

SUSTAINABILITY REPORT 2018



EDITORIAL



Dear Readers,

After our debut report last year, it is my great pleasure to present to you today Villeroy & Boch's second sustainability report. Over the past twelve months, we have honed its content and focus to better concentrate our external reporting on the matters most significant to our business model. Furthermore, it was important to us that the report undergo an independent audit for the first time. You can read Ernst & Young GmbH's positive assessment from page 21.

I would like to pique your curiosity for the varied content of this sustainability report with a few selected figures. Our compliance organisation does not depend on just one individual or a handful of people. Rather, our company has 42 functional compliance officers and 69 local compliance managers at the Group's operating companies to lead the way. Legally compliant conduct is therefore not just taken for granted by our employees, it is also a constant presence. We practice the utmost diligence in quality management as well, which means that our customers receive products that are as safe as they are long-lasting. In the Tableware Division, for example, we had more than 400 items from our range tested in external labs in 2018. This gives us and our customers a good feeling.

Our enormously high product quality also depends greatly on reliable suppliers. When selecting them, what matters is not just the price, but the way in which they operate. We are therefore glad that 81 % of our partners defined as material recognise our Code of Conduct and thereby our values – this figure has improved significantly since the previous year. As a global company we naturally work with many international suppliers. But cultural diversity is also ubiquitous within our company itself. We currently have employees from 74 nations. We do not see a different background, religion or ideology as a challenge but rather as a strength – after all, our customers make their homes all over the world as well.

I hope you enjoy reading the report.

Dr Markus Warncke, Chief Financial Officer
Mettlach, March 2019

ABOUT THIS REPORT

This report comprises the sustainability report of the Villeroy & Boch Group for the financial year from 1 January to 31 December 2018. The latest version of the sustainability report, published annually in German and English, is available to download from the company's website at www.villeroyboch-group.com/en/investor-relations/publications/sustainability-reports. The Group companies included in the report are the same as the consolidated group in the 2018 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) have been integrated into this sustainability report. The disclosures required by law in the non-financial report are indicated separately by a dotted line in the margin of the text within the individual sections. Qualitative information provided in this context 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 audited for limited assurance in accordance with the International Standard for Assurance Engagements (ISAE) 3000 (Revised). The

external audit by the audit company Ernst & Young assists the Supervisory Board in the performance of its statutory audit duty. ► [Independent Auditor's Limited Assurance Report](#)

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 [2018 annual report](#).

Mettlach, 29 January 2019



Frank Göring



Andreas Pfeiffer



Nicolas Luc Villeroy



Dr. Markus Warncke

CONTENT

ABOUT THIS REPORT	<i>03</i>
STRATEGY AND INTEGRITY	<i>05</i>
Our business model	<i>05</i>
Sustainability at Villeroy & Boch at a glance	<i>06</i>
Stakeholder dialogue and materiality analysis	<i>06</i>
Corporate governance and compliance	<i>07</i>
Risk management	<i>09</i>
PRODUCT RESPONSIBILITY	<i>10</i>
Technological progress in products	<i>10</i>
Quality management and product compliance	<i>10</i>
SUPPLY CHAIN	<i>12</i>
Basic principles of our procurement	<i>12</i>
Responsibility in the supply chain	<i>12</i>
ENVIRONMENT	<i>13</i>
Basic principles of our environmental and energy management	<i>13</i>
Energy consumption	<i>13</i>
Resource efficiency in production	<i>14</i>
Water and waste water	<i>15</i>
Waste	<i>15</i>
EMPLOYEES	<i>16</i>
Basic principles of our HR management	<i>16</i>
Fair working conditions	<i>16</i>
Occupational health and safety	<i>17</i>
Diversity and equal opportunities	<i>17</i>
Personnel development	<i>18</i>
NOTES	<i>20</i>
INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT	<i>21</i>
IMPRINT	<i>23</i>

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 8,000 employees. As a full-range supplier for the bathroom and the laid table, our operating business is broken down into the Bathroom and Wellness Division and the Tableware Division. We sell our products in more than 125 countries. In addition to our main brand, Villeroy & Boch, we also use local markets 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 14 production and assembly sites, comprising two for the Tableware Division (both in Germany) and twelve for the Bathroom and Wellness Division: two in Germany, two in Sweden and one each in the Netherlands, Belgium, France, Austria, Romania, Hungary, Thailand and Mexico. More information on Villeroy & Boch's procurement and production activities can be found in this report. ▶ [“Supply chain”](#)

We increased our consolidated revenue by 2.0 % year-on-year to €853.1 million in the 2018 financial year. Our operating earnings before interest and taxes (EBIT) improved by 7.6 % to €53.6 million. The return on net operating assets was 16.7 % (previous year: 17.7 %).

Our product range in the Bathroom and Wellness Division encompasses ceramic bathroom collections, bathroom furniture, shower, bath 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.

In the Tableware Division, our product range encompasses high quality crockery, glasses, cutlery, corresponding accessories, kitchen and table textiles and giftware. We reach

PRODUCTION SITES BY REGION

AMERICAS



Ramos (Mexico)

EUROPE



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

APAC



Saraburi (Thailand)

end consumers through specialist retailers and our own retail activities, which include more than 100 Villeroy & Boch stores, around 500 points of sale in department stores, and dedicated online shops in more than 20 countries. All in all, our products are available at around 4,700 points of sale worldwide. In addition, our project business addresses hotel and restaurant operators.

Our product range also features licence-based products from the “living” segment, particularly lighting, bathroom accessories and flooring. The range will be extended to include home furnishings from 2019.

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 keep 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.

In 2017, we increased the transparency of our non-financial performance with the introduction of regular Group reporting. Data and figures from areas such as environmental performance, procurement, employees and compliance are collected on a quarterly basis in order to allow us to measure the success of defined actions, including on a short-term and medium-term basis, and make adjustments as necessary. Since 2018, data management for the sustainability performance indicators of these areas has been integrated into our Group-wide consolidation software and forms the basis for the external and internal reporting of non-financial performance indicators.

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.

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.

As the basis for our first report on Villeroy & Boch’s non-financial performance and a starting point for the development of a sustainability strategy, we conducted a materiality analysis for the first time in 2017. The aim was to identify the most important sustainability issues for our industry in general and our company in particular.

The relevance of various individual issues ranging from 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 individual issues were selected based on the framework of the GRI G4 Guidelines.

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. The latter also comprises the extent of the impact of our business activities on corresponding stakeholder interests and

therefore also the non-financial aspects referred to in the law (environmental, employee and social concerns, human rights and anti-corruption issues).

Based on the results of the [2017 materiality analysis](#) we again validated the most relevant individual issues, taking into account the statutory materiality requirement, and clustered them in relation to the statutory reporting aspects for the 2018 reporting year. ► [Non-financial report index](#) In this non-financial report we will provide details 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 re-ferred 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 [2018 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 and sanctions list screening. 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 or capital market law 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, a revised edition of the Code of Conduct was issued in 2018 and 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 69 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 addition, we conducted a comprehensive risk analysis of our core processes along the value chain at Group level in 2017 to identify inherent legal risks in these processes. On the basis of the findings this produced, we have since worked – including during the 2018 financial year – on the digitisation of the compliance regulations applicable to these processes and the associated security and control mechanisms. Standard procedures will therefore be accompanied by digital workflows that contain the controls and approvals relevant to compliance. Our aim is to gradually integrate our guideline-based compliance management into the operational business processes along the value chain, thereby transitioning to process-driven compliance management.

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, and are therefore given high priority in training. We use classroom-based and online training to ensure that our employees have a common understanding of compliance and to raise awareness of the risks and consequences of corruption, bribery and antitrust violations.

As at the reporting date, 86 % of relevant employees worldwide completed anti-corruption training, while the antitrust training module was completed by 83 %. In addition, around 96 % 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. Such reports from Group employees are handled confidentially by Compliance and, if so desired, anonymously using our internal whistleblower 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.html).

Our Compliance organisation carefully investigates all reports. Our investigations and decisions to prosecute 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, one internal investigation was required in the 2018 financial year, but this did not relate to corruption or antitrust law issues.

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. In 2016, an external auditor confirmed the effectiveness of our compliance management system 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 2018 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 2018](#).

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 20 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. 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 more than 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 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 € 15.9 million in research and development projects, including design development, in the 2018 financial year (previous year: € 15.9 million), € 11.8 million of which (previous year: € 12.2 million) related to the Bathroom and Wellness Division. Also in the period under review, activities included the advancement of our ceramic materials, products and production technologies. We cooperate with various research institutes and universities on such issues.

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, 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.

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.

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 optimised in the development process. Potential usage risks must be avoided, hence product development and quality management share information closely. The implementation of risk management along the product development process in the 2018 reporting year 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 regional variations in the legislation for products that come into direct contact with food or the skin. In 2018, we therefore intensified our efforts to implement the planning, development and launch of new products into a digital process to be able to control our new product process more transparently in line with these requirements.

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 236 (previous year: 193) new products were examined externally in the 2018 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 431 (previous year: 307) 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 the Bathroom and Wellness Division, in addition to complying with national and international (flushing) standards, quality management focuses mainly on ensuring product durability. 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 load tests 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 statistical 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 it comes to preparing consumer information. 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 extensively tested in the product development process, also known as the stage-gate process. Products are not approved until all relevant requirements are met.

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. To prevent the gradual quality degradation of decorated products in particular, the development process involves subjecting them to 1,000 to 2,000 cycles in a household dishwasher. In this context, we continued to develop our internal testing methods based on the DIN standards for dishwasher suitability in the 2018 reporting year.

MATERIAL 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 exclusively want to use materials that satisfy the relevant specifications imposed by laws, standards and guidelines to ensure that hazardous or inadmissible substances are never used. In both our in-house production and for goods manufactured by our suppliers, we therefore endeavour to comply with environmental regulations such as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), RoHS (Restriction of Hazardous Substances Directive), WEEE (Waste Electrical and Electronic Equipment Directive), BatterieV (German Battery Ordinance) and BiozidV (German Biocide Ordinance). In order to make the monitoring of the materials used more efficient, we have been using a central software for supplier/materials data communication across all divisions since 2017 in order to harmonise our material data management.

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 nine 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. Our primary focus is on suppliers with a direct connection to our products or our value chain. An annual procurement volume of more than €10,000 is applied as the materiality threshold. As at 31 December 2018, these criteria were met by 1,435 suppliers accounting for a total procurement volume of €375.2 million, i.e. 64 % of the Group's total volume. 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. Since then, we have significantly increased the extent to which the stated procurement volume is covered by a signed or proven code of conduct. At 81 %, we exceeded the target coverage ratio we set for the 2018 financial year of more than 80 % by the reporting date.

Since 2017, 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. For suppliers from low-risk countries (e.g. Germany), signing the Code of Conduct is considered sufficient. From 2019, it is planned to require new suppliers from medium and high-risk countries to complete a self-assessment based on a standardised list of questions as part of the onboarding process. Similarly, in individual cases suppliers from high-risk countries will be visited by our employees and assessed based on a visit report. Questions on employment rights, human rights, health and safety and environmental protections are some key elements of these instruments. Selected suppliers with the highest possible potential risks in terms of country index and product group/industry are also to be assessed by external auditors in future. Supply relationships with suppliers from blacklisted nations must be avoided and we do not currently have any such relationships.

ENVIRONMENT

BASIC PRINCIPLES OF OUR ENVIRONMENTAL AND ENERGY MANAGEMENT

We operate a total of 14 production and assembly sites in Europe, Asia and the Americas, nine 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, ten production sites each were certified in accordance with the environmental management standard ISO 14001 and the energy management ISO 50001, respectively. Implementation at additional locations is planned or currently in preparation. 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. Twelve internal audits in total were performed in the 2018 financial year, in which we verified compliance with standard requirements at the respective location.

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. 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 working on ideas for optimising and digitising the firing process, for example by simulating thermal processes. Furthermore, we are evaluating the use of combined heat and power plants, like the one that was installed at the Mettlach site in 2014, and renewable energies in order to strengthen decentralised energy supply within our production network.

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.

In addition to gas consumption, our optimisation measures are also aimed at enhancing efficiency in specific electricity consumption. Above all, these include our continuous progress in reducing energy consumption to produce compressed air by investing in new compressors and systematically fixing leaks.

In 2014, the cross-site energy management meeting was established as a new platform for intensifying the exchange of information on best practice solutions and future projects. The annual event is attended by the energy management officers from all of the ISO 50001-certified production sites and members of the Management Board.

ENERGY CONSUMPTION

Accordingly, our reporting on energy consumption focuses on our production locations. In the 2018 financial year, consumption of gas – our most important form of energy – amounted to 499.8 GWh in total (previous year: 496.7 GWh). The gasintensive firing process meant that 99.7% of this figure was attributable to the ceramic factories in both divisions around the world. Electricity consumption in production amounted to 102.3 GWh (previous year: 101.8 million GWh). Our ceramic production sites accounted for 86.5% 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 (+1.2%) and electricity (+1.4%). A significant portion of this additional consumption was caused by shifts in the product/product variant mix at the individual sanitary ceramic ware plants.

Direct and indirect CO₂ emissions can be calculated on the basis of our electricity, gas and oil consumption data and the CO₂ coefficients. In total, such emissions rose to 140,939 tonnes in the 2018 financial year (previous year: 136,676 tonnes) as a result of the higher energy consumption and the ongoing change in the energy mix at specific locations.

ENERGY EFFICIENCY OUTSIDE PRODUCTION

Outside production, which is the top priority for our centrally controlled environmental and energy management, we also strive to continuously improve our energy efficiency at our non-production locations. The most recent example of this is our sales location in Helsinki (Finland), which has almost completely covered its energy requirements with its own solar power plant since 2017. Furthermore, as part of an initiative launched in 2016 under the EU Energy Efficiency Directive (EED), we professionalised energy management at several European sales companies. Eight national and management companies – including Finland, France, the United Kingdom and Spain, not forgetting our distribution centre in Losheim since 2017 – now have an energy management system certified in accordance with ISO 50001. The key objectives and measures at these units include making employees aware of the importance of energy efficiency and monitoring consumption data, as well as replacing old lighting elements with LEDs and generating electricity internally. Certification has allowed us to strengthen the continuous improvement process.

We also seek to improve energy efficiency when renovating existing building structures. In this context, we opened the new “Fabrik N°09” office and conference centre at our corporate headquarters in Mettlach as part of our “Mettlach 2.0” location development project at the start of 2018. The new building has optimised energy and resource efficiency, uses the company’s own well water for heating and cooling and has an innovative CO₂-controlled air exchange at its disposal.

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 “green breakage”, i.e. parts that are rejected in the various quality controls prior to 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 2018 financial year, we prepared and used a total of 123,752 tonnes (previous year: 120,827 tonnes) of ceramic slip across all of our ceramic plants in both divisions. In

relation to the quantity of saleable goods produced (in tonnes), specific slip consumption has risen by 3.1 % year-on-year. Here, too, the rise in the use of raw materials is due to the change in the product/product variant mix in ceramic sanitary ware production. However, thanks to improved glaze recovery processes, we reduced the quantities of glaze used both in absolute terms (to 12,422 tonnes; previous year: 12,698 tonnes) and in terms of specific consumption (-1.6 %) 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.

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. In the year under review, a new waste water treatment plant with state-of-the-art technology and higher capacity was installed at our sanitary ware factory in Hungary.

Our production locations used 1,174,302 m³ of fresh water in total in the 2018 financial year (previous year: 1,139,788 m³). This relates to the fact that our ceramic plants are increasingly switching from plaster casting to more energy-efficient die casting methods. While die casting increases water consumption compared to the conventional process, it requires substantially less energy for moulding.

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. 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.

In the 2018 financial year, we reduced waste at our production sites to 36,714 tonnes (previous year: 36,957 tonnes).

EMPLOYEES

BASIC PRINCIPLES OF OUR HR MANAGEMENT

Villeroy & Boch's growth and success are essentially based on the commitment of our approximately 8,000 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.

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 7,991 employees as at the end of 2018 (previous year: 8,099). 34.7 % 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 whistleblower 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 2018 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. We develop the safety culture we practice in a continuous improvement process. The relevant legal standards are binding for us at all times and, at the same time, are only our minimum requirements because we believe that the company's own internal standards for occupational health and safety should be higher. In order to manage this area as efficiently as possible, the Health and Safety (H&S) unit, which had previously been a central Group function, was set up as an independent operational department in 2018. Throughout the Group and for all locations, H&S coordinates all activities relating to occupational health and safety, defines uniform standards and monitors the implementation of corresponding measures. In addition, the successful operational performance of related activities, e.g. in the areas of ergonomics, training and continuing professional development, is ensured by local H&S officers at the individual regional locations.

Our safety standards and processes implemented in the corporate organisation, which suppliers and service providers are also required to comply with, are subject to strict criteria that in many places go beyond the legal requirements, and are continuously evolved and monitored by internal audits. Furthermore, by the end of 2020 it is planned to implement a fully integrated management system for occupational health and safety in accordance with the new international standard ISO 45001 (replacing the previous standard OHSAS 18001) at all production and logistics locations and at administrative headquarters in Mettlach, and to have them externally certified on this basis.

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 and other potential dangers in our working environment. To this end, we provide our local employees with regular training and qualification in the form of relevant information events, workshops and training sessions. In addition, third parties working at our locations receive comprehensive instructions on work safety to ensure that they are sufficiently aware of the corresponding risks and hazards.

All workstations within our organisation around the world are subject to systematic evaluation in terms of health and safety risks, including compliance with ergonomic standards. Together with the continuous evaluation and analysis of measurable indicators of accidents and near misses in the workplace, potential areas for improvement are constantly identified in order to enable us to respond as preventively as possible by taking organisational, technical or medical measures. Examples include equipping our sanitary ware

plant in Mettlach with a new kind of plaster work booth or using state-of-the-art lifting aids for the manual movement of sanitary ware parts (e.g. from the kiln car to the sorting belts), the introduction of which has significantly reduced the physical burden on employees in terms of lifting and carrying.

In order to better and more transparently assess the quality and effectiveness of occupational health and safety practices in our organisation, in Health and Safety we use a comprehensive reporting system that tracks the relevant data at all locations and for all employees in regular reporting cycles. For this sustainability report, our 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. In total, we therefore report accident data covering 4,706 employees (FTEs).

In the 2018 financial year, there were a total of 100 (previous year: 90) reportable workplace and work-related road traffic accidents within the defined scope resulting in the employees affected being unable to work for more than three days. This resulted in a total absence of 20,067 hours (previous year: 16,729). The changes as against the previous year are due mainly to the rise in workplace accidents at an international production location in the first half of the year; thanks to suitable countermeasures, accidents with similar causes have been minimised since the middle of the year. There were no workplace or work-related road traffic accidents with fatal consequences throughout the Group in the reporting period or the previous year.

Above and beyond occupational safety, we aim to look after and promote the health of our employees at all locations on a holistic basis. One example of this is our sick rate, which has been low for years and amounted to 3.8 % for the Group as a whole in the 2018 reporting period (previous year: 3.6 %). 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. We regularly conduct various regional health campaigns, such as medical screenings and check-ups, subject-specific information events and workshops as part of our health days, as well as offering a wide range of preventive measures such as vaccinations or back exercises.

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 74 different nations, cultural diversity is a part of everyday life at the Villeroy & Boch Group. Our German locations alone had employees with 49 different nationalities at the reporting date. The number of foreign employees in Germany increased from 329 in the previous year to 343 as at 31 December 2018.

The advancement of women, particularly in management positions, is a strategic objective. At the reporting date, 35.7 % 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 35.7 %. 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 49.5 %, followed by the over 50s at 32.6 % and the under 30s at 17.9 %.

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 2018, 14.4 % of the Group's workforce (previous year: 14.8 %) 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.

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 the 2018 reporting year, for example, we extended our commercial training programme to include the new "e-commerce" CIC profession in order to train our own specialists in light of the growing significance of digital business models. 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 2018, we employed a total of 175 young people throughout

the Group in vocational training or as part of dual study programmes (previous year: 190), 73 of whom (previous year: 88) were employed at our international locations.

Villeroy & Boch AG offers a 30-month or 36-month junior programme to inspire graduates with commercial and technical degrees to consider a career at Villeroy & Boch. 39 talented young employees were being prepared to assume specialist and management functions in various departments as at the reporting date.

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 over 76,000 student members in more than 30 countries, more than 1,700 of whom at 34 institutions in Germany alone. Based on the United Nations' Sustainable Development Goals (SDGs), these students are involved in charitable projects all over the world. In addition to supporting the initiative financially, we provide students with operational support for their projects with selected Villeroy & Boch employees contributing their experience and expertise as business advisors on cooperative projects.

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).

A total of 1,623 employees at our German locations participated in training measures in the 2018 financial year.

NOTES

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

Key figure	Villeroy&Boch Group		Villeroy&Boch AG	
	2018	2017	2018	2017
Business model				
Revenue	€ 853.1 m	€ 836.5 m	€ 512.4 m	€ 509.8 m
EBIT (IFRS)	€ 53.6 m	€ 49.8 m	–	–
Net income (HGB)	–	–	€ 11.2 m	€ 20.8 m
Return on net operating assets ⁽¹⁾	16.7 %	17.7 %	–	–
⁽¹⁾ For management purposes, the return on net operating assets is calculated at Group level only.				
Anti-corruption and antitrust law				
Coverage ratio of anti-corruption training	86 %	78 %	93 %	88 %
Coverage ratio of antitrust law training	83 %	75 %	91 %	85 %
Product responsibility				
Externally tested articles in the Tableware division	431	307	431	307
– New products	236	193	236	193
– Existing range	195	114	195	114
Responsibility in the supply chain				
Procurement volume, total	€ 585.4 m	€ 562.9 m	€ 238.9 m	€ 238.0 m
Suppliers classified as material ⁽²⁾	1,435	1,387	–	–
– Associated procurement volume ⁽²⁾	€ 375.2 m	€ 335.1 m	–	–
– Coverage of procurement volume by Code of Conduct ⁽²⁾	81 %	38 %	–	–
⁽²⁾ For management purposes, Code of Conduct coverage for suppliers classified as material is calculated at Group level only.				
Energy efficiency in production				
Gas consumption	499.8 GWh	496.7 GWh	163.6 GWh	156.2 GWh
Electricity consumption	102.3 GWh	101.8 GWh	33.2 GWh	32.4 GWh
CO ₂ emissions	140,939t	136,676t	49,719t	48,378t
Raw material efficiency in production				
Quantity of ceramic slip used	123,752t	120,827t	30,007t	29,200t
Quantity of glaze used	12,422t	12,698t	4,230t	4,176t
Employees/personnel development				
Employees	7,991	8,099	2,303	2,236
– of which in Germany	2,774	2,723	2,303	2,236
Trainees and dual students	175	190	92	88
Juniors	39	58	38	46
Employees participating in continuing professional development ⁽³⁾	–	–	1,623	1,704
⁽³⁾ This figure is calculated at a local level and not consolidated at Group level.				
Occupational health and safety				
Workplace accidents involving absence > 3 days	84	71	32	36
– Resulting hours lost	17,055	12,562	8,247	6,255
Work-related road traffic accidents involving absence > 3 days	16	19	8	12
– Resulting hours lost	3,012	4,167	1,869	3,265
Sick rate	3.8 %	3.6 %	6.1 %	5.7 %

INDEPENDENT AUDITOR'S LIMITED ASSURANCE REPORT

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2018 of Villeroy & Boch AG. The following text is a translation of the original German Independent Assurance Report.

TO VILLEROY & BOCH AG, METTLACH

We have performed a limited assurance engagement on the non-financial report of Villeroy & Boch AG according to § 289b HGB ("Handelsgesetzbuch": German Commercial Code), which is combined with the non-financial report of the group according to § 315b HGB and whose disclosures are marked with a dotted line in the margin of the text in the Sustainability Report 2018 for the reporting period from 1 January 2018 to 31 December 2018 (hereafter non-financial report). Our engagement exclusively relates to the marked information in the German PDF version of the Sustainability Report. Our engagement did not include any disclosures for prior years or links to other web pages.

MANAGEMENT'S RESPONSIBILITY

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S DECLARATION RELATING TO INDEPENDENCE AND QUALITY CONTROL

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms

[IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between November 2018 and January 2019, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial report, the risk assessment and the concepts of the parent company and the group for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating relevant data in the reporting period and testing such documentation on a sample basis,
- Analytical procedures at the level of the parent company and the group,

- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

ASSURANCE CONCLUSION

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of Villeroy & Boch AG for the period from 1 January 2018 to 31 December 2018 has not been prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

INTENDED USE OF THE ASSURANCE REPORT

We issue this report on the basis of the engagement agreed with Villeroy & Boch AG. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

ENGAGEMENT TERMS AND LIABILITY

The “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]” dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 30 January 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter
Wirtschaftsprüferin
(German Public Auditor)

Annette Johne
Wirtschaftsprüferin
(German Public Auditor)

IMPRINT

EDITOR/CONTACT

Villeroy & Boch AG
Investor Relations
Saaruferstraße 1-3
66693 Mettlach
Germany
www.villeroyboch-group.com
Phone: +49 6864 81-2715
Email: investor-relations@villeroy-boch.com

EDITORIAL DEADLINE

30 January 2019

COPYRIGHT

© 2019 by Villeroy & Boch AG

LAYOUT

Statement GmbH, Saarbrücken, Germany
www.agentur-statement.de

DISCLAIMER**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

1748