

# CORPORATE GOVERNANCE REPORT

In this declaration, the Management Board and the Supervisory Board report in accordance with sections 289f and 315d of the Handelsgesetzbuch (HGB - German Commercial Code) on corporate governance at Villeroy & Boch.

## RESPONSIBLE MANAGEMENT

Good corporate governance aimed at creating sustainable value through responsible corporate management is of fundamental importance for Villeroy & Boch. It is the basis for earning the trust of shareholders, employees, business partners, other stakeholders and the public at large. Accordingly, the recommendations and suggestions of the German Corporate Governance Code ("GCGC") constitute the basis for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

The Management Board of Villeroy & Boch AG is responsible for managing the Company as the governing body with the aim of creating short-term and long-term value. The workings of the Management Board are determined by corresponding Rules of Procedure. Resolutions are generally adopted at meetings of the Management Board, which take place twice a month if possible.

The Supervisory Board appoints, advises and monitors the Management Board. Its workings and allocations of responsibilities are established in corresponding Rules of Procedure. Ordinary meetings of the Supervisory Board are held at least four times a year. The Supervisory Board is provided with continuous, timely information in the form of written and oral reports by the Management Board and is involved in all decisions of material importance to the Company.

## COMPOSITION OF THE MANAGEMENT BOARD

The Management Board of Villeroy & Boch AG currently consists of four members. The members of the Management Board are appointed by the Supervisory Board. In appointing members to the Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates. It also ensures the diversity of the Management Board as a whole. In making appointments to the Management Board, the Supervisory Board seeks to take adequate account of diversity, particularly with respect to age, cultural background and educational and professional background.

Together with the Management Board, the Supervisory Board ensures long-term succession planning for the Management Board. In particular, in addition to the requirements of the Aktiengesetz (AktG - German Stock Corporation Act)

and the German Corporate Governance Code, long-term succession planning takes into account the ideal profiles developed by the Human Resources Committee and the Supervisory Board referred to above. The Supervisory Board is assisted by external consultants in developing the requirement profiles and throughout the extensive selection process.

The Supervisory Board has set an age limit for members of the Management Board; hence members of the Management Board should leave the Company at the end of the calendar year in which they reach the age of 65.

## COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Villeroy & Boch AG is composed of twelve members, six of whom are elected by the General Meeting of Shareholders (shareholder representatives) and six of whom are elected by the Company's employees in accordance with the provisions of the German Co-determination Act (employee representatives). The term of office of members of the Supervisory Board is normally five years. The Supervisory Board is of the opinion that its composition is an important factor in successfully performing its diverse tasks to the optimal benefit of the Company.

In accordance with the recommendation of Section C.1, GCGC, it has therefore determined concrete objectives regarding its composition and prepared a profile of skills and expertise for the entire Supervisory Board.

The composition of the Supervisory Board of Villeroy & Boch AG should ensure that the Management Board is properly monitored and advised at all times. The candidates proposed for election to the Supervisory Board should be in a position, thanks to their knowledge, skills and professional experience, to perform the tasks of a Supervisory Board member in an internationally active company and to safeguard the reputation of the Villeroy & Boch Group with the public. In the process, special attention should be paid to the personality, integrity, commitment, professionalism and independence of the persons proposed for election. The individual knowledge, skills and experience of the individual members of the Supervisory Board should complement each other in such a way that there is sufficient professional expertise available for the work of the Supervisory Board as such and for the business activities of each division at all times to guarantee that the Management Board is monitored professionally and efficiently and provided with advice on a continuous basis. In view of the Company's international focus, attention should be paid to the fact that, as has been the case to date, there is an adequate number of members with many years of international experience. The appropriate diversity should also be considered when selecting potential candidates for vacancies

arising on the Supervisory Board. In particular, this also means taking into account their gender, age, cultural origins and educational and professional background.

The Supervisory Board takes into account the targets for its composition and the requirements stipulated in the skills profile in conjunction with the selection process and the nomination of candidates for the Supervisory Board. The Supervisory Board last considered these targets at shareholder meetings for its nominations for the three shareholder representatives to be elected by the 2020 General Meeting of Shareholders.

There is a 30 % minimum quota for women and men on the Supervisory Board of Villeroy & Boch AG in accordance with section 96(2) AktG. The minimum quota was fulfilled by both the shareholder representatives and the employee representatives in the 2021 financial year.

The Supervisory Board members should have sufficient time to perform their functions such that they can do so with the requisite regularity and diligence. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board. Candidates for the Supervisory Board are typically nominated only if they have not yet reached the age of 70 at the time of their election and have not exceeded the maximum membership period set by the Supervisory Board of 15 years or three terms in office. This rule should be deviated from only as a warranted exception.

The Supervisory Board is of the opinion that, on the whole, its current members have the necessary knowledge, skills and professional experience to properly perform their duties and that the goals for its composition and those of the skills profile have been fulfilled. As a whole, it is familiar with the sector in which it operates and also has expertise specific to the sector in the Audit Committee.

The Supervisory Board believes that all of the shareholder representatives on the Supervisory Board are independent, meaning that it has an appropriate number of independent members. They are Mr Schmid, Dr von Boch-Galhau, Ms Heckelsberger, Ms Rosenberg, Mr de Schorlemer and Mr Villeroy de Galhau. The Company does not have a controlling shareholder as referred to by GCGC. However, it notes that, besides other representatives, the Supervisory Board also includes members of the founder families, von Boch and Villeroy. The Supervisory Board does not believe that these relationships constitute a legally relevant conflict of interests. Rather, the current composition guarantees monitoring aligned to the Company's interests without conflicting roles or loyalties.

According to the catalogue of criteria under C.7 GCGC, being a member of the Supervisory Board for more than 12 years is an indicator that the member in question is not independent. The Second Vice Chairman of the Supervisory

Board, Dr von Boch-Galhau, has been a member of the Supervisory Board since 2008. The Supervisory Board believes that he has the necessary distance from the Management Board to ensure the proper and independent performance of his duties, both on the Supervisory Board as a whole and in its committees, and that the careful monitoring of the Management Board is ensured. In his case at least, the length of his membership of the Supervisory Board does not substantiate a lack of independence.

#### **FINDINGS ON THE PROMOTION OF WOMEN IN MANAGEMENT POSITIONS IN ACCORDANCE WITH SECTIONS 76 (4) AND 111 (5) OF THE GERMAN STOCK CORPORATION ACT**

Since 2011, the Management Board and Supervisory Board have adopted a Group-wide policy for promoting diversity and an appropriate proportion of women in management positions. Furthermore, in accordance with the provisions of stock corporation law, Villeroy & Boch AG has set targets for the share of female members of the Management Board and the next two levels of management as well as a deadline by which these shares must be achieved.

On 27 June 2017, the Management Board resolved a target of 35 % for the first and second levels of management below the Management Board for the next five years. At Villeroy & Boch AG, the proportion of women at the two management levels below the Management Board was 33.1 % as at 31 December 2021. The long-term target remains for women to occupy 40 % of the positions in both levels of management.

The Management Board is currently composed of three men and one woman, meaning that the requirements of section 76 (3a) AktG (new version) are already met.

#### **TRUST-BASED COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD**

The cooperation between the Management Board and Supervisory Board was again characterised by open, trust-based communication in 2021. This was seen in the meetings of the Supervisory Board and in the discussions between members of the Management Board and the Chairman of the Supervisory Board and the Chairman of the Audit Committee. In the reporting year, the reports by the Management Board to the Supervisory Board focused in particular on the orientation and implementation of the corporate strategy including current projects, the digital transformation within the Group, IT security and the status of decarbonisation measures and projects, the Company's business development and the Group's position - particularly in light of the COVID-19 pandemic - and questions relating to the risk situation, risk management, the internal control system, the

recording and measurement of non-financial performance indicators, and compliance management.

The rights of the Supervisory Board to reserve approval are set out in the Rules of Procedure of the Supervisory Board and the Management Board. In particular, they apply to material transactions or activities with a significant impact on the financial position and the financial performance of Villeroy & Boch AG. Certain transactions with related parties also require the approval of the Supervisory Board for this purpose in accordance with sections 111a et seq. AktG.

### **SUPERVISORY BOARD COMMITTEES**

To allow it to perform its tasks efficiently and deal with complex issues more intensively, the Supervisory Board has formed four expert committees in addition to the Conciliation Committee prescribed by section 27 (3) of the German Co-determination Act. The activities of the committees are governed by the Rules of Procedure for the respective committees.

By law, the Conciliation Committee prescribed by section 27 (3) of the German Co-determination Act must be established in order to perform the task set out in section 31 (3) sentence 1 of the German Co-determination Act. It submits proposals for the appointment or the revocation of the appointment of Management Board members to the Supervisory Board if the requisite majority of two-thirds of the votes of Supervisory Board members is not reached in the first ballot. The Conciliation Committee consists of the Chairman and First Vice Chairman of the Supervisory Board, one shareholder representative and one employee representative. The current members are Mr Schmid (Chairman), Mr Runge and Mr de Schorlemer. Mr Geuskens resigned as a member of the Supervisory Board effective 31 January 2021, and he has thus also left the Conciliation Committee. The Supervisory Board elected Mr Strasser as a member of the Conciliation Committee at its meeting on 11 February 2021.

The Human Resources Committee primarily deals with the conclusion as well as the amendment and termination of the employment contracts of Management Board members and long-term succession planning. It prepares the appointment and dismissal of members of the Management Board, the remuneration system for the Management Board and the total remuneration for the individual members of the Management Board, including contractual bonus provisions, pension provisions and other contractual benefits, for resolution by the full Supervisory Board and performs a preliminary examination of the remuneration report. It is chaired by the Chairman of the Supervisory Board. Since November 2021, its members have included two employee representatives and two shareholder representatives. The current members are Mr Schmid (Chairman), Dr von Boch-Galhau, Ms Rosenberg, Mr Runge and Ms Süpke.

The tasks of the Investment Committee include advising on corporate and investment planning in advance and preparing investment decisions. The Investment Committee is chaired by the Chairman of the Supervisory Board and includes one shareholder representative and one employee representative. The current members are Mr Schmid (Chairman), Mr Scherer and Mr de Schorlemer.

The Audit Committee addresses the topics of accounting, risk management, the internal control and audit system, reporting of non-financial information, compliance and issues relating to the audit of the annual financial statements. It is composed of a financial expert in accordance with section 100 (5) AktG and one representative each for the shareholders and the employees. These are currently Ms Heckelsberger (Chairwoman), Mr Villeroy de Galhau and Ms Werwie. Mr Geuskens resigned as a member of the Supervisory Board effective 31 January 2021, and he has thus also left the Audit Committee. The Supervisory Board elected Ms Werwie as the Deputy Chairwoman of the Audit Committee at its meeting on 11 February 2021. The Chairwoman of the Audit Committee, Ms Heckelsberger, has passed tax consultant and certified public auditor exams and, on account of this and her professional work, in which she has been entrusted with duties in the fields of finance and controlling over several decades, she is qualified as a financial expert as referred to by section 100(5) AktG.

In December 2021, the Supervisory Board decided to follow the recommendation of D.5 of the GCGC and form a Nomination Committee. In particular, the Nomination Committee is responsible for preparing the proposals to the General Meeting of Shareholders for the election of Supervisory Board members. The Nomination Committee is composed of all of the shareholder representatives on the Supervisory Board. It held its constituent meeting on 14 February 2022. The Chairman is Mr de Schorlemer and the Vice Chairman is Mr Schmid. The other members of the Nomination Committee are Dr von Boch-Galhau, Mr Villeroy de Galhau, Ms Heckelsberger and Ms Rosenberg. Until the formation of the Nomination Committee, proposals for election were prepared at shareholder meetings.

The chairs of the committees report to the full Supervisory Board on the work of the committees. Information on the key contents of the committee meetings in the past financial year can be found in the Report of the Supervisory Board.

### **PREVENTION OF CONFLICTS OF INTEREST**

The members of the Management Board and the Supervisory Board have a duty to uphold the interests of the Company and not to pursue any personal interests that could clash with those of the Company in fulfilling their duties. All members of the Management Board and the Supervisory Board are obliged to disclose any potential conflicts of interest to the

Supervisory Board. There are no significant personal or business relationships with governing bodies, shareholders or affiliated companies. Roles in other statutory supervisory boards and comparable domestic and foreign controlling bodies of commercial enterprises held by members of the Management Board and the Supervisory Board can be found in this report as well. Links with related parties are shown in the notes to the consolidated financial statements. The Company will disclose pursuant to the applicable statutory provisions any transactions with related parties that require the approval of the Supervisory Board or a Supervisory Board committee in accordance with section 111b (1) AktG.

### **SELF-ASSESSMENT**

The Supervisory Board of Villeroy & Boch AG regularly conducts a self-assessment of its work, most recently at its meeting on 24 November 2021. This takes the form of a questionnaire-based assessment of the workings of the Supervisory Board and its committees by its members. The self-assessment focused on an efficiency review that covered the provision of information to the Supervisory Board, the conduct of the meetings of the Supervisory Board and its committees, and the composition and structure of the Supervisory Board and its committees in particular.

### **MANAGERS' TRANSACTIONS**

In accordance with Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), members of the Management Board and Supervisory Board are obliged to disclose transactions in shares or debt instruments of Villeroy & Boch AG or derivatives or other financial instruments linked thereto if the total amount of the transactions conducted by the member or related party within a calendar year is equal to or in excess of € 20,000. The managers' transactions reported to Villeroy & Boch AG in the past financial year are duly published and can be viewed at the following website: <https://www.villeroyboch-group.com/en/investor-relations/financial-news/managers-transactions.html>.

### **COMPREHENSIVE INFORMATION CREATES TRANSPARENCY AND TRUST**

Villeroy & Boch AG seeks to inform all target groups of the Company's position equally and in good time and to ensure optimal transparency with regard to its management and controlling mechanisms by way of comprehensive reporting. This includes the annual publication of the consolidated financial statements and quarterly reports, which are prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs). The consolidated financial statements and the Group management report were

published on 17 February 2022, and therefore within the 90-day period recommended by item F.2 of the GCGC. The annual financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website [www.villeroyboch-group.com](http://www.villeroyboch-group.com) contains the latest news in the form of press releases, ad hoc disclosures and other publications. Annual and interim reports, the sustainability report and the separate combined non-financial report of the Group and Villeroy & Boch AG contained therein, the remuneration report on the last financial year and the auditor's report in accordance with section 162 AktG, the applicable remuneration system in accordance with section 87a (1) and (2) sentence 1 AktG, the most recent resolution on remuneration in accordance with section 113 (3) AktG and other publications are also available to download in German and English from the Investor Relations section. The publications comply with the transparency requirements of the Market Abuse Regulation and the German Securities Trading Act.

To allow us to maintain a dialogue with analysts and shareholders, the financial and analysts' press conference and the General Meeting of Shareholders are held once a year.

Publication dates and recurring events are published in the financial calendar on the website, in this annual report and in the interim reports.

### **ERNST & YOUNG CONFIRMED AS AUDITOR**

The Supervisory Board again commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, to audit the annual and consolidated financial statements for the 2021 financial year as the auditor appointed by the General Meeting of Shareholders. The Audit Committee and the Supervisory Board had previously satisfied themselves as to the independence of the auditor. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the auditor of the annual and consolidated financial statements of Villeroy & Boch AG since the 2009 financial year. The responsible auditor is Heiko Hummel. The statutory provisions regarding the rotation of the auditor and the responsible auditors in accordance with Article 17 of EU Regulation No. 537/2014 of the European Parliament and of the Council of 14 July 2014 and the grounds for exclusion in accordance with sections 319 and 319a HGB have been observed.

In accordance with the recommendations of the GCGC, the Supervisory Board agreed with the auditor that the Chairwoman of the Audit Committee would be informed immediately of any potential grounds for disqualification or partiality and any facts and events of importance for the proper performance of the tasks of the Supervisory Board arising during the performance of the audit. If the audit gives rise to facts that show a misstatement in the declaration of conformity issued by the Management Board and the Supervisory Board

in accordance with section 161 of the German Stock Corporation Act (AktG), the auditor must inform the Supervisory Board or make a corresponding note in the audit report.

#### **DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG**

The Management Board and the Supervisory Board are obliged to issue a Declaration of Conformity regarding the adoption of the recommendations of the German Corporate Governance Code once a year in accordance with section 161 AktG. Following discussions at the meeting of the Supervisory Board in December 2021, the Management Board and the Supervisory Board issued the annual declaration of conformity stating that the Company had complied with and continues to comply with all the recommendations of the Government Commission of the German Corporate Governance Code with the exceptions noted.

The declaration of conformity published by the Company on 29 December 2021 reads as follows:

“In accordance with section 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of Villeroy & Boch AG hereby declare that Villeroy & Boch AG has complied with the recommendations of the Government Commission of the German Corporate Governance Code (GCGC) in the version dated 16 December 2019 (the “GCGC 2020”) since the last declaration of conformity was issued on 16 December 2020 with the addendum dated 24 February 2021, and will comply in the future with the exception of the recommendations listed below:

##### **Recommendations C.6 sentence 1, C.7 (1) of the GCGC 2020**

In its opinion, the shareholder representatives on the Supervisory Board are composed exclusively of independent members.

The Company does not have a controlling shareholder within the meaning of the GCGC 2020, but notes that the Supervisory Board includes members of the founding families von Boch and Villeroy as well as other representatives. However, in the opinion of the Supervisory Board, these relationships do not constitute a legally relevant conflict of interest. The current composition of the Supervisory Board ensures that monitoring is geared to the interests of the Company without any conflicts of loyalty or role.

##### **Recommendation C.10 sentence 1 of the GCGC 2020**

According to this recommendation of the GCGC 2020, the Chair of the Supervisory Board and the Chair of the committee that addresses Management Board remuneration should be independent from the Company and the Management Board. Due to the length of service on the Supervisory Board

of the former Chairman of the Supervisory Board and of the Human Resources Committee (criterion of D.7 of the GCGC 2020), a deviation was declared in this regard as a precautionary measure. However, recommendation C.10 of the GCGC 2020 has been complied with since March 2021 by a new Chairman of the Supervisory Board and of the Human Resources Committee.

##### **Recommendation C.13 of the GCGC 2020**

When making proposals to the General Meeting of Shareholders regarding the election of Supervisory Board members, the Supervisory Board will not disclose the personal and business links of each candidate to the Company, the executive bodies of the Company and a shareholder with a major stake in the Company in accordance with the recommendation in the GCGC 2020. According to Villeroy & Boch AG, the GCGC 2020 provides scope to decide which links of each candidate are to be stated specifically and in how much detail when making election proposals to the General Meeting of Shareholders in order to comply with the recommendation. In the interest of the legal certainty of future elections to the Supervisory Board, the Company has decided to declare a deviation from this recommendation. The Company believes that the disclosure requirements in the German Stock Corporation Act take sufficient account of the need to inform the shareholders.

##### **Recommendation D.1 of the GCGC 2020**

The Rules of Procedure for the Supervisory Board have been published on the Company’s website since 16 December 2020, meaning that this recommendation is now complied with.

##### **Recommendation D.5 of the GCGC 2020**

In December 2021, the Supervisory Board formed a separate Nomination Committee to propose suitable candidates for election to the Supervisory Board, meaning that this recommendation is now complied with.

##### **Section G.I. Management Board remuneration in the GCGC 2020**

Compared with the GCGC 2017 (version dated 7 February 2017), section G.I. of the GCGC 2020 contains new recommendations on Management Board remuneration from which there are still isolated exceptions within individual employment contracts (namely concerning G.1, G.3, G.7, G.8 – G.11, G.13 – 14). The Supervisory Board has developed and resolved a new system for Management Board remuneration adapted to the changes introduced by the Act Implementing the Second Shareholders’ Rights Directive (ARUG II) and the principles and recommendations of the GCGC 2020; this system was approved by the General Meeting of Shareholders

on 26 March 2021. The new remuneration system applies to all new contracts of employment and extensions to contracts of employment for members of the Management Board. Since the resolution of the Supervisory Board on the new Management Board remuneration system, a system has been in place that reflects the contents of section 87a AktG and complies with the recommendations of section G.I. of the GCGC 2020 with the following exceptions:

#### **Recommendation G.1 of the GCGC 2020**

According to recommendation G.1, sub-paragraph 2 of the GCGC 2020, the maximum remuneration must be defined for the individual Management Board members.

In the new Management Board remuneration system, the maximum remuneration is not defined individually for each member, but for the Management Board as a whole. The Supervisory Board is of the opinion that setting the maximum remuneration for the Management Board as a whole provides the necessary flexibility to be able to decide individually on the maximum remuneration of the individual Management Board members during the four-year period covered by the remuneration system. However, in the view of the Supervisory Board, this is also sufficient to ensure an effective cap on Management Board remuneration.

#### **Recommendation G.8 of the GCGC 2020**

According to recommendation G.8 of the GCGC 2020, subsequent changes to the target values or the comparison parameters should be excluded.

The Supervisory Board is of the opinion that, in the event of a significant change in the economic environment, a subsequent adjustment of the target values or comparison parameters is appropriate and may be required in the interests of the Company. It therefore does not fundamentally rule out a future adjustment.

#### **Recommendation G.18 sentence 2 of the GCGC 2020**

The performance-related remuneration granted to the members of the Supervisory Board in accordance with the Articles of Association related and continues to relate to the annual dividend payment and thus may not be geared to the long-term development of the Company. The Management Board and Supervisory Board are therefore reviewing whether the payment of variable remuneration continues to be a suitable remuneration model for the Supervisory Board. If this is not the case, the Management Board and Supervisory Board will propose to the General Meeting of Shareholders a corresponding change to the remuneration of the Supervisory Board.”