-**	**479,4**
Currency adjustments	0,0	-0,6	0,1	-	**-0,5**
Depreciation	3,5	11,6	6,7	-	**21,8**
Impairments	-	-	-	-	-
Disposals	-5,3	-7,6	-6,8	-	**-19,7**
Reclassifications	-	-	-	-	**-**
As at 1 Jan. 2019	**123,8**	**280,0**	**77,2**	**-**	**481,0**
Currency adjustments	0,3	1,2	0,3	-	**1,8**
Depreciation	4,8	13,2	6,6	-	**24,6**
Impairments	-	-	0,4	-	**0,4**
Disposals	-2,2	-5,3	-6,3	-	**-13,8**
Reclassifications	4,5	0,1	-0,3	-	**4,3**
As at 31 Dec. 2019	**131,2**	**289,2**	**77,9**	**-**	**498,3**
Residual carrying amounts					
As at 31 Dec. 2019	**72,6**	**80,9**	**14,9**	**19,5**	**187,9**
As at 31 Dec. 2018	73,0	65,5	16,6	28,1	183,2

We acquired property, plant and equipment worth € 29.4 million (previous year: € 40.3 million). At € 23.3 million (previous year: € 30.8 million), our investments primarily concentrated on the Bathroom and Wellness Division. We mainly invested in the modernisation of our production. The focus was on sanitary ware production, mainly in Mettlach (Germany), Saraburi (Thailand), Hódmezövásárhely (Hungary) and Valence d'Agen (France). Furthermore, work began to build a front drilling line at Sanipa Badmöbel GmbH, Treuchtlingen. In addition, moulds were acquired for new wellness products in Roeselare (Belgium).

We invested € 4.4 million (previous year: € 4.0 million) in the Tableware Division. New machinery and tools valued at € 1.8 million (previous year: € 2.2 million) were acquired for production at our Merzig and Torgau plants. Work to create a shuttle picking system began at our logistics centre in Merzig. Moreover, we invested in the further optimisation of our retail network, for example renovating and opening stores in Germany, China and the US.

Property, plant and equipment amounting to € 1.7 million (previous year: € 5.5 million) was acquired for central functions. We invested € 0.7 million (previous year: € 1.5 million) of this in total in the redevelopment of our headquarters in Mettlach.

Facilities worth € 25.5 million were completed and integrated into operational value added in the reporting period (previous year: € 21.7 million). € 5.1 million related to Mexico, where a new kiln (€ 3.7 million) was set into operation. A bogie hearth furnace (€ 1.8 million) was commissioned at the sanitary ware plant in Mettlach. € 0.6 million was invested in the modernisation of glaze preparation in Mettlach. Sanipa Badmöbel GmbH, Treuchtlingen, commissioned a drawer line (€ 0.8 million). The plant in Saraburi commissioned a new dryer, among other things. The production site in Hungary uses new facilities worth € 1.4 million. New casting equipment and a shrink machine accounted for the majority of this. In the previous year, new facilities were used for the first time mainly in Germany (€ 14.6 million) and Hungary (€ 2.4 million).

The disposals in the financial year of € 13.1 million (previous year: € 20.2 million) and the cumulative depreciation of € 13.8 million (previous year: € 19.7 million) predominantly result from the scrapping of assets already written down in full that can no longer be used.

As at 1 January 2019, a cost of € 0.7 million and cumulative depreciation of € 0.3 million was reclassified from "Other equipment, operating and office equipment" to the new statement of financial position item "Right-of-use assets" (see note 7), which had been recognised under finance leases in previous years. Software licences of € 1.6 million were reclassified to intangible assets (see note 6). In addition, assets with an original cost of € 4.6 million and corresponding cumulative depreciation were reclassified from investment property (see note 8).

7. Right-of-use assets

The Villeroy & Boch Group leases (as the lessee) sales premises, warehouses, office space, other facilities and movable assets where this is the most economical means of sourcing.

Capitalised right-of-use assets developed as follows in the year under review:

in € million	Land and buildings	Other equipment, operating and office equipment	Total
Accumulative cost			
As at 1 Jan. 2019	**-**	**-**	**-**
Currency adjustments	0,0	0,0	**0,0**
Additions from initial use of IFRS 16	42,1	5,4	**47,5**
Additions	6,9	2,3	**9,2**
Disposals	-	-0,1	**-0,1**
Reclassifications	-	0,7	**0,7**
As at 31 Dec. 2019	**49,0**	**8,3**	**57,3**
Accumulative depreciation and impairment			
As at 1 Jan. 2019	**-**	**-**	**-**
Currency adjustments	0,0	0,1	**0,1**
Depreciation	11,2	2,6	**13,8**
Impairments	1,2	-	**1,2**
Disposals	-	-0,1	**-0,1**
Reclassifications	-	0,3	**0,3**
As at 31 Dec. 2019	**12,4**	**2,9**	**15,3**
Residual carrying amounts			
As at 31 Dec. 2019	**36,6**	**5,4**	**42,0**

The transition as at 1 January 2019 was implemented applying the modified retrospective method. The capitalised right-of-use assets of € 47.5 million are offset by lease liabilities of the same amount (see note 31). The figures for the previous year are not restated in line with the new accounting method. The prior-year information in accordance with IAS 17 is presented at the end of this note.

Since 1 January 2019, we have capitalised new right-of-use assets of € 9.2 million. Most of these investments result from the first-time capitalisation of rights-of-use assets for properties that were not capitalised at the transition date in line with the modified retrospective method. The additions to other equipment, operating and office equipment mainly comprise new leases for vehicles to replace vehicles under expired leases. These leases for movable assets that expired in the 2019 financial year were also not capitalised at the transition date in line with the modified retrospective method.

The disposals in the financial year predominantly resulted from the premature termination of contracts.

A carrying amount of € 0.4 million relating to lease assets already capitalised was reclassified from property, plant and equipment (see note 6) to this item. This operating and office equipment, recognised as a finance lease in accordance with IAS 17, will be recognised under “Right-of-use assets” until the end of the contract.

Straight-line depreciation of € 13.8 million is based on the following useful lives of the assets as at 31 December 2019:

in € million	2019
Land and buildings	2 - 27 years
Other equipment, operating and office equipment	2 - 7 years

One contract was written down by € 1.2 million because it was not possible to return the space no longer required to the lessor prematurely or to pass it on to a subsequent lessee. Provisions were recognised for the unavoidable future ancillary costs under this lease.

The right-of-use assets capitalised at the inception of a lease are offset by corresponding current and non-current lease liabilities (see note 31), which are repaid by ongoing rental payments. Long-term lease liabilities accrue interest (see note 31).

The Villeroy & Boch Group exercises both options of not capitalising leases with a total term of not more than twelve months or leases for low-value assets. Expenses for leases and lease payment components not capitalised break down as follows in the 2019 financial year:

in € million	31/12/2019
Expenses for variable payments for property leases	-8,5
Expenses for short-term property leases	-3,0
Expenses for leases of low-value assets	-1,5
Expenses for short-term leases for movable assets	-1,4
Expenses for variable payments for leases for movable assets	-0,1
Expenses for retrospective amendments to leases	-
Expenses for leases not included in capitalisation	**-14,5**

Expenses from variable rental payments mostly result from the rental of retail space for which the rent is wholly or partially dependent on the revenue generated on the respective space. Only the variable portion of the revenue-based rent is recognised directly in profit or loss. Contractually agreed minimum revenue-based rent is recognised as part of the cost of the respective right-of-use asset.

The Villeroy & Boch Group currently leases (as the lessor) selected free land and buildings that are capitalised as property, plant and equipment (see note 6). The significant risks and rewards of these properties remain with Villeroy & Boch. Income of € 1.9 million (previous year: € 2.1 million) was generated from these operating leases. We expect the following future minimum lease payments from our lessees:

in € million	2019
Due within next 12 months	1,1
Due between 13 and 24 months	0,8
Due between 25 and 36 months	0,8
Due between 37 and 48 months	0,5
Due between 49 and 60 months	0,5
Due between 61st month and end of contract	7,2
Total expected lease payments	**10,9**

Income of € 0.5 million was generated from subletting unused properties held under uncancelled leases (previous year: € 0.5 million). Any ancillary costs and other obligations are borne by the sub-lessees. The sub-leases end before or at the expiry date of the Group's lease on the respective property. We expect the following future minimum lease payments from our sub-lessees:

in € million	2019
Due within next 12 months	0,4
Due between 13 and 24 months	0,3
Due between 25 and 36 months	0,1
Due between 37 and 48 months	0,1
Due between 49 and 60 months	0,1
Due between 61st month and end of contract	0,6
Total expected incoming payments from leases	**1,6**

The Villeroy & Boch Group also leases (as the lessor) selected space in investment property (see note 8).

Accounting for leases prior to 31 December 2018

Prior to 31 December 2018, in accordance with IAS 17 "Leases", leases were classified as either finance or operating leases in line with the contractual regulations (see note 1).

Finance leases at the Villeroy & Boch Group related exclusively to the company Argent Australia Pty. Ltd., acquired on 23 July 2017, which leased operating and office equipment with a net carrying amount of € 0.4 million as at 31 December 2018. These assets were offset by minimum lease payments of € 0.3 million, which were essentially due as at 31 December 2019.

All other leases in which the Villeroy & Boch Group was the lessee were classified as operating leases. Rental expenses under operating leases amounted to € 32.8 million in the 2018 financial year. The minimum lease payments were due as follows:

	Minimum lease payments		
in € million	As reported	Reporting update	31/12/2018
Due within 1 year	15,8	1,0	16,8
Due within 1-5 years	24,9	2,9	27,8
Due after 5 years	5,2	0,2	5,4
Total	**45,9**	**4,1**	**50,0**

The Villeroy & Boch Group leased assets exclusively retaining the significant risks and rewards of the use of the asset (= as the lessor in operating leases). The resulting rental income was as follows:

	Sub-lease	Investment property
in € million	31/12/2018	31/12/2018
Rental income	0,5	0,5
Management costs	-	-0,2
Future income:		
Due within 1 year	0,4	0,5
Due within 1-5 years	0,3	1,7
Due after 5 years	-	5,1
Total future income	**0,7**	**7,3**

Any ancillary costs and other obligations are borne by the sub-lessees. The sub-leases end before or at the expiry date of the Group's lease on the respective property.

8. Investment property

Investment property developed as follows:

			Investment property	
in € million	Land	Buildings	2019	2018
Accumulative cost				
As at 1 Jan.	**0,3**	**67,5**	**67,8**	**74,5**
Additions		-	-	0,3
Transfer		-4,6	**-4,6**	-7,0
As at 31 Dec.	**0,3**	**62,9**	**63,2**	**67,8**
Accumulative depreciation and impairment				
As at 1 Jan.	**-**	**60,8**	**60,8**	**66,3**
Depreciation		0,6	**0,6**	0,7
Transfer		-4,6	**-4,6**	-6,2
As at 31 Dec.	**-**	**56,8**	**56,8**	**60,8**
Residual carrying amounts				
As at 31 Dec.	**0,3**	**6,1**	**6,4**	**7,0**

This item includes property in Saarland (Germany) and France.

Property in Germany was reclassified to property, plant and equipment in the reporting year (see note 6). The properties in Luxembourg were classified as non-current assets held for sale and reclassified to the corresponding item of the statement of financial position in the previous year (see note 17).

In line with the classification described above, the total market value of the properties reported in this item was € 12.5 million as at 31 December 2019 (previous year: € 13.1 million). 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	31/12/2019	31/12/2018
Rental income	0,5	0,5
Property management and similar expenses	-0,1	-0,2

Rent is expected to develop as follows:

in € million	As at 31 Dec. 2019	As at 31 Dec. 2018
	31.12.2019	31.12.2018
Due date up to 1 year	0,5	0,5
Maturity 1 - 2 years	0,4	0,5
Maturity 2 - 3 years	0,4	0,4
Maturity 3 - 4 years	0,4	0,4
Maturity 4 - 5 years	0,4	0,4
Maturity over 5 years	4,5	5,1
Total expected lease payments	**6,6**	**7,3**

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

9. 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. Equity was increased in the 2018 financial year. 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	2019	2018
As at 1 Jan.	**1,6**	**1,5**
Addition due to capital increase	-	0,6
Pro rata results of associated companies	-0,2	0,0
Distribution to the Villeroy & Boch Group	-	-0,5
As at 31 Dec.	**1,4**	**1,6**

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.

10. Other financial assets

Other financial assets include:

in € million	31.12.2019	31.12.2018
Shares in non-consolidated affiliated companies (a	0,7	-
Equity investments (b)	2,1	2,1
Loans (c)	2,4	3,8
Securitites (d)	12,3	11,2
Total	**17,5**	**17,1**

(a) This item contains the shares in Villeroy & Boch Innovations GmbH, Mettlach (see note 2). Business relationships with this company are presented in note 58.

(b) 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.

(c) In connection with the gradual sale of the plant property in Gustavsberg, Sweden, a loan receivable was granted to Porslinsfabriksstaden AB, Gustavsberg, Sweden, a company of the IKANO Bostad Group, in 2013. The loan, which is denominated in Swedish krona, has an equivalent value of € 0.5 million (previous year: € 2.1 million) and a remaining term of two years. A repayment of € 1.6 million was made in December 2019. The final repayment of around € 0.5 million is expected in December 2021. 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	2019	2018
Gross carrying amount as at 31 Dec.	**2,4**	**3,8**
of which: Neither impaired nor past due as at end of reporting period	**2,4**	**3,8**
Due within one year	0,1	1,7
Due in two to five years	1,0	1,0
Due in more than five years	1,3	1,1

(d) Listed bonds, equities and investment funds are recognised as securities at their current market value, not affecting net income. Changes in value are recognised in equity in the revaluation surplus (see note 22(f)) and reclassified to retained earnings (in previous year: reclassified to undistributed net profit) on disposal of the respective security. The investments break down as follows:

in € million	31/12/2019	31/12/2018
Special assets provided by the ordinary shareholders	**1,5**	1,4
Other free assets	**10,8**	9,8
Total	**12,3**	**11,2**

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.

11. Deferred tax assets and liabilities

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

in € million	31/12/2019	31/12/2018
Deferred tax assets from temporary differences	30,1	23,0
Deferred tax assets from tax loss carryforwards	7,7	13,5
Deferred tax assets	**37,8**	**36,5**
Deferred tax liabilities	**3,2**	**4,1**

Deferred tax assets from tax loss carryforwards amounted to € 7.7 million (previous year: € 13.5 million) and related to loss carryforwards at foreign Group companies.

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	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Intangible assets	5	0,1	0,0	1,7	1,2
Property, plant and equipment	6	0,9	3,5	2,8	3,6
Rights of use	7	0,0	0,0	6,9	0,0
Financial assets	10	0,3	0,2	0,2	0,2
Inventories	12	0,0	0,0	2,4	1,3
Other assets	14	0,1	0,1	0,1	0,9
Special tax items		0,0	0,0	4,2	4,2
Provisions for pensions	27	33,6	28,1	6,6	5,8
Other provisions	29	7,9	1,6	0,0	0,0
Lease liabilities	31	7,1	0,0	0,0	0,0
Other liabilities		1,8	3,1	0,0	0,6
Subtotal		**51,8**	**36,7**	**24,9**	**17,8**
Offsetting of deferred tax assets/liabilities		-21,7	-13,7	-21,7	-13,7
Deferred taxes from temporary differences		**30,1**	**23,0**	**3,2**	**4,1**

The € 7.1 million change in deferred tax assets from temporary differences to € 30.1 million (previous year: € 23.0 million) is essentially attributable to the increase in deferred taxes on provisions for pensions of € 5.5 million (see note 27).

As at the end of the financial year, the company reported tax loss carryforwards subject to restrictions on offsetting of € 80.6 million (previous year: € 87.8 million). No deferred tax assets are recognised for these loss carryforwards whose utilisation due to future taxable income is not probable.

Based on impairment testing for the period from 2020 to 2024, deferred tax assets from tax loss carryforwards were written down in the amount of € 25.8 million (previous year: € 16.7 million).

12. Inventories

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

in € million	31/12/2019	31/12/2018
Raw materials and supplies	24,9	23,6
Work in progress	20,9	19,0
Finished goods and goods for resale	130,2	123,9
Advance payments	0,4	-
Carrying amount	**176,4**	**166,5**

Inventories were broken down between the individual divisions as follows:

in € million	31/12/2019	31/12/2018
Bathroom and Wellness	114,0	105,0
Tableware	62,4	61,5
Total	**176,4**	**166,5**

The significant increase in inventories in the Bathroom and Wellness Division, by € 9.0 million to € 114.0 million, relates mainly to efforts to safeguard long-term delivery capability.

A valuation allowance of € 21.1 million was recognized for inventory risks arising from the storage period or reduced usability. In the financial year, the write-downs on inventories increased by € 3.6 million.

13. Trade receivables

Trade receivables are carried at their transaction price less expected losses over the agreed payment period on first-time recognition. 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	31/12/2019	31/12/2018
Germany	25,3	23,9
Rest of euro zone	28,8	28,8
Rest of world	93,2	87,7
Gross carrying amount	**147,3**	**140,4**
Write-down due to expected losses (level 1)	-0,5	-0,5
Write-down due to objective indications (level 2)	-3,7	-2,5
Write-downs	**-4,2**	**-3,0**
Receivables from affiliated, non-consolidated companies	**0,1**	**-**
Carrying amount	**143,2**	**137,4**

€ 104.0 million (previous year: € 99.3 million) of trade receivables from third parties relate to the Bathroom and Wellness Division and € 39.1 million (previous year: € 38.1 million) to the Tableware Division. Receivables from affiliated, unconsolidated companies amount to € 0.1 million (see note 58).

Impairment losses are recognised using a two-stage approach as the individual receivables are mainly short-term and therefore do not contain significant financing components. The risk of default on un-impaired receivables is essentially covered by insurance.

In the first stage, the loss expected by the agreed payment date is recognised as an impairment loss. Uninsured receivables are managed by using limits based on insurance classification and an internal rating. Expected losses are calculated primarily on the basis of external and internal customer ratings and the associated historic probabilities of default.

An additional impairment loss is recognised if there are objective indications that a customer may default on a receivable (stage 2). The loss allowances to be recognised are calculated in the amount of the expected losses over the total remaining term. The following matrix is used to determine the expected credit losses. This is based on observed past loss rates, supplemented by future-oriented estimates.

The receivables were composed as follows:

	2019		2018	
in € million	Gross	Write-downs	Gross	Write-downs
Items neither impaired nor past due	**106,8**	**-**	**101,8**	**-**
Not impaired but past due	**23,5**	**-**	**21,8**	**-**
Impaired but not past due[1)]	**13,4**	**-0,5**	**13,0**	**-0,5**
Impaired and past due	**3,7**	**-3,7**	**3,8**	**-2,5**
Customer in default for 90 days or less	0,8	-0,8	0,8	-0,2
Customer in default between 91 and 360 days	1,8	-1,8	1,5	-0,8
Customer in default for 361 days or more	1,1	-1,1	1,5	-1,5
Total gross amount	**147,4**	**-4,2**	**140,4**	**-3,0**
Write-downs	-4,2	-	-3,0	-
Net carrying amount	**143,2**	**-**	**137,4**	**-**

1) Receivables not covered by credit insurance

With respect to receivables that are neither impaired nor past due, there was no evidence of potential default as at the end of the reporting period. The Villeroy & Boch Group has received a cover note from a trade credit insurer or recoverable collateral for receivables that are past due but not impaired. All other receivables were impaired in the first stage, even if not yet past due. These receivables rose by € 0.4 million from € 13.0 million to € 13.4 million in the reporting year. This increase is essentially due to the general increase of receivables. Furthermore, a flat-rate write-down was recognised on the uninsured share for general risk provisioning. If there were objective indications of a possible default, in the second stage an additional impairment loss was recognised and the receivable was reported as impaired and past due.

Impairment developed as follows in the two stages:

	2019			2018		
in € million	Level 1	Level 2	Total	Level 1	Level 2	Total
As at 1 Jan.	**0,5**	**2,5**	**3,0**	**0,4**	**2,7**	**3,1**
Additions	0,5	1,9	2,4	0,2	1,1	1,3
Currency adjustments	-0,3	0,1	-0,2	-0,1	-0,1	-0,2
Utilisation	-0,2	-0,3	-0,5	0,0	-0,4	-0,4
Reversals	0,0	-0,5	-0,5	0,0	-0,8	-0,8
As at 31 Dec.	**0,5**	**3,7**	**4,2**	**0,5**	**2,5**	**3,0**

Write-downs account for 2.8 % of the total amount of trade payables (previous year: 2.1 %). There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers.

14. Other non-current and current assets

Other assets are composed as follows:

in € million	Carrying amount 31/12/2019	Remaining term Less than 1 year	More than 1 year	Carrying amount 31/12/2018	Remaining term Less than 1 year	More than 1 year
Advance payments and deposits	**4,1**	2,2	1,9	**4,9**	3,1	1,8
Fair values of hedging instruments	**0,7**	0,6	0,1	**3,2**	1,5	1,7
Contract assets	**1,3**	1,3	-	**1,6**	1,6	-
Miscellaneous other assets	**8,6**	8,6	-	**10,5**	10,5	-
Total financial instruments *	**14,7**	**12,7**	**2,0**	**20,2**	**16,7**	**3,5**
Other tax receivables	**6,2**	6,2	-	**9,1**	9,1	-
Prepaid expenses	**1,8**	1,8	-	**1,8**	1,8	-
Total other assets	**22,7**	**20,7**	**2,0**	**31,1**	**27,6**	**3,5**

* Financial instruments are described in note 55.

As at the end of the reporting period, the Group's hedging instruments comprised currency futures (€ 0.6 million; previous year: € 3.2 million) and brass swaps (€ 0.1 million; previous year: € 0.0 million).

Capitalised security deposits in the amount of € 1.9 million (previous year: € 1.9 million) were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

Contract assets comprise licence claims included but not yet invoiced of € 1.3 million (previous year € 1.6 million). € 1.6 million of the assets recognised as at the end of the previous year (previous year: € 0.2 million) were invoiced to licensees in the 2019 financial year and new claims of € 1.3 million (previous year € 1.6 million) were recognised. Claims of € 0.0 million recognised as at 31 December were released to profit or loss.

“Miscellaneous other assets” include receivables from the French government from the “crédit d’impôt pour la compétitivité et l’emploi”, receivables from other investees, rent receivables, creditors with debit balances and a number of individual items. The receivables from the sale of assets were settled in full in the 2019 financial year (see note 17).

Other tax receivables in the amount of € 6.2 million (previous year: € 9.1 million) primarily include VAT credit of € 4.4 million (previous year: € 6.6 million).

Prepaid expenses mainly include rent payments and insurance premiums.

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. Loss allowances for current assets are recognised using the simplified, two-stage approach. As in the previous year, there were no past due receivables in this item as at 31 December 2019. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of contractual partners.

15. Income tax receivables

The income tax receivables of € 5.3 million (previous year: € 3.9 million) primarily include outstanding corporate income tax assets. € 0.9 million (previous year: € 3.1 million) of this figure relates to foreign group companies.

16. Cash and cash equivalents

Cash and cash equivalents were composed as follows as at the end of the reporting period:

in € million	31/12/2019	31/12/2018
Cash on hand incl. cheques	0,4	0,6
Current bank balances	53,9	19,9
Cash equivalents	156,0	37,1
Total cash and cash equivalents	**210,3**	**57,6**

Cash is held solely in the short term and at banks of good credit standing that are predominantly members of a deposit protection system (see note 55). Accordingly, we do not anticipate any defaults within the next twelve months. We continually observe the creditworthiness of our banking partners in order to counteract any significant increase in default risk.

17. Non-current assets held for sale

Non-current assets held for sale are carried at amortised cost. The carrying amount reported under this item as at 1 January 2019 of € 0.8 million related to the land of our former tableware plant in Luxembourg. This property was sold as part of a trade sale on 6 December 2019. The assets of the sold company consisted almost exclusively of its land. The purchaser intends to develop the land in line with building law and subsequently market it. The purchase price for all shares is based on the maximum area that can be developed on this land. This density of development will only be determined by the final development plan, which is not expected to be approved by the competent Luxembourg authorities until the end of 2020. The purchaser paid a purchase price of € 114.0 million. As the purchase price is linked to the potential variability of development density, this is a transaction with a correspondingly variable purchase price. Any change in development density will lead to an adjustment of the purchase price. The transaction was therefore measured taking into account various scenarios considered possible. These six scenarios considered possible consider a different density of development combined with an estimated probability of occurrence of between 0 % and 80 %. The likeliest scenario with a probability of occurrence of 80 % resulted in a fair value (level 3) of € 89.3 million. This would mean the recognition of income in the above amount and results in the recognition of a potential repayment obligation of € 24.7 million reported under non-current liabilities (see note 32). Income of € 87.7 million was recognised taking into account the disposal of assets and the consulting costs incurred.
Our price estimate is verified by an independent property expert. The calculation of the final transaction price is reviewed regularly. Any changes in the expected value are recognised in profit or loss.

18. 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	2019	2018
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 23 March 2018 authorised the Management Board of Villeroy & Boch AG to acquire ordinary treasury shares and/or preference treasury shares in accordance with the following rules:

a) Until 22 March 2023 inclusively, the Management Board is authorised to acquire ordinary or preference shares of the company up to an amount of ten percent of the share capital of the company at the time this authorisation becomes effective or, if lower, ten percent of the share capital of the company at the time this authorisation is exercised. The authorisation to acquire treasury shares granted to the company by the General Meeting of Shareholders on 22 March 2013 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 treasury 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 treasury 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 treasury 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 treasury 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 treasury 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 treasury shares tendered exceeds the planned buyback volume, the acquisition can be conducted in the ratio of the issued or offered preference/ordinary treasury shares; the right of preference/ordinary shareholders to tender their preference/ordinary treasury shares in proportion to their ownership interests is excluded in this respect.

Preferential treatment of smaller amounts of up to 100 preference/ordinary treasury 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 treasury 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 treasury 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 treasury 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 treasury shares on the Xetra trading system (or a similar successor system) for the last five trading days before disposal. The number of preference treasury 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 treasury 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 treasury shares outstanding does not exceed half of the share capital as a result.

(4) The preference treasury 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, in pursuit of one or more purposes. 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/or (2). Shareholders also have no pre-emption rights if the treasury shares acquired are sold on the stock market in accord-

ance 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 treasury 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.

19. Capital reserves

The capital reserves are unchanged at € 193.6 million.

20. 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.

21. Retained earnings

The retained earnings of the Villeroy & Boch Group in the amount of € 97.0 million (previous year: € 31.9 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	2019	2018
As at 1 Jan.	**31,9**	**12,7**
Consolidated earnings attributable to Villeroy & Boch AG shareholders	80,2	33,5
Dividend distribution	-15,1	-14,3
Acquisition of non-controlling interests (see note 23)	0,0	-
As at 31 Dec.	**97,0**	**31,9**

22. Revaluation surplus

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

in € million	2019	2018	Change
Items to be reclassified to profit or loss:			
Currency translation of financial statements of foreign group companies (a)	-11,4	-5,0	-6,4
Currency translation of long-term loans classified as net investments in foreign group companies (b)	-4,4	-6,5	2,1
Cash flow hedges (c)	-0,6	2,5	-3,1
Deferred tax effect on items to be reclassified to profit or loss (d)	-5,5	-4,6	-0,9
Items not to be reclassified to profit or loss:			
Actuarial gains and losses on defined benefit obligations (e)	-107,9	-89,9	-18,0
Sundry valuation results (f)	0,2	-0,3	0,5
Deferred tax effect on items not to be reclassified to profit or loss (g)	31,5	25,9	5,6
As at 31 December	**-98,1**	**-77,9**	**-20,2**

(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 € -6.4 million in the 2019 financial year (previous year: € -1.7 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 loans classified as a net investment are therefore reported in this revaluation surplus. This net change in equity in the period under review amounted to € 2.1 million (previous year: € 1.0 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 55). These hedges are reported at fair value in the statement of financial position as other assets (see note 14) or other liabilities (see note 32). Changes in fair value amounted to € -0.8 million in the period under review (previous year: € 1.8 million). Cumulative prior-period changes in value in the amount of € -2.3 million (previous year: € -2.8 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 € -3.1 million (previous year: € -1.0 million).

(d) 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	2019	2018
As at 1 January	-4,6	-5,2
Additions	-1,1	0,6
Disposals	0,2	0,0
As at 31 December	**-5,5**	**-4,6**

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

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

The reserve for actuarial gains and losses on defined benefit plans (see note 27) 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 € -18.0 million from € -89.9 million to € -107.9 million (see note 27).

(f) Reserve for miscellaneous gains and losses on measurement

This reserve comprises:

in € million	2019	2018	Change
Valuation results on securities	0,2	-0,6	0,8
Valuation results on long-term obligations to employees	0,0	0,3	-0,3
As at 31 December	**0,2**	**-0,3**	**0,5**

The Villeroy & Boch Group recognises listed securities (see note 10 c). These financial instruments are measured at their respective fair value. The fair value is the market price and is assigned to the first level of the fair value hierarchy. Changes in value during the holding period are recognised in the revaluation surplus in equity. Gains and losses reported in this item by the time of derecognition remain in the reserves. In the reporting period, this item changed by € 0.8 million from € -0.6 million to € 0.2 million (see note 10).

Provisions for personnel (see note 28) include long-term obligations to employees of Villeroy & Boch (Thailand) Co. Ltd. that are recognised in the amount of the actuarial present values. Actuarial gains and losses, such as those arising from the change in the discounting factor or assumed mortality rates, are recognised in this item. In the reporting period, this item changed by € -0.3 million from € 0.3 million to € 0.0 million.

(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 € 5.6 million (previous year: € 0.7 million).

23. Equity attributable to minority interests

Non-controlling interests in equity amounted to € 4.6 million (previous year: € 4.9 million). As in the previous year, there are non-controlling interests in two Group companies (see note 63). Further shares in Mondial S.A. were acquired on 9 August 2019.

Combined, these Group companies are as follows as at the end of the reporting period:

31/12/2019 in € million	Argent Australia Pty. Ltd., Australia	Mondial S.A., Romania	Total 2019	Total 2018
Percentage of minority interests	**54,6%**	**0,5%**		
Non-current assets	1,0	12,8		
Current assets	13,7	16,9		
Non-current liabilities	-0,5	-1,1		
Current liabilities	-5,9	-7,5		
Net assets	**8,3**	**21,1**		
Net assets of minority interests	4,5	0,1	**4,6**	**4,9**
Revenue	19,4	40,7		
Result	**0,3**	**4,1**		
thereof attributable to minority interests	0,2	0,0	**0,2**	**0,4**
total of comprehensive income	**0,0**	**4,1**		
thereof attributable to minority interests	0,0	0,0	**0,0**	**-0,6**
dividend payment to minority interests	**-0,5**	**-**	**-0,5**	**-0,3**

This combined financial information contains transactions with other companies of the Villeroy & Boch Group that were eliminated in consolidation, such as liabilities for purchased goods and unearned intercompany profits. Our principles of consolidation are described in note 3.

24. 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 2019 amounted to € 39.1 million. Taking into account the profit carried forward of € 8.2 million, the unappropriated surplus amounts to € 47.3 million.

At the next General Meeting of Shareholders on 27 March 2020, the Management Board of Villeroy & Boch AG will propose that the unappropriated surplus be used to distribute a dividend as follows:

0,55 €	per ordinary share
0,60 €	per preference share

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

Ordinary share:	€	7,7	million
Preference share:	€	8,4	million
	€	16,1	million

If the company still holds treasury shares at the time of the resolution on the appropriation of profits, the dividend payment for the preferred capital will be reduced by the amount attributable to the treasury shares. The amount attributable to treasury shares is to be carried forward to new account.

The dividend shown in the table below was paid to the bearers of Villeroy & Boch shares in previous years:

Payment day	3 April 2019		28 March 2018	
Eligible share class	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0,55	7,7	0,52	7,3
Preference shares	0,60	7,4	0,57	7,0
		15,1		14,3

25. 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	31/12/2019	31/12/2018
Equity	254,0	209,4
Provisions for pensions (note 27)	189,9	177,2
Financial liabilities (note 30)	70,0	25,0
Non-current sources of finance	**513,9**	**411,6**

26. 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, 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.

5. 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.

6. 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.

7. 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.

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

– Luitwin Michel von Boch-Galhau

– Siegfried von Boch-Galhau

9. 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.

27. 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	31/12/2019	31/12/2018
Germany	166,5	157,9
Rest of euro zone	10,6	9,3
Rest of world	12,8	10,0
Provisions for pensions	**189,9**	**177,2**

In Germany there are a final salary plan and several earnings points plans. A final salary plan is available in Sweden. The pension plans in Sweden, Switzerland, Norway and Mexico are partially backed by the investment of financial assets with external managers.

In the Villeroy & Boch Group, 8,261 people (previous year: 8,236) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31/12/2019	31/12/2018
Germany		
Members	2.362	2.258
Vested former members	1.230	1.235
Pensioners	2.360	2.354
Total	**5.952**	**5.847**
Rest of euro zone		
Members	422	427
Vested former members	27	24
Pensioners	75	68
Total	**524**	**519**
Rest of world		
Members	1.357	1.450
Vested former members	170	165
Pensioners	258	255
Total	**1.785**	**1.870**
Persons with a commitment	**8.261**	**8.236**

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

	2019		2018	
In %	Ø	Range	Ø	Range
Discount rate	1,0	0,2 - 7,0	1,8	0,9 - 9,1
Expected long-term wage and salary trend	2,5	1,0 - 5,6	2,5	1,0 - 5,6
Expected long-term pension trend	1,3	0,0 - 3,4	1,3	0,0 - 3,5

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 0.25 % in Switzerland to 7.0 % in Mexico. In the previous year, the country-specific discount rates ranged from 0.9 % in Switzerland to 9.1 % in Mexico. A discount rate of 1.00 % (previous year: 1.75 %) is used in Germany. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. The pension obligations for the German companies in the Group are measured, as in the previous year, using the biometric data of the 2018 G Heubeck mortality tables (previous year: 2018 G Heubeck 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	31/12/2019	31/12/2018
Present value of defined benefit obligations	214,6	200,7
Fair value of plan assets	-24,7	-23,5
Carrying amount	**189,9**	**177,2**

The present value of pension obligations developed as follows:

in € million	2019	2018
As at 1 Jan	**200,7**	**209,3**
Current service cost	2,3	2,1
Interest income and interest expenses	3,4	3,5
Actuarial gains and losses arising from		
- changes in demographic assumptions	0,0	1,9
- changes in financial assumptions	18,2	0,7
- changes in other assumptions	0,9	0,3
Past service cost	0,9	0,0
Gains or losses from settlements	-0,1	-1,4
Contributions from plan participants	0,4	0,4
Benefits paid	-11,9	-12,4
Settlement payments	-0,1	-3,2
Currency changes arising from non-euro-denominated plans	-0,1	-0,5
As at 31 Dec	**214,6**	**200,7**

There were the following changes to plan assets:

in € million	2019	2018
As at 1 Jan	**23,5**	**24,2**
Interest income and interest expenses	0,4	0,5
Gains and losses from plan assets	1,1	-0,2
Contributions from the Villeroy & Boch Group as employer	0,4	0,4
Contributions from plan participants	0,4	0,4
Benefits paid	-1,2	-1,2
Currency changes arising from non-euro-denominated plans	0,1	-0,6
As at 31 Dec	**24,7**	**23,5**

The portfolio structure of plan assets was as follows:

	31/12/2019		31/12/2018	
	in € million	%	in € million	%
Annuities / annuity funds	10,4	42	9,9	42
Equities / equity funds	5,6	23	5,6	24
Property / REITs	2,2	9	2,1	9
Cash and cash equivalents	0,1	0	0,1	0
Investments on an active market	**18,3**	**74**	**17,7**	**75**
Insurance policies	6,4	26	5,8	25
Plan assets	**24,7**	**100**	**23,5**	**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	
		31/12/2019	31/12/2018
Present value of defined benefit obligations		214,6	200,7
Discount rate	Increase by 0.25%	207,7	194,6
	Reduction by 0.25%	222,4	206,6
Pension trend	Increase by 0.25%	219,5	204,8
	Reduction by 0.25%	211,3	196,8

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 2020	Forecast 2019
Defined benefit obligations as at 31 Dec. 2019 or 2018 resp.	214,6	200,7
Forecast service cost	2,8	2,3
Forecast interest costs	2,1	3,5
Forecast pension payments	-12,6	-12,5
Forecast defined benefit obligations	**206,9**	**194,0**

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 2019 was 13.2 years (previous year: 12.6 years). The weighted duration for the pension plans of German companies amounted to 12.0 years (previous year: 11.4 years).

28. 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	Severance pay	Partial retirement	Other	Total	Current provisions	Total amount
As at 1 Jan. 2018	**7,2**	**6,0**	**5,0**	**0,8**	**19,0**	**15,4**	**34,4**
Currency adjustments	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Utilisation	-0,5	-3,4	-2,1	-0,1	-6,1	-13,4	-19,5
Reversals	0,0	-	-0,3	-0,1	-0,4	-1,3	-1,7
Additions	0,5	3,3	0,7	0,4	4,9	14,5	19,4
Reclassifications	-0,4	-	0,1	0,0	-0,3	-	-0,3
As at 1 Jan. 2019	**6,8**	**5,9**	**3,4**	**1,0**	**17,1**	**15,2**	**32,3**
Currency adjustments	0,0	0,3	0,0	0,0	0,3	0,2	0,5
Utilisation	-0,5	-2,7	-2,0	-0,1	-5,3	-13,5	-18,8
Reversals	0,0	0,0	0,0	0,0	0,0	-0,8	-0,8
Additions	1,2	4,1	0,4	0,7	6,4	14,3	20,7
Reclassifications	-	-	0,0	0,0	0,0	-	0,0
As at 31 Dec. 2019	**7,5**	**7,6**	**1,8**	**1,6**	**18,5**	**15,4**	**33,9**

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 € 5.4 million (previous year: € 4.8 million). This corresponds to 72.0 % (previous year: 70.6 %) of this provision. As in the previous year, these provisions were measured applying the biometric assumptions of the 2018 G Heubeck mortality tables. A foreign group company reclassified an amount of € 0.3 million to personnel liabilities in the previous year (see note 32).

The provisions for severance pay are recognised for legally required termination benefits that, for instance, must be paid when an employee changes employer or retires. These are generally non-recurring payments for employees in Thailand, Austria, Italy, Australia, Romania and India. 49.9 % of the provision relates to the claims of employees of Villeroy & Boch Thailand (previous year: 38.6 %) and 30.3 % to the claims of employees of Villeroy & Boch Austria GmbH (previous year: 34.1 %).

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. 91.0 % of the provision relates to the employees of Villeroy & Boch AG (previous year: 97.0 %).

The increase in other non-current provisions for personnel is essentially due to the creation of a fund to be used as an instrument for coping with demographic change and financing measures for health prevention, the improvement of working conditions and support for working hours according to life phases.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of € 14.9 million (previous year: € 14.3 million).

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

29. Other non-current and current provisions

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

	Other non-current provisions	Other current provisions for:						Total amount
in € million		Restructuring	Warranties	Recultivation and demolition	Legal and consultancy fees	Miscellaneous	Total	
As at 1 Jan. 2018	**11,3**	**-**	**7,0**	**4,1**	**1,7**	**7,2**	**20,0**	**31,3**
Currency adjustments	0,0	-	-0,1	-	0,0	0,0	-0,1	-0,1
Utilisation	-1,0	-	-0,8	-1,1	-0,5	-3,0	-5,4	-6,4
Reversals	-1,9	-	-0,2	-	0,0	-0,8	-1,0	-2,9
Additions	1,6	-	0,7	-	0,8	3,8	5,3	6,9
Reclassifications	-1,2	-	-	1,2	-	-	1,2	0,0
As at 1 Jan. 2019	**8,8**	**-**	**6,6**	**4,2**	**2,0**	**7,2**	**20,0**	**28,8**
Currency adjustments	0,0	0,0	0,0	-	0,0	0,0	0,0	0,0
Utilisation	-1,8	-	-0,9	-0,9	-0,7	-3,6	-6,1	-7,9
Reversals	-0,1	-	-0,2	-2,5	-0,3	-0,9	-3,9	-4,0
Additions	16,2	10,4	0,7	4,4	3,0	3,9	22,4	38,6
Reclassifications	0,7	-	-	-	-	-0,7	-0,7	0,0
As at 31 Dec. 2019	**23,8**	**10,4**	**6,2**	**5,2**	**4,0**	**5,9**	**31,7**	**55,5**

In particular, non-current provisions relate to recultivation and demolition obligations for several properties at existing or former production sites and to obligations to remove leasehold improvements.

Provisions of € 19.3 million were recognised this year, essentially for recultivation and demolition obligations for properties in France, Germany and Sweden. We expect these measures to result in utilisation amounting to € 4.4 million in the coming financial year. € 0.9 million (previous year: € 1.1 million) was invested in the restoration and renovation of the former tableware plant in Luxembourg in the 2019 financial year. We expect expenses of € 0.8 million from this project in Luxembourg in the coming financial year.

In December 2019, a restructuring plan has been defined to continue the development of our Group in terms of efficient structures. The measures under this transformation and efficiency programme comprise all functions and markets of the Villeroy & Boch Group. The local employee representatives were informed accordingly. The anticipated restructuring costs for staff are estimated at € 9.2 million in total. Other costs directly attributable to this restructuring program amount to € 1.2 million. This obligation was calculated on the basis of company-specific updated empirical values. Provisions for these costs were recognised in full in the financial year and are essentially included in selling, marketing and development expenses (71 %) and general and administrative expenses (21 %). The provision recognised is expected to be utilised in full within the next 12 months.

The Villeroy & Boch Group typically sold its products with a warranty specific to the country and sector. 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.

30. Non-current and current financial liabilities

Interest-bearing liabilities to banks are reported under financial liabilities as at 31 December 2019. These developed as follows in the financial year:

in € million	Non-current financial liabilities	Current financial liabilities	Total amount
As at 1 Jan. 2018	**50,2**	**0,9**	**51,1**
Cash changes	-	34,3	34,3
Non-cash changes:			
- Offsetting (see note 16)	-	-28,3	-28,3
- Interest capitalisation	-	1,0	1,0
- Reclassifications	-25,2	25,2	0,0
- Currency adjustments	-	0,0	0,0
As at 1 Jan. 2019	**25,0**	**33,1**	**58,1**
Cash changes	70,0	-2,5	67,5
Non-cash changes:			
- Offsetting (see note 16)	-	-13,1	-13,1
- Interest capitalisation	-	0,3	0,3
- Reclassifications	-25,0	25,0	0,0
- Reclassifications from initial use of IFRS 16	-	-0,3	-0,3
- Currency adjustments	-	0,0	0,0
As at 31 Dec. 2019	**70,0**	**42,5**	**112,5**

There are non-current financial liabilities of € 70.0 million (previous year: € 25.0 million) as at 31 December 2019. In December 2019, Villeroy & Boch AG entered into agreements for long-term bullet loans with three German credit institutions. A bank loan of € 20.0 million is due in 2022, the two other loans of € 25.0 million each in 2024. The interest is payable quarterly or annually. The loans include negative pledges on the part of Villeroy & Boch AG. One long-term loan agreement will end prematurely in the event of a change of control at Villeroy & Boch AG.
A bank loan with a nominal amount of € 25.0 million was reclassified to current financial liabilities in the 2019 financial year as it will be repaid within the next twelve months. For this long-term 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.
The long-term bank loan of € 25.0 million, which was reclassified to current financial liabilities in the previous year, was repaid on time.

Net receivables from and liabilities to banks were consolidated and amounted to € 13.1 million (previous year: € 28.3 million) (see note 16). The requirements for offsetting have been met and it is intended to settle them on a net basis.

On the adoption of IFRS 16 as at 1 January 2019, finance lease liabilities of € 0.3 million were reclassified to the non-current and current lease liabilities in the statement of financial position (see note 31).

31. Non-current and current lease liabilities

Lease liabilities relate exclusively to future payment obligations from the long-term rental of assets (see note 7). They are recognised at the present value of the payments to be made to the lessor over the lease term. Current and non-current lease liabilities developed as follows in the financial year:

in € million	Non-current lease liabilities	Current lease liabilities	Total
As at 1/1/2019	-	-	-
Additions due to first-time application of IFRS 16	**35,2**	**12,3**	**47,5**
Cash changes	-	-14,2	-14,2
Non-cash changes:			
- First-time application	8,9	-	8,9
- Finance leases (see note 30)	-	0,3	0,3
- Interest capitalisation	0,8	0,0	0,8
- Reclassifications	-14,7	14,7	0,0
- Currency adjustments	0,0	0,0	0,0
As at 31/12/2019	**30,2**	**13,1**	**43,3**

Interest expenses for lease liabilities of € -0.8 million were recognised in profit or loss in the financial year.

The Group's undiscounted obligations from capitalised leases are due as follows:

in € million	**2019**
Due within next 3 months	4,0
Due between 4 and 12 months	10,5
Due between 13 and 24 months	11,1
Due between 25 and 36 months	7,7
Due between 37 and 48 months	4,9
Due between 49 and 60 months	3,0
Due between 61st month and end of contract	5,4
Total undiscounted lease payments	**46,6**
Interest portion included	-3,3
Recognised lease liability	**43,3**

Some leases contain price adjustment clauses in addition to renewal, purchase and termination options. Such options are only included in the calculation of the lease liability when it is reasonably certain that the lease will be renewed or not terminated. Variable lease payments not linked to the development of an index or price, such as revenue-based rent components, are also not permitted to be included in lease liabilities. These unrecognised contract clauses could result in the following theoretical additional payments:

in € million	31/12/2019
Future potential outflows due to	
• variable lease payments	1,0
• renewal and termination options	3,2
• residual value guarantees	-
• penalties	0,1
• leases for which the asset has not yet been provided	0,8
	5,1

In addition to payments of principal and interest for the recognised lease liability, amounts recognised in the statement of cash flow also include payments for unrecognised short-term leases and for leases for low-value assets. Payments of principal are reported under cash flows from financing activities and payments of interest are reported under cash flows from operating activities.

in € million	Note	31/12/2019
Cash flow from operating activities		
Expenses for short-term leases	7	-4,3
Expenses for leases for low-value assets	7	-1,5
Expenses for variable lease payments	7	-8,5
Miscellaneous lease expenses	7	-0,1
Income from the rental of property, plant and equipment	7	1,9
Income from sub-leases	7	0,5
Income from the rental of investment property	8	0,5
Interest expenses for lease liabilities	31	-0,8
Change in cash flow from operating activities		**-12,3**
Cash flow from financing activities		
Payments for the principal portion of lease liabilities	31	-14,2
Change in cash flow from financing activities		**-14,2**
Total change in cash and cash equivalents from cash outflow for leases		**-26,5**

32. Other non-current and current liabilities

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

in € million	Carrying amount 31/12/2019	Remaining term Less than 1 year	Remaining term More than 1 year	Carrying amount	Remaining term than 1 year	Remaining term than 1 year
Bonus liabilities	**41,9**	41,9	-	**43,0**	43,0	-
Fair values of hedging instruments	**1,3**	0,6	0,7	**0,7**	0,4	0,3
Advance payments receivedon account of orders	**4,1**	4,1	-	**4,5**	4,5	-
Liabilities to affiliated, non-consolidated companies	**0,4**	0,4	-	**-**	-	-
Miscellaneous other liabilities	**30,4**	3,4	27,0	**6,7**	4,3	2,4
Total financial instruments *	**78,1**	**50,4**	**27,7**	**54,9**	**52,2**	**2,7**
Personnel liabilities	**19,9**	19,8	0,1	**19,5**	19,4	0,1
Other tax liabilities	**12,4**	12,4	-	**12,3**	12,3	-
Deferred income	**4,1**	3,0	1,1	**4,3**	2,7	1,6
Total carrying amount	**114,5**	**85,6**	**28,9**	**91,0**	**86,6**	**4,4**

* Financial instruments are described in note 55.

The measurement of hedging instruments (see note 55) includes currency hedges in the amount of € 1.3 million (previous year: € 0.7 million).

Advance payments received on account of orders are classified as contract liabilities in accordance with IFRS 15. € 3.7 million of the advance payments recognised as at 31 December 2018 (previous year: € 10.1 million) were settled by deliveries in the 2019 financial year.

Miscellaneous other liabilities included a long-term obligation from the sale of the plant site in Luxembourg in the amount of € 24.7 million (see note 17), debtors with credit balances and a number of individual items.

Other tax liabilities primarily included VAT in the amount of € 7.8 million (previous year: € 7.4 million) and payroll and church tax in the amount of € 4.0 million (previous year: € 4.1 million).

Deferred income consisted essentially of the free allocation of emission allowances (see note 5), compensation for a long-term rental agreement with the City of Luxembourg (see note 8), rent payments received and government grants for property, plant and equipment (see note 6).

Miscellaneous other liabilities to affiliated, unconsolidated companies mainly comprise an interest-bearing loan from these subsidiaries in the context of general cash clearing (see note 58).

33. Trade payables

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

in € million	31/12/2019	31/12/2018
Germany	32,3	31,4
Rest of euro zone	9,4	9,8
Rest of world	39,6	36,1
Carrying amount as at 31 Dec.	**81,3**	**77,3**

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

34. Revenue

Revenue breakdown

The Villeroy & Boch Group generates revenue from the sale of goods and merchandise. The income generated from the license business is also reported as a component of consolidated revenue. A breakdown of revenue – by type of revenue and by division and region – is shown in segment reporting under note 54.

Contract balances

Please see the relevant sections for information on the development of contract balances in relation to trade receivables (note 13), contract assets (note 14) and contract liabilities – these correspond to the statement of financial position item "Advance payments" (note 32).

Revenue of € 3.7 million (previous year: € 10.1 million) was recognised in the 2019 financial year that was included in net advance payments (€ 4.1 million) at the start of the reporting period. The amount of revenue recognised in the 2019 financial year from performance obligations that were settled in prior periods was € 2.1 million (previous year: € 3.2 million).

Performance obligations

Please see "Revenue recognition" under note 1 "Accounting policies" for detailed information on performance obligations in contracts with customers.

As at the end of the reporting period, the total amount of outstanding performance obligations, i.e. the Group's orders on hand, was € 44.8 million, € 44.8 million of which are expected to be fulfilled in the coming twelve months and € 0.0 million of which thereafter. The previous year's orders on hand amounted to € 59.8 million; orders € 59.6 million were considered to be deliverable in the short term. The amounts stated do not include subsequent deductions to be granted or revenue-based income anticipated from license business.

35. 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.

36. 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	2019	2018
Bathroom and Wellness	-12,2	-11,8
Tableware	-4,4	-4,1
Total	**-16,6**	**-15,9**

37. General administrative expenses

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

38. Other operating income

Other operating income is composed as follows:

in € million	2019	2018
Income from the sale of a property in Luxembourg	87,7	-
Exchange rate gains	5,7	2,9
Reversal of provisions*	4,4	3,9
Reimbursement for damages	0,6	0,3
Reversal of write-downs on receivables	0,5	0,8
Reversal of liabilities	0,3	0,7
Book profits on the disposal of non-current assets	0,2	3,7
Other	3,4	1,9
Total	**102,8**	**14,2**

* not including amounts in other statement of consolidated income items

The line “Income from the sale of a property in Luxembourg” reports the non-recurring income arising from the sale of a former plant site in Luxembourg in the 2019 financial year. Please see note 17 “Non-current assets held for sale” for further information.

39. Other operating expenses

Other operating expenses were composed as follows:

in € million	2019	2018
Costs for recultivation and demolition	-18,7	-
Consulting services	-5,3	-3,1
Addition to write-downs on receivables	-2,5	-3,5
Service costs	-1,1	-1,3
Exchange rate losses	-0,7	-2,4
Reorganisation costs	-0,6	-0,9
Addition to write-downs on other receivables	-0,5	-0,2
Costs for maintenance/repairs	-0,3	-0,1
Book losses on the disposal of non-current assets	-0,2	-0,5
Other	-7,4	-3,8
Total	**-37,3**	**-15,8**

Provisions for recultivation and demolition obligations were recognised in the financial year (note 29).

The additions to write-downs on receivables relate to trade receivables (see note 13) and other receivables.

40. Results of financial assets accounted for using the equity method

This item includes the pro rata result from the investment in two associated companies in the amount of € -0.2 million (previous year: € 0.1 million).

41. Interest income and other financial income

Financial income consisted of:

in € million	2019	2018
Interest income from:		
Cash and cash equivalents	0,8	1,1
Loans and receivables	0,2	0,4
Total interest income	**1,0**	**1,5**
Dividends from securities available-for-sale	0,5	0,3
Total financial income	**1,5**	**1,8**

42. Interest expenses and other financial expenses

Finance costs related to:

in € million	2019	2018
Interest expenses from:		
Provisions	-4,2	-3,4
Lease liabilities	-0,8	-
Overdraft facilities	-2,0	-1,8
Non-current loans	-0,8	-1,0
Other borrowing	0,0	0,0
Total interest expenses	**-7,8**	**-6,2**
Other finance costs	-0,4	0,0
Total finance costs	**-8,2**	**-6,2**

The interest expense of provisions climbed by € -0.8 million to € -4.2 million, essentially on account of the adjustment of the discount rate used to measure Villeroy & Boch AG's anniversary obligations, which declined from 1.75 % as at 31 December 2018 to currently 0.55 %. The interest expense from the remeasurement of the pension provision has changed only insignificantly year-on-year as the interest rate of 1.75 % for 2018 also applied in the reporting period (see note 27). The current pension interest rate of 1.00 % will not affect net interest income until 2020.

The Villeroy & Boch Group recognised the present value of future lease payments as a liability for the first time in the financial year (see note 31). The interest expense on these carrying amounts of € -0.8 million was included in operating rental expenses in the previous year. In accordance with the modified retrospective method, the prior-year figures were not restated (see note 1: First-time application of IFRS 16).

Other financial expenses climbed mainly as a result of the use of currency derivatives outside hedge accounting. This derivative is used in the context of our hedging strategy for foreign currencies (see note 55).

43. Income taxes

Income taxes include the taxes on income paid or due and deferred taxes. The German tax law applicable in the 2019 financial year stipulates a tax rate of 30 % (previous year: 29.5 %) for the German companies of the Villeroy & Boch Group, taking different trade tax rates into account. The respective country-specific income tax rates used for foreign companies vary from 9.0 % to 30.0 % (previous year: 9.0 % to 34.6 %).

in € million	2019	2018
Taxes paid or due in Germany	-5,3	-2,9
Taxes paid or due outside Germany	-7,6	-8,1
Current taxes	**-12,9**	**-11,0**
Deferred taxes	-3,4	-4,3
Income taxes	**-16,3**	**-15,3**

The expected income tax expense (current and deferred) based on the overall German tax rate of 30.0 % differs from the reported income tax expense as follows:

in € million	2019	2018
Earnings before taxes (EBT)	**96,7**	**49,2**
Expected income tax (EBT x tax rate of 30.0%)	-29,0	-14,5
Differences arising from foreign tax rates	6,3	3,1
Tax effects arising from:		
Non-deductible expenses	-2,3	-1,9
Adjustment / write-downs on deferred taxes	-7,0	-2,0
Tax-free income	19,1	0,8
Tax in previous years	-4,0	0,0
Change of Tax-rates	0,2	-1,0
Other deferred taxes	0,4	0,2
Actual income tax expense	**-16,3**	**-15,3**
Actual tax rate in %	**16,9**	**31,1**

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	2019	2018
Change in statement of financial position item:		
• Deferred tax assets (note 10)	1,3	-0,8
• Deferred tax liabilities (note 10)	-0,9	-0,7
Sub-total	**0,4**	**-1,5**
• Pass to other comprehensive income (note 22(e))	-4,6	-1,4
• Currency adjustments	0,8	-1,4
Deferred taxes recognised in income statement	**-3,4**	**-4,3**

44. Minority interests

Non-controlling interests in consolidated earnings amounted to € 0.2 million (previous year: € 0.4 million).

Group companies with non-controlling interests are shown in the list of shareholdings (see note 63). The key figures are presented in note 23.

45. Earnings per share

Earnings per share are calculated by dividing the portion of consolidated net income attributable to the shareholders of Villeroy & Boch AG by the weighted number of shares outstanding:

Ordinary shares	31/12/2019	31/12/2018
Number of shares outstanding	14.044.800	14.044.800
Pro rata consolidated net income (in € million) *	42,3	17,5
Earnings per share (in €) *	3,01	1,25

Preference shares	31/12/2019	31/12/2018
Number of shares outstanding	12.361.771	12.361.771
Pro rata consolidated net income (in € million) *	37,9	16,0
Earnings per share (in €) *	3,06	1,30

* each in relation to the shares outstanding

The portion of consolidated net income attributable to the shareholders of Villeroy & Boch AG is allocated in accordance with the appropriation of earnings set out in the Articles of Association (see note 18). The development in treasury shares is described in note 20. There were no dilution effects during the reporting periods.

46. Depreciation, amortisation and impairments

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

in € million	2019	2018
Amortisation of intangible assets	-0,9	-1,0
Impairment losses on intangible assets	-0,2	-
Depreciation of property, plant and equipment	-24,6	-21,8
Impairment losses on property, plant and equipment	-0,4	-
Depreciation of rigth-of-use assets	-13,8	-
Impairment losses on rigth-of-use assets	-1,2	-
Depreciation of investment property	-0,6	-0,7
Impairment losses on investment property	-	-
Impairment losses on financial assets	-	-
Total depreciation, amortisation and impairments	**-41,7**	**-23,5**

Depreciation is based on standard Group useful lives (see note 1). There was depreciation on right-of-use assets from leases for the first time in the financial year (see note 7). In the previous year, the useful life of kilns/drying plants was increased from five to ten years and the useful life of shaping machines was increased from five to eight years.

47. Cost of materials

The cost of materials comprised the following:

in € million	2019	2018
Cost of raw materials and supplies (including primary products)	-132,7	-133,9
Cost of purchased goods	-122,4	-122,0
	-255,1	**-255,9**
Cost of purchased services	-39,5	-40,2
Total cost of materials	**-294,6**	**-296,1**

48. Personnel expenses

Personnel expenses were composed as follows:

in € million	2019	2018
Wages and salaries	-240,6	-237,5
Post-employment benefits:		
Expenses for defined benefit plans (see note 27)	-3,2	-2,1
Income from settlement of defined benefit obligations (see note 27)	0,1	1,4
Expenses for defined contribution plans	-17,9	-17,6
Termination benefits	-11,7	-2,3
Other services	-34,3	-33,0
Total staff costs	**-307,6**	**-291,1**

The cost of defined contribution pension plans essentially relates to employer contributions to statutory pension schemes.

“Other benefits” include employer contributions to health insurance, trade association dues and similar expenses.

Average number of employees:

Number of employees	2019	2018
Wage earners	4.040	4.224
Salaried employees	3.806	3.794
Average	**7.846**	**8.018**

Of the workforce as a whole, a total of 2,753 people are employed in Germany (previous year: 2,756), with the remaining 5,093 employed outside Germany (previous year: 5,262). The divisions employ:

Number of employees	2019	2018
Bathroom and Wellness	5.065	5.205
Tableware	2.220	2.256
Other	561	557
Average	**7.846**	**8.018**

49. Other taxes

The cost of other taxes was € -3.7 million in the reporting period (previous year: € -4.0 million). Companies based in Germany accounted for € -0.9 million (previous year: € -0.9 million) and Group companies abroad for € -2.8 million (previous year: € -3.1 million).

“Other taxes” include mainly real estate tax expenses of € -1.5 million (previous year: € -1.5 million), expenses for the French “contribution economique territoriale” of € -0.7 million (previous year: € -0.9 million) and the French “taxe organic” of € -0.1 million (previous year: € -0.1 million).

Notes to the Consolidated Statement of Cash Flows

50. 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 cash flow from operating activities amounted to € 46.6 million (previous year: € 2.1 million). With the introduction of IFRS 16 "Leasing" this cash flow improved by € 14.2 million, as the outflow of funds is shown in the cash flow from financing activities. This change is included in the increased depreciation of non-current assets. The result from asset disposals mainly includes the income from the sale of our former plant property in Luxembourg (€ 87.7 million). An increase in trade receivables (€ 5.7 million) and inventories (€ 9.9 million) is almost completely offset by higher provisions, mainly from the addition of provisions for recultivation and dismantling obligations (€ 19.3 million, of which € 4.4 million is short-term) and the provision for the transformation efficiency enhancement programme (€ 10.4 million). The increase in trade payables (€ 4.0 million) and lower tax payments (€ 2.7 million) also contributed to the improvement in cash flow from operating activities.

The “Other non-cash income and expenses” item includes:

in € million	2019	2018
Interest from the provision for pensions and similar obligations	4,2	3,4
Expenses / income from deferred taxes	4,3	2,9
Additions to tax provisions	2,4	0,2
Other non-cash items	0,5	1,6
Total	**11,4**	**8,1**

51. Cash flow from investing activities

Net cash used in investing activities of € 81.3 million (previous year: € -44.6 million) mainly included the proceeds from the disposal of the former plant property in Luxembourg of € 114.0 million (see note 17) and other proceeds from the disposal of assets amounting to € 4.8 million, which were offset

by investments of € 37.7 million in total for acquisitions of property, plant and equipment, non-current financial assets and intangible assets.

50. Cash flow from financing activities

Net cash used in financing activities amounted to € 24.6 million (previous year: € -7.6 million). The rise in financial liabilities (€ 54.4 million) was offset by the payments of principal portion of lease liabilities (€ 14.2 million) shown here for the first time as a result of the adoption of IFRS 16 "Leases" and the dividend distribution paid out in April 2019 (€ 15.1 million).

53. Cash and cash equivalents

As at the end of the reporting period, cash and cash equivalents amounted to € 210.3 million (previous year: € 57.6 million), an increase of € 152.7 million as against the previous year.

54. 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, bath and kitchen fittings and accessories. The product range is rounded off by shower toilets, installation systems, outdoor system pools and accessories, among other things.

The **Tableware** Division covers the complete assortment of tableware, crystal/glass 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 sales of goods to external customers		Revenue from licence		Intersegment revenue		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Bathroom and Wellness	553,4	583,8	0,6	0,5	0,0	0,0	554,0	584,3
Tableware	272,8	263,2	3,7	3,0	0,0	0,0	276,5	266,2
Transition / Other	-	-	2,8	2,6	0,0	-	2,8	2,6
Total segment revenue	**826,2**	**847,0**	**7,1**	**6,1**	**0,0**	**0,0**	**833,3**	**853,1**
Eliminations	0,0	0,0	-	-		-	0,0	0,0
Consolidated revenue	**826,2**	**847,0**	**7,1**	**6,1**	**0,0**	**0,0**	**833,3**	**853,1**

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

in € million	31/12/2019	31/12/2018
Bathroom and Wellness	43,2	47,3
Tableware	7,8	6,3
Real estate income from Gustavsberg	52,4	0,0
Operating result (EBIT)	**103,4**	**53,6**
Net finance cost (see notes 39 and 40)	-6,7	-4,4
Earnings before taxes	**96,7**	**49,2**
Income taxes (see note 41)	-16,3	-15,3
Group result	**80,4**	**33,9**

The following assets and liabilities were assigned to the divisions:

in € million	Assets		Liabilities		Net assets	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bathroom and Wellness	422,9	393,2	160,5	147,8	262,4	245,4
Tableware	158,3	128,1	72,7	41,3	85,6	86,8
Reconciliation	311,9	160,3	405,9	283,1	-94,0	-122,8
Total	**893,1**	**681,6**	**639,1**	**472,2**	**254,0**	**209,4**

The assets and liabilities of the two divisions increased essentially as a result of the first-time recognition of right-of-use assets for lease assets and their corresponding lease liabilities (see note 1). The Bathroom and Wellness Division recognised right-of-use assets of € 12.7 million (see note 7) and lease liabilities of € 12.3 million (see note 31) as at 31 December 2019. The Tableware Division recognised right-of-use assets of € 28.8 million and lease liabilities of € 29.3 million as at the end of the current reporting period.

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

in € million	Rolling assets		Rolling liabilities		Rolling net assets	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bathroom and Wellness	411,4	374,0	141,7	139,6	269,7	234,4
Tableware	153,7	125,1	68,8	39,1	84,9	86,0
Total	**565,1**	**499,1**	**210,5**	**178,7**	**354,6**	**320,4**

Segment assets include intangible assets, property, plant and equipment, right-of-use assets, inventories, trade receivables and other assets. As a result of the mandatory capitalisation of right-of-use as-

sets since 1 January 2019, the rolling net operating assets of the Bathroom and Wellness Division climbed by € 9.1 million and those of the Tableware Division by € 25.2 million.

Segment liabilities include provisions, trade payables, lease liabilities and other liabilities. Also as a result of the new accounting for leases, the rolling operating liabilities of the Bathroom and Wellness Division rose by € 8.8 million and those of the Tableware Division by € 25.3 million. Reconciliation essentially includes financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities.

Other segment information:

	Additions					
	to intangible assets and property, plant and equipment		to right-of-use assets		Total	
in € million	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bathroom and Wellness	27,4	37,7	17,7	-	45,1	37,7
Tableware	5,8	5,9	39,0	-	44,8	5,9
Total	**33,2**	**43,6**	**56,7**	**-**	**89,9**	**43,6**

	Depreciation and amortisation					
	Intangible assets and property, plant and equipment		Right-of-use assets		Total	
in € million	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Bathroom and Wellness	-20,6	-18,0	-4,2	-	-24,8	-18,0
Tableware	-5,5	-5,5	-9,6	-	-15,1	-5,5
Total	**-26,1**	**-23,5**	**-13,8**	**-**	**-39,9**	**-23,5**

Depreciation and amortisation relates to the intangible assets, property, plant and equipment and right-of-use assets allocated to the individual divisions.

The write-downs of € 1.8 million mainly relate to the Bathroom and Wellness Division.

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

	Revenue from sales of goods to external customers		Non-current assets*	
in € million	31/12/2019	31/12/2018	31/12/2019	31/12/2018
German companies	409,0	419,7	98,5	90,0
Registered office in the rest of the euro zone	139,3	142,8	45,4	23,3
Registered office outside the euro zone	277,9	284,5	138,4	113,8
Total	**826,2**	**847,0**	**282,3**	**227,1**

* in accordance with IFRS 8.33 (b)

Non-current assets have included the residual carrying amounts of capitalised right-of-use assets since the adoption of IFRS 16 (see note 7). On 31 December 2019, € 9.0 million relates to companies based in Germany, € 14.7 million to companies based in the euro area and € 18.3 million to companies based outside the euro area. In accordance with the rules, the comparative figures presented for the previous year 2018 were not adjusted.

Other Notes

55. Financial instruments

The recognition of primary and derivative financial instruments is based on their allocation to the four measurement categories defined in IFRS 9. The following measurement categories were used in the Villeroy & Boch group in the reporting period:

- Debt instruments such as trade receivables, bank balances and trade payables, which are held primarily to generate contractually agreed cash flows and whose cash flows relate to payments of interest and principle payments on an outstanding nominal value, are recognised at amortised **"cost"**. Changes in value are recognised in the statement of profit or loss.

- Debt instruments that are not intended to be held to maturity and equity instruments that are not held for trading are recognised **"at fair value through other comprehensive income"**. These financial instruments are measured at fair value. Changes in value during the year are recognised in the reserves. The gains and losses that accrue in the reserves over time are recycled to profit or loss when a debt instrument is derecognised. When an equity instrument is derecognised, the accrued gains and losses are reclassified to retained earnings.

- All other financial instruments are recognised **"at fair value through profit or loss"**. Positive and negative changes in fair value are recognised in profit or loss.

- 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 IFRS 9 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 accordance to IFRS 9:

in € million	Carrying amount as at 31 Dec. 2019	Amounts not measured under IFRS 9	Amounts measured under IFRS 9			Carrying amount as at 31 Dec. 2019	Fair value as at 31 Dec. 2019
			Amortised cost	Fair value (OCI)			
				with no recycling	Cash flow hedge		
Cash and cash equivalents (note 16)	**210,3**	–	210,3		–	210,3	210,3
Trade receivables (note 13)	**143,2**	–	143,2		–	143,2	143,2
Other financial assets (note 10)	**17,5**	–	2,4	15,1	–	17,5	17,5
Other assets (note 14)	**22,7**	8,0	14,0		0,7	14,7	14,7
			369,9	**15,1**	**0,7**	**385,7**	**385,7**
Other assets not recognised under IFRS 9 (a)						8,0	–
Non-current assets – not including other financial assets (note 10)						279,9	–
Inventories (see note 12)						176,4	–
Deferred tax assets (see note 11) and income tax receivables (see note 15)						43,1	–
Assets held for sale (see note 17)						0,0	–
Total assets						**893,1**	–

in € million	Carrying amount as at 31 Dec. 2019	Amounts not measured under IFRS 9	Amounts measured under IFRS 9		Carrying amount as at 31 Dec. 2019	Fair value as at 31 Dec. 2019
			Amortised cost	Fair value (OCI)		
				Cash-Flow-Hedge		
Trade payables (note 33)	81,3	–	81,3	–	81,3	81,3
Financial liabilities (note 30)	112,5	–	112,5	–	112,5	112,5
Other liabilities (note 32)	114,5	36,4	76,8	1,3	78,1	78,1
			270,6	**1,3**	**271,9**	**271,9**
Other liabilities not recognised under IFRS 9 (b)					36,4	–
Equity					254,0	–
Current and non-current provisions (c)					279,3	–
Current and non-current lease liabilities (see note 31)					43,3	-
Deferred tax liabilities (note 11) and income tax liabilities					8,2	–
Total equity and liabilities					**893,1**	–

(a) The other assets not recognised under IFRS 9 are tax receivables and prepaid expenses (see note 14).

(b) The other liabilities not recognised under IFRS 9 are personnel liabilities, other tax liabilities and deferred income (see note 32).

(c) The current and non-current provisions include provisions for pensions (see note 27), provisions for personnel (see note 28) and other provisions (see note 29).

In the previous year, the consolidated statement of financial position contained the following financial instruments in accordance to IFRS 9:

in € million	Carrying amount as at 31 Dec. 2018	Amounts not measured under IFRS 9	Amounts measured under IFRS 9: Amortised cost	Fair value (OCI): with no recycling	Fair value (OCI): Cash flow hedge	Carrying amount as at 31 Dec. 2018	Fair value as at 31 Dec. 2018
Cash and cash equivalents (note 16)	**57,6**	–	57,6		–	57,6	57,6
Trade receivables (note 13)	**137,4**	–	137,4		–	137,4	137,4
Other financial assets (note 10)	**17,1**	–	3,8	13,3	-	17,1	17,1
Other assets (note 14)	**31,1**	10,9	17,0		3,2	20,2	20,2
			215,8	**13,3**	**3,2**	**232,3**	**232,3**
Other assets not recognised under IFRS 9 (a)						10,9	–
Non-current assets – not including other financial assets (note 10)						230,7	–
Inventories (see note 12)						166,5	–
Deferred tax assets (see note 11) and income tax receivables (see note 15)						40,4	–
Assets held for sale (see note 17)						0,8	–
Total assets						**681,6**	–

in € million	Carrying amount as at 31 Dec. 2018	Amounts not measured under IFRS 9	Amounts measured under IFRS 9: Amortised cost	Fair value (OCI): Cash flow hedge	Carrying amount as at 31 Dec. 2018	Fair value as at 31 Dec. 2018
Trade payables (note 33)	77,3	–	77,3	–	77,3	77,3
Financial liabilities (note 30)	58,1	–	58,1	–	58,1	58,1
Other liabilities (note 31)	91,0	36,1	54,2	0,7	54,9	54,9
			189,6	**0,7**	**190,3**	**190,3**
Other liabilities not recognised under IFRS 9 (b)					36,1	–
Equity					209,4	–
Current and non-current provisions (c)					238,3	–
Deferred tax liabilities (note 11) and income tax liabilities					7,5	–
Total equity and liabilities					**681,6**	–

(a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 14).

(b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 32).

(c) The current and non-current provisions include provisions for pensions (see note 27), provisions for personnel (see note 28) and other provisions (see note 29).

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 10c).

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 im-

plemented 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 2019:

	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	5,1	0,1	10,1	0,2
In three to six months	7,8	0,1	6,3	0,2
In six to twelve months	16,5	0,3	8,2	0,2
After twelve months	23,5	0,1	53,5	0,7
Total	**52,9**	**0,6**	**78,1**	**1,3**

The Villeroy & Boch Group recognised the following transactions as at the end of the previous year:

	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	21,9	0,4	3,1	0,1
In three to six months	21,2	0,4	3,8	0,1
In six to twelve months	34,6	0,7	7,7	0,2
After twelve months	68,8	1,7	10,2	0,3
Total	**146,5**	**3,2**	**24,8**	**0,7**

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 Chinese yuan, Swedish krone and Norwegian krone. 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 2019 would have been € 7.5 million higher/lower (previous year: € 4.6 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 2019:

	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	0,7	0,0	-	-
In three to six months	0,7	0,0	-	-
In six to twelve months	1,5	0,1	-	-
After twelve months	-	-	-	-
Total	**2,9**	**0,1**	**-**	**-**

The Villeroy & Boch Group recognised the following transactions as at the end of the previous year:

	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	0,2	0,0	0,2	0,0
In three to six months	0,1	0,0	0,3	0,0
In six to twelve months	-	-	0,8	0,0
After twelve months	-	-	0,8	0,0
Total	**0,3**	**0,0**	**2,1**	**0,0**

On the basis of production planning, there is an unhedged brass position of 1,956 tonnes in total as at the end of the reporting year for the following financial year (previous year: 2,088 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 2019 would have been € 0.8 million higher/lower (previous year: € 0.8 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income in 2019.

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 2019 financial year of +/-50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.6 million higher/lower (previous year: € 0.3 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 16) and borrowings (see note 30) are used to manage liquidity. Based on the contractual maturities of financial liabilities, cash outflows are expected in the following time bands:

	Carrying amount as at 31 Dec.	Cash outflow expected in the following time bands				
in € million		Gross	Within three months	Between three months and one year	Between one and five years	More than five years
Trade payables	77,3	77,3	77,3	-	-	-
Current and non-current financial liabilities (a)	58,1	79,7	28,3	26,0	25,4	-
Other liabilities	54,2	51,6	44,0	5,0	2,6	-
Cash flow hedge liabilities (b)	0,7	26,8	3,3	12,6	10,9	-
Total as at 31 Dec. 2018	**190,3**	**235,4**	**152,9**	**43,6**	**38,9**	**-**
Trade payables	81,3	81,3	81,3	-	-	-
Non-current and current financial liabilities (a)	112,5	129,1	30,7	25,9	72,5	-
Lease liabilities	43,3	46,4	4,0	10,5	26,7	5,2
Other liabilities	76,8	76,8	59,5	13,9	3,4	-
Cash flow hedge liabilities (b)	1,3	78,0	10,1	14,4	53,5	-
Total as at 31 Dec. 2019	**315,2**	**411,6**	**185,6**	**64,7**	**156,1**	**5,2**

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 3.6 million (previous year: € 1.4 million) that will not be incurred until after 31 December 2019. Current financial liabilities of € 13.1 million (previous year: € 28.3 million) were consolidated in the balance sheet (cf. Note 30).

(b) The transaction volume of cash flow hedge liabilities in the amount of € 78.0 million (previous year: € 26.2 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 1.3 million (previous year: € 0.7 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 € -6,7 million (previous year: € -4.3 million) from the use of primary and derivative financial instruments. The increase is essentially due to hedges (see note 22 c) and the impairment loss on trade receivables (see note 13).

56. Contingent liabilities and commitments

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

in € million	31.12.2019	31.12.2018
Guarantees	0,9	1,3
Trustee obligations	0,0	0,9

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.

57. Other financial obligations

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

in € million	31.12.2019	31.12.2018
Obligations arising from orders placed:		
for investments in property, plant and equipment	6,0	6,3
for investments in rigth-of-use assets	0,8	n/a
for investments in intangible assets	0,3	0,3

63.8 % of the obligations to acquire property, plant and equipment in the amount of € 6.0 million related to Villeroy & Boch AG, followed by Villeroy & Boch (Thailand) Co. Ltd. (20.6 %) and Villeroy & Boch Magyarország Kft. (8.2 %). In the previous year, 53.3 % related to Villeroy & Boch (Thailand) Co. Ltd, followed by Villeroy & Boch AG (25.5 %) and Villeroy & Boch Austria GmbH (5.2 %).

The obligations to acquire right-of-use assets result from leases that have already been signed for which the asset has not yet been provided for use (see note 31).

58. 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 9). 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.

The Villeroy & Boch recognises two companies with no material impact on the assets, financial and earnings position of the Group as other financial assets (see note 10). Villeroy & Boch AG mainly delivered tableware products worth € 110 thousand to these companies in the financial year. The Group recognises net trade receivables of € 73 thousand (see note 12). The Group recognises an interest-bearing loan of € 377 thousand under other current liabilities (see note 32).

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	2019	2018
Current employee benefits	4,5	4,1
Post-employment benefits	2,9	1,8
Other long-term benefits	0,2	-
Termination benefits	-	0,4
Total	**7,6**	**6,3**

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.

59. 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 2018	Total	Previous year
Yves Elsen [2*), 3*)]	85	12	9	106	103
Dr. Alexander von Boch-Galhau [2)]	43	12	9	64	57
Ralf Runge [4)]	41	12	9	62	56
Dietmar Langenfeld [2), 4)]	27	12	9	48	45
Dominique Villeroy de Galhau [1)]	27	12	9	48	44
Dietmar Geuskens [1), 4)]	27	12	9	48	44
Christina Rosenberg [3)]	27	12	9	48	44
Prof. Dr. Annette Köhler [1*)]	34	12	7	53	32
Peter Prinz Wittgenstein (until 03/2018)	-	-	2	2	25
Louis de Schorlemer	24	12	7	43	25
Thomas Kannengießer	24	12	7	43	25
Bärbel Werwie [4)]	24	12	7	43	25
Sabine Süpke [3), 4)]	27	12	6	45	24
Werner Jäger (until 03/2018) [4)]	-	-	2	2	18
Francesco Grioli (until 03/2018) [4)]	-	-	2	2	18
Susanne Ollmann (until 03/2018)	-	-	2	2	17
Dr. Renate Neumann-Schäfer (until 03/2018)	-	-	2	2	16
Wendelin von Boch-Galhau (until 03/2017)	-	-	-	-	2
Rounding	-3	0	2	-1	-8
Total	**407**	**144**	**109**	**660**	**612**

[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 € 1,034 thousand was reported in the Group result for the 2019 financial year (previous year: € 773 thousand). In addition to the fixed remuneration paid and the meeting fees for 2019, this figure includes € 205 thousand (previous year: € 108 thousand) for the provision for variable remuneration for 2019, € 122 thousand for purchased consulting services (previous year: € 15 thousand), insurance premiums of € 100 thousand (previous year: € 98 thousand) and the reimbursement of other expenses in the amount of € 55 thousand (previous year: € 53 thousand). In the previous year, an expense of € 5 thousand was also included for variable remuneration paid in 2018.

Management Board remuneration

An expense of € 4,755 thousand (previous year: € 3,355 thousand) is reported in the income statement for the 2019 financial year. This figure is composed of fixed (€ 1,714 thousand; previous year: € 1,444 thousand) and variable salary components (€ 1,650 thousand; previous year: € 1,495 thousand)

as well as expenses for pension benefits and similar obligations of active members of the Board of Management amounting to €1,390 thousand (previous year: €333 thousand). A non-recurring termination benefit of € 416 thousand was also included in the previous year. This item amounts to € 0 thousand this year. The variable remuneration is composed of a one-year remuneration in the amount of € 605 thousand (previous year: € 686 thousand) and a remuneration for several years in the amount of € 1,045 thousand (previous year: € 809 thousand). The fixed remuneration includes remuneration in kind of € 148 thousand (previous year: € 70 thousand), including € 2 thousand (previous year: € 2 thousand) relating to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 20,618 thousand (previous year: € 20,043 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,572 thousand (previous year: € 1,520 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 2021 financial year.

60. Auditors' fees and services

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

in € million	2019	2018
Audits of financial statements	0,4	0,4
Other assurance or valuation services	-	-
Tax advisory services	-	-
Other services	0,0	0,3

61. 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 2019 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 19 December 2019. The declarations are permanently available to shareholders on the Internet.

62. Events after the end of the reporting period

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

63. 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.	HoL Badshop und Service GmbH, Mettlach	100	-	100
6.	INTERMAT - Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach [1]	100	-	100
4.	Keraco GmbH, Wadgassen	100	-	100
5.	Sales Design Vertriebsgesellschaft mbH, Merzig [1]	100	-	100
7.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen [1]	100	-	100
8.	V & B International GmbH, Mettlach [1]	100	-	100
9.	VilboCeram GmbH, Mettlach [1]	100	-	100
10.	Villeroy & Boch Creation GmbH, Mettlach [1]	100	-	100
11.	Villeroy & Boch Gastronomie GmbH, Mettlach [1]	100	-	100
12.	Villeroy & Boch Interior Elements GmbH, Mettlach [1]	100	-	100
13.	Villeroy & Boch K-Shop GmbH, Mettlach [1]	100	-	100

		Direct	**Indirect**	**Total**
	Abroad	In %	In %	In %
14.	Argent Australia Pty. Ltd., Brisbane (Australia)	45,36	-	45,36
15.	Delfi Asset S.A., Luxemburg (Luxembourg)	-	100	100
16.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	-	100
17.	Kiinteistö Oy, Helsinki (Finland)	-	100	100
18.	Mondial S.A., Lugoj (Romania)	99,45	-	99,45
19.	Ucosan B.V., Roden (Netherlands)	100	-	100
20.	V AND B SOUTH AFRICA PTE LTD., Claremont (South Africa)	100	-	100
21.	Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe (Mexico)	-	100	100
22.	Vilbomex S.A. de C.V., Ramos Arizpe (Mexico)	-	100	100
23.	Vilbona Mexiko S.A. de C.V., Ramos Arizpe (Mexico)	-	100	100
24.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	-	100	100
25.	Villeroy & Boch (Thailand) Co. Ltd., Saraburi (Thailand)	16,51	83,49	100
26.	Villeroy & Boch (U.K.) Ltd., London (UK)	-	100	100
27.	Villeroy & Boch Arti della Tavola S.r.l., Mailand (Italy)	0,2	99,8	100
28.	Villeroy & Boch Asia Pacific Pte. Ltd., Singapur (Singapore)	100	-	100
29.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	-	100	100
30.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	-	100
31.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99,99	0,01	100
32.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100	-	100
33.	Villeroy & Boch Danmark A/S, Rødovre (Denmark)	-	100	100
34.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	-	100
35.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	-	100	100
36.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
37.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	100	-	100
38.	Villeroy & Boch MC S.à r.l. , Monaco (Monaco)	99,99	0,01	100
39.	Villeroy & Boch Norge AS, Lorenskog (Norway)	-	100	100
40.	Villeroy & Boch OOO, Moskau (Russia)	100	-	100
41.	Villeroy & Boch Polska Sp. z o.o., Warschau (Poland)	-	100	100
42.	Villeroy & Boch S.à r.l., Faiencerie de Septfontaines-lez-Luxembourg, Luxemburg (Luxembourg)	100	-	100
43.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99,99	0,01	100
44.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	-	100	100
45.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	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
54.	Villeroy et Boch Valence d´Agen S.A.S., Valence d´Agen (France)	-	100	100

		Direct	**Indirect**	**Total**
	Associated companies	In %	In %	In %
55.	V&B Lifestyle India Private Limited , Gurugram (Indien)	50	-	50

		Direct	**Indirect**	**Total**
	Affiliated, unconsolidated companies	In %	In %	In %
56.	Villeroy & Boch Innovations GmbH, Mettlach (Germany)	100	-	100
57.	Villeroy & Boch Venture GmbH, Mettlach (Germany)	-	100	100

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

64. 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 2018:

Standard		Name
IFRS	9	Amendments to IFRS 9: Prepayment Features with Negative Compensation
IFRS	16	Leases
IAS	19	Amendments to IAS 19: Employee Benefits
IAS	28	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
Various		Annual Improvements to IFRS Stamdards 2015-2017 Cycle
IFRIC	23	Uncertainty over Income Tax Treatments

The effects of the adoption of IFRS 16 “Leases” are summarised in note 1 “Accounting policies”. In the event of an intra-year amendment of pensions plans, from 1 January 2019 the service cost and the net interest have to be recalculated for the period from the amendment until 31 December using the current actuarial assumptions; this recalculation was previously only made at the end of the year without any adjustment to current annual expenditure. This change will allow for a more accurate presentation of the effects of such amendments (see note 30). No pension plans were modified in the year under review. IFRIC 23 was complied with in the calculation of income tax liabilities. Its adoption did not give rise to any significant changes. In accordance with the relevant provisions, tax risks that do not affect income tax, such as VAT, were previously recognised and reported in accordance with IAS 37. The application of these new standards had no material effect on the accounting policies of the Villeroy & Boch Group.

All IASB pronouncements endorsed by the EU are effective for the current 2019 financial year.

The following IASB pronouncements were endorsed by the EU and were not yet effective for the past 2019 financial year:

Standard		Name
New standards		
-		
Amendments to existing Standards		
Conceptual Frame		Amendments to references to the Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)
IAS	1	Amendments to IAS 1 and IAS 8: Definition of material (effective for financial years beginning on or after 1 January 2020)
Various		Amendments to IFRS 9, IFRS 39 and IFRS 7: Interest reference rate reform (effective for financial years beginning on or after 1 January 2020)

The Conceptual Framework is the foundation for creating new individual standards and revising existing regulations. It is the IASB's "constitution". The revised Conceptual Framework strengthens management's responsibility for the presentation of useful information (decision usefulness) applying the prudence principle. In this context, the definition of "material information" has been clarified and, at the same time, applied to the two standards IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Interbank rates, such as EURIBOR and LIBOR, are key interest reference rates for the measurement of items in the statement of financial position. The use of these interest rates as a neutral benchmark for the measurement of financial instruments (see note 55) has been questioned by international organisations. The amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" creates the foundation for continuing to use interbank rates until a final decision is reached.

According to current understanding, the amendment will have only an immaterial effect on the Villeroy & Boch Group.

The EU has not yet adopted the following IASB pronouncements:

Standard		Name
New standards		
IFRS	17	Insurance Contracts (issued on 18 May 2017)
Changes and additions to existing standards		
IFRS	3	Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)

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.

The new IFRS 17 “Insurance Contracts” applies to all contracts in which the entity is required to pay compensation on the occurrence of an uncertain future event. Typical examples for a manufacturing company include product warranties given by a manufacturer, assets and liabilities relating to pension obligations or short positions from residual value guarantees issued. An explicit exemption from or opting for IFRS 9 will presumably have only an immaterial effect on the Villeroy & Boch Group. Subject to endorsement in EU law, the standard will be effective from 1 January 2021.

The modified IFRS 3 “Business Combinations” is now permitted to be used for business acquisitions only if they have already given rise to gains from transactions for goods and services. Capital and other gains, cost savings and other economic advantages will be disregarded in future. An acquisition of a start-up that has not yet generated revenue from goods or services can be recognised as a business combination only if an organised workforce is taken on. Subject to endorsement in EU law, the standard will be effective from 1 January 2020.

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.

Mettlach, 4 February 2020

Frank Göring

Gabriele Schupp

Andreas Pfeiffer

Dr. Markus Warncke

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:

We issued the following auditor's report on the consolidated financial statements and the group management 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 of 31 December 2019, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019 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 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the Corporate Governance Report published on the website specified in the group management report, which is a part of the group management report, the general comments on sustainability included in section 3.1 of the group management report and the Combined Responsibility Statement contained in section 8 of the group management report.

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 of 31 December 2019 and of its financial performance for the fiscal year from 1 January to 31 December 2019, 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. Our opinion on the group management report does not cover the content of the group statement on corporate governance, the content of general comments on sustainability and the content of the Combined Responsibility Statement referred to above.

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 2019 to 31 December 2019. 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. Sale of shares in Rollingergrund Premium Properties SA

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

As of 6 December 2019, Villeroy & Boch S.a.r.l. sold 100% of the shares in Rollingergrund Premium Properties SA (RPP) in a share deal. The assets of RPP almost exclusively comprised real estate in Luxembourg. The acquirer intends to develop the property. However, a corresponding land-use plan has currently neither been submitted at the authorities responsible of the city of Luxembourg nor approved, which is why the building density and therefore the actual area available for development has not been determined yet.

For measuring the provisional purchase price, the parties applied a certain area that is available for development that would lead to a higher building density than other properties in this municipal ar-

ea. If the areas in the approved building plan are greater or smaller this will lead to a corresponding adjustment of the purchase price. We determined this to be a key audit matter in our audit as the purchase price underlying the calculation of the gain on sale involves judgment because it is materially dependent on the estimate of the actual area available for development made by the executive directors and external experts.

Auditor's response

We inspected the underlying contract and further internal records to obtain an understanding of significant key points of the transaction, particularly the determination of the provisional purchase price using the purchase price formula in the contract and possible subsequent adjustments of the purchase price in case of deviations in the area available for development approved in the future from the area available for development estimated currently. We interviewed the employees at Villeroy & Boch who were involved in the contract negotiations regarding the status of discussions with the authorities responsible in Luxembourg about the building plan and the assumptions made, particularly related to the estimate of area actually available for development. In consultation with internal specialists, we analyzed the appraisal prepared by an external expert regarding the probable area available for development. Furthermore, we compared the assumptions made with the building plans of real estate sold in immediate proximity. We verified the methodical and clerical accuracy of the calculation of gain on sale to be accounted for in fiscal year 2019. Furthermore, we verified the tax effects of the sale. Our audit procedures did not reveal any reservations concerning the accounting treatment of the sale of shares in RPP.

Reference to related disclosures in the consolidated financial statements

The disclosures on the sale of shares in RPP including the accounting policies applied are contained in the notes to the consolidated financial statements (note 1 and note 17).

2. 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 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 regard to the overhead costs of the production process that have to be included, the fixed costs that are not related to production and the determination of the planned capacity utilization (normal utilization).

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 evaluation whether additional manual write-downs are necessary, which are not taken into account in this write-down procedure, are at the discretion of the executive directors of the Company.

Auditor's response

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

We verified the method to calculate the standard costs and examined this at item level for each business division for anomalies and changes compared to the prior year using data analytic procedures. We analyzed the revaluation factors used for the adjustment of the standard costs to the actual costs on a spot check 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 particular, we analyzed the change in overhead costs and the planned production capacity compared to the prior year. We examined the planned and actual output using a prior-year comparison and by inspecting the production reports of the production plants.

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 and discussed the requirement for additional manual write-downs with the executive directors based on this.

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

Reference to related disclosures in the consolidated financial statements

The Company's disclosures regarding the recognition and measurement policies used for the inventories are included in the notes to the consolidated financial statements (note 1 and note 12).

3. Recognition of provisions for personnel-related restructuring measures and recultivation and restoration obligations

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

Other provisions increased significantly in fiscal year 2019. This increase particularly results from provisions for the planned personnel-related restructuring measures in Germany in connection with the transformation and efficiency improvement program "Fit for Future", which defines specific personnel restructuring measures for various functions. In addition, other provisions contain material provisions for various recultivation and restoration obligations from now idle or leased factories in France, Germany and Sweden. In our audit, we determined the recognition and measurement of provisions for personnel-related restructuring measures and recultivation and restoration obligations to be a key audit matter, because the recognition and measurement is based on estimates and as-

sumptions by the executive directors regarding the probability and level of a possible claim and thus require judgment.

Auditor's response

In our audit related to the personnel-related restructuring measures in the consolidated financial statements, we discussed the planned measures with the executive directors of the company and inspected internal records such as the minutes of management board and supervisory board. We particularly verified whether a formal restructuring plan is available as of the reporting date and there is a valid expectation among the employees concerned. We also inspected the records of communication with the works council and interviewed them. We verified the calculation of the provision on a sample basis and checked for plausibility using the personnel measures implemented in the past, particularly regarding the severance payments for each employee.

Our audit procedures related to provisions for recultivation and restoration obligations comprised interviews with the executive directors and other employees involved with these matters within the group with respect to the status of discussion with the respective authorities, the date of acknowledgment and the necessity of restoration measures to be implemented. We inspected the internal and external correspondence and verified the extent to which IAS 37.14 et. seq. criteria regarding the recognition of provisions have been met. We verified the majority of appraisals by external experts underlying the calculations on the restoration measures to be implemented and the level of the estimated costs by involving internal specialists and interviewed external experts. Furthermore, we verified the consistency with internal reporting (risk report) and the calculation of provision both in terms of methodical and clerical accuracy.

Our audit did not lead to any reservations concerning the recognition and measurement of provisions for personnel-related restructuring measures and recultivation and restoration obligations.

Reference to related disclosures in the consolidated financial statements

Disclosures of the company on personnel-related restructuring measures and recultivation and restoration obligations including the accounting policies applied are contained in the notes to the consolidated financial statements (note 1 and note 29).

4. Effects from the first-time application of IFRS 16 Leases

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

In fiscal year 2019, the first-time application of the new financial reporting standard for leases (IFRS 16) resulted in significant effects on the opening balances and their rolling forward in the fiscal year. Due to the volume of leases and the associated transactions, the company has set up group-wide processes and controls to ensure the complete and correct reporting of leases. In addition, the first-time application required the adjustment of IT systems for the presentation of leases. The new financial reporting standard IFRS 16 requires estimates and assumptions by the executive directors, which were part of our audit. This particularly related to the estimates regarding the exercising of options

with an effect on the lease term. Against this background, and due to the complexity of new IFRS 16 requirements, we determined the accounting of leases to be a key audit matter.

Auditor's response

In our audit, we obtained an understanding of the process set up by the company for reporting of leases. In consultation with internal specialists, we assessed the IT-related adjustment for the presentation of leases and calculation of the respective values. We inspected and verified the leases on a sample basis whether they were reported completely and accurately in the IT system of the presentation of leases. In addition, we verified the completeness using the lease payments accounted for. Furthermore, we assessed the estimates for exercising of options with an effect on the term of the lease by interviewing employees of the Company and by inspecting suitable evidence.

Our audit did not lead to any reservations concerning the effects of the first-time application of IFRS 16 on the accounting of leases.

Reference to related disclosures in the consolidated financial statements

Disclosures of the Company on accounting of leases and the effects from the first-time application of IFRS 16 are contained in the notes to the consolidated financial statements (note 1, note 7 and note 31).

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act] and the declaration of compliance with the corporate governance code of the supervisory board pursuant to Sec. 161 AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the statement on corporate governance, which is a part of the group management report, general comments on sustainability included in the group management report and the Combined Responsibility Statement contained in the group management report. Furthermore, the other information comprises the following components of the annual report, of which we received a copy by the time this auditor's report was issued, particularly the Corporate Governance Report, the Report of the Supervisory Board in accordance with Sec. 171 (2) AktG and the separate non-financial report, but not the consolidated financial statements, not the group management report disclosures on the audit of the content and not our auditor's report thereon. 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 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, financial position and financial performance 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 applicable 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 group 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 29 March 2019. We were engaged by the Supervisory Board on 25 April 2019. 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, 4 February 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hummel	Waldner
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.