



Villeroy & Boch

1748



ANNUAL REPORT
2016

THE GROUP AT A GLANCE

VILLEROY & BOCH

in the 2016 financial year

In € million

		2016	2015	Change in %
Revenue		820.1	803.8	2.0
Revenue – Germany		241.4	227.8	6.0
Revenue – Abroad		578.7	576.0	0.5
EBITDA		75.4	71.0	6.2
EBIT		47.6	43.5	9.4
EBIT (before special proceeds)		45.9	42.1	9.0
EBT		41.6	37.9	9.8
Group result		29.1	27.3	6.6
Net operating assets (12 months average)		292.5	310.6	–5.8
Balance sheet total		676.3	636.6	6.2
Cash flow from operating activities		77.9	34.1	128.4
Capital Expenditure		26.2	29.1	–10.0
Depreciation and amortisation		27.3	27.5	–0.7
Employees (annual average)		7,697	7,673	0.3
Return on net operating assets	in %	15.7	13.6	15.4
Net operating margin (before special proceeds)	in %	5.6	5.2	7.7
Return on equity (ROE; before special proceeds)	in %	15.9	15.7	1.3
Cash flow sales profitability	in %	9.5	4.2	126.2
Equity ratio (incl. minority interests)	in %	25.5	26.0	–1.9
Earnings per ordinary share	in €	1.08	1.01	6.9
Earnings per preference share	in €	1.13	1.06	6.6
Dividend per ordinary share	in €	0.48	0.44	9.1
Dividend per preference share	in €	0.53	0.49	8.2

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DIVISIONS

BATHROOM AND WELLNESS (in the 2016 financial year)

In € million			
	2016	2015	Change in %
Revenue	524.4	496.9	5.5
EBIT	36.2	32.8	10.4
Net operating margin	in % 6.9	6.6	4.5
Return on net operating assets	in % 20.6	19.2	7.3

TABLEWARE (in the 2016 financial year)

In € million			
	2016	2015	Change in %
Revenue	295.7	306.9	-3.6
EBIT	9.7	9.3	4.3
Net operating margin	in % 3.3	3.0	10.0
Return on net operating assets	in % 13.6	9.0	51.1

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LETTER TO SHAREHOLDERS



FRANK GÖRING
Chairman of the Management Board

Dear Shareholders,

2016 was a turbulent year - particularly in light of the political developments that seemed to dominate proceedings, from the British decision to leave the European Union to the election of Donald Trump as US President. In an interview recently, I was asked whether I was concerned about the re-emergence of protectionism. My reply was that I am disappointed, as we have always seen ourselves as an open-minded European or even cosmopolitan company that refuses to think in terms of national borders or trade barriers. Villeroy & Boch already felt the first consequences in 2016, as the depreciation of the pound sterling alone impacted our consolidated revenue with negative exchange rate effects of € 4.3 million. While our revenue in the United Kingdom increased by 5.5 % in local currency, we reported a decrease of 5.2 % in the Group reporting currency, the euro. These figures underline the fact that, while decisions on the political stage may sometimes seem far removed, they can be extremely relevant for mid-market companies operating in an international environment like us.

As such, it is all the more satisfying that we did not allow ourselves to be put off by the conditions, instead increasing our revenue by 2.0 % to € 820.1 million. On a constant currency basis, i.e. assuming unchanged exchange rates as against the previous year, our revenue growth was even stronger at +3.3 %. We are proud of having recorded profitable growth once again, increasing our EBIT by 9.4 % to € 47.6 million. The return on net operating assets – our third key performance indicator – improved by 2.1 percentage points to 15.7 %, a new all-time high.

Performance in our two divisions was varied. In the Bathroom and Wellness Division, we increased our revenue by 5.5 % – or 7.3 % at prior-year exchange rates. EBIT improved disproportionately, rising by 10.4 % to € 36.2 million; this was due primarily to the excellent revenue development and our efficient cost management. Meanwhile, revenue in the Tableware Division declined by

3.6 % in nominal terms and 3.1 % on a constant currency basis. One of the main reasons for this development was our decision to intensify our focus on higher-margin trade channels and shift some of our secondary brand business to our licence business. In terms of our earnings, the resulting reduction in revenue was almost entirely offset by the additional licence income generated. As a consequence, the operating result in the Tableware Division actually increased by 4.3 % to € 9.7 million.

This positive EBIT performance is also reflected in the Group result, which improved by € 1.8 million or 6.6 % to € 29.1 million in the past financial year. All in all, we achieved our revenue and earnings targets for 2016 in full. And it goes without saying that you, dear shareholders, should also benefit from this achievement. The Management Board and the Supervisory Board will therefore propose to the General Meeting of Shareholders on 24 March 2017 the payment of a dividend of € 0.48 per ordinary share and € 0.53 per preference share, an increase of € 0.04 on the previous year in each case.

Our dividend policy with its focus on continuity also reflects our regular improvements in profitability. Growth in our operating EBIT, i.e. excluding real estate income, has outpaced our revenue growth in each of the past six years. At € 49.5 million, it is now almost double the level recorded in 2010. And at 5.6 %, our net operating margin is gradually approaching our medium-term target of 7 %.

Having looked at the key financial data, I would now – as usual – like to tell you about the drivers of our success and discuss our potential for the future. I would like to start with the Asia-Pacific region, where we recorded our strongest growth of 13.0 % in 2016. In particular, we increased our revenue in China, our largest and most important market in the region, by 35.2 % to € 37.5 million. We mainly achieved this by increasingly tailoring our product range to the needs of local customers more successfully and landing real best-sellers like the ViClean shower toilet collection. At the same time, we are continuing to work intensively on expanding our showroom activities in order to increase our visibility for our customers. And we are winning numerous high-profile orders in our project business, which is having a doubly positive effect: Fitting out hotels and similar buildings with high-quality bathroom and tableware products not only makes a contribution to our short-term revenue growth, but also brings potential new customers into contact with our brand. We also enjoyed strong performance in our project business beyond China, recording global growth of +13 %. Project business currently accounts for around 12 % of our revenue, and my fellow Management Board members and I believe there is huge potential for further growth in this area.

Turning my attention to the Bathroom and Wellness Division, I would like to highlight the sustained rise in demand in our core business of ceramic sanitary ware. In particular, our rimless DirectFlush WCs improved on their success in previous years with growth of 65 %. This also drove our positive revenue development in Western Europe and especially in Germany, where we recorded growth of 10.5 %. Demand was so great that we occasionally had problems maintaining our typically strong ability to deliver products. Thanks to extra production shifts and investments in additional capacities, we intensified our efforts in 2016 in order to ensure that we can meet our own high standards in terms of service and supply quality. The expansion of our DirectFlush capacities will remain a key area in 2017, accounting for a large proportion of the investment programme in the Bathroom and Wellness Division.

Our bathroom furniture business again brought us great pleasure in 2016. Revenue increased by 12.3 %, representing an even stronger growth rate than in previous years, and broke through the € 50 million barrier for the first time. While bathroom furniture used to be by far the smallest product segment in the Bathroom and Wellness Division, it still ranks behind ceramic sanitary

ware but is increasingly closing the gap on the segments of wellness and fittings/installation accessories, thereby helping to improve the balance of our portfolio.

Let me now turn to the Tableware Division, where changes in customer buying patterns and consumer behaviour are the key factors. You will not be surprised to learn that digital sales channels are becoming increasingly important in this product category. For us, this means ensuring an optimal presence for customers seeking information online and improving the interplay between e-commerce and our retail stores. We are already doing this very well with our cross-channel services. With revenue increasing by 7.9 % to around € 16 million, our online shops were the fastest-growing sales channel in the 2016 financial year. We believe that our total e-commerce revenue, including external online retail platforms, has the potential to exceed € 75 million in future.

As I mentioned in my letter a year ago, we are also increasingly gearing our tableware product range towards specific occasions and themes. Supplementing our traditional tableware business, these new products for food and drink represent an area of strategic importance for the future. They focus on different trends, such as coffee, BBQ, pizza, pasta, or soup. In 2017, we will introduce new products including a multi-piece ceramic barista set for coffee lovers. At the same time, we are gradually expanding and strengthening our second strategic growth area of gift items. However, most of our revenue is still generated from tableware sets for young and old – such as the successful NewWave collection, which celebrated its 15th birthday in 2016 and has generated revenue of more than € 500 million since its launch. In 2017, we will expand the product family to include a series with a stone look: NewWave Stone. And I can assure you that we have many more new tableware product ideas and marketing concepts in the pipeline for the years to come.

Dear shareholders, the work of the Management Board requires that we permanently strike the right balance between short-term target attainment in the form of positive business data and the sustainable pursuit of strategic projects for the future. We achieved both of these aims once again in 2016 – and this is primarily thanks to our 7,697 employees around the world. They give their effort and passion for our company and our customers, every single day. I would therefore like to offer them my warmest thanks on behalf of the Management Board.

We also thank all our shareholders for the trust they have shown in us. We would be delighted if you continued to accompany the development of the company at close quarters as shareholders.

Yours,



Frank Göring, Chairman of the Management Board
Mettlach, March 2017

MEMBERS OF THE MANAGEMENT BOARD



FRANK GÖRING
Chief Executive Officer
Responsibility:
Strategy, Human
Resources, Legal,
Compliance, M & A,
Public Relations
and Innovation



DR. MARKUS WARNCKE
Chief Financial Officer
Responsibility: Finance,
Taxes, IT, Purchasing, Real
Estate and Corporate Audit



ANDREAS PFEIFFER
Management Board
member responsible for
Bathroom and Wellness
Division



NICOLAS LUC VILLEROY
Management Board
member responsible for
Tableware Division

MEMBERS OF THE SUPERVISORY BOARD



SUSANNE OLLMANN
Head of Shared
Service Center
Accounting,
Villeroy & Boch AG

RALF RUNGE
First Vice Chairman of
the Supervisory Board,
Chairman of the
Faiencerie Merzig
Works Council
Villeroy & Boch AG

**DOMINIQUE
VILLEROY DE
GALHAU**
General Director
La Financière Tiepolo
SAS

**PETER PRINZ
WITTGENSTEIN**
Second Vice Chairman
of the Supervisory
Board, Management
Consultant

YVES ELSEN
Managing Partner & CEO
HITEC Luxembourg S.A.

**CHRISTINA
ROSENBERG**
Managing Director of
Hermès GmbH

**WENDELIN
VON BOCH-GALHAU**
Chairman of the
Supervisory Board

**LUITWIN GISBERT
VON BOCH-GALHAU**
Honorary member of
the Supervisory Board

DIETMAR GEUSKENS
Trade Union Secretary,
District Manager of IG
Bergbau, Chemie,
Energie

**DR ALEXANDER
VON BOCH-GALHAU**
Management
Consultant

**DIETMAR
LANGENFELD**
Chairman of the
Villeroy & Boch AG
Central Works Council

WERNER JÄGER
Chairman of the Head
Office Works Council
Villeroy & Boch AG

FRANCESCO GRIOLI
Trade Union Secretary,
District Manager of IG
Bergbau, Chemie,
Energie for Rhineland-
Palatinate and Saarland

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2016 financial year, the Supervisory Board performed the duties prescribed to it by law and the Articles of Association in full. It monitored the course of business and the activities of the Management Board and advised the Management Board in managing the Company. The Management Board kept the Supervisory Board informed about the current development of the earnings situation of the Company and the individual divisions, including the risk situation and risk management, comprehensively, continuously and in a timely manner in both written and oral reports. The Supervisory Board was also directly involved in all decisions of material importance to the Company, allowing it to intensively advise on the relevant matters at its meetings. In its resolutions, the Supervisory Board approved the proposed resolutions by the Management Board and the Committees following its own detailed examination and discussion.

KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

In the 2016 financial year, the Supervisory Board held five ordinary meetings and adopted one resolution by written circulation procedure (combined resolutions). No member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board or the committees of which they are members. The detailed reports by the Management Board on the position and business development of the Villeroy & Boch Group formed the basis for discussions at all times.

KEY TOPICS ADDRESSED IN THE PAST FINANCIAL YEAR

The balance sheet meeting in February 2016 focused on discussing the annual and consolidated financial statements for 2015 and their approval and adoption by the Supervisory Board. The agenda for the General Meeting of Shareholders was also adopted. With regard to Management Board remuneration, the Supervisory Board examined target fulfilment for 2015. Furthermore, the Management Board informed the Supervisory Board of the Group's current position.

The meeting in April 2016, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders and resolved the extension of the term of office of the CEO, Frank Göring, until 31 December 2021. The partial sale of the former tableware production site in Rollingergrund to the City of Luxembourg was resolved in May 2016. At the meeting



WENDELIN VON BOCH-GALHAU
Chairman of the Supervisory Board

in July 2016, the Management Board reported to the Supervisory Board on the Group's position. The strategic Group projects were presented and the Group's strategic development was discussed.

At the meeting in September 2016, the Management Board reported to the Supervisory Board on the Group's position and the expected revenue and earnings situation for 2016 as a whole. The progress made on the Management Board's strategic Group projects was presented to the Supervisory Board and discussed.

The meeting in November 2016 focused on the presentation of the figures as of 31 October 2016 and the resulting orientation for the annual accounts and consolidated financial statements for 2016, the Management Board's report on the position of the Group and the review of the risk management system, as well as receiving the compliance report for the past and the future, submitting the updated declaration of conformity (section 161 AktG) and approving the positions held by Management Board members on the controlling bodies of subsidiaries. The meeting also adopted the annual planning for 2017 and the objectives of the Management Board members for 2017. In addition, the potential consequences of demographic development for the Group were discussed.

Members of the Management Board also met with the Chairman of the Supervisory Board and the Chairman of the Audit Committee to discuss current issues. This served to ensure that the Supervisory Board was informed about the Company's current operational development, significant transactions, the risk situation and risk management, and the development of key financial indicators at all times.

REPORT ON THE COMMITTEES

To ensure that the work of the Supervisory Board is performed efficiently, it is conducted to a large extent by the four committees formed for this purpose.

The Audit Committee held three regular and two extraordinary meetings in the year under review. At the meeting in January, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the annual financial statements for 2014, and it was agreed that it would be recommended to the Supervisory Board that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be proposed to the General Meeting of Shareholders for re-election as the auditor of the annual accounts and consolidated financial statements for the 2016 financial year. The meeting in April discussed the further procedure and conclusions in the EU bathroom case. It also discussed the changes resulting from Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 14 July 2014 and the German Audit Reform Act of 10 May 2016. The main topics discussed at the meeting in November 2016 were the preparation of the forthcoming Supervisory Board meeting, and in particular the status of the preliminary audit of the annual accounts and consolidated financial statements by the auditor and the procedure for ensuring compliance with the more stringent future requirements for the performance of non-audit services by the auditor.

The Investment Committee met once in the year under review. The meeting of the Investment Committee in November 2016 focused on the preparation of the corporate and investment planning for 2017 and the medium-term planning for resolution by the Supervisory Board.

The members of the Human Resources Committee met twice in 2016 to discuss the assessment of the level of target attainment in the 2015 financial year, the objectives for the Management Board for the 2017 financial year and the extension of the term of office of Frank Göring as CEO. A decision was also taken by written circulation procedure.

The Conciliation Committee formed in accordance with section 27 (3) of the German Codetermination Act did not meet in the year under review.

The Supervisory Board was regularly informed about the work of the committees by the respective chairman.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

By resolution of the Saarbrücken Local Court, Susanne Ollmann was appointed to the Supervisory Board as the representative of senior management succeeding Bernhard Thömmes, who stepped down from his position with effect from 30 November 2016.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements and the Management Report of the Villeroy & Boch AG as well as the IFRS consolidated financial statements and the Management Report of the Villeroy & Boch Group for the 2016 financial year were audited by the auditor elected by the General Meeting of Shareholders, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and issued with an unqualified audit opinion. These documents

and the reports by the auditor were made available to all members of the Audit Committee and the Supervisory Board in good time before the balance sheet meeting. The Audit Committee discussed the annual financial statements in January and February 2017. The annual financial statements were also intensively discussed at the balance sheet meeting of the Supervisory Board in February 2017. At both meetings, the auditor reported on the audit as a whole and the individual focal points and key findings of the audit and answered all of the Supervisory Board's questions in detail. In particular, the auditor expressed an opinion as to whether there were any material deficiencies in the internal control and risk management system with regard to the financial reporting process and did not express any objections in this respect. The auditor also stated that there were no circumstances that could give rise to grounds for concern as to its impartiality and provided the Supervisory Board with information on the services performed in addition to the audit of the annual financial statements. The Supervisory Board concurred with the audit report and the findings of the audit.

The Supervisory Board examined the annual and consolidated financial statements and the Group Management Report for the 2016 financial year, taking into account the report by the auditor, and the proposal by the Management Board on the appropriation of retained earnings. Following its own examination, the Supervisory Board approved the annual financial statements prepared by the Management Board at its balance sheet meeting in February 2017 in accordance with the recommendation by the Audit Committee. The annual financial statements have therefore been adopted in accordance with section 172 of the German Stock Corporation Act. The Supervisory Board also approved the consolidated financial statements and the Group Management Report. The Supervisory Board concurred with the proposal by the Management Board on the appropriation of retained earnings.

The Supervisory Board would like to express its gratitude to its former member Bernhard Thömmes, who stepped down in the past financial year, for his many years of cooperation in a spirit of mutual trust. The Supervisory Board would also like to thank the members of the Management Board and all of the employees of the Villeroy & Boch Group for their commitment and achievements and our shareholders for the confidence they have placed in us.

For the Supervisory Board



Wendelin von Boch-Galhau, Chairman
Mettlach, February 2017

CORPORATE GOVERNANCE REPORT

In accordance with section 3.10 of the German Corporate Governance Code, the Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance at Villeroy & Boch in the following report. This report contains the declaration on corporate governance in accordance with section 289a of the German Commercial Code (HGB) and the remuneration report on the remuneration paid to the Management Board and Supervisory Board. The remuneration report is also part of the Group Management Report.

Good corporate governance aimed at creating sustainable value through responsible corporate management is of fundamental importance for Villeroy & Boch. It serves as the foundation for promoting the trust of investors, journalists, customers, employees and the public. Accordingly, the recommendations and suggestions of the Government Commission of the German Corporate Governance Code constitute the basis for the actions of the Management Board and Supervisory Board of Villeroy & Boch AG.

DECLARATION ON CORPORATE GOVERNANCE

RESPONSIBLE MANAGEMENT

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 adopted at meetings of the Management Board, which generally take place at least twice a month.

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 accordance with the provisions of the German Codetermination Act. In appointing members to the Management Board, the Supervisory Board pays attention to the professional suitability, experience and management quality of the candidates.

With respect to the overall composition of the Management Board, it seeks to ensure diversity and compliance with the self-imposed target for the share of women.

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 Codetermination 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 set out in section 5.4.1 of the German Corporate Governance Code, it therefore defined the following targets for its composition at its meeting on 9 February 2016:

“The composition of the Supervisory Board of Villeroy & Boch AG should be such that the Management Board will be subject to informed monitoring by and receive expert advice from the Supervisory Board 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.

In accordance with the statutory provisions and its Articles of Association, the Supervisory Board of Villeroy & Boch AG is composed of six shareholder representatives and six employee representatives. Following the entry into effect of the German Act on the Equal Participation of Women and Men

in Management Positions in the Private and Public Sector on 1 May 2015, there is a 30 % minimum ratio for women and men on the Supervisory Board, which has been taken into account in new appointments since 1 January 2016. In light of its current composition, the Supervisory Board will therefore propose women or men either as new appointees or to fill vacant positions until the statutory minimum share of 30 % women and 30 % men has been achieved.

The Supervisory Board should have a sufficient number of independent members. Significant conflicts of interest that are not merely temporary should be avoided. The Supervisory Board members should also have sufficient time to perform their functions such that they can do so with the requisite regularity and diligence. The regulation on the age limit set out by the Supervisory Board in its Rules of Procedure will be taken into account, as will the standard limit on length of membership. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board.”

We will also take future amendments to the German Corporate Governance Code into account.

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 tasks and that its objectives for the composition of the Supervisory Board have been fulfilled. As a whole, it is familiar with the sector in which it operates and also has comprehensive industry knowledge in the Audit Committee. In addition, the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector (“German Equality Act”) of May 2015 means that, since 1 January 2016, the Supervisory Board of Villeroy & Boch AG has been required to gradually implement a minimum ratio of 30 % female and 30 % male members in newly available positions on the Supervisory Board. This law was already taken into account by the court appointment in December 2016, which increased the share of women in the Supervisory Board to 17 %.

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, on account of the 2015 German Equality Act, Villeroy & Boch AG is required for the first time to set targets for the share of female members of the Management Board and the next two levels of management as well as the date by which these shares must be achieved.

The Management Board set a target of 35 % and an implementation date of 30 June 2017 for the first and second levels of management below the Management Board on 5 May 2015. This did not rule out the possibility of an increase in the share of female members in excess of these targets. The share of women in the two management levels below the Management Board is already 37 %, rapidly approaching the long-term goal of 40 % participation at both management levels.

Taking into account the company-specific situation, and in particular the purpose of the company, the size of the company and the current composition of the Management Board, on 24 June 2015 the Supervisory Board adopted a target of 0 % female members of the Management Board of Villeroy & Boch AG for the aforementioned period.

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 2016. 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 year under review, the reports by the Management Board to the Supervisory Board focused specifically on the direction and implementation of corporate strategy, the Company’s business development, the Group’s position, and questions relating to the risk situation, risk management, the internal control system and compliance management. The Supervisory Board’s right to withhold approval in certain cases is laid down in the Rules of Procedure for the Supervisory Board and the Management Board. This especially applies to significant transactions or measures affecting the net assets, financial position and results of operation of Villeroy & Boch AG.

SUPERVISORY BOARD COMMITTEES

To allow it to perform its tasks efficiently and deal with complex issues more intensively, the Supervisory Board has formed three expert committees in addition to the Conciliation Committee prescribed by section 27(3) of the German Codetermination 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 Codetermination Act must be established in order to perform the task set out in section 31(3) sentence 1 of the German Codetermination 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 Wendelin von Boch-Galhau (Chairman), Ralf Runge (First Vice Chairman), Peter Prinz Wittgenstein and Francesco Grioli.

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. It is chaired by the Chairman of the Supervisory Board and also includes one employee representative and one shareholder representative. The current members are Wendelin von Boch-Galhau (Chairman), Francesco Grioli and Peter Prinz Wittgenstein.

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 also includes one shareholder representative and one employee representative. The current members are Wendelin von Boch-Galhau (Chairman), Peter Prinz Wittgenstein (Vice Chairman) and Dietmar Langenfeld.

The Audit Committee discusses the topics of accounting, risk management, the internal control and audit system, 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. The current members are Peter Prinz Wittgenstein (Chairman), Werner Jäger (Vice Chairman) and Yves Elsen. The Chairman of the Audit Committee is independent and is qualified as an independent expert within the meaning of section 100(5) AktG thanks to his professional background as a former member of the management board of a DAX company and a management consultant, among other things.

No separate Nomination Committee has been formed to propose suitable candidates for election to the Supervisory Board. Proposals for election have been and will continue to be prepared at shareholder representatives' meetings.

The chairmen 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. 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.

EFFICIENCY REVIEW

The Supervisory Board of Villeroy & Boch AG performs a regular efficiency review, most recently at its meeting on 7 February 2017 for the fiscal year 2016. This is a self-assessment of the workings of the Board and is carried out by its members. The efficient work of the Supervisory Board is driven in particular by the work of the committees, which meet as required and, if they do not have their own decision-making authority, prepare the resolutions to be passed by the full Supervisory Board.

MANAGERS' TRANSACTIONS

The managers' transactions reported to us in the 2016 financial year are published on the following website: <http://www.villeroyboch-group.com/en/investor-relations/financial-news/managers-transactions.html>.

At the end of the year under review, the members of the Supervisory Board held 2.04 % of all the ordinary and preference shares issued by the Company either directly or indirectly as defined by Article 19 of the European Market Abuse Regulation (Regulation (EU) No. 596/2014). Of this figure, 1.36 % were attributable to Dr Alexander von Boch-Galhau. The members of the Management Board held 0.47 % of the shares in circulation.

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 International Financial Reporting Standards (IFRS). The 90-day period for the publication of the consolidated financial statements and the group management report set out in section 7.1.2 of the German Corporate

Governance Code was again observed this year. The annual financial statements of Villeroy & Boch AG are prepared in accordance with the German Commercial Code (HGB).

The website www.villeroyboch-group.com contains the latest news in the form of press releases, ad hoc disclosures and other publications. In addition, annual and interim reports and other publications by Villeroy & Boch AG are also available for download in German, English and French 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 our website, in this annual report and in our 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 2016 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 auditors are Thomas Witsch (since the 2015 financial year) and Georg Becker (since the 2014 financial year). 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 German Corporate Governance Code, the Supervisory Board agreed with the auditor that the Chairman 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 November 2016, the Management Board and the Supervisory Board issued the annual declaration of conformity stating that the Company had complied with and continued to comply with all of the recommendations of the Government Commission of the German Corporate Governance Code with the exceptions noted (available at <http://www.villeroyboch-group.com/en/investor-relations/corporate-governance/declaration-of-compliance.html>).

An amended and updated version of the declaration of conformity for the previous year, which is also available via the aforementioned link, was published on 9 May 2016.

COMPLIANCE AT THE VILLEROY & BOCH GROUP

The establishment of an effective compliance organisation is a vital element of good corporate governance. We can only achieve long-term business success by complying with the relevant statutory provisions, internal guidelines and our corporate values. Accordingly, a compliance organisation was established in 2008 as part of the risk management system. Our compliance organisation today begins directly with the Management Board of Villeroy & Boch AG. CEO Frank Göring is the member of the Management Board with responsibility for compliance. The Chief Compliance Officer of the Villeroy & Boch Group reports to him. The Chief Compliance Officer is supported by functional compliance officers at the head office and in the divisions as well as local compliance officers at the Group companies.

Our compliance programme today covers essentially business ethics, antitrust law, combating corruption, fraud, money laundering prevention and sanction list screening. Other relevant areas such as the environment, occupational health and safety, data security and capital market law are handled by specialist officers and departments. Our Group-wide ethical principles, the Code of Conduct and other guidelines are binding for all employees, providing them with orientation for responsible behaviour in day-to-day business, protecting them against incorrect decisions and hence safeguarding the basis of our success as a Company.

Employees are provided with continuous information and training on compliance issues. The extensive training programme is conducted in a classroom environment and in the form of web-based training. The latter ends with participants receiving a certificate after passing a test.

Our compliance management system was last audited in the first quarter of 2016 in accordance with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). The subject of the external audit was the effectiveness of the compliance management system in the areas of antitrust law and combating corruption in Germany. BAY GmbH Wirtschaftsprüfungsgesellschaft Rechtsanwalts-gesellschaft has confirmed that the principles and measures of our compliance management system are suitable for detecting and preventing risks relating to violations of legal provisions early on with reasonable assurance.

In 2017 we will further expand our existing compliance programme and establish our compliance requirements even more in operational processes.

REMUNERATION REPORT

The remuneration report is part of the Group Management Report.

PRINCIPLES OF THE REMUNERATION SYSTEM

The Supervisory Board regularly reviews the remuneration system for the Management Board, particularly with a view to current changes to the German Corporate Governance Code. The remuneration system for the members of the Management Board is performance-oriented, with fixed remuneration being supplemented by a performance-based variable component. The remuneration is limited in terms of both the total remuneration and the variable components. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes more than half of the total remuneration paid.

The variable remuneration is broken down into a short-term annual component (annual bonus) and a long-term component with a measurement period of three years. This long-term remuneration has a higher weighting than the short-term component. In terms of content, both variable remuneration components are oriented towards the Company's financial targets (return on assets, earnings before interest and taxes, earnings before taxes) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2016 financial year. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car for private use is offered to members of the Management Board. The existing contracts of the current members of the Management Board provide for defined benefit or defined

contribution pension commitments. In the opinion of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the Company's financial situation and do not exceed typical remuneration either in a vertical comparison or in a horizontal comparison with reference companies. The Supervisory Board intends to take into account the relationship between the remuneration of the Management Board and that of senior management and the staff overall in future, including in terms of its development over time.

Supervisory Board remuneration is also composed of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

SUPERVISORY BOARD REMUNERATION

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive a fixed basic remuneration and a variable remuneration component.

Since 1 April 2016 the fixed annual basic remuneration is € 24,000. The Chairman receives an additional € 53,000, while the Vice Chairman receives an additional € 16,500. Members of the Supervisory Board receive a fee of € 1,500 for each meeting of the full Supervisory Board.

The Chairmen of the Audit Committee receives € 10,000 p. a. and the Chairman of the Investment Committee and the Human Resources Committee each receive € 4,000 p. a. in addition to their basic remuneration, while the members of the respective committees each receive an additional € 2,500 p. a.

The variable remuneration amounts to € 195 per member of the Supervisory Board for each cent by which the dividend payable to shareholders exceeds 10.5 cents per share. The shareholder dividend is calculated as the average of the dividends paid for one preference share and one ordinary share. The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.

The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration for performing their duties in the financial year.

A total expense of € 808 thousand was reported in consolidated earnings for the 2016 financial year (previous year: € 649 thousand). In addition to the fixed remuneration paid and the meeting fees for 2016, this figure includes € 89 thousand (previous year: € 75 thousand) for the provision for variable remuneration and the reimbursement of other

In € thousand					
	Fixed remuneration	Meeting fees	Variable remuneration for 2015	Total	Previous year
Wendelin von Boch-Galhau ^{2*)} , ^{3*)}	82	9	7	98	85
Peter Prinz Wittgenstein ^{1*)} , ²⁾ , ³⁾	52	7	7	66	55
Ralf Runge ⁴⁾	39	7	7	53	46
Werner Jäger ¹⁾ , ⁴⁾	26	9	7	42	35
Dietmar Langenfeld ²⁾ , ⁴⁾	26	9	7	42	35
Yves Elsen ¹⁾	26	9	7	42	35
Francesco Grioli ³⁾ , ⁴⁾	26	7	7	40	34
Dr Alexander von Boch-Galhau	23	9	7	39	32
Dietmar Geuskens ⁴⁾	23	7	7	37	32
Christina Rosenberg	23	7	7	37	32
Dominique Villeroy de Galhau (since 10/2015)	23	7	2	32	6
Bernhard Thömmes (until 11/2016)	21	9	7	37	32
François Villeroy de Galhau (until 10/2015)	–	–	5	5	31
Rounding	–	–	–	–	1
Total	390	96	84	570	491

1) Audit Committee

2) Investment Committee

3) Human Resources Committee

4) Remuneration is deducted in accordance with DGB guidelines for the deduction of supervisory board remuneration.

* Chairman of the respective committees

expenses in the amount of € 65 thousand (previous year: € 69 thousand) as well as insurance premiums in the amount of € 168 thousand (previous year: € 89 thousand).

MANAGEMENT BOARD REMUNERATION

An expense of € 2,898 thousand (previous year: € 2,796 thousand) is reported in the income statement for the 2016 financial year. This figure is composed of fixed (€ 1,533 thousand; previous year: € 1,481 thousand) and variable salary components (€ 1,365 thousand; previous year: € 1,315 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 664 thousand (previous year: € 689 thousand) and a remuneration for several years in the amount of € 701 thousand (previous year: € 626 thousand). The fixed remuneration includes remuneration in kind of € 71 thousand (previous year: € 68 thousand), including € 2 thousand (previous year: € 3 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 23,855 thousand (previous year: € 23,233 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,598 thousand (previous year: € 1,597 thousand).

The provisions of section 314(3) sentence 1 HGB in conjunction with section 286(5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2018 financial year.

VILLEROY & BOCH'S SHARES

STOCK MARKETS 2016

ROLLERCOASTER RIDE WITH A HAPPY ENDING

From -1 % to +7 %: that was the range of performance recorded by the four main German stock market indices over the course of 2016. This can be viewed as a relatively happy ending compared with the enormous volatility observed on the markets at times.

The three main factors influencing international stock market development all related to (fiscal) policy: the Brexit referendum in the United Kingdom, the election of Donald Trump as the 45th President of the United States of America, and the US Federal Reserve's key interest rate policy. The first half of the year in particular was shaped by Brexit, with the markets as a whole seeing sharp movements in both directions. Despite the surprising outcome of the referendum, the markets settled considerably over the summer months. Investors experienced déjà vu in November, with the US presidential election again confounding experts and forecasts alike. The markets rallied in the wake of the election results, however, and this upward development was

only briefly interrupted by the US Federal Reserve's sole increase in the key interest rate in 2016.

This final spurt towards the end of the year was also the reason for the positive performance of the markets on the whole. The Dax closed at 11,481 points, up 6.9 % on the start of the year. The MDax rose by 6.8 % to 22,189 points, while the SDax closed the year at 9,519 points, an increase of 4.6 %. Only the TecDax failed to land in positive territory, closing the year down 1.0 % at 1,812 points.

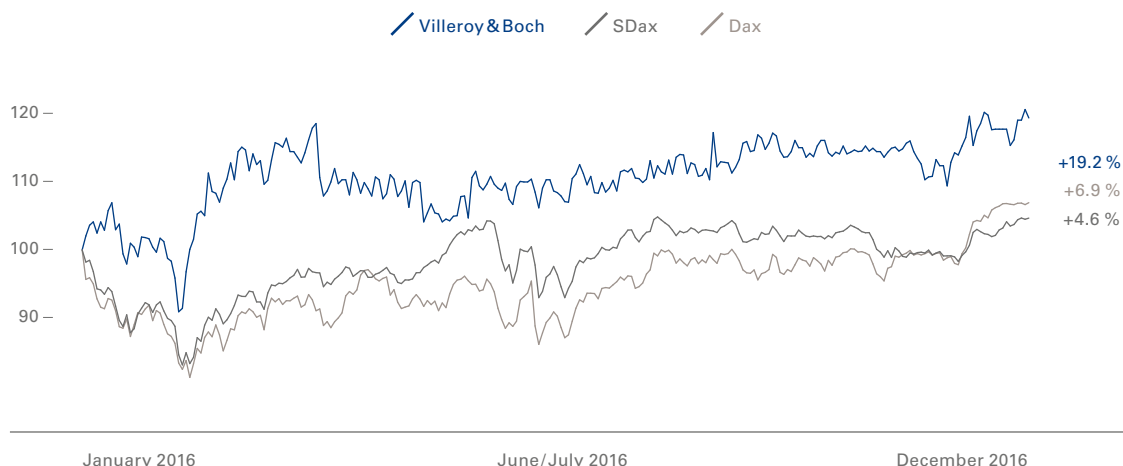
VILLEROY & BOCH'S PREFERENCE SHARES: SIXTH SUCCESSIVE YEAR OF PRICE GROWTH

Starting from a price of € 12.25 at the end of 2015, Villeroy & Boch's preference shares recorded growth of 19.2 % to € 14.60 in 2016, marking their sixth successive year of positive performance and comfortably outperforming the SDax benchmark index.

The comparative weakness of the markets at the start of the year also briefly put pressure on Villeroy & Boch's preference shares. The lowest closing price of 2016 was recorded on 8 February, just a few days before the annual financial

PERFORMANCE OF VILLEROY & BOCH'S SHARES IN COMPARISON TO DAX AND SDAX

in the period from 4 Jan. 2016 to 30 Dec. 2016 (indexed)



press conference, at € 11.15. This made the subsequent price performance all the more encouraging, particularly in light of the turbulence and political uncertainty that kept the markets in suspense all year long. The first closing price above € 14.00 was recorded as early as March, after which the shares mainly traded between € 13.00 and € 14.00 with comparatively modest fluctuations. Supported by solid six-month and nine-month figures, Villeroy & Boch's preference shares also benefited from the rally on the markets in the fourth quarter to record their highest closing price on 29 December at € 14.75. In addition to positive performance of 19.2 %, shareholders participated in the company's success once again: April saw the payment of a dividend of € 0.49 per preference share for the 2015 financial year.

INVESTOR RELATIONS ACTIVITIES

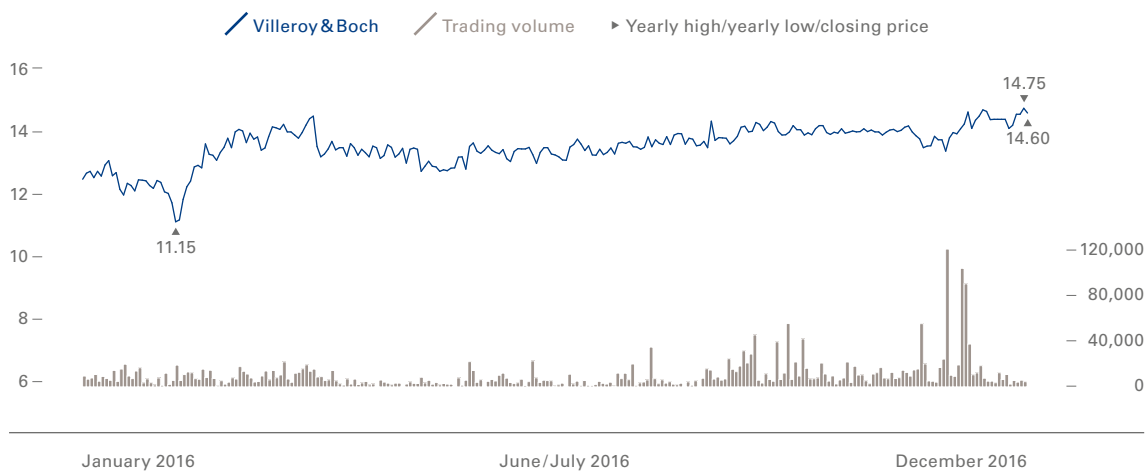
We again maintained close contact with private investors, analysts and institutional investors in the 2016 financial year. At the General Meeting of Shareholders on 1 April 2016, the Management Board presented the results for the past financial year and answered all of the questions on the

current situation and the outlook for the company. Ahead of the event, a tour of the tableware production facilities in Merzig was offered for the second year in succession and met with a gratifying response.

We also pressed ahead with the continuous intensification of our communication with analysts and institutional investors in the past financial year. In addition to the annual analyst and investor conference in February, we invited interested IR contacts to the main trade fairs, Ambiente (Frankfurt) and SHK (Essen), where we held numerous one-on-one meetings. For analysts and investors, having the opportunity to experience the product range in the flesh and compare the design and innovation quality of the new products with the competition is especially valuable. We also participated in the German Equity Forum and the DVFA Small Cap Conference in Frankfurt and investor conferences organised by Oddo Seydler, Montega, Credit Suisse and LBBW in Frankfurt, Lyon and London. We also took roadshows to Frankfurt, Cologne, Munich, Luxembourg and Warsaw to present our company to potential institutional investors. Meanwhile, other investors visited our head office

PERFORMANCE OF VILLEROY & BOCH'S SHARES

in the period from 4 Jan. 2016 to 30 Dec. 2016 (in €)



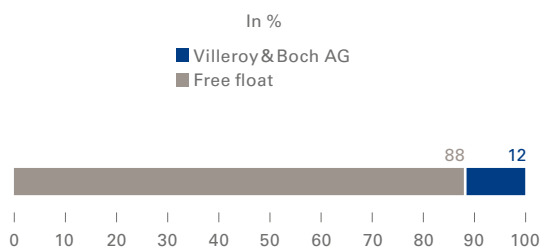
in Mettlach, where they were informed about the ceramic production process during a tour of our sanitary ware and tableware production facilities. All in all, it is notable that foreign equity investors are increasingly taking an interest in Villeroy & Boch.

The number of analysts closely observing and commenting on our business and share price performance declined from five to four at the end of 2016. WGZ Bank ended its coverage on 31 December 2016 following its merger with DZ Bank. As of year-end 2016, the average target price issued by these analysts was € 14.70. Two analysts rate our shares as a “Buy” recommendation, with two issuing a “Hold” recommendation.

PROPOSED DIVIDEND

Based on business development in 2016, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 24 March 2017 the payment of a dividend of € 0.53 per preference share and € 0.48 per ordinary share; this represents an increase of € 0.04 on the previous year. This results in a Group distribution ratio of 46 % excluding treasury shares.

STRUCTURE OF PREFERENCE SHAREHOLDERS



MASTER DATA

ISIN:	DE0007657231
GSIN:	765723
Securities exchange symbol:	VIB3

KEY FIGURES OF VILLEROY & BOCH'S SHARES

	2016	2015	2014	2013	2012
Closing price (in €)	14.60	12.25	12.05	10.57	6.63
Yearly high/low (in €)	14.75/11.15	15.21/11.81	14.78/10.32	10.77/6.74	8.63/5.85
Ordinary shares, 31.12.	14,044,800	14,044,800	14,044,800	14,044,800	14,044,800
Preference shares, 31.12.	14,044,800	14,044,800	14,044,800	14,044,800	14,044,800
I Shares held by Villeroy & Boch	1,683,029	1,683,029	1,683,029	1,683,029	1,683,029
I Shares in free float	12,361,771	12,361,771	12,361,771	12,361,771	12,361,771
Market capitalisation, Xetra year-end (in € million)	205.1	172.0	169.2	148.5	93.1
Average daily turnover, Xetra (in shares)	10,216	12,252	19,521	22,059	14,841
PER based on yearly high/PER based on yearly low (in €)	13.05/9.87	14.35/11.14	15.56/10.86	11.58/7.25	14.88/10.01
Consolidated earnings per ordinary share (in €) *	1.08	1.01	0.90	0.88	0.53
Consolidated earnings per preference share (in €)	1.13	1.06	0.95	0.93	0.58

* Ordinary shares not publicly traded

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GROUP MANAGEMENT REPORT

- ▮ **Consolidated revenue up +3.3 % on a constant currency basis and +2.0 % in nominal terms to € 820.1 million.**
- ▮ **EBIT improves by 9.4 % to € 47.6 million.**
- ▮ **EBT up 9.8 % year-on-year to € 41.6 million (€ 37.9 million).**
- ▮ **Return on net operating assets rises from 13.6 % to 15.7 %.**

BASIC INFORMATION ON THE GROUP

BUSINESS MODEL OF THE GROUP

Organisational structure of the Group

Villeroy & Boch is a leading international ceramic manufacturer. As a full-service provider for the bathroom and the “perfectly laid table”, our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. Group-wide tasks and functions are performed by our central functions.

Villeroy & Boch AG is the Group parent for a total of 52 fully consolidated direct or indirect subsidiaries. Comprehensive information on the basis of consolidation and the investment structure of the Villeroy & Boch Group can be found in notes 2 and 61 of the notes to the consolidated financial statements.

Divisions, customers and sales markets

Our products are sold in 125 countries. Our product range in the Bathroom and Wellness Division includes ceramic bathroom collections in various styles, bathroom furniture, shower, tub and whirlpool systems, ceramic kitchen sinks, and fittings and accessories. We typically address end consumers through a two- or three-tier sales channel. Our key target groups are dealers, craftsmen, architects, interior designers and planners. Our products in this division are displayed in more than 10,400 showrooms worldwide.

We also reach the relevant target groups using different forms of communication, including a dedicated professional section on our website for architects, planners and tradespeople, which contains extensive information on new products, references and planning tools including technical product specifications. With the Bathroom Inspirator, the Bathroom Planner and the augmented reality app, end consumers also have access to practical applications allowing them to individually plan and design complete bathrooms in a virtual environment.

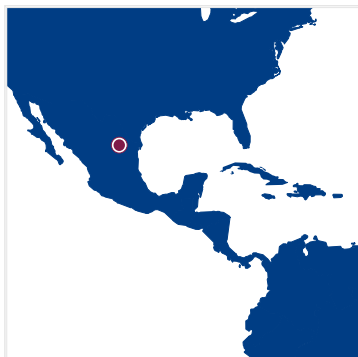
Our product range in the Tableware Division includes high-quality tableware, glasses, cutlery and corresponding accessories, kitchen and tableware textiles and gift items. We supply specialist retailers – from small porcelain retailers to large department store chains and specialist e-commerce providers – and reach end customers through our own retail activities, which include 120 Villeroy & Boch stores and around 570 points of sale operated by our own staff at high-profile department stores. We are also continuously working to expand our global online presence as part of our own retail activities. We now sell our Tableware products in more than 20 countries via our online shops. All in all, our products are available at around 5,250 points of sale worldwide. Our product range is also supplemented by licence-based products for house and home, particularly lighting, bathroom accessories, garden furniture and flooring.

In the project business of both divisions, we reach our customers via specialised sales units. The main target group

Basic Information on the Group

PRODUCTION SITES BY REGION

AMERICAS



Ramos (Mexico)

EUROPE



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

APAC



Saraburi (Thailand)

for sanitary projects consists of architects, interior designers and planners of public institutions, office buildings, hotels and high-quality residential complexes. Tableware projects are mainly aimed at the investors and operators of hotels and restaurants.

Locations

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

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

CONTROLLING SYSTEM

The Management Board of Villeroy & Boch AG manages the Group as a whole using a strictly defined management structure and operational targets whose achievement is monitored by way of prescribed key figures. Although this focuses on key financial indicators, non-financial performance indicators could play a more significant role in future, including with regard to the obligation to provide more extensive sustainability reporting from 2017 onwards.

The performance of the Group as a whole, and the two divisions individually, is measured using the following key financial indicators: net revenue, earnings before interest and taxes (EBIT) and the rolling operating return on net assets. The latter is calculated as the rolling operating result divided by the average operating net assets for the last twelve months. Operating net assets are calculated as the total of intangible assets, property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities. Comprehensive information on the development of the key financial indicators can be found in the economic report.

RESEARCH AND DEVELOPMENT

Our activities in the areas of research, development and innovation serve to strengthen our competitiveness and hence form the basis for our long-term, sustainable economic success.

Including design development, the Villeroy & Boch Group invested € 15.2 million in research and development in the 2016 financial year (previous year: € 15.6 million). Of this figure, € 11.7 million (previous year: € 11.9 million) was attributable to the Bathroom and Wellness Division and € 3.5 million (previous year: € 3.7 million) was attributable to the Tableware Division.

Our research and development activities in the 2016 financial year focused on the further development of ceramic materials, surfaces and production technologies, particularly with respect to the Bathroom and Wellness Division.

Our permanent commitment to developing improved ceramics and innovative products with tangible customer benefit is a challenge that we meet by cooperating with external teams of experts from applied research and industrial experimental development, among other things. To this end, we strengthened and expanded our research and development network in the past financial year. Among other things, we initiated a partnership with the Luxembourg Institute of Science and Technology (LIST) in various fields of technology. As part of the “infectcontrol 2020” initiative of the German Federal Ministry of Education and Research, a joint research project was successfully launched together with seven other partners from university and research institutions as well as industrial partners. Within this project, we are pursuing the objectives of advancing the development of easy-care antibacterial surfaces and intelligent design concepts for improving hygiene and preventing infection risk in relevant public spaces, e.g. clinical institutions and public buildings and areas. Our membership of expert committees meant we also participated in current research projects in the field of ceramic raw materials, including those supported by the German Ceramic Society (DKG).

As part of the general advancement of our production techniques, projects were initiated with the aim of achieving robust processes, raw material and resource efficiency, standardisation and improved output. To support these projects, management methods including LEAN and data analysis using statistical techniques were employed and the design of our production facilities was redeveloped. The projects resulted in two patent applications for slip casting and pressure casting processes.

Product-related development activity in the Bathroom and Wellness Division primarily related to innovative printing techniques. In the past financial year, for example, the positive market response prompted us to press ahead with the development of direct inkjet printing, which allows items such as ceramic shower trays to be printed with photorealistic decors. In addition, the colour concept designed specially for the high-end Artis washbasin edition by a renowned designer was successfully launched on the market with 15 newly developed colour glazes. This colour concept, which has now also been transferred to kitchen sinks and some bathtub models, required the development of a tailored glazing technique for producing the dual-colour effect.

Our research and development activities also concentrated on the product category of shower toilets, which are particularly popular in the Asia region and are now also enjoying growing demand in Europe. We focused on improving the design and user comfort of our models in order to optimally meet the high aesthetic and functional standards of our customers. This primarily involved working on intuitive design concepts and a user-friendly, easy-maintenance installation technique. Digitalisation also offers additional innovation potential for the Bathroom and Wellness Division as buildings are increasingly equipped with intelligent domestic technology. Based on defined real usage scenarios, we derive corresponding products with specific properties – from emotional lighting design and music to personal settings and automated functions that save energy and resources.

Basic Information on the Group

In the Tableware Division, our research and development activities primarily focused on the further expansion of our new food trend collections. These are geared towards current food and drink trends and reflect modern consumer habits, which are shaped by consumer-relevant megatrends like mobility, urbanisation and individualisation. The successful concepts, which were supplemented by new items in 2016, impress thanks to their aesthetic design and functional USPs that are tailored to individual consumer requirements. Activity in the Tableware Division also focused on developing products for the thematic fields of coffee and tea that stand out thanks to special functions concerning aroma development, for example. With all these product trends, we are primarily addressing those people who no longer purchase full collections, particularly when it comes to food and drink, but increasingly prefer uncomplicated individual items tailored to the specific occasion or more varied solutions.

The content of our development activity in the Tableware Division included formal product designs as well as new design options for ceramic surfaces – e. g. stone look – and their implementation in terms of process technology. We are also working to continuously improve and extend our automated production, including special topics such as optical sorting.

In terms of cross-divisional activities, we focused on the further development of our innovative production techniques in the 2016 financial year. Together with Fraunhofer institutes and suppliers we are working, for example, on the energy- and resource-efficient technology of glaze spraying using superheated steam (“steam glazing”) and ultrasonic sensor technology, which is used in quality assurance. Additive production techniques and the resulting freedom of design for materials such as metal and plastic are also becoming increasingly important in terms of both series manufacture and demand-led single piece production. To this end, feasibility studies have been initiated with external knowledge partners with a view to allowing the potential of this key technology to be harnessed for ceramic materials.

PROCUREMENT

The Villeroy & Boch Group’s procurement portfolio encompasses raw materials, energy and supplies for its own production facilities as well as finished and semi-finished goods. The Group also purchases capital goods, packaging materials, transport services and a wide range of additional services. All in all, the value of our procurement volume including investments corresponds to over 60 % of our revenue. The aim of our procurement organisation and procurement strategies is to select reliable suppliers that can provide the required materials and services in the required quality and volume at the right time and the right price.

Purchasing prices in 2016 were influenced by falling prices on most of the commodity markets. In particular, Villeroy & Boch benefited from the development of oil, gas and electricity prices, which led to corresponding cost reductions. By contrast, the effect of exchange rate fluctuations was limited as the US dollar – the relevant currency for most commodity prices – saw relatively stable development compared with the Group currency, the euro, in the period under review. Some smaller local procurement volumes enjoyed positive effects as a result of the depreciation of the Mexican peso and the pound sterling.

Supplier relationships are extremely important to us. As part of our systematic strategic procurement management, we use a standardised catalogue of criteria to continuously evaluate our suppliers in the categories of quality, cost, logistics, service, technology and environment with a view to furthering our cooperation on this basis. We also aim to structure our supplier relationships so that all risks are minimised to the greatest possible extent. To this end, contracts with suppliers are negotiated, compliance with statutory provisions is ensured and corresponding risk management is practised. In particular, our “Supplier Code of Conduct” requires suppliers to commit to the same standards as our company with regard to integrity, business ethics, work conditions and upholding human rights.

CHANGES IN LEGAL OR REGULATORY CONDITIONS

As an internationally oriented group, Villeroy & Boch operates in a dynamic and broad-based legal environment. In this respect, the 2016 financial year saw a continuation of the trend towards the increased regulation of economic conditions, the implementation of which involves not insubstantial additional expenses for bureaucracy.

At EU level, the requirements in terms of capital market legislation have become considerably more stringent now that the Market Abuse Regulation has come into force, particularly in terms of documentation obligations. At the same time, the EU General Data Protection Regulation, which was adopted in spring 2016 and will come into force from 25 May 2018, will lead to the harmonisation of European data protection. In preparation, the intensive documentation requirements of the new legislation and additional technical and organisational measures must be implemented in good time.

In addition, the OECD and the G20 have agreed on extensive international taxation standards aimed at counteracting aggressive tax planning by international corporations as part of the BEPS (Base Erosion and Profit Shifting) project. This plan of action addresses issues including double taxation agreements, transfer pricing guidelines and documentation, interest limitation and the taxation of controlled foreign corporations. Some of these points have already been implemented in national tax law in the individual member states – as is the case for country-by-country reporting – or will be implemented successively over the coming years.

In terms of external financial reporting, too, the content requirements for capital market-oriented companies like ours are increasing significantly. Last but not least, the ongoing application of newly adopted accounting standards and the introduction of sustainability reporting, which is mandatory for the first time in the 2017 financial year, are key topics in the work programmes of the responsible departments.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Overall global economic growth in 2016 was modest and lower than the level recorded in the previous year. The euro zone enjoyed a moderate expansion that was driven primarily by the high level of momentum on the employment market. Although the Brexit vote adversely affected the economic outlook in the United Kingdom, there are no signs of it having a tangible macroeconomic impact on the euro zone to date. The German economy enjoyed robust growth of 1.9 % in the past year, the highest growth rate since 2011. Key drivers included private and public consumer spending as well as sustained strong exports. In France, the pace of expansion was slower than the European average. The US economy also lost momentum and was unable to repeat the strong growth recorded in the previous year. Following a modest start to 2016, the Chinese economy returned to solid growth as the year progressed, thanks in particular to fiscal impetus, while the recession in Russia slowed.

Business development in the Bathroom and Wellness Division is largely dependent on the performance of the European residential construction industry. According to current projections, growth in European residential construction was considerably higher than in the previous year at 3.9 %. In addition to the sustained construction boom in Germany, the extremely positive performance in the Netherlands and Sweden was especially notable. The construction industry in France also returned to encouraging growth following several years of restraint.

A key factor for sales success in the Tableware Division is the consumer climate among private households. According to the joint diagnosis by the leading economic research institutes, growth in private consumption in Europe remained stable at 2.0 %. Consumer activity is also reflected in the frequency of visits to retail outlets, an indicator that declined in many parts of Europe in the period under review. In Villeroy & Boch's extremely important home market of Germany, visitor frequency fell by 3.1 % year-on-year.

Basic Information on the Group
Economic Report

COURSE OF BUSINESS AND POSITION OF THE GROUP

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

We achieved all of the revenue and return targets we set ourselves for the 2016 financial year. The table below shows a comparison of the key figures forecast in the previous year's Group management report with the actual figures as well as the forecasts for 2017:

GROUP TARGETS			
	Forecast 2016	Actual 2016	Forecast 2017
Revenue growth ¹⁾	3–6 %	3.3 % (2.0 %)	3–5 %
EBIT growth ²⁾	5–10 %	9.4 % (9.0 %)	5–10 %
Return on net operating assets	> 13.6 %	15.7 %	> 15.7 %
Investments	> € 30 million	€ 26.2 million	> € 35 million

1) Figures for revenue growth shown on a constant currency basis; in brackets: nominal revenue growth

2) In brackets: EBIT growth before real estate income Gustavsberg

With revenue growth of 3.3 %, we achieved our revenue target for 2016 on a constant currency basis, i.e. assuming unchanged exchange rates against the previous year. In nominal terms, revenue increased by 2.0 % or € 16.3 million to € 820.1 million. This meant that consolidated revenue was substantially affected by negative exchange rate effects, largely as a result of the weak development of the pound sterling, the Russian rouble, the Mexican peso, the Chinese renminbi and the Norwegian krone. This was only partially offset by positive effects relating to the Japanese yen and the US dollar in particular.

At 9.4 %, we also achieved our forecast of EBIT growth of between 5 % and 10 %. One reason for the improved earnings situation was the € 2.7 million increase in gross profit to € 364.0 million, although substantial negative exchange rate effects mean this figure does not fully reflect our revenue growth. At the same time, we achieved savings thanks to our disciplined cost management, particularly in the area of administrative expenses, while net other operating income improved as a result of exchange rate hedges and our licensing business. Our procurement activities also benefited from the lower commodity and energy prices in the past financial year, which also helped us to achieve our EBIT target.

Our return on net operating assets improved from 13.6 % in the previous year to 15.7 %. This was attributable primarily to our positive earnings performance accompanied by a reduction in rolling net operating assets.

We made investments totalling € 26.2 million in the 2016 financial year. With some investment projects having been postponed until 2017, particularly in the Bathroom and Wellness Division, this figure was lower than forecast.

We also succeeded in increasing our operating cash flow by € 43.8 million year-on-year to € 77.9 million, not least thanks to targeted measures in the area of inventory and receivables management.

Further information on revenue and earnings development in the Bathroom and Wellness Division and the Tableware Division can be found in the following discussion of the Group's results of operations. The development of other key figures is discussed in the "Financial position", "Net assets" and "Other financial performance indicators" sections of the Group management report.

RESULTS OF OPERATIONS

The following information provides an overview of our results of operations in the 2016 financial year.

STRUCTURE OF THE CONSOLIDATED INCOME STATEMENT (IFRS)

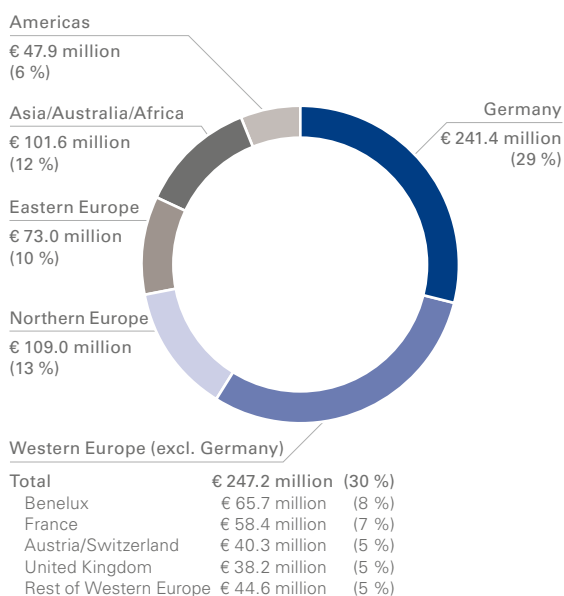
	In € million			
	2016	% of revenue	2015	% of revenue
Revenue	820.1	100.0	803.8	100.0
Cost of sales	-456.1	-55.6	-442.5	-55.1
Gross profit	364.0	44.4	361.3	44.9
Selling, marketing and development costs	-270.0	-32.9	-269.1	-33.5
General administrative expenses	-45.6	-5.6	-46.6	-5.8
Other expenses/income	-0.9	-0.1	-2.3	-0.2
Result on financial investments accounted according to the equity method	0.1	0.0	0.2	0.0
Earnings before interest and taxes (EBIT)	47.6	5.8	43.5	5.4
Financial result	-6.0	-0.7	-5.6	-0.7
Earnings before taxes (EBT)	41.6	5.1	37.9	4.7
Income taxes	-12.5	-1.5	-10.6	-1.3
Group result	29.1	3.6	27.3	3.4

Consolidated Revenue 2016

Consolidated revenue up 3.3 % on a constant currency basis

We increased our consolidated revenue by 3.3 % on a constant currency basis in the 2016 financial year. In nominal terms, i.e. applying current exchange rates, our revenue growth amounted to 2.0 %, meaning that we generated revenue of € 820.1 million compared with € 803.8 million in the previous year.

CONSOLIDATED REVENUE BY REGION AND COUNTRY



Economic Report

As in the previous years, we recorded substantial revenue growth in our home market of Germany, where revenue rose by € 13.6 million or 6.0 % year-on-year to € 241.4 million.

Our revenue in Western Europe (excluding Germany) remained essentially unchanged as against the previous year at € 247.2 million. Notable revenue growth was recorded in the Netherlands (+6.8 %), Belgium (+5.1 %) and Austria (+4.3 %) in particular. We also recorded modest growth on the French market following several years of falling revenue due to economic factors (+0.6 %). By contrast, revenue in the United Kingdom declined on the back of the weakness of the pound sterling (-5.2 %), while muted economic development in Italy continued to have an impact on revenue (-3.0 %).

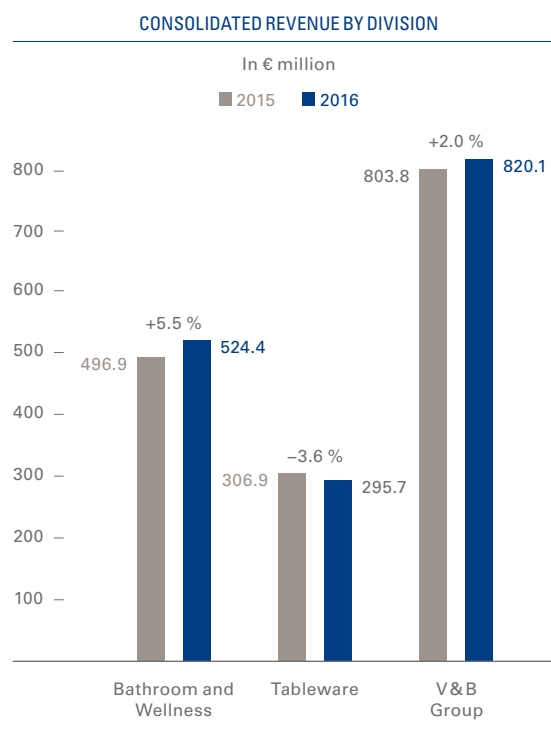
In Northern Europe, our revenue improved slightly compared with the previous year to € 109.0 million (+0.6 %). This was due in part to the strong performance in Sweden, our largest regional market (+2.4 %).

Revenue in Eastern Europe was down 2.2 % year-on-year at € 73.0 million. While we succeeded in increasing our revenue volume in Ukraine (+35.0 %), the Czech Republic (+11.7 %) and Romania (+9.4 %) in particular, Russia saw a downturn of 7.8 % as a result of the sustained weakness of the local currency and economy.

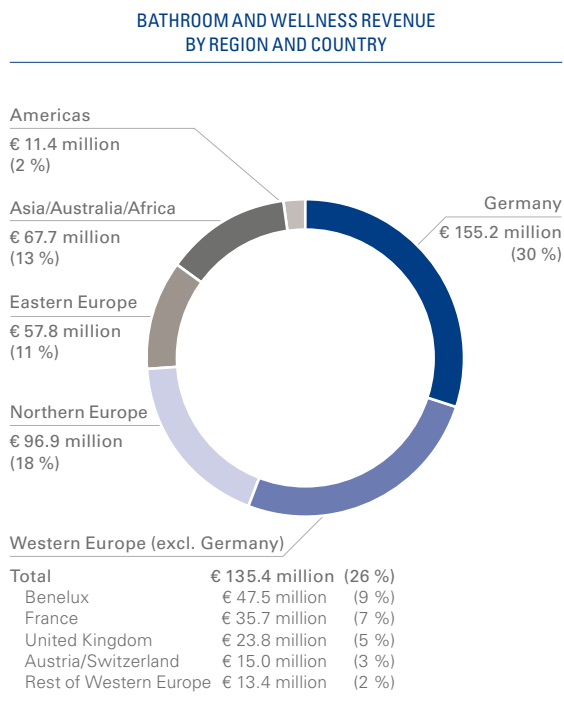
Revenue in the Asia/Australia/Africa region increased by 7.9 % year-on-year to € 101.6 million. This development was driven primarily by China, our largest and most important market in this region, where revenue rose sharply by 35.2 % to € 37.5 million. Markets where we recorded growth also included South Korea (+34.7 %) and India (+15.8 %), whereas revenue declined in Japan (-24.0 %) and the Gulf States (-11.9 %).

Revenue in the Americas region fell by 7.8 % year-on-year to € 47.9 million as a result of lower revenue in both of our core markets, namely Mexico (-17.2 %) – where exchange rate effects played a significant role – and the USA (-5.0 %).

Revenue by division



In the 2016 financial year, revenue in the *Bathroom and Wellness Division* increased by 5.5 % on a nominal basis to € 524.4 million. On a constant currency basis, revenue was up by as much as 7.3 %.



We achieved substantial revenue growth of 10.5 % to € 155.2 million in our important home market of Germany. We also increased our revenue volume in most other Western European markets, especially Spain (+19.3 %), Benelux (+8.6 %) and Austria (+4.5 %). Encouragingly, we also returned to growth in France (+2.7 %) following a substantial downturn in revenue over several periods as a result of weakness in the construction sector. Once again, one of the key drivers for our success in Europe was the sustained strength of our bathroom furniture business. Total revenue in this segment exceeded € 50 million for the first time, rising by 12.3 % to € 54.0 million. In addition, customer demand for our rimless DirectFlush WC category continues unabated, with global revenue growth in this area alone amounting to 64.6 %. The only markets that saw a notable downturn in revenue were Switzerland (-18.4 %) and Italy (-7.8 %) as well as the United Kingdom (-2.1 %), although the latter was attributable solely to exchange rate effects. Adjusted for these effects, revenue on the British market increased by 8.4 %.

In Northern Europe, we recorded year-on-year revenue growth of 2.7 % to € 96.9 million, with strong performance in the two major markets of Norway (+5.4 %) and Sweden (+4.0 %).

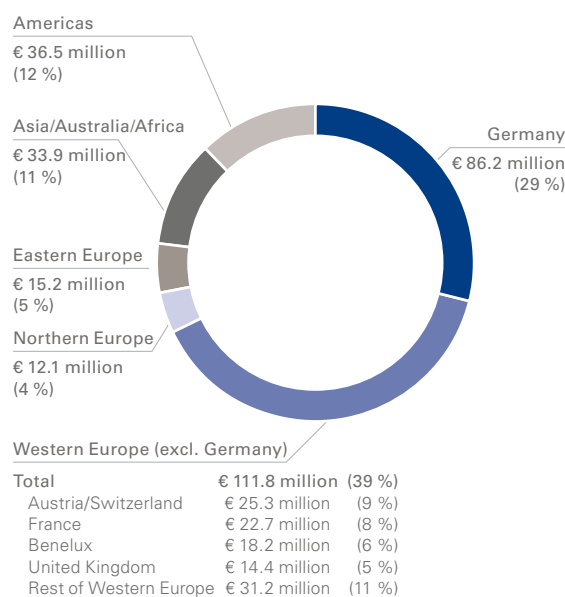
We also developed well in Eastern Europe, where revenue rose by 1.2 % to € 57.8 million. In addition to Ukraine (+44.0 %), the Czech Republic (+6.4 %) and Poland (+3.0 %), we recorded encouraging revenue growth in Hungary (+10.2 %) and Romania (+4.8 %), where we operate production sites for ceramic sanitary ware and the main Villeroy & Boch brand is flanked by the local brands Alföldi and Mondial. In Russia, one of our strategic growth markets, the difficult economic and political conditions and the massive depreciation of the rouble meant that revenue declined by 11.8 %; however, the situation stabilised in the second half of the year, with revenue rising compared with the same period of the previous year.

In the Asia/Australia/Africa region, we recorded substantial revenue growth of 14.2 % to € 67.7 million. The main driver was the significant increase in our revenue volume in China (+32.2 %), which was attributable in particular to the outstanding sales performance of our ViClean shower toilet collection (+45.8 %). Lower revenue was recorded in the Gulf States (-3.9 %) and Thailand (-3.6 %) in particular. Meanwhile, we generated revenue of € 11.4 million in the Americas region, down 16.3 % on the previous year. Whereas revenue in Mexico declined by 19.1 % largely as a result of exchange rate effects, we recorded growth of 7.6 % in the USA thanks to the expansion of our product range to include models specifically developed for the North American market.

We generated nominal revenue of € 295.7 million in the *Tableware Division*, down 3.6 % on the prior-year figure of € 306.9 million. This corresponds to a decrease of 3.1 % on a constant currency basis.

Economic Report

**TABLEWARE REVENUE
BY REGION AND COUNTRY**



As a premium brand, we intensified our focus on higher-margin trade channels in the past financial year. This involved taking a more cautious approach to special offers and shifting some of our secondary brand business to our licence business for tableware products. In terms of our earnings, the resulting reduction in revenue was almost entirely offset by the additional licence income generated.

Revenue in Germany declined by 1.4 % year-on-year to € 86.2 million. Revenue was also lower in some of our Western European markets, including France (-2.5 %) and Benelux (-1.8 %). The downturn in revenue in the United Kingdom (-9.9 %) is due solely to the depreciation of the pound sterling, without which we would have recorded moderate revenue growth (+0.9 %). The Austria/Switzerland market also enjoyed encouraging performance (+2.5 %).

The Northern Europe region contributed € 12.1 million to consolidated revenue, down on the previous year (-13.5 %).

Revenue in Eastern Europe declined by 13.3 %, although the prior-year figure included additional revenue from secondary brand business. One encouraging development was our return to substantial revenue growth of 18.3 % in Russia following comparatively weak performance in the previous year.

Revenue in the Asia/Australia/Africa region amounted to € 33.9 million. Overall, this represented a year-on-year decrease of 2.7 %. However, we recorded growth in most of the major markets in the region. For example, tableware revenue in China, our most important growth market, almost doubled as a result of project business (+82.9 %). South Korea (+35.0 %) and Australia (+4.4 %) also enjoyed notable revenue growth. All in all, however, this was not enough to offset individual downturns in revenue within the region. In addition to Japan (-24.5 %), this applies in particular to our markets in the Middle East, where the consumer climate was adversely affected by the tense political situation in many places and the low oil price throughout almost the entire year, with the result that revenue fell by 17.9 %.

The division was unable to repeat the strong prior-year performance in the Americas region, recording revenue of € 36.5 million (-4.7 %). This was due mainly to the lower revenue generated on the US market (-5.8 %).

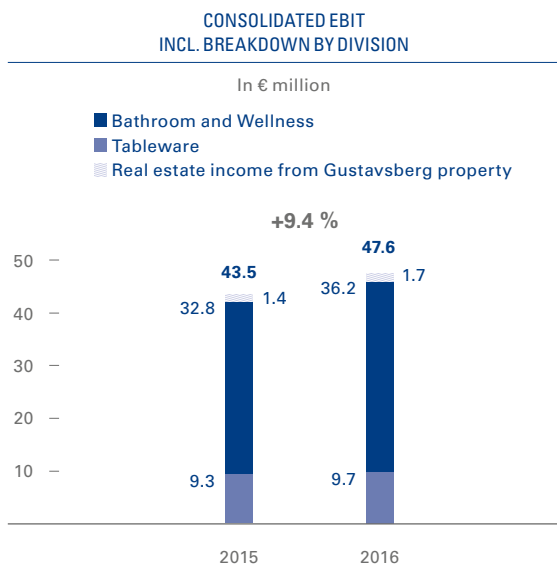
An increasingly important factor for the future success of the Tableware Division is our e-commerce business, not least as traditional retail is successively being squeezed out by online retail – a development that we also need to take into account. Our dedicated e-shops recorded year-on-year revenue growth of 7.9 % across all markets.

Orders on hand

Orders on hand amounted to € 73.9 million as at 31 December 2016, up significantly on the previous year (€ 63.3 million). The Bathroom and Wellness Division accounted for € 63.4 million of orders on hand, with the remaining € 10.5 million attributable to the Tableware Division.

Consolidated EBIT

The Villeroy & Boch Group's earnings before interest and taxes (EBIT) developed as follows in the 2016 financial year:



EBIT up 9.4 % year-on-year to € 476 million

In the 2016 financial year, our EBIT increased by 9.4 % to € 47.6 million (previous year: € 43.5 million).

Thanks to the strong revenue performance, we improved our gross profit by € 2.7 million to € 364.0 million. Our gross margin declined by 0.5 percentage points year-on-year to 44.4 %. This was due largely to the impact of negative exchange rate effects, which amounted to € 7.1 million in the past financial year.

At € 270.0 million, our total sales, marketing and development expenses were slightly higher than in the previous year (€ 269.1 million). At the same time, we leveraged further savings potential in the area of administrative expenses, thereby reducing our general and administrative expenses by € 1.0 million to € 45.6 million despite increased personnel expenses due to collective wage agreements.

Net other expenses and income for the 2016 financial year amounted to € -0.9 million (previous year: € -2.3 million). Net other operating income improved largely as a result of corresponding earnings contributions from exchange rate hedges (€ +2.9 million compared with the previous year) and the increase in licence income (€ +0.4 million).

Real estate income from properties in Gustavsberg (Sweden) and Luxembourg

Consolidated EBIT includes non-recurring income from property transactions totalling € 1.7 million.

We signed additional purchase agreements as part of our property project in Sweden in the 2016 financial year, thereby generating further non-recurring income of € 1.7 million (previous year: € 1.4 million). The conversion of our site in Gustavsberg, which was used for industrial purposes up until 2013, for residential development has significantly increased the value of the property. As a result, we gradually sold the site to two investors and, in part, to the municipality of Värmdö. To date, this has resulted in total non-recurring income of € 14.9 million in the period from 2013 to 2016.

In addition, a section of the former tableware plant in Luxembourg was sold to the City of Luxembourg at the end of 2016. Taking into account the provisions for demolition and various dismantling, disposal and renovation obligations, this resulted in an overall break-even. Further information on the terms of the property sale in Luxembourg can be found in note 7 of the notes to the consolidated financial statements.

Adjusted for the non-recurring income of € 1.7 million realised in the 2016 financial year, the Villeroy & Boch Group recorded total operating EBIT of € 45.9 million, up 9.0 % on the prior-year figure of € 42.1 million. Our EBIT margin improved by 0.4 percentage points to 5.6 %.

Operating result (EBIT) by division

Bathroom and Wellness division

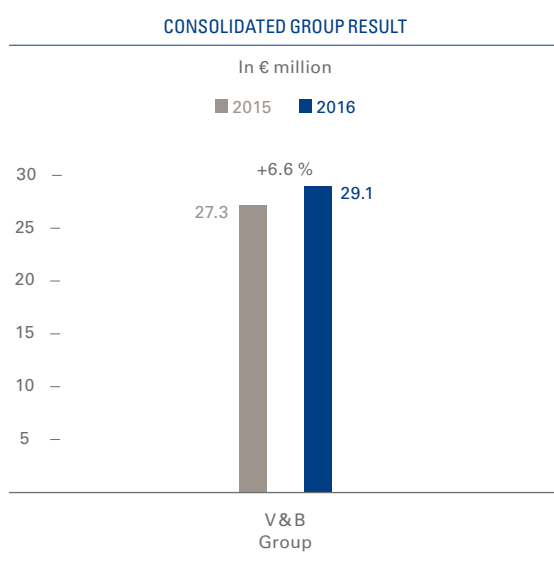
The Bathroom and Wellness Division increased its operating result (EBIT) to € 36.2 million in the 2016 financial year, an improvement of 10.4 % compared with the previous year (€ 32.8 million). This was due mainly to the division's excellent revenue development, as well as efficient administrative cost management and lower commodity and energy costs.

Economic Report

Tableware division

The Tableware Division closed the 2016 financial year with an operating result of € 9.7 million, an improvement of 4.3 % on the previous year (€ 9.3 million). This positive performance was driven mainly by successful inventory optimisation accompanied by pronounced cost discipline in terms of our sales, marketing and development structures and administrative expenses. The division also significantly increased its licence income compared with the previous year.

Group result



We generated a Group result of € 29.1 million in the 2016 financial year, up € 1.8 million or 6.6 % on the previous year. Once again, this was due mainly to our extremely positive operating performance. At € -6.0 million, net finance expense was slightly higher than the prior-year figure of € -5.6 million. Tax expense for the past financial year amounted to € 12.5 million (previous year: € 10.6 million), meaning that the tax rate rose from 28.0 % in the previous year to 30.0 %.

Dividend proposal

At the General Meeting of Shareholders on 24 March 2017, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

€ 0.48 *per ordinary share*

€ 0.53 *per preference share*

This represents a total dividend distribution of € 14.2 million. Based on the number of preference shares held by the company at the payment date, the total cash outflow will be € 13.3 million.

FINANCIAL POSITION

Principles and objectives of financial management

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

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

Our liquidity management ensures that we are able to meet our payment obligations at all times. Cash inflows and outflows from our operating business form the basis for daily cash account management and short-term and medium-term liquidity planning.

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

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

The management of market price risks encompasses exchange rate risks, interest rate risks and other price risks. Our aim is to limit the impact of fluctuations on the results of the divisions and the Group. Group-wide risk potential is calculated on a regular basis and corresponding decisions on hedging are taken.

Further information on risk management can be found in the “Report on Risks and Opportunities” section of the Group Management Report.

Capital structure

Our financing structure as shown in the table below changed as follows in the 2016 financial year:

CAPITAL STRUCTURE		
In € million		
	31/12/2016	31/12/2015
Equity	172.6	165.3
Non-current liabilities	294.5	274.9
Current liabilities	209.2	196.4
Total equity and liabilities	676.3	636.6

Equity increased by € 7.3 million year-on-year to € 172.6 million in the 2016 financial year. This positive development was attributable to the fact that the Group profit of € 29.1 million comfortably exceeded the dividend payment for the 2015 financial year (€ -12.2 million) and the reduction in equity due to remeasurement effects for pension obligations that were taken to equity (€ -10.1 million including the corresponding deferred taxes). The negative effect from the remeasurement of pension provisions was affected by the historically low interest rates. A discount rate of 1.25 % was therefore applied (previous year: 2.0 %), resulting in an

increase in actuarial losses from defined pension plans. All in all, the higher level of total assets at the reporting date meant that our equity ratio was 25.5 % (previous year: 26.0 %). 80.5 % of the Group's non-current assets in the amount of € 214.4 million were covered by equity.

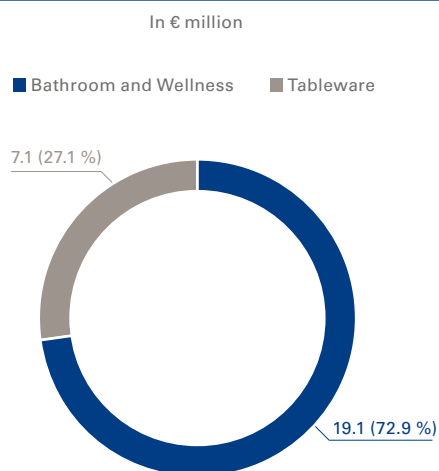
Non-current liabilities in the amount of € 294.5 million comprise pension provisions, financial liabilities, provisions for personnel, other liabilities and deferred tax liabilities. Non-current liabilities increased by € 19.6 million compared with the previous year. This was due to the € 13.8 million increase in other non-current provisions as well as the increase in pension provisions and non-current provisions for personnel by € 8.4 million and € 2.5 million respectively; this was offset by a € 5.9 million reduction in deferred tax liabilities. The increase in other non-current provisions related in particular to contractually agreed demolition, dismantling and renovation obligations at the site of our former tableware plant in Luxembourg.

Current liabilities in the amount of € 209.2 million comprise primarily other liabilities, trade payables, other provisions, current provisions for personnel and income tax liabilities. Current liabilities increased by € 12.8 million compared with the previous year; this was due primarily to the higher level of income tax liabilities (€ +7.5 million) as well as increased provisions for personnel (€ +2.9 million), other provisions (€ +1.8 million) and other liabilities (€ +1.3 million).

Economic Report

Investments**Investments in property, plant and equipment and intangible assets**

Our investments in property, plant and equipment and intangible assets amounted to € 26.2 million in the 2016 financial year (previous year: € 29.1 million). 56 % of this figure was attributable to Germany (previous year: 37 %). At 31 December 2016, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 5.7 million. Our investments are financed from operating cash flow.

BREAKDOWN OF INVESTMENTS BY DIVISION

At € 19.1 million or 73 %, our investments were concentrated primarily on the *Bathroom and Wellness Division*. We invested a total of € 9.6 million outside Germany. 41 % of this amount related to Western Europe, with Eastern Europe accounting for 42 % and Asia for 17 %. Activities focused on modernisation measures and the acquisition of new facilities for our production sites, particularly in Mettlach and at our international plants including Hódmezővásárhely (Hungary) and Lugoj (Romania).

Investments in the *Tableware Division* amounted to € 7.1 million or 27 % of total investments, of which € 5.3 million was attributable to Germany. Investment activity focused on the optimisation and expansion of our retail network, which involved the renovation of existing stores and the opening of new stores in locations including Hackensack (USA), Harbourtown (Australia), Brussels (Belgium), Ringsted (Denmark), Helsinki (Finland) and Perth (Australia). We also acquired new technical equipment and machinery for the tableware plants in Merzig and Torgau.

CONDENSED CASH FLOW STATEMENT

In € million		
	2016	2015
Group result	29.1	27.3
Current depreciation and amortisation of non-current assets incl. reversals	27.8	27.5
Change in non-current provisions	-7.7	-9.3
Profit from disposal of fixed assets	0.8	0.4
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	18.1	-21.0
Other non-cash income/expenses	9.8	9.2
Net cash flow from operating activities	77.9	34.1
Net cash flow from investing activities	-19.9	-23.9
Net cash flow from financing activities	-12.3	-11.4
Total cash flows	45.7	-1.2
Balance of cash and cash equivalents on 1 Jan.	65.6	66.8
Change based on total cash flows	45.7	-1.2
Change due to exchange rate effects	-0.1	0.0
Balance of cash and cash equivalents on 31 Dec.	111.2	65.6

Financing

The net cash flow from operating activities amounted to € 77.9 million, up € 43.8 million on the previous year. In addition to the positive effects of revenue growth, our operating cash flow improved thanks to targeted measures resulting in a € 9.9 million reduction in inventories and a € 3.9 million decrease in trade receivables.

The net cash flow from investing activities decreased by € 4.0 million year-on-year to € -19.9 million. This figure comprised primarily investments totalling € 26.2 million less cash receipts from asset disposals in the amount of € 6.8 million.

The net cash flow from financing activities amounted to € -12.3 million (previous year: € -11.4 million) and related primarily to the dividend for the 2015 financial year that was paid in April 2016.

Liquidity

Net liquidity

Our net liquidity amounted to € 60.7 million at the reporting date, up significantly on the prior-year figure of € 15.0 million. The rise in net liquidity is attributable primarily to the higher revenue volume and successful working capital management; in particular, this was reflected in the reduction in inventories and trade receivables in spite of our revenue growth.

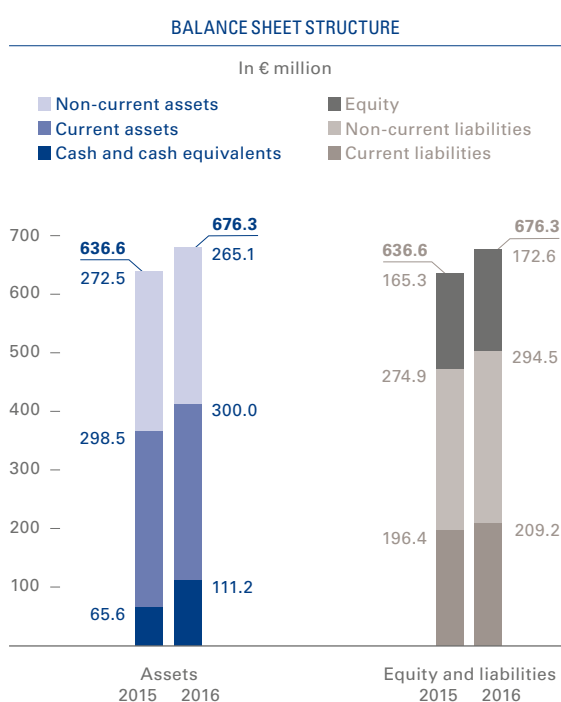
Cash and cash equivalents, current financial assets and current and non-current financial liabilities were combined in calculating net liquidity.

At 31 December 2016, we had unutilised credit facilities totalling € 203 million (31 December 2015: € 191 million) that were not subject to any restrictions.

Economic Report

NET ASSETS**Balance Sheet**

The Villeroy & Boch Group had total assets of € 676.3 million at 31 December 2016 compared with € 636.6 million at the end of the previous year. The balance sheet structure is shown in the graphic below:

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

Non-current assets consist of non-current fixed assets, deferred tax assets and other non-current assets. At the reporting date, our non-current assets decreased by a total of € 7.4 million to € 265.1 million. Factors contributing to this development included the repayment of a loan receivable by V&B Fliesen GmbH (€ 2.4 million) and the derecognition of the carrying amount of the first section of our former tableware plant in Luxembourg, which was sold in the year under review (€ 1.6 million).

The share of total assets attributable to non-current assets decreased to 31.7 % (previous year: 35.2 %).

Current assets are composed primarily of inventories, trade receivables, cash and cash equivalents and other current assets. Current assets increased significantly by € 47.1 million year-on-year to € 411.2 million. This is reflected primarily in the growth in cash and cash equivalents (€ +45.6 million), while the reduction in inventories (€ -9.9 million) and trade receivables (€ -3.9 million) largely offset the € 15.1 million increase in other current assets. The latter was attributable primarily to receivables from the sale of the first section of our former tableware plant in Luxembourg.

The items of the equity and liabilities side of the balance sheet are discussed in the “Capital structure” section of the management report.

OTHER FINANCIAL PERFORMANCE INDICATORS

In addition to the key performance indicators of revenue and earnings before interest and taxes (EBIT), whose development in the past financial year is discussed under “Results of operations”, our activities are focused on optimising the rolling return on net operating assets. Net operating assets are calculated as the total of intangible assets, property, plant and equipment, inventories, trade receivables and other operating assets less total liabilities to suppliers, provisions and other operating liabilities.

The return on net operating assets is calculated as follows:

RETURN ON NET OPERATING ASSETS

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

As of 31 December 2016, the rolling net operating assets of the Villeroy & Boch Group were composed as follows:

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS (GROUP)		
In € million		
V&B Group	2016	2015
Net operating assets	292.5	310.6
I Property, plant and equipment	176.5	181.6
I Inventories	152.6	152.3
I Receivables (from third parties)	111.8	118.8
I Liabilities	-66.1	-66.4
I Other assets	-82.3	-75.7
Operating result (EBIT)	45.9	42.1
Return on net operating assets	15.7 %	13.6 %

In the 2016 financial year, we succeeded in improving our operating return on net assets by 2.1 percentage points to 15.7 %. This was due to the improvement in the operating result compared with the previous year as well as the reduction in rolling net operating assets to € 292.5 million (previous year: € 310.6 million). The latter development was largely attributable to the decrease in the average level of trade receivables, as well as the reduction in net other assets and – following the temporary downturn in the investment volume – average property, plant and equipment.

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

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS (BATHROOM AND WELLNESS)		
In € million		
Bathroom and Wellness	2016	2015
Net operating assets	208.6	215.3
I Property, plant and equipment	149.3	151.6
I Inventories	87.8	82.6
I Receivables (from third parties)	82.0	85.9
I Liabilities	-49.6	-48.6
I Other assets	-60.9	-56.2
Operating result (EBIT) *	42.9	41.4
Return on net operating assets	20.6 %	19.2 %

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

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

COMPOSITION OF THE ROLLING RETURN ON NET OPERATING ASSETS (TABLEWARE)		
In € million		
Tableware	2016	2015
Net operating assets	83.9	95.3
I Property, plant and equipment	27.2	30.0
I Inventories	64.8	69.7
I Receivables (from third parties)	29.8	32.9
I Liabilities	-16.5	-17.8
I Other assets	-21.4	-19.5
Operating result (EBIT) *	11.4	8.6
Return on net operating assets	13.6 %	9.0 %

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

EMPLOYEES, ENVIRONMENT AND SOCIETY

EMPLOYEES

An attractive range of services for our employees

Our employees are well-trained, capable and motivated. As a modern, responsible employer, we provide our employees with interesting and stimulating tasks and a varied working environment and fair remuneration to ensure that this remains the case.

The continuing process of internationalisation is allowing us to give many employees the opportunity to spend time on placements abroad, enabling them to advance their professional development as well as developing in the increasingly important area of intercultural skills.

Supporting our employees in achieving a better work/life balance is also extremely important to us. We co-finance nursery places in a day care centre at our head office in Mettlach that can be used by employees with children. In 2016, we repeated a scheme in Germany providing working parents with financial support for reliable childcare during the school holidays. We also offer our employees different working time models, such as flexible working hours, part-time work and mobile work. In addition, we offer flexible provisions for family nursing care that go beyond the statutory provisions.

To support our workforce in selecting the appropriate pension products, we offer comprehensive and individual consulting concepts in cooperation with an insurance agency. Our employees can obtain information about company and collectively agreed pension schemes at Villeroy & Boch, calculate individual offers and clarify detailed questions with the respective advisers at any time.

We believe that a healthy and attractive working environment is an important element of performance and enjoyable work. To this end, we continuously invest in a wide range of measures aimed at improving workplace health and safety and creating modern places to work that stimulate creativity, as well as in the field of digitalisation.

Professional development and training

Vocational training is an important pillar of our sustainable HR policy. At the end of the 2016 financial year, we employed a total of 123 trainees and students in ten commercial and ten technical professions, primarily in Germany. In addition to the major training locations in Mettlach and Merzig, we are also using other locations and organisational units to train our new talents.

At the same time, we offer a three-year graduate trainee programme to encourage qualified graduates from commercial and technical courses to start their career with Villeroy & Boch. 48 young talents are currently being prepared to perform specialist and management functions in various departments, including eight at our foreign locations.

Our “Global Academy” also helps to safeguard new talents and expertise on a targeted basis with a wide range of management and personality training programmes aimed at developing subject-specific skills and expertise.

Our state-of-the-art HR activities are recognised in the form of our successful performance in an extensive employer survey that is conducted every year by the consulting firm Universum on behalf of Wirtschaftswoche magazine. Germany’s most popular employers were identified on the basis of the survey, which involved around 45,000 students at over 200 German universities in 2016, and Villeroy & Boch once again occupied a position in the top 100.

Incorporating our employees into process design

The tools we use to actively involve our employees in designing and optimising our business processes include employee surveys and corresponding workshops in order to collect suggestions for improvement from all departments and prioritise and implement them in a timely manner. In addition to this structured methodology, our employees are welcome to submit proposals for process optimisation or innovative ideas concerning new products at all times as part of our idea management programme.

Occupational health and safety

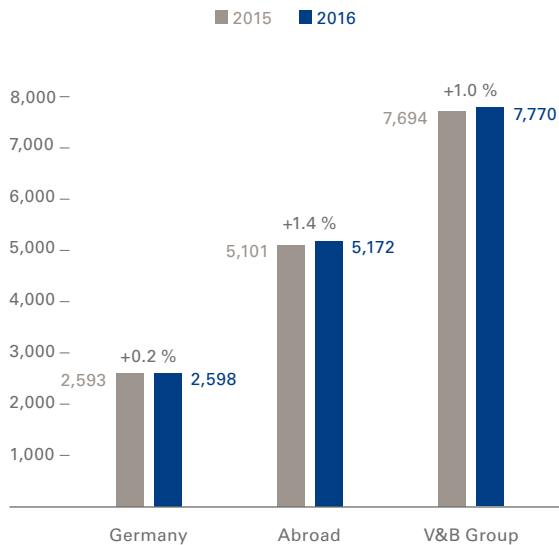
Occupational health and safety are also important elements of our HR policy. Occupational safety management focuses on compliance with the legally prescribed safety measures and, in particular, on employee awareness of occupational safety and healthcare.

At our production sites, we therefore attach great importance on the definition of and compliance with safety standards, which are tied to strict criteria and have been successively harmonised throughout the Group. To ensure that all of the locations are continuously involved in improving occupational health and safety, we conduct international audits with internal experts with a view to assessing the organisation and the measures implemented with the aim of protecting employees and preventing accidents and damage to health in the workplace. This is accompanied by a range of relevant training sessions at our locations. As part of the ongoing statistical evaluation and analysis of accidents in the workplace, corresponding organisational, technical, ergonomic and medical preventive measures are derived and implemented in a timely manner.

Our extensive healthcare offering includes standard preventive measures such as annual eye examinations and flu vaccinations as well as a number of special health campaigns that are enjoying a positive response from our employees. In addition to focusing on safety at our employees' local workplace, we offer extensive preventive measures and special medical services for employees on long-distance business trips.

Workforce

NUMBER OF EMPLOYEES (AT END OF PERIOD)



We had a total of 7,770 employees as at 31 December 2016, an increase of 76 compared with 31 December 2015 (previous year: 7,694). 33.4 % of the workforce was employed in Germany (previous year: 33.7 %). The Bathroom and Wellness Division accounted for 4,975 employees (previous year: 4,875), while a total of 2,279 people were employed in the Tableware Division (previous year: 2,309) and 516 in central functions (previous year: 510).

Taken as an average for the year as a whole, our workforce increased from 7,673 in the previous year to 7,697.

ENVIRONMENTAL PROTECTION

Environmental protection is firmly enshrined in Villeroy & Boch's corporate culture. The efficient use of raw materials and energy and a commitment to cutting emissions are key elements of our environmental strategy. We also strive to continuously increase recycling rates at our production sites and seek to permanently reduce the proportion of non-recyclable waste. Furthermore, we regularly invest in the optimisation of our production processes with a view to reducing production-related water and waste water consumption. Investment decisions in the period under review related to the construction of a more modern waste water cleaning system at our site in Hungary and a filter system at our

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plant in France. The planned waste water cleaning system will be commissioned during 2017. In addition to improving waste water quality, it will enable a high recycling rate through the recovery of raw materials.

At the Villeroy & Boch Group, we have set ourselves the target of a 15 % reduction in our specific energy consumption (electricity and gas) across all Group locations by 2024 at the latest. We also intend to increasingly focus on renewable energies and improve our energy efficiency by renovating existing building structures, for example.

Most of Villeroy & Boch's global production sites have an environmental or energy management system certified in accordance with DIN EN ISO 14001 or DIN EN ISO 50001 whose implementation is subject to regular audits, and further locations are set to follow. In addition, four production sites meet the more stringent requirements of EMAS III (Eco-Management and Audit Scheme), a voluntary instrument of the European Union for the continuous improvement of operational environmental performance. We are also successively investigating our administrative areas with regard to the energy-efficient use of electricity in order to define location-specific savings potential and specific targets. Plans of action for reducing energy consumption will be realised in the next stage of the process.

SOCIAL RESPONSIBILITY

Taking social responsibility is a central element of our company. As a company with a long tradition, we see ourselves as having a responsibility to get involved in our cultural and social environment. This is not least underlined in our corporate guidelines by the principle: "Villeroy & Boch – Maintaining the tradition".

Our aim is to be a strong and reliable partner for society. In the 2016 financial year, our activities focused on donations of money and goods to social organisations at a regional level. For example, Villeroy & Boch supported local authorities in Saarland and the state refugee reception centre in Lebach by equipping refugee accommodation with ceramic sanitary ware and tableware products. At our location in Hungary, we assisted in the redesign of a nursery school washroom with donations in kind.

We also encourage our employees to assume responsibility themselves. As part of the "Wunsch-Weihnachtsbaum" (wishing tree) project, Villeroy & Boch employees at three locations again gave gifts to children from various regional children's homes this year.

Another element of our social commitment is the promotion of sporting activities in support of the principles of fair sporting competition. Our national partner is the Stiftung Deutsche Sporthilfe foundation, with its values of achievement, fair play and cooperation. At a regional level, we have been supporting the football club SV Mettlach for a number of years and the handball club in the neighbouring town of Merzig.

REPORT ON RISKS AND OPPORTUNITIES

RISK STRATEGY

Our business policy is aimed at sustainably increasing the performance and earnings strength of our company, and hence its enterprise value, for the benefit of our shareholders and other stakeholders. To this end, the Villeroy & Boch Group's business activities open up a wide range of opportunities, but are also accompanied by risks. In the course of our business activities, we are exposed to general economic and industry-specific risks as well as the usual financial and economic risks.

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

RISK MANAGEMENT

Risk management system and internal control system

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

The risk management system covers all of the areas of our Group and allocates clear responsibilities and duties to all organisational units. In this system, the Management Board defines the principles of the risk policy and risk treatment above and beyond the general principles of Group strategy and ensures that they are implemented. The Code of Conduct limiting the risks of possible breaches of the law and regulations, which applies to all employees and managers throughout the Group, is a further component of this system. Various coordinated planning, reporting and control processes and early warning systems have been put in place in implementing the system as a whole with the aim of recognising developments that could endanger the Group’s continued existence in good time and taking appropriate and effective countermeasures.

Our operational risk management covers the entire process, from the early detection of risks to the controlling and handling of (residual) risks and, together with the necessary countermeasures, is primarily the responsibility of process management, i. e. decentrally at divisional level. Risk Controlling identifies, measures and evaluates all risks. In particular, the involvement of the controlling team for the respective division serves to ensure that risk management is integrated into the decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.

The internal control system is a central component of risk management at Villeroy & Boch. It comprises the principles, procedures and measures introduced by management in order to

- ensure the effectiveness and economic efficiency of the Group’s business activities,
- the correctness and reliability of internal and external financial reporting and
- compliance with the statutory provisions that are relevant to the company.

The principles, organisational structure, workflows and processes of the internal control and risk management system are set out in Group-wide guidelines and work instructions. These specialised provisions are based on the relevant laws and regulations as well as voluntarily adopted company standards and are adjusted at regular intervals to reflect external and internal developments.

Monitoring of the risk management processes

Based on a mandate delegated by the Management Board of the Villeroy & Boch Group, Group Internal Audit regularly examines the efficiency of the workflows and the effectiveness of the internal controls installed in the decentralised divisions and the risk management system. It reports on its findings in a timely manner. This ensures that the Management Board is continuously informed about weaknesses and any resulting risks and the derivation of adequate recommendations for rectifying these weaknesses. Specifically, our Group Internal Audit Team is responsible for identifying risks in the course of its activities (identification function), independently and objectively evaluating these risks (evaluation function) and presenting recommendations for improvement (advisory function) and tracking their implementation (tracking function).

Report on risks and opportunities

The Audit Committee of the Supervisory Board also monitors the effectiveness of the risk management, internal control and internal audit system and, in particular, the financial reporting process. In addition, the effectiveness of the internal control system for financial reporting and the effectiveness of the risk early warning system are regularly confirmed by our external auditor as part of its annual audit of the consolidated financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR GROUP FINANCIAL REPORTING

As Villeroy & Boch AG is a publicly traded corporation within the meaning of section 264d of the German Commercial Code (HGB), it is required to describe the key characteristics of its internal control and risk management system with respect to the Group financial reporting process in accordance with section 315 (2) no. 5 HGB. The purpose of this system is to guarantee with reasonable assurance that the Group financial reporting process is reliable and that it complies with the generally accepted principles of proper accounting.

The internal control and risk management system relating to financial reporting is integrated into our Group-wide risk management system. It encompasses the organisational, control and monitoring structures that we use to ensure that business transactions and events are identified, processed and recognised in financial reporting correctly, promptly and in full. The central basis for a proper, uniform and continuous financial reporting process is formed by the relevant laws and standards and internal provisions, which are set out in a Group-wide accounting policy that is continuously updated. In addition, clearly defined procedures are specified in the form of a uniform chart of accounts for financial reporting, a Group-wide schedule for the preparation of the financial statements and various manuals. Furthermore, there are clear functional and personnel assignments for the functions

performed as part of the financial reporting and consolidation process (e.g. Group reporting, controlling, financial accounting, payroll, taxes and Group treasury) in order to ensure the strict separation of the specific areas of responsibility.

In addition to the assignment of appropriate staff resources, the preparation of the consolidated financial statements is supported by uniform, standardised reporting and consolidation software that contains extensive checking and validation routines. In this respect, the internal control and risk management system relating to financial reporting provides for both preventive and downstream controls. For example, this includes IT-based and manual reconciliation in the form of regular spot checks and plausibility checks, various risk-, process- and content-related controls in the divisions, the establishment of functional separations and predefined approval processes, the systematic implementation of the principle of dual control for all material processes relating to financial reporting, and strictly regulated access controls for our IT systems.

To monitor the Group companies' compliance with the control systems and accounting provisions, regular analytical examinations are performed by the local managing directors and auditors, the central Group reporting department, the Audit Committee of the Supervisory Board, Group Internal Audit and the external auditor of the consolidated financial statements. This monitoring includes identifying weaknesses, initiating improvement measures and examining whether weaknesses have been rectified.

INDIVIDUAL RISKS

The following section contains a discussion of the risks that the Villeroy & Boch Group considers to be significant and whose potential occurrence could have a relevant adverse effect on the Group's net assets, financial position and results of operations.

The overview below provides a general summary of the individual risks. Applying a one-year forecast period, it shows the relative importance of the individual risks based on their probability of occurrence and potential financial impact following any risk mitigation measures (net risk). A probability of less than 30 % is classified as "low", while a probability of more than 60 % is classified as "high". The assessment of the potential financial impact is based on the qualitative criteria "insignificant" (loss < € 1 million), "moderate" (loss between € 1 million and € 5 million) and "significant" (loss > € 5 million).

General and industry-specific market risks

As a globally active company, we currently market our products in 125 countries. All international business activities typically involve a wide range of general market risks that depend on macroeconomic developments, societal and geopolitical factors and regulatory conditions.

Specifically, macroeconomic developments – such as an economic slowdown in the industrialised nations and emerging economies, or exchange rate fluctuations – can impair the propensity and the ability of our customers to invest or lead to postponements of investment decisions. For example, the Brexit vote has had a tangible negative effect on the economic outlook in the United Kingdom, although the specific macroeconomic consequences for the EU internal market are still difficult to gauge.

RISK PROFILE OF THE VILLEROY & BOCH GROUP

Risk type	Probability of occurrence			Potential financial impact		
	low	medium	high	insignificant	moderate	significant
General and industry-specific market risks		X			X*	X
Economic performance risks						
I Procurement risks	X					X
I Product development risks	X	X*			X*	X
I Production risks		X			X	
I Environmental protection risks		X			X	
Financial and economic risks						
I Inventory risks	X			X		
I Default and credit risks	X			X		
I Liquidity risks	X			X		
I Exchange rate risks		X			X	
I Interest rate risks	X			X		
I Other price risks	X			X		
Tax risks		X		X*	X	
Personnel risks		X		X*	X	
Legal risks		X			X	
IT risks	X			X		

* Assessment in previous year, amended in 2016 financial year

Report on risks and opportunities

In addition, consumer spending on the markets and consumer confidence can be negatively impacted by socio-political factors such as military conflicts, civil unrest, or the growing threat of terrorism around the world. Among other things, we see the sustained political instability in Russia and the Middle East as posing corresponding risks to the Group's revenue and earnings development.

Sales forecasts in the Bathroom and Wellness Division are subject not only to the aforementioned general market risks, but also depend in particular on the performance of the construction industry. All in all, growth in European residential construction activity in 2016 again accelerated significantly compared with the previous year. The strong development of the residential construction volume is expected to continue in 2017, albeit at a slightly slower pace. This positive trend suggests that there are no specific relevant risks at present. Meanwhile, the sustained consolidation within the sanitary ware industry could strengthen the competition and lead to a change in our relative market position. At the same time concentration is increasing in the sanitary ware wholesale market, leading to rising price pressure on us as a manufacturer. We are also seeing a growing trend among German wholesalers to offer private label products instead of branded products.

As well as general economic sales risks, the Tableware Division is subject to the additional challenges of the dynamic change in our customers' consumer behaviour. Falling visitor numbers at retail stores in the western European markets represent a not inconsiderable sales risk that we are counteracting in particular by improving the connectivity of our offline and online sales channels in order to ensure that our product and service range is tailored to the needs of our customers to an even greater extent. In addition, consolidation within the retail sector is increasing the market power of major retail chains, meaning that we are also exposed to growing pressure on prices and margins in this area.

With regard to the market risks listed, we perform comprehensive risk monitoring by continuously observing and analysing the macroeconomic data and economic and industrial developments that are particularly relevant to our business on a continuous basis. Based on these observations, our operating divisions define, prepare and then implement the adjustments and measures that are necessary both in order to avert potential risks and, more importantly, to exploit opportunities that present themselves.

Economic performance risks**Procurement risks**

In the critical area of production supply in particular, general procurement risks include the risk, that the materials delivered to us will be of poor quality, as well as the risk of supplier insolvency or other supply interruptions. Suitable countermeasures for these risks have been defined as part of risk management, e.g. the permanent monitoring of markets and the financial stability of key suppliers and the definition and implementation of procurement strategies. This also includes preventing single sourcing scenarios to the greatest possible extent. However, in some exceptional cases – including the important area of raw materials – the current circumstances are such that there are very few alternative sources available on the market.

Furthermore, the increasing volatility of market prices for many raw materials could embody corresponding risks for our procurement prices. Phases of rapidly rising market prices could lead to a deterioration in our cost position, while we would be unable to benefit in full from phases of falling market prices on account of having locked in prices for the medium or long term.

Product development risks

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

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

Production risks

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

Environmental protection risks

The environmental impact of production cannot be avoided altogether. In order to prevent the resulting environmental risks, especially in light of increasingly stringent legislation, environmental and occupational safety laws are analysed at regular intervals and organisational measures are subsequently initiated where relevant. We also continuously monitor emission levels at all our locations. As well as analysing the specific environmental impact, this includes taking account of the related occupational safety aspects (e.g. exposure at the respective workplaces). The central basis for continuous monitoring is a dedicated reporting system in which location-related information is bundled and presented for the Group as a whole. We respond by making corresponding investments in environmental and occupational safety as required.

Our employees are another key element of our preventive activities, and we ensure that they are made aware of current environmental and energy-related topics on a regular basis. Employees are included in various operational projects in their respective area in order to leverage potential and minimise risk.

Financial risks

As an international Group, we are exposed to financial and economic risks. In particular, these are:

- Inventory, default and credit risks
- Liquidity risks and
- Market price risks (exchange rate, interest rate and other price risks).

Financial risk is managed globally by our central Group Treasury unit. There are detailed guidelines and provisions for dealing with financial risk, including the separation of front office and back office functions. Group-wide principles regulate all relevant issues, such as banking policy, financing agreements and global liquidity management.

Management of inventory risks: For property, plant and equipment and inventories, the necessary insurance cover is in place to protect against the various risks of their actual loss. A detailed reporting system exists for the size, structure, range of coverage and changes to individual items, counteracting the risk of loss in value due to limited usability of inventories. Further information can be found in notes 6 and 11 of the notes to the consolidated financial statements. There is no significant concentration of inventory risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2016.

Management of default and credit risks: Default and credit risks describe the uncertainty that a contractual party will fail to meet its contractual obligations. In order to minimise these risks, our guidelines state that business relationships are only entered into with creditworthy business partners and, if necessary, subject to the provision of collateral. The main receivables from customers are protected by trade credit insurance. The default risk for the remaining uninsured receivables is controlled by way of a limit system and reporting. Compliance with limits is monitored centrally. We counteract potential default risks through the collateral deposited by customers, such as guarantees and mortgages, and through prompt collection measures. Specific valuation allowances are recognised for default risks that occur despite this, and particularly in the event of significant financial

Report on risks and opportunities

difficulties on the part of the debtor and impending bankruptcy (see section 12 of the notes to the consolidated financial statements). For banks, too, minimum requirements with respect to creditworthiness and individual limits for the exposures to be entered into are established based on the ratings issued by international rating agencies and the prices of hedging instruments (credit default swaps) as well as internal examinations of creditworthiness. Compliance with limits is monitored on an ongoing basis. Default risk for investments and derivative financial instruments are negligible as the Group deals only with contract partners with an investment grade rating from an international rating agency. External security is also ensured for the respective instrument, for example through deposit guarantee systems. There is no significant concentration of default risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2016.

Management of liquidity risks: In order to ensure our permanent solvency and financial flexibility, we control short, medium and long-term liquidity risks by maintaining adequate liquidity reserves and sufficient credit facilities with German and foreign banks and through a medium and short-term liquidity projection. The financing requirements of Group companies are generally met in full by internal lending. This allows the cost-effective and permanently adequate coverage of financial requirements for the Group's business operations and site investments. We utilise international cash pooling systems in order to reduce external finance volumes and optimise our financial result. External loans are provided for the Group companies involved only to the extent that legal, tax or other circumstances do not permit internal lending in exceptional cases. There is no significant concentration of liquidity risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2016. Further information on the management of liquidity risks can be found in note 53 of the notes to the consolidated financial statements.

Management of exchange rate risks: In the course of our global business activities, we are exposed to exchange rate risks arising from transactions in foreign currencies. Currency futures contracted with banks with good credit ratings are

employed as hedging transactions. We generally hedge exchange rate risk over a period of twelve months, though hedges can extend beyond this horizon in exceptional cases. The required hedging volume is first determined by netting receivables and liabilities throughout the Group for each currency pair. As a matter of principle, the remaining exchange rate risk is initially hedged at a level of 70 % on the basis of past experience. From the conclusion of the contract, it is demonstrated periodically that possible currency fluctuations in the planned hedged item are offset by the opposing effects of the hedge throughout the term of the contract. The volume identity of planned and recognised foreign currency revenues for transactions already settled is also reviewed and documented at the end of each reporting period. There is no significant concentration of exchange rate risks within the Group. There were no changes in the nature of these risks or the risk management and measurement methods in 2016. As in the previous year, however, there is an increased risk due to the fundamental weakness and pronounced volatility of the Russian rouble. The pound sterling also depreciated significantly following the United Kingdom's decision to leave the European Union. Both currencies can be expected to see increased exchange rate risk in 2017. We use a dynamic hedging approach to address these risks. Further information on the management of exchange rate risks can be found in note 53 of the notes to the consolidated financial statements.

Management of interest rate risks: Interest rate risks occur as a result of interest rate fluctuations on the market when funds are invested or borrowed at fixed- and variable-interest rates. The earnings risk arising from interest rate changes is determined on the basis of sensitivity analyses and controlled by Group Treasury, which maintains an appropriate relationship between fixed- and variable-interest borrowings. The risk of volatile interest markets is limited by way of fixed-interest loan agreements. There were no changes in interest risk positions or the risk management and measurement methods in 2016. In 2016, a few banks discussed the possibility of passing on the negative deposit rates imposed by central banks to business customers. However, the Villeroy & Boch Group has a sufficient number of alternative banking partners and investment options, meaning it is not subject to negative deposit rates at present. Further

information on the management of interest rate risks can be found in section 53 of the notes to the consolidated financial statements.

Management of other price risks: Other financial risks result from changes in the price of purchased commodities used in our value chain, such as raw materials and supplies. As part of our risk management activities, we identify the volume of risk with the aim of hedging it. Among other things, we use capital market-oriented financial products for this purpose. The commodity of brass is currently hedged using commodity swaps with banks with good credit ratings. The requirements in accordance with production planning are generally hedged at a level of 70 % for the coming year and 30 % for the subsequent year on the basis of past experience. There was no change in the management of brass price risks in 2016. In 2016, the volume of hedges was covered by corresponding hedged items on a monthly basis. There is no significant concentration of other price risks within the Group. There were no changes in the nature or extent of these risks or the risk management and measurement methods in 2016. Further information on the management of commodity price risks can be found in section 53 of the notes to the consolidated financial statements.

Tax risks

The global activities of the Villeroy & Boch Group mean we are subject to the respective country-specific tax laws and regulations. Potential changes in the applicable tax law situation could have an adverse effect on the taxation of the Group companies.

Tax risks are continuously identified and assessed as part of our risk management system.

Like all commercial enterprises, the Group companies are subject to the ongoing examination of their tax declarations and payments by the national fiscal authorities. The largest absolute share of the Group's business volume is attributable to the parent company, Villeroy & Boch AG. The tax audit of Villeroy & Boch AG for the years 2005 to 2007 was completed in late 2015 and the resulting back payments of taxes were offset against the provisions recognised for this purpose in the period under review. The German tax authorities are currently conducting a routine audit of the company for the assessment period from 2008 to 2010. One of the focal points of the review by the fiscal authorities is the antitrust fine paid in 2010, including its recognition as an operating expense. In an initial statement, the antitrust fine was not recognised as an operating expense.

Tax audits are also taking place at foreign subsidiaries. Any additional taxes for tax audits completed in the 2016 financial year have been paid.

The external tax audit at our subsidiary in Thailand is concentrated primarily on the level of revenue realised in the assessment period, which could result in potential back payments of taxes. We are currently engaged in a legal action against the back payment that has already taken place for 2010 with a view to achieving full reimbursement. At the same time, however, there is a corresponding risk of back payments in future periods.

The possibility that external tax audits could lead to an increase in the tax burden in future cannot be excluded. As part of the OECD and G20 Base Erosion and Profit Shifting (BEPS) project, the tax authorities are increasingly focusing on transfers between Group companies.

Report on risks and opportunities

Personnel risks

The long-term success of the Villeroy & Boch Group depends to a large extent on its committed and skilled employees and managers. In order to secure new talents and expertise for the long term, the Group places great value on a targeted human resources policy whose content involves the recruitment and training of new, qualified employees and the continuous further education of established staff in the form of management and personality training and specialised learning programmes. A growing challenge for us as an employer is the increasingly tough competition for new employees as societal developments, and especially demographic change, lead to a shift in terms of supply and demand on the employment market. Finding the necessary replacements for qualified employees in key positions involves recruitment processes that can be lengthy. This can result in capacity bottlenecks.

Additional information on the programmes we operate for employee promotion and development can be found in the “Employees” section of the Group management report.

We have pension and pension-related obligations for the provision of retirement benefits to our employees. Changes in the relevant measurement parameters, such as interest rates, mortality rates and the rate of salary growth, constitute a financial risk as they may lead to a change in the volume of these obligations and negatively impact our equity and our earnings. Provisions for pensions are described in note 26 of the notes to the consolidated financial statements.

Legal risks

The progressive internationalisation of our business activities is accompanied by an increase in the number and complexity of the statutory provisions we are required to observe. Accordingly, we are permanently exposed to risks in connection with guarantee obligations and material defects, product liability, competition and antitrust law, industrial property rights and claims arising from breaches of contract. To the extent that it is foreseeable and economically reasonable to do so, we cover the existing legal risks by concluding insurance policies that are typical for the industry and recognise provisions to a sufficient extent for obligations going above and beyond this. To reduce the potential cost of legal risks, we ensure the high quality standards of our products by regularly monitoring production and making continuous

improvements. In addition, responsible and legally compliant behaviour is ensured by the compliance organisation established by the Management Board.

On 16 September 2013, the European Court announced its verdict at first instance on the action filed by the affected Villeroy & Boch companies against the decisions by the EU in the antitrust proceedings known as the bathroom case. The Court ruled that the decision by the European Commission was invalid in some respects but did not reduce the amount of the fines imposed. Villeroy & Boch has lodged an appeal against this verdict. The European Court rejected the appeal in its ruling of 26 January 2017. Sufficient provisions were recognised for the costs of these legal proceedings. The fines in the amount of € 71.5 million were already expensed and paid in 2010. After obtaining legal advice, the Supervisory Board has come to the conclusion that claims for recourse could be asserted against four former members of the Management Board. Time-limited waivers of the statutory period of limitations were agreed with three of the former members of the Management Board. A declaratory action was brought against one former member of the Management Board in order to safeguard all of Villeroy & Boch's rights. No specific claims for reimbursement or recourse have been recognised to date.

IT risks

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

- Non-availability of IT systems and applications,
- Missing or incorrect provision of data,
- Loss or manipulation of data,
- Breaches of compliance (data protection provisions, licences, etc.),
- Disclosure of confidential information.

The detailed Group-wide guidelines and provisions for the active management of these risks are regularly examined by external auditors and Group Internal Audit to ensure compliance and effectiveness. Our central IT organisational structure and the use of standardised, Group-wide systems and processes are additional measures aimed at minimising the probability of risks occurring.

Overall risk position

The Management Board of Villeroy & Boch AG regularly examines the risk situation of the Group and has satisfied itself as to the effectiveness of the risk management system. In the 2016 financial year, the risk profile did not change materially compared with the previous year. In the opinion of the Management Board, based on the probability of occurrence and potential impact of the risks described above, they do not represent a risk to the continued existence of the Group either in isolation or cumulatively. The individual risks are controlled using the risk management system and sufficient risk cover is available. The Management Board does not expect this to have a material influence on the Group's net assets, financial position and results of operation.

REPORT ON OPPORTUNITIES

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

Opportunities through ceramic expertise

Expertise with ceramic materials is in Villeroy & Boch's DNA and a key factor in our successful 269-year history as a company. We focus on combining product design and raw material and production expertise with product functionality and quality. With successful products like the rimless DirectFlush WC and innovative materials like TitanCeram, which combines selected natural materials such as feldspar, quartz, clay and titanium dioxide for particularly delicate yet stable washbasins, we are underlining our claim to be the market leader for ceramic sanitary ware. We are working on the ceramics of the future at our own development centre and in cooperation with selected research partners, and we are confident that this will allow us to continue to set ourselves apart from the competition in future.

Opportunities through addressing current trends in society

One key opportunity in the Tableware Division involves identifying trends in society with regard to how people enjoy food and drink at an early stage so that we can benefit by offering a corresponding product range. In order to improve our response times and increase the importance of this area within the organisation, we have supplemented our traditional tableware business by introducing a product segment to develop and market specific ranges for current food trends, such as BBQ, pasta, soup, salad, coffee and tea. These ranges generally boast additional product features, such as the twisting indent of the spaghetti plate or the removable handle of the grill pan. We also have a separate product segment for gift items to be given on big or small occasions. This product range includes vases, decorative bowls and various glass sets.

Opportunities through growth markets

While our activities in the saturated markets of Europe are primarily focused on expanding our market share, our approach in the growth regions is geared towards increasing brand awareness and hence establishing our position on the respective market. We still consider China and – despite the continued economic and currency-related uncertainty in 2016 – Russia to be the individual markets offering the greatest growth potential for us. Both markets are characterised by a middle and upper class of keen consumers with, in particular, a strong brand affinity; in China, these population groups are continuing to grow. We also believe that both growth markets will provide Villeroy & Boch with good opportunities for above-average growth in the coming years, particularly in the Bathroom and Wellness Division. We have intensified the expansion of our distribution network in recent years by establishing independent organisations, including local logistics platforms. Accordingly, we systematically pressed ahead with our plans to increase the number of local points of sale in both markets in the 2016 financial year.

Report on risks and opportunities

Opportunities through project business

We believe that there remains good potential for increasing the sales volume in our global project business in the Bathroom and Wellness Division. We have a specialist sales team and an extensive range of products and services that is precisely tailored to the needs of our professional partners. In cooperating with our customers, we also benefit from the continuous development of our customer relationship management, where the majority of projects are recorded early in the planning phase and which is used for acquisition across the divisions. Thanks to the adjustments to our industrial network and the optimisation of our cost structures in recent years, we believe that we are well equipped to expand our competitive position in the price-sensitive project business in future. In the 2016 financial year, we increased our revenue from project business in the Bathroom and Wellness Division by 22.3 %, thereby recording above-average growth. Incoming orders increased by as much as 29.9 % in the same period. The expansion of project business also represents an opportunity in the Tableware Division, where our sales activities are focused on cruise ships and care homes in addition to hotels and restaurants.

Opportunities through licence partnerships

Granting brand licences is another instrument we use to position the Villeroy & Boch brand outside our core business areas. Accordingly, licence business is a way of attracting new target groups and expanding our product range. Our licensing partners currently offer tiles, wooden flooring, lighting, fittings, garden furniture and accessories for the tableware and bathroom environment using the Villeroy & Boch brand.

Opportunities through digitalisation**Opportunities of digitalisation for marketing**

Since 2013, we have massively expanded our structures and investments in the area of digitalisation. Our marketing activities are geared towards providing our customers with innovative, modern concepts that meet their needs, both offline and online. Our aim is to have a presence wherever customers look for us and to provide them with a consistent information and shopping experience. To ensure that we meet the individual needs of end consumers and business partners in terms of information, inspiration, entertainment, service and dialogue in full and in a targeted manner, we have significantly expanded our online presence. This includes

continuously improving our website, intensifying our social media activities, increasing the use of online marketing channels and optimising our web content for search engines. For the Tableware Division, e-commerce is a strategically important sales channel encompassing our own online shops as well as the sales platforms of other providers, and is also the fastest-growing sales channel. Global revenue from our dedicated e-shops increased by 7.9 % in the 2016 financial year, and we expect to continue to see above-average growth rates in online business in the years ahead, particularly as we address additional e-commerce platforms more intensively.

In the Bathroom and Wellness Division, digital services and tools play a primary role. With tools like our Bathroom Planner and Bathroom Inspirator and the augmented reality app we launched in 2015, consumers can plan their ideal bathroom and project the selected products into a video of the allocated room using a smartphone or tablet PC for a lifelike 3D view. In this way, the use of new technologies generates additional benefit for customers. Digital channels can also be used to reach both end customers and business customers (including architects, planners and plumbers) in a targeted and efficient manner. This allows us to generate valuable leads with additional revenue potential that we pass on to our dealers with the customer's permission.

Opportunities of digitalisation for production

Digitalisation offers huge potential to reduce reject rates significantly, especially in our sanitary ware factories. Statistical fault analyses and the stabilisation of process parameters are key levers in the improvement process. Recording and collecting all of the relevant data for a product in the production process forms the basis of leveraging the available potential. To this end, measuring stations have been established at all six ceramic sites, from raw materials processing through to quality review. At these stations, a product is firstly identified by its barcode so that quality-related data, e.g. data relating to ceramic composition and the material flow as well as the climatic condition, the tools used or the process parameters of the production facilities, can be subsequently stored in a central analysis system. The aim is to connect the data recorded in order to identify the influence, critical value ranges and interdependencies of the process parameters in the first instance, thereby allowing predictions about the risk of a faulty product at the end of the production process to be made as reliably as possible in the long term

(predictive analytics). In processes controlled using defined thresholds, products are discarded at an early stage if the probability of failure exceeds a predefined level. This prevents unnecessary process costs and improves energy efficiency, particularly with regard to the energy-intensive firing process. We expect the successive roll-out and continuous improvement of these analysis systems at all our plants to result in relevant long-term improvements in earnings.

Opportunities of digitalisation for administration

Last but not least, digitalisation is having a positive effect in terms of efficiency in our administrative areas. The use of uniform IT systems, the performance enhancement of these systems and the minimisation of media discontinuities are making a significant contribution to continuous efficiency improvement. The optimisation potential lies in the Group-wide harmonisation and standardisation of repetitive processes across all areas of activity. In the areas of human resources, procurement and finance, our aims also include the bundled processing of business transactions at shared service centres.

Non-operating earnings potential

Outside of our operating business, we believe that there is earnings potential in the development and marketing of properties that are no longer required for operating purposes.

As part of our real estate project in Sweden, we initiated the sale of the plant property in Gustavsberg in June 2013. By the end of the 2016 financial year, non-recurring income of € 14.9 million had been realised in various tranches, with € 1.7 million of this figure attributable to the 2016 financial year. The total income from the disposal of the plant properties is expected to be up to € 17 million.

We also expect the development of our property in Luxembourg to continue to offer additional earnings potential. As part of the development of the land-use plan, a key milestone in this project was achieved at the end of 2016 with the sale of the first section of our former tableware plant to the City of Luxembourg. Working in close cooperation with the City of Luxembourg, the entire plant site will be successively converted into a mixed-use commercial and residential area over the coming years. Time-intensive planning is required to ensure that this reclassification complies with the relevant urban development requirements. As we are only just at the beginning of the project phase for the second section of the site, which is still available for sale, it is not possible to provide a reliable estimate of the likely completion date and the earnings potential as yet.

REPORT ON EXPECTED DEVELOPMENTS

We expect global economic momentum to remain modest in 2017. While the positive employment trend in the USA and the euro zone is set to continue, the upturn in purchasing power thanks to low oil and energy prices will gradually recede, thereby curbing growth in private consumer spending. There are also downside risks for the global economy. In terms of the future direction of US foreign trade policy, the prospect of increased protectionism and resulting restrictions on free trade cannot be ruled out. The consequences of the Brexit referendum also pose a risk. The United Kingdom and, to a lesser extent, the rest of the EU could be subject to a long phase of investment restraint due to the prospect of restrictions on the internal market. In the euro zone, the uncertainty resulting from factors such as the problems affecting the Italian banking sector and the conflicts in neighbouring countries in the eastern Mediterranean could prompt consumers and companies to be more cautious in terms of spending, thereby curbing overall economic demand. In China, where production has been stimulated by the latest fiscal policy measures, there is also a heightened risk of an economic downturn in the longer term as a result of the substantial corporate debt that has been accepted as necessary in order to achieve this.

Report on risks and opportunities
Report on Expected Developments
Other disclosures
Remuneration Report

European residential construction, which is a key driver of business development in the Bathroom and Wellness Division, is expected to continue to enjoy robust growth in 2017, albeit at a slightly lower level. We also expect private consumption – a key indicator for the success of our tableware business – to see further solid development, although the trend of falling visitor numbers at retail stores is set to continue in the coming financial year.

Revenue, earnings and investments at the Group

Based on a fundamentally positive assessment of the market and a range of supporting factors, we are aiming to increase consolidated revenue by between 3 % and 5 % in the 2017 financial year.

In terms of our earnings performance, we are forecasting EBIT growth of between 5 % and 10 % in 2017.

Our return on net operating assets in 2017 is set to be higher than the level for the 2016 financial year (15.7 %), as the anticipated earnings growth is likely to have a more pronounced effect than the increase in our assets.

Our operating investments in property, plant and equipment and intangible assets will amount to more than € 35 million in the 2017 financial year, thereby exceeding the investment volume recorded in 2016 (€ 26.2 million). Around 80 % of the investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 20 %. Investment activity in the Bathroom and Wellness Division will focus on intensifying the expansion of our capacities, especially for the production of rimless WCs, as well as plant modernisation measures. In the Tableware Division, we will invest in expanding our own retail activities and in the Merzig and Torgau production sites in particular.

Our planned investments for 2017 also include property development measures at the Mettlach site with a volume of around € 5 million. These form part of the “Mettlach 2.0” project, which involves primarily the redevelopment of Villeroy & Boch’s headquarters, the Alte Abtei in Mettlach (Old Abbey).

The forward-looking statements contained in this management report are based on assessments made by the Management Board of Villeroy & Boch AG to the best of its knowledge at the preparation date of the consolidated financial statements. They are subject to various risks and uncertainties as a matter of principle. Accordingly, actual results could deviate from expectations of future performance if any of the uncertainties listed in the report on risks and opportunities or other uncertainties were to occur or if the assumptions underlying the statements proved to be inaccurate.

OTHER DISCLOSURES

Declaration on corporate governance

With regard to the declaration by the Management Board required by section 289a HGB, reference is made to the version printed in the Corporate Governance Report contained in the 2016 Annual Report, which is also available online at <http://www.villeroyboch-group.com/en/investor-relations/corporate-governance.html>.

REMUNERATION REPORT

Remuneration System

In past financial years, the Supervisory Board examined the remuneration system for the Management Board with respect to the changes in statutory requirements resulting from the German Act on the Appropriateness of Management Board remuneration, which came into force on 31 July 2009, and the recommendations of the German Corporate Governance Code and made adjustments where it considered this to be necessary or otherwise appropriate.

The Supervisory Board obtained advice in this matter from an independent remuneration consultant. The Supervisory Board continues to regularly review the remuneration system for the Management Board.

The remuneration system for the members of the Management Board is performance-oriented, with fixed remuneration being supplemented by a performance-based variable component. The amount of the variable remuneration is dependent on the extent to which the targets set out in the annual objectives are met. If all of the targets are met, it constitutes more than half of the total remuneration paid. The variable remuneration is broken down into a short-term annual component (annual bonus) and a long-term component with a measurement period of three years. This long-term remuneration has a higher weighting than the

short-term component. In terms of content, both variable remuneration components are oriented towards financial targets (return on net operating assets, earnings before interest and taxes, earnings before taxes) and individual targets. The target parameters for the variable remuneration component are preliminarily agreed upon by the Human Resources Committee of the Supervisory Board together with the members of the Management Board before being approved by the full Supervisory Board; this was also the case in the 2016 financial year. Performance targets and remuneration parameters cannot be amended subsequently. In addition, a company car for private use is offered to members of the Management Board. The existing contracts of the current members of the Management Board provide for defined benefit or defined contribution pension commitments. In the opinion of the Supervisory Board, total remuneration and the individual remuneration components maintain an appropriate relationship to the responsibilities and achievements of the respective Management Board members and the Company's financial situation and do not exceed typical remuneration either in a vertical comparison or in a horizontal comparison with reference companies. Supervisory Board remuneration is also composed of a fixed and a variable component. The variable performance-related component is measured on the basis of the dividend distributed by Villeroy & Boch AG.

COMBINED RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

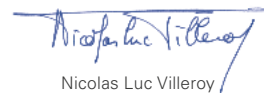
Mettlach, 31 January 2017



Frank Göring



Andreas Pfeiffer



Nicolas Luc Villeroy



Dr Markus Warncke

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CONSOLIDATED BALANCE SHEET

as of 31 Dec. 2016

In € million

Assets	Notes	As of 31/12/2016	As of 31/12/2015
Non-current assets			
Intangible assets	5	36.7	37.1
Property, plant and equipment	6	157.2	161.2
Investment property	7	8.9	11.4
Investments accounted for using the equity method	8	1.5	1.5
Other financial assets	9	10.1	12.8
		214.4	224.0
Other non-current assets	13	3.3	1.3
Deferred tax assets	10	47.4	47.2
		265.1	272.5
Current assets			
Inventories	11	141.4	151.3
Trade receivables	12	116.0	119.9
Other current assets	13	39.4	24.3
Income tax receivables	14	2.7	2.6
Cash and cash equivalents	15	111.2	65.6
		410.7	363.7
Non-current assets held for sale	16	0.5	0.4
Total assets		676.3	636.6

Consolidated Balance Sheet

as of 31 Dec. 2016

In € million

Equity and liabilities	Notes	As of 31/12/2016	As of 31/12/2015
Equity attributable to Villero y & Boch AG shareholders			
Issued capital	17	71.9	71.9
Capital surplus	18	193.6	193.6
Treasury shares	19	-15.0	-15.0
Retained earnings	20	-3.9	-20.8
Revaluation surplus	21	-74.1	-64.5
		172.5	165.2
Equity attributable to minority interests			
	22	0.1	0.1
Total equity		172.6	165.3
Non-current liabilities			
Provisions for pensions	26	201.1	192.7
Non-current provisions for personnel	27	18.8	16.3
Other non-current provisions	28	16.2	2.4
Non-current financial liabilities	29	50.0	50.0
Other non-current liabilities	30	4.1	3.3
Deferred tax liabilities	10	4.3	10.2
		294.5	274.9
Current liabilities			
Current provisions for personnel	27	17.8	14.9
Other current provisions	28	19.8	18.0
Current financial liabilities	29	0.5	0.6
Other current liabilities	30	82.7	81.4
Trade payables	31	77.2	77.8
Income tax liabilities		11.2	3.7
		209.2	196.4
Total liabilities		503.7	471.3
Total equity and liabilities		676.3	636.6

CONSOLIDATED INCOME STATEMENT

for the period 1 Jan. to 31 Dec. 2016

In € million

	Notes	01/01/2016 –31/12/2016	01/01/2015 –31/12/2015
Revenue	32	820.1	803.8
Costs of sales	33	–456.1	–442.5
Gross profit		364.0	361.3
Selling, marketing and development costs	34	–270.0	–269.1
General administrative expenses	35	–45.6	–46.6
Other operating income	36	20.4	20.2
Other operating expenses	37	–21.3	–22.5
Result of associates accounted for using the equity method	38	0.1	0.2
Operating result (EBIT)		47.6	43.5
Interest income and other finance income	39	1.4	1.6
Interest expenses and other finance expenses	40	–7.4	–7.2
Financial result		–6.0	–5.6
Earnings before taxes		41.6	37.9
Income taxes	41	–12.5	–10.6
Group result		29.1	27.3
Thereof attributable to:			
I Villeroy & Boch AG shareholders		29.1	27.3
I Minority interests	42	0.0	0.0
		29.1	27.3
Earnings per share		in €	in €
I Earnings per ordinary share	43	1.08	1.01
I Earnings per preference share	43	1.13	1.06

During the reporting period there were no dilution effects.

Consolidated Income Statement
Consolidated Statement of Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 Jan. to 31 Dec. 2016

In € million

	2016	2015
Group result	29.1	27.3
Other comprehensive income		
Items to be reclassified to profit or loss:		
I Gains or losses on cash flow hedges	2.6	-1.1
I Gains or losses on translations of exchange differences	-1.2	-2.9
I Gains or losses on value changes of securities	0.0	0.0
I Deferred income tax effect on items to be reclassified to profit or loss	-0.9	-0.9
Items not to be reclassified to profit or loss:		
I Actuarial gains or losses on defined benefit plans	-14.3	13.1
I Deferred income tax effect on items not to be reclassified to profit or loss	4.2	-3.7
Total other comprehensive income	-9.6	4.5
Total comprehensive income net of tax	19.5	31.8
Thereof attributable to:		
I Villeroy & Boch AG shareholders	19.5	31.8
I Minority interests	0.0	0.0
	19.5	31.8

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 Jan. to 31 Dec. 2016

In € million

	Equity attributable to Villeroy & Boch AG shareholders					Total	Equity attribut- able to minority interests	Total equity
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revalu- ation surplus			
Notes	17	18	19	20	21		22	
As of 01/01/2015	71.9	193.6	-15.0	-51.5	-54.7	144.3	0.1	144.4
Group result				27.3		27.3	0.0	27.3
Other comprehensive income					4.5	4.5		4.5
Others				14.3	-14.3	0.0		0.0
Total comprehensive income net of tax				41.6	-9.8	31.8	0.0	31.8
Dividend payments				-10.9		-10.9		-10.9
As of 31/12/2015	71.9	193.6	-15.0	-20.8	-64.5	165.2	0.1	165.3
As of 01/01/2016	71.9	193.6	-15.0	-20.8	-64.5	165.2	0.1	165.3
Group result				29.1		29.1	0.0	29.1
Other comprehensive income					-9.6	-9.6		-9.6
Total comprehensive income net of tax				29.1	-9.6	19.5	0.0	19.5
Dividend payments				-12.2		-12.2		-12.2
As of 31/12/2016	71.9	193.6	-15.0	-3.9	-74.1	172.5	0.1	172.6

Consolidated Statement of Equity
Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 Jan. to 31 Dec. 2016

In € million

	Notes	01/01/2016 -31/12/2016	01/01/2015 -31/12/2015
Group result		29.1	27.3
Depreciation of non-current assets	44	27.8	27.5
Change in non-current provisions		-7.7	-9.3
Profit from disposal of fixed assets		0.8	0.4
Change in inventories, receivables and other assets		12.5	-27.5
Change in liabilities, current provisions and other liabilities		12.4	15.6
Taxes paid/received in the financial year		-4.8	-7.4
Interest paid in the financial year		-2.9	-3.0
Interest received in the financial year		0.9	1.3
Other non-cash income/expenses	48	9.8	9.2
Cash flow from operating activities	48	77.9	34.1
Purchase of intangible assets, property, plant and equipment		-26.2	-29.1
Investment in non-current financial assets and cash payments		-0.5	-0.9
Cash receipts from disposals of Gustavsberg's assets		2.1	3.9
Cash receipts from disposals of fixed assets		4.7	2.2
Cash flow from investing activities	49	-19.9	-23.9
Cash proceeds from long-term borrowing	29	0.0	25.0
Cash repayments of amounts borrowed	29	-0.1	-25.5
Dividend payments	23	-12.2	-10.9
Cash flow from financing activities	50	-12.3	-11.4
Sum of cash flows		45.7	-1.2
Balance of cash and cash equivalents as of 1 Jan.		65.6	66.8
Change based on total cash flows		45.7	-1.2
Changes due to exchange rates		-0.1	0.0
Net increase in cash and cash equivalents		45.6	-1.2
Balance of cash and cash equivalents as of 31 Dec.	15+51	111.2	65.6

NOTES

GENERAL INFORMATION

Villeroy & Boch Aktiengesellschaft, domiciled in Mettlach, Saaruferstrasse 1-3, is a listed stock corporation under German law. It is the parent company of the Villeroy & Boch Group. The Villeroy & Boch Group is a leading international ceramic manufacturer. As a full-service provider for the bathroom and the “perfectly laid table”, our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. Villeroy & Boch AG is listed in the Prime Standard operated by Deutsche Börse AG.

In line with section 315 of the HGB (German Commercial Code), the consolidated financial statements as at 31 December 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are supplemented by additional explanatory notes in accordance with HGB 315a HGB.

The financial year is the calendar year. The consolidated financial statements were prepared in euro. Unless stated otherwise, all amounts are disclosed in millions of euro (€ million).

The annual financial statements of Villeroy & Boch AG and the consolidated financial statements of Villeroy & Boch Aktiengesellschaft have been published in the Bundesanzeiger (Federal Gazette).

The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 31 January 2017. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

The following section describes the main IFRS accounting policies as adopted by the Villeroy & Boch Group in accordance with the relevant provisions.

1. ACCOUNTING POLICIES

Intangible assets

Acquired intangible assets are capitalised at the cost necessary to bring the asset to its working condition. Internally generated intangible assets are only capitalised in the year of their creation if they meet the requirements of IAS 38. Initial measurement is at cost including attributable overheads.

Items with a limited useful life are reduced by straight-line amortisation over their useful life. Amortisation only begins when the assets are placed in service. Useful lives are generally between three and six years. Amortisation is essentially included in general and administrative expenses.

Assets with an indefinite useful life, such as goodwill, are only written down if there is evidence of impairment. To determine whether this is the case, the historical cost is compared with the recoverable amount. The recoverable amount is defined as the higher of the net selling price and the value in use of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with payments in the years beyond the planning horizon derived from the situation in the final year of the planning period. Planning premises are based on current information. Reasonable assumptions on macro-economic trends and historical developments are also taken into account.

Any impairment losses identified are recognised in profit or loss. If the reason for the recognition of an impairment loss ceases to exist in a future period, the impairment loss is reversed accordingly. The reversal of impairment losses on capitalised goodwill is prohibited.

Annual impairment testing for capitalised goodwill is performed at divisional level.

Property, plant and equipment

Property, plant and equipment are carried at cost less depreciation in accordance with the useful life. Cost includes all net costs necessary to bring the asset to its working condition. Cost is determined on the basis of the directly attributable costs of the asset plus the pro rata materials and manufacturing overheads including depreciation. Maintenance and repair costs for property, plant and equipment are recognised in profit or loss.

If an asset consists of several components with significantly different useful lives, the individual elements are depreciated in accordance with their individual service potential. Property, plant and equipment are depreciated on a straight-line basis over their useful life.

The following useful lives are applied throughout the Group:

ASSET CLASS	Useful life in years
Buildings (predominantly 20 years)	20–50
Operating facilities	10–20
Kilns	5–10
Technical equipment and machinery	5–12
Vehicles	4–8
IT equipment	3–6
Other operating and office equipment	3–10

The estimated useful lives are reviewed regularly.

In addition to ordinary depreciation, impairment losses are recognised on property, plant and equipment if the value in use or the net realisable value of the respective asset concerned has fallen below the depreciated cost. If the reasons for the recognition of an impairment loss cease to exist in a future period, the impairment loss is reversed accordingly.

Property, plant and equipment under construction are carried at cost. Finance costs that arise directly during the creation of a qualifying asset are capitalised. Depreciation on assets under construction only begins when the assets are completed and used in operations.

Leases

If assets are leased and the lessor bears the substantial risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised using the straight line method over the term of the agreement as expenses in the income statement.

If beneficial ownership remains with the Villeroy & Boch Group (finance lease), the leased asset is capitalised at its fair value or the lower present value of the lease instalments. Depreciation is allocated over the respective useful life of the asset or, if shorter, the term of the lease agreement. A liability is recognised for the discounted corresponding payment obligations arising from future lease instalments.

Government grants

Grants are recognised only when the Group has satisfied the associated conditions with reasonable assurance and the grants have been provided. Grants and subsidies received for the acquisition or construction of property, plant and equipment and intangible assets reduce their cost insofar as they can be allocated to the individual assets; otherwise, they are recognised as deferred income and subsequently reversed depending on the degree of fulfilment.

Investment property

Land and buildings held to earn regular rental income (investment property) are reported separately from assets used in operations. Mixed-use property is classified proportionately as a financial investment if the leased portion of the building could be sold separately. If this criterion is not met, the entire property is classified as investment property if the owner-occupied portion is insignificant. Investment property is carried at amortised cost. Depreciation is performed in the same way as for property, plant and equipment used in operations. Market values are calculated by independent experts and by in-house staff. The experts contracted typically calculate market values using the gross rental method. In these cases, the market value is also calculated using the asset value method as a control. The basis for the internal determination of market values are mainly the official comparative prices from the land value maps of expert committees, supplemented by property-specific fair values for the respective structures.

Investments accounted for using the equity method

Investments in associates are accounted for using the equity method, under which the cost at the acquisition date is adjusted to reflect the proportionate future results of the respective associate. Changes in equity are reported in the operating result in the income statement.

Financial instruments

Financial instruments arise from contracts which lead to a financial asset or financial liability or an equity instrument. They are recognised in the statement of financial position as soon as the Villeroy & Boch Group concludes a contract to this effect. Under IAS 39, each financial instrument is allocated to one of four categories in accordance with the classification described in note 53 and, depending on the category chosen, measured either at amortised cost or fair value. Financial instruments are derecognised when the claim for settlement expires.

Inventories

Inventories are carried at the lower of cost or net realisable value. The cost of inventories includes the directly allocable direct costs (e.g. material and labour costs allocable to construction) and overheads incurred in the production process. Measurement is performed using the standard cost method. For the majority of raw materials, supplies and merchandise, cost is determined using the moving average method and contains all expenses incurred in order to bring such inventory items to their present location and condition. Value allowances are recognised to an appropriate extent for inventory risks arising from the storage period and/or impaired realisability. Net realisable value is defined as the proceeds that are expected to be realised less any costs incurred prior to the sale. In the event of an increase in the net realisable value of inventories written down in prior periods, write-downs are reversed in profit or loss as a reduction of the cost of goods sold in the income statement.

Receivables

Trade receivables and other current receivables are recognised at cost on acquisition. Impairment losses are recognised if the carrying amount of the receivable is higher than the present value of the future cash inflow. Impairment of a portfolio is based on the basis of experience. Impairment is used to adequately reflect the default risk, while actual cases of default result in the derecognition of the respective asset.

Cash and cash equivalents

Cash and short-term investments (cash equivalents) are defined as cash on hand, demand deposits and time deposits with an original term of up to three months. Cash is carried at its nominal amount. In the case of cash equivalents, interest income is recognised in profit or loss on a pro rata basis.

Pension obligations

Provisions equal to the defined benefit obligations (DBO) already earned are recognised for obligations under defined benefit pension plans. The expected future increase in salaries and pensions are also taken into account. If pension obligations are covered in full or in part by fund assets, the market value of these assets is offset against the DBO if these assets are classified as trust assets and administered by third parties. Actuarial gains and losses, such as those arising from the change in the discounting factor or assumed mortality rates, are recognised in the revaluation surplus. Of the annual pension costs, the service cost is reported in staff costs and the interest cost in net other finance costs.

Provisions are not recognised for defined contribution plans as the payments made are recognised in staff costs in the period in which the employees perform the services granting entitlement to the respective contributions.

Other provisions

Provisions are recognised for legal or constructive obligations to third parties arising from past events where an outflow of resources is likely to be required to settle the obligation and the amount of this outflow can be reliably estimated. Provisions are carried at the future settlement amount based on a best estimate. Provisions are discounted as necessary.

Liabilities

Financial liabilities and other non-current liabilities are recognised at fair value. Current liabilities are carried at their repayment amount.

Contingent liabilities

Contingent liabilities are possible obligations, predominantly arising from guarantees and liabilities on bills, which were established in the past but whose actual existence is dependent on the occurrence of a future event and where recourse is not likely as at the end of the reporting period. Contingent liabilities are not recognised in the statement of financial position.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or due less any rebates or other discounts. Revenue, commission income and other operating income are recognised when the respective goods have been provided or the services rendered and substantially all the risks and rewards of ownership have been transferred to the customer. Usage fees are recognised on a straight-line basis over the agreed period. Dividend income is recognised when a legal claim to payment arises. Interest income is deferred on the basis of the nominal amount and the agreed interest method. Rental income from investment property is recognised on a straight-line basis over the term of the relevant lease. Revenue from intercompany transactions is only realised when the assets ultimately leave the Group. Operating expenses are recognised in profit or loss as incurred economically.

Research and development costs

Research costs arise as a result of original and planned investigation undertaken in order to gain new scientific or technical knowledge or understanding. In accordance with IAS 38, they are expensed as incurred. Development costs are expenses for the technical and commercial implementation of existing theoretical knowledge. Development ends with the start of commercial production or utilisation. Costs incurred during development are capitalised if the conditions for recognition as an intangible asset are met. Due to the risks existing until market launch, the majority of these conditions are regularly not met in full.

Taxes

Income tax expense represents the total of current and deferred taxes. Current and deferred taxes are recognised in income unless they are associated with items taken directly to equity. In these cases, the corresponding taxes are also recognised directly in equity.

Current tax expense is determined on the basis of the taxable income for the financial year. Taxable income differs from the result for the year reported in the statement of comprehensive income, as it excludes those income and expense items that are only taxable or tax-deductible in prior/subsequent periods or not at all. The current tax liabilities of the Villeroy & Boch Group are recognised on the basis of the applicable tax rates. Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These comply with the legislation in force or substantially enacted as at the end of the reporting period.

SUMMARY OF SELECTED MEASUREMENT METHODS

Item	Measurement methods
ASSETS	
Intangible assets:	
Goodwill	(Amortised) cost (Subsequent measurement: Impairment test)
Other acquired intangible assets	(Amortised) cost
Internally generated intangible assets	Cost (direct costs and directly attributable overheads)
Property, plant and equipment	(Amortised) cost
Investment property	(Amortised) cost
Financial assets:	
Category: Loans and receivables	(Amortised) cost using the effective interest method
Category: Held to maturity	(Amortised) cost using the effective interest method
Category: Available for sale	At fair value in OCI; if no fair value: at cost through profit or loss
Category: Hedging instruments	At fair value in OCI (Ineffective parts: at fair value through profit or loss)
Inventories	Lower of cost or net realisable value
Trade receivables	(Amortised) cost using the effective interest method
Cash and cash equivalents	Nominal value
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell
EQUITY AND LIABILITIES	
Provisions:	
Provisions for pensions	Projected unit (benefit on years of service method)
Provisions for personnel:	
I Termination benefits	Discounted settlement amount (most likely)
I Other long-term employee benefits	Projected unit (credit method)
Other provisions	Discounted settlement amount (most likely)
Financial liabilities:	
Category: Other liabilities	At amortised cost through profit or loss
Category: Hedging instruments	At fair value in OCI (Ineffective parts: at fair value through profit or loss)
Trade payables	(Amortised) cost using the effective interest method

Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and estimates are required to a certain extent that affect the reporting and the amount of the recognised assets, liabilities, income, expenses and contingent liabilities. These can affect, for example, the possibility of control in determining the basis of consolidation, impairment testing for the assets recognised in the balance sheet, the Group-wide determination of economic lives, the timing of the settlement of receivables, the evaluation of the utilisation of tax loss carryforwards and the recognition of provisions, among other things.

The main sources of estimate uncertainty are future measurement factors such as interest rates, assumptions of future financial performance and assumptions on the risk situation and interest rate development. The underlying assumptions and estimates are based on the information available when these consolidated financial statements were prepared. At the end of the year under review, there were no assumptions concerning the future or other major sources of estimation uncertainty at the end of the reporting period with a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In individual cases, actual values may deviate from the projected amounts. Changes are recognised as soon as better information becomes available. The carrying amounts of the affected items are presented separately in the respective notes.

Modifications due to the adoption of accounting principles

With the exception of the IFRS regulations requiring mandatory application for the first time in the financial year, the accounting policies applied are essentially the same as those applied in the previous year. The changes to the IFRS regulations requiring mandatory application for the first time in the 2016 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.

Information on developments within the IFRS regulations can be found in note 62.

2. BASIS OF CONSOLIDATION

In addition to Villeroy & Boch AG, the consolidated financial statements include all 12 (previous year: 12) German and 40 (previous year: 40) foreign subsidiaries that Villeroy & Boch AG – directly or indirectly – controls and has included in consolidation.

Other disclosures

The list of shareholdings in accordance with section 313(2) HGB is shown in note 61.

The Villeroy & Boch Group uses the following national options as regards the audit and disclosure of annual financial statement documents:

In Germany the Villeroy & Boch Group exercises the options under section 264(3) HGB for the audit and disclosure of annual financial statements for the separate financial statements of Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen, and Villeroy & Boch Creation GmbH, Mettlach.

An audit by an external auditor was waived in accordance with section 479A UK of the 2006 UK Companies Act for Villeroy & Boch (U.K.) Limited, London, entered in the commercial register of England and Wales under 00339567.

The two Dutch companies Ucosan B.V., Roden, und Villeroy & Boch Tableware B.V., Oosterhout, exercise the options relating to the preparation, publication and auditing of annual financial statements in accordance with Part 9, section 403(1b), Book 2 of the Dutch Civil Code. The accounting data of both companies, as consolidated subsidiaries, are included in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Dutch commercial register.

In accordance with section 314 of the Luxembourg Commercial Code, no consolidated financial statements or Group management report are prepared for Villeroy & Boch S.à.r.l., Faiencerie de Septfontaines-lez-Luxembourg. The accounting data of the company is included as a consolidated subsidiary in the consolidated financial statements of Villeroy & Boch AG, which have been filed with the Luxembourg commercial and companies register.

3. CONSOLIDATION PRINCIPLES

The annual financial statements of the companies included in the Villeroy & Boch Group's consolidated financial statements are prepared in accordance with uniform Group accounting principles and included in the consolidation. The end of the reporting period for the consolidated companies is the same as for Villeroy & Boch AG as the ultimate parent company. The consolidated financial statements include the transactions of those companies that are considered subsidiaries and associated companies to the Villeroy & Boch AG at the reporting date.

Subsidiaries are those companies in which the Villeroy & Boch AG can determine the relevant business activities unilaterally – either directly or indirectly. The relevant business activities include all activities that have an essential influence on the profitability of the company. Domination is given only if the Villeroy & Boch AG can control the relevant activities of the subsidiary company, has a legal claim to variable returns on investment in the subsidiary company and can influence the amounts of dividends. In general, domination within the Villeroy & Boch Group is given when the Villeroy & Boch AG holds a direct or indirect majority of the voting rights. Consolidation begins on the date on which control becomes possible and ends when this possibility no longer exists.

As part of capital consolidation, the acquisition costs of the subsidiaries at the acquisition date are offset against the remeasured equity interest attributable to them with any resulting differences recognised as goodwill. Differences resulting from increasing the ownership interest in subsidiaries that are already consolidated are offset directly against retained earnings. Any hidden reserves and liabilities identified as a result are carried at amortised cost in subsequent consolidation in the same way as the corresponding assets and liabilities.

With respect to the elimination of intercompany balances, the reconciled receivables and liabilities of the companies included in consolidation are offset against each other. Revenue, income and expenses between the consolidated companies are eliminated, as are intercompany profits and losses from non-current assets and inventories. The results of subsidiaries acquired or sold in the course of the year are included in the consolidated income statement from the actual acquisition date or until the actual disposal date.

If any differences in tax expenses are expected to reverse in later financial years, deferred taxes are recognised for consolidation measures in profit or loss.

When including an associated company in consolidation for the first time, the differences arising from initial consolidation are treated in accordance with the principles of full consolidation. Intercompany profits and losses for such companies were insignificant in the years under review.

In this financial year, the composition of the consolidated entity was examined regularly. The Villeroy & Boch AG dominates all subsidiaries up to this date. The consolidation principles applied in the previous year were retained.

4. CURRENCY TRANSLATION

On the basis of the individual financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. They are measured at the closing rate as at the end of the respective reporting period. The individual balance sheet of consolidated companies prepared in foreign currencies are translated into euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate at the end of the reporting period, while all income statements items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised outside profit or loss (see note 21(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21(b)).

General Information

They continue to be reported in this item of the balance sheet even in the event of a partial repayment of the net investment. When consolidated companies leave the consolidated group, any translation differences previously taken directly to equity are reversed to profit or loss.

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

		CURRENCY			
		€ 1 =			
		Exchange rate at end of reporting period		Average exchange rate	
		2016	2015	2016	2015
Chinese Yuan Renminbi	CNY	7.32	7.06	7.31	7.00
Hungarian forint	HUF	309.83	315.98	312.32	310.02
Mexican peso	MXN	21.77	18.91	20.47	17.56
Norwegian krone	NOK	9.09	9.60	9.33	8.94
Romanian new leu	RON	4.54	4.53	4.49	4.44
Russian rouble	RUB	64.30	80.67	75.19	67.42
Swedish krona	SEK	9.55	9.19	9.42	9.40
Thai baht	THB	37.73	39.25	38.98	38.02
US dollar	USD	1.05	1.09	1.10	1.12

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. INTANGIBLE ASSETS

Intangible assets developed as follows:

In € million			
	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As at 1 Jan. 2015	20.0	39.7	59.7
Currency adjustments	0.0	0.1	0.1
Additions	1.5	–	1.5
Disposals	–1.7	–	–1.7
As at 1 Jan. 2016	19.8	39.8	59.6
Currency adjustments	0.0	–0.1	–0.1
Additions	1.3	–	1.3
Disposals	–1.8	–	–1.8
As at 31 Dec. 2016	19.3	39.7	59.0
Accumulative amortisation and impairment			
As at 1 Jan. 2015	14.1	8.8	22.9
Currency adjustments	0.0	–	0.0
Amortisation	0.6	–	0.6
Disposals	–1.0	–	–1.0
As at 1 Jan. 2016	13.7	8.8	22.5
Currency adjustments	0.0	–	0.0
Amortisation	0.8	–	0.8
Impairment losses	0.1	–	0.1
Disposals	–1.1	–	–1.1
As at 31 Dec. 2016	13.5	8.8	22.3
Residual carrying amounts			
As at 31 Dec. 2016	5.8	30.9	36.7
As at 31 Dec. 2015	6.1	31.0	37.1

The asset group “Concessions, patents, licences and similar rights” essentially includes key money capitalised by subsidiaries for rented retail space worth € 2.9 million (previous year: € 3.3 million), capitalised software licences in the amount of € 2.0 million (previous year: € 1.8 million) and emission allowances of € 0.8 million (previous year: € 0.9 million). Goodwill in the amount of € 30.9 million (previous year: € 31.0 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. The key figures

for the Bathroom and Wellness Division are presented in the segment report in note 52.

Capitalised goodwill was tested for impairment. To do so, the present value of future excess cash flows from this division was determined in line with planning. The forecast cash flows until 2019 were discounted using an interest rate before income tax of 6.4 % p.a. (previous year: 6.7 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 5.9 % p.a. (previous year: 6.2 % p.a.).

Notes to the Consolidated Balance Sheet

The present value calculated in this way was greater than the net assets of the division, so that no impairment loss was required to be recognised on this item.

6. PROPERTY, PLANT AND EQUIPMENT

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

	In € million				
	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Property, plant and equipment under construction	Total
Accumulative cost					
As at 1 Jan. 2015	185.2	317.5	93.7	22.3	618.7
Currency adjustments	0.0	0.4	0.8	0.2	1.4
Additions	1.4	7.0	6.2	13.0	27.6
Disposals	-1.5	-8.0	-4.1	-0.4	-14.0
Reclassifications	13.8	6.5	1.3	-21.6	0.0
As at 1 Jan. 2016	198.9	323.4	97.9	13.5	633.7
Currency adjustments	-0.5	-0.7	-0.3	-0.1	-1.6
Additions	1.8	5.2	5.5	12.4	24.9
Disposals	-3.9	-6.4	-7.0	-0.2	-17.5
Reclassifications	1.1	9.3	0.9	-11.3	0.0
Transfer to asset classified as held for sale	-4.0	-	-	-	-4.0
As at 31 Dec. 2016	193.4	330.8	97.0	14.3	635.5
Accumulative depreciation and impairment					
As at 1 Jan. 2015	125.4	257.3	75.7	0.1	458.5
Currency adjustments	0.0	0.3	0.7	-	1.0
Depreciation	5.1	14.8	6.2	-	26.1
Disposals	-1.4	-7.9	-3.7	-0.1	-13.1
Reclassifications	0.0	0.0	0.0	-	0.0
As at 1 Jan. 2016	129.1	264.5	78.9	-	472.5
Currency adjustments	0.1	-0.4	-0.2	-	-0.5
Depreciation	4.1	14.9	6.7	-	25.7
Disposals	-2.9	-6.3	-6.6	-	-15.8
Reclassifications	-0.1	-	0.1	-	0.0
Transfer to asset classified as held for sale	-3.6	-	-	-	-3.6
As at 31 Dec. 2016	126.7	272.7	78.9	-	478.3
Residual carrying amounts					
As at 31 Dec. 2016	66.7	58.1	18.1	14.3	157.2
As at 31 Dec. 2015	69.8	58.9	19.0	13.5	161.2

Property, plant and equipment amounting to € 24.9 million was acquired in the period under review (previous year: € 27.6 million).

In the Bathroom and Wellness Division, we invested primarily in the modernisation of our production facilities with a particular focus on sanitary ware and wellness products. The measures mainly related to the sanitary ware plants in Mettlach, Hódmezővásárhely (Hungary) and Lugoj (Romania). We also acquired property, plant and equipment for our development and logistics activities.

Investment in the Tableware Division included the further expansion of our retail network. For example, retail stores were renovated or opened for the first time in Hackensack (USA), Harbourtown (Australia), Brussels (Belgium), Ringsted (Denmark), Helsinki (Finland) and Perth (Australia). The production site in Merzig obtained modern transportation vehicles and new pressing tools, among other things. A new pressure casting system and new robots for the glazing line were acquired in Torgau.

We invested a total of € 3.6 million in the redevelopment of our headquarters in Mettlach.

Facilities worth € 11.3 million were completed and integrated into operational value added in the reporting period (previous year: € 21.6 million). Of this figure, € 3.7 million relates to Germany, where – among other things – the new automated finishing system at the sanitary ware plant in Mettlach worth € 1.5 million was commissioned. The production site in Hungary is using new facilities worth € 1.8 million. Here we are glazing washbasins at a new line. In the previous year, new facilities were used for the first time mainly in Sweden (€ 15.7 million) and Thailand (€ 1.8 million).

The disposals in the financial year in cost of € 17.5 million (previous year: € 14.0 million) and the cumulative depreciation of € 15.8 million (previous year: € 13.1 million) predominantly result from the scrapping of assets already written down in full that can no longer be used.

In September 2016, an option to sell a section of the former production site in Selb was concluded with an external project developer. Accordingly, these assets are required to be reported as non-current assets held for sale. The residual carrying amount of € 0.4 million was reclassified from property, plant and equipment to non-current assets held for sale (see note 16).

Operating leases

In the 2016 financial year, rental expenses under operating leases amounted to € 37.9 million (previous year: € 38.3 million). The Group leases sales premises, warehouses, office space and other facilities and movable assets. The leases have basic terms of between six months and 30 years. No purchase options have been agreed. Most of the agreements are implicitly renewed at the existing terms and conditions. Income of € 0.6 million was generated from subletting unused properties with current leases (previous year: € 0.5 million). Any ancillary costs and other obligations are borne by the sublessees. The subleases end before or at the expiry date of the Group's lease on the respective property.

The Group's lease obligations are due as follows:

	In € million		
	Less than 1 year	1 to 5 years	More than 5 years
Future lease payments			
As at 31 Dec. 2016	21.3	27.6	4.5
As at 31 Dec. 2015	22.1	33.0	4.5
Future sublease income			
As at 31 Dec. 2016	0.6	0.8	–
As at 31 Dec. 2015	0.4	0.4	–

Notes to the Consolidated Balance Sheet

7. INVESTMENT PROPERTY

Investment property developed as follows:

In € million				
	Land	Buildings	Investment property	
			2016	2015
Accumulative cost				
As at 1 Jan.	0.9	85.5	86.4	91.3
Disposals	-0.3	-11.6	-11.9	-4.9
As at 31 Dec.	0.6	73.9	74.5	86.4
Accumulative depreciation and impairment				
As at 1 Jan.	-	75.0	75.0	79.1
Depreciation	-	0.8	0.8	0.8
Disposals	-	-10.2	-10.2	-4.9
As at 31 Dec.	-	65.6	65.6	75.0
Residual carrying amounts				
As at 31 Dec.	0.6	8.3	8.9	11.4

This item includes property in the Saarland, Luxembourg and France.

On 15 December 2016, the first of two sections of our former tableware plant in Luxembourg was sold to the City of Luxembourg for € 14.3 million. The purchase price includes a compensation payment for a long-term rental agreement with the City of Luxembourg in the amount of € 1.3 million (see note 30). At the transaction date, this section had a residual carrying amount of € 1.6 million. The building rights for the entire former plant property are being revised together with the City of Luxembourg with the aim of creating a mixed-use residential, commercial and office area. In connection with the sale of the first section of the site, we have entered into commitments concerning the demolition, dismantling and renovation of the entire development area. Corresponding provisions have been recognised in the amount of € 11.4 million (see note 28). The City of Luxembourg is allowing us to continue to use the building rent-free for the next six years. During this period, we will sublet the unused space as an operating lease (see note 6).

Following the aforementioned sales transaction, the total market value of the properties reported in this item as at 31 December 2016 was € 43.2 million (previous year: € 48.9 million). A market value of € 28.5 million (previous year: € 33.5 million) is based on an independent valuation report. Our progress in revising the building rights together with the City of Luxembourg have increased the current market value of the second section of the development area by € 12.2 million. € 14.7 million (previous year: € 15.4 million) is based on own calculations. These market values are categorised in level 3 of the fair value hierarchy of IFRS 13. The Group generated the following amounts from its investment property:

In € million		
	31/12/2016	31/12/2015
Rental income	0.8	0.8
Property management and similar expenses	-0.5	-0.1

Rent is expected to develop as follows:

	In € million		
	Less than 1 year	1 to 5 years	More than 5 years
As at 31 Dec. 2016	0.5	1.7	5.9
As at 31 Dec. 2015	0.5	1.7	6.2

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

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

As in the previous year, the Villeroy & Boch Group accounts for two companies using the equity method in accordance with IAS 28.

V&B Lifestyle India Private Limited, Gurgaon, India, markets Tableware products in India. A further unlisted company domiciled in Germany, to which section 313(3) HGB applies, is not allocated to a business unit.

The Villeroy & Boch Group holds 50 % of the voting rights in each company. There were no joint arrangements within the meaning of IFRS 11 at the reporting date.

The carrying amounts of the investments developed as follows in the period under review:

	In € million	
	2016	2015
As at 1 Jan.	1.5	1.8
Pro rata results of associated companies	0.5	0.2
Distribution to the Villeroy & Boch Group	-0.5	-0.5
As at 31 Dec.	1.5	1.5

9. OTHER FINANCIAL ASSETS

Other financial assets include:

	In € million	
	31/12/2016	31/12/2015
Equity investments (a)	2.1	2.5
Loans to:		
I Equity investments (b)	–	2.4
I Third parties (c)	6.5	6.4
Securitized (d)	1.5	1.5
Total	10.1	12.8

(a) A 2.29 % holding in the share capital of V&B Fliesen GmbH, Merzig, with a carrying amount of € 2.1 million (previous year: € 2.5 million) is reported under equity investments. The carrying amount was impaired in the year under review. Our equity interest was reduced from 5.71 % to 2.29 % as a result of the capital increase implemented on 18 January 2016, in which we did not participate.

(b) V&B Fliesen GmbH, Merzig, made an interest and amortisation repayment of € 2.4 million as scheduled in the year under review, meaning that this loan receivable has now been repaid in full.

(c) In connection with the gradual sale of the plant property in Gustavsberg, Sweden, a loan receivable was granted to Porslinsfabriksstaden AB, Gustavsberg, Sweden, a company of the IKANO Bostad Group, in 2013. The loan, which is denominated in Swedish krona, has an equivalent value of € 4.5 million (previous year: € 4.6 million) and a remaining term of five years. Repayments are made every two years. A repayment of € 5.1 million was made in the previous year. The reduction in the equivalent value in euro is due primarily to the appreciation of the Swedish krona. A bank guarantee from Svenska Handelsbanken AB (publ), Stockholm, Sweden, and transferred ownership rights to material assets serve as collateral for the loan.

Notes to the Consolidated Balance Sheet

In addition, loans to third parties essentially include mandatory government loans from France.

Loans to third parties mature as follows:

In € million		
	2016	2015
Gross carrying amount as at 31 Dec.	6.5	6.4
of which: Neither impaired nor past due as at end of reporting period	6.5	6.4
┆ Due within one year	2.6	0.0
┆ Due in two to five years	2.6	4.5
┆ Due in more than five years	1.3	1.9

- (d) Villeroy & Boch AG manages a fund that was provided by the ordinary shareholders on the occasion of the 100-year anniversary of the Mettlach mosaic factory on 17 January 1970. These special assets are used for sponsoring the professional education and training for employees of the Villeroy & Boch Group and their family, for the promotion of research and science and for Investor Relations and Corporate Governance of the Villeroy & Boch Group. A portion of the fund was invested in listed securities. These securities are recognised outside profit and loss at their current market value in accordance with IAS 39. In the fair value hierarchy of IFRS 13, these market values are assigned to level 1. Changes in value are recognised in equity in the revaluation surplus (see note 21(d)).

10. DEFERRED TAX ASSETS AND LIABILITIES

The following deferred taxes are reported in the balance sheet:

In € million		
	31/12/2016	31/12/2015
Deferred tax assets from temporary differences	31.9	37.4
Deferred tax assets from tax loss carryforwards	15.5	9.8
Deferred tax assets	47.4	47.2
Deferred tax liabilities	4.3	10.2

Deferred taxes from temporary differences are due to different carrying amounts in the consolidated balance sheet and the tax base in the following items:

In € million					
	Note	Deferred tax assets		Deferred tax liabilities	
		31/12/2016	31/12/2015	31/12/2016	31/12/2015
Intangible assets	5	0.3	0.3	1.2	1.2
Property, plant and equipment	6	4.7	8.2	2.3	2.4
Financial assets	9	0.0	0.0	0.3	0.3
Inventories	11	0.0	0.3	1.0	0.0
Other assets	13	0.1	0.1	0.9	1.0
Special tax items		0.1	0.0	4.3	4.2
Provisions for pensions	26	29.4	25.2	2.0	0.9
Other provisions	28	3.6	2.1	0.0	0.1
Other liabilities		1.8	1.5	0.4	0.4
Subtotal		40.0	37.7	12.4	10.5
Offsetting of deferred tax assets/liabilities		-8.1	-0.3	-8.1	-0.3
Deferred taxes from temporary differences		31.9	37.4	4.3	10.2

The € 5.5 million reduction in deferred tax assets from temporary differences to € 31.9 million is attributable to the increase in deferred taxes on provisions for pensions, which mainly resulted from the reduction in the discount rate (see note 26), as well as the decrease due to offsetting against deferred tax liabilities.

Deferred tax assets from tax loss carryforwards amounted to € 15.5 million (previous year: € 9.8 million) and related to loss carryforwards at foreign Group companies.

The loss carryforwards are subject to restrictions on offsetting. As such, no deferred tax assets are recognised for loss carryforwards whose utilisation due to future taxable income is not probable. As a result, deferred taxes of € 13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards. Loss carryforwards of € 40.5 million (previous year: € 34.7 million) are subject to restrictions on offsetting (periods of between 5 and 15 years).

Based on impairment testing for the period from 2017 to 2021, deferred tax assets from tax loss carryforwards were written down in the amount of € 20.0 million (previous year: € 21.3 million).

11. INVENTORIES

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

In € million		
	31/12/2016	31/12/2015
Raw materials and supplies	20.9	21.2
Work in progress	16.3	14.7
Finished goods and goods for resale	104.2	115.4
Carrying amount	141.4	151.3

Notes to the Consolidated Balance Sheet

Inventories were broken down between the individual divisions as follows:

In € million		
	31/12/2016	31/12/2015
Bathroom and Wellness	83.3	87.9
Tableware	58.1	63.4
Total	141.4	151.3

The write-downs on inventories decreased by € 1.1 million in the year under review, from € 17.2 million to € 16.1 million.

12. TRADE RECEIVABLES

Villeroy & Boch grants its customers country- and industry-specific payment terms. The geographical allocation of these receivables by customer domicile was as follows:

In € million		
	31/12/2016	31/12/2015
Germany	23.7	21.3
Rest of euro zone	29.4	27.6
Rest of world	66.0	73.6
Gross carrying amount	119.1	122.5
Write-downs	-3.1	-2.6
Carrying amount	116.0	119.9

€ 79.3 million (previous year: € 81.9 million) relate to the Bathroom and Wellness Division and € 36.7 million (previous year: € 38.0 million) to the Tableware Division.

The receivables were composed as follows:

In € million		
	2016	2015
Items neither impaired nor past due	90.4	91.7
Not impaired but past due	14.7	11.2
Customer in default for 90 days or less	13.4	10.2
Customer in default between 91 and 360 days	1.2	0.9
Customer in default for 361 days or more	0.1	0.1
Impaired but not past due¹⁾	11.0	17.4
Impaired and past due	3.0	2.2
Total gross amount	119.1	122.5
Write-downs	-3.1	-2.6
Net carrying amount as at 31 Dec.	116.0	119.9

¹⁾ Receivables not covered by credit insurance

With respect to receivables that are neither impaired nor past due, there was no evidence of potential default as at the end of the reporting period. Write-downs were generally recognised for receivables from debtors who are more than 90 days in default. The corresponding allowance rates are based on past experience. The Villeroy & Boch Group has received trade credit insurance or recoverable collateral for receivables that are past due but not impaired. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of customers.

The amount of receivables impaired but not past due decreased by € 6.4 million to € 11.0 million in the reporting year. This was due to improved payment practices, an increase in the volume of receivables covered by trade credit insurance and the higher level of advance payments. A flat-rate write-down was recognised on the uninsured share for general risk provisioning.

As at 31 December 2016 a total of € 2.7 million (previous year: € 1.8 million) of impairment related to the impaired and past due category and € 0.4 million (previous year: € 0.8 million) to the impaired but not past due category. Specific valuation allowances exclusively relate to the category "Impaired and past due".

13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

	In € million					
	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2016	Less than 1 year	More than 1 year	31/12/2015	Less than 1 year	More than 1 year
Fair values of hedging instruments	4.0	2.7	1.3	2.4	2.4	0.0
Advance payments and deposits	3.1	1.1	2.0	2.8	1.5	1.3
Miscellaneous other assets	22.8	22.8	–	8.0	8.0	–
Total financial instruments within meaning of IAS 39*	29.9	26.6	3.3	13.2	11.9	1.3
Other tax receivables	10.7	10.7	–	9.8	9.8	–
Prepaid expenses	2.1	2.1	–	2.6	2.6	0.0
Total other assets	42.7	39.4	3.3	25.6	24.3	1.3

* Financial instruments are described in note 53.

As at the end of the reporting period, the Group's hedging instruments comprised currency futures (€ 2.7 million; previous year: € 2.4 million) and brass swaps (€ 1.3 million).

No brass swaps were recognised in the previous year.

The Group has recognised security deposits in the amount of € 2.1 million (previous year: € 1.5 million) that were provided to the respective lessors in cash. The fair value of these deposits is equal to their carrying amounts.

“Miscellaneous other assets” include receivables from the sale of a section of our former tableware plant in Luxembourg (see note 7), receivables from the French government from the “crédit d'impôt pour la compétitivité et l'emploi”, receivables from other investees, creditors with debit balances, receivables from employees and a number of individual items.

Other tax receivables in the amount of € 10.7 million (previous year: € 9.8 million) primarily include VAT credit of € 8.7 million (previous year: € 8.1 million).

Prepaid expenses mainly include rent payments, claims for compensation under the partial retirement programme and insurance premiums.

In cases of doubt regarding the collectibility of receivables, write-downs were recognised and offset directly against the carrying amounts by the persons responsible for the respective portfolios. As in the previous year, there were no past due receivables in this item as at 31 December 2016. There are no significant concentrations of default risks within the Group as such risks are distributed across a large number of contractual partners.

14. INCOME TAX RECEIVABLES

The income tax receivables of € 2.7 million (previous year: € 2.6 million) primarily include outstanding corporate income tax assets. € 2.6 million (previous year: € 2.1 million) of this figure relates to foreign group companies.

Notes to the Consolidated Balance Sheet

15. CASH AND CASH EQUIVALENTS

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

	In € million	
	31/12/2016	31/12/2015
Cash on hand incl. cheques	0.4	0.4
Current bank balances	41.2	19.2
Cash equivalents	69.6	46.0
Total cash and cash equivalents	111.2	65.6

Cash is held at banks of good credit standing that are predominantly a part of a deposit protection system (see note 53).

16. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are carried at amortised cost. The following non-current assets were held for sale in the year under review:

	In € million	
	31/12/2016	31/12/2015
Property		
(a) in Sweden	0.1	0.4
(b) in Germany	0.4	–
Total non-current assets held for sale	0.5	0.4

The items developed as follows in the year under review:

- (a) In July 2016, additional properties at the Gustavsberg site in Sweden with a carrying amount of € 0.3 million were sold to Värmdö municipality. Swedish properties with a residual carrying amount of € 0.1 million were held for sale at the reporting date (previous year: € 0.4 million). A modern assembly plant with an integrated logistics centre was constructed in Gustavsberg. Areas of our former plant site not required for production were gradually sold to third parties for residential development. Income of € 1.7 million (previous year: € 1.4 million) was generated in the 2016 financial year. Further information can be found in the management report under “Results of operations”.
- (b) In September 2016, an option to sell a section of the former production site in Selb was concluded with an external project developer. The option expires in August 2017. The carrying amount of the corresponding assets in the amount of € 0.4 million was transferred from property, plant and equipment (see note 6).

17. ISSUED CAPITAL

The issued capital of Villeroy & Boch AG as at the end of the reporting period was unchanged at € 71.9 million and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital. The holders of non-voting preference shares receive a dividend from the annual unappropriated surplus that is € 0.05 per share higher than the dividend paid to holders of ordinary shares, or a minimum preferred dividend of € 0.13 per preference share. If the unappropriated surplus in a given financial year is insufficient to cover the payment of this preferred dividend, any amount still outstanding shall be paid from the unappropriated surplus of subsequent financial years, with priority given to the oldest amounts outstanding. The preference dividend for the current financial year is only paid when all amounts outstanding are satisfied. This right to subsequent payment forms part of the profit entitlement for the respective financial year from which the outstanding dividend on preference shares is granted.

Each ordinary share grants one vote.

The numbers of different shares outstanding were as follows:

	Number of shares	
	2016	2015
Ordinary shares		
Ordinary shares outstanding – unchanged –	14,044,800	14,044,800
Preference shares		
Ordinary shares issued – unchanged –	14,044,800	14,044,800
Treasury shares, as at 31 Dec. – unchanged –	1,683,029	1,683,029
Shares outstanding	12,361,771	12,361,771

A resolution of the General Meeting of Shareholders on 22 March 2013 authorised the Management Board of Villeroy & Boch AG to acquire preference treasury shares in accordance with the following rules:

- (a) The Management Board is authorised to acquire treasury ordinary/preference shares in the company up to a total notional amount of the share capital of € 7,190,937.60 until 21 March 2018 inclusively. The authorisation to acquire treasury shares granted to the company by the General Meeting of Shareholders on 16 May 2012 will be revoked after the new authorisation takes effect, to the extent that it has not yet been utilised. The shares acquired on the basis of this authorisation together with other treasury shares already acquired by the company and still owned or attributable to it in accordance with sections 71a et seq. of the German Stock Corporation Act (AktG) must not account for more than 10 % of the share capital. The acquisition can be restricted to the shares of just one class.

At the discretion of the Management Board, preference shares can be acquired either on the stock exchange (1) or on the basis of a public offer to all preference shareholders or on the basis of an invitation to all preference shareholders to submit offers to sell in accordance with the principle of equal treatment (2). At the discretion of the Management Board, ordinary shares can be acquired either on the basis of a public offer to all ordinary

shareholders or on the basis of an invitation to all ordinary shareholders to submit offers to sell in accordance with the principle of equal treatment (2) or from individual ordinary shareholders by disapplying the put options of the other ordinary shareholders (3).

- (1) If acquired on the stock exchange, the consideration paid per preference share by the company (not including additional costs of acquisition) must be within 10 % of the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the acquisition date.
- (2) If preference/ordinary shares are acquired on the basis of a public purchase offer to all shareholders of a particular class or a public invitation to submit offers to sell

- in the event of a public purchase offer to all preference/ordinary shareholders, the purchase price offered per share (not including additional costs of acquisition), or
- in the event of a public invitation to all preference/ordinary shareholders to submit offers to sell, the thresholds of the price range stipulated by the company (not including additional costs of acquisition)

must be within 20 % of the average closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange for the last five trading days before the day on which the public purchase offer or the public invitation to submit offers to sell is publicly announced.

If the relevant share price deviates substantially following the publication of a public purchase offer for all preference/ordinary shareholders or the public invitation to all preference/ordinary shareholders to submit offers to sell, the purchase offer or the invitation to submit offers to sell can be adjusted. In the event of this, the average closing prices for the company's shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock

Notes to the Consolidated Balance Sheet

exchange on the third, fourth and fifth trading day before the day of the announcement of the adjustment is taken as a basis.

The volume of the purchase offer or the invitation to submit offers to sell can be adjusted. If, in the case of a public purchase offer or a public invitation to submit offers to sell, the volume of the preference/ordinary shares tendered exceeds the planned buy-back volume, the acquisition can be conducted in the ratio of the issued or offered preference/ordinary shares; the right of preference/ordinary shareholders to tender their preference/ordinary shares in proportion to their ownership interests is excluded in this respect.

Preferential treatment of smaller amounts of up to 100 preference/ordinary shares per preference/ordinary shareholder and commercial rounding to avoid notional fractions of shares can be provided for. Any further put options of preference/ordinary shareholders are therefore precluded.

The public offer to all preference/ordinary shareholders or the invitation to all preference/ordinary shareholders to submit offers to sell can provide for further conditions.

- (3) If ordinary shares are acquired from individual shareholders by disapplying the put options of the other ordinary shareholders, the purchase price must not be more than 5 % higher than the closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) on the Frankfurt stock exchange on the day before the acquisition offer. Acquisition at a price below the relevant price as defined above is possible.
- (b) The Management Board is authorised to use the shares acquired on the basis of the above authorisation under a) or one or more prior authorisations for all legally permitted purposes. The treasury shares can be sold on the stock market or on the basis of an offer to all shareholders, in accordance with the principle of equal treatment, and used for the following purposes in particular:
 - (1) The preference shares can be sold in a way other than on the stock market or on the basis of an offer to all shareholders if the cash purchase price to be paid is not significantly less than shares already listed on the stock market with essentially the same features. The price is not significantly less if the purchase price is not more than 5 % less than the average closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) for the last five trading days before disposal. The number of preference shares sold in this way, together with the number of other shares sold or issued from authorised capital during the term of this authorisation with pre-emption rights disapplied in accordance with section 186(3) sentence 4 AktG, and the number of shares that can arise as a result of exercising options or convertible rights or fulfilling the conversion obligations of options or convertible bonds issued during the term of this authorisation with pre-emption rights disapplied in accordance with section 186(3) sentence 4 AktG must not exceed 10 % of the share capital, neither at the time of this authorisation becoming effective nor being exercised.
 - (2) The treasury preference or ordinary shares can be issued against non-cash consideration, particularly in connection with the acquisition of companies, shares in companies or interests in them and mergers of companies, as well as for the purpose of acquiring other assets including rights and receivables.

- (3) The preference or ordinary shares can be redeemed without the redemption or its execution requiring a further resolution of the General Meeting of Shareholders. They can also be redeemed by way of simplified procedure without a capital reduction by adjusting the notional pro rata amount of share capital of the company attributable to the other shares. If redeemed by way of simplified procedure, the Management Board is authorised to adjust the number of shares in the Articles of Association. Ordinary treasury shares can only be redeemed without the simultaneous redemption of at least a corresponding number of preference treasury shares if the pro rata amount of share capital of the total preference shares outstanding does not exceed half of the share capital as a result.
- (4) The preference shares can be distributed to shareholders as a distribution in kind in addition to or instead of cash distribution.
- (c) All the above authorisations can be utilised individually or collectively, on one or several occasions, in full or in part. The authorisations under a) and b), items (1) and (2) can also be utilised by dependent companies or companies majority owned by Villeroy & Boch AG or by third parties acting on their behalf or on behalf of Villeroy & Boch AG. The above authorisations cannot be utilised for the purposes of trading in treasury shares (section 71(1) no. 8 sentence 2 AktG).
- (d) The Management Board can exercise the above authorisations under a) to c) only with the approval of the Supervisory Board.
- (e) The pre-emption rights of shareholders to treasury shares acquired on the basis of the authorisation in accordance with a) above or one or more prior authorisations are disappplied if they are utilised in accordance with the above authorisations under b), items (1) and (2). Shareholders also have no pre-emption rights if the treasury shares acquired are sold on the stock market in accordance with b). In the event of a disposal of the treasury shares acquired by way of an offer to all shareholders as

per b), the Management Board is authorised to disapply the pre-emption rights of the holders of shares of once class to shares of the respective other class, if the respective offer price is not more than 5 % less than the average closing prices for the company's preference shares on the Xetra trading system (or a similar successor system) on the last five trading days before the offer is announced. If the treasury shares acquired are sold by way of an offer to all shareholders or a distribution in kind in accordance with b) (4), the Management Board is authorised to disapply the pre-emption rights of shareholders for fractional amounts.

18. CAPITAL RESERVES

The capital reserves are unchanged at € 193.6 million.

19. TREASURY SHARES

As in the previous year, the cost for the 1,683,029 preference treasury shares was € 15.0 million. Under IAS 32.33, the total cost of these shares reduces equity. All transactions were performed on the stock market on the basis of the applicable resolutions of the General Meeting of Shareholders and with the approval of the Supervisory Board. There were no share transactions with related parties. Treasury shares are not entitled to dividends. The utilisation of the preference shares held is restricted by the resolutions adopted.

20. RETAINED EARNINGS

The retained earnings of the Villeroy & Boch Group in the amount of € -3.9 million (previous year: € -20.8 million) contain the retained earnings of Villeroy & Boch AG and the proportionate results generated by consolidated subsidiaries since becoming part of the Group.

	In € million	
	2016	2015
As at 1 Jan.	-20.8	-51.5
Consolidated earnings attributable to Villeroy & Boch AG shareholders	29.1	27.3
Dividend distribution	-12.2	-10.9
Currency adjustments	-	14.3
As at 31 Dec.	-3.9	-20.8

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The effects of the currency translation of the financial statements of foreign Group companies are recognised exclusively in the revaluation surplus (see note 21). Accordingly, currency effects of € 14.3 million were reclassified to the revaluation surplus in the previous year (see note 21).

21. REVALUATION SURPLUS

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

In € million			
	2016	2015	Change
Items to be reclassified to profit or loss:			
I Currency translation of financial statements of foreign group companies (a)	-1.6	-2.3	0.7
I Currency translation of long-term loans classified as net investments in foreign group companies (b)	-3.5	-1.6	-1.9
I Cash flow hedges (c)	3.1	0.5	2.6
I Valuation results on securities (d)	0.0	0.0	0.0
I Deferred tax effect on items to be reclassified to profit or loss (e)	-4.5	-3.6	-0.9
Items not to be reclassified to profit or loss:			
I Actuarial gains and losses on defined benefit obligations (f)	-95.8	-81.5	-14.3
I Deferred tax effect on items not to be reclassified to profit or loss (g)	28.2	24.0	4.2
As at 31 Dec.	-74.1	-64.5	-9.6

(a) Reserve for currency translation of financial statements of foreign group companies

Results of group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). The translation of these financial statements resulted in a net effect of € 0.7 million in the 2016 financial year (previous year: € -2.6 million).

(b) Reserve for currency translation of long-term loans classified as net investments in foreign group companies

Within the Villeroy & Boch Group there are loans that finance a net investment in a foreign operation. Loans in foreign currency are measured using the respective closing rate at the end of the reporting period. Currency effects from a loan classified as a net investment are therefore reported in this revaluation surplus. This net change in equity in the period under review amounted to € -1.9 million (previous year: € -0.3 million).

(c) Reserve for cash flow hedges

The Villeroy & Boch Group uses financial derivatives to reduce the risks of planned operating currency and brass transactions (see note 53). These hedges are reported at fair value in the balance sheet as other assets (see note 13) or other liabilities (see note 30). Changes in fair value amounted to € 3.4 million in the period under review (previous year: € 0.5 million). Cumulative prior-period changes in value in the amount of € -0.8 million (previous year: € -1.6 million) were reclassified to profit or loss in the year under review as the hedged item was also recognised in profit or loss at the same time. The net change in equity in the period under review amounted to € 2.6 million (previous year: € -1.1 million).

(d) Reserve for valuation results on securities

The Villeroy & Boch Group recognises listed securities as part of a fund (see note 9(d)), which are classified as “available-for-sale financial assets” in accordance with IAS 39 (see note 53).

(e) Reserve for deferred tax effect on items to be reclassified to profit or loss

As at the end of the reporting period this reserve mainly includes the deferred tax on the recognised cash flow hedge reserve. It developed as follows:

In € million		
	2016	2015
As at 1 Jan.	-3.6	-2.7
Additions	-0.4	-1.9
Disposals	-0.5	1.0
As at 31 Dec.	-4.5	-3.6

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

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

The reserve for actuarial gains and losses on defined benefit plans (see note 26) arises on the remeasurement of benefit obligations as a result of the modification at the end of the reporting period of actuarial parameters, such as the discount rate, the benefit period or the long-term salary trend. In the reporting period, this item changed by € -14.3 million from € -81.5 million to € -95.8 million (see note 26).

(g) Reserve for deferred tax effect on items not to be reclassified to profit or loss

As at the end of the reporting period, this reserve exclusively contained the deferred tax on the reserve for actuarial gains and losses on defined benefit plans. This resulted in a change in net equity in the financial year of € 4.2 million (previous year: € -3.7 million).

22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to € 0.1 million (previous year: € 0.1 million). There are, as in the previous year, non-controlling interests in one group company.

23. DISTRIBUTABLE AMOUNTS AND DIVIDENDS

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

The net profit of Villeroy & Boch AG for 2016 amounted to € 13.8 million. Taking into account the profit carried forward of € 5.1 million, the unappropriated surplus amounts to € 18.9 million.

At the next General Meeting of Shareholders on 24 March 2017, the Supervisory Board and the Management Board of Villeroy & Boch AG will propose that the unappropriated surplus be used to distribute a dividend as follows:

€ 0.48 per ordinary share
€ 0.53 per preference share

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

Ordinary share: € 6.7 million
Preference share: € 7.5 million
€ 14.2 million

If the company still holds treasury shares at the time of the resolution on the appropriation of profits, the dividend payment for the preferred capital will be reduced by the amount attributable to the treasury shares. The amount attributable to treasury shares is to be carried forward to new account. The dividend shown in the table below was paid to the bearers of Villeroy & Boch shares in previous years:

Notes to the Consolidated Balance Sheet

Eligible share class	04/04/2016		30/03/2015	
	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0.44	6.2	0.39	5.5
Preference shares	0.49	6.0	0.44	5.4
		12.2		10.9

24. CAPITAL MANAGEMENT

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

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

	In € million	
	31/12/2016	31/12/2015
Equity	172.6	165.3
Provisions for pensions (note 26)	201.1	192.7
Financial liabilities (note 29)	50.5	50.6
Non-current sources of finance	424.2	408.6

25. VOTING RIGHT NOTIFICATIONS

In accordance with section 160(1) no. 8 of the German Stock Corporation Act (AktG), the published content of disclosures on holdings in Villeroy & Boch AG reported in accordance with section 20(1) or (4) AktG or in accordance with section 21(1) or (1a) of the German Securities Trading Act (WpHG) must be disclosed.

The content of disclosures in accordance with section 21 et seq. WpHG as at the time of going to press is shown below.

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

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

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

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

4) On 13 June 2014, *Baroness Ghislaine de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the thresholds of 3 % and 5 % on 27 February 2014 as a result of inheritance (testator: Baron Antoine de Schorlemer) and amounted to 5.92 % (831,575 voting rights) at this date.

On 13 June 2014, Baroness Ghislaine de Schorlemer, Luxembourg, further informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG returned to below the thresholds of 3 % and 5 % on 28 March 2014 and has amounted to 0 % since this date.

5) On 13 June 2014, Mr. *Christophe de Schorlemer, Luxembourg*, informed us in accordance with section 21(1) WpHG that his share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3 % on 28 March 2014 and amounted to 3.16 % (444,307 voting rights) at this date.

6) On 13 June 2014, Ms. *Gabrielle de Schorlemer-de Theux, Luxembourg*, informed us in accordance with section 21(1) WpHG that her share of the voting rights in Villeroy & Boch AG exceeded the threshold of 3 % on 28 March 2014 and amounted to 3.16 % (444,308 voting rights) at this date.

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

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

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

or more of the voting rights are attributable to him in each case:

- Luitwin Michel von Boch-Galhau
- Siegfried von Boch-Galhau

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

The shareholders listed below notified us in accordance with section 41(2) WpHG that their shares of the voting rights in our company were as follows as at the dates stated below:

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

26. PROVISIONS FOR PENSIONS

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

In € million		
	31/12/2016	31/12/2015
Germany	182.0	173.5
Rest of euro zone	11.8	12.7
Rest of world	7.3	6.5
Provisions for pensions	201.1	192.7

Notes to the Consolidated Balance Sheet

In Germany there are a final salary plan and several earnings points plans. A final salary plan is available in Sweden. In order to cover its pension obligations, the Villeroy & Boch Group uses assets partially managed by external agents.

In the Villeroy & Boch Group, 8,765 people (previous year: 9,154) have a defined benefit pension plan. Their regional distribution is as follows:

Headcount	31/12/2016	31/12/2015
Germany		
I Members	2,280	2,318
I Vested former members	1,243	1,241
I Pensioners	2,714	2,754
Total	6,237	6,313
Rest of euro zone		
I Members	445	459
I Vested former members	17	17
I Pensioners	68	71
Total	530	547
Rest of world		
I Members	1,459	1,857
I Vested former members	265	158
I Pensioners	274	279
Total	1,998	2,294
Persons with a commitment	8,765	9,154

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

	In %			
	2016		2015	
	Ø	Range	Ø	Range
Discount rate	1.3	0.3–7.5	2.0	0.9–6.5
Expected long-term wage and salary trend	2.5	1.3–5.7	2.5	1.0–5.6
Expected long-term pension trend	1.3	0.0–1.3	1.3	1.2–2.0

Average values (Ø) are calculated as a weighted mean on the basis of present values. The discount rate is determined on the basis of senior fixed-interest corporate bonds. The country-specific discount rates range from 0.3 % in Japan to 7.5 % in Mexico. In the previous year, the country-specific discount rates ranged from 0.9 % in Switzerland to 6.5 % in Mexico. A discount rate of 1.25 % (previous year: 2.0 %) is used in Germany. In estimating future salary and pension trends, the length of service with the company and other labour market factors are taken into consideration. The pension obligations for the German companies in the Group are measured using the biometric data of the Heubeck 2005 G mortality tables. Country-specific mortality tables were used in the other group companies.

The pension plans are presented below in summary because, as in the previous year, the majority of these provisions relate to German companies.

The present value of defined benefit obligations can be reconciled to the provision reported in the balance sheet as follows:

	In € million	
	31/12/2016	31/12/2015
Present value of defined benefit obligations	225.7	219.1
Fair value of plan assets	–24.6	–26.4
Carrying amount	201.1	192.7

The present value of pension obligations developed as follows:

In € million		
	2016	2015
As at 1 Jan.	219.1	237.6
Current service cost	2.4	2.4
Interest income and interest expenses	4.2	4.1
Actuarial gains and losses arising from		
I changes in demographic assumptions	-0.1	-
I changes in financial assumptions	15.3	-10.8
I changes in other assumptions	-0.3	-1.6
Past service cost	-	-0.1
Contributions from the Villeroy & Boch Group as employer	0.0	0.0
Contributions from plan participants	0.5	0.5
Benefits paid	-14.8	-13.6
Currency changes arising from non-euro-denominated plans	-0.6	0.6
As at 31 Dec.	225.7	219.1

There were the following changes to plan assets:

In € million		
	2016	2015
As at 1 Jan.	26.4	25.6
Interest income and interest expenses	0.5	0.1
Return on plan assets excluding the above interest	0.0	0.4
Gains and losses from plan assets	0.6	0.3
Contributions from the Villeroy & Boch Group as employer	0.5	0.5
Contributions from plan participants	0.5	0.5
Benefits paid	-3.3	-2.0
Currency changes arising from non-euro-denominated plans	-0.6	1.0
As at 31 Dec.	24.6	26.4

Notes to the Consolidated Balance Sheet

The portfolio structure of plan assets was as follows:

	31/12/2016		31/12/2015	
	in € million	in %	in € million	in %
I Annuities/annuity funds	11.7	48	11.8	45
I Equities/equity funds	6.0	24	6.1	23
I Property/REITs	1.6	7	1.6	6
I Cash and cash equivalents	0.1	0	0.1	0
Investments on an active market	19.4	79	19.6	74
Insurance policies	5.2	21	6.8	26
Plan assets	24.6	100	26.4	100

Risks

The risks associated with defined benefit obligations in the Villeroy & Boch Group essentially relate to the basic actuarial assumptions for the future on the basis of past developments in the calculation of the carrying amount. This present value is influenced by discounting rates in particular, whereby the present low interest rate is contributing to a relatively high pension provision. A continuing decline in returns on the capital market for prime industrial bonds would result in a further rise in obligations. A simulation calculation is presented in the section below “Sensitivities, forecast development and duration”.

There are risks within plan assets, such as equity price risk and issuer default risk, as a result of the selection of the individual investments and their composition in a securities account. Given the small overall volume of plan assets, the Villeroy & Boch Group considers these risks to be appropriate and non-critical overall. The return on plan assets is assumed in the amount of the discounting rates determined on the basis of senior, fixed-rate industrial bonds. If the actual returns on plan assets fall short of the discounting rates used, the net obligation under pension plans will increase.

Sensitivities, forecast development and duration

The sensitivity analysis for the present values of obligations shown below takes into account the change in one assumption while the other variables are not changed compared to the original calculation:

	Change in actuarial assumption	Effect on defined benefit obligation in € million	
		31/12/2016	31/12/2015
Present value of defined benefit obligations		225.7	219.1
	Increase by 0.25 %	218.9	212.7
Discount rate	Reduction by 0.25 %	233.1	225.8
	Increase by 0.25 %	230.8	223.9
Pension trend	Reduction by 0.25 %	220.9	214.5

An alternative valuation of pension obligations was carried out to determine the effects of the amount of pension obligations in the event of changes in the underlying parameters. It is not possible to extrapolate these values on a straight-line basis in the event of differing changes in assumptions, nor to add them together in the event of combinations of changes in individual assumptions.

The following development in the present value of obligations is forecast for the subsequent year:

In determining the forecast pension obligations, the demographic assumptions about the composition of participants are taken from the current scenario. The calculation of pension obligations in the coming year is based on the situation on the valuation date.

The weighted duration of pension provisions in the Villeroy & Boch Group as at 31 December 2016 was 13.0 years (previous year: 12.7 years). The weighted duration for the pension plans of German companies is 12.2 years (previous year: 11.7 years).

	In € million	
	Forecast 2017	Forecast 2016
Defined benefit obligations as at 31 Dec. 2016 or 2015 resp.	225.7	219.1
Forecast service cost	2.5	2.2
Forecast interest costs	3.0	4.3
Forecast pension payments	-13.0	-13.3
Forecast defined benefit obligations	218.2	212.3

Notes to the Consolidated Balance Sheet

27. NON-CURRENT AND CURRENT PROVISIONS FOR PERSONNEL

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

In € million							
	Non-current provisions for:					Current provisions	Total amount
	Anniversary bonuses	Partial retirement	Severance pay	Other	Total		
As at 1 Jan. 2015	6.7	3.9	4.1	0.9	15.6	13.4	29.0
Currency adjustments	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Utilisation	-0.6	-2.6	-0.3	-0.1	-3.6	-13.7	-17.3
Reversals	-0.1	-	-	-	-0.1	-0.4	-0.5
Additions	0.8	2.1	1.5	0.0	4.4	15.7	20.1
As at 1 Jan. 2016	6.8	3.4	5.3	0.8	16.3	14.9	31.2
Currency adjustments	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Utilisation	-0.6	-1.8	-0.3	0.0	-2.7	-13.7	-16.4
Reversals	0.0	-	-	-	0.0	-0.7	-0.7
Additions	0.9	3.4	0.7	0.1	5.1	17.3	22.4
As at 31 Dec. 2016	7.1	5.0	5.8	0.9	18.8	17.8	36.6

Provisions for anniversary bonuses are recognised by Group companies that have undertaken to pay their employees corresponding cash or non-cash benefits on the occasion of work anniversaries. Villeroy & Boch AG accounted for 70.1 % (previous year: 72.6 %) of this provision.

Under the partial retirement programme, employees in Germany have the option to reduce their working hours in accordance with certain personal requirements for a period determined by law prior to retirement.

The provisions for severance pay are recognised for termination benefits prescribed by law. These are generally non-recurring payments for employees in Thailand, Austria, Italy, Australia, Rumania and India.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of € 14.2 million (previous year: € 13.4 million).

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

28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

In € million							Total amount
	Other non-current provisions	Other current provisions for:				Total	
		Warranties	Legal and consultancy fees	Other taxes	Miscellaneous		
As at 1 Jan. 2015	1.3	5.8	1.6	0.6	11.4	19.4	20.7
Currency adjustments	0.0	0.1	-0.1	0.0	-0.1	-0.1	-0.1
Utilisation	-0.4	-0.2	-3.2	-0.9	-4.9	-9.2	-9.6
Reversals	0.0	-0.1	-0.2	0.0	-1.1	-1.4	-1.4
Additions	0.7	1.5	3.5	1.7	3.9	10.6	11.3
Reclassifications	0.8	-	-	-	-1.3	-1.3	-0.5
As at 1 Jan. 2016	2.4	7.1	1.6	1.4	7.9	18.0	20.4
Currency adjustments	-0.1	0.0	0.0	-0.1	0.0	-0.1	-0.2
Utilisation	-0.5	-1.0	-0.6	-1.2	-2.3	-5.1	-5.6
Reversals	0.0	-	-0.2	-	-1.0	-1.2	-1.2
Additions	12.9	0.7	0.9	1.0	7.1	9.7	22.6
Reclassifications	1.5	-	0.0	-	-1.5	-1.5	0.0
As at 31 Dec. 2016	16.2	6.8	1.7	1.1	10.2	19.8	36.0

Non-current provisions relate in particular to contractually agreed demolition, dismantling and renovation obligations at the site of our former tableware plant in Luxembourg (see note 7) as well as other environmental and renovation obligations, obligations to remove leasehold improvements and recultivation obligations.

The provision for warranties was measured on the basis of past division-specific data. In addition, current information on any new risks in connection with new materials, changes in production processes or other factors influencing quality were also taken into account in measurement.

Miscellaneous other provisions included provisions for commission, audit costs and a large number of individual items.

29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities in the amount of € 50.0 million relate to banks domiciled in Germany. For one loan agreement, a special right of termination in the event of a change of control at Villeroy & Boch AG was agreed for the lending bank. Current financial liabilities in the amount of € 0.5 million (previous year: € 0.6 million) primarily comprise accrued interest not yet due. Net receivables from and liabilities to banks amounted to € 14.6 million (previous year: € 17.4 million). The requirements for offsetting have been met and it is intended to settle them on a net basis.

Notes to the Consolidated Balance Sheet

30. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

	In € million					
	Carrying amount 31/12/2016	Remaining term		Carrying amount 31/12/2015	Remaining term	
		Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
Bonus liabilities	42.6	42.6	–	40.3	40.3	–
Fair values of hedging instruments	0.9	0.9	0.0	1.9	1.1	0.8
Advance payments received on account of orders	5.5	5.5	–	3.9	3.9	–
Miscellaneous other liabilities	3.8	2.4	1.4	4.3	3.0	1.3
Total financial instruments within meaning of IAS 39*	52.8	51.4	1.4	50.4	48.3	2.1
Personnel liabilities	19.4	19.1	0.3	20.7	20.5	0.2
Other tax liabilities	11.3	11.3	–	11.7	11.7	–
Deferred income	3.3	0.9	2.4	1.9	0.9	1.0
Total carrying amount	86.8	82.7	4.1	84.7	81.4	3.3

* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) relates solely to currencies in the amount of € 0.9 million (previous year: € 1.1 million). In the previous year, this item also contained changes in the market value of commodities in the amount of € 0.8 million.

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

Other tax liabilities primarily included VAT in the amount of € 6.6 million (previous year: € 6.6 million) and payroll and church tax in the amount of € 3.9 million (previous year: € 3.8 million).

Deferred income mainly consisted of compensation for a long-term rental agreement with the City of Luxembourg (see note 7), the free allocation of emission allowances (see note 5), government grants for property, plant and equipment (see note 6) and rent payments received.

31. TRADE PAYABLES

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

	In € million	
	31/12/2016	31/12/2015
Germany	37.8	35.6
Rest of euro zone	10.3	7.9
Rest of world	29.1	34.3
Carrying amount as at 31 Dec.	77.2	77.8

NOTES TO THE CONSOLIDATED INCOME STATEMENT

32. REVENUE

The Villeroy & Boch Group generates revenue from the sale of goods and merchandise. Revenue development is presented in segment reporting.

33. COST OF SALES

Cost of sales comprises the cost of the products and merchandise sold. In accordance with IAS 2, this includes not only directly allocable costs such as the cost of materials, staff costs and energy costs, but also overheads and allocable depreciation of production facilities.

34. SELLING, MARKETING AND DEVELOPMENT COSTS

This item contains the costs of marketing and distribution, the field sales force and advertising and logistics, license costs and research and development expenses.

The expenses for research and technical development broke down into:

In € million		
	2016	2015
Bathroom and Wellness	-11.7	-11.9
Tableware	-3.5	-3.7
Total	-15.2	-15.6

35. GENERAL ADMINISTRATIVE EXPENSES

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

36. OTHER OPERATING INCOME

Other operating income is composed as follows:

In € million		
	2016	2015
License income	5.8	6.3
Exchange rate gains	5.7	5.3
Income from property transactions	1.7	1.4
Reversal of provisions*	1.7	1.4
Reversal of liabilities	1.3	1.4
Reversal of write-downs on receivables	0.4	0.9
Book profits on the disposal of non-current assets	0.3	0.5
Other	3.5	3.0
Total	20.4	20.2

* not including amounts in other statement of consolidated income items

The line "Income from property transactions" includes the net result already generated in the 2016 financial year from the sale of the former Swedish plant property (see "Results of operations" in the management report) of € 1.7 million (previous year: € 1.4 million).

Miscellaneous other operating income includes a number of individual items.

37. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

In € million		
	2016	2015
Reorganisation costs	-4.1	-1.6
Consulting services	-2.5	-2.3
Addition to write-downs on receivables	-1.8	-1.8
Exchange rate losses	-1.7	-5.1
Book losses on the disposal of non-current assets	-1.1	-0.9
Customs claim	-	-2.8
Other	-10.1	-8.0
Total	-21.3	-22.5

Notes to the Consolidated Income Statement

The additions to write-downs on receivables relate to trade receivables (see note 12) and other receivables.

Miscellaneous other operating expenses include a number of individual items.

38. RESULTS OF FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD

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

39. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consisted of:

In € million		
	2016	2015
Interest income from:		
I Cash and cash equivalents	1.1	1.2
I Loans and receivables	0.2	0.3
I Held-to-maturity investments	–	–
Total interest income	1.3	1.5
Dividends from securities available-for-sale	0.1	0.1
Total financial income	1.4	1.6

40. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Finance costs related to:

In € million		
	2016	2015
Interest expenses from:		
I Provisions	–4.4	–3.9
I Overdraft facilities	–1.7	–1.4
I Non-current loans	–1.3	–1.2
I Other borrowing	–0.0	–0.6
Total interest expenses	–7.4	–7.1
Other finance costs	–0.0	–0.1
Total finance costs	–7.4	–7.2

The interest expense on provisions increased by € –0.5 million in the 2016 financial year, from € –3.9 million to € –4.4 million. In the reporting period, the amount of interest expenses on pension plans was affected by the change in interest rates from 1.75 % to 2.0 % in 2015. The interest expenses for pension obligations for the current year were calculated using the discounting rate from the previous year. The current reduction in interest rates for pensions from 2.00 % to 1.3 % at Group level and 1.25 % at the German companies will therefore not affect the income statement until 2017.

41. INCOMETAXES

Income taxes include the taxes on income paid or due and deferred taxes. Villeroy & Boch Group companies in Germany are subject to an average trade tax rate of 13.67 % of the trade earnings. The corporate income tax rate is 15 % plus a solidarity surcharge of 5.5 % of the corporate income tax. Rates vary between 10.0 % and 36.84 % for the other countries.

In € million		
	2016	2015
Taxes paid or due in Germany	–7.9	–3.1
Taxes paid or due outside Germany	–5.9	–5.6
Current taxes	–13.8	–8.7
Deferred taxes	1.3	–1.9
Income taxes	–12.5	–10.6

The expected income tax expense (current and deferred) based on the overall German tax rate of 29.5 % differs from the reported income tax expense as follows:

In € million		
	2016	2015
Earnings before taxes (EBT)	41.6	37.9
Expected income tax (EBT x tax rate of 29.5 %)	-12.3	-11.2
Differences arising from foreign tax rates	1.1	1.9
Tax effects arising from:		
I Non-deductible expenses	-1.8	-2.4
I Adjustment/write-downs on deferred taxes	-1.4	-0.8
I Tax-free income	1.8	0.5
I Other deferred taxes	0.1	1.4
Actual income tax expense	-12.5	-10.6
Actual tax rate in %	30.0	28.0

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

In € million		
	2016	2015
Change in statement of financial position item:		
I Deferred tax assets (note 10)	0.3	-6.3
I Deferred tax liabilities (note 10)	-5.9	-0.4
Sub-total	-5.6	-6.7
I Pass to other comprehensive income (note 21(e))	5.5	4.6
I Currency adjustments	1.4	0.2
Deferred taxes recognised in income statement	1.3	-1.9

42. MINORITY INTERESTS

Non-controlling interests in consolidated earnings amounted to € 0.0 million (previous year: € 0.0 million).

43. EARNINGS PER SHARE

Earnings per share are calculated by dividing the consolidated net income for the year by the weighted number of shares outstanding:

	31/12/2016	31/12/2015
Ordinary shares		
Number of shares outstanding	14,044,800	14,044,800
Pro rata consolidated net income (in € million) *	15.1	14.2
Earnings per share (in €) *	1.08	1.01
Preference shares		
Number of shares outstanding	12,361,771	12,361,771
Pro rata consolidated net income (in € million) *	14.0	13.1
Earnings per share (in €) *	1.13	1.06

* each in relation to the shares outstanding

Consolidated net income is allocated in accordance with the appropriation of earnings set out in the Articles of Association (see note 17). The development in treasury shares is described in note 19. There were no dilution effects during the reporting periods.

Notes to the Consolidated Income Statement

44. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

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

In € million		
	2016	2015
Amortisation of intangible assets	-0.8	-0.6
Impairment losses on intangible assets	-0.1	-
Depreciation of property, plant and equipment	-25.7	-26.1
Impairment losses on property, plant and equipment	-	-
Depreciation of investment property	-0.8	-0.8
Impairment losses on financial assets	-0.4	-
Total depreciation, amortisation and impairments	-27.8	-27.5

45. COST OF MATERIALS

The cost of materials comprised the following:

In € million		
	2016	2015
Cost of raw materials and supplies (including primary products)	-129.0	-118.2
Cost of purchased goods	-117.7	-111.7
	-246.7	-229.9
Cost of purchased services	-37.1	-37.5
Total cost of materials	-283.8	-267.4

46. PERSONNEL EXPENSES

Personnel expenses were composed as follows:

In € million		
	2016	2015
Wages and salaries	-221.2	-219.9
Post-employment benefits:		
I Expenses for defined benefit plans (see note 26)	-2.4	-2.3
I Expenses for defined contribution plans	-17.2	-17.1
Termination benefits	-6.2	-3.0
Other services	-33.7	-33.8
Total personnel expenses	-280.7	-276.1

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

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

Average number of employees

NUMBER OF EMPLOYEES		
	2016	2015
Wage earners	4,070	4,082
Salaried employees	3,627	3,591
Average	7,697	7,673

Of the workforce as a whole, a total of 2,586 people are employed in Germany (previous year: 2,569), with the remaining 5,111 employed outside Germany (previous year: 5,104).

NUMBER OF EMPLOYEES

	2016	2015
Bathroom and Wellness	4,926	4,922
Tableware	2,264	2,264
Other	507	487
Average	7,697	7,673

47. OTHER TAXES

The cost of other taxes was € -3.9 million in the reporting period (previous year: € -4.3 million). Companies based in Germany accounted for € -0.8 million (previous year: € -1.1 million) and Group companies abroad for € -3.1 million (previous year: € -3.2 million).

“Other taxes” include mainly real estate tax expenses of € -1.8 million (previous year: € -1.8 million), expenses for the French “contribution économique territoriale” of € -0.7 million (previous year: € -0.5 million) and the French “taxe organique” of € -0.1 million (previous year: € -0.1 million).

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**48. CASH FLOW FROM OPERATING ACTIVITIES**

Cash flow from operating activities is calculated by using the indirect method. Here, the group result after taxes is adjusted for non-cash income and expenses, such as depreciation and amortisation, and changes in operating assets affecting cash are taken into account.

The net cash flow from operating activities amounted to € 77.9 million, up € 43.8 million on the previous year. This substantial improvement was due in particular to the measures aimed at optimising our working capital. Inventories were reduced by € 9.9 million in the year under review following an increase of € 11.7 million in the previous year. At the same time, trade receivables declined by € 3.9 million despite the revenue growth of € 16.3 million.

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

	In € million	
	2016	2015
Expenses/income from deferred taxes	10.1	4.7
Interest from the provision for pensions and similar obligations	4.4	3.9
Additions to tax provisions	-2.7	1.9
Income from property	-1.7	-1.4
Other non-cash items	-0.3	0.1
Total	9.8	9.2

49. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities changed by € 4.0 million as against the previous year to € -19.9 million (previous year: € -23.9 million). At € 26.2 million, investments in intangible assets and property, plant and equipment were € 2.9 million lower in the 2016 financial year than in the previous year (€ 29.1 million). In the past financial year, the Villeroy & Boch Group recorded cash receipts from disposal of fixed assets in the amount of € 4.7 million and cash receipts from property disposals in Gustavsberg in the amount of € 2.1 million. This represents a slight increase of € 0.7 million compared with the previous year (€ 6.1 million).

50. CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to € -12.3 million (previous year: € -11.4 million). The cash outflow in the reporting year, as in the previous year, was mainly due to the payment of the dividend for the respective financial year.

51. CASH AND CASH EQUIVALENTS

As at the end of the reporting period, cash and cash equivalents amounted to € 111.2 million (previous year: € 65.6 million), an increase of € 45.6 million as against the previous year. This was due primarily to positive effects in our operating activities.

Notes to the Consolidated Income Statement
 Notes to the Consolidated Cash Flow Statement
 Notes to the Group Segment Report

NOTES TO THE GROUP SEGMENT REPORT

52. GROUP SEGMENT REPORT

The Villeroy & Boch Group is divided into the operating divisions described below, which bundle the Group activities for our product business. The divisions are consistent with the internal organisational and reporting structure and are the reportable segments as defined by IFRS 8.

The *Bathroom and Wellness* Division manufactures ceramic sanitary ware, ceramic kitchen sinks, bathroom furniture, bathtubs and shower tubs, whirlpools, fittings and accessories. The product range is rounded off by sauna and spa facilities, kitchen fittings and accessories, among other things.

The *Tableware* Division covers the complete assortment of tableware, crystal and cutlery, supplemented by accessories, kitchen and tableware textiles as well as a selection of gift articles.

In addition to net revenues, the operating result of the divisions is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the divisions' earnings power. Furthermore, the rolling operating return on net assets is also used to measure the earnings power of the Group and the individual divisions. This is calculated from the operating net assets as at the end of the month as an average of the last twelve months in relation to earnings before interest and taxes (before central function expenses). Group financing and income taxes are managed on a Group-wide basis and are not allocated to the individual divisions. Pricing for inter-division transfers is based on standard market conditions.

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

In € million						
	Revenue from external customers		Intersegment revenue		Total	
	2016	2015	2016	2015	2016	2015
Bathroom and Wellness	524.4	496.9	0.0	0.0	524.4	496.9
Tableware	295.7	306.9	0.0	0.0	295.7	306.9
Total segment revenue	820.1	803.8	0.0	0.0	820.1	803.8
Eliminations	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated revenue	820.1	803.8	0.0	0.0	820.1	803.8

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

In € million		
	31/12/2016	31/12/2015
Bathroom and Wellness	36.2	32.8
Tableware	9.7	9.3
Real estate income from Gustavsberg	1.7	1.4
Operating result (EBIT)	47.6	43.5
Net finance cost (see notes 39 and 40)	-6.0	-5.6
Earnings before taxes	41.6	37.9
Income taxes (see note 41)	-12.5	-10.6
Group result	29.1	27.3

The following assets and liabilities were assigned to the divisions:

In € million						
	Assets		Liabilities		Net assets	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Bathroom and Wellness	329.5	339.4	141.4	139.5	188.1	199.9
Tableware	125.1	134.9	49.5	43.0	75.6	91.9
Reconciliation	221.7	162.3	312.8	288.8	-91.1	-126.5
Total	676.3	636.6	503.7	471.3	172.6	165.3

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

In € million						
	Rolling assets		Rolling liabilities		Rolling net assets	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Bathroom and Wellness	333.8	333.9	125.2	118.6	208.6	215.3
Tableware	126.9	136.9	43.0	41.6	83.9	95.3
Total	460.7	470.8	168.2	160.2	292.5	310.6

Notes to the Group Segment Report

Segment assets include intangible assets, property, plant and equipment, inventories, trade receivables and other assets. Segment liabilities include provisions, trade payables and other liabilities. Reconciliation includes primarily financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities.

Other segment information:

	In € million			
	Additions to intangible assets and property, plant and equipment		Depreciation and amortisation	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Bathroom and Wellness	19.1	21.7	-18.6	-18.2
Tableware	7.1	7.4	-8.7	-9.3
Total	26.2	29.1	-27.3	-27.5

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual divisions. The Tableware Division reported impairment losses of € 0.1 million (see note 5). Other financial assets are impaired by € 0.4 million (see note 9).

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

	In € million			
	External revenue		Non-current assets*	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
German companies	415.9	402.8	73.7	73.3
Rest of euro zone	147.0	144.3	26.4	25.4
Rest of world	257.2	256.7	106.0	108.9
Total	820.1	803.8	206.1	207.6

* in accordance with IFRS 8.33 (b)

OTHER NOTES

53. FINANCIAL INSTRUMENTS

The recognition of primary and derivative financial instruments is based on their allocation to the four measurement categories defined in IAS 39. The following categories were used in the Villeroy & Boch Group in the reporting period:

- “*Loans and receivables*” and “*liabilities*” are carried at amortised cost. This category only contains primary financial instruments such as trade receivables or trade payables.
- The “*available-for-sale financial assets*” category contains investments in third-party companies, debt instruments and investment fund shares. Listed assets are carried at fair value. Changes in value are taken to equity and are reported in profit or loss upon realization of the bond. All other assets are measured at amortised costs.
- In the “*hedges*” category, the Villeroy & Boch Group uses financial derivatives exclusively to reduce the risks of planned operating transactions (*cash flow hedge*). These are recognised in the balance sheet at fair value. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge. Changes in fair value that prove effective in accordance with IAS 39 are reported outside profit or loss. Effectiveness means that any change in the market value of the hedge will be offset by an opposing change in the fair value of the hedging instrument. The cumulative changes in value taken to equity are later reported in profit or loss in the period in which the hedged item is recognised in the income statement. Ineffective portions of the change in fair value are taken directly to profit or loss when they arise.

List of financial instruments

The Villeroy & Boch consolidated balance sheet contains the following financial instruments:

In € million									
Amounts measured under IAS 39									
	Carrying amount as at 31 Dec. 2016	Amounts not measured under IAS 39	Nominal value	Amortised cost		Fair value		Carrying amount as at 31 Dec. 2016	Fair value as at 31 Dec. 2016
			Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow hedges		
Cash and cash equivalents (note 15)	111.2	–	111.2	–	–	–	–	111.2	111.2
Trade receivables (note 12)	116.0	–	–	116.0	–	–	–	116.0	116.0
Other financial assets (note 9)	10.1	–	–	6.5	2.1	1.5	–	10.1	10.1
Other assets (note 13)	42.7	12.8	–	25.9	–	–	4.0	29.9	29.9
			111.2	148.4	2.1	1.5	4.0	267.2	267.2
Other assets not recognised under IAS 39 (a)								12.8	–
Non-current assets – not including other financial assets (note 9)								204.3	–
Inventories (see note 11)								141.4	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								50.1	–
Assets held for sale (see note 16)								0.5	–
Total assets								676.3	–

In € million						
	Carrying amount as at 31 Dec. 2016	Amounts not measured under IAS 39	Amounts measured under IAS 39			
			Amortised cost		Fair value	
			Liabilities	Cash flow hedges	Carrying amount as at 31 Dec. 2016	Fair value as at 31 Dec. 2016
Trade payables (note 31)	77.2	–	77.2	–	77.2	77.2
Financial liabilities (note 29)	50.5	–	50.5	–	50.5	50.5
Other liabilities (note 30)	86.6	34.0	51.9	0.9	52.8	52.8
			179.6	0.9	180.5	180.5
Other liabilities not recognised under IAS 39 (b)					34.0	–
Equity					172.6	–
Current and non-current provisions (c)					273.7	–
Deferred tax liabilities (see note 10) and income tax liabilities					15.5	–
Total equity and liabilities					676.3	–

- (a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).
- (b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).
- (c) The current and non-current provisions include provisions for pensions (see note 26), provisions for personnel (see note 27) and other provisions (see note 28).

Other Notes

The following financial instruments were included in the balance sheet in the previous year:

In € million									
Amounts measured under IAS 39									
	Carrying amount as at 31 Dec. 2015	Amounts not measured under IAS 39	Nominal value		Amortised cost		Fair value		
			Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow hedges	Carrying amount as at 31 Dec. 2015	Fair value as at 31 Dec. 2015
Cash and cash equivalents (note 15)	65.6	–	65.6	–	–	–	–	65.6	65.5
Trade receivables (note 12)	119.9	–	–	119.9	–	–	–	119.9	119.9
Other financial assets (note 9)	12.8	–	–	8.9	2.5	1.4	–	12.8	12.8
Other assets (note 13)	25.6	12.4	–	10.8	–	–	2.4	13.2	13.2
			65.6	139.6	2.5	1.4	2.4	211.5	211.5
Other assets not recognised under IAS 39 (a)								12.4	–
Non-current assets – not including other financial assets (note 9)								211.2	–
Inventories (see note 11)								151.3	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								49.8	–
Assets held for sale (see note 16)								0.4	–
Total assets								636.6	–

In € million						
	Carrying amount as at 31 Dec. 2015	Amounts not measured under IAS 39	Amounts measured under IAS 39			
			Amortised cost		Fair value	
			Liabilities	Cash flow hedges	Carrying amount as at 31 Dec. 2015	Fair value as at 31 Dec. 2015
Trade payables (note 31)	77.8	–	77.8	–	77.8	77.8
Financial liabilities (note 29)	50.6	–	50.6	–	50.6	50.6
Other liabilities (note 30)	84.7	34.3	48.5	1.9	50.4	50.4
			176.9	1.9	178.8	178.8
Other liabilities not recognised under IAS 39 (b)					34.3	–
Equity					165.3	–
Current and non-current provisions (c)					244.3	–
Deferred tax liabilities (see note 10) and income tax liabilities					13.9	–
Total equity and liabilities					636.6	–

- (a) The other assets not recognised under IAS 39 are tax receivables and prepaid expenses (see note 13).
- (b) The other liabilities not recognised under IAS 39 are personnel liabilities, other tax liabilities and deferred income (see note 30).
- (c) The current and non-current provisions include provisions for pensions (see note 26), provisions of personnel (see note 27) and other provisions (see note 28).

Owing to the short maturities of cash and cash equivalents, trade receivables, other receivables, trade payables and other liabilities, it is assumed that the fair values are the carrying amounts. The fair values of other receivables and held-to-maturity investments are calculated as the present values of future expected payments. Standard, matched maturity interest rates are used for discounting. The fair values of currency forwards and foreign currency positions are determined using market prices as at the end of the reporting period.

Basis of fair value measurement

As in the previous year, the fair values of recognised financial instruments are calculated, in the case of hedge transactions, on the basis of market prices of the parameters on which the derivatives are based, such as current and forward rates, and yield curves. The fair values of the listed securities of the Villeroy & Boch support fund are determined using market prices as at the reporting date (see note 9(d)).

Management of financial instruments

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

Management of exchange rate risks

Exchange rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in exchange rates. The Villeroy & Boch Group uses currency futures to hedge these risks. The procedure for hedging exchange rate fluctuations is described in the management report under “Management of exchange rate risks”. The following currency futures will be carried out after the balance sheet date 31 December 2016:

	In € million			
	Assets as at end of reporting period		Liabilities as at end of reporting period	
	Transaction volume	Changes in fair value	Transaction volume	Changes in fair value
Within the next three months	16.2	0.4	9.3	0.3
In three to six months	19.5	0.8	8.1	0.2
In six to twelve months	31.3	0.8	15.4	0.4
After twelve months	25.9	0.7	13.4	0.0
Total	92.9	2.7	46.2	0.9

As at the reporting date, around 30 % of planned foreign currency revenues in various currencies were still unhedged. This essentially relates to the foreign currencies Russian rouble (RUB), pound (GBP) and Norwegian krone (NOK). In the event of a change in the respective exchange rates of +/-10 % and assuming that all other variables remained constant, the carrying amounts at 31 December 2016 would have been € 2.6 million higher/lower (previous year: € 2.6 million). As in the previous year, these two scenarios would have had no effect on the income statement.

Management of commodity price risks

Commodity price risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market prices. The hedging strategy of the Villeroy & Boch Group is described in the management report under “Management of other price change risks”. The following cash flows from the brass commodity swaps in place are due after the balance sheet date 31 December 2016:

In € million		
	Assets as at end of reporting period	
	Transaction volume	Changes in fair value
Within the next three months	0.8	0.2
In three to six months	0.8	0.2
In six to twelve months	1.6	0.4
After twelve months	2.0	0.5
Total	5.2	1.3

As at the reporting date and on the basis of production planning for the 2017 financial year, there is an unhedged brass position totalling 1,068 tonnes (previous year: 1,380 tonnes). In the event of a change in brass prices of +/-10 % and assuming that all other variables remained constant, the carrying amounts at 31 December 2016 would have been € 0.4 million higher/lower (previous year: € 0.4 million). As in the previous year, these two scenarios would have had no effect on the income statement in 2016. General procurement market risk is explained in the management report.

Management of interest rate risks

Interest rate risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market interest rates. The management method used is described in the management report under “Management of interest rate risks”.

The Villeroy & Boch Group is exposed to market fluctuations arising from its existing interest positions. According to a sensitivity analysis before tax effects, in the event of a theoretical change in interest rates in the 2016 financial year of +/-50 bp and assuming all other variables remained constant, the net finance cost would have been € 0.2 million higher/lower (previous year: € 0.1 million).

Management of default and credit risks

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

Management of liquidity risks

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

Other Notes

In € million					
	Carrying amount as at 31 Dec.	Cash outflow expected in the following time bands			
		Gross	Within three months	Between three months and one year	Between one and five years
Trade payables	77.8	77.8	77.8	–	–
Current and non-current financial liabilities (a)	50.6	71.7	17.4	1.0	53.3
Other liabilities	48.5	48.6	45.9	1.2	1.5
Cash flow hedge liabilities (b)	1.9	62.9	16.0	45.6	1.3
Total as at 31 Dec. 2015	178.8	261.0	157.1	47.8	56.1
Trade payables	77.2	77.2	77.2	–	–
Non-current and current financial liabilities (a)	50.5	68.0	14.6	1.0	52.4
Other liabilities	51.9	46.5	44.1	1.0	1.4
Cash flow hedge liabilities (b)	0.9	46.2	9.3	23.5	13.4
Total as at 31 Dec. 2016	180.5	237.9	145.2	25.5	67.2

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 3.3 million (previous year: € 4.3 million) that will not be incurred until after 31 December 2016.

(b) The transaction volume of cash flow hedge liabilities in the amount of € 46.2 million (previous year: € 62.9 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 0.9 million (previous year: € 1.9 million) is forecast, equal to the balance sheet item. € 0.3 million of this will be settled in the next three months (previous year: € 0.5 million).

In liquidity planning, recognised liabilities are carried at their payment amount on maturity. This takes into account future interest not shown in the balance sheet as at the end of the reporting period as it is not incurred until later financial years.

Net income from financial instruments

In the reporting year the Villeroy & Boch Group generated a net result of € 0.3 million (previous year: € -2.9 million) from the use of primary and derivative financial instruments.

The increase was due mainly to the hedges newly concluded in the year under review (see note 21c).

54. CONTINGENT LIABILITIES AND COMMITMENTS

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

In € million		
	31/12/2016	31/12/2015
Guarantees	34.0	31.5
Trustee obligations	0.1	0.1

The maximum guarantee commitments assumed that can be claimed from the Villeroy & Boch Group are shown. Guarantees were essentially provided by Villeroy & Boch AG to the benefit of banks and lessors.

55. OTHER FINANCIAL OBLIGATIONS

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

	In € million	
	31/12/2016	31/12/2015
Obligations arising from orders placed:		
■ for investments in intangible assets	0.1	0.1
■ for investments in property, plant and equipment	5.5	2.7

91.6 % of the obligations to acquire property, plant and equipment in the amount of € 5.5 million related to Villeroy & Boch AG, followed by Ucosan B.V. (4.6 %) and Villeroy & Boch Gustavsberg AB (1.7 %). In the previous year, 74.5 % related to Villeroy Boch AG, followed by Ucosan B.V. (10.6 %) and Vilbomex S.A. de C.V. (10.3 %).

56. RELATED PARTY DISCLOSURES

Related company disclosures

In the course of our operating activities, we purchase materials, inventories and services from a large number of business partners around the world. This includes business partners in which the Villeroy & Boch Group holds equity interests and some that have relationships with companies or members of the executive bodies of Villeroy & Boch AG. All transactions are conducted at arm's-length conditions.

Villeroy & Boch AG, Germany, is the ultimate controlling entity of the Villeroy & Boch Group. Transactions between Villeroy & Boch AG and its subsidiaries and between individual subsidiaries primarily relate to the exchange of work in process, finished goods and merchandise and services. These transactions were eliminated in accordance with the consolidation principles (see note 3) and are not discussed in this section.

The Villeroy & Boch Group accounts for two companies using the equity method (see note 8). The V&B Lifestyle India Private Limited was founded in 2013 for the sale and distribution of the tableware products in India. It has three sales

offices as at the end of the reporting period (previous year: four). There are only minor delivery and service relations at the moment from the point of view of the Villeroy & Boch Group. No goods or services were provided to or by the German company accounted for using the equity method. From the perspective of the Villeroy & Boch Group, the volume of financial assets and liabilities attributable to associated companies was immaterial.

Rödl System Integration GmbH, Nuremberg, was classified as a related party until 31 December 2015. The Villeroy & Boch Group sold all of its shares in the company effective 31 December 2015.

There were no other significant transactions with related companies in the period under review. All transactions are conducted at arm's-length conditions.

Related person disclosures

The Group's related persons include shareholders able to significantly influence Villeroy & Boch AG, persons in key positions and relatives of these persons.

Members of the Supervisory Board and the Management Board are considered persons in key positions. The following table lists all remuneration of this group of persons:

	In € million	
	2016	2015
Current employee benefits	4.1	3.8
Post-employment benefits	1.9	1.9
Termination benefits	–	–
Total	6.0	5.7

Relatives of this group of persons employed within the Villeroy & Boch Group receive the compensation based on their position/function paid independently of the identity of the person in that position.

There were no other significant transactions with related persons in the period under review. All transactions are conducted at arm's-length conditions.

57. REMUNERATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board remuneration

In accordance with the Articles of Association of Villeroy & Boch AG, the members of the Supervisory Board are entitled to claim reimbursement for the expenses incurred as a result of their work. They also receive fixed basic remuneration and a variable remuneration component.

By way of resolution of the General Meeting of Shareholders on 1 April 2016, the fixed annual basic remuneration was increased by € 4,000 to € 24,000. The Chairman receives an additional € 53,000 (€ +8,000), while the Deputy Chairman receives an additional € 16,500 (€ +3,000). Members of the Supervisory Board receive a fee of € 1,500 for each meeting of the full Supervisory Board (€ +250).

The Chairman of the Audit Committee receives € 10,000 p. a. (€ +6,000) and the Chairmen of the Investment Committee and the Human Resources Committee each receive € 4,000 p. a. (unchanged) in addition to their basic remuneration, while the members of the respective committees each receive an additional € 2,500 p. a. (unchanged).

The members of the Supervisory Board receive variable remuneration of an additional € 195 for each cent per share by which the dividend payable to shareholders exceeds 10.5 cents. The shareholder dividend is calculated as the average of the dividends paid for one preference share or one ordinary share.

The aforementioned remuneration is paid together with any value added tax incurred. Members are only entitled to receive remuneration on a pro rata basis for their term of office.

The members of the Supervisory Board of Villeroy & Boch AG received the following remuneration for performing their duties in the financial year:

	In € thousand				Previous year
	Fixed remuneration	Meeting fees	Variable remuneration for 2015	Total	
Wendelin von Boch-Galhau ^{2*), 3*)}	82	9	7	98	85
Peter Prinz Wittgenstein ^{1*), 2), 3)}	52	7	7	66	55
Ralf Runge ⁴⁾	39	7	7	53	46
Werner Jäger ^{1), 4)}	26	9	7	42	35
Dietmar Langenfeld ^{2), 4)}	26	9	7	42	35
Yves Elsen ¹⁾	26	9	7	42	35
Francesco Grioli ^{3), 4)}	26	7	7	40	34
Dr Alexander von Boch-Galhau	23	9	7	39	32
Dietmar Geuskens ⁴⁾	23	7	7	37	32
Christina Rosenberg	23	7	7	37	32
Dominique Villeroy de Galhau (since 10/2015)	23	7	2	32	6
Bernhard Thömmes (until 11/2016)	21	9	7	37	32
François Villeroy de Galhau (until 10/2015)	–	–	5	5	31
Rounding	–	–	–	–	1
Total	390	96	84	570	491

1) Audit Committee

2) Investment Committee

3) Human Resources Committee

4) Remuneration is deducted in accordance with DGB guidelines for the deduction of supervisory board remuneration.

* Chairman of the respective committees

A total expense of € 808 thousand was reported in consolidated earnings for the 2016 financial year (previous year: € 649 thousand). In addition to the fixed remuneration paid and the meeting fees for 2016, this figure includes € 89 thousand (previous year: € 75 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 65 thousand (previous year: € 69 thousand) as well as insurance premiums in the amount of € 168 thousand (previous year: € 89 thousand).

Management Board remuneration

An expense of € 2,898 thousand (previous year: € 2,796 thousand) is reported in the income statement for the 2016 financial year. This figure is composed of fixed (€ 1,533 thousand; previous year: € 1,481 thousand) and variable salary components (€ 1,365 thousand; previous year: € 1,315 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 664 thousand (previous year: € 689 thousand) and a remuneration for several years in the amount of € 701 thousand (previous year: € 626 thousand). The fixed remuneration includes remuneration in kind of € 71 thousand (previous year: € 68 thousand), including € 2 thousand (previous year: € 3 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 23,855 thousand (previous year: € 23,233 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,598 thousand (previous year: € 1,597 thousand).

The provisions of section 314(3) sentence 1 HGB in conjunction with section 286(5) HGB apply with respect to the disclosure of the individual remuneration paid to members of the Management Board up to and including the 2018 financial year.

58. AUDITORS' FEES AND SERVICES

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

In € million		
	2016	2015
Audits of financial statements	0.4	0.4
Other assurance or valuation services	0.0	0.0
Tax advisory services	0.1	0.1
Other services	0.1	0.0

59. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 AKTG

The declaration of conformity with the German Corporate Governance Code prescribed by section 161 AktG (German Stock Corporation Act) for the 2016 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 30 November 2016. A supplement to the previous declaration of conformity was published on 9 May 2016. The declarations are permanently available to shareholders on the Internet.

60. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 26 January 2017, the European Court in the last instance rejected all of the appeals filed by Villeroy & Boch AG in the antitrust proceedings known as the bathroom case. Further information can be found in the "Legal risks" section of the management report. Other than this, there are currently no further significant events after the end of the financial year.

61. LIST OF SHAREHOLDINGS

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

		In %		
Fully consolidated subsidiaries		Villeroy & Boch AG investment		
Germany		Direct	Indirect	Total
1.	Gästehaus Schloß Saareck Betreibergesellschaft mbH, Mettlach	100	–	100
2.	Heinrich Porzellan GmbH, Selb	100	–	100
3.	INTERMAT – Beteiligungs- und Vermittlungsgesellschaft mbH, Mettlach	100	–	100
4.	Sales Design Vertriebsgesellschaft mbH, Merzig	100	–	100
5.	Sanipa Badmöbel Treuchtlingen GmbH, Treuchtlingen	100	–	100
6.	Keraco GmbH, Wadgassen	100	–	100
7.	V & B International GmbH, Mettlach	100	–	100
8.	VilboCeram GmbH, Mettlach	100	–	100
9.	Villeroy & Boch Creation GmbH, Mettlach	100	–	100
10.	Villeroy & Boch Gastronomie GmbH, Mettlach	100	–	100
11.	Villeroy & Boch Interior Elements GmbH, Mettlach	100	–	100
12.	Villeroy & Boch K-Shop GmbH, Mettlach	100	–	100
Abroad		Direct	Indirect	Total
13.	Delfi Asset S.A., Luxemburg (Luxembourg)	–	100	100
14.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	–	100
15.	Kiinteistö Oy, Helsinki (Finland)	–	100	100
16.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	–	100	100
17.	Rollingergrund Premium Properties SA, Luxemburg (Luxembourg)	–	100	100
18.	S.C. Mondial S.A., Lugoj (Romania)	99.44	–	99.44
19.	Ucosan B.V., Roden (Netherlands)	100	–	100
20.	Vilbomex S.A. de C.V., Ramos Arizpe (Mexico)	88.32	11.68	100
21.	Vilbomex Inmobiliaria S. de R.L. de C.V., Ramos Arizpe (Mexico)	–	100	100
22.	Vilbona Mexiko S.A. de C.V., Ramos Arizpe (Mexico)	–	100	100
23.	Villeroy & Boch (Thailand) Co. Ltd., Saraburi (Thailand)	23.74	76.26	100
24.	Villeroy & Boch (U.K.) Ltd., London (UK)	–	100	100
25.	Villeroy & Boch Arti della Tavola S.r.l., Mailand (Italy)	0.2	99.8	100
26.	Villeroy & Boch Asia Pacific Pte. Ltd., Singapur (Singapore)	100	–	100
27.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	–	100	100
28.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	–	100
29.	Villeroy & Boch Belgium S.A., Brüssel (Belgium)	99.99	0.01	100
30.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100	–	100
31.	Villeroy & Boch Danmark A/S, Rødovre (Denmark)	–	100	100
32.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	–	100

Abroad (Continuation)		Direct	Indirect	Total
33.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
34.	Villeroy & Boch Magyarország Kft., Hódmezővásárhely (Hungary)	100	–	100
35.	Villeroy & Boch MC S.à.r.l., Monaco (Monaco)	99.99	0.01	100
36.	Villeroy & Boch Norge AS, Lorenskog (Norway)	–	100	100
37.	Villeroy & Boch OOO, Moskau (Russia)	100	–	100
38.	Villeroy & Boch Polska Sp. z o.o., Warschau (Poland)	–	100	100
39.	Villeroy & Boch S.à.r.l., Faïencerie de Septfontaines-lez-Luxembourg, Luxembourg (Luxembourg)	100	–	100
40.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99.99	0.01	100
41.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	–	100	100
42.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	–	100	100
43.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	–	100
44.	Villeroy & Boch Tableware Japan K.K., Tokio (Japan)	–	100	100
45.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	–	100	100
46.	Villeroy & Boch Tableware Oy, Helsinki (Finland)	100	–	100
47.	Villeroy & Boch Trading (Shanghai) Co. Ltd., Shanghai (China)	100	–	100
48.	Villeroy & Boch Ukraine TOV, Kiew (Ukraine)	100	–	100
49.	Villeroy & Boch USA Inc., New Jersey (USA)	–	100	100
50.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99.99	0.01	100
51.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	–	100	100
52.	Villeroy et Boch S.A.S., Paris (France)	100	0	100
Investments accounted for using the equity method		Direct	Indirect	Total
53.	V & B Lifestyle India Private Limited, Gurgaon (India)	50	–	50

* Section 313(2) no. 4 HGB plus section 313(2) HGB are applied to two German investments.

62. DEVELOPMENTS WITHIN THE IFRS REGULATIONS

The following pronouncements by the international standard-setter, the IASB (International Accounting Standards Board), were endorsed by the EU and are required to be applied for financial years beginning after 31 December 2015:

Standard		Name
IAS	1	Disclosure Initiative (Amendments to IAS 1)
IAS	19	Defined Benefit Plans: Employee Contributions
IAS	27	Equity Method in Separate Financial Statements (Amendments to IAS 27)
IFRS	11	Acquisition of an Interest in a Joint Operation (Amendments to IFRS 11)
DIV		Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
DIV		Annual improvements to International Financial Reporting Standards, 2010–2012 cycle
DIV		Annual improvements to International Financial Reporting Standards, 2012–2014 cycle
DIV		Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
DIV		Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

The application of these new standards had no material effect on the accounting policies of the Villeroy & Boch Group.

The following IASB pronouncements were endorsed by the EU in 2016 but were not yet required to be applied in the past financial year:

Standard		Name
IFRS	9	Financial Instruments (effective for financial years beginning on or after 1 January 2018)
IFRS	15	Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)

IFRS 9 “Financial Instruments” describes the classification and measurement of financial instruments and hedge accounting. It supersedes the existing guidance of IAS 39 “Financial Instruments: Recognition and Measurement”.

In future, a financial instrument will be assigned to one of three categories (previously five) based on the characteristics of its contractual cash flows and the nature of its business model. It will be measured either at amortised cost or at fair value, with remeasurement gains and losses recognised either through other comprehensive income or through profit or loss. Trade receivables, the Villeroy & Boch Group’s most important financial assets in terms of volume (see note 53), will continue to be measured at amortised cost.

In future, the determination of whether a financial asset is impaired will take into account the change in credit risk. If default is expected, the present value of the expected losses for the remaining term of the financial asset must be recognised in profit or loss immediately. This means impairment is recognised earlier than before as the reporting entity may no longer wait until there is an objective indication of impairment, e.g. when a receivable is past due. Among other things, specific guidance is provided for trade receivables. For all trade receivables that are not past due, the expected loss over the remaining term of the receivable may be calculated on the basis of historical default data adjusted for the current economic situation. We expect the exercise of this option to result in a slight increase in impairment losses (see note 12).

With regard to hedge accounting, IFRS 9 takes over the fundamental requirements of IAS 39 unchanged. Relief is only provided with respect to recognising hedging relationships and demonstrating hedge effectiveness, meaning that effectiveness is no longer required to be demonstrated retrospectively. For the purposes of prospective effectiveness testing, it is sufficient for the reporting entity to demonstrate that the hedged item and the hedging instrument have identical terms. Own use contracts, which the Villeroy & Boch Group uses for purposes such as hedging the price of physical energy deliveries, do not fall within the scope of hedge accounting and will continue to be recognised in accordance with IAS 37.

As required by the EU, we will apply the new IFRS 9 to reporting periods beginning on or after 1 January 2018. We will examine the potential consequences of the aforementioned changes in detail in the 2017 financial year.

The standard IFRS 15 “Revenue from Contracts with Customers” contains comprehensive new guidance for the recognition of revenue in connection with contracts with customers. This serves to replace the previously binding standards IAS 18 and IAS 11 and various interpretations with uniform guidance. IFRS 15 contains significantly more extensive application guidance, including on revenue from licences, principal-agent transactions and commission agreements. It also extends the disclosure requirements in the notes to the consolidated financial statements.

In the 2016 financial year, we examined the consequences of the new guidance on revenue in detail and developed a functional concept for the conversion of the corresponding accounting processes. As part of the implementation of IFRS 15, the principles of revenue realisation previously applied within the Villeroy & Boch Group will be adjusted solely at a detailed level in order to reflect relevant aspects such as the assessment of the transfer of control and the recognition of sales allowances, rights of return and revenue from licences. The new standard does not require a material change in terms of the typical timing of the realisation of our revenue transactions. As such, the amount of revenue from the operational sale of our products is not affected. In future, revenue from our licence business will be reclassified from other operating income (see note 36) to the relevant revenue items (see note 32).

As required by the EU, we will apply the new IFRS 15 to reporting periods beginning on or after 1 January 2018. For the purposes of the transition, we will exercise the option to only apply the new standard retrospectively to contracts that are not yet fulfilled as at 1 January 2018. The exact quantitative effects of the aforementioned new standard will be determined in the 2017 financial year.

The EU has not yet adopted the following IASB pronouncements:

Standard	Name
New standards:	
IFRS 16	Leases (issued on 13 January 2016)
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)
Changes and additions to existing standards:	
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)
IFRS 15	Clarifications to IFRS 15: Revenue from Contracts with Customers (issued on 12 April 2016)
IAS 7	Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016)
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)
IAS 40	Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)
DIV	Annual Improvements to IFRS Standards 2014–2016 Cycle (issued on 8 December 2016)

We will apply the above new and amended standards when they become effective within the European Union. Early application is not possible as the standards have not been recognised. The first-time adoption of IFRS 16 “Leases” will increase our total assets. The new standards described above will otherwise have only an immaterial effect on the Villeroy & Boch Group. The important changes are described in detail below:

Other Notes

IFRS 16 “Leases” sets out the accounting treatment and disclosure requirements for leases. It supersedes the guidance of IAS 17 “Leases” and various interpretations.

In accordance with IFRS 16, a contract is, or contains, a lease if it conveys the right to use an asset for a period of time in exchange for consideration. In future, the lessee must recognise all leases for which it holds the right to use the leased asset (the “right-of-use asset”). Recognition exemptions are available for short-term and low-value leases. The cost of the right-of-use asset includes the present value of the lease liability as well as any additional payments at or prior to conclusion of the lease, other direct costs incurred by the lessee and any restoration or demolition obligations. The lessee has the option of including consideration for additional services, such as maintenance, when calculating the lease payments. Lease incentives, i.e. payments by the lessor to the lessee, are deducted from the cost of the asset. The present value of the lease liability is the sum of all outstanding lease payments discounted to the date of initial recognition. The right-of-use asset is subsequently measured at amortised cost in accordance with the principles of IAS 16 “Property, Plant and Equipment”.

The interest cost of the lease liabilities is reported separately from depreciation and amortisation in the income statement. In the cash flow statement, cash outflows for repayments are reported in net cash from financing activities. All other lease payments continue to be reported in net cash from operating activities.

IFRS 16 extends the disclosure requirements for lease transactions in the notes to the lessee’s consolidated financial statements.

For lessors, there is no change to the accounting treatment of the assets transferred.

According to the IASB, IFRS 16 “Leases” is effective for reporting periods beginning on or after 1 January 2019. For existing leases, the modified retrospective approach may be applied for transition purposes. Under this method, lease liabilities are compared with right-of-use assets of the same value. Prior-year comparative disclosures are not required. The accounting treatment is not required to be converted in the case of contracts with a remaining term of less than one year at the transition date. We are examining the potential consequences of this new standard. We will apply the new guidance when it becomes effective within the European Union. The standard has not yet been endorsed in EU law. For this reason, the date of first-time adoption within the Villeroy & Boch Group has not yet been determined.

The European Commission has resolved not to endorse the following IASB pronouncements in European law:

Standard	First-time adoption
IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014)	01/01/2016
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	01/01/2016

As they have not been implemented in EU law, the Villeroy & Boch Group is not permitted to apply these regulations in the preparation of exempting consolidated financial statements in accordance with section 315a (1) HGB. The Villeroy & Boch Group would not be affected by either regulation.



ADDITIONAL INFORMATION

AUDIT REPORT

We have issued the following audit opinion for the consolidated financial statements and the Group management report:

“We have audited the consolidated financial statements prepared by the Villeroy & Boch AG, Mettlach, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB (German Commercial Code) are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and

the Group management report are examined primarily on a spot test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.”

Mannheim, 1 February 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Witsch,
Wirtschaftsprüfer
(German Public Auditor)



G. Becker,
Wirtschaftsprüfer
(German Public Auditor)

MANDATES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

MANDATES OF THE MANAGEMENT BOARD

FRANK GÖRING

Chairman of the Management Board

ANDREAS PFEIFFER

Management Board member responsible for Bathroom and Wellness Division

b) within the Group: Villeroy & Boch Magyarország Kft.,

Hódmezővásárhely/Hungary

Villeroy & Boch Trading Shanghai Co., Ltd

NICOLAS LUC VILLEROY

Management Board member responsible for Tableware Division

DR MARKUS WARNCKE

Chief Financial Officer

MANDATES OF THE SUPERVISORY BOARD

LUITWIN GISBERT VON BOCH-GALHAU

Honorary member of the Supervisory Board

WENDELIN VON BOCH-GALHAU

- Chairman of the Supervisory Board
- Managing Director of country life von Boch-Galhau Verwaltungs-Gesellschaft mbH, Überherrn/Germany
- Managing Director of Solarpark Linslerhof GmbH, Überherrn/Germany
- Managing Director of Windenergie Britten GmbH, Britten/Germany
- b) V&B Fliesen GmbH, Merzig/Germany*

RALF RUNGE *

- First Vice Chairman of the Supervisory Board
- Chairman of the Villeroy & Boch European Works Council
- Chairman of the Faïencerie Merzig Works Council

PETER PRINZ WITTGENSTEIN

- Second Vice Chairman of the Supervisory Board
- Management Consultant

DR ALEXANDER VON BOCH-GALHAU

Management Consultant

b) Union Stiftung, Saarbrücken/Germany

YVES ELSÉN

Managing Partner & CEO HITEC Luxembourg S.A.

b) BGP Investment S.à r.l., Luxembourg

Université du Luxembourg, Luxembourg (Chairman; since 22 July 2016)

Ascendos Rail Leasing S.à r.l., Luxembourg

Fonds National de la Recherche, Luxembourg (Chairman)

Carrosserie Robert Comes & Compagnie S.A., Luxembourg

DIETMAR GEUSKENS *

■ Trade Union Secretary

■ District Manager of IG Bergbau, Chemie, Energie, Saarbrücken

FRANCESCO GRIOLI *

■ Trade Union Secretary

■ District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz/Germany

a) BASF SE, Ludwigshafen/Germany

Gerresheimer AG, Düsseldorf/Germany (Vice Chairman)

b) Steag New Energies GmbH, Saarbrücken/Germany (Vice Chairman)

V&B Fliesen GmbH, Merzig/Germany

WERNER JÄGER *

■ IT Administrator

■ Chairman of the Villeroy & Boch AG Head Office Works Council

DIETMAR LANGENFELD *

■ Industrial Foreman for Logistics

■ Chairman of the Villeroy & Boch AG Central Works Council

■ Chairman of the Sanitary Ware Plant Mettlach Works Council

SUSANNE OLLMANN * *(since 13 December 2016)*

Head of Shared Service Center Accounting, Villeroy & Boch AG

CHRISTINA ROSENBERG

Managing Director of Hermès GmbH, Munich/Germany

DOMINIQUE VILLEROY DE GALHAU

General Director of La Financière Tiepolo SAS, Paris/France

a) Momentum Asset Management S.A., Luxembourg

(Chairman, since 4 November 2016)

b) Adolphe de Galhau'sche Sophienstiftung, Wallerfangen/Germany

(Vice Chairman)

BERNHARD THÖMMES * *(until 30 November 2016)*

Head of Research and Development, Bathroom and Wellness Division

* Employee representative

a) Memberships of other statutory supervisory boards within the meaning of section 125 of the German Stock Corporation Act (AktG)

b) Memberships of comparable domestic and foreign controlling bodies of commercial enterprises within the meaning of section 125 of the German Stock Corporation Act (AktG)

COMPANY CALENDAR 2017

24 March 2017 – General Meeting of Shareholders, Merzig Town Hall

24 April 2017 – Report on the first three months of 2017

20 July 2017 – Report on the first half of 2017

20 October 2017 – Report on the first nine months of 2017

IMPRINT

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DISCLAIMER

Forward-looking statements

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

Rounding differences

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

Technical discrepancies

There may be discrepancies between the accounting documents contained in this annual report and the accounting documents submitted to the Bundesanzeiger (Federal Gazette) due to technical reasons (e. g. conversion of electronic formats). In this case, the version submitted to the Bundesanzeiger shall be binding. The annual report has been translated into English. In the event of variances, the German version shall take precedence over the English translations.





Villeroy & Boch

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