



Villeroy & Boch
1748

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

2021 Financial Year

Please note:

This document contains the complete, audited Group Management Report and Consolidated Financial Statements of the Villeroy & Boch AG for the 2021 financial year. We are still working on the final layout of our Annual Report 2021 and plan to make it available for download at www.villeroyboch-group.com/en/investor-relations/publications/annual-reports in the middle of March 2022.

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GROUP MANAGEMENT REPORT

Excellent performance in 2021 financial year:

- Consolidated revenue rises significantly by 18.0 % to € 945.0 million.
- Operating EBIT at record level of € 92.8 million (previous year: € 49.7 million).
- Outstanding Group result up € 37.6 million year-on-year at € 60.5 million (€ 22.9 million).
- Return on net operating assets more than doubles to 32.9 % (previous year: 14.7 %).

BASIC INFORMATION ON THE GROUP

BUSINESS MODEL OF THE GROUP

Organisational structure of the Group

Villeroy & Boch is a leading international ceramic manufacturer. As a full-service provider for the bathroom and for high-quality tableware and living accessories, our operating business is divided into two divisions: Bathroom and Wellness, and Dining & Lifestyle. Group-wide tasks and functions are performed by our central functions.

Villeroy & Boch AG is the Group parent for a total of 52 (previous year: 52) consolidated direct or indirect subsidiaries.

Three (previous year: two) subsidiaries were not included in the consolidated financial statements of Villeroy & Boch AG, as these companies have only minor business activities and their overall impact on the financial position and the financial performance 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 62 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 communication. For example, via the Villeroy & Boch app, which provides all the information about our Bathroom and Wellness products at a glance. It can be quickly accessed on a PC, tablet, or smartphone and is always up to date. In addition to detailed information on our products, the app also offers a product configurator that can be used in a sales conversation to visualise customers choices and show the finished products live in a 360° view. Change requests in planning can thus be implemented directly in the configurator, thereby avoiding errors. The app supplements the service provided by our website in the professional area especially created for architects, planners and tradesmen. With the Bath room Inspirator,

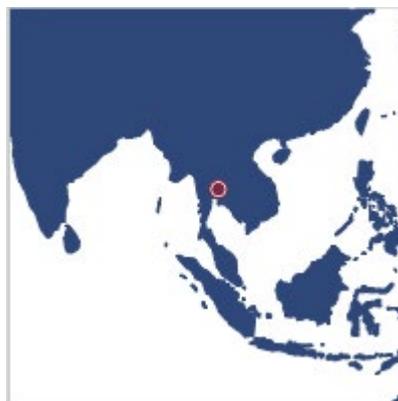
PRODUCTION SITES BY REGION

EUROPE



Gustavsberg and Vårgårda (Sweden)
 Hódmezővásárhely (Hungary)
 Lugoj (Romania)
 Merzig, Mettlach, Torgau and Treuchtlingen (Germany)
 Mondsee (Austria)
 Roden (The Netherlands)
 Roeselare (Belgium)
 Valence d’Agen (France)

APAC



Saraburi (Thailand)

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. Furthermore, we are expanding our presence in key social media channels such as Instagram, Pinterest and TikTok with a content campaign to specifically appeal to target groups with an affinity for design.

Even today, our Dining & Lifestyle Division offers far more than tableware. The product portfolio has become more diverse: tableware accessories are becoming home accessories and gifts. Our fashionable like. range is enjoying growing popularity among the young and trend-conscious target group.

We supply specialist retailers – from large department store chains to specialist porcelain retailers and e-commerce providers. We also reach end customers through our own retail activities, which include 90 Villeroy & Boch stores and almost 500 points of sale 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 4,100 points of sale world-wide.

Locations

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

We currently have 13 production sites in Europe and Asia. The production facility in Ramos, Mexico, was sold at the end of December 2020. Further information can be found in note 2a of the notes to the consolidated financial statements. Our products for the Dining & Lifestyle Division are produced at the Merzig and Torgau plants in Germany. The other eleven plants manufacture products for the Bathroom and Wellness Division. Ceramic sanitary ware is produced at our locations in Mettlach (Germany), Valence d’Agen (France), Hódmezővásárhely (Hungary), Lugoj (Romania), Gustavsberg (Sweden) and Saraburi (Thailand). We manufacture bathroom furniture in Treuchtlingen (Germany) and Mondsee (Austria), bathtubs, shower tubs and whirlpools in Roden (Netherlands) and Roeselare (Belgium), and fittings in Vårgårda (Sweden).

CONTROLLING SYSTEM

The Management Board of Villeroy & Boch AG manages the Group as a whole using a strictly defined management structure and operational targets whose achievement is monitored by way of prescribed key figures. This focuses on key financial indicators.

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, rights of use, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities (including lease 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 2021 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.

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 € 18.7 million in research and development in the 2021 financial year (previous year: € 15.2 million). Of this figure, € 13.8 million (previous year: € 11.5 million) was attributable to the Bathroom and Wellness Division and € 4.9 million (previous year: € 3.7 million) was attributable to the Dining & Lifestyle Division.

Our research and development activities in the 2021 financial year again concentrated on the continuous enhancement of our ceramic materials, products and production technologies.

Research partnerships for innovative solutions

The "KARMIN" collaborative project under the "Zwanzig20 - InfectControl 2020" programme funded by the German Federal Ministry of Education and Research (BMBF) was successfully completed in the 2021 financial year. In the project, Villeroy & Boch worked as an industrial associate alongside partners from the fields of architecture, prefabricated bathroom installation and university hospitals to develop concepts for a hygiene-optimised wet room for patients' rooms. The demo of a patient room that prevents infections was presented at the "World Health Summit" on the premises of the Charité - Universitätsmedizin Berlin hospital in October 2020. Another demo at the Städtisches Klinikum in Braunschweig is currently in the planning phase. The ongoing coronavirus pandemic in particular has made this topic significantly more relevant from a scientific and economic perspective.

Partnerships and projects in the areas of digital transformation, decarbonisation and resource efficiency have been initiated and planned together with partners from applied research and industrial development.

The "Energy efficient high temperature processes for large and geometrically complex components" (HTPgeox) development project that was launched in 2020 with funding from the German Federal Ministry of Economics and Technology (BMWi) is trialling "Industry 4.0" concepts such as RFID tags for kiln cars and using an IIoT device to connect the furnace parameters of a tunnel kiln. This digitalisation enables effective process monitoring. The data obtained is analysed and used for fault recognition and the derivation of measures to improve productivity. During the course of the project, image processing technologies will be tested with a view to obtaining additional data. The project partners are using newly developed thermal analysis methods to measure the ceramic material properties. This data serves as the basis for numeric computer simulations aimed at making the ceramic firing process more energy-efficient.

The implementation of intelligent robot systems in additional process steps is the aim of a cooperation with partners from the fields of automation and mechatronics. As well as increasing productivity, the aim is to achieve improvements in occupational safety.

In order to address the future challenges of sustainable production, project ideas for decarbonisation and resource efficiency have been developed with external experts, such as the use of hydrogen as an energy source and the inclusion of secondary raw materials in ceramic materials.

Work on the further development of pressure casting slurries for ceramic sanitary ware was completed in the period under review as part of master's theses and in cooperation with Koblenz University of Applied Sciences.

Internal enhancement of production techniques

As part of the continuous enhancement of our production techniques, we pressed ahead with the projects that began in the 2021 financial year 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 developments in the Bathroom and Wellness Division included the new generation of our successful Subway collection. The enhanced Subway 3.0 represents the long-term solution for a wide range of bathroom situations and a broad target group. The toilet from the Subway 3.0 collection comes with the new TwistFlush technology, a powerful water vortex that flushes thoroughly while saving water. With the Loop & Friends bathroom series, we have created a collection for furnishing enthusiasts and design professionals that offers a wide range of forms and installation variants.

Our development activities in the Dining & Lifestyle Division focused on introducing a new technology for manufacturing cups. As for plate production, more complex items, such as cups with handles, can be efficiently produced by pressing ceramic granules. This technique simultaneously allows more freedom in design, allowing it to serve as the basis for the creation of new and innovative products. Product developments focused on the creation of reactive glazes and the introduction and expansion of the coloured slips that are also used in the new products from the To Go series and La Boule. Also, in the field of additive manufacturing processes, we have made progress in 3D printing for ceramics in close cooperation with a research institute and a start-up company, enabling a high degree of design freedom. The primary aim is to further optimise printing speed and size in addition to the quality and performance characteristics of the printed ceramic products.

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. In the year under review, the procurement markets were generally strained as a result of the high level of demand, with production running at close to capacity. In the supply chains originating in Asia, the ocean freight market was affected by a shortage of shipping and container capacity, resulting in longer lead times for replacement. Production capacities in some procurement markets (e.g. Vietnam) continued to be impacted by lockdowns in response to the coronavirus.

The Group’s procurement prices increased significantly as a result of the bottlenecks affecting the global procurement markets. In addition to a dramatic rise in transportation costs, the purchase prices for packaging, raw materials and energy all increased sharply, in some cases reaching all-time highs. Exchange rates had a marginal positive effect on procurement prices in the year under review.

Supplier relationships are extremely important to us. As part of our systematic strategic procurement management, we use a standardised catalogue of criteria to continuously evaluate our suppliers in the categories of quality, cost, logistics, service, technology and environment with a view to furthering our cooperation on this basis. We also aim to structure our supplier relationships so that all risks are minimised to the greatest possible extent. To this end, contracts with suppliers are negotiated, compliance with statutory provisions is 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.

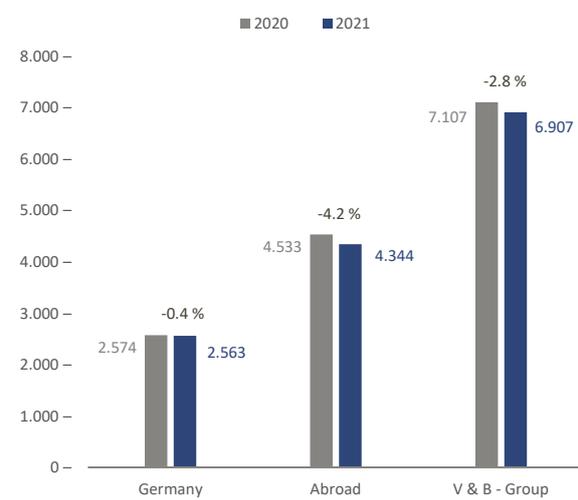
EMPLOYEES

Workforce

The Villeroy & Boch Group had a total of 6,907 employees as at 31 December 2021, a decrease of 200 compared with the end of the previous year (7,107). The change relates to adjustments in line with the current market situation and the implementation of our transformation and efficiency enhancement programme, which was launched in the 2019 financial year and expanded to include our international locations in 2020. The implementation of the programmes was pursued consistently throughout the 2021 financial year. The Bathroom and Wellness Division accounted for 4,439 employees (previous year: 4,568), while a total of 1,945 people were employed in the Dining & Lifestyle Division (previous year: 2,009) and 523 in central functions (previous year: 530). Thus, headcount in the Dining & Lifestyle Division

changed by -3.2 %, in the Bathroom and Wellness Division by -2.8 % and in central functions by -1.3 %. 37.1 % of the workforce was employed in Germany (previous year: 36.2 %).

NUMBER OF EMPLOYEES (END OF PERIOD)



Taken as an average for the year as a whole, our workforce decreased from 7,401 in the previous year to 6,771.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

The world economy continued to recover as the year progressed.

According to the report by the International Monetary Fund (IMF) on 25 January 2022, global growth in 2021 is estimated at 5.9 %.

Developments in the individual countries varied depending on their handling of the coronavirus pandemic. This was already evident in the first half of 2021. A significant role was played by the different levels of access to vaccines and the varying degree of political support in the form of government aid and fiscal policy measures.

However, the economic recovery began to slow from the second half of 2021 onwards as global production was curbed by interruptions to supply chains. The emergence of new COVID-19 variants also impaired economic performance, especially in Europe.

According to the latest IMF forecast, economic output in the US also increased by 5.6 %. The supply bottlenecks in particular meant this was slightly lower than the October forecast (6.0 %).

Economic development in the euro area was affected by the sustained supply bottlenecks as well as COVID-related

disruption. The latest IMF forecast shows expected growth of 5.2 % in the euro area, up slightly as against the autumn forecast (+5.0 %).

In China, the disruption resulting from COVID outbreaks, interruptions to industrial production due to power outages, falling property investments and the quicker than anticipated withdrawal of public investment led to a slowdown in the second half of 2021. Despite these limiting factors, the IMF is forecasting growth of 8.1 % for China in 2021 (autumn forecast: 8.0 %).

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry. 2021 saw a return to growth after various countries suffered double-digit downturns in 2020. In Europe, residential construction overall enjoyed stronger growth than originally anticipated, whereas growth in our important domestic market of Germany was comparatively moderate. Nevertheless, we continued to participate in the general trend for home and bathroom renovation and refurbishment to a significant extent, and we also benefited from the recovery of project business in China.

A key factor for business performance in the Dining & Lifestyle Division is the consumer climate among private households. Private consumer spending in Germany increased as against the previous year in 2021, although rising inflation is limiting the purchasing power of private households. At the same time, the savings rate among private households declined from the all-time high in the previous year. Owing to the pandemic and its restrictions, consumers' shopping habits tended to switch from physical retail to e-commerce, a trend that ultimately also greatly benefited us.

COURSE OF BUSINESS AND POSITION OF THE GROUP

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

In a challenging environment, the Villeroy & Boch Group brought the 2021 financial year to an extremely successful close thanks to an outstanding business performance. There was an extraordinary increase in revenue not just in Germany, but also in almost every other country in which the Group operates, allowing Villeroy & Boch to achieve the best operating result in its history. We not only significantly exceeded the prior-year figure, but also the figure for 2019, which was unaffected by the coronavirus pandemic. Taking our intra-year forecast adjustment into account, we significantly exceeded our revenue and EBIT targets for the 2021 financial year. The table below shows a comparison of the adjusted forecast and actual key figures for 2021:

GROUP TARGETS

	Primary forecast 2021	Forecast 2021 ⁽¹⁾	Actual 2021
Revenue	Increase by 3 – 5 %	> € 920 million	€ 945.0 million (+18.0 %)
Operating EBIT	Improvement by 5 – 10 %	> € 85 million	€ 92.8 million (+86.7 %)
Return on net operating assets	14 – 15 %	25 – 30 %	32.9 %
Investments (without leasing)	more than € 40 million	€ 30 – 35 million	€ 32.8 million

⁽¹⁾ Forecast updated during year

Consolidated revenue amounted to € 945.0 million in total in the 2021 financial year (previous year: € 800.9 million). Thanks to outstanding revenue development, we achieved double-digit growth rates in most countries. As a result, revenue increased not only by 18.0 % as against the previous year, but also by 13.4 % compared with 2019. In our view, the main reasons for the revenue growth across all business areas and sales channels are the home and bathroom renovation and refurbishment trend that is benefiting us to a significant extent, as well as the strong position we enjoy thanks to our early adoption of digitalisation activities. Furthermore, there were positive effects from the ongoing streamlining of our sales structures and the business model transition in various countries.

Having adjusted the forecast for our operating EBIT in September 2021, we also significantly exceeded this figure at € 92.8 million. This meant we also closed the 2021 financial year well in excess of the pre-crisis level (2019: € 49.5 million). In addition to the revenue-driven earnings growth, this was due in particular to an improved sales margin (+3.4 %) and the successful implementation of structural measures in both divisions, especially as a result of the transformation and efficiency enhancement programme that was initiated in 2020.

The Group's rolling return on net operating assets was 32.9 % as at the end of the year, more than double the figure for the previous year (14.7 %) and an increase of 18.2 percentage points. The increase as against the previous year was largely due to the substantial improvement in the operating result. It was also positively influenced by the decline in rolling net operating assets to € 282.3 million (previous year: € 337.2 million), which resulted in an increase of 5.3 percentage points.

At € 32.8 million in total (previous year: € 19.9 million), investments in property, plant and equipment and intangible

assets fell within the target range that was adjusted during the 2021 financial year.

Further information on revenue and earnings development in the Bathroom and Wellness Division and the Dining & Lifestyle 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.

RESULTS OF OPERATIONS

The following information provides an overview of our results of operations in the 2021 financial year.

Consolidated Revenue 2021

Consolidated revenue increased by 18.0 %

In the 2021 financial year, the Villeroy & Boch Group generated consolidated revenue (incl. licence income) of € 945.0 million, up € 144.1 million or 18.0 % on the previous year. On a constant currency basis, the revenue increase amounted to 17.5 %. Currency effects differed between the two divisions. Negative currency effects resulted from the US dollar and the Russian rouble, while positive effects were generated by the Swedish krona, Norwegian krone and Chinese yuan.

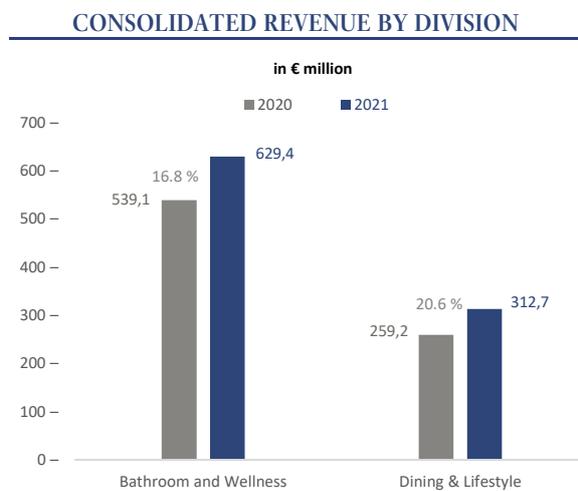
Thanks to an extremely strong first half-year and consistently positive business performance in the second half of the year, we recorded double-digit growth in consolidated revenue in almost all countries worldwide. We are therefore well ahead of the previous year and have even achieved revenue that is substantially higher than the pre-crisis level. We continued to benefit from the trend towards home and bathroom renovation and refurbishment as people choose to beautify where they live.

The licence income included in revenue declined slightly from € 4.7 million to € 4.6 million. € 0.3 million (previous year: € 0.2 million) relates to the Bathroom and Wellness Division and € 1.4 million (previous year: € 1.9 million) to the Dining & Lifestyle Division. Licence agreements in central functions generated revenue of € 2.9 million (previous year: € 2.6 million).

We recorded revenue growth of 17.2 % in our main region of EMEA (Europe, Middle East, Africa), with the Middle East (€ +7.7 million) making a particularly strong contribution on the back of the recovery in project business. In Europe, our revenue increased by € 103.0 million or 16.3 %.

Overseas, we also recorded double-digit revenue growth of 21.9 % or € 29.5 million. This was due in particular to increased project business in China (+29.6 %) and revenue growth in the US (+27.7 %).

Revenue by division



The Bathroom and Wellness Division generated revenue of € 629.4 million in the 2021 financial year, up € 90.3 million or 16.8 % on the previous year and 13.6 % on the pre-crisis level. On a constant currency basis, revenue increased by 15.9 %. Pleasingly, revenue growth was generated in all business areas and regions with the exception of the American market.

In ceramic sanitary ware, revenue increased by € 51.0 million or 15.6 % thanks to the strong presence of the Villeroy & Boch brand in all of the relevant sales channels, the successful introduction of new and innovative product ranges and the optimisation of specially developed customer concepts. The EMEA region saw the strongest growth at € 30.7 million, followed by the Central Europe and Asia/Pacific regions at around € 10 million each.

Revenue in the wellness business area increased by € 15.1 million or 22.8 %. This was due to the successful launch of new products, the recovery in project business and the boom in private renovation as a result of the coronavirus pandemic. Fittings saw year-on-year revenue growth of € 12.8 million or 17.8 %, particularly as a result of the successful development of our strong local brands Gustavsberg and Vatette in Northern Europe.

Our kitchens business area also participated in the positive market environment, closing the year with revenue growth of 16.6 %.

In the Dining & Lifestyle Division, we generated revenue of € 312.7 million in the 2021 financial year, up € 53.5 million or 20.6 % on the previous year and 13.1 % compared with the pre-crisis level in 2019. There were negative exchange rate effects from the US dollar in particular, without which revenue would have increased by 20.9 %.

Looking at the various regions of the world, double-digit growth rates were also achieved in almost all countries in the Dining & Lifestyle Division. The excellent revenue development can be attributed to a successful product range policy with a focus on high-revenue modern product ranges like Manufacture, Pottery and La Boule as well as the expansion of our communication strategy, which is reflected in increased cooperation with influencers and a stronger presence on new social media platforms like TikTok. This development was further boosted by visual merchandising and shop fitting activities to modernise the appearance of our retail stores, as well as the increased online visibility of our products.

In the EMEA region, our revenues increased by a total of € 38.6 million or 18.8 %. We also recorded substantial revenue growth of € 9.9 million (+31.0 %) and € 4.9 million (+22.4 %) in the Americas and Asia/Pacific region respectively.

As previously, the biggest growth driver was our e-commerce activities (+33.1 % or € +26.0 million), which are increasingly allowing us to reach a broader range of customers through specific targeting. Another pleasing development was the revenue growth with our retail outlet partners in all regions (+24.5 % or € +17.7 million). Despite further lockdown restrictions in some countries and different structural measures, revenue at our own retail stores increased by 6.8 % or € 6.0 million. Project business with hotel and restaurant clients was hit very hard by the pandemic in the 2020 financial year. Encouragingly, this business picked up again in the second half of 2021, allowing us to record revenue growth of 23.9 %; however, revenue in this area remains below the pre-crisis level.

Orders on hand

The Villeroy & Boch Group's orders on hand surged by € 86.0 million year-on-year to € 186.8 million as at 31 December 2021.

Orders on hand in the Bathroom and Wellness Division almost doubled year-on-year to € 165.1 million (previous year: € 85.1 million). This was due in particular to the current climate across all business areas in the sector. The resurgent project business in China is especially gratifying.

Orders on hand in the Dining & Lifestyle Division increased to € 21.7 million (previous year: € 15.7 million) on the back of the excellent performance of our retail partners and the sustained recovery in project business.

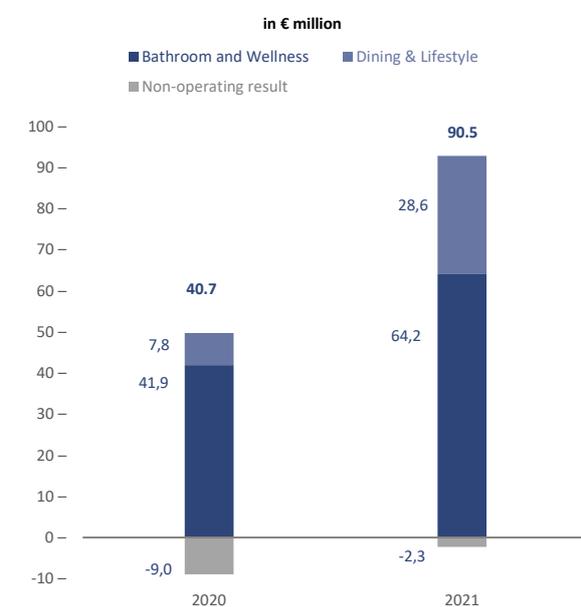
Consolidated EBIT

Thanks to the significant revenue growth in particular, we increased our operating EBIT to € 92.8 million (previous year: € 49.7 million), thereby achieving the best operating result in the history of Villeroy & Boch.

Including the non-operating result of € -2.3 million (previous year: € -9.0 million), earnings before interest and taxes (EBIT) totalled € 90.5 million. This was a new record and more than double the EBIT of € 40.7 million recorded in the previous year.

At € 526.7 million (previous year: € 474.5 million), the cost of goods sold increased by € 52.2 million year-on-year as a result of the revenue development in particular. Our sales margin saw a gratifying increase of 3.4 percentage points, from 41.0 to 44.4 %, in spite of significant price rises for energy and freight as well as raw materials and packaging materials.

EBIT BY DIVISION



Selling, marketing and development costs increased by € 40.6 million year-on-year to € 269.4 million. It should be noted that we made substantial investments in the future in the 2021 financial year with the increase in our advertising budget (€ 23 million), including for the TV adverts that ran in December. Personnel expenses also increased as a result of the excellent earnings performance in the 2021 financial year. Furthermore, phases of short-time work meant that the cost level in the previous year was extremely low.

Net other operating expenses and income amounted to € -8.2 million (previous year: € -6.9 million).

The non-operating result of € -2.3 million (previous year: € -9.0 million) mainly comprises expenses in connection with our continuing transformation and efficiency enhancement programme as well as expenses from the change in provisions for recultivation and restoration obligations. The prior-year figure primarily contained non-recurring expenses in

connection with the sale of our Mexican sanitary ware plant in the amount of € -4.7 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

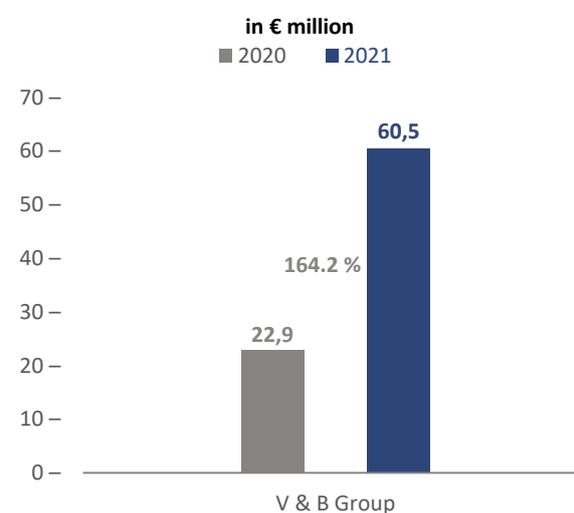
Thanks to the extremely positive revenue development in particular, the Bathroom and Wellness Division generated operating EBIT of € 64.2 million (previous year: € 41.9 million). This represented a substantial year-on-year increase of € 22.3 million and was also higher than the figure of € 42.2 million in the pre-crisis year of 2019.

Dining & Lifestyle Division

With revenue increasing significantly, the Dining & Lifestyle Division increased its operating EBIT several times over to a total of € 28.6 million in the 2021 financial year (previous year: € 7.8 million), which represented one of the best results in the company's history. This was also well in excess of the figure of € 7.3 million in the pre-crisis year of 2019.

Group result

CONSOLIDATED GROUP RESULT



Our Group result more than doubled to € 60.5 million in the 2021 financial year (previous year: € 22.9 million).

Net finance costs remained essentially unchanged at € -5.0 million (previous year: € -4.9 million).

The strong Group result meant that income tax expense increased significantly year-on-year to € 25.0 million (previous year: € 12.9 million). The tax rate for the 2021 financial year was 29.2 %. The comparatively high tax rate of 36.0 % in the previous year was due in particular to tax effects in connection with the sale of the plant in Mexico

Structure of the consolidated income statement (IFRS)

In summary, the results of operations for the 2021 financial year were as follows:

STRUCTURE OF THE CONSOLIDATED INCOME STATEMENT

in € million	2021	% of revenue	2020	% of revenue
Revenue	945.0	100.0	800.9	100.0
Cost of sales	- 526.7	- 55.7	- 474.5	- 59.2
Selling, marketing and development costs	- 269.4	- 28.5	- 228.8	- 28.6
General administrative expenses	- 48.2	- 5.1	- 41.2	- 5.1
Other expenses / income	- 8.2	- 0.9	- 6.9	- 0.9
Result on financial investments accounted according to the equity method	0.3	0.0	0.2	0.0
Operating EBIT	92.8	9.8	49.7	6.2
Non-operating result	- 2.3	- 0.2	- 9.0	- 1.1
EBIT	90.5	9.6	40.7	5.1
Financial result	- 5.0	- 0.5	- 4.9	- 0.6
Earnings before taxes (EBT)	85.5	9.0	35.8	4.5
Income taxes	- 25.0	- 2.6	- 12.9	- 1.6
Group result	60.5	6.4	22.9	2.9

Dividend proposal¹

At the General Meeting of Shareholders on 1 April 2022, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

€ 0.95 per ordinary share

€ 1.00 per preference share.

This represents a total dividend distribution of € 27.4 million. Based on the unchanged number of preference shares held by the company at the payment date, the total cash outflow will probably be € 25.8 million.

FINANCIAL POSITION

Principles and objectives of financial management

We operate a central financial management system encompassing global liquidity management, cash management and the management of market price risks.

The central Group Treasury department performs uniform financial management for the entire Group. The framework is provided by external statutory and regulatory requirements as well as internal guidelines and limits.

Our liquidity management ensures that we are able to meet our payment obligations at all times. Cash inflows and

outflows from our operating business form the basis for daily cash account management and short-term and medium-term liquidity planning.

The resulting financing requirements are generally covered by bank loans. Surplus liquidity is invested on the money market in line with risk / reward considerations. With the proviso that our financial trading partners have a good credit standing, expressed in the form of an investment grade rating, we pursue the aim of ensuring an optimal financial result.

Our cash management is also organised and managed centrally. In order to ensure economic efficiency, priority is given to the centralisation of cash flows via cash pooling. An in-house cash system ensures that intercompany cash flows are always executed via internal clearing accounts where this is possible for legal and tax purposes. Internal offsetting therefore reduces the number of external bank transactions to a minimum. Standardised processes and transmission channels have been established for payment transactions.

The management of market price risks encompasses exchange rate risks, interest rate risks and other price risks.

Our aim is to limit the 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.

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

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 2021 financial year:

CAPITAL STRUCTURE		
in € million	31/12/2021	31/12/2020
Equity	313.6	251.7
Non-current liabilities	362.5	401.1
Current liabilities	296.3	261.5
Total equity and liabilities	972.4	914.3

Equity increased by € 61.9 million year-on-year to € 313.6 million in the period under review. This was largely due to the improvement in the Group result. Retained earnings increased by € 46.4 million overall. The Group profit of € 60.5 million generated in the 2021 financial year and the remeasurement effects and currency effects recognised in other comprehensive income were offset by the dividend distribution in March 2021 (€ -13.8 million). All in all, our equity ratio increased to 32.3 % compared with 27.5 % in the previous year. 110.1 % of the Group’s non-current assets in the amount of € 284.9 million were covered by equity.

Non-current liabilities in the amount of € 362.5 million comprised pension provisions, financial liabilities, lease liabilities, other liabilities, other provisions, provisions for personnel and deferred tax liabilities. Non-current liabilities decreased by € 38.6 million as against the previous year. The decrease is essentially due to the reduction in non-current financial liabilities (€ -20.0 million) as a result of refinancing and to pension provisions (€ -17.5 million).

Current liabilities, consisting of other liabilities, trade payables, other provisions, financial liabilities, personnel provisions, income tax liabilities and lease liabilities increased by € 34.8 million as against the previous year to € 269.3 million. The increase is largely attributable to the rise in financial liabilities by € 15.1 million, other liabilities by € 10.2 million and income tax liabilities by € 9.9 million.

Investments

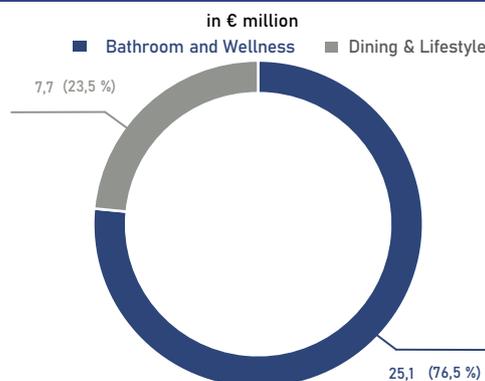
Investments in property, plant and equipment and intangible assets

In the 2021 financial year, our investments in property, plant and equipment and intangible assets amounted to € 32.8 million (previous year: € 19.9 million). This includes relatively high additions of emission allowances in Hungary and Romania in the amount of € 7.1 million (previous year: € 2.2

million) due to the sharp rise in the market value of the emission certificates granted in 2021. 33 % of this investment was attributable to Germany (previous year: 42 %). At the end of the year 2021, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 9.5 million. Our investment obligations are financed from operating cash flow.

At € 25.1 million or 76.5 %, our investments were concentrated primarily on the Bathroom and Wellness Division. The focus was on the establishment of new production facilities for our production locations in Germany and abroad, particularly our ceramic ware plants in Mettlach, Hungary, Romania and France and our furniture plant in Austria.

BREAKDOWN OF INVESTMENTS BY DIVISION



We invested € 7.7 million in the Dining & Lifestyle Division, corresponding to 23.5 % of the total investment volume. New machinery and tools were acquired for production at our Merzig and Torgau plants. In addition, investments were made in the ongoing optimisation of its retail network, including renovating and opening stores.

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

Financing

Our cash flow from operating activities amounted to € 73.8 million (previous year: € 136.5 million). This substantial year-on-year decline is due to the higher level of capital tied up in working capital. For example, we increased our inventories by € 26.3 million in the period under review in order to ensure ongoing supply capability in our markets as well as sufficient availability of raw materials to secure production in response to the high level of demand for our products. In addition, tax payments amounted to € 12.8 million in 2021. By contrast, other current liabilities had a positive impact on the operating cash flow, particularly as a result of higher bonus liabilities and advance payments (totalling € +9.7 million). In the previous year, a substantial reduction in inventories and trade receivables (totalling € 40.7 million) served to increase the cash flow.

The cash flow from investing activities in the amount of € 75.9 million (previous year: € -17.4 million) includes

€ 25.7 million in investments in intangible assets and property, plant and equipment, as well as € 15.7 million in non-current financial assets. We also made two investments totalling € 40.0 million to avoid deposit fees; these are reported in current assets. The aforementioned investments are offset by proceeds from the disposal of assets in the amount of € 5.0 million and the receipt of the second purchase price instalment of € 0.5 million (previous year: € 1.0 million) in connection with the sale of the Mexican sanitary ware plant in the previous year (see note 2c of the notes to the consolidated financial statements).

The cash flow from financing activities amounted to € -33.5 million (previous year: € -30.1 million) and mainly included the payments of principal portion of lease liabilities of € 14.4 million and the dividend payment (€ 13.8 million). Furthermore, there were loan repayments of € 4.9 million.

CONDENSED CASH FLOW STATEMENT

in € million	2021	2020
Group result	60.5	22.9
Current depreciation and amortisation of non-current assets incl. reversals	40.3	45.5
Change in non-current provisions	- 3.8	- 11.9
Profit from disposal of fixed assets	-	- 1.2
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	- 38.3	71.7
Other non-cash income / expenses	15.1	9.5
Net cash flow from operating activities	73.8	136.5
Net cash flow from investing activities	- 75.9	- 17.4
Net cash flow from financing activities	- 33.5	- 30.1
Total cash flows	- 35.6	89.0
Balance of cash and cash equivalents on 1 January	297.8	210.3
Change based on total cash flows	- 35.6	89.0
Change due to exchange rate effects	1.9	- 1.5
Balance of cash and cash equivalents on 31 December	264.1	297.8

Liquidity

Net liquidity

Our net liquidity amounted to € 153.8 million as at the end of the reporting period (previous year: € 182.6 million).

It should be noted that we invested € 59.0 million in alternative investment forms to avoid deposit fees; these are reported in other current and non-current financial assets and other current assets.

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

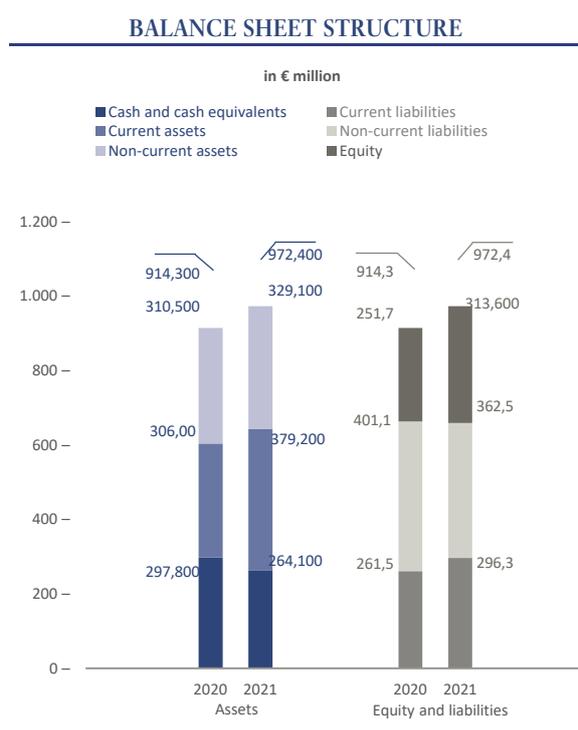
At 31 December 2021, we had unutilised credit facilities totalling € 200.4 million (31 December 2020: € 186.8 million) that were not subject to any restrictions.

NET ASSETS

Balance sheet

The Villeroiy & Boch Group had total assets of € 972.4 million at 31 December 2021 compared with € 914.3 million at the end of the previous year. The balance sheet structure is shown in the graphic below:

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



Non-current assets in the amount of € 329.1 million (previous year: € 310.5 million) comprised non-current fixed assets including right-of-use assets, deferred tax assets and other assets. The change is primarily attributable to the increase in other financial assets (€ +11.5 million) as a result of additions of shares in non-consolidated subsidiaries and securities as well as deferred tax assets (€ +6.3 million).

The share of total assets attributable to non-current fixed assets amounted to 29.3 % (previous year: 29.8 %).

Current assets were mainly composed of cash and cash equivalents, inventories, trade receivables, current financial assets and other current assets. Current assets rose by € 39.5 million year-on-year to € 643.3 million.

Cash and cash equivalents amounted to € 264.1 million, € 33.7 million lower than the previous year's level. This was due to the alternative investments made (see the note on net liquidity) as well as changes in other net operating assets.

Current assets increased by € 73.2 million, from € 306.0 million to € 379.2 million. In addition to the higher level of

inventories (€ +26.3 million), € 40.1 million of this increase was due to the alternative investments made, of which € 25.1 million are reported as current financial assets and € 15.0 million are included in the increase in other current assets (€ +19.8 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.

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

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

As of 31 December 2021, the rolling net operating assets of the Villeroiy & Boch Group were composed as follows:

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS

Group		
in € million	2021	2020
Net operating assets	282.3	337.2
Property, plant and equipment	219.5	233.2
Inventories	172.7	177.3
Receivables (from third parties)	127.6	119.8
Liabilities	- 84.2	- 62.4
Other assets	- 153.3	- 130.7
Operating result (EBIT)	92.8	49.7
Return on net operating assets	32.9 %	14.7 %

Thanks in particular to the excellent operating result, the Group's return on net operating assets climbed by 18.2 percentage points to 32.9 % as at the end of 2021. This was

supplemented by a reduction in rolling net operating assets, which is primarily reflected in the lower level of non-current assets but which also resulted from the increase in trade payables and other net assets.

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

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS		
Bathroom and Wellness		
in € million	2021	2020
Net operating assets	203.7	255.5
Property, plant and equipment	169.8	180.8
Inventories	104.6	112.9
Receivables (from third parties)	94.3	91.3
Liabilities	- 63.7	- 47.5
Other assets	- 101.3	- 82.0
Operating result (EBIT) *	72.4	46.5
Return on net operating assets	35.5 %	18.2 %

* 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 also jumped to 35.5 % (previous year: 18.2 %) as a result of the € 25.9 million increase in the operating result as well as the € 51.8 million reduction in net operating assets.

The rolling net operating assets of the Dining & Lifestyle Division were composed as follows:

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS		
Dining & Lifestyle		
in € million	2021	2020
Net operating assets	78.6	81.7
Property, plant and equipment	49.7	52.4
Inventories	68.1	64.4
Receivables (from third parties)	33.3	28.5
Liabilities	- 20.5	- 14.9
Other assets	- 52.0	- 48.7
Operating result (EBIT) *	32.8	10.0
Return on net operating assets	41.7 %	12.2 %

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

on net operating assets.

Meanwhile, the return on net operating assets in the Dining & Lifestyle Division rose by an impressive 29.5 percentage points, from 12.2 % to 41.7 %, on the back of the record level of earnings in particular.

SUSTAINABILITY²

GENERAL EXPLANATIONS

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 work 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 as well as with 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.

NON-FINANCIAL DECLARATION

In accordance with sections 289b, 315b of the Handelsgesetzbuch (HGB – German Commercial Code),

² This section is an unaudited part of the Group management report.

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 exercise 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 2021, in which we report extensively on our non-financial performance.

REPORT ON RISKS AND OPPORTUNITIES

RISK STRATEGY

Our business policy is aimed at sustainably increasing the performance and earnings strength of our company, and hence its enterprise value, for the benefit of our shareholders and other stakeholders. To this end, the Villeroy & Boch Group's business activities open up a wide range of opportunities, but are also accompanied by risks.

In the course of our business activities, we are exposed to general economic and industry-specific risks as well as the usual financial and economic risks.

In accordance with our approach to risk, potential business risks are identified at an early stage, evaluated and - where possible - minimised or avoided altogether using recognised methods and measures. Risks are consciously accepted when the prospects for success are suitably attractive. The risks in question must also be calculable and manageable in terms of their size, as well as having a low probability of occurrence. Within our company, we have a functional and effective risk management system that is intended to secure the continued existence of the Group and ensure the achievement of our objectives as a company, and especially our financial, operational and strategic objectives.

RISK MANAGEMENT

Risk management system and internal control system

Our risk management system encompasses both risks and opportunities. In contrast to risk reduction measures, opportunities generally do not serve to reduce risks; they are discussed separately in the "Report on opportunities" section.

The risk management system covers all of the areas of our Group and allocates clear responsibilities and duties to all organisational units. In this system, the Management Board defines the principles of the risk policy and risk treatment above and beyond the general principles of Group strategy and ensures that they are implemented. The Code of Conduct limiting the risks of possible breaches of the law and regulations, which applies to all employees and managers throughout the Group, is a further component of this system.

Various coordinated planning, reporting and control processes and early warning systems have been put in place in implementing the system as a whole with the aim of recognising developments that could endanger the Group's continued existence in good time and taking appropriate and effective countermeasures. The risk-bearing capacity of the Villeroy & Boch Group is calculated by comparing its aggregated total value at risk with its current equity.

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) as well as 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.

RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM FOR THE 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.

This includes both appropriateness and effective design.

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 accounting-related internal control and risk management system is an integral part of 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 properly set up and then 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 provided by the relevant laws and standards, applicable accounting principles and internal provisions and principles, which are set out in a Group-wide accounting policy that is continuously updated and that is required to be observed by all consolidated Group companies. 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 investigative controls. This includes binding Group-wide standards such as automatic and manual reconciliation in the form of regular spot checks and plausibility checks, various risk-, process- and content-related controls in the divisions, the fundamental 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 and authorisation concepts for our IT systems to avoid unauthorised data access to accounting content in line with the minimum information principle.

To ensure the functionality and effectiveness of the internal control and risk management system, the Group companies' compliance with the control systems and accounting provisions is regularly monitored by analytical audits, which 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 vulnerabilities, initiating appropriate countermeasures and examining whether vulnerabilities have been resolved. Furthermore, control activities are always adjusted when business circumstances change and the previously defined controls are no longer adequate to the new risk situation. All of the relevant business processes for the internal control and risk management system are documented in a uniform, audit-proof manner and presented transparently in an IT application that is used throughout the Group.

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).

The probability of occurrence of procurement risks has been raised from low to high compared with the previous year in response to global supply bottlenecks and the huge rise in the cost of materials in some cases. The potential financial

impact was already classed as significant in the previous year. Furthermore, the probability of occurrence of IT risks has been raised from low to medium in light of the significantly increased risk of cyberattacks. The potential financial impact was already classed as significant in the previous year. There were no further changes to the risk profile, including with a view to the ongoing coronavirus pandemic.

RISK PROFILE OF THE VILLEROY & BOCH GROUP

Risk type	Probability of occurrence			Potential financial impact		
	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.

In particular, macroeconomic changes such as economic, exchange rate or inflation fluctuations can have a direct impact on the propensity of our customers to invest and spend.

In the Bathroom and Wellness Division, we consider the concentration within the sanitary ware industry that has taken place in recent years to be a specific risk, especially with a view to the resulting increased competitive pressure in project business. The lack of installation capacity (shortage of tradesmen) is also curbing development in our core European markets in particular. In Asia, the potential slowdown in the Chinese construction sector represents a specific risk.

In addition to economic sales risks, the Dining & Lifestyle Division remains faced with the challenge of the dynamic change in our customer's consumer behaviour, which has been accelerated by the pandemic. However, this entails opportunities as well as risks. Even after the end of the pandemic, visitor figures at our stores are not expected to return to pre-pandemic levels. Instead, our customers' consumer behaviour has shifted towards e-commerce to an even greater extent. To this end, we will further intensify our efforts to optimise our store portfolio and our online strategy, which have proved successful to date.

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

General procurement risks include the risk of material price developments, the risk that the materials delivered to us will be of poor quality, the risk of supplier insolvency and disruption in supply chains. 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 as well as 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 key area of raw

materials – the current circumstances are such that there are hardly any alternative sources available on the market.

With demand on the global markets remaining high, particularly with regard to gas, transportation services, packaging and raw materials as well as various goods, the possibility of supply bottlenecks cannot be ruled out, especially in the first half of 2022. We are including longer replacement times in our planning and attempting to build up stocks in order to counteract these risks where possible. Contrary to the concerns in the previous year, Brexit did not have a material negative impact.

In addition to the aforementioned supply risks, there is considerable uncertainty concerning future cost development in our procurement markets, particularly with regard to the risk of a further rise in energy costs as well as transportation and logistics costs. These are indirectly leading to significant price rises for many materials and intermediate products that we are unable to avoid passing on to our customers in the form of price surcharges. Where it is possible and reasonable to do so, we counteract the risk of price changes by engaging in hedging. Further information can be found in the disclosures on financial risks in the “Management of other price change risks” section.

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 appropriate 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 have a sufficient maintenance budget to ensure the regular servicing of our production facilities and the necessary replacement investments. Furthermore, a rapid response is guaranteed in the event of any (internal or external) operational problems.

Climate change is becoming increasingly important around the world. Governments are adopting stricter regulations on the reduction of emissions or initiating corresponding

legislation. As an example, the European Union's Green Deal has the goal of reducing net greenhouse gas emissions to zero by 2050, thereby becoming the first climate-neutral continent. Carbon pricing has been in place in Germany since 2021, and other countries are expected to introduce similar regulations to make emissions more expensive in future. This entails not inconsiderable additional costs for our production locations, with corresponding repercussions for our international competitiveness. In light of this, future investment will focus more on new technologies, in particular in the area of firing technology, in order to integrate ecological and economic business even more strongly than before.

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.

As part of a continuous review of site contamination, appropriate provisions are recognised for existing risks.

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 2021.

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. In this context, we benefited from the COVID-19 package approved by the German government in April 2020 for German trade credit insurance, which applied not just to Villeroy & Boch but also to our jointly insured Group companies abroad. This protection ran until 30 June 2021. Default risk did not increase as a result of the package expiring. 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). The elevated risk of default due to the COVID-19 pandemic was taken into account accordingly on account of a possible increase in the rate of insolvencies. 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 low 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 significant changes in the nature or extent of these risks on account of COVID-19, or the methods of risk management and measurement in 2021. We also do not anticipate any significant changes in 2022.

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 2021. Further information on the management of liquidity risks can be found in note 54 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 2021. As in the previous years, however, there is an increased risk due to the volatility of various currencies, for example the Russian ruble, the

Norwegian krona and the Chinese renminbi. These currencies can be expected to see a heightened exchange rate risk once again in 2022. We use a dynamic hedging approach to address these risks. Further information on the management of exchange rate risks can be found in note 54 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 2021. The passing on of negative deposit rates by central banks to business customers was intensified in 2021. All of Villeroy & Boch's significant retail banks have now introduced a deposit fee for currencies with a negative deposit rate, although this mostly only applies above an interest-free threshold defined by the respective bank. Further information on the management of interest rate risks can be found in section 54 of the notes to the consolidated financial statements.

Management of other price risks: As part of our risk management, we identify price change risks with the aim of engaging in hedging. 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 on the basis of past experience. For the purpose of risk spreading, hedges are conducted in small tranches over a period of two to three years. In 2021, the volume of hedges was covered by corresponding hedged items on a monthly basis. As such, there is no significant concentration of other price risks within the Group for the hedged raw materials. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2021. Further information on the management of commodity price risks can be found in section 54 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 consulting firms. Adequate provisions have been recognised 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 which 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. Fluctuation is also increasing as attractive vacancies on the employment market mean specialists and managers are more willing to move. This will lead to capacity bottlenecks as not all vacancies can be filled by external candidates. Among other things, we are counteracting this risk by further supporting internal training and development through job rotation and investing in attractive employer branding. 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. Provisions for pensions are described in note 26 of the notes to the consolidated financial statements.

Legal risks

The progressive internationalisation of our business activities is accompanied by an increase in the number and complexity of the statutory provisions we are required to observe. Accordingly, we are permanently exposed to risks in connection

with guarantee obligations and material defects, product liability, competition and antitrust law, industrial property rights and claims arising from breaches of contract. To the extent that it is foreseeable and economically reasonable to do so, we cover the existing legal risks by concluding insurance policies that are typical for the industry and recognise provisions to a sufficient extent for obligations going above and beyond this. To reduce the potential cost of legal risks, we ensure the high quality standards of our products by regularly monitoring production and making continuous improvements. In addition, responsible and legally compliant behaviour is ensured by the compliance organisation established by the Management Board.

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. The Saarbrücken District Court has rejected all of the suits against former members of the Management Board in the first instance. Having analysed the reasons for this judgement, the Supervisory Board has filed an appeal against the rulings. A hearing with the Saarbrücken Higher Regional Court took place in January 2022. The verdict is expected on 16 February 2022. Appropriate provisions have been recognised for legal costs.

IT risks

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

- on-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 security policies and provisions for the active management of these risks are regularly examined by external auditors to ensure compliance and effectiveness. Our central IT organisational structure and the use of standardised, Group-wide systems and processes are important measures aimed at minimising the probability of risks occurring. We increased the number of employees in our internal IT security organisation in the 2021 financial year. The IT security concept is based on best practice standards (BSI, ISO 27001) and fully includes the IT service providers. The catalogue of measures is supplemented by cyber insurance. We pay strict attention to compliance with the corresponding security certifications when selecting our IT service partners.

Regular security tests (known as penetration tests) serve to verify the suitability of the protective measures.

The advancing digitisation of our business and production processes and the increased risk of cyberattacks in 2021 are accelerating the continuous evolution of the IT security architecture. Further improvements to IT security are focused on production and logistics, as the threat situation in these areas in particular has increased significantly. The partial or complete failure of these control systems would inevitably have a negative impact on our value chains. As well as introducing a business continuity plan containing organisational and technical instructions for maintaining emergency operations, contingency planning has been amended to reflect the change in the threat situation. The shift in sales activities from retail outlets to online sales, the associated increase in electronic revenue volumes and the further digitalisation of the value chain results in greater potential for losses. All Group locations are effectively protected using standardised, centrally managed firewall technology, extensive protective measures for mobile devices, additional alarm systems and the segmentation of internal data networks.

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 2021 financial year, the risk profile did not change materially compared with the previous year.

In the opinion of the Management Board, based on the probability of occurrence and potential impact of the risks described above, they do not represent a risk to the continued existence of the Group either in isolation or cumulatively. The individual risks are controlled using the risk management system and sufficient risk cover is available. The Management Board does not expect this to have a material influence on the Group's net assets, financial position and results of operation.

REPORT ON OPPORTUNITIES

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

Opportunities through ceramic expertise

Expertise with ceramic materials is in Villeroy & Boch's DNA and a key factor in our successful 270-year history as a company. We focus on combining product design and raw material and production expertise with product functionality and quality. With successful products like the rimless DirectFlush WC and innovations such as the state-of-the-art ViClean-I 100

shower toilet, in which all the technology is integrated inside the WCs ceramic, we are underlining our claim to innovation leadership in ceramic sanitary ware. Another example is TwistFlush, our latest flush technology, which harnesses the physical force of water vortexes for perfect cleanliness while also guaranteeing lower water consumption, thereby ensuring sustainability in the bathroom. 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 Dining & Lifestyle Division involves identifying at an early stage trends in society with regard to how people enjoy food and drink so that we can benefit by offering a corresponding product range. Our products help customers to design their homes in line with their personal wishes and preferences and turn them into something special. In addition to focusing on the perfectly laid table, we offer designer products for home decoration. Many of our products make ideal gifts for various occasions and are marketed accordingly. By establishing and expanding our "Out of Home" concept, we are addressing the growing consumer demand for sustainable and reusable products, thereby opening up new target groups and sales partners.

Opportunities through growth markets

While our activities in the 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. As before, the biggest growth potential in the Bathroom and Wellness Division lies on our Chinese market. Furthermore, we will continue to make headway rolling out distribution in China and, in particular, our exclusive Villeroy & Boch stores, and we will support our revenue growth with product ranges specific to the market, such as the expansion of our ViClean shower toilet family and our Villeroy & Boch fittings range.

The significance of the expansion of distribution on the Chinese market applies equally to the Dining & Lifestyle Division.

On the US market and selected European markets, we are focusing on strengthening the existing retail structure through a more differentiated assortment policy.

Strengthening the domestic market (Germany, Austria and Switzerland) and further growth in Northern Europe – not least by expanding e-business – are also key areas.

Opportunities through project business

We believe that there is still good potential for increasing the sales volume in our global project business in the Bathroom and Wellness Division. The investments in the hotel business that were postponed during the pandemic are increasingly seeing renewed momentum. We see the areas of health & care and residential construction as offering particularly strong potential for continued growth.

We are boosting the work of our national project sales operations and our central organisational work “Global Projects”, headquartered in London, through which we manage and coordinate our reach-out activities with top interior designers, international hotel groups and international project developers, by using the CRM system Salesforce. The main markets for our project business are Central Europe, the Middle East and China. Global cooperation agreements have been entered into with leading hotel chains and operator companies to significantly increase our chances of success in this area. Additionally, ranges such as furniture and front wall installation will contribute more than before to growth in project business.

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, furniture for living, dining and sleeping areas, kitchen and bathroom textiles as well as kitchen 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. The accelerated change in customers’ information and purchasing habits towards digital channels, as a result of the global COVID-19 pandemic in particular, has meant that our online services have continued to gain in significance. As we believe that customers’ internet usage behaviour has changed for good, we expect some of the newly developed information and consumer behaviour using our

online channel to remain in place even after the coronavirus pandemic subsides. In order for us to reflect this accelerated development and fully leverage the available potential, it will also become increasingly important for us to continuously improve our website and online shops, intensify our social media activities, increase the use of online marketing channels and optimise 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. Additionally, funds have increasingly been allocated to online marketing measures so that we can advertise our products to the appropriate target groups using state-of-the-art targeting. As a result, Villeroy & Boch’s visibility and presence in digital channels has been increased significantly in all regions. A key aspect of our online strategy is now also to activate existing customers through channels such as e-mail marketing. This also involves a focus on the increased use of our cloud-based omnichannel and CRM solution so that we can activate existing customers even more effectively and in a more targeted and personalised manner. We are continuing to expand the necessary technical and organisational skills, with the increased use of marketing automation and artificial intelligence playing an important role.

In our Dining & Lifestyle Division, e-commerce has established itself as strategically important and the fastest-growing sales channel. This encompasses our own online shops as well as the sales platforms operated by other providers. For the years ahead, we still anticipate strong growth rates in online business and assume that this sales channel will continue to develop extremely dynamically. As we continue to professionalise and expand our e-commerce activities, our online revenue grew by more than 33 % year-on-year in the 2021 financial year. Our dedicated online shops in particular are a key pillar of this growth. This positive development is to be continued in the years ahead.

Villeroy & Boch is a strong and innovative partner in digital business. Whether for raising the visibility of the brand in general or providing high-quality data and content in the digital sector – both in the online shop and when assisting our customers with the relevant data in the professional and portal area. In the context of digitalisation, we offer a dealer search on our website and send varied digital newsletters to our partners. Digital training with corresponding tools and virtual trade fairs are taking place regularly and successfully. The networking of online and offline is constantly being advanced and the customer experience improved, which supports the success of our own online business on the one hand while also raising the visibility of our brand among our retail partners.

In the Bathroom and Wellness Division, digital services and tools play a primary role. With tools like our Bathroom Planner, Bathroom Inspirator, Style Finder and 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 to further optimise lead processing with our dealers. The Villeroy & Boch app is a digital solution that provides our partners with all information at a glance on their smartphone, tablet or PC, including current prices, measurements and installation instructions. Last but not least, social media platforms such as Pinterest, Instagram and TikTok offer considerable opportunities for making extensive contact with new target groups. Our focus in this area is on the creation of digital content that illustrates Villeroy & Boch's design expertise across different social media platforms.

Opportunities of digitalisation for production

The digital transformation holds vast potential for our production sites. Initial pilot projects have already become established as best methods and standards, enabling them to be rapidly scaled for other areas of application. The simultaneous expansion of standardised, consistent IT systems and the networking of machines within the production process remain 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. For example, predictive analytics is an area of digitalisation that can be harnessed to improve earnings.

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, and 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. The use of artificial intelligence will increase in the near future. For instance, digital twins will be used in parts of development and production in order to further optimise processes, while automated image recognition will help to identify product faults.

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 strategy also includes the bundled processing of business transactions at shared service centres. The further digitalisation of processes using new digital tools, such as robotic process automation, process mining and bots, is aimed at improving the performance and quality of our processes while also increasing efficiency. Initial projects have already been successfully realised in this context, while further applications are still in the process of being implemented.

Opportunities through digital transformation

The further digitalisation of processes using new digital tools, such as robotic process automation, process mining and bots, is aimed at improving the performance and quality of our processes while also increasing efficiency. Initial projects have already been successfully realised in this context, while further applications are still in the process of being implemented. This will focus, for instance, on activities to establish the company's own 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. The projects that have already been implemented in this area serve to demonstrate the benefits of these initiatives, and these areas of activity will be expanded in future. We are also placing a greater focus on internal programmes and initiatives to support the digital transformation and the process of cultural change within the company.

Opportunities through acquisitions

In addition to organic growth, acquisitions also offer potential for the expansion of our business activities. Accordingly, we are continuously observing our environment and analysing with due care any additions that might prove to be beneficial.

Non-operating earnings potential

Outside our operating business, we believe that there is earnings potential in the development and marketing of properties that are no longer required for operating purposes. The development of our property in Luxembourg offers additional earnings potential. Barring the area of the chateau, the property was sold in 2019. The result that can be generated from this is dependent on the building rights that can be secured.

Together with the buyers and the City of Luxembourg, we are working on the selective modification of the existing land use plan and preparing a development plan for the entire Rollingergrund site, which is to be developed into an attractive and energetic residential and working district with a high share of housing. The responsible bodies in Luxembourg resolved the preparation of the development plan in early January 2022. The corresponding income is not expected to be recognised until the protracted approval process is complete. This is likely to extend into the fourth quarter of 2022, meaning that a legally binding decision is not anticipated until the first quarter of 2023 at the earliest. It will be possible to recognise the corresponding income of up to € 25 million if the decision goes in our favour. Further property projects with high seven-figure income potential are also still in development.

REPORT ON EXPECTED DEVELOPMENT

We expect the world economy to recover in 2022. However, the ongoing supply shortages and the associated substantial price increases for energy and freight, as well as for raw and packaging materials, are expected to have a strong impact on 2022. This also makes it more or less inevitable that we will have to raise our prices. Furthermore, the ongoing development of the coronavirus pandemic could lead to renewed disruption. The economy of the euro area is expected to grow dynamically, particularly as some of the private savings accumulated during the lockdown phases are used for consumer spending again. This is likely to benefit the German economy in particular. Overseas, the recovery is set to continue. The Chinese economy is expected to see further expansion, albeit at a slower growth rate.

We expect that European residential construction, a key indicator for business development in the Bathroom and Wellness Division, will experience moderate expansion across all countries in the forecast period. We believe the current property crisis could lead to a potential slowdown in the Chinese construction sector. By contrast, fluctuations in Germany are still expected to be less pronounced than in many European countries despite the shortage of tradesmen.

Private consumer spending continues to be viewed as the most important factor for our Dining & Lifestyle business.

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. Risks could arise from the ongoing development of the coronavirus pandemic, although our experiences in the 2021 financial year do not give us any reason to expect a significant negative impact at present. Furthermore, political conflicts between the US and China and the US/NATO and Russia in the Ukraine conflict could escalate further, and other geopolitical tensions and anti-government protests in various countries could also prove an obstacle.

Revenue, earnings and investments in the Group

Based on a fundamentally positive assessment of the market and a range of supporting factors, the goal for the 2022 financial year, including inflation effects, is for an increase in consolidated revenue of between 5 % and 6 %. Thanks to process improvements and ongoing active cost management, we expect a strong improvement in operating EBIT of between 5 % and 10 % in 2022. Accordingly, we anticipate that our growth rates will remain high, albeit with a slight loss of momentum year-on-year.

Our return on net operating assets in 2022 is expected to be slightly below the level recorded in the 2021 financial year.

Our operating investments in property, plant and equipment and intangible assets are forecast to amount to more than € 60 million in the 2022 financial year. We aim to step up our investing activities with a particular focus on the strategic expansion of the two divisions as well as the reduction of carbon emissions. Most of our total investment will take place in the Bathroom and Wellness Division. One focal point will be the targeted expansion of technical capacities at our ceramic sanitary ware plants, particularly in the form of automation at our production sites in Eastern Europe. We will also invest in our furniture plants and our production locations in Sweden and the Netherlands. In the Dining & Lifestyle Division, we will focus more strongly in the 2022 financial year on expansion and optimisation at our production plants in Merzig and Torgau, as well as on new store openings and renovations. We also plan to make further investments in the “Mettlach 2.0” site development project and the modification and renovation of the chateau premises in Luxembourg.

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.

OTHER DISCLOSURES

Disclosures on the acquisition of treasury shares

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

Takeover disclosures in accordance with section 315a HGB and explanatory report

The disclosures relevant to takeovers in accordance with section 315a(1) HGB can be found in notes 17 and 25 to the consolidated financial statements, with the exception of the information pursuant to § 315a(1)(6).

The appointment and dismissal of members of the Management Board are governed by sections 84 and 85 of the Aktiengesetz (AktG – German Stock Corporation Act) and section 31 of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act). In accordance with Article 6(1) of the Articles of Association, the Management Board consists of at least two members; the exact number is determined by the Supervisory Board according to the company's requirements. The Supervisory Board can appoint a member of the Management Board as the Chairman of the Management Board. An amendment of the Articles of Association requires a resolution of the Annual General Meeting in accordance with section 179 AktG. The authority to make amendments that affect the wording only is conferred on the Supervisory Board in accordance with Article 7(8)(2) of the Articles of Association. In accordance with section 179(2) AktG, resolutions by the Annual General Meeting that amend the Articles of Association require a majority of at least three quarters of the share capital represented in the resolution, unless a different capital majority is stipulated by the Articles of Association. Article 8(2)(b) of the Articles of Association states that resolutions by the Annual General Meeting require a simple majority of the votes cast and, if a capital majority is required, a simple majority of the share capital represented, unless a larger majority is required by law.

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 2021 Annual Report, which is available online at <https://www.villeroyboch-group.com/en/investor-relations/financial-news/declaration-on-corporate-governance.html>.

REMUNERATION REPORT

Remuneration System

Information on the main features of the remuneration system can be found in the remuneration report in accordance with section 162 AktG in the 2021 Annual Report and on the Internet at <https://www.villeroyboch-group.com/en/investor-relations/corporate-governance/remuneration-system-for-the-management-board-of-villeroy-boch-aktiengesellschaft.html>.

COMBINED RESPONSIBILITY STATEMENT³

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, 11 February 2022



Frank Göring



Gabriele Schupp



Georg Lörz



Dr Markus Warncke

³ This section is an unaudited part of the Group management report.

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CONSOLIDATED BALANCE SHEET

as of 31 December 2021

in € million	Notes	31/12/2021	31/12/2020
Assets			
Non-current assets			
Intangible assets	5	45.8	40.2
Property, plant and equipment	6	165.9	166.7
Right-of-use Assets	7	37.2	40.7
Investment property	8	5.1	5.8
Investments accounted for using the equity method	9	2.0	1.6
Other financial assets	10	28.9	17.4
		284.9	272.4
Other non-current assets	14	2.0	2.2
Deferred tax assets	11	42.2	35.9
		329.1	310.5
Current assets			
Inventories	12	189.4	163.1
Trade receivables	13	116.4	115.8
Financial assets	10	25.1	0.0
Other current assets	14	44.9	25.1
Income tax receivables	15	3.4	2.0
Cash and cash equivalents	16	264.1	297.8
		643.3	603.8
Total assets		972.4	914.3

in € million	Notes	31/12/2021	31/12/2020
Equity and Liabilities			
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital	17	71.9	71.9
Capital surplus	18	194.2	193.6
Treasury shares	19	- 14.5	- 15.0
Retained earnings	20	150.4	104.0
Revaluation surplus	21	- 92.1	- 107.6
		309.9	246.9
Equity attributable to minority interests	22	3.7	4.8
Total equity		313.6	251.7
Non-current liabilities			
Provisions for pensions	26	175.5	193.0
Non-current provisions for personnel	27	15.9	17.0
Other non-current provisions	28	23.9	21.3
Non-current financial liabilities	29	85.0	105.0
Non-current lease liabilities	30	25.5	30.5
Other non-current liabilities	31	32.5	30.5
Deferred tax liabilities	11	4.2	3.8
		362.5	401.1
Current liabilities			
Current provisions for personnel	27	20.8	15.3
Other current provisions	28	27.0	31.4
Current financial liabilities	29	25.3	10.2
Current lease liabilities	30	12.4	10.8
Other current liabilities	31	108.7	98.5
Trade payables	32	82.5	85.6
Income tax liabilities		19.6	9.7
		296.3	261.5
Total liabilities		658.8	662.6
Total equity and liabilities		972.4	914.3

CONSOLIDATED INCOME STATEMENT

for the period 1 January to 31 December 2021

in € million	Notes	01/01/2021 – 31/12/2021	01/01/2020 – 31/12/2020
Revenue	33	945.0	800.9
Costs of sales	34	- 526.7	- 478.5
Gross profit		418.3	322.4
Selling, marketing and development costs	35	- 269.7	- 232.0
General administrative expenses	36	- 48.3	- 40.9
Other operating income	37	17.8	8.9
Other operating expenses	38	- 27.9	- 17.9
Result of associates accounted for using the equity method	39	0.3	0.2
Operating result (EBIT)		90.5	40.7
Interest income and other finance income	40	1.5	1.3
Interest expenses and other finance expenses	41	- 6.5	- 6.2
Financial result		- 5.0	- 4.9
Earnings before taxes		85.5	35.8
Income taxes	42	- 25.0	- 12.9
Group result		60.5	22.9
Thereof attributable to:			
Villeroy & Boch AG shareholders		60.2	22.6
Minority interests	43	0.3	0.3
Group result		60.5	22.9
Earnings per share		in €	in €
Earnings per ordinary share	44	2.25	0.83
Earnings per preference share	44	2.30	0.88

During the reporting period there were no dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 31 December 2021

in € million	Notes	2021	2020
Group result		60.5	22.9
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on translations of exchange differences	21	- 3.5	- 0.3
Gains or losses on cash flow hedges	21	- 3.2	- 0.9
Deferred income tax effect on items to be reclassified to profit or loss	21	6.9	- 1.9
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans	21	9.9	- 9.1
Gains or losses on value changes of securities	21	7.3	0.1
Deferred income tax effect on items not to be reclassified to profit or loss	21	- 1.9	2.6
Total other comprehensive income		15.5	- 9.5
Total comprehensive income net of tax		76.0	13.4
Thereof attributable to:			
Villeroy & Boch AG shareholders		75.7	13.1
Minority interests		0.3	0.3
Total comprehensive income net of tax		76.0	13.4

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 31 December 2021

in € million	Equity attributable to Villeroy & Boch AG shareholders						Equity attributable to minority interests	Total equity
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	Total		
Notes	17	18	19	20	21		22	
As of 01/01/2020	71.9	193.6	- 15.0	95.2	- 98.1	247.6	4.6	252.2
Group result				22.6		22.6	0.3	22.9
Other comprehensive income					- 9.5	- 9.5		- 9.5
Total comprehensive income net of tax				22.6	- 9.5	13.1	0.3	13.4
Dividend payments				- 13.8		- 13.8	- 0.1	- 13.9
As of 31/12/2020	71.9	193.6	- 15.0	104.0	- 107.6	246.9	4.8	251.7
As of 01/01/2021	71.9	193.6	- 15.0	104.0	- 107.6	246.9	4.8	251.7
Group result				60.2		60.2	0.3	60.5
Other comprehensive income					15.5	15.5		15.5
Total comprehensive income net of tax				60.2	15.5	75.7	0.3	76.0
Employee share program		0.6	0.5			1.1		1.1
Dividend payments				- 13.8		- 13.8	- 1.4	- 15.2
As of 31/12/2021	71.9	194.2	- 14.5	150.4	- 92.1	309.9	3.7	313.6

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 31 December 2021

in € million	Notes	01/01/2021 – 31/12/2021	01/01/2020 – 31/12/2020
Group result		60.5	22.9
Depreciation of non-current assets	45	40.3	45.5
Change in non-current provisions		- 3.8	- 11.9
Profit from disposal of fixed assets		–	- 1.2
Change in inventories, receivables and other assets		- 35.9	52.6
Change in liabilities, current provisions and other liabilities		12.6	19.9
Taxes paid / received in the financial year		- 12.8	0.4
Interest paid in the financial year		- 2.5	- 2.9
Interest received in the financial year		0.3	1.7
Other non-cash income / expenses	49	15.1	9.5
Cash flow from operating activities	49	73.8	136.5
Purchase of intangible assets, property, plant and equipment		- 25.7	- 19.9
Investment in non-current financial assets and cash payments		- 15.7	- 3.1
Investment in current financial assets and cash payments		- 25.0	–
Investments in the acquisition of other current assets		- 15.0	–
Payments for the acquisition of consolidated companies		0.5	1.0
Cash receipts from disposals of fixed assets		5.0	4.6
Cash flow from investing activities	50	- 75.9	- 17.4
Cash proceeds from long-term borrowing	29	–	35.0
Cash repayments of amounts borrowed	29	- 4.9	- 32.3
Cash repayments of lease liabilities	30	- 14.4	- 18.9
Dividends paid to minority shareholders	22	- 1.3	- 0.1
Cash proceeds from the issue of minority interests	19	0.9	–
Dividends paid to shareholders of Villeroy & Boch AG	23	- 13.8	- 13.8
Cash flow from financing activities	51	- 33.5	- 30.1
Sum of cash flows		- 35.6	89.0
Balance of cash and cash equivalents as of 01.01.		297.8	210.3
Change based on total cash flows		- 35.6	89.0
Changes due to exchange rates		1.9	- 1.5
Net increase in cash and cash equivalents		- 33.7	87.5
Balance of cash and cash equivalents as of 31.12.	16+52	264.1	297.8

NOTES

GENERAL INFORMATION

Villeroy & Boch Aktiengesellschaft, domiciled in Mettlach, Saaruferstrasse 1 – 3, is a listed stock corporation under German law. It is entered in Commercial Register B of the Saarbrücken Local Court under 63610. 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 Dining & Lifestyle. 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 2021 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 section 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 are 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 11 February 2022. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

In the 2021 financial year, the Villeroy & Boch Group benefited from the trend towards home and bathroom renovation and refurbishment as people are choosing to beautify where they live as a result of the COVID-19 pandemic. There were largely no negative effects on the financial position or financial performance of the Villeroy & Boch Group. By contrast, there were more significant effects to contend with in the previous year, including the more comprehensive elimination of idle capacity costs arising from temporary plant shutdowns and restrictions (note 12). In addition, the closures of the Group’s own Dining & Lifestyle shops and temporary employment in various areas impacted staff costs, which were reduced by the recognised claims for reimbursement. Nonetheless, the handling of the COVID-19 pandemic and the

recurring emergence of new mutations is currently still the biggest challenge facing many governments, the scientific community and the populations of most countries on the planet. If, contrary to our expectations, there are further lockdowns in various countries, we will be able to resort to proven measures on the basis of the experience gathered over the past year. These include the ongoing acceleration of e-commerce business, strict cost management and the use of government subsidy programmes, such as temporary employment. Thanks to our strong orders on hand and the considerable liquidity and the cash funds available, we feel we are well prepared for the future.

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. The changes to the IFRS regulations effective for the first time in the 2021 financial year are presented under note 63 and had no material effect on the accounting policies of the Villeroy & Boch Group.

In addition, various new financial reporting standards were published that are not mandatory for reporting periods ending 31 December 2021. 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 63.

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.

Government-allocated and purchased emission allowances are recognised as intangible assets at fair value. The revaluation model in accordance with IAS 38.75 ff. is used for subsequent measurement.

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. Acquisition cost includes all net costs necessary to bring the asset to its working condition. Production 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 33 years)	20 – 50
Operating facilities	10 – 20
Kilns	5 – 15
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. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification (see note 63). The IASB extended this practical expedient until June 2022 on 31 March 2021.

Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. This results in accounting for the concession as a variable lease payment in the period in which the event or condition that triggers the reduced payment occurs. Villeroy & Boch AG applies the expedient described to all rent concessions that satisfy the requirements. The effects are described in note 30 Non-current and current lease liabilities.

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.

Government grants

Government grants are measured at fair value and not recognised until the Group has complied with the conditions attaching to it and the grant has been received. 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 54 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 acquisition or production costs and net realisable value. The production costs of inventories include 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, acquisition 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.

Increases in production costs per unit due to production stoppages or underutilisation are accounted for by an appropriate cost adjustment for idle capacity.

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, PayPal credit, demand deposits and time deposits with an original term of up to three months. Cash is carried at its amortised cost.

Treasury shares

Treasury shares reduce equity in the amount of their original cost.

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 commission 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 shops, 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 inter-company 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 existing theoretical knowledge. Development ends with the start of commercial production or utilisation. Costs incurred during development are capitalised if the conditions for recognition as an intangible asset are met. Due to the risks existing until market launch, 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
Securities: shares, etc.	At fair value in OCI without realisation of gains or losses on disposal
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	(Amortised) cost
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 determining the basis of consolidation, impairment testing for the assets recognised in the statement of financial position, the Group-wide determination of economic lives, the assessment of the contractual term of leases, the timing of the settlement of receivables, the amount of variable purchase prices (see note 31), 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. These also include estimation uncertainty in conjunction with the COVID-19 crisis, which manifests, for example, in uncertainty in forecasts or the calculation of probabilities of default. 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 14 (previous year: 14) German and 39 (previous year: 41) foreign subsidiaries that Villeroy & Boch AG - directly or indirectly - controls and has included in consolidation. The change in the basis of

consolidation of the Villeroy & Boch Group was as follows:

VILLEROY & BOCH AG AND CONSOLIDATED COMPANIES:

	Germany	Abroad	Total	Total
As at 1 Jan. 2021	14	39	53	55
Disposals due to asset sale (c)	-	-	-	- 1
Disposals due to merger (d)	-	-	-	- 1
As at 31 Dec. 2021	14	39	53	53

(a) Disposal due to sale of a Group company / sale of assets:

In the previous year, Vilbomex S.A. de C.V, Ramos Arizpe (Mexico) and Intermat - Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach (Germany) sold all shares in Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe (Mexico) to Porcelane Corona de México, S.A. de C.V., Mexico, effective 31 December 2020, on 23 December 2020. The purchase price was set in euro and was € 8.2 million. The first purchase price instalment of € 1.0 million was paid on 24 December 2020. The remaining purchase price is due in four further instalments in December of the corresponding year. The second purchase price instalment of € 0.5 million was settled in the 2021 financial year. The purchase price receivable was discounted by € 0.1 million using an adequate risk-adjusted interest rate (previous year: € 0.2 million). Thus, a residual purchase price receivable of € 6.4 million (previous year: € 7.0 million) is reported as at 31 December 2021.

(b) Disposals due to merger:

To optimise the Group's structure, Villeroy & Boch Tableware Oy, Finland, was merged with Villeroy & Boch Gustavsberg Oy, Finland, on 1 January 2020.

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	2021	Germany	Abroad	2020
Shareholding: 100 %						
Division						
Bathroom and Wellness	3	24	27	3	24	27
Dining & Lifestyle	4	20	24	4	20	24
Other business purposes	8	2	10	8	2	10
Reconciliation	- 1	- 9	- 10	- 1	- 9	- 10
Total	14	37	51	14	37	51
Shareholding: 50 % to 99 %						
Bathroom and Wellness	-	2	2	-	2	2
Group total	14	39	53	14	39	53

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

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

Furthermore, the Villeroy & Boch consolidated financial statements include one associate accounted for using the equity method (see note 9). The most recent annual financial statements available in accordance with local law were used as the basis for accounting using the equity method.

As at 31 December 2021, the Villeroy & Boch Group recognises immaterial shares in three Group companies as financial assets (see note 10(a)). 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 (see note 62).

The list of shareholdings in accordance with section 313(2) HGB is shown in note 62.

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 2021 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 62). The

consolidated financial statements of Villeroy & Boch AG are the exempting consolidated financial statements for these companies.

The two Dutch companies Ucosan B.V., Roden, and Villeroy & Boch Tableware B.V., Oosterhout, exercise the options relating to the preparation, publication and auditing of annual financial statements in accordance with Article 2:403(1b) 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., Faïencerie 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. Control exists when Villeroy & Boch AG can control the relevant activities of the subsidiary company, has rights to variable returns from its involvement in the subsidiary company and can influence the amount of its distributions.

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 substantial voting rights are also taken into account. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.

As part of capital consolidation, the acquisition costs of the subsidiaries at the acquisition date are offset against the re-measured 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. Any hidden reserves and liabilities identified as a result of subsequent consolidation are carried forward in the same way as the corresponding assets and liabilities.

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

If any differences in tax expenses are expected to reverse in later financial years, deferred taxes are recognised for consolidation measures in profit or loss. When including an associated company in consolidation for the first time, the

differences arising from initial consolidation are treated in accordance with the principles of full consolidation.

Shares in affiliate companies of minor significance are recognised at amortised costs (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 21(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21(b)). They continue to be reported in this item of the statement of financial position even in the event of a partial repayment of the net investment. When consolidated companies leave the consolidated group, any exchange rate differences previously not affecting the net income are reversed to profit or loss.

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

		CURRENCY			
€1 =		Exchange rate at end of reporting period		Average exchange rate	
		2021	2020	2021	2020
Swedish krona	SEK	10.24	10.03	10.13	10.49
Chinese renminbi Yuan	CNY	7.22	8.02	7.68	7.84
US dollar	USD	1.13	1.23	1.19	1.13
Australian dollar	AUD	1.56	1.59	1.58	1.65
Thai baht	THB	37.87	36.73	37.76	35.45
Norwegian krone	NOK	9.97	10.47	10.20	10.70
Hungarian forint	HUF	370.15	363.89	359.11	350.71
Mexican peso	MXN	23.24	24.42	24.08	24.17
Romanian leu	RON	4.95	4.87	4.91	4.82

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. INTANGIBLE ASSETS

Intangible assets developed as follows:

in € million	Patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As at 1 Jan. 2020	24.1	40.2	64.3
Currency adjustments	- 0.2	0.2	–
Additions	3.1	–	3.1
Disposals	- 1.2	–	- 1.2
Reclassifications	–	–	–
As at 1 Jan. 2021	25.8	40.4	66.2
Currency adjustments	- 0.1	- 0.1	- 0.2
Additions	8.9	–	8.9
Disposals	- 1.3	–	- 1.3
Reclassifications	0.1	–	0.1
As at 31 Dec. 2021	33.4	40.3	73.7
Accumulative amortisation and impairment			
As at 1 Jan. 2020	15.9	8.8	24.7
Currency adjustments	–	–	–
Amortisation	1.0	–	1.0
Impairment losses	0.7	–	0.7
Disposals	- 0.4	–	- 0.4
As at 1 Jan. 2021	17.2	8.8	26.0
Amortisation	1.7	–	1.7
Impairment losses	0.5	–	0.5
Disposals	- 0.3	–	- 0.3
As at 31 Dec. 2021	19.1	8.8	27.9
Residual carrying amounts			
As at 31 Dec. 2021	14.3	31.5	45.8
As at 31 Dec. 2020	8.6	31.6	40.2

The asset group “Concessions, patents, licences and similar rights” essentially includes key money capitalised by subsidiaries for rented retail space worth € 1.1 million (previous year: € 1.7 million), capitalised software licences in the amount of € 2.4 million (previous year: € 1.9 million) and emission allowances of € 10.6 million (previous year: € 4.5 million). The carrying amount of the emission allowances according to the cost model is € 4.2 million. Write-downs on key money of € 0.5 million were recognised in the financial year.

Goodwill in the amount of € 31.5 million (previous year: € 31.6 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 53. Capitalised goodwill was tested for impairment on the basis of the calculation of value in use. To do so, the present value of future excess cash flows from

this division was determined in line with planning. The forecast cash flows are discounted over the detailed planning period until 2025 using an interest rate before income tax of 6.1 % p.a. (previous year: 5.2 % p.a.), while subsequent cash flows are discounted using an interest rate before income tax of 5.4 % p.a. (previous year: 4.6 % p.a.) and applying a growth rate. The forecast cash flows are expected to remain at a similar level to the 2021 financial year. Moderate growth is shown by applying a growth discount of 1.0 %. 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. Management does not currently consider any change in a key measurement parameter possible that would result in a write-down.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment used in operations developed as follows in the year under review:

in € million	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Property, plant and equipment under construction	Total
Accumulative cost					
As at 1 Jan. 2020	203.8	370.1	92.8	19.5	686.2
Currency adjustments	- 3.2	- 7.5	- 1.2	- 0.9	- 12.8
Additions	0.9	4.3	3.9	7.7	16.8
Disposals	- 5.6	- 14.6	- 5.1	- 0.1	- 25.4
Reclassifications	1.8	9.2	0.9	- 11.9	0.0
As at 1 Jan. 2021	197.7	361.5	91.3	14.3	664.8
Currency adjustments	- 1.2	- 2.6	0.5	- 0.1	- 3.4
Additions	1.2	5.5	5.4	11.8	23.9
Disposals	- 0.3	- 1.1	- 5.0	- 0.1	- 6.5
Reclassifications	1.5	7.1	1.3	- 9.8	0.1
As at 31 Dec. 2021	198.9	370.4	93.5	16.1	678.9
Accumulative depreciation and impairment					
As at 1 Jan. 2020	131.2	289.2	77.9	-	498.3
Currency adjustments	- 1.7	- 5.4	- 1.0	-	- 8.1
Depreciation	3.5	14.0	6.0	-	23.5
Impairments	0.1	3.6	0.2	-	3.9
Disposals	- 2.2	- 12.0	- 5.3	-	- 19.5
Reclassifications	-	-	-	-	-
As at 1 Jan. 2021	130.9	289.4	77.8	-	498.1
Currency adjustments	- 0.6	- 2.0	0.4	-	- 2.2
Depreciation	3.4	14.0	5.5	-	22.9
Impairments	-	-	0.2	-	0.2
Disposals	- 0.2	- 1.1	- 4.7	-	- 6.0
Reclassifications	-	-	-	-	-
As at 31 Dec. 2021	133.5	300.3	79.2	-	513.0
Residual carrying amounts					
As at 31 Dec. 2021	65.4	70.1	14.3	16.1	165.9
As at 31 Dec. 2020	66.8	72.1	13.5	14.3	166.7

Property, plant and equipment amounting to € 23.9 million (previous year: € 16.8 million) was acquired in the financial year. At € 16.8 million (previous year: € 11.6 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). An edge banding machine was installed at the Mondsee plant (Austria) and a new CNC saw was acquired for the Roeselare plant (Belgium).

We invested € 7.1 million (previous year: € 5.2 million) in the Dining & Lifestyle Division. New machinery and tools valued at € 4.3 million (previous year: € 3.5 million) were acquired for production at our Merzig and Torgau plants. Furthermore, the Group invested in the ongoing optimisation of its retail network, for example by renovating and opening stores in Germany (Stuttgart) and Austria (Vienna and Parndorf). Facilities worth € 9.8 million were completed and integrated into operational value added in the re-reporting period (previous year: € 11.9 million). € 3.7 million related to Hungary,

where there was investment in casting and glazing. The optimisation of casting and glazing processes were also invested in at the sanitary ware plant in Mettlach. Preparations were begun to build a new OP factory in Thailand. In the previous year, new facilities were used for the first time mainly in Germany (€ 0.8 million), Hungary (€ 2.3 million) and Thailand (€ 5.3 million).

The disposals in the financial year of € 6.5 million (previous year: € 25.4 million) and the cumulative depreciation of € 6.0 million (previous year: € 23.5 million) predominantly result from the scrapping of assets already written down in full that can no longer be used.

Property in Germany in the amount of € 0.1 million was reclassified from investment property to property, plant and equipment (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. Capitalised right-of-use assets developed as follows in the year under review:

in € million	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As at 1 Jan. 2020	49.0	8.3	57.3
Currency adjustments	- 0.8	- 0.1	- 0.9
Additions	15.3	2.5	17.8
Disposals	- 2.5	- 0.5	- 3.0
As at 1 Jan. 2021	61.0	10.2	71.2
Currency adjustments	1.2	–	1.2
Additions	9.0	1.8	10.8
Disposals	- 3.0	- 1.7	- 4.7
As at 31 Dec. 2021	68.2	10.3	78.5
Accumulative amortisation and impairment			
As at 1 Jan. 2020	12.4	2.9	15.3
Currency adjustments	- 0.2	–	- 0.2
Depreciation	12.6	3.0	15.6
Impairments	0.2	–	0.2
Disposals	- 2.2	–	- 2.2
Reclassifications	1.8	–	1.8
As at 1 Jan. 2021	24.6	5.9	30.5
Currency adjustments	0.6	–	0.6
Depreciation	11.8	2.6	14.4
Impairments	–	–	–
Disposals	- 2.5	- 1.7	- 4.2
Reclassifications	–	–	–
As at 31 Dec. 2021	34.5	6.8	41.3
Residual carrying amounts			
As at 31 Dec. 2021	33.7	3.5	37.2
As at 31 Dec. 2020	36.4	4.3	40.7

In the financial year, we capitalised new right-of-use assets worth € 10.8 million (previous year: € 17.8 million). Additions in the financial year mostly result from the renewal and extension of existing leases.

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

Straight-line depreciation of € 14.4 million (previous year: € 15.6 million) is based on the following useful lives of the assets:

in € million	2021	2020
Land and buildings	1 – 27 years	2 – 27 years
Other equipment, operating and office equipment	1 – 7 years	2 – 7 years

The right-of-use assets capitalised at the inception of a lease are offset by corresponding current and non-current lease liabilities (see note 30), which are repaid by ongoing rental payments. Long-term lease liabilities accrue interest (see note 30).

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 financial year:

in € million	31/12/2021	31/12/2020
Expenses for variable payments for property leases	- 7.9	- 7.9
Expenses for short-term property leases	- 1.1	- 1.0
Expenses for leases of low-value assets	- 1.2	- 1.4
Expenses for short-term leases for movable assets	- 0.7	- 0.6
Expenses for variable payments for leases for movable assets	- 0.1	0.0
Expenses for retrospective amendments to leases	0.3	- 0.1
Expenses for leases not included in capitalisation	- 10.7	- 11.0

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 € 1.4 million (previous year: € 1.9 million) was generated from these operating leases. We expect the following future minimum lease payments from our lessees:

in € million	2021	2020
Due within next 12 months	0.9	0.8
Due between 13 and 24 months	0.4	0.7
Due between 25 and 36 months	0.3	0.3
Due between 37 and 48 months	0.3	0.3
Due between 49 and 60 months	0.2	0.3
Due between 61st month and end of contract	2.3	2.3
Total expected lease payments	4.4	4.7

Income of € 0.5 million was generated from subletting unused properties held under uncanceled leases (previous year: € 0.4 million). Any ancillary costs and other obligations are borne by the sublessees. The subleases end before or at the expiry date of the Group's lease on the respective property. We expect the following future minimum lease payments from our sublessees:

in € million	2021	2020
Due within next 12 months	0.4	0.3
Due between 13 and 24 months	0.3	0.3
Due between 25 and 36 months	0.1	0.1
Due between 37 and 48 months	0.0	0.0
Due between 49 and 60 months	0.0	0.0
Due between 61st month and end of contract	–	0.0
Total expected incoming payments from leases	0.8	0.7

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

8. INVESTMENT PROPERTY

Investment property developed as follows:

in € million	Land	Buildings	Asset not used for business purposes	
			2021	2020
Accumulative cost				
As at 1 Jan.	0.3	62.9	63.2	63.2
Transfer	–	- 0.2	- 0.2	–
As at 31 Dec.	0.3	62.7	63.0	63.2
Accumulative depreciation and impairment				
As at 1 Jan.	–	57.4	57.4	56.8
Depreciation	–	0.5	0.5	0.6
As at 31 Dec.	–	57.9	57.9	57.4
Residual carrying amounts				
As at 31 Dec.	0.3	4.8	5.1	5.8

This item includes property in Saarland, France and Hungary.

Property in Germany and Hungary was reclassified to investment property in the current reporting year (see note 6). At the same time, property in Germany was reclassified back to property, plant and equipment.

The market value of all the properties reported in this item is € 10.1 million as at 31 December 2021 (previous year: € 12.3 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	31/12/2021	31/12/2020
Rental income	0.7	0.5
Property management and similar expenses	0.1	0.0

Rent is expected to develop as follows:

in € million	31/12/2021	31/12/2020
Due within next 12 months	0.5	0.5
Due between 13 and 24 months	0.5	0.5
Due between 25 and 36 months	0.5	0.5
Due between 37 and 48 months	0.5	0.5
Due between 49 and 60 months	0.5	0.5
Due between 61st month and end of contract	4.4	5.5
Total Total expected lease payments	6.9	8.0

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

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Since the 2020 financial year, the Villeroy & Boch Group accounts for just one company using the equity method in accordance with IAS 28.

The unlisted company still recognised, which is domiciled in Germany and to which section 313(3) HGB applies, is not allocated to any division.

10. OTHER FINANCIAL ASSETS

Other financial assets include:

in € million	31/12/2021	31/12/2020
Securitized (a)	25.1	0.0
Short-term financial assets	25.1	0.0
Securitized (a)	18.9	12.2
Equity investments (b)	2.1	2.1
Loans (c)	1.5	2.4
Shares in non-consolidated affiliated companies (d)	6.4	0.7
Long-term financial assets	28.9	17.4
Total financial assets	54.0	17.4

a) The Villeroy & Boch Group has held both short-term and long-term securities since the 2021 financial year.

Derivatives and money market funds are recognised as short-term investments at their current market value. Changes in the value of money market funds are recognised in equity in the revaluation surplus (see note 21(f)) and reclassified in profit or loss on the disposal of the respective security. Changes in the value of derivatives are recognised directly in profit or loss.

Listed bonds, equities and investment funds are recognised as long-term investments at their current market value in other comprehensive income. Changes in value are recognised in equity in the revaluation surplus (see note 21(f)) and reclassified to retained earnings on disposal of the respective security.

The investments break down as follows:

in € million	31/12/2021	31/12/2020
Special assets provided by the ordinary shareholders	1.5	1.4
Other free assets	42.5	10.8
Residual term up to 1 year	25.1	0.0
Residual term over 1 year	17.4	10.8
Total	44.0	12.2

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.

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 issued in Swedish krona (previous year: € 0.5 million) was repaid in full by the final instalment of € 0.5 million in December 2021. In addition, loans to third parties essentially include mandatory government loans from France.

Loans to third parties mature as follows:

in € million	2021	2020
Gross carrying amount as at 31 Dec.	1.5	2.4
Of which: Neither impaired nor past due as at end of reporting period	1.5	2.4
Due within one year	0.2	0.8
Due in two to five years	0.2	0.3
Due in more than five years	1.1	1.3

d) This balance sheet item includes the shares in Villeroy & Boch Innovations GmbH, Mettlach (see note 2). Capital increases of € 5.7 million in total were carried out in the financial year to improve the company's liquidity. The business relations with this company were presented in note 57.

11. DEFERRED TAX ASSETS AND LIABILITIES

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

in € million	31/12/2021	31/12/2020
Deferred tax assets from temporary differences	32.4	27.1
Deferred tax assets from tax loss carryforwards	9.8	8.8
Deferred tax assets	42.2	35.9
Deferred tax liabilities	4.2	3.8

Deferred tax assets from tax loss carryforwards amounted to € 9.8 million (previous year: € 8.8 million) and relate 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:

in € million	Notes	Deferred tax assets		Deferred tax liabilities	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
Intangible assets	5	0.3	0.1	2.2	1.0
Property, plant and equipment	6	1.6	0.1	3.0	2.2
Rights of use	7	0.0	0.0	7.0	5.9
Financial assets	10	0.2	0.2	0.8	0.1
Inventories	12	4.1	0.0	0.0	3.0
Other assets	14	1.3	0.5	0.6	0.4
Special tax items		0.0	0.0	4.4	4.9
Provisions for pensions	26	22.9	35.6	0.0	8.6
Other provisions	28	6.6	5.8	0.7	0.1
Lease liabilities	30	7.2	5.9	0.0	0.0
Other liabilities		3.1	2.0	0.0	0.7
Write-downs		- 0.4	0.0	0.0	0.0
Subtotal		46.9	50.2	18.7	26.9
Offsetting of deferred tax assets / liabilities		- 14.5	- 23.1	- 14.5	- 23.1
Deferred taxes from temporary differences		32.4	27.1	4.2	3.8

The € - 5.0 million change in deferred tax assets from temporary differences to € 32.4 million (previous year: € 27.1 million) is essentially attributable to the increase in deferred taxes on inventories of € 4.1 million (see note 12).

Deferred tax assets are recognised only to the extent that it is probable that the corresponding tax benefit will be recovered. In addition to the past results of operations and the respective business expectations for the foreseeable future, the assess-

ment of probability also takes into account the tax loss carryforwards subject to restrictions on offsetting.

Deferred tax assets not likely to be recovered decreased from € 21.2 million to € 14.6 million in the current financial year. As at the end of the financial year, the company reported tax loss carryforwards subject to restrictions on offsetting of € 62.9 million (previous year: € 70.8 million).

12. INVENTORIES

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

in € million	31/12/2021	31/12/2020
Raw materials and supplies	31.1	25.3
Work in progress	20.3	15.6
Finished goods and goods for resale	138.0	122.2
Carrying amount	189.4	163.1

Inventories were broken down between the individual divisions as follows:

in € million	31/12/2021	31/12/2020
Bathroom and Wellness	118.3	104.5
Dining & Lifestyle	71.1	58.6
Total	189.4	163.1

The significant increase in inventories in the Dining & Lifestyle division of € 12.5 million to € 71.1 million is due in part to the expansion of focused ranges within the ongoing range. The low inventories in the previous year due to the COVID-19 production shutdowns is another contributing factor. The rise in inventories in the Bathroom and Wellness division of € 13.8 million to € 118.3 million is as a result of higher demand than in the previous year, a change in the inventory approach to avoid supply shortages and higher input prices.

A valuation allowance of € 23.9 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 € 2.3 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	31/12/2021	31/12/2020
Germany	20.5	22.5
Rest of euro zone	27.1	25.9
Rest of world	73.5	72.7
Gross carrying amount	121.1	121.1
Write-down due to expected losses (level 1)	- 0.8	- 0.7
Write-down due to objective indications (level 2)	- 3.9	- 4.6
Write-downs	- 4.7	- 5.3
Total trade receivables	116.4	115.8

€ 79.8 million (previous year: € 81.2 million) of trade receivables relate to the Bathroom and Wellness Division and € 36.6 million (previous year: € 34.6 million) to the Dining & Lifestyle Division. Receivables from affiliated, unconsolidated companies amount to € 0.0 million (previous year: € 0.0 million) (see note 57).

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 table shows the current level of receivables and the associated write-downs. This is based on observed past loss rates, supplemented by future-oriented estimates.

The receivables were composed as follows:

in € million	2021		2020	
	Gross	Write-downs	Gross	Write-downs
Items neither impaired not past due	94.2	–	95.9	–
Not impaired but past due	8.7	–	10.9	–
Impaired but not past due ⁽¹⁾	11.3	- 0.4	7.7	- 0.4
Impaired and past due	6.9	- 4.3	6.6	- 4.9
Customer in default for 90 days or less	2.2	- 0.1	0.7	- 0.3
Customer in default between 91 and 360 days	1.2	- 0.8	2.3	- 1.4
Customer in default for 361 days or more	3.5	- 3.4	3.5	- 3.2
Total gross amount	121.1	- 4.7	121.1	- 5.3
Write-downs	- 4.7	–	- 5.3	–
Net carrying amount	116.4	–	115.8	–

⁽¹⁾ Receivables not covered by credit insurance

There is trade credit insurance for trade receivables. This covers most of the Villeroy & Boch Group's receivables. The cover note or recoverable collateral are limited by limits defined for customers or customer groups. The risk on uninsured receivables that are not individually impaired is taken into account by a general flat-rate-write-down derived from past data and experience. These receivables increased by € 3.6 million from € 7.7 million to € 11.3 million in the reporting year. If there were objective indications of a possible default as a result, in the second step an additional impairment loss was recognised, and the receivable was reported as impaired and past due.

Impairment developed as follows in the two stages:

in € million	2021			2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
As at 1 Jan.	0.7	4.6	5.3	0.5	3.7	4.2
Additions	0.1	1.5	1.6	0.3	2.2	2.5
Currency adjustments	0.0	0.2	0.2	0.0	- 0.4	- 0.4
Utilisation	–	- 0.8	- 0.8	0.0	- 0.5	- 0.5
Reversals	–	- 1.6	- 1.6	- 0.1	- 0.4	- 0.5
As at 31 Dec.	0.8	3.9	4.7	0.7	4.6	5.3

Write-downs account for 3.9 % of the total amount of trade payables (previous year: 4.4 %). There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers. The risk of a potential increase in insolvency rates due to the current COVID-19 situation was taken into account in step 1 impairment. Furthermore, the assessment of the effects of current economic conditions and the forecast direction of developments as at the end of the reporting period did not cause an increase in the expected loss rates for trade receivables as against the previous year.

14. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

in € million	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2021	Less than 1 year	More than 1 year	31/12/2020	Less than 1 year	More than 1 year
Deposits	2.4	0.7	1.7	1.9	0.2	1.7
Fair values of hedging instruments	3.4	3.1	0.3	1.9	1.4	0.5
Other financial assets	27.2	27.2	–	14.0	14.0	–
Total financial instruments *	33.0	31.0	2.0	17.8	15.6	2.2
Other tax receivables	9.5	9.5	–	5.7	5.7	–
Advance payments	1.5	1.5	–	0.9	0.9	–
Contract assets	0.3	0.3	–	1.2	1.2	–
Prepaid expenses	2.6	2.6	–	1.7	1.7	–
Total other assets	46.9	44.9	2.0	27.3	25.1	2.2

* Financial instruments are described in note 54.

As at the end of the reporting period, the Group's hedging instruments comprised currency futures (€ 0.9 million; previous year: € 0.9 million) and brass swaps (€ 2.5 million; previous year: € 1.0 million).

Capitalised security deposits in the amount of € 2.4 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 € 0.3 million (previous year € 1.2 million). € 1.2 million of the assets recognised as at the end of the previous year (previous year: € 1.2 million) were invoiced to licensees in the 2021 financial year and new claims of € 0.3 million (previous year € 1.2 million) were recognised. Claims of € 0.0 million (previous year: € 0.1 million) recognised as at 31 December of the previous year were reversed through profit or loss.

“Miscellaneous other assets” essentially increased by € 13.2 million year-on-year from € 14.0 million to € 27.2 million due to the investment of funds of € 15 million in total to avoid deposit fees. Moreover, “miscellaneous other assets” mainly include receivables from the sale of the non-current assets of our former sanitary ware plant in Mexico, receivables from the French government from the “crédit d'impôt pour la compétitivité et l'emploi”, rights of return on returned goods, rent receivables, creditors with debit balances and a number of individual items.

In total, government grants of € 1.6 million (previous year € 5.8 million) were received in connection with the COVID-19 pandemic in the 2021 financial year. These are essentially recognised in staff costs and in other operating income.

Other tax receivables in the amount of € 9.5 million (previous year: € 5.7 million) primarily include VAT credit of € 7.2 million (previous year: € 3.1 million).

Prepaid expenses mainly include rent payments and insurance premiums.

In cases of doubt regarding the collectability 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 2021. 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 € 3.4 million (previous year: € 2.0 million) primarily include outstanding corporate income tax assets. € 2.5 million (previous year: € 1.1 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	31/12/2021	31/12/2020
Cash on hand incl. Cheques	0.3	0.3
Current bank balances	100.4	95.8
Cash equivalents	163.4	201.7
Total cash and cash equivalents	264.1	297.8

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 54). Accordingly, we do not anticipate any de-faults within the next twelve months. We continually observe the creditworthiness of our banking partners in order to counteract any significant increase in default risk.

In addition to bank balances, cash and cash equivalents also include PayPal credit of € 0.5 million.

17. ISSUED CAPITAL

The issued capital of Villeroy & Boch AG as at the end of the reporting period was unchanged at € 71.9 million and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital.

The holders of non-voting preference shares receive a dividend from the annual unappropriated sur-plus 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 out-standing 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	2021	2020
Ordinary shares		
Ordinary shares outstanding	14,044,800	14,044,800
Preference shares		
Ordinary shares issued	14,044,800	14,044,800
Treasury shares, as at 31 December	1,627,199	1,683,029
Shares outstanding	12,417,601	12,361,771

A resolution of the General Meeting of Shareholders on 26 March 2021 authorised the Management Board of Villeroy & Boch AG to acquire and to use ordinary treasury shares and / or preference treasury shares in accordance with the following rules:

- a) Until 25 March 2026 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 23 March 2018 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 limited. 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 disappplied 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 preemption rights disappplied 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.
- 5) The preference treasury shares can be used in connection with share-based remuneration or employee share schemes of the company or dependent enterprises or enterprises majority owned by it and issued to persons currently or previously employed by the company or dependent enterprises or enterprises majority owned by it. In particular, they can be offered to the above persons free of charge or for paid acquisition, or promised and transferred to them, whereby they must be employed at the time of the offer, promise or transfer. The total treasury shares used for this purpose, together with the treasury shares used in accordance with c), must not exceed a pro rata amount of 5% of the share capital, either at the effective date of this authorisation or at the time of its being exercised.
- c) The Supervisory Board is authorised to issue the preference treasury shares acquired on the basis of the above authorisation under a) or one or more prior authorisations to members of the Management Board in the context of their remuneration. In particular, they can be offered to members of the Management Board of the company for acquisition, or promised and transferred to them. The details of the remuneration of members of the Management Board are determined by the Supervisory Board. The total treasury shares used for this purpose, together with the treasury shares used in accordance with b)(5), must not exceed a pro rata amount of 5% of the share capital, either at the effective date of this authorisation or at the time of its being exercised.
- d) 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), (2) and (5) 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).
- e) The Management Board can exercise the above authorisations under a), b) and d) only with the approval of the Supervisory Board.
- f) The preemption 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 disappplied if they are utilised in accordance with the above authorisations under b), items (1), (2) and/or (5) and/or lit c). Shareholders also have no pre-emption rights if the treasury shares acquired are sold on the stock market in accordance with b). In the event of a disposal of the treasury shares acquired by way of an offer to all shareholders as per b), the Management Board is authorised to disapply the preemption 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.

18. CAPITAL RESERVES

The capital reserves were increased from € 193.6 million to € 194.2 million in the current financial year by the issue of treasury shares in conjunction with the employee share scheme. (see note 19).

19. TREASURY SHARES

The cost for the 1,627,199 (previous year: 1,683,029) preference treasury shares was € 14.5 million (previous year: € 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.

The General Meeting of Shareholders on 26 March 2021 resolved that preference treasury shares can be issued in conjunction with a share-based remuneration or employee share scheme of the company. (see note 17). The employee share scheme launched in November 2021 allows all employees of Villeroy & Boch AG and its Group companies based in Germany the opportunity to share directly in the company's success. All employees who had been with the company for at least one year were permitted to acquire a maximum of 165 shares at a price of € 24.20 in the period from 2 November 2021 to 8 December 2021. For each two shares purchased, the entitled employees were granted a third share for free. The number of preference treasury shares was reduced by 55,830 from 1,683,029 to 1,627,199 as a result. (see note 17) We received cash funds of € 0.9 million in connection with the acquisition of shares by employees. The issuance of the free shares was recognised in staff costs as variable remuneration of € 0.2 million. Treasury shares were reduced by € 0.5 million - their original cost - to € 14.5 million as a result. The amount in excess of the cost increased the capital reserves by € 0.6 million. (see note 18) The fair value of the shares issued was calculated based on the lowest traded price for Villeroy & Boch preference shares on the stock market on 25 October 2021. An appropriate valuation discount was taken into account based on the contractually stipulated holding period of at least two years.

20. RETAINED EARNINGS

The retained earnings of the Villeroy & Boch Group in the amount of € 150.4 million (previous year: € 104.0 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	2021	2020
As at 1 Jan.	104.0	95.2
Consolidated earnings attributable to Villeroy & Boch AG shareholders	60.2	22.6
Dividend distribution	- 13.8	- 13.8
As at 31 Dec.	150.4	104.0

21. REVALUATION SURPLUS

The revaluation surplus comprises the reserves of “Other comprehensive income”:

in € million	2021	2020	Change
Items to be reclassified to profit or loss:			
Currency translation of financial statements of foreign group companies (a)	- 11.6	- 6.9	- 4.7
Currency translation of long-term loans classified as net investments in foreign group companies (b)	- 8.0	- 9.2	1.2
Cash flow hedges (c)	- 4.7	- 1.5	- 3.2
Deferred tax effect on items to be reclassified to profit or loss (d)	- 0.5	- 7.4	6.9
Items not to be reclassified to profit or loss:			
Actuarial gains and losses on defined benefit obligations (e)	- 107.1	- 117.0	9.9
Other valuation results (f)	7.6	0.3	7.3
Deferred tax effect on items not to be reclassified to profit or loss (g)	32.2	34.1	- 1.9
As at 31 December	- 92.1	- 107.6	15.5

(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 € -4.7 million in the 2021 financial year (previous year: € +4.5million).

(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 € +1.2 million (previous year: € -4.8 million).

(c) Reserve for cash flow hedges

The Villeroy & Boch Group uses financial derivatives to reduce the risks of planned operating currency-, commodity-, and brass transactions (see note 54). These hedges are reported at fair value in the statement of financial position as other assets (see note 14) or other liabilities (see note 31). Changes in fair value amounted to € -2.8 million in the period under review (previous year: € -1.3 million). Cumulative prior-period changes in value in the amount of € -0.4 million (previous year: € +0.4 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 € -3.2 million (previous year: € -0.9 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 also includes the deferred tax on the recognised cash flow hedge reserve. This developed as follows:

in € million	2021	2020
As at 1 January	- 7.4	- 5.5
Additions	7.0	- 2.2
Disposals	- 0.1	0.3
As at 31 December	- 0.5	- 7.4

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 26) arises on the re-measurement of benefit obligations as a result of the modification at the end of the reporting period of actuarial parameters, such as the discount rate, the benefit period or the long-term salary trend. In the reporting period, this item changed by € +9.9 million from € -117.0 million to € -107.1 million (see note 26).

(f) Reserve for miscellaneous gains and losses on measurement

This reserve comprises:

in € million	2021	2020	Change
Valuation results on securities	0.8	0.1	0.7
Valuation results on long-term obligations to employees	0.3	0.2	0.1
Valuation results on Emission allowances	6.5	0.0	6.5
As at 31 December	7.6	0.3	7.3

The Villeroy & Boch-Group recognises listed securities (see note 10 a). 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 € 0.7 million from € 0.1 million to € 0.8 million (see note 10).

The Villeroy & Boch Group recognises emission allowances at fair value. (see note 5) Changes in value during the holding period are recognised in the revaluation surplus in equity. This item changed by € 6.5 million in the reporting period. Provisions for personnel (see note 27) 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 € 0.1 million from € 0.2 million to € 0.3 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 € -1.9 million (previous year: € +1.2 million).

22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to € 3.7 million (previous year: € 4.8 million). As in the previous year, there are non-controlling interests in two Group companies (see note 62).

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

in € million	Argent Australia Pty. Ltd., Australien		Mondial S.A., Rumänien	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Percentage of minority interests	55.0%	55.0%	1.0%	1.0%
Non-current assets	4.8	5.9	12.4	11.3
Current assets	13.0	13.3	16.1	16.7
Non-current liabilities	- 3.8	- 5.9	- 2.4	- 1.3
Current liabilities	- 7.1	- 4.9	- 8.2	- 6.6
Net assets	6.9	8.8	17.9	20.1
Net assets of minority interests	3.7	4.8	0.0	0.0
Revenue	19.3	19.1	47.5	42.1
Result	0.5	0.5	4.0	3.1
Thereof attributable to minority interests	0.3	0.3	0.0	0.0
Total of comprehensive income	0.5	0.5	4.0	3.1
Thereof attributable to minority interests	0.3	0.3	0.0	0.0
Dividend payment to minority interests	- 1.3	- 0.5	-	-

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.

23. DISTRIBUTABLE AMOUNTS AND DIVIDENDS

The information presented here relates to the appropriation of the retained earnings of Villeroy & Boch AG calculated in accordance with German commercial law.

The net profit of Villeroy & Boch AG for 2021 amounted to € 27.5 million. Taking into account the profit carryforward of € 1.9 million, the unappropriated surplus amounts to € 29.4 million.

At the next General Meeting of Shareholders on 01 April 2022, the Management Board of Villeroy & Boch AG will propose that the unappropriated surplus be used to distribute a dividend as follows:

0.95 € per ordinary share

1.00 € per preference share

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

Ordinary share: 13.4 million

Preference share: 14.0 million

27.4 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:

Eligible share class	13/07/2021		13/07/2020 and 04/11/2020	
	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0.50	7.0	0.50	7.0
Preference shares	0.55	6.8	0.55	6.8
		13.8		13.8

24. CAPITAL MANAGEMENT

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

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

in € million	31/12/2021	31/12/2020
Equity	313.6	251.7
Provisions for pensions (note 26)	175.5	193.0
Financial liabilities (note 29)	85.0	105.0
Non-current sources of finance	574.1	549.7

25. VOTING RIGHT NOTIFICATIONS

In accordance with section 160(1) no. 8 of the German Stock Corporation Act (AktG), the published content of disclosures on holdings in Villeroy & Boch AG reported in accordance with section 20(1) or (4) AktG or in accordance with section 33(1) or (2) of the German Securities Trading Act (WpHG) (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) must be disclosed. The content of disclosures in accordance with sections 33 et seq. WpHG (sections 21 et seq. WpHG of the version applicable prior to 3 January 2018) as at the time of going to press is shown below.

- (1) On 11 November 2016, *Ms. Thalea von Boch-Reichel, Germany*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3% on 9 November 2016 and amounted to 3.16% (444,020 voting rights) at this date.
- (2) On 11 November 2016, *Ms. Alida-Kirsten von Boch-Galhau, Germany*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3% on 9 November 2016 and amounted to 3.16% (444,020 voting rights) at this date.

- (3) *Villeroy and Boch Saarufer GmbH, Mettlach, Germany*, informed us in accordance with section 41(4) f WpHG on 15 January 2016:

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

- (4) On 13 June 2014, *Ms. Ghislaine de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) of the German Securities Trading Act (WpHG) that her share of the voting rights in Villeroy & Boch AG exceeded the thresholds of 3% and 5% on 27 February 2014 as a result of inheritance (testator: Mr. Antoine de Schorlemer) and amounted to 5.92% (831,575 voting rights) at this date. On 13 June 2014, *Ms. Ghislaine de Schorlemer, Luxembourg*, further informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG returned to below the thresholds of 3% and 5% on 28 March 2014 and has amounted to 0% since this date.
- (5) On 13 June 2014, *Mr. Christophe de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) WpHG that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3% on 28 March 2014 and amounted to 3.16% (444,307 voting rights) at this date.
- (6) On 13 June 2014, *Ms. Gabrielle de Schorlemer-de Theux, Luxembourg*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in

Villeroy & Boch AG exceeded the threshold of 3% on 28 March 2014 and amounted to 3.16% (444,308 voting rights) at this date.

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

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

(9) On 14 February 2011, *Mr. Luitwin-Gisbert von Boch-Galhau, Germany*, notified us in accordance with section 21(2) WpHG that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 15% on 17 November 2010 and amounted to 17.74% (2,491,132 voting rights) as at this date. 13.94% of this (1,957,696 voting rights) is attributable to him in 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

(10) On 20 May 2010, *Dr. Alexander von Boch-Galhau, Germany*, notified us in accordance with section 21(1) WpHG that his share of the voting rights in Villeroy & Boch AG fell below the threshold of 5% on 18 May 2010 and has amounted to 4.13% (580,250 voting rights) since this date. 1.42% of this (200,000 voting rights) is attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.

The shareholders listed below notified us in accordance with section 127(2) WpHG (section 41(2) WpHG of the version applicable prior to 3 January 2018) that their shares of the voting rights in our company were as follows as at the dates stated below:

- 1) 18.42% of voting rights are attributable to *Mr. Luitwin Michel von Boch-Galhau, Germany*, as at 1 April 2002; 1.55% of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.
- 2) 7.41% of voting rights are attributable to *Mr. Wendelin von Boch-Galhau, Germany*, as at 1 April 2002; 6.80% of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 4 WpHG.
- 3) 7.14% of voting rights are attributable to *Mr. Franziskus von Boch-Galhau, Germany*, as at 1 April 2002; 0.34% of shares with voting rights are attributable to him in accordance with section 22(1) sentence 1 no. 1 WpHG.

26. PROVISIONS FOR PENSIONS

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

in € million	31/12/2021	31/12/2020
Germany	154.6	169.7
Rest of euro zone	9.5	10.1
Rest of world	11.4	13.2
Provisions for pensions	175.5	193.0

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, 7,666 people (previous year: 7,818) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31/12/2021	31/12/2020
Germany		
Members	2,074	2,190
Vested former members	1,337	1,264
Pensioners	2,374	2,371
Total	5,785	5,825
Rest of euro zone		
Members	368	381
Vested former members	28	27
Pensioners	79	78
Total	475	486
Rest of world		
Members	973	1,060
Vested former members	164	176
Pensioners	269	271
Total	1,406	1,507
Persons with a commitment	7,666	7,818

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

in %	2021		2020	
	Ø	Range	Ø	Range
Discount rate	1.0	0,2 – 7,9	0.7	0,0 – 7,0
Expected long-term wage and salary trend	2.5	0,0 – 4,8	2.4	0,0 – 5,6
Expected long-term pension trend	1.3	0,0 – 2,0	1.2	0,0 – 1,3

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 0.2% in Switzerland to 7.9% in Mexico. In the previous year, the country-specific discount rates ranged from 0.0% in Sweden to 7.0% in Mexico. A discount rate of 1.00% (previous year: 0.70%) 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. 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	31/12/2021	31/12/2020
Present value of defined benefit obligations	201.0	218.0
Fair value of plan assets	- 25.5	- 25.0
Carrying amount	175.5	193.0

The present value of pension obligations developed as follows:

in € million	2021	2020
As at 1 Jan	218.0	214.6
Current service cost	2.7	2.8
Interest income and interest expenses	1.5	2.1
Actuarial gains and losses arising from		
changes in demographic assumptions	- 0.3	0.1
changes in financial assumptions	- 5.9	6.6
changes in other assumptions	- 2.0	3.1
Past service cost	- 0.3	1.0
Contributions from plan participants	0.3	0.2
Benefits paid	- 12.7	- 12.7
Disposals	- 0.1	- 0.2
Currency changes arising from non-euro-denominated plans	- 0.2	0.4
As at 31 Dec	201.0	218.0

There were the following changes to plan assets:

in € million	2021	2020
As at 1 Jan	25.0	24.7
Interest income and interest expenses	0.0	0.1
Revenue from plan assets without interest	0.2	0.3
Gains and losses from plan assets	1.5	0.4
Contributions from the Villeroy & Boch Group as employer	0.4	0.4
Contributions from plan participants	0.4	0.2
Benefits paid	- 2.0	- 1.7
Currency changes arising from non-euro-denominated plans	- 0.0	0.6
As at 31 Dec	25.5	25.0

The plan assets are distributed among the companies in Switzerland (23.3%), Norway (6.4%), Sweden (70.2 %) and Mexico (0.1%). Their portfolio structure was as follows:

	31/12/2021		31/12/2020	
	in € million	%	in € million	%
Annuities/annuity funds	10.6	43	16.1	65
Equities/equity funds	6.3	24	0.0	0
Property/REITs	2.6	10	2.6	10
Cash and cash equivalents	0.1	–	0.1	0
Investments on an active market	19.6	77	18.8	75
Insurance policies	5.9	23	6.2	25
Plan assets	25.5	100	25.0	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:

As in the previous year, the interval for disclosing sensitivities was unchanged at +/-0.1% in the current financial year

(previous year: +/-0.1 %). 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 2022	Forecast 2021
Defined benefit obligations as at 31 Dec. 2021 or 2020 resp.	201.0	218.0
Forecast service cost	2.1	2.5
Forecast interest costs	2.0	1.6
Forecast pension payments	- 13.7	- 13.0
Forecast defined benefit obligations	191.4	209.1

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 2021 was 12.5 years (previous year: 13.2 years). The weighted duration for the pension plans of German companies amounted to 11.6 years (previous year: 12.1 years).

	Change in actuarial assumption	Effect on defined benefit obligation as at	
		31/12/2021	31/12/2020
Present value of defined benefit obligations		201.0	218.0
Discount rate	Increase by 0.1 %	197.4	214.5
	Reduction by 0.1 %	203.8	221.6
Pension trend	Increase by 0.1 %	202.2	219.8
	Reduction by 0.1 %	199.0	216.1

27. NON-CURRENT AND CURRENT PROVISIONS FOR PERSONNEL

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

in € million	Non-current provisions for:						Current provisions	Total amount
	Anniversary bonuses	Severance pay	Partial retirement	Other	Total			
As at 1 Jan.2020	7.5	7.6	1.8	1.6	18.5	15.4	33.9	
Currency adjustments	- 0.1	- 0.3	–	–	- 0.4	- 0.3	- 0.7	
Utilisation	- 0.6	- 1.5	- 1.2	- 0.1	- 3.4	- 12.2	- 15.6	
Reversals	- 0.1	–	–	- 0.0	- 0.1	- 0.6	- 0.7	
Additions	0.6	1.0	0.4	0.3	2.3	13.2	15.5	
Reclassifications	–	–	–	0.1	0.1	- 0.2	- 0.1	
As at 1 Jan.2021	7.3	6.8	1.0	1.9	17.0	15.3	32.3	
Currency adjustments	–	–	–	–	–	0.1	0.1	
Utilisation	- 0.8	- 0.7	- 0.8	- 0.7	- 3.0	- 13.4	- 16.4	
Reversals	–	–	–	–	–	- 1.2	- 1.2	
Additions	0.4	0.8	0.4	0.3	1.9	20.0	21.9	
As at 31 Dec.2021	6.9	6.9	0.6	1.5	15.9	20.8	36.7	

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 € 5.1 million (previous year: € 5.4 million).

This corresponds to 74.3% (previous year: 73.1%) of this provision. As in the previous year, these provisions were measured applying the biometric assumptions of the 2018 G Heubeck mortality tables.

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. 48.5% of the provision relates to the claims of employees of Villeroy & Boch Thailand (previous year: 48.0%) and 27.7% to the claims of employees of Villeroy & Boch Austria GmbH (previous year: 29.4%).

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. 76.9% of the provision relates to the employees of Villeroy & Boch AG (previous year: 85.2%).

The slight decline in other non-current provisions for personnel is essentially due to bonuses paid. This decline is partially compensated by the increase in 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 € 20.2 million (previous year: € 14.5 million).

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

28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

in € million	Other non-current provisions	Other current provisions for:					Total	Total amount
		Restructuring	Warranties	Recultivation and demolition	Legal and consultancy fees	Miscellaneous		
As at 1 Jan.2020	23.8	10.4	6.2	5.2	4.0	5.9	31.7	55.5
Currency adjustments	- 0.0	–	0.0	–	- 0.1	- 0.1	- 0.2	- 0.2
Utilisation	- 1.8	- 2.2	- 0.5	- 0.2	- 2.3	- 3.2	- 8.4	- 10.2
Reversals	- 0.1	- 3.4	- 0.1	–	- 1.2	- 0.4	- 5.1	- 5.2
Additions	1.8	3.2	0.7	–	2.1	4.4	10.4	12.2
Reclassifications	- 2.4	–	–	2.4	–	0.6	3.0	0.6
As at 1 Jan.2021	21.3	8.0	6.3	7.4	2.5	7.2	31.4	52.7
Currency adjustments	- 0.1	–	–	–	–	0.2	0.2	0.1
Utilisation	- 1.4	- 5.3	- 0.6	- 1.6	- 0.4	- 2.8	- 10.7	- 12.1
Reversals	- 7.2	- 1.2	–	–	- 0.1	- 1.2	- 2.5	- 9.7
Additions	9.3	1.4	1.5	–	1.1	6.6	10.6	19.9
Reclassifications	2.0	–	–	- 2.0	–	–	- 2.0	–
As at 31 Dec.2021	23.9	2.9	7.2	3.8	3.1	10.0	27.0	50.9

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.

€ 20.6 million of the non-current provisions recognised relate to recultivation and restoration obligations (previous year: € 18.6 million). These cover corresponding obligations in Germany, Luxembourg, France, Sweden, Hungary and Romania. An amount of € 7.9 million was added to these provisions in the 2021 financial year (previous year: € 0.1 million). Additions of € -0.1 million related to the interest effects in view of the long remaining term of the environmental provisions. At the same time, € 7.0 million (previous year: € 0.0 million) was reversed from provisions as the cost of recultivation work proved to be lower. Moreover, provisions of € 2.0 million (previous year: € -2.4 million) were reclassified from short-term provisions for recultivation and restoration obligations to long-term provisions.

The restructuring plan defined in the 2019 financial year was gradually implemented and expanded. The associated measures under this transformation and efficiency programme comprise all functions and markets of the Villeroy & Boch Group.

The implementation and partial expansion of the restructuring plan resulted in a utilisation of € 5.3 million in the 2021

financial year. € 5.1 million of this related to the restructuring provision for staff and € 0.2 million to other costs.

This obligation was calculated on the basis of company-specific updated empirical values. Provisions for these costs were recognised in full and are essentially included in selling, marketing and development expenses and in general and administrative expenses. 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.

29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Interest-bearing liabilities to banks are reported under financial liabilities as at 31 December 2021.

As at 31 December 2021, there are non-current financial liabilities of € 85.0 million (previous year: € 105.0 million) and current financial liabilities of € 25.3 million (previous year: € 10.2 million). Of the five bank loans currently in place (previous year: five), one bank loan of € 20.0 million is due in 2022. A bank loan of € 10.0 million matures in 2023, two loans of € 25.0 million each in 2024 and one loan of € 25.0 million in 2025. 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 € 20.0 million was reclassified to current financial liabilities in the 2021 financial year as it will be repaid within the next twelve months.

Net receivables from and liabilities to banks were consolidated and amounted to € 17.1 million (previous year: € 12.5 million) (see note 16). The requirements for offsetting have been met and it is intended to settle them on a net basis. The cash change amounted to € -4.9 million in the current financial year (previous year: € 2.7 million).

30. 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	Long term Lease liability	Short term Lease liability	Total amount
As at 1 Jan.2020	30.2	13.1	43.3
Cash changes	-	- 18.9	- 18.9
Non-cash changes:			
First-time application	17.8	-	17.8
Interest capitalisation	- 0.9	-	- 0.9
Reclassifications	- 16.6	16.6	-
Currency adjustments	-	-	-
As at 1 Jan.2021	30.5	10.8	41.3
Cash changes	-	- 14.4	- 14.4
Non-cash changes:			
First-time application	10.8	-	10.8
Interest capitalisation	- 0.6	-	- 0.6
Reclassifications	- 16.0	16.0	-
Currency adjustments	0.8	-	0.8
As at 31 Dec.2021	25.5	12.4	37.9

Interest expenses for lease liabilities of € -0.6 million were recognised in profit or loss in the financial year (previous year: € -0.9 million).

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

in € million	2021	2020
Due within next 3 months	3.3	3.8
Due between 4 and 12 months	9.3	9.0
Due between 13 and 24 months	9.2	9.7
Due between 25 and 36 months	6.9	6.8
Due between 37 and 48 months	4.6	5.2
Due between 49 and 60 months	2.7	3.3
Due between 61st month and end of contract	3.0	5.3
Total undiscounted lease payments	39.0	43.1
Interest portion included	- 1.1	- 1.8
Recognised lease liability	37.9	41.3

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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	31/12/2021	31/12/2020
Future potential outflows due to		
variable lease payments	1.5	1.5
renewal and termination options	6.8	3.2
residual value guarantees	–	–
penalties	–	0.0
leases for which the asset has not yet been provided	1.7	0.6
	10.0	5.3

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.

The use of the option under the amendment to IFRS 16 “COVID-19-Related Rent Concessions” (see note 1) reduced rental expenses by € 0.9 million (previous year: € 1.9 million) in the 2021 financial year. Of this, 0.3 € million (previous year: € 0.4 million) is attributable to non-substantial leases. Furthermore, lease liabilities include € 0.3 million (previous year: € 0.3 million) in rent reductions to be paid in the coming months.

in € million	Notes	31/12/2021	31/12/2020
Cash flow from operating activities			
Expenses for short-term leases	7	- 1.9	- 1.6
Expenses for leases for low-value assets	7	- 1.2	- 1.4
Expenses for variable lease payments	7	- 7.9	- 7.9
Miscellaneous lease expenses	7	- 0.1	- 0.2
Income from the rental of property, plant and equipment	7	1.4	1.8
Income from sub-leases	7	0.5	0.4
Income from the rental of investment property	8	0.8	0.8
Interest expenses for lease liabilities	30	- 0.6	- 0.9
Change in cash flow from operating activities		- 9.0	- 9.0
Cash flow from financing activities			
Payments for the principal portion of lease liabilities	30	- 14.4	- 18.9
Change in cash flow from financing activities		- 14.4	- 18.9
Total change in cash and cash equivalents from cash outflow for leases		- 23.4	- 27.9

31. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

in € million	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2021	Less than 1 year	More than 1 year	31/12/2020	Less than 1 year	More than 1 year
Bonus liabilities	52.5	52.5	–	45.7	45.7	–
Fair values of hedging instruments	8.0	3.0	5.0	3.4	0.7	2.7
Liabilities to affiliated, non-consolidated companies	0.3	0.3	–	0.3	0.3	–
Miscellaneous other liabilities	34.6	7.6	27.0	33.1	6.2	26.9
Total financial instruments *	95.4	63.4	32.0	82.5	52.9	29.6
Personnel liabilities	19.8	19.8	–	19.1	19.1	–
Other tax liabilities	11.0	11.0	–	14.8	14.8	–
Advance payments received on account of orders	10.5	10.5	–	7.6	7.6	–
Deferred income	4.5	4.0	0.5	5.0	4.1	0.9
Total carrying amount	141.2	108.7	32.5	129.0	98.5	30.5

* Financial instruments are described in note 54.

The measurement of hedging instruments (see note 54) includes currency hedges in the amount of € 8.0 million (previous year: € 3.4 million).

Advance payments received on account of orders are classified as contract liabilities in accordance with IFRS 15. € 6.9 million of the advance payments recognised as at 31 December 2020 (previous year: € 2.9 million) were settled by deliveries in the 2021 financial year.

Miscellaneous other liabilities included, among other things, a long-term obligation from the sale of the plant site in Luxembourg in the amount of € 24.7 million. The plant site was sold on 6 December 2019 in conjunction with a company disposal. 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 be determined by the final development plan that has yet to be submitted and approved. As the purchase price is linked to the potential variability of development density, this is a transaction with a correspondingly variable purchase price. The purchaser made a purchase price payment of € 114.0 million in 2019.

Due to the linking with a possible variability of the building 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 meant the recognition of income in the above amount for the 2019 financial year, and results in the recognition of a repayment obligation of € 24.7 million. Due to the expected time-consuming approval process, a legally binding development plan is not expected until the start of 2023 at the earliest.

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

Other tax liabilities primarily included VAT in the amount of € 5.0 million (previous year: € 9.5 million) and payroll and church tax in the amount of € 4.5 million (previous year: € 4.3 million).

Deferred income essentially consisted of the free allocation of emission allowances (see note 5), government grants in connection with the COVID-19 pandemic and received rent payments.

Miscellaneous other liabilities to affiliated, unconsolidated companies mainly comprise interest-bearing loans from these subsidiaries in the context of general cash clearing (see note 57).

32. TRADE PAYABLES

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

in € million	31/12/2021	31/12/2020
Germany	35.5	36.7
Rest of euro zone	9.8	11.7
Rest of world	37.2	37.2
Carrying amount as at 31 Dec.	82.5	85.6

NOTES TO THE CONSOLIDATED INCOME STATEMENT

33. REVENUE

Revenue breakdown

The Villeroy & Boch Group generates revenue from the sale of goods and merchandise. The income generated from the licence 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 53.

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 31).

Revenue of € 6.8 million (previous year: € 2.9 million) was recognised in the 2021 financial year that was included in net advance payments (€ 7.6 million) at the start of the reporting period. The amount of revenue recognised in the 2021 financial year from performance obligations that were settled in prior periods was € 0.9 million (previous year: € 1.8 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 € 159.9 million, € 158.9 million of which are expected to be fulfilled in the coming twelve months and € 1.0 million of which thereafter. The previous year's orders on hand amounted to € 100.8 million; orders € 100.8 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 licence business.

34. 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.

35. SELLING, MARKETING AND DEVELOPMENT COSTS

This item contains the costs of sales and marketing (including the costs of sales representatives, advertising and logistics, licence costs) and research and development expenses. The expenses for research and technical development broke down into:

in € million	2021	2020
Bathroom and Wellness	- 13.8	- 11.5
Dining & Lifestyle	- 4.9	- 3.7
Total	- 18.7	- 15.2

36. GENERAL ADMINISTRATIVE EXPENSES

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

37. OTHER OPERATING INCOME

Other operating income is composed as follows:

in € million	2021	2020
Reversal of provisions *	8.7	1.6
Income from government grants	1.8	0.0
Reversal of write-downs on receivables	1.7	0.5
Exchange rate gains	1.7	2.6
Reversal of liabilities	0.8	0.8
Reimbursement for damages	0.4	0.5
Book profits on the disposal of non-current assets	0.2	0.4
Other	2.5	2.5
Total	17.8	8.9

* Not including amounts in other income statement items (cost of goods sold, selling, marketing and development costs and general and administrative expenses)

38. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

in € million	2021	2020
Costs for recultivation and demolition	- 6.7	0.0
Service Costs	- 3.3	- 0.7
Consulting services	- 2.6	- 3.4
Addition to write-downs on receivables	- 2.2	- 2.2
Exchange rate losses	- 1.5	- 2.9
Reorganisation costs	- 1.3	- 1.5
Costs for maintenance / repairs	- 0.7	- 0.1
Book losses on the disposal of non-current assets	- 0.2	- 0.7
Addition to write-downs on other receivables	- 0.1	- 0.3
Other	- 9.3	- 6.1
Total	- 27.9	- 17.9

39. 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: € - 0.2 million). Further details can be found in note 9.

40. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consisted of:

in € million	2021	2020
Interest income from:		
Cash and cash equivalents	0.4	0.5
Loans and receivables	0.2	0.2
Total interest income	0.6	0.7
Dividends from securities available-for-sale	0.3	0.2
Other financial income	0.6	0.4
Total financial income	1.5	1.3

41. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Finance expenses related to:

in € million	2021	2020
Interest expenses from:		
Provisions	- 1.4	- 2.0
Lease liabilities	- 0.6	- 0.9
Overdraft facilities	- 1.4	- 1.7
Non-current loans	- 1.1	- 1.2
Other borrowing	- 1.8	0.0
Total interest expenses	- 6.3	- 5.8
Other finance expenses	- 0.2	- 0.4
Total finance expenses	- 6.5	- 6.2

The interest expense of provisions declined by € - 2.2 million to € - 2.0 million, essentially on account of the adjustment of the discount rate used to measure pension obligations and Villeroy & Boch AG's anniversary obligations. The interest expense from the remeasurement of the pension provision has changed significantly year-on-year as the interest rate for 2019 of 1.00 % was applied in the reporting period and the interest rate of 1.75 % for 2018 was applied in the previous year (see note 26). The current pension interest rate of 1.0 % will affect net interest income in the 2022 financial year.

The interest expense of the anniversary obligations declined year-on-year as the discount rate used for the anniversary obligations has been reduced from 0.55 % as at 31 December 2019 to currently 0.40 %.

Other financial expenses are slightly lower than in the previous year. They relate to the use of currency derivatives outside hedge accounting and to losses on the disposal of securities. These currency derivatives are used in the context of our hedging strategy for foreign currencies (see note 54).

42. INCOME TAXES

Income taxes include the taxes on income paid or due and deferred taxes. The German tax law applicable in the 2020 financial year stipulates a tax rate of 30 % (previous year: 30 %) 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 30.0 %).

in € million	2021	2020
Taxes paid or due in Germany	- 13.1	- 1.0
Taxes paid or due outside Germany	- 12.8	- 10.3
Current taxes	- 25.9	- 11.3
Deferred taxes	0.9	- 1.6
Income taxes	- 25.0	- 12.9

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	2021	2020
Earnings before taxes (EBT)	85.5	35.8
Expected income tax (EBT × tax rate of 30.7 %)	- 26.3	- 10.8
Differences arising from foreign tax rates	4.4	2.6
Tax effects arising from:		
Non-deductible expenses	- 5.2	- 6.4
Adjustment / write-downs on deferred taxes	6.2	0.2
Tax-free income	2.1	2.8
Tax in previous years	- 5.5	- 0.9
Change of tax rates	- 0.6	- 0.7
Other deferred taxes	- 0.1	0.3
Actual income tax expense	- 25.0	- 12.9
Actual tax rate in %	29.2	36.0

The reconciliation of the deferred tax assets and liabilities recognised in the statement of financial position to the deferred taxes recognised in the income statement is as follows:

in € million	2021	2020
Change in statement of financial position item:		
Deferred tax assets (note 10)	6.3	- 1.9
Deferred tax liabilities (note 10)	0.4	0.6
Sub-total	6.7	- 1.3
Pass to other comprehensive income (note 21(d))	- 4.9	- 0.8
Currency adjustments	- 0.9	0.5
Deferred taxes recognised in income statement	0.9	- 1.6

43. MINORITY INTERESTS

Non-controlling interests in consolidated earnings amounted to € 0.3 million (previous year: € 0.2 million). Group companies with non-controlling interests are shown in the list of shareholdings (see note 62). The key figures are presented in note 22.

44. 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	31/12/2021	31/12/2020
Number of shares outstanding	14,044,800	14,044,800
Pro rata consolidated net income (in € million) *	31.6	11.7
Earnings per share (in €) *	2.25	0.83

Preference shares	31/12/2021	31/12/2020
Number of shares outstanding	12,417,601	12,361,771
Pro rata consolidated net income (in € million) *	28.6	10.9
Earnings per share (in €) *	2.30	0.88

* 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 17). The development in treasury shares is described in note 19. There were no dilution effects during the reporting periods.

45. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

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

in € million	2021	2020
Amortisation of intangible assets	1.7	1.0
Impairment losses on intangible assets	0.5	0.7
Depreciation of property, plant and equipment	22.9	23.5
Impairment losses on property, plant and equipment	0.2	3.9
Depreciation of righth-of-use assets	14.4	15.6
Impairment losses on righth-of-use assets	0.0	0.2
Depreciation of investment property	0.5	0.6
Total depreciation, amortisation and impairments	40.2	45.5

Depreciation is based on standard Group useful lives (see note 1).

46. COST OF MATERIALS

The cost of materials comprised the following:

in € million	2021	2020
Cost of raw materials and supplies (including primary products)	- 144.5	- 121.1
Cost of purchased goods	- 140.7	- 123.1
	- 285.2	- 244.2
Cost of purchased services	- 41.2	- 34.5
Total cost of materials	- 326.4	- 278.7

47. PERSONNEL EXPENSES

Personnel expenses were composed as follows:

in € million	2021	2020
Wages and salaries	- 234.8	- 215.1
Post-employment benefits:		
Expenses for defined benefit plans (see note 26)	- 2.4	- 3.9
Expenses for defined contribution plans	- 16.7	- 16.2
Termination benefits	- 2.7	- 6.5
Other services	- 31.9	- 30.5
Total staff costs	- 288.5	- 272.2

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		
	2021	2020
Wage earners	3,467	3,748
Salaried employees	3,304	3,653
Average	6,771	7,401

Of the workforce as a whole, a total of 2,496 people are employed in Germany (previous year: 2,753), with the remaining 4,275 employed outside Germany (previous year: 5,093). The divisions employ:

NUMBER OF EMPLOYEES		
	2021	2020
Bathroom and Wellness	4,363	4,752
Dining & Lifestyle	1,889	2,102
Other	519	547
Average	6,771	7,401

48. OTHER TAXES

The cost of other taxes was € - 4.6 million in the reporting period (previous year: € - 3.7 million). Companies based in Germany accounted for € - 1.1 million (previous year: € - 0.9 million) and Group companies abroad for € - 3.5 million (previous year: € - 2.8 million).

“Other taxes” include mainly real estate tax expenses of € - 2.2 million (previous year: € - 1.5 million), expenses for the French “contribution économique territoriale” of € - 0.7 million (previous year: € - 0.7 million) and the French “taxe organique” of € - 0.1 million (previous year: € - 0.1 million).

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

49. 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 € 136.5 million (previous year: € 44.9 million). This cash flow was mainly defined by the excellent Group result (€ 60.5 million). Furthermore, the increase in other liabilities (€ 10.4 million) – mainly higher advance payments and bonus liabilities – also contributed to the improvement in cash flow from operating

activities. Offsetting effects resulted from the increase in inventories (€ 26.3 million) and paid taxes of € 12.8 million. In addition, a reduction of trade payables and other current provisions is offset by an increase in short-term staff provisions and lease liabilities of virtually the same amount.

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

in € million	2021	2020
Interest from the provision for pensions and similar obligations	1.4	2.0
Expenses / income from deferred taxes	- 1.0	3.1
Additions to tax provisions	15.2	4.6
Other non-cash items	- 0.5	- 0.3
Total	15.1	9.4

50. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities of € - 17.4 million (previous year: € 82.7 million) mainly included payments for investments in property, plant and equipment and intangible assets in the 2020 financial year of € 19.9 million (previous year: € 31.6 million) and in non-current financial assets of € 3.1 million (previous year: € 4.7 million). Moreover, there were two investments of € -40 million in total to avoid deposit fees; these are shown in current assets and other current financial assets (see note 10/14). These payments were offset by proceeds from the disposal of assets of € 5.0 million (previous year: € 4.6 million).

51. CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to € - 30.1 million (previous year: € 24.6 million). This mainly includes payments of lease liabilities of € 18.9 million (previous year: € 14.2 million) and the dividend paid in two tranches in the 2020 financial year of € 13.8 million in total (previous year: € 15.1 million). Furthermore, there were loan repayments of € -4.9 million (previous year: € +2.7 million).

52. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to € 297.8 million (previous year: € 210.3 million), a decrease of € 87.5 million as against the previous year.

NOTES TO THE GROUP SEGMENT REPORT

53. 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 Dining & Lifestyle division covers the full range of tableware, glass and cutlery for the stylish table, as well as home accessories, gifts and clever to go solutions made of porcelain

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 interdivision transfers is based on standard market conditions.

The divisions of the Villeroy & Boch Group generated the following revenue:

	Revenue from sales of goods to external customers		Revenue from licence		Intersegment revenue		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
in € million								
Bathroom and Wellness	629.1	538.9	0.3	0.2	–	–	629.4	539.1
Dining & Lifestyle	311.3	257.3	1.4	1.9	–	–	312.7	259.2
Transition/Other	–	–	2.9	2.6	–	–	2.9	2.6
Total segment revenue	940.4	796.2	4.6	4.7	–	–	945.0	800.9
Eliminations	–	–	–	–	–	–	–	–
Consolidated revenue	940.4	796.2	4.6	4.7	–	–	945.0	800.9

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

in € million	31/12/2021	31/12/2020
Bathroom and Wellness	64.2	41.9
Dining & Lifestyle	28.6	7.8
Non-operating result ⁽¹⁾	- 2.3	- 9.0
Operating result (EBIT)	90.5	40.7
Net finance cost (see notes 40 and 41)	- 5.0	- 4.9
Earnings before taxes	85.5	35.8
Income taxes (see note 42)	- 25.0	- 12.9
Group result	60.5	22.9

⁽¹⁾ For changes in the Non-operating result (see Group Management Report; Results of operations; page 31 ff)

The following assets and liabilities were assigned to the divisions:

in € million	Assets		Liabilities		Net assets	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Bathroom and Wellness	380.1	375.8	174.6	170.8	205.5	205.0
Dining & Lifestyle	166.8	148.7	79.8	78.0	87.0	70.7
Reconciliation	425.5	389.8	404.4	413.8	21.1	- 24.0
Total	972.4	914.3	658.8	662.6	313.6	251.7

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	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Bathroom and Wellness	376.7	396.4	173.0	140.9	203.7	255.5
Dining & Lifestyle	156.3	151.2	77.7	69.5	78.6	81.7
Total	533.0	547.6	250.7	210.4	282.3	337.2

Segment assets include intangible assets, property, plant and equipment, right-of-use assets, inventories, trade receivables and other assets. Segment liabilities include provisions, trade payables, lease liabilities and other liabilities.

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:

in € million	to intangible assets and property, plant and equipment		to right-of-use assets		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Bathroom and Wellness	25.1	14.2	3.6	8.3	28.7	22.5
Dining & Lifestyle	7.7	5.7	7.2	9.5	14.9	15.2
Total	32.8	19.9	10.8	17.8	43.6	37.7

Depreciation and amortisation relates to the intangible assets, property, plant and equipment and right-of-use assets allocated to the individual divisions. € 3.9 million (previous year: € 1.2 million) of write-downs related to the Bathroom and Wellness Division. Write-downs of € 0.9 million (previous year: € 0.6 million) related to the Dining & Lifestyle Division in the current financial year.

in € million	Intangible assets and property, plant and equipment		to right-of-use assets		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Bathroom and Wellness	- 19.6	- 19.9	- 5.1	- 5.8	- 24.7	- 25.7
Dining & Lifestyle	- 5.5	- 5.2	- 9.3	- 9.8	- 14.8	- 15.0
Total	- 25.1	- 25.1	- 14.4	- 15.6	- 39.5	- 40.7

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

in € million	Revenue from sales of goods to external customers		Non-current assets *	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
German companies	469.2	400.1	90.4	92.1
Registered office in the rest of the euro zone	144.4	121.9	41.2	45.6
Registered office outside the euro zone	326.8	274.2	126.2	119.7
Total	940.4	796.2	257.8	257.4

* in accordance with IFRS 8.33 (b)

OTHER NOTES

54. 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:

The assets side of the statement of financial position shows cash and cash equivalents (note 16), trade receivables (note 13), other financial assets (note 10) and other assets at cost in accordance with IFRS 9 (note 14). This does not include:

- a) Other financial assets of € 52.3 million (previous year: € 15.0 million) at fair value through OCI (note 10) and € 0.2 million (previous year: € 0.0 million) at fair value through profit or loss.
- b) Other assets of € 8.6 million (previous year: € 8.0 million) not recognised in accordance with IFRS 9 and cash flow hedges measured at fair value of € 1.9 million (previous year: € 0.7 million). The other assets not recognised under IFRS 9 are tax receivables, contract assets and prepaid expenses (see note 14).

The equity and liabilities side of the statement of financial position shows trade payables (note 33), financial liabilities (note 30) and other liabilities at cost in accordance with IFRS 9 (note 32). This does not include:

- c) Other liabilities of € 40.0 million (previous year: € 36.4 million) not recognised in accordance with IFRS 9 and cash flow hedges measured at fair value of € 3.4 million (previous year: € 1.3 million). The other liabilities not recognised under IFRS 9 are personnel liabilities, other tax liabilities and deferred income (see note 32).

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. Stock exchange prices are used to measure the securities of the Villeroy & Boch support fund and free investments (see note 10). These are level 1 inputs as referred to by the fair value hierarchy of IFRS 13. The evaluation of other financial assets measured at fair value through OCI was carried out at level 2.

Management of financial instruments

A common feature of all primary and derivative financial instruments is a future claim to cash. Accordingly, the Villeroy & Boch Group is subject in particular to risks of volatility in exchange rates, interest rates and market prices. To limit these risks, the Villeroy & Boch Group has a functional and effective risk management system with a clear functional organisation. Further information on the implemented risk management system can be found under “Risk management system” in the management report.

Management of exchange rate risks

Exchange rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in exchange rates. The Villeroy & Boch Group uses currency futures to hedge these risks. The procedure for hedging exchange rate fluctuations is described in the management report under “Management of exchange rate risks”. The following currency futures will be carried out after the end of the reporting period 31 December 2020:

in € million	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	9.3	0.3	19.2	0.8
In three to six months	8.6	0.2	17.4	0.7
In six to twelve months	11.7	0.3	43.8	1.5
After twelve months	6.4	0.1	39.9	5.0
Total	36.0	0.9	120.3	8.0

The Villeroy & Boch Group recognised the following transactions as at the previous year's reporting date:

in € million	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	10.5	0.1	7.0	0.1
In three to six months	9.1	0.1	9.4	0.2
In six to twelve months	20.8	0.1	15.3	0.4
After twelve months	24.6	0.6	34.2	2.7
Total	65.0	0.9	65.9	3.4

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 krona, Norwegian krone, Russian Rouble and pound sterling. 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 2020 would have been € 5.0 million higher / lower (previous year: € 7.5 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 and gas are due after the balance sheet date 31 December 2020:

in € million	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	1.2	0.5	–	–
In three to six months	1.6	0.6	–	–
In six to twelve months	3.0	1.2	0.1	–
After twelve months	1.5	0.2	–	–
Total	7.3	2.5	0.1	0.0

The Villeroy & Boch Group recognised the following transactions as at the previous year' reporting date:

in € million	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	1.0	0.1	-	-
In three to six months	0.9	0.2	-	-
In six to twelve months	1.8	0.3	-	-
After twelve months	2.0	0.4	-	-
Total	5.7	1.0	0.0	0.0

On the basis of production planning, there is an unhedged brass position of 3,192 tonnes in total as at the end of the reporting year for the following financial year (previous year: 1,224 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 2021 would have been € 2.0 million higher/lower (previous year: € 0.6 million). As in the previous year, these two scenarios would have had no effect on the statement of comprehensive income in 2021. On the basis of planning, there is an unhedged gas position of 71,780 tonnes in total as at the end of the reporting year for the following financial year. In the event of a change in gas prices of +/- 10 % and assuming that all other variables remained constant, the carrying amounts at 31 December 2021 would have been € 4.5 million higher/lower.

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 2020 financial year of +/- 50 bp and assuming all other variables remained constant, the net finance cost would have been +/- € 0.1 million (previous year: +/- € 0.6 million).

Management of default and credit risks

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

Management of liquidity risks

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

in € million	Carrying amount as at 31 Dec.	Cash outflow expected in the following time bands				
		Gross	Within three months	Between three months and one year	Between one and five years	More than five years
Trade payables	85.6	85.6	85.6	–	–	–
Current and non-current financial liabilities (a)	115.2	131.6	22.9	0.8	107.9	–
Lease liabilities	41.3	43.2	3.8	9.0	25.1	5.3
Other liabilities	121.4	121.4	87.9	30.1	3.4	–
Cash flow hedge liabilities (b)	3.4	65.9	7.0	24.8	34.1	–
Total as at 31 Dec. 2020	366.9	447.7	207.2	64.7	170.5	5.3
Trade payables	82.5	82.5	82.5	–	–	–
Current and non-current financial liabilities (a)	110.3	130.3	22.7	20.8	86.8	–
Lease liabilities	37.9	39.0	3.3	9.3	23.4	3.0
Other liabilities	87.4	87.4	57.4	3.1	26.9	–
Cash flow hedge liabilities (b)	8.0	120.5	19.2	61.4	39.9	–
Total as at 31 Dec. 2021	326.1	459.7	185.1	94.6	177.0	3.0

d) The cash flow from current and non-current financial liabilities includes future interest payments of € 3.9 million (previous year: € 3.6 million) that will not be incurred until after 31 December 2020. Current financial liabilities of € 12.5 million (previous year: € 13.1 million) were consolidated in the balance sheet (see note 29).

e) The transaction volume of cash flow hedge liabilities in the amount of € 65.9 million (previous year: € 78.0 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 3.4 million (previous year: € 1.3 million) is forecast, equal to the statement of financial position item. € 0.1 million of this will be settled in the next three months (previous year: € 0.2 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 € - 4.9 million (previous year: € - 6.7 million) from the use of primary and derivative financial instruments. € - 0.1 million (previous year: € - 0.3 million) of this related to derivative financial instruments and € - 4.8 million (previous year: € - 6.4 million) to primary financial instruments. The decline is due in part to interest expenses on pensions (see note 27). The decline is due in part to interest expenses on pensions (see note 27) and interest expenses on lease liabilities (see note 30).

55. CONTINGENT LIABILITIES AND COMMITMENTS

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

in € million	31/12/2021	31/12/2020
Guarantees	0.9	0.9
Trustee obligations	–	–

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.

56. OTHER FINANCIAL OBLIGATIONS

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

in € million	31.12.2021	31.12.2020
Obligations arising from orders placed:		
for investments in property, plant and equipment	9.1	3.6
for investments in right-of-use assets	1.7	0.6
for investments in intangible assets	0.4	0.2

70.4 % of the obligations to acquire property, plant and equipment in the amount of € 3.6 million related to Villeroy & Boch AG, followed by Villeroy & Boch (Thailand) Co. Ltd. (10.1 %) and Villeroy & Boch Trading (Shanghai) Co. Ltd. (7,5 %). In the previous year, 63.8 % related to Villeroy & Boch AG, followed by Villeroy & Boch (Thailand) Co. Ltd (20.6 %) and Villeroy & Boch Magyarország Kft. (8,2 %). 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 30).

57. 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 one company using the equity method (see note 9). No goods or services were provided to or by this German company. From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to the associated company was immaterial.

As of this financial year, Villeroy & Boch recognises three 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 Dining & Lifestyle products worth € 18 thousand to these companies in the financial

year (previous year: € 110 thousand). The Group recognises net trade receivables of € 6 thousand (previous year: € 73 thousand) (see note 13). The Group recognises net trade receivables of € 6 thousand (previous year: € 6 thousand) (see note 13). Furthermore, there are cash pooling liabilities of € 292 thousand in total (previous year: € 89 thousand) from these companies. These are offset by cash pooling receivables of € 582 thousand (previous year: € 0 thousand). Moreover, there are currently liabilities from corporate actions of € 4,200 thousand (see note 10).

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	2021	2020
Current employee benefits	4.2	4.4
Post-employment benefits	1.9	3.2
Other long-term benefits	0.2	0.2
Termination benefits	–	–
Total	6.3	7.8

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.

58. 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. Further information on the main features of the remuneration system can be found in the remuneration report in accordance with section 162 AktG in the 2021 Annual Report and on the Internet at <https://www.villeroyboch-group.com/de/investor-relations/corporate-governance/verguetungssystem-des-vorstands.html>.

In the financial year, the members of the Supervisory Board of Villeroy & Boch AG were paid total remuneration of € 0.6 million for the performance of their duties (previous year: € 0.6 million). € 0.4 million (previous year: € 0.4 million) of this was for their fixed basic remuneration, € 0.1 million (previous year: € 0.1 million) for attendance fees and € 0.1 million (previous year: € 0.1 million) for variable remuneration for their work in the previous year. A total expense for Supervisory Board remuneration of € 883 thousand was recognised in the Group result for the 2021 financial year (previous year: € 736 thousand).

A total expense of € 983 thousand was reported in the Group result for the 2020 financial year (previous year: € 1,034 thousand). In addition to the fixed remuneration paid and the meeting fees for 2020, this figure includes € 110 thousand (previous year: € 205 thousand) for the provision for variable remuneration for 2020, € 305 thousand for purchased consulting services (previous year: € 122 thousand), insurance premiums of € 100 thousand (previous year: € 100 thousand).

Management Board remuneration

An expense of € 3,658 thousand (previous year: € 5,099 thousand) is reported in the income statement for the 2021 financial year. This figure is composed of fixed (€ 1,637 thousand; previous year: € 1,815 thousand) and variable salary components (€ 1,702 thousand; previous year: € 1,708 thousand) as well as expenses for pension benefits and similar obligations of active members of the Board of Management amounting to € 319 thousand (previous year: € 1,576 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 784 thousand (previous year: € 1,350 thousand) and a remuneration for several years in the amount of € 918 thousand (previous year: € 358 thousand). The target agreement system agreed with the members of the Management Board was applied without adjustments in the reporting year. The Supervisory Board had used discretionary performance criteria in the previous year on account of the challenges stemming from the COVID-19 pandemic. The fixed remuneration includes remuneration in kind of € 78 thousand (previous year: € 76 thousand), including € 4 thousand (previous year: € 3 thousand) relating to insurance premiums. Provisions for pensions for former members of the Management Board amount to € 18,617 thousand (previous year: € 20,765 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,626 thousand (previous year: € 1,637 thousand).

59. AUDITORS' FEES AND SERVICES

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

in € million	2021	2020
Audits of financial statements	0.4	0.4
Other assurance or valuation services	0.0	–
Tax advisory services	0.1	–
Other services	0.0	0.0

Tax consulting services were utilised in conjunction with a project to boost cash and cash equivalents, borrowing capability and enterprise value in the financial year.

60. 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 2020 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 16 December 2020. The declarations are permanently available to shareholders on the Internet.

61. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

62. LIST OF SHAREHOLDINGS

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

in %	Fully consolidated subsidiaries	Villeroy & Boch AG investment		
		Direct	Indirect	Total
	Inland			
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 ¹⁾	100	–	100
4.	INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach ¹⁾	100	–	100
5.	Keraco GmbH, Wadgassen	100	–	100
6.	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
	Abroad	Direct	Indirect	Total
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 S.A. de C.V., Ramos Arizpe (Mexico)	–	100	100
22.	Vilbona Mexiko S.A. de C.V., Ramos Arizpe (Mexico)	–	100	100
23.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	–	100	100
24.	Villeroy & Boch (Thailand) Co. Ltd., Saraburi (Thailand)	16.51	83	100
25.	Villeroy & Boch (U.K.) Ltd., London (UK)	–	100	100
26.	Villeroy & Boch Arti della Tavola S.r.l., Mailand (Italy)	0.2	100	100
27.	Villeroy & Boch Asia Pacific Pte. Ltd., Singapur (Singapore)	100	–	100
28.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	–	100	100
29.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	–	100
30.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99.99	0.01	100
31.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100	–	100
32.	Villeroy & Boch Danmark A / S, Rødovre (Denmark)	–	100	100
33.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	–	100
34.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	–	100	100
35.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
36.	Villeroy & Boch Magyarország Kft., Hódmezővásárhely (Hungary)	100	–	100
37.	Villeroy & Boch MC S.à.r.l., Monaco (Monaco)	99.99	0.01	100
38.	Villeroy & Boch Norge AS, Lorenskog (Norway)	–	100	100
39.	Villeroy & Boch OOO, Moskau (Russia)	100	–	100
40.	Villeroy & Boch Polska Sp. z o.o., Warschau (Poland)	–	100	100

41.	Villeroy & Boch S.à.r.l., Faïencerie de Septfontaines-lez-Luxembourg, Luxembourg (Luxembourg)	100	–	100
42.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99.99	0.01	100
43.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	–	100	100
44.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	–	100
45.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	–	100	100
46.	Villeroy & Boch Trading (Shanghai) Co. Ltd., Shanghai (China)	100	–	100
47.	Villeroy & Boch Ukraine TOV, Kiev (Ukraine)	100	–	100
48.	Villeroy & Boch USA Inc., New Jersey (USA)	–	100	100
49.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99.99	0.01	100
50.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	–	100	100
51.	Villeroy et Boch S.A.S., Paris (France)	100	–	100
52.	Villeroy et Boch Valence d'Agen S.A.S., Valence d'Agen (France)	–	100	100
	Affiliated, unconsolidated companies	Direct	Indirect	Total
53.	Villeroy & Boch Innovations GmbH, Mettlach (Germany)	100.00	–	100
54.	Villeroy & Boch Ventures GmbH, Mettlach (Germany)	–	100	100
55.	INOS 21-063 GmbH, München (Germany)	–	100	100

⁽¹⁾ Section 264 (3) HGB is applied to this subsidiary.

* Section 313(3) p. 4 HGB is applied to one German investment.

63. 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 2019:

Standard	Name
IFRS	16 Prolongation of the amendments to IFRS 16: COVID-19 related Rent Concessions
IFRS	4 Extension of the Temporary Exemption from Applying IFRS 9
IFRS / IAS	4/7/9/16/39 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform (Phase 2)

The extension of the amendment to IFRS 16 “COVID-19-Related Rent Concessions” is presented in note 1 “Accounting policies”. The effects on the 2021 financial year are presented in note 30.

As set out in the 2020 Annual Report, the other changes had no material effect on the accounting policies of the Villero & Boch Group.

The application of all IASB pronouncements endorsed by the EU was mandatory for the current 2020 financial year.

The extension of the amendment to IFRS 16 “COVID-19-Related Rent Concessions” was an exception to this and was again optional. In conjunction with the interest rate benchmark reform, the Villero & Boch Group will use the LIBOR replacement rates €STER (EUR), SONIA (GBP), SARON (CHF), SOFR (USD) und TONAR (JPY) from the 2022 financial year. This change has no material effect on the Villero & Boch Group and no risks have arisen as a result.

The following IASB pronouncements were adopted by the EU and were not yet effective for the past 2020 financial year:

Standard	Name
New standards	
IFRS	17 IFRS 17 Insurance Contracts including changes to IFRS 17 (EU-Endorsement in November 2021)
Amendments to existing standards	
IFRS	3 Changes to IFRS 3 - Reference to the conceptual framework (EU-Endorsement in June 2021)
IAS	16 Changes to IAS 16 - Property, plant and equipment: Recognition of revenues, before an asset is an operational status (EU-Endorsement in June 2021)
IAS	37 Changes to IAS 37 - Onerous contracts: Costs for fulfilling a contract (EU-Endorsement in June 2021)
IFRS/IAS	1/9/16/4 1 Annual Improvements to IFRS - Cycle 2018-2020

In the 2021 financial year, there were multiple amendments to existing standards that had already been endorsed by the EU but that were not yet effective for the past financial year.

Standard	Name
New standards	
Changes and additions to existing standards	
IAS	1 Changes to IAS 1 – Disclosure of accounting and valuation methods (issued in February 2021)
IAS	8 Changes to IAS 8 – Definition of an accounting estimate (issued in February 2021)
IAS	12 Changes to IAS 12 – Deferred tax related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)
IFRS	17 Initial Application of IFRS 17 and IFRS 9 Comparative Information (issued in December 2021)
IAS	1 Changes to IAS 1 – Classification of liabilities as short- or long term (including the change to IAS 1 – Classification of liabilities as short- or long term – Shift of the time of coming into effect, issued in July 2020)

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 Villero & Boch Group. The standard is effective from 1 January 2023.

The other pronouncements endorsed by the EU in the 2021 financial year have already been presented in the 2020 Annual Report. These changes will have no material effect on the accounting policies of the Villero & Boch Group.

The above new and amended standards will be applied from 1 January 2023 subject to their endorsement in EU law.

The amendment to IAS 1 “Disclosure of Accounting Policies” was updated.

The amendments to IAS 1 and IFRS Practice Statement 2 are intended to assist entities in determining which accounting policies to disclose. Entities are now required to disclose their material accounting policies rather than their significant accounting policies.

The amendment to IFRS 17 affects entities that first apply IFRS 17 and IFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the

classification and measurement requirements of IFRS 9 had been applied to that financial asset before.

The amendment to IAS 8 “Definition of Accounting Estimates” provides a new definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The amendment to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” narrows the scope of the initial recognition exemption under which deferred tax assets and liabilities are not recognised on the initial recognition of an asset or liability. The initial recognition exemption no longer applies to transactions that give rise to equal taxable and deductible temporary differences, hence deferred tax assets and liabilities must be recognised.

The amendment to IAS 1 “Classifications of Liabilities as Current or Non-Current” clarify the classification of liabilities as current or non-current. In future, only rights in place at the end of the reporting period should affect the classification of a liability. Interpretation guidance was also added for the “right to defer settlement by at least twelve months” and “settlement”. The effective date was postponed by one year from 1 January 2022 by the amendment to IAS 1, published on 15 July 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	Name
IFRS 14	01.01.16	IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014)
Amendments to IFRS 10 and IAS 28	undefined	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)

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 3 15e (1) HGB. The Villeroy & Boch Group would not be affected by either regulation.

Mettlach, 11 February 2022



Frank Göring



Gabriele Schupp



Georg Lörz



Dr Markus Warncke

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT

TO VILLEROY & BOCH AKTIENGESELLSCHAFT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of Villeroy & Boch Aktiengesellschaft, Mettlach, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2021, 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 2021 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 2021. We have not audited the content of the components of the group management report mentioned in the appendix to the auditor's 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 at 31 December 2021 and of its financial performance for the fiscal year from 1 January to 31 December 2021, 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 components of the group management report referred to in the appendix to the auditor's report.

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 to 31 December 2021. 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

On 6 December 2019, Villeroy & Boch S.à.r.l., Luxembourg, sold 100 % of the shares in Rollingergrund Premium

Properties SA (RPP) as part of a share deal. The assets of RPP almost exclusively comprised real estate in Luxembourg.

To measure the provisional purchase price, which has already been paid in full, the parties applied a certain buildable area that would lead to a higher building density than other properties in this municipal area. Any subsequent additions or deductions from the surface areas laid out in the development plan, which is awaiting approval, lead to a corresponding adjustment of the purchase price. In the prior fiscal year and in the reporting year, unresolved issues regarding site development were discussed with the authorities several times. A correspondingly modified land-use plan was submitted in December 2021 and a modified development plan based on the land use accordingly was submitted to the applicable authorities of the city of Luxembourg in January 2022. Objections to this plan and the underlying land-use plan may be lodged during the approval process. Proceedings are not expected to be concluded before the end of 2022/beginning of 2023, which is why the building density and therefore the actual buildable area available have not yet been determined.

We have once again determined this to be a key audit matter in our audit, as the calculation of the final purchase price and therefore the current repayment obligation as a result of liabilities largely depend on the estimate of the actual buildable land made by the executive directors and external experts. These estimates are based on judgment.

Auditor's response

We inspected the underlying contract and additional 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 potential subsequent adjustments of the purchase price. We interviewed the employees at Villeroy & Boch who were involved with the contract negotiations regarding the course of the discussions with the competent authorities in Luxembourg about the development plan and the land-use plan and the assumptions made, particularly related to the estimate of the actual buildable area. We also verified the comments of an external expert with the help of internal real estate experts and assessed the assumptions and estimates underlying the comments. We received confirmation of the independence of the external expert in writing. We also inspected the documents that were submitted to the authorities of Luxembourg.

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 31).

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 acquisition or production cost. For this purpose, the standard costs used during the year are adjusted to the respective actual costs at the end of the year with the help of revaluation factors. The adjustment is highly dependent on the assumptions with 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 impairment rates and the allocation to various valuation classes in the IT-supported impairment procedure as well as the evaluation of whether additional manual impairment losses are necessary, which are not taken into account in this impairment procedure, are at the discretion of the Company's executive directors.

Auditor's response

In our audit, we obtained an understanding of the Company's internal processes and procedures and examined the underlying controls of the measurement of inventories. We verified the method used 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 verified the change in overheads and the planned production capacity compared to the prior year. We examined the planned and actual output by making a prior-year comparison and inspecting the production reports of the production plants.

We examined the suitability of the IT-supported impairment procedure for the assessment of inventory risks with the assistance of internal experts. We compared the computational logic of the model with the accounting policies used by the

Company and mathematically verified it on a sample basis. We further assessed the write-downs calculated based on past experience by making analytical comparisons with the write-downs of individual items and of total inventory applied in prior years. The need for additional manual impairment losses was discussed with the officers responsible.

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 accounting policies used for the inventories are included in the notes to the consolidated financial statements (note 1 and note 12).

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

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

Other provisions contain material provisions for various recultivation and restoration obligations from now idle or leased factories in France, Germany and Sweden as well as for owner-occupied factories in France and Hungary. Also included are provisions for personnel-related restructuring measures in Germany and abroad in connection with the transformation and efficiency improvement program "Fit for Future" as well as the planned store closures in the Tableware business division.

These matters are once again determined to be a key audit matter, as the recognition and measurement are based on estimates and assumptions by the executive directors regarding the probability and amount of a possible claim, and thus require a high degree of judgment.

Auditor's response

Our audit procedures related to provisions for recultivation and restoration obligations comprised interviews with the executive directors and other employees within the Company involved with these matters regarding the current status of discussions with the respective authorities. We also inspected internal and external communication with authorities and experts and, on this basis, evaluated the scenarios developed as well as potential effects on the most recent assessment. Furthermore, we evaluated its consistency with internal reporting (risk report). We verified the calculation of the provision both in terms of methodical and clerical accuracy and with the help of external cost estimates.

As part of our audit procedures regarding the personnel-related restructuring measures in the consolidated financial statements, we analyzed the current implementation of measures decided on in the prior year and discussed adjustments, delays and, in particular, additions related to individual measures with representatives of the Company. We also examined internal records, such as the minutes of the Management Board and Supervisory Board. In addition, we verified the calculation of the total provision in terms of clerical accuracy and checked it for plausibility using personnel measures implemented in the past, particularly regarding the severance payments made per employee. With regard to matters already recognized in the prior year, assessment of the utilization of the provision as a result of the settlements made and the reversal of the provision were an additional key audit matter.

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

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 28).

Other information

The Supervisory Board is responsible for its own report in accordance with Sec. 171 (2) AktG ["Aktengesetz": German Stock Corporations Act]. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG on the German Corporate Governance Code, which is part of the Corporate Governance Statement, as well as for the Remuneration Report pursuant to Sec. 162 AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the components of the annual report mentioned in the appendix.

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 engagement. 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 Group'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

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file `Villeroy-boch_KA+LB_ESEF-2021-12-31.zip` (SHA-256-Prüfsumme: 2167e8413125b14f52ef0d0cb89320e64d4bd2bc8b084be941c4b0400152c869) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the *IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021)*. Our responsibility in accordance therewith is further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor’s responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design

assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.

Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.

Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 26 March 2021. We were engaged by the Supervisory Board on 28 July 2021. 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).

Other matter – use of the auditor’s report

Our auditor’s report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Bundesanzeiger [German Federal Gazette] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

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

Appendix to the auditor's report:

1. Parts of the group management report whose content is unaudited

We have not audited the content of the following parts of the group management report:

the Group declaration on corporate governance published on the website cited in the group management report, which is part of the group management report. Furthermore, we have not audited the content of the following disclosures extraneous to management reports. This relates to any information whose disclosure in the group management report is not required pursuant to Secs. 315, 315a or Secs. 315b to 315d HGB or GAS 20.

General comments on sustainability
 Combined Responsibility Statement

2. Further other information

“Other information” comprises the following component of the annual report, which we were provided with prior to issuing this auditor's report:

the sustainability report into which the group non-financial report is integrated pursuant to Sec. 315b HGB.

“Other information” further comprises the prescribed components of the annual report, which were provided to us prior to us issuing this auditor's report, including, but not limited to the following sections:

the “Report of the Supervisory Board”
 the “Corporate Governance Report” and
 the “Remuneration Report”

but not the consolidated financial statements, nor the disclosures in the group management report included in our audit or our associated auditor's report.

The other information also comprises the other parts of the annual report, which we expect to receive after we have issued our independent auditor's report, in particular the sections:

“The Group at a Glance”
 “Divisions”
 “Letter to Shareholders”
 “Executive Bodies of the Company”
 “Villeroy & Boch's Shares”

Stuttgart, 14 February 2022

Ernst & Young GmbH
 Wirtschaftsprüfungsgesellschaft

Hummel	Waldner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]