



Villeroy & Boch
1748

SUSTAINABILITY REPORT 2020



EDITORIAL



Jean Neudorfer,

While sustainability and climate protection were at the forefront of public consciousness in 2019, they were driven from the headlines by the COVID-19 pandemic in the past year. But only briefly. Because, although carbon emissions were significantly reduced by the lockdown brought about by COVID-19, this made it clear to us what it will take under normal conditions to keep global warming below two degrees in future. Therefore, it only makes sense that the new beginning after the COVID-19 pandemic should be focused on the future, and therefore sustainable and climate-friendly.

The impact and the handling of the global pandemic took centre stage at Villeroy & Boch AG as well in 2020. This included health and safety for our employees on the one hand, and the economic repercussions in the form of shop closures and production shutdowns on the other. In these challenging times, it is especially important to us on the Management Board to keep making progress on sustainability targets to equip the company for the future. We will be launching further decarbonisation projects in 2021 to provide tangible support for our climate neutrality journey.

The health and safety of our employees was critical to us in the past year. Infection clusters in the workplace were avoided thanks to the pandemic plan, which was constantly updated in line with the latest research, and the comprehensive information, training and testing made available to employees. The second imperative issue in 2020 was the *Brennstoffemissionshandelsgesetz*, the German Fuel Emissions Trading Act, which affects us greatly on account of our energy-intensive production process. In this context, we are continuing to focus on increasing our use of renewable energies.

In addition to these current issues, compliance in our actions and our products, the quality and longevity of which our customers rely on, remain the foundations for our company.

In the past year, anti-corruption and antitrust law training was continued and has been completed by more than 94 % of the relevant employees. In order for us to maintain the high standard of the safety and longevity of our products in future, we are continuing to work on the digitisation of quality inspections and the constant advancement of material safety. Even more so than in previous years, a stable supply chain and thus working with our suppliers in a spirit of trust was vital in 2020. Widening the scope of our Code of Conduct to include all supplier groups and the high acceptance rate of 88 % has created a solid footing for this. We continuously optimised our own production processes in the areas of glazing, wastewater management and waste volumes in the past year to limit the environmental impact of our activities.

The past year has shown us the speed with which processes and methods can be changed, and that a crisis can be overcome with commitment and motivation. We at Villeroy & Boch AG are going to tackle the journey to climate neutrality with the same level of commitment.

We hope that you enjoy reading this report.

Dr Markus Warncke, Chief Financial Officer
Mettlach, February 2021

ABOUT THIS REPORT

This report comprises the sustainability report of the Villeroy & Boch Group for the financial year from 1 January to 31 December 2020. The latest version of the sustainability report, published annually in German and English, is available to download from the company's website at <https://www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports/>. The Group companies included in the report are the same as the basis of consolidation in the 2020 consolidated financial statements.

The combined, separate non-financial report for the Villeroy & Boch Group and Villeroy & Boch AG in accordance with sections 289b and 315b of the Handelsgesetzbuch (HGB – German Commercial Code) has been integrated into this sustainability report. Qualitative information provided in the non-financial report relates to both the Group and Villeroy & Boch AG. Unless stated otherwise, the key figures and performance indicators contained in the non-financial report relate to the Group and are reported separately for Villeroy & Boch AG in the notes to this report.

The sustainability report has been approved by the Management Board of Villeroy & Boch AG. The integrated content of the non-financial report was most recently voluntarily audited for limited assurance in accordance with the International Standard for Assurance Engagements (ISAE) 3000 (Revised) by the audit firm Ernst & Young in 2018. The sustainability report for the 2020 reporting year has not been audited externally. The need to engage an external auditor to assist the Supervisory Board in the performance of its statutory audit duty is reviewed annually.

We opted not to use a framework to prepare the sustainability report or the non-financial report it contains. Our reporting focuses on the reportable aspects as defined by sections 289c and 315c HGB. We also report on other non-financial issues that are relevant for our company and our industry.

This sustainability report contains forward-looking statements based on management estimates of future developments at the time this report was prepared. These statements are subject to risks and uncertainties that Villeroy & Boch is largely unable to influence or precisely evaluate. This includes the future economic and legal conditions and the behaviour of other market participants. If this or other uncertainties occur or the assumptions on which the forward-looking statements are based prove to be incorrect, the actual results could deviate from the expected results described in this report.

For improved readability, we have generally avoided using both genders. This does not constitute a value judgement. All statements should be considered gender-neutral.

Further information on our company (not a component of the non-financial report) can be found at www.villeroyboch-group.com and in the [2020 annual report](#).

Mettlach, 4 February 2021



Frank Göring



Gabriele Schupp



Georg Lörz



Dr Markus Warncke

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STRATEGY AND INTEGRITY

OUR BUSINESS MODEL

The Villeroy & Boch Group, headquartered in Mettlach in the German federal state of Saarland, is a leading international ceramics manufacturer with around 7,100 employees. As a full-range supplier for the bathroom and the “perfectly laid table”, our operating business is divided into the Bathroom and Wellness Division and the Tableware Division. We sell our products in around 125 countries. In addition to our main brand, Villeroy & Boch, we also use local brands such as Gustavsberg for sanitary ware products in Scandinavia and secondary brands for certain sales channels in the Tableware Division. When it comes to manufacturing our products, we currently have 13 production and assembly sites, comprising two for the Tableware Division (both in Germany) and eleven for the Bathroom and Wellness Division: two in Germany, two in Sweden and one each in the Netherlands, Belgium, France, Austria, Romania, Hungary and Thailand. In conjunction with the adjustment of our production capacity in line with existing market requirements, we sold our production facilities in Ramos, Mexico, at the end of December 2020. Further information can be found in note 2c to the consolidated

financial statements. Further information on Villeroy & Boch’s procurement and production activities can be found in this report. ▶ “Supply chain”

We generated consolidated revenue of € 800.9 million in the 2020 financial year, down € 32.4 million on the previous year, mainly on account of the COVID-19 pandemic. The operating result before interest and taxes amounted to € 49.7 million, only slightly higher than the previous year’s figure of € 49.5 million. The return on net operating assets was 14.7 % after 14.0 % on 31 December 2019.

Our product range in the Bathroom and Wellness Division encompasses ceramic bathroom collections, bathroom furniture, shower, bathtub and whirlpool systems, tap fittings, ceramic kitchen sinks and accessories. These products typically find their way to consumers or project customers via a two-stage or three-stage sales channel. Our core target groups are dealers, craftsmen, architects, interior designers and planning specialists. Our Bathroom and Wellness products are exhibited at more than 12,000 showrooms around the world.

PRODUCTION SITES BY REGION

EUROPE



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

APAC



Saraburi (Thailand)

Even today, our Tableware Division offers far more than tableware with its product ranges such as high-quality crockery, glasses, cutlery and corresponding accessories, kitchen and table textiles and gifts. We reach end consumers through specialist retailers and our own retail activities, which include more than 90 Villeroy & Boch stores, more than 500 points of sale at high-profile department stores, and dedicated online shops in more than 15 countries. All in all, our products are available at around 3,600 points of sale worldwide. In addition, our project business addresses hotel and restaurant operators.

Porcelain is made from natural raw materials, is free from harmful substances and is neutral in taste. Crockery made from high-quality Villeroy & Boch porcelain is particularly long-lasting, and can be used again and again for years. Villeroy & Boch's Clever Cooking, Clever Baking and To Go collections guarantee plastic-free, hygienic storage at home and environmentally friendly enjoyment out and about. The ovenproof tableware systems can be used to prepare, serve, store and take away food. We also offer an alternative to plastic drinking straws in our glass straws with the Artesano Hot & Cold Beverages collection.

In addition, we supplement our range with licence-based products from the "Living" area. In particular, this includes lighting, flooring and furniture for living, dining and sleeping areas as well as kitchen furniture.

SUSTAINABILITY AT VILLEROY & BOCH AT A GLANCE

For us, achieving our goals as a company is closely linked to various aspects of sustainable activity. It is important that all our employees have a common understanding of how we intend to achieve these goals. In particular, the instruments we use to communicate our approach include the Code of Conduct, the corporate guidelines and our management principles. We endeavour to provide our employees with a great deal of scope and the best possible support when it comes to achieving their own goals. As long-term business success is possible only with creative and motivated employees, we are committed to the principles of respectful treatment, fair pay, targeted training and active diversity. ▶ "Corporate governance and compliance" and "Employees"

Our customers place their confidence in the high quality of our products with a stylish design, impressive durability and maximum product safety. We intend to maintain this confidence in future with technically superior products and sustainable value creation. This is why the requirements we make of our suppliers and our in-house production are so stringent. Alongside compliance with the law and labour and environmental standards, our aim is to achieve our outstanding product quality with a high degree of resource

and energy efficiency. The use of management systems and standardised processes helps us to achieve this. ▶ "Product responsibility", "Supply chain" and "Environment"

At an operational level, we have pursued specific targets in the areas of the environment, employees, the supply chain, product responsibility and compliance for a number of years. Examples include reducing the specific energy consumption of ceramic products in the manufacturing process, the gradual implementation of environmental and energy management systems and further increasing transparency in the supply chain in terms of compliance with social and environmental standards.

Transparency regarding our non-financial performance is ensured by regular Group reporting. Data and figures from areas such as environmental performance, procurement, employees and compliance are collected to allow us to measure the success of defined actions, including on a short-term and medium-term basis, and make adjustments as necessary. The basis for the external and internal reporting of non-financial performance indicators is data management for the sustainability performance indicators of these areas, which is integrated into our Group-wide consolidation software and is enhanced continuously.

As a company with a long tradition dating back to 1748, we have also been active in our social and cultural environment for many generations. At our corporate locations, we want to be a strong and reliable regional partner by actively supporting charities and local initiatives. For example, the company has always had close ties with the Saar SOS Children's Village, which was founded 60 years ago on the initiative of the von Boch family. Villeroy & Boch marked this anniversary with a donation to support the ongoing expansion of animal-assisted education for children and young people.

STAKEHOLDER DIALOGUE AND MATERIALITY ANALYSIS

As a globally active company, we engage in a regular dialogue with a wide range of different stakeholder groups. We thereby wish to ensure that the varied demands, interests and expectations made of Villeroy & Boch are recorded and taken into account in our business decisions. Our most important partners in this dialogue are customers and suppliers, employees, the works council and union representatives, shareholders, lenders, supervisory bodies, interested members of the public, researchers and scientists, and authorities and politicians.

Since 2017, key figures, strategies and measures of Villeroy & Boch's sustainability work have been analysed by EcoVadis, a sustainability rating platform for global supply chains. Villeroy & Boch's performance in the areas of the

environment, social topics, ethics and procurement is evaluated on the basis of scorecards. We have significantly improved our rating over the past three years and most recently performed better than 91 % of all the companies rated by EcoVadis.

The reporting on Villeroy & Boch's non-financial performance is based on a materiality analysis last conducted in the 2019 financial year. The aim of this analysis was to identify the most important sustainability issues for our industry in general and our company in particular. The relevance of various individual issues in the areas of the environment, employees, supply chain, product responsibility and sustainable corporate management was assessed as part of an internal employee survey conducted at home and abroad. The issues were assessed firstly from an internal perspective, reflecting their relevance

to Villeroy & Boch's corporate success (business relevance), and secondly from an external perspective, reflecting their relevance to stakeholders.

In this non-financial report, details are provided on those aspects that are necessary for an understanding of the business performance, results and position of the Group and Villeroy & Boch AG and of the impact of business activities on the non-financial aspects referred to in the law. Villeroy & Boch covers the statutory aspects of environmental and employee concerns, human rights and anti-corruption with these issues. However, no material issues were identified for the aspect of social concerns, hence no further disclosures are provided in the report. Other issues are summarised in the additional aspect we have defined of product responsibility.

NON-FINANCIAL REPORT INDEX

Non-financial aspect	Reportable issues	Section
Environmental concerns	Energy efficiency in production	Environment
	Raw material efficiency in production	
Human rights/ employee concerns	Human and labour rights	Employees
	Occupational health and safety	
	Personnel development	
Environmental concerns/ human rights/ anti-corruption (in relation to the supply chain)	Responsibility in the supply chain	Supply chain
Anti-corruption	Anti-corruption and antitrust law	Corporate governance and compliance
Product responsibility (reported on in addition to statutory aspects)	Quality management and product compliance	Product responsibility

CORPORATE GOVERNANCE AND COMPLIANCE

Sustainability is closely linked to responsible corporate governance. Accordingly, good and transparent corporate governance is extremely important for Villeroy & Boch's long-term business success. It fosters the confidence of shareholders, customers, employees, business partners and interested members of the public.

The Management Board and the Supervisory Board of Villeroy & Boch AG have undertaken to uphold the principles of modern corporate governance. The company complies with the main requirements of the German Corporate Governance Code (GCGC) and issues an annual [declaration of compliance](#).

A detailed presentation of the tasks and responsibilities of the committees can be found in the [2020 Annual Report](#).

For Villeroy & Boch, acting with integrity and in compliance with the law is a fundamental element of good corporate governance in order to achieve economic success in the long term. Compliance with statutory and official provisions and internal regulations is ensured by a Group-wide compliance management system.

COMPLIANCE MANAGEMENT AT A GLANCE

The aim of the Villeroy & Boch compliance management system is to minimise compliance risks (prevention), identify and investigate potential compliance breaches (detection) and initiate appropriate countermeasures (response). This includes the fields of business ethics, antitrust law, data protection, combating corruption, fraud, money laundering prevention. Our central Compliance department also supports the specialist departments when it comes to overarching topics such as ensuring compliance in the context of our product responsibility (product compliance), upholding social standards in the supply chain (social compliance) and foreign trade issues (trade compliance). Compliance with statutory regulations in other specific areas such as the environment, occupational health and safety, capital market law and sanctions list screening is handled directly by specialist officers or the competent departments.

The reportable issues of anti-corruption and antitrust law are presented separately in the sections below.

ANTI-CORRUPTION AND ANTITRUST LAW BUSINESS INTEGRITY AND THE CODE OF CONDUCT

As an international group, Villeroy & Boch is in regular contact with business partners, companies and authorities in a number of different places in the world. The wide range of points of contact or business relationships this entails increases the need to stop and prevent possible illegal conduct. Corruption, bribery, unfair influence on the competition and the formation of cartels cause unfair market conditions and are

therefore strictly regulated. For this reason, business integrity is a guiding principle that we regard as a basic requirement for trustful cooperation and the equally sustainable and successful development of our business relationships.

The Villeroy & Boch Group's [Code of Conduct](#), which is binding for all employees, is the central standard for responsible and ethical conduct at all levels of our company and each stage of its value chain.

Among other things, it provides regulations for the areas of anti-corruption and antitrust law. Available in 20 languages in total, the Code of Conduct can be accessed by all employees on the intranet or on our corporate website for external business partners. The document is a worldwide component of employment agreements and therefore must be accepted by each employee in writing. As an aid to implementing our principles of conduct in our day-to-day work, detailed application guidance is provided in specific internal Group policies, including for the areas of anti-corruption and antitrust law. We also expect our business partners to comply with our Code of Conduct or provide evidence that they use an equivalent code. ▶ [“Supply chain”](#)

COMPLIANCE ORGANISATION AND RISK MANAGEMENT

Compliance at Group companies is the responsibility of the Villeroy & Boch compliance organisation, which is integrated at all levels of the Group, from the Management Board of Villeroy & Boch AG to the central functions and the two divisions, including all local Group companies. The Chief Compliance Officer and the central Compliance department are supported by 42 functional compliance officers and 63 local compliance managers at operating Group companies.

Risks in relation to corruption, antitrust violations and other compliance risks are analysed systematically and continuously throughout the Group to ascertain the scope and intensity of preventive action and countermeasures. In 2017, we began converting our policy-based compliance to process-oriented compliance, and in doing so we conducted a comprehensive risk analysis of our core processes along the value chain at Group level to identify inherent legal risks in these processes. In the 2020 financial year, we broadened this risk analysis to include our subsidiaries in the Asia-Pacific region as well, where we also examined core processes for compliance risks. This completed the transition to process-oriented compliance. This must now keep on evolving constantly, always adapting to changing processes and legal frameworks. We are still working on digitising the compliance rules applicable to these processes and the associated security and control mechanisms; this was also the case in the 2020 financial year. Standard procedures will therefore be accompanied by digital workflows that contain the controls and approvals relevant to compliance.

In the context of regular, “bottom-up” reporting throughout our compliance organisation, compliance risks are identified and evaluated on an ongoing basis so as to define and implement suitable countermeasures. There is also an ad hoc reporting requirement.

COMPLIANCE TRAINING

Information and communication are a key instrument for preventing compliance breaches, particularly regarding our employees who are exposed to risk, such as those who work in sales, marketing and purchasing. Given their functions, these employee groups tend to be more exposed to potential corruption, bribery or antitrust risks in their day-to-day work than, for example, administrative employees. These employees therefore receive more comprehensive training and more frequently. We use class-room-based training, online training, software-based e-learning and in-house training videos, not just to convey a common understanding of compliance and to raise employee awareness of the risks and consequences of corruption, bribery and antitrust violations, but also to ensure that knowledge is shared in a manner appropriate to the respective function.

As at the reporting date, 96 % of relevant employees worldwide completed anti-corruption training, while the antitrust training module was completed by 94 %. In addition, 94 % of store employees around the world completed the “Compliance” module via our International Sales Academy.

INVESTIGATING BREACHES

Information on possible compliance violations helps us to counteract them early on, and thus prevent damage to the parties and persons concerned. To this end, we have implemented a Group-wide whistleblowing policy that informs every employee how to make reports and how events could then unfold. The goal is to create an environment in which violations can be reported by achieving the greatest possible procedural transparency and by protecting whistle-blowers. Such reports are handled confidentially by Compliance and, if so desired, anonymously using our internal whistle-blower system. Suppliers, customers and other third parties can also provide tips and inform us of potential violations directly (by e-mail at whistleblowing@villeroy-boch.com or by post at Villeroy & Boch AG, Compliance, Saaruferstrasse 1–3, 66693 Mettlach, Germany). There is also an external ombudsman who serves as an independent confidant and mediator (contact data available at www.villeroyboch-group.com/en/investor-relations/corporate-governance/compliance).

Our Compliance organisation carefully investigates all reports. In our investigations and prosecutions we are guided by the principle of legality enshrined in law. On the basis of the relevant information received by the Group on possible compliance violations and in line with the principle of legality, two internal investigations were required in the 2020 financial year.

ANTITRUST LAW AND ASSOCIATION WORK

As a member of around 50 associations with anti-trust relevance, Villeroy & Boch requires that an antitrust compliance programme is established and actively pursued within the respective organisations. Employees who represent us in these associations are given special training on the potential compliance risks of this activity.

AUDITING AND IMPROVEMENT

We work to permanently improve our compliance management system using external audits and internal reviews of our compliance processes. The effectiveness of our compliance management system was most recently certified by an external auditor in 2016 in the areas of antitrust law and combating corruption in Germany in accordance with audit standard IDW PS 980.

RISK MANAGEMENT

The long-term achievement of the company’s targets is supported by Group-wide risk management in order to safeguard the company’s continued existence. As ecological and social aspects are also important for the realisation of economic success, our risk management takes these areas into account. Relevant risks are systematically recorded and evaluated in the annual Group-wide risk inventory.

In the 2020 financial year, there were no significant risks within the meaning of section 289c (3) no. 3 and 4 of the German Commercial Code (HGB), i.e. risks relating to the business activities, business relations and products of the Villeroy & Boch Group that are extremely likely to occur and that could have a serious negative impact on sustainability-related aspects of this report.

Details of our assessment of the individual risks can be found in the risk report in our [Group management report for 2020](#).

PRODUCT RESPONSIBILITY

TECHNOLOGICAL PROGRESS IN PRODUCTS

Innovation at Villeroy & Boch is a key component for the company's future viability. Product development in the Tableware Division focuses on product design and the functionality of crockery, glass and cutlery. In the Bathroom and Wellness Division, technological innovations in particular are proven to give a major competitive edge, whether with the aim of increasing customer benefit through innovations in material, design, comfort and hygiene or improving the environmental compatibility of our products.

A prominent example in terms of hygiene innovation is our DirectFlush rimless WC product family, of which we currently offer more than 40 models for all common collections: Instead of a conventional rim, DirectFlush rimless WCs feature an ideal water flow that completely flushes the total interior of the bowl. The innovative flushing technology requires just 3 or 4.5 litres of water for maximum flushing effect. At the same time, the rimless design enables fast and easy cleaning.

In the shower toilet segment, we have developed the ViClean-I 100, a product whose technology is integrated inside the WC and no longer in the seat, as was previously commonplace. In 2018, we became the first provider to launch this new solution for what is currently the most innovative WC category. The ViClean-I 100 is an elegant, state-of-the-art shower toilet that cleans gently but thoroughly and that comes with a whole host of practical functions. For example, the water temperature, the strength of the water jet and the position of the shower nozzle can be set individually using the remote control or an app. The self-cleaning shower nozzles also ensure optimal hygiene. As the water in the ViClean-I 100 is heated using a flow heater, there is no need for hot water storage, meaning it uses significantly less electricity than models with water tanks. Cleaning with a particularly gentle and thorough water jet means that less toilet paper is required. Further bidet variants have been on the market since 2019. Others are currently under development to grow this functional product family. For example, these include the ViClean A add-on variant, or the integrated ViClean IH and IE models, which are intended for the Asian market.

Development successfully continued on the new TwistFlush technology in the year under review. This will be introduced with two new models in the new Subway 3.0 collection in 2021. TwistFlush technology uses the physical power of a water vortex to achieve an especially thorough flush result with low water consumption. An outstanding feature of this system is the smooth, funnel-shaped interior, which significantly reduces sediments. Furthermore, the completely rimless shape makes cleaning especially easy – without splashing.

Another functional innovation we have developed is the AntiBac surface technology, a silver ion-glaze that is safe for the environment and for health, and that has been proven to reduce bacterial growth on ceramic surfaces and toilet seats by 99.9%, which makes it especially suitable for use in highly frequented areas with very high hygiene standards, such as hospitals or care facilities. In addition to this, for our full range of branded bathroom ceramics and ceramic sinks, we offer CeramicPlus – a dirt-repellent ceramic finish that minimises the use of cleaning products and daily maintenance thanks to its water- and oil-repellent properties.

As innovation goes hand in hand with research and development, we are constantly investing in these activities to further enhance our competitive capability, and to create a foundation for long-term corporate success. We invested € 15.2 million in research and development projects, including design development, in the 2020 financial year (previous year: € 16.6 million), € 11.5 million of which (previous year: € 12.2 million) related to the Bathroom and Wellness Division.

In the period under review, work was done to continue the advancement of our ceramic materials, products and production technologies. In optimising our ceramic material TitanCeram, in the washbasin manufacturing process we have achieved greater stability in the production of intricately designed and thin-walled products. We cooperate with various research institutes and universities on such issues and are working to integrate methods from the areas of artificial intelligence and machine learning.

The Tableware Division focused especially on the ongoing development of existing production technologies. For example, in the year under review, an isostatic press was brought on stream at our Torgau location for the manufacture of hollowware items such as cups. A new shuttle picking system was invested in for the central warehouse in Merzig to cope with the rising demands on logistics, which are being driven in particular by the successful growth of e-commerce as a sales channel.

QUALITY MANAGEMENT AND PRODUCT COMPLIANCE

BASIC PRINCIPLES OF OUR QUALITY MANAGEMENT SYSTEMS

Successful quality management is the foundation of the trust that our customers place in the high quality of Villeroy & Boch products. We focus on continuously improving the quality of our product processes and thereby the quality of our products as well. The basis for product and process quality is the quality standard ISO 9001:2015, on which the quality management systems in both divisions are based.

In the Bathroom and Wellness Division, we have even been continuously certified according to ISO 9001 since the quality management system was launched in 1995; the effectiveness of the system is audited internally and externally each year. In the reporting year, we harmonised the certifications of the management systems for quality, occupational health and safety, the environment and energy by switching to a common certification institute. For example, an SAP-based document and audit management system was implemented. Progress is continuing in the harmonisation of management systems at the Bathroom and Wellness sites as well. ISO certifications are continuously extended, for example by ISO 45001.

A fundamental task of our quality management is to ensure the compliance of our products with internal quality standards and external regulations. Given the wide variety of laws, guidelines and standards that apply to product requirements and the rate at which they change, we therefore have a Group-wide product compliance organisation into which all departments involved in product development, manufacture and distribution are integrated within their areas of responsibility. It is operationalised by interdisciplinary project teams and is the responsibility of the respective Product Compliance Officer in the two divisions as part of his line function. It is the duty of the Product Compliance Officer to report relevant risks to the member of the Management Board in charge of the division.

In 2019, face-to-face training was launched in several instances throughout the Group to raise awareness of the rules of product compliance in the functional areas. Departments such as product marketing, development and procurement are trained on manufacturers' duties at all stages of the product lifecycle. This is followed by an e-learning course on legal basics for the product development process, which is divided into two stages. This was rolled out in the Bathroom and Wellness Division in autumn 2020, while it will be implemented in the Tableware Division in the spring of 2021.

There are various measures within the quality organisations specific to each division with which we implement the quality requirements in sustainability areas such as product safety and customer health, the durability of ceramic products or material compliance.

PRODUCT SAFETY AND CUSTOMER HEALTH

We offer products for our customers' everyday lives, from washbasins and toilets for the bathroom through to plates, cups and cutlery. We are proud that our products are an integral part of the daily routine for millions of people and are aware of our responsibility to ensure products that can be used safely, comfortably and healthily.

In the Tableware Division, the properties of a product are already evaluated during the new development process using

a risk-oriented approach and adapted to the requirements of the market with the aim of identifying and preventing usage risks at an early stage. To achieve this, product development, product management and quality management work in close cooperation throughout the entire product engineering process.

The implementation of risk management along the product development process means that articles can be assigned to different risk classes early on. A specific audit approach is selected for a product depending on its identified risk, which is derived from the combination of manufacturing, materials and designated use (e.g. decorations, food contact, heat or children's articles). In in-house production, products are tested based on the pilot series manufactured for the first time under mass production conditions. At this stage (or, if there are high risks, already in the pre-production stage) extensive tests are conducted to ensure that the product is not hazardous or harmful to the user's health. The requirements are becoming increasingly complex due to the growing combination of different materials and international variations in the legislation for products that come into direct contact with food or the skin.

Process digitalisation, which has become an increasingly key topic in recent years, has been further modified and made more effective. The development process, from development to series production, has been mapped in a digital workflow to ensure that the individual steps are performed in a targeted, more efficient manner.

Chemical analysis and sensory laboratory tests are conducted externally in order to check that products developed in-house and purchased items demonstrate exemplary product safety and comply with all of the relevant guidelines and regulations prior to market launch. A total of 85 new products were examined externally in the 2020 financial year. Items that are assessed negatively are analysed in order to establish whether the defects - e.g. incorrect product labelling or threshold exceedance - can be resolved. As a general rule, no product reaches the market without being approved by Villeroy & Boch's quality management.

Once an item has successfully completed the development and quality process and has been launched on the market, it is retested at intervals of 18 to 30 months to monitor continuous ongoing product quality and safety in addition to compliance with legal requirements at all times. To this end, a total of 279 different articles from the existing range, including new products, were tested in external laboratories in the reporting period. For documentation purposes, all of the test reports and their current validity are stored in a database.

In addition to complying with national and international technical standards and regulations, quality management in the Bathroom and Wellness Division primarily focuses on the security-relevant aspects of products. To prevent a risk to customer health as a result of systematic product faults, every single ceramic product manufactured by Villeroy & Boch is visually inspected by a qualified member of staff following the firing process. In addition, central quality management has developed a catalogue of tests that requires each model to be subjected to regular, systematic safety and functional checks. New product models are tested more frequently in the first year of production. The requirements at each production site include the inspection of all fired ceramics and an additional inspection of goods marked as error-free based on defined sampling prior to their addition to the warehouse. All relevant test results are documented using a defined template and stored for at least ten years.

Product and quality management in both divisions also work in close cooperation when performing a design- and production-based risk analysis and when preparing consumer information. The timely introduction of measures as a result of the risk analysis reduces development expense and enables product optimisation even before approval for series production. Using various types of documents and communication channels, we provide consumers with comprehensive information on how to use and care for their products, while warning notices required by law that may have to be observed when using a product are always packaged together with it.

DURABILITY OF CERAMIC PRODUCTS

One of the main characteristics of ceramic products is their extreme durability. Villeroy & Boch toilets and washbasins are designed to be capable of standing up to many years of use. The (minimum) requirements for our products in terms of durability and resistance to wear are set by specific laws and international standards. For instance, a properly installed WC must withstand a static load of more than 400 kilogrammes. Such specifications are tested extensively in the product development process, also known as the stage-gate process, and products are not approved until all of the relevant requirements are met. In order to allow us to work with even greater efficiency and data availability during product testing, a project was launched in the reporting year with the aim of digitising the entire stage-gate process by the end of 2021. Several sub-goals have already been successfully implemented since 2019, as a result of which many quality audits have been fully digitised and are now being tested. As this is seen as key to ongoing process optimisation from a product compliance perspective, the project was systematically continued in 2020 as well.

In the Tableware Division, the longevity requirement relates to the resilience of porcelain products to the kinds of chemical and thermal stresses that may occur when being cleaned in a dishwasher. Having enhanced the testing method for dishwasher suitability in recent years, the resulting findings were validated in a round robin test with an external laboratory and set out in internal Villeroy & Boch audit instructions.

PRODUCT COMPLIANCE

Product compliance at Villeroy & Boch means product safety in close connection with material safety, which is why our department responsible for material compliance is embedded in the Group-wide product compliance organisation in the context of our quality management. For our products, we want to exclusively use materials that satisfy the relevant specifications imposed by laws, standards and guidelines in order to ensure that hazardous or inadmissible substances are never used. Both national and international material compliance were developed continuously in the reporting year. The resulting changes were integrated into the existing workflows. For example, new requirements were implemented for product certifications, including a new authorisation process for Saudi Arabia (SALEEM), thereby ensuring legally compliant exports of our products from various product areas (ceramics, wellness, WC seats, fittings) and different places of production (in-house production and merchandise). In both our in-house production and for goods manufactured by our suppliers, we therefore endeavour to comply with environmental regulations such as BattG (German Battery Act), BiozidV (Biocides Regulation), REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), RoHS (Restriction of Hazardous Substances Directive), TSCA (Toxic Substances Control Act) and WEEE (Waste of Electrical and Electronic Equipment Directive). Internal compliance audits ensure random checks on the implementation of these regulations in our corporate processes.

Compliance features and certificates are embedded in the master data of our products. The continuous expansion of the master data concepts helps to optimise order handling processes and minimises risks when exporting to third countries. To ensure the compliance of exports even during COVID-19, all external product and ISO 9001 audits were conducted remotely to safeguard the necessary protective measures. The product certificates relevant to sales were extended in good time in coordination with the certification institutes (e.g. KIWA, IAPMO, IKRAM).

The design and appropriateness of the established product compliance management system in both divisions was confirmed by an external auditor in accordance with audit standard IDW PS 980.

SUPPLY CHAIN

BASIC PRINCIPLES OF OUR PROCUREMENT

The Villeroy & Boch brand has always stood for ceramics expertise. The vast majority of our toilets, washbasins, kitchen sinks, plates and cups are manufactured at our eight ceramic production sites. The most important raw materials used in ceramic production are kaolin, quartz, feldspar and clay. We also possess product expertise for bathroom furniture, plastic-based wellness products such as bathtubs, and tap fittings and installation accessories using brass as the main material. In addition to raw materials for in-house production, we purchase merchandise from suppliers. In the Tableware Division, this relates primarily to glasses and cutlery. In the Bathroom and Wellness Division, we purchase items such as toilet seats, bathroom mirrors and outdoor whirlpools in order to round off our product range.

The overarching aim of our procurement strategy is to select reliable suppliers that can provide the required materials and services in the required quality and volume at the right time and at the right price. We firmly believe that long-term relationships with suppliers in a spirit of mutual trust are an important factor in the success of our procurement organisation. We continuously refine our cooperation through regular feedback discussions and evaluations using a standardised catalogue of criteria including an assessment of environmental performance as well as quality, logistics, service and cost aspects. We aim to avoid or minimise potential procurement risks in connection with quality defects, supplier insolvency, supply disruptions or single sourcing. As part of our risk management, we permanently monitor the procurement markets and the financial position of key suppliers.

If available, we prefer to source raw materials for in-house production from local suppliers. This typically means rapid availability and short transportation routes, which is also positive for the environment. In other cases, we are unable to use local suppliers due to limited resources, substantial quality fluctuations, uncompetitive prices, or the need for standardisation across our sites.

RESPONSIBILITY IN THE SUPPLY CHAIN

We are committed to upholding high standards when it comes to employment rights, human rights, health and safety, environmental protection and legal compliance, including in the context of antitrust law and combating bribery and corruption. We examine and monitor compliance with these standards at our own locations every single day. The demands we make of our suppliers are just as high. This requires effective supply chain management.

Our [Code of Conduct](#) is the binding foundation for adherence to our minimum requirements for working with business partners. The aim is to ensure that as many suppliers as

possible sign up to this Code of Conduct or demonstrate the application of their own at least equivalent Code of Conduct. In this context, we began actively reaching out to existing suppliers and all new business partners in 2017 regarding the written confirmation of a systematic commitment to compliance with our Code of Conduct. The expansion of this measure to almost all supplier sectors, which we completed last year, has increased the transparency of Code of Conduct acceptance throughout our entire supplier landscape. As in the previous year, an annual procurement volume of more than €10,000 per supplier is currently applied as the materiality threshold. As at 31 December 2020, the criteria were met by 2,481 suppliers (previous year: 2,770 suppliers) accounting for a total procurement volume of €406.6 million, i.e. 83% of the Group's total volume. The target coverage ratio of more than 85% was achieved again in 2020 at 88%.

In the context of supply chain management, all key suppliers have also been divided into four risk classes on the basis of the Corruption Perception Index (CPI) published by Transparency International. In the context of supply chain management, all key suppliers have also been divided into four risk classes on the basis of the Corruption Perception Index (CPI) published by Transparency International. Based on the CPI score of the supplier's home state on a scale of 0 (highly corrupt) to 100 (very clean), the associated supplier risk – validated by individual assessments by our strategic purchasers – is classified as “low”, “medium”, “high” or “blacklist”, indicating appropriate due diligence measures of varying intensity. Supply relationships with suppliers from blacklisted nations must be avoided and, as previously, we did not have any such relationships in the 2020 financial year. We consider signing the Code of Conduct to be sufficient to cover risk in connection with suppliers from low-risk countries (e.g. Germany). In selected cases, individual suppliers from high-risk countries are visited by our employees and assessed on the basis of a visit report containing questions on compliance with employment rights, human rights, health and safety and environmental protection, among other things. We also reserve the right to perform audits in suspicious cases. These social audits are performed by an external service provider according to the Workplace Conditions Assessment standard (WCA). Taking into account country-specific laws and regulations, the aspects of work, wages and hours, health and safety, management systems and the environment were assessed for suppliers from high-risk countries. In the coming year, we also plan to establish an overview of our suppliers' existing certifications, focusing on our main suppliers from high-risk countries. In addition to the internally preferred WCA standard, the social audit standards we recognise include amfori BSCI, the SA8000 standard, Initiative Clause Sociale (ICS), Ethical Audit (QIMA) and SMETA audits.

ENVIRONMENT

BASIC PRINCIPLES OF OUR ENVIRONMENTAL AND ENERGY MANAGEMENT

We operate a total of 13 production and assembly sites in Europe and Asia, eight of which are used to manufacture ceramic products. We are aware that this goes hand in hand with responsibility for the environment and climate protection. We are continuously improving our production processes in order to reduce production-related energy, raw material and water consumption, CO₂ emissions and non-recyclable waste. This way we reduce costs and improve our life cycle assessment and energy footprint.

Acting responsibly with regard to our ecosystem and the available resources forms part of our corporate culture. This is based on structured environmental and energy management which is coordinated for the Group as a whole by the central Environment and Energy department. At our production sites, we also employ specialists who develop and implement measures together with the respective plant managers and track target attainment. We use internationally recognised management systems in order to establish cross-site standards and enable comparability. As at the reporting date, twelve production sites each were certified in accordance with the environmental management standard ISO 14001 and the energy management standard ISO 50001. The introduction of an environmental management system for certification that began in 2019 was successfully completed at one location in the year under review. Four locations also fulfil the more extensive requirements of EMAS III, a voluntary instrument instituted by the European Union for the continuous improvement of environmental performance.

In addition to the external audits conducted at regular intervals to confirm ISO certifications and EMAS validations, we have established a pool of internal auditors in recent years with responsibility for examining the environmental and energy management systems at local sites. The audit approach requires an annual audit of all production sites certified in accordance with ISO 14001 or ISO 50001, or validated in accordance with EMAS III. The audit programme and the aspects to be audited are prescribed by central environmental and energy management. The procedure for internal audits, in which we verify compliance with norms at a given location, had to be changed in the year under review owing to COVID-19, in that the internal audits are no longer carried out across several countries. 38 internal audits in total were performed in the 2020 financial year.

Across all production locations, we pursue strategic goals aimed at the continuous reduction of our specific gas and electricity consumption, as expressed in kilowatt hours per tonne of

saleable goods or CO₂ emissions in tonnes. The strategic objectives at our ceramic plants also include an increase in glaze recovery and a reduction in specific glaze and slip consumption. Target attainment is regularly reviewed. ▶ “Energy efficiency in production” and “Resource efficiency in production”

ENERGY CONSUMPTION

ENERGY EFFICIENCY IN PRODUCTION

The ceramic industry is traditionally energy-intensive. From the preparation of raw materials to the finished product, it involves processes that require a high level of energy consumption. The sub-processes with the largest energy consumption are firing and – depending on the production technology used – casting and drying.

We permanently work on measures to improve the energy footprint of our production sites. High priority is given to the modernisation of existing plant and equipment, such as drying chambers and kilns, and the acquisition of new plant and equipment. Energy efficiency is a key factor when deciding on these investments, as this can allow us to reduce gas consumption, emissions and costs.

In addition, we are working on projects for heat recovery at our energy-intensive ceramic factories. In cooperation with renowned research institutions, we are also pursuing ideas for optimising and digitalising the firing process. A project for simulating thermal processes for energy efficiency was begun in June 2020. This project is scheduled to run for 3 years.

EFFICIENCY ENHANCEMENT MEASURES IN DETAIL

Heat recovery in various forms has been used successfully at the Tableware sites in Merzig and Torgau for a number of years. In Merzig, for example, ceramic pipes are used to dissipate the radiant heat generated by the firing process in order to pre-heat other products and heat the surrounding buildings. Since the start of 2018, the plant has also been running a newly installed heat recovery system that uses the waste heat generated by the compressors in compressed air generation to directly preheat the combustion air in the two glost firing kilns. Various heat recovery concepts are also already established practice at our sanitary ceramic ware plants.

For example, the transition was made from old tumbling mills to state-of-the-art agitator bead mills for the preparation of material in the Mettlach plant in the 2020 financial year. Furthermore, deicing systems were replaced by permanent magnet systems, which resulted in savings not just for plant electricity and water cooling, but also for glaze losses. Also, a new and efficient recirculation kiln has been reducing energy

consumption since last year. As part of the Mettlach 2.0 project, the buildings of the local fire brigade were connected to the combined heat and power plant for heat generation in the year under review.

Also, efficiency enhancement measures were carried out at our international locations. For example, the work to implement the concept for using waste heat from the kilns for the dryers at our location in Hungary that was begun in 2019 was successfully completed in the 2020 financial year. Furthermore, other measures contribute to a smaller extent to the use of waste heat, and modernisations to efficiency enhancement, such as the transition to modern, more effective power units and converting to LED lighting at all locations. A study on heat recovery and reducing carbon emissions was commissioned for our site in France in order to focus on and analyse these issues moving ahead, before then implementing the measures derived (e.g. insulating dryers, heat recovery from the kiln and air compressors).

Sustainable energy generation using solar collectors at our Dutch location in Roden is still seen as a major success. More than 1,800 solar panels were installed on a roof surface of 6,000 sqm in 2019, generating around 20 % of the location's annual electricity requirements while simultaneously reducing its carbon emissions. A system review was carried out at all sites to make further progress in the Group's use of solar energy.

Cross-site energy management conferences have been held since 2014 to enable the sharing of information on best practice solutions and to intensify future projects. The regularly held event is attended by the energy management officers from all the ISO 50001-certified production sites and members of the Management Board. This event had to be postponed until 2021 because of COVID-19.

ENERGY CONSUMPTION

Our reporting on energy consumption focuses on our production locations. In the 2020 financial year, consumption of gas – our most important form of energy – amounted to 404.8 GWh in total (previous year: 483.9 GWh). The gas-intensive firing process meant that 99.6 % of this figure was attributable to the ceramic factories in both divisions around the world. Electricity consumption in production amounted to 88.8 GWh (previous year: 101.8 million GWh) in the period under review, down significantly on the previous year as a result of halted production. Our ceramic production sites accounted for 84.5 % of this figure. Specific energy consumption, i.e. in relation to the quantity of saleable goods produced in tonnes, increased slightly across all ceramic sites for gas (+ 4.7 %) and electricity (+ 2.9 %). A significant amount of this increased consumption was due to halted production at some Europe-an sites due to COVID-19, as

some systems had to run continuously to ensure a smooth restart of production. Furthermore, additional systems were installed and the production stop-pages of various lengths were used for maintenance work.

Direct and indirect CO₂ emissions can be calculated on the basis of our electricity, gas and oil consumption data and the respective CO₂ emission factors. In total, these emissions fell to 114,490 tonnes in the 2020 financial year (previous year: 139,439 tonnes) as a result of reduced energy consumption and the rising use of renewable energies (photovoltaics in particular), which is due to be increased further in the years ahead.

RESOURCE EFFICIENCY IN PRODUCTION

Manufacturing ceramic products – particularly in the Bathroom and Wellness Division – involves a high degree of process complexity. Drying and firing reduces the size of a toilet or washbasin by around 15 %. Handling natural materials and their inherent quality fluctuations, as well as factors such as process speed, product size and air humidity and temperature, lead to considerable complexity in the manufacturing process and can result in high reject rates.

Considerable potential for improving raw material and energy efficiency is presented by a further reduction in reject rates. Digitisation can help in the form of statistical fault analysis and the stabilisation of process parameters. 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. Measurement stations have been installed at all sanitary ware factories for this purpose. The aim is to combine data in such a way as to identify influences, critical ranges and interactions between the parameters in order to enable reliable predictions about the risk of a faulty product (predictive analytics). If the probability of error in a threshold-controlled process exceeds a defined level, the product is rejected as quickly as possible in order to prevent unnecessary material and energy consumption in the thermal processes. The gradual improvement of these systems is expected to lead to a material increase in efficiency and earnings in the long term.

Our aim is to minimise the use of ceramic slip and glaze. Materials collected and reused within the production process are included in the preparation processes of slip and glaze. In the case of ceramic slip, this means the excess slip from the casting process as well as so-called “burned breakage”, i.e. parts that are rejected in the various quality controls prior to and after firing and subsequently recycled. For glaze recovery, the Mettlach sanitary ware factory uses a microfiltration system that gathers solids and re-adds them to the glaze preparation.

In the 2020 financial year, we prepared and used a total of 91,710 tonnes (previous year: 118,479 tonnes) of ceramic slip across all of our ceramic plants in both divisions. The reduction in slip preparation was caused by production stoppages due to the pandemic. However, in relation to the quantity of saleable goods produced (in tonnes), specific slip consumption has declined slightly year-on-year. Thanks to improved glaze recovery processes, we reduced the quantities of glaze used both in absolute terms (to 9,622 tonnes; previous year: 12,604 tonnes) and in terms of specific consumption (-6.1 %) in the reporting period.

WATER AND WASTE WATER

The resource of water is also extremely important to the ceramic production process. As a matter of principle, we strive to reduce our freshwater consumption by using recycled water and - at the Mettlach site - ground water from our own well. In some cases, however, the technological requirements of the water-relevant processes are so high that we are required to use freshwater. The system installed at the Tableware location in Merzig last year to treat production wastewater so that it can be reused for cleaning processes was used successfully in the year under review. This system will allow savings of more than 5,000 m³ of fresh water per year.

Our water consumption also requires responsible waste water management. To this end, we have installed a waste water treatment system at all of our ceramic production sites in order to filter ceramic and glaze residues from the waste water and recycle or dispose of them separately. The waste water is then fed into the municipal sewerage system or directly into public waters in accordance with the respective local provisions. A new wastewater treatment plant was built at our Thai site in the 2020 financial year to satisfy rising requirements. Particular importance was attached to the automation of individual process steps, for instance for the

more effective and thus greener dosing of flocculants that bind particles in wastewater.

Our production locations used 985,697 m³ of fresh water in total in the 2020 financial year, and thereby less than in the previous year on account of the production stoppages due to COVID-19 (1,137,849 m³). Consumption increased in relation to the quantity of saleable goods in tonnes, partly on account of maintenance and cleaning work.

WASTE

The best kind of waste is no waste at all. To this end, increasing material efficiency and reducing the reject rate are the biggest levers for lowering the volume of waste generated. However, no manufacturing company will ever be able to avoid waste altogether. This is why we systematically seek out ways of recycling and reusing waste. The reuse of unfired and fired breakage in the preparation of fresh slip for ceramic production reduces waste volumes.

In addition to reusing unfired breakage in ceramic production, we use wood scraps at our bathroom furniture production site in Mondsee (Austria) for heat generation, for example. A heating system fuelled by wood chips provides the majority of the location's heat requirements during the colder months. A similar concept is also used at our bathroom furniture factory in Treuchtlingen. All waste that cannot be immediately recycled at the respective site is disposed of in accordance with the European or country-specific waste regulations. We are subject to post-disposal obligations at locations where we formerly operated landfill sites.

The waste volume at our production locations fell by 22.6 % year-on-year to 30,216 tonnes in the 2020 financial year. Among other things, this was thanks to internal waste recycling.

EMPLOYEES

BASIC PRINCIPLES OF OUR HR MANAGEMENT

Villeroy & Boch's growth and success are essentially based on the commitment of our approximately 7,100 employees around the world. Their performance and their professional qualifications set them apart. In return, we offer our employees interesting and challenging tasks and a varied, safe working environment that gives them the opportunity to realise their development potential and take even more responsibility. We see this as the basis for retaining our employees and attracting qualified specialists and managers at all locations.

In particular, this includes our three-year trainee programme and our new training and development programme for our technical specialists and managers, which the market can only offer to a limited extent.

Corporate Human Resources (HR) at Villeroy & Boch comprises a global HR organisation in which our employees are supported at a local level by the HR department responsible for their region. The local HR departments are managed directly by the Global Head of HR. Strategic HR policy issues relevant to the Group are also managed by the Global Head of HR under her central responsibility. She reports directly to the member of the Group's Management Board in charge of HR (Chief Human Resources Officer).

In terms of the statutory non-financial aspect of employee concerns, the areas of human and labour rights, occupational health and safety and personnel development are considered the most important. ▶ "Stakeholder dialogue and materiality analysis"

In addition to the disclosures of the non-financial report, we have also provided an overview of other HR policy issues that are to be managed with an increased strategic focus in the medium term regarding introducing Group-wide standards and processes.

The Villeroy & Boch Group had 7,107 employees as at the end of 2020 (previous year: 7,835). 36.2% of the total workforce was employed at our German locations. Further key figures on the employee structure can be found in the [annual report](#).

FAIR WORKING CONDITIONS

HUMAN AND LABOUR RIGHTS

As a global company with production, sales and administrative locations in a variety of countries, Villeroy & Boch is wholly committed to human rights, in particular as codified in the United Nations Charter of Human Rights. We therefore see it as part of our corporate responsibility to ensure working conditions that are consistent with the labour laws of the countries in which we operate and internationally applicable labour standards. This

includes both a zero-tolerance stance on exploitative and illegal child labour and forced labour – both at our own companies and within our supply chains – and the prohibition of discrimination with respect to employment and occupation.

Our Group-wide [Code of Conduct](#) demands respect for human and labour rights from each and every individual employee. Any risks in relation to social compliance are covered by regular risk reporting within our department-wide and company-wide integrated compliance organisation. Any violations lead to investigation, penalties and measures to be taken under the responsibility of the Chief Compliance Officer in close cooperation with the competent local HR departments and supervisors. Tips or anonymous complaints are initially received through our internal whistle-blower system. ▶ "Corporate governance and compliance"

No events with material negative repercussions affecting our goal of honouring human and labour rights became known at our locations in the 2020 financial year or the previous year.

CO-DETERMINATION AND REMUNERATION

The involvement of employees in the context of co-determination is self-evident at Villeroy & Boch, and is a valuable instrument for balancing management and employee interests and preserving industrial peace. We therefore respect the right of employees to organise in associations and unions at company and industry level. This also includes collective wage negotiations in the context of the respective national law. In line with German co-determination law, the Supervisory Board of Villeroy & Boch AG is composed of equal numbers of shareholder and employee representatives.

Fair working conditions also mean a fair and transparent remuneration policy. The remuneration systems that apply within the Group provide for remuneration for our employees that is based on performance irrespectively of gender. In many countries, especially in Europe, the amount of wages and salaries for certain employee groups is regulated by collective agreements, hence such agreements are binding for work-based pay groups for the relevant industries. Remuneration for employees not subject to collective agreements is based on a global grading system that – fairly, transparently and irrespectively of gender – reflects the value of a position within the organisation. The basis for this grading is the job description for the respective post in terms of organisational classification, areas of activity, responsibility and influence and the requirement profile. To help them to maintain their standard of living in old age, we offer our employees various options for participating in occupational and collectively agreed pension provision, the specifics of which vary from country to country.

OCCUPATIONAL HEALTH AND SAFETY

The health of our employees and their safety in the workplace are also fundamental elements of the Villeroy & Boch Group's sustainable HR strategy. The relevant legal standards are binding for us at all times, but are only our minimum requirements because we believe that the company's own internal standards for occupational health and safety should be higher. After expanding our Health and Safety (H&S) unit, which operates independently within our Group headquarters, by hiring a full-time company doctor at the end of 2019, we generated further key stimulus for the positive expansion of our Group-wide safety culture in the reporting period.

Our safety standards and processes are constantly being improved and monitored by internal audits or inspections. The Group-wide implementation of a management system for occupational health and safety in accordance with the new international standard ISO 45001 began in 2019 with the successful certification of six company locations. Owing to the COVID-19 crisis, the associated impact on our production operations and the general official restrictions and requirements, including in particular international travel restrictions, the initial certification processes planned for 2020 had to be postponed to 2021. Despite all the obstacles thrown at us by the pandemic, we were able to successfully recertify the locations that were previously certified.

A high degree of safety awareness and individual responsibility on the part of our employees is a basic prerequisite for identifying and removing accident risks, potential health risks and other potential dangers in our working environment. To this end, we provide our local employees with regular training in the form of relevant information events, workshops and training sessions. In addition, third parties working at our locations receive comprehensive instructions to ensure that they are sufficiently aware of the corresponding risks and hazards. In the period under review, this focused on protecting the health of our employees and on defining and implementing COVID-19 protective measures.

When news of the pandemic first began to break at the start of the year, in addition to a systematic analysis of the special protections necessary against COVID-19, initial measures such as disinfection stations for employees, dividing walls between workplaces and floor markings illustrating safe distances were implemented at all workplaces in our organisation worldwide. All other measures arising from the hazard assessment were combined in a Group-wide pandemic plan and, step by step, activated according to the given necessities of the pandemic, implemented and adapted in line with new information. A general pandemic team, consisting of representatives from H&S, HR, the Works Council, the Press department and Facility Management among others, worked closely with the Management Board on an ongoing basis to ensure that the necessary measures were devised, communicated and

implemented in good time. We had already implemented a number of measures even before they became legal requirements. For example, face masks were required right from the start of the pandemic, and it was ensured that the necessary social distancing was maintained. In administration, this was achieved by the alternating use of on-site and mobile working in assigned groups. At the production sites, this was done by staggering shift times, physically separating workplaces or working in set teams. Instructions on measures to minimise the risk of infection in the workplace were issued through e-learning in administrative areas, and through on-site training in production areas.

As a result of the measures outlined above, a comprehensive information campaign and mandatory training on COVID-19, the Group's employees were actively mobilized to ensure long-term protective discipline. Owing to the stronger rise in new infections in the total populations of many countries from autumn 2020, these measures were refreshed and expanded, including with a comprehensive test regime granting employees free access to rapid antigen tests. The offer of these tests was readily accepted by employees. More than 1,100 tests (rapid tests and PCR tests) were performed voluntarily at German sites in 2020, both for employees and outside visitors (such as contractors for essential maintenance work). This contributed to increased safety in the workplace and in employees' private lives.

Infections are monitored by the pandemic team after it is notified by the employees concerned or the health authorities. This includes tracing paths of infection, though in the absolute majority of cases infection clearly occurred privately and there have been only a few exceptions where it has not been possible to rule out infection in the workplace. The necessary hygiene and isolation measures were then initiated in each individual case, and the protective measures in the workplace were reviewed using a checklist. No change requirements for protective measures were identified. In order to better and more transparently assess the quality and effectiveness of occupational health and safety practices in our organisation, we use a comprehensive and now largely digital reporting system in Health and Safety that tracks the relevant data at all locations and for all employees in regular reporting cycles.

Once again this year, our accident analysis focuses on the quantitative accident data for our locations with the highest headcounts, i.e. our production plants and our three biggest logistics locations, supplemented by the accident data for the Group's headquarters in Mettlach as the largest administrative location. This is based on the performance indicators introduced at the Villeroy & Boch Group in the 2019 financial year: the total recordable incident rate (TRI rate, measured per 200,000 hours) and the accident severity rate (measured per 200,000 hours). The TRI rate shows the frequency of accidents in the workplace in relation to the number of hours worked. The accident severity rate shows the severity of the accidents

as the number of work days lost due to accidents divided by the total number of hours worked. As in 2019, all accidents are recorded and analysed from the first day of absence. The lockdown lasting several months, the economic downturn in the first half of 2020 and short-time working reduced the hours worked at almost all locations. The accident severity index for 2020 as a whole was stable at 40.9 (previous year: 42.7), and shows that the average number of work days lost to the accidents is low. The TRI rate was 1.8 as at 31 December 2020 (previous year: 2.5). The measures introduced in the past year to improve the safety culture and employee safety consciousness at the Group's locations have clearly had a positive effect.

In the 2020 financial year, there were a total of 58 (previous year: 104) reportable occupational accidents within the defined scope resulting in the employees affected being unable to work for at least one day. We define occupational accidents as accidents that occur in direct connection with the employee's activity, and area accidents as accidents that occur on the way to or from the employee's activity within the plant or place of work. These accidents resulted in a total of 1,551 work days lost (previous year: 2,222 work days lost). There were no occupational or area accidents with fatal consequences throughout the Group in the reporting period or the previous years.

Above and beyond occupational safety, we aim to look after and promote the health of our employees at all locations on a holistic basis. In addition to just being an employer, we especially want to enter into a trust-based health partnership with our employees that continues our company's tradition of social responsibility. One example of this is our sick rate, which has been low for years and, as in the previous year, was again 4.1 % in the 2020 reporting period. Our wide-ranging healthcare offering is aimed at improving both physical and mental vitality in order to ensure an agile, high-performance organisation even at an advanced age. The healthcare implications of the pandemic for our employees were the primary focus in the period under review. Digital consultation hours with the company doctor, targeted awareness measures for COVID-19 (e.g. in the form of information sheets and e-learning), intensive advice and support from the company doctor for the risk groups defined by the Robert Koch Institute and continuous contact with recognised virologists show that our company truly practices its healthcare partnership, preventive healthcare and corporate social responsibility (CSR).

DIVERSITY AND EQUAL OPPORTUNITIES

The strength and innovation of Villeroy & Boch depends on diversity among our employees and the individual characteristics and perspectives they bring to their work. This also includes a working environment free from discrimination and equal opportunities for all employees – regardless of origin, gender, religion or belief, disability, age or sexual identity.

With employees from 75 different nations, cultural diversity is a part of everyday life at the Villeroy & Boch Group. Our German locations alone had employees with 51 different nationalities at the reporting date. The number of foreign employees in Germany changed from 349 in the previous year to 345 as at 31 December 2020.

The advancement of women, particularly in management positions, is a strategic objective. At the reporting date, 35.4 % of employees throughout the Group as a whole were female. At the parent company Villeroy & Boch AG, the proportion of women at the two management levels below the Management Board was 34.2 %. Our long-term target for Villeroy & Boch AG is still 40 %.

When it comes to HR management, we see demographic change as a challenge and an opportunity in equal measure. In terms of the age diversity of our workforce, we seek to use the strengths of different age groups in a targeted manner and ensure adequate preparation for age-related departures as part of strategic succession planning. Within the Group, 30- to 50-year-olds are the largest group at 48.6 %, followed by the over 50s at 35.7 % and the under 30s at 15.7 %.

We offer flexible working time models at various locations to promote work-life balance. This includes flexible working hours for salaried employees and flexible shift systems, as well as part-time and partial retirement models. As at 31 December 2020, 14.7 % of the Group's workforce (previous year: 15.4 %) was employed on a part-time basis. A family-friendly HR policy naturally also includes making the statutory parental leave, care periods and family care time in the various countries more accessible to employees through specific works regulations.

Villeroy & Boch is also increasingly making use of virtual or mobile working methods to bring together employees with different abilities from all over the world, so that together they can work on our goal of 'making houses a home'.

Among other things, a General Works Agreement is also to be introduced on the subject of mobile working. As a result of the COVID-19 pandemic, we have necessarily greatly stepped up the availability of mobile working, and we have had very good results. There were many advantages that benefit both the employees and the company as well. In addition to positive environmental effects, mobile working can also contribute to a better work-life balance. Furthermore, a shift planning system is currently being tested at our plants that gives employees the chance to assign their own shifts.

PERSONNEL DEVELOPMENT

Our future business success depends on securing specialists and new talents for the company in a targeted, forward-looking manner. At Villeroy & Boch AG, we actively reach out to school pupils and students at an early stage with offers such as career

and application days, internships and cooperative mentoring for degree theses. We also offer a broad range of skilled trades and dual study programmes in cooperation with regional, national and international training institutions and universities. In this context, we also take into account new professional profiles that emerge on the labour market. In 2019, we focused on the training and further development of technical specialists in order to combat the skills shortage in this sector in particular. In addition to our main training locations in Mettlach and Merzig, we use regional Group locations and organisational units for the development of talented young employees. At 31 December 2020, we employed a total of 161 young people throughout the Group in vocational training or as part of dual study programmes (previous year: 181), 62 of whom (previous year: 67) were employed at our international locations.

Villeroy & Boch AG offers a 36-month junior programme to inspire graduates with commercial and technical degrees to consider a career at Villeroy & Boch. 34 talented young employees were being prepared to assume specialist and management functions in various departments as at the reporting date.

Even while the juniors programme is still ongoing, participants can show that they are our creative executives of tomorrow and help to shape the company's future by initiating their own strategic projects. Among other things, a junior project on sustainability was launched in the 2020 financial year. The aim of this is to use a stakeholder survey to gather detailed information on which sustainability issues will be especially important to the company moving ahead. The results of the project are to be used for the ongoing development of sustainability initiatives.

To facilitate even closer contact with universities and students, we have been a gold sponsor of the Enactus student organisation since 2016. The international network has more than 75,000 student members in more than 35 countries, around 1,700 of whom at more than 35 institutions in Germany alone. Based on the United Nations' Sustainable Development Goals (SDGs), these students are involved in sustainability projects all over the world.

FURTHER AND ADVANCED TRAINING

Continuous development – both individually and within the team – is a fundamental requirement for successfully mastering the challenges of a business environment characterised by rapid change and remaining competitive in the long term.

First of all, this is achieved by enabling our employees to learn as part of their day-to-day work and in projects and by ensuring they have varied areas of activity with opportunities to take on new tasks at home and abroad. Modern digital communication channels are used to facilitate the internal exchange of information. Secondly, we want to get even better at utilising

the skills of all our employees, and systematically and actively promote high potentials, employees with training requirements, top performers and experts in key functions in particular. Various interdisciplinary or subject-specific programmes and measures for training and continuing professional development are therefore being developed by our central Talent Management department and offered at various Group locations. We use both classroom-based events and digital learning formats (interactive e-learning, videos and webinars) as our medium, with the assistance of selected employees from our own ranks or external training providers depending on the subject matter. Above all, digital transformation is becoming increasingly significant in the context of our internal continuing professional development programmes. For this reason, since 2017, we have been offering Villeroy & Boch AG employees training, workshops and coaching under the publicly subsidised training programme "Fit for Digital Transformation" in order to advance and develop the application of digital working methods in our corporate culture. To continue developing the skills of older employees in particular in the use of digital technologies and platforms, we also permanently added reverse mentoring to our training portfolio in 2018. In this training programme, which spans all hierarchy levels and departments, the older generations of managers and employees are trained by younger, digital native colleagues on selected digitisation concepts (e.g. digital networking, digitisation in everyday work and private life, e-commerce, new digital business models).

Last year, the content and design of management training was revised to reflect a blended learning approach that increasingly teaches agile methodological expertise. It was not possible to perform training as originally planned during the COVID-19 pandemic. We will be using e-learning more and more to train our employees in future.

A total of 1,219 employees at our German locations participated in training measures in the 2020 financial year.

Villeroy & Boch also uses sustainable fleet management. According to an analysis of the first six months of operation of the diesel hybrid vehicles acquired in the previous year in conjunction with a pilot project, the fuel consumption of the test vehicles was demonstrably reduced by around 40%. Carbon emissions also declined significantly thanks to this efficiency. This is made possible in part by using the electricity produced by Villeroy & Boch itself from its own combined heat and power plant. The pilot users deliberately selected following a careful analysis of their driving profiles charge their vehicles each day during office hours to power their journeys to and from work, mostly relying entirely on electricity and thus avoiding the use of conventional fuels. Based on the positive results, we added the option of using hybrid vehicles to our company car policy. Internationally, another test programme for electric vehicles is underway in the UK and a similar test model is in the preparatory stages for Belgium.

NOTES

NON-FINANCIAL REPORT: OVERVIEW OF REPORTED KEY FIGURES AND PERFORMANCE INDICATORS

Key figure	Villeroy & Boch Group		Villeroy & Boch AG	
	2020	2019	2020	2019
Business model				
Revenue	€ 800.9 m	€ 833.3 m	€ 498.2 m	€ 510.6 m
Operating EBIT	€ 49.7 m	€ 49.5 m	–	–
Non-operating result (EBIT)	€ -9.0 m	€ 52.4 m	–	–
EBIT (IFRS)	€ 40.7 m	€ 101.9 m	–	–
Net income (HGB)	–	–	€ -28.1 m	€ 39.1 m
Return on net operating assets ¹⁾	14.7 %	14.0 %	–	–
Anti-corruption and antitrust law				
Coverage ratio of anti-corruption training	96 %	92 %	97 %	96 %
Coverage ratio of antitrust law training	94 %	90 %	95 %	94 %
Product responsibility				
Externally tested articles in the Tableware Division	279	291	279	291
■ New products	85	64	85	64
■ Existing range	194	227	194	227
Responsibility in the supply chain				
Procurement volume, total	€ 490.1 m	€ 543.4 m	€ 206.2 m	€ 218.9 m
Suppliers classified as material	2,481	2,770	900	1,045
■ Associated procurement volume	€ 406.6 m	€ 457.4 m	€ 189.8 m	€ 198.9 m
■ Coverage of procurement volume by Code of Conduct	88 %	84 %	86 %	90 %
Energy efficiency in production				
Gas consumption	404.8 GWh	483.9 GWh	127.9 GWh	159.0 GWh
Electricity consumption	88.8 GWh	101.8 GWh	26.7 GWh	32.4 GWh
CO ₂ emissions	114,490 t	139,439 t	38,967 t	49,440 t
Raw material efficiency in production				
Quantity of ceramic slip used	91,710 t	118,479 t	21,803 t	27,454 t
Quantity of glaze used	9,622 t	12,604 t	2,825 t	4,076 t
Employees/personnel development				
Employees	7,107	7,835	2,205	2,330
■ of which in Germany	2,577	2,786	2,202	2,327
Trainees and dual students	161	181	92	105
Juniors	34	46	33	45
Employees participating in continuing professional development ²⁾	–	–	1,165	1,599
Occupational health and safety				
Occupational accidents	58	104	24	41
■ Resulting work days lost	1,304	1,944	295	341
Area accidents	12	28	8	10
■ Resulting work days lost	247	278	28	120
Sick rate	4.1 %	4.1 %	5.8 %	6.7 %

¹⁾ For management purposes, the return on net operating assets is calculated at Group level only.

²⁾ This information is currently only collected for the German locations.

IMPRINT

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FORWARD-LOOKING STATEMENTS

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

ROUNDING DIFFERENCES

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



Villeroy & Boch

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