Villeroy & Boch

1748

ANNUAL REPORT 2014

GROUP MANAGEMENT REPORT

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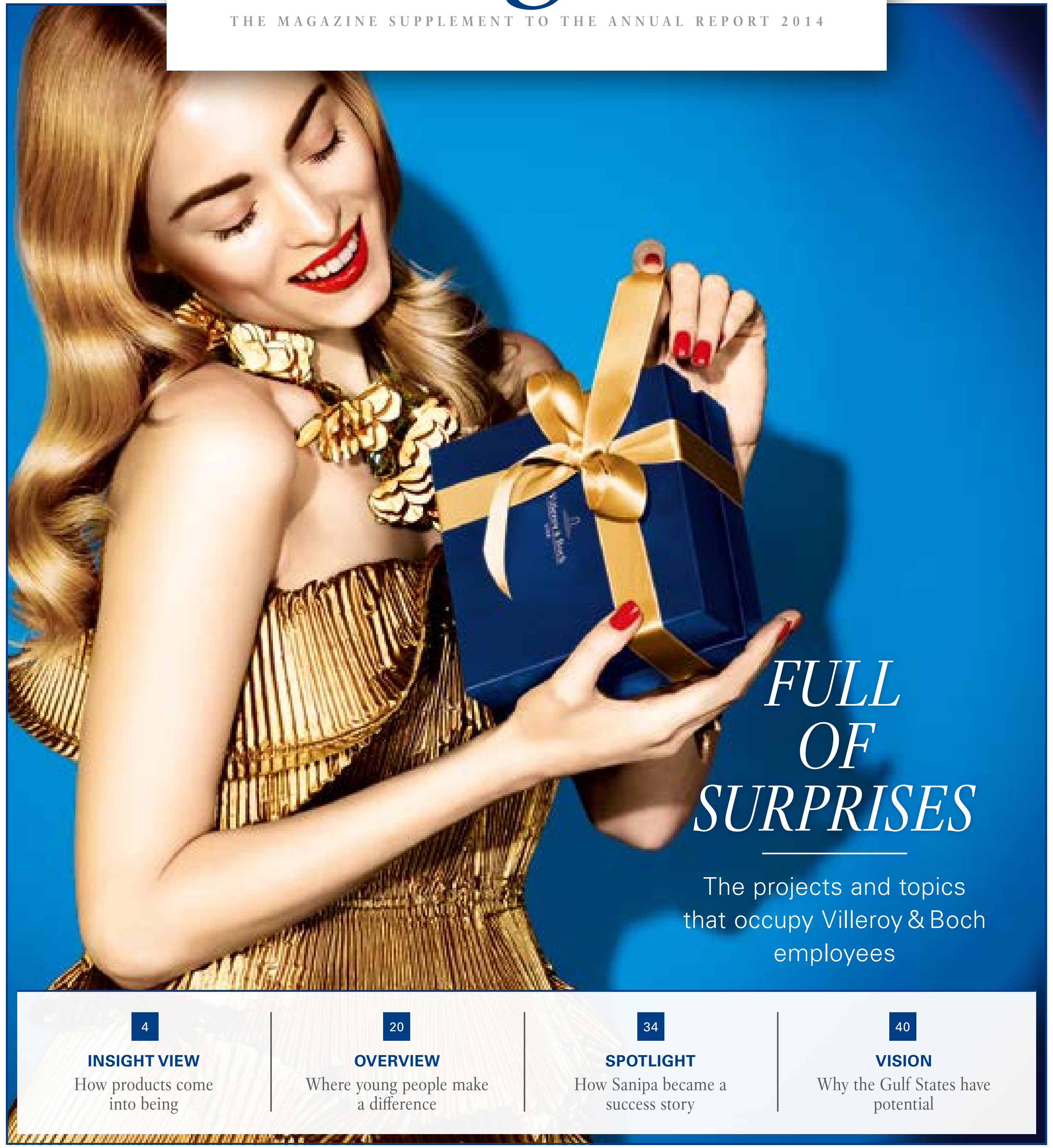
Insights

THE MAGAZINE SUPPLEMENT TO THE ANNUAL REPORT 2014



FULL OF SURPRISES

The projects and topics that occupy Villeroy & Boch employees

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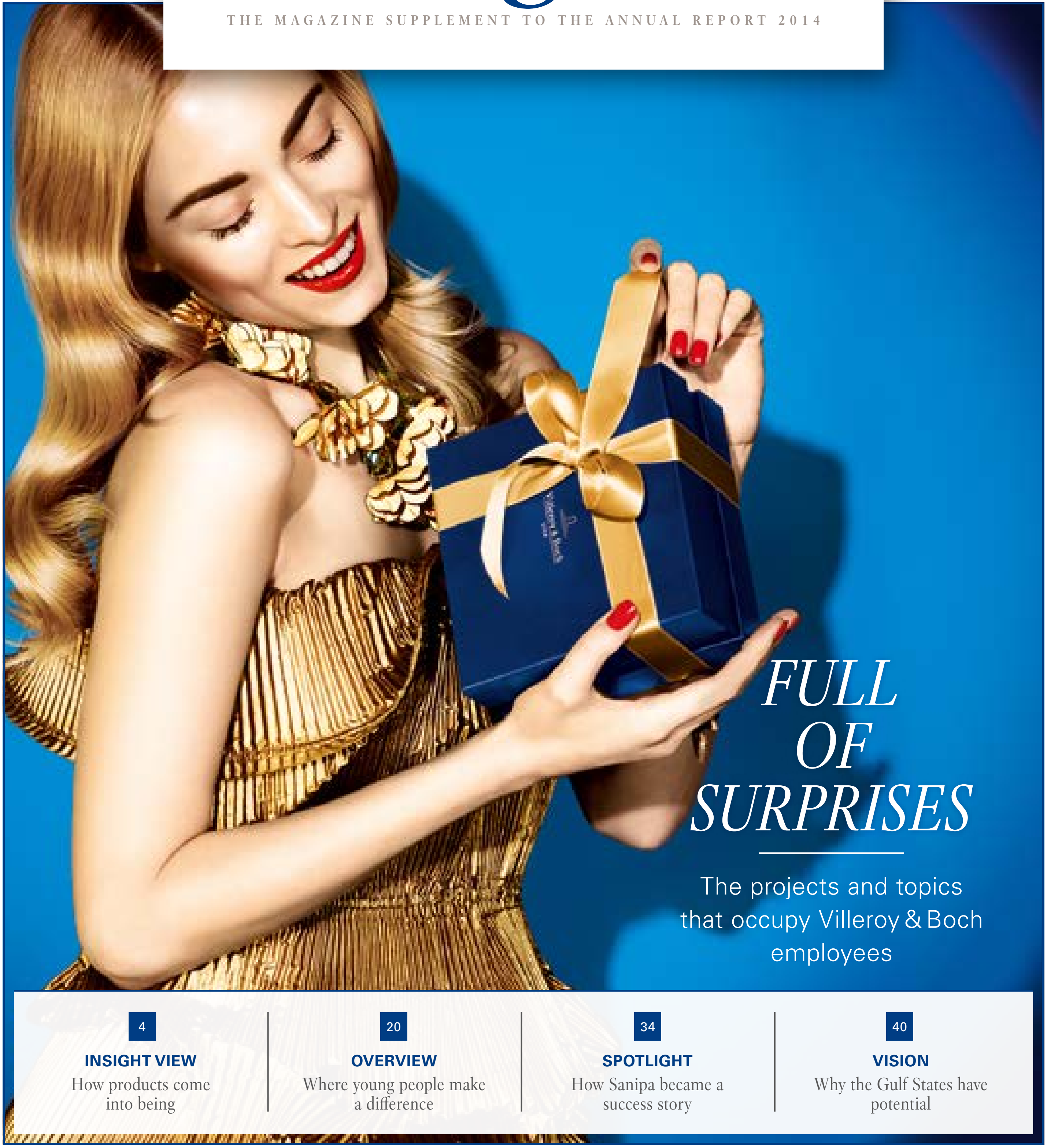

FULL OF SURPRISES

The projects and topics that occupy Villeroy & Boch employees

EDITORIAL

Dear Readers,

Frank Göring, Chairman of the Management Board
Mettlach, March 2015

The response to the first edition of our "Insights" magazine was truly excellent. Our shareholders and customers as well as applicants and journalists have praised in particular the authenticiy of the articles and their closeness to the employees. If it hadn't been decided before, then it was clear now: "Insights" should be continued – and that is what you are holding in your hands now.

> *"Proud of how our employees always work to serve the customer"*

We hope that you are as excited about what's inside as the young woman on the cover, eagerly opening her Villeroy & Boch gift box. Incidentally, you will be seeing considerably more of these boxes in our Tableware shops than before, as we are strongly expanding our gift item business. Whether it's two prettily packed espresso cups for the next time you are invited to a dinner party, a New York style coffee mug for someone's next birthday or a strictly limited edition collector's piece for a very special occasion: If you are looking for a gift to delight your host or a birthday boy or girl, you will definitely find something in our range.

You will also find what you are looking for in the "Insights" magazine – that is, if you want to know how Villeroy & Boch products are even created and who is working today on the designs of tomorrow. You will also read how rising talents accept responsibility early on in the junior management programme, what really goes on behind the scenes at a sanitary ware fair and what counts when working directly for customers in a shop or as a field sales representative. Moreover, in "Insights" we have again presented a few regional stories: join us at our bathroom furniture production location in Treuchtlingen, at our new Tableware flagship store in Tokyo and find out about the opportunities open to us in the new construction boom in the Gulf States.

As different as these subjects are, the lead roles in these pieces always go to the same people: our employees. It makes me personally very proud to read how people are working in every department all over the world on new products, and always to serve the customer. That's Villeroy & Boch – that's how we are.

I hope you enjoy reading the magazine.

Frank Göring

HIGHLIGHTS

40

Gulf States

The Gulf region is back: after the construction boom in the mid-2000s, the awarding of Expo 2020 to Dubai and the Football World Cup 2022 to Qatar has generated new momentum – and Villeroy & Boch intends to benefit from this.

16

Tableware project business

Luxury trains, airport lounges and residences as well as hotels and restaurants: the potential of Tableware project business is huge, explains divisional director Burkhard Schmidt in an interview.

Paris shop portrait

In 168 "The House of Villeroy & Boch" shops worldwide, tableware fans can really get their money's worth. The portrait of the shop in Paris's Rue Royale reveals the shopping experience that lies in store for customers.

24

Sanipa

The bathroom furniture brand Sanipa has a history of highs and lows. Today, the Treuchtlingen-based firm is blossoming. Read the whole story of the transformation.

34

4

12

Trade fairs

12 days of setting up, 90 tradespeople at work and tension right down to the very last minute: in an interview, Head of Department Christian Sonntag describes what the trade-fair team in Bathroom and Wellness get up to behind the scenes of ISH and elsewhere.

Product design

Many customers marvel at the aesthetics of Villeroy & Boch products. But very few people know how they are made. Who designs them and how? The Insights team takes a look at the two divisions.

20

JUNIOR MANAGEMENT PROGRAMME

A three-year graduate-entry programme – with responsibility from day one: Ewa Margiel and Ralph Kimmerle talk about the junior management programme at Villeroy & Boch.

28

SALES

Sales representative Bernd Schwebach deals with wholesalers in Saarland, Rhineland-Palatinate and North Rhine-Westphalia. The Insights team spent a day with him.

38

JAPAN

Another tableware sales outlet in Japan – the flagship store in Tokyo – was opened in September 2014. And brand recognition is set to increase further.

Experts will tell you that design is the visual manifestation of product quality. This illustrates just how important product design is nowadays – and Villeroy & Boch is no exception. But how does a new product with an innovative design come into being? The Insights team took a look over the shoulder of Villeroy & Boch's specialists.

DESIGN, THAT CAPTURES THE IMAGINATION

Helmut Frank stands at the turntable in Villeroy & Boch's model workshop in Mettlach. With a thin, stick-like iron instrument in his hand, he is working on a piece of plaster that is turning at around 400 revolutions per minute. He chips away a little more where the model needs to be thinner, and a little less where it needs to stay broader. Every flick of his wrist is well practised. After just a few minutes, the shape of the prototype he is working on becomes clear: a pot. Helmut Frank is a Product Designer at Villeroy & Boch and responsible for the formal design of Tableware products.

Product design in the Tableware Division

Product development at the wheel – it seems almost a romantic notion, as if you were being transported back to how things were 100 years ago. But there is another different and extremely modern approach: 3D printing. The designer draws up a product on a computer in a virtual 3D space that precisely matches the interior dimensions of the printer. Thanks to state-of-the-art technology, a click of a button is all it takes to send the design to the printer, where it is printed in three dimensions. “The benefit of 3D printing is its accuracy: we can precisely define the dimensions of the product on the computer in advance,” Frank explains. Because the 3D printer has a limited build volume, it can only be used to create smaller prototypes up to 39 centimetres in length, 28 centimetres in width and 22 centimetres in height. “There are no such limits when using a turntable. It also allows me to work on the shape during the creation process. Sometimes this can lead to great new shapes or details, such as indentations, more or less at random and without prior planning,” Frank explains. The two approaches do have one key thing in common, though: the designers generally start by doing sketches by hand before implementing them as prototypes using their chosen method. This means that, in spite of all the technology that is available nowadays, the artistic flair of the creative minds involved remains indispensable.

After the formal design, colour comes into play. “The model is the canvas for our decorative designers,” explains Florian Bausch, Head of Product Development and Product Management for Tableware at Villeroy & Boch. They develop the decors that will eventually adorn cups, plates and pots. Just like their colleagues in physical modelling, the decorative designers generally obtain a briefing in advance that sets out the framework for a new collection. “Knowledge of the target group, the price level and the style that is envisaged for a new collection are important points of reference when I am developing decors,” says Decorative Product Designer Henrike Stein. “For example, they tell you whether gold ornaments are an option or not.” Stein begins by sketching her ideas using paper and pens, India ink or watercolours. She then hones her decor ideas on the computer, right down to the smallest details. This also lets her see how a design will look on the actual product. When her decor design is complete, a transfer is created and applied to the prototype that was made previously.

1 At the potter's wheel in the Mettlach model workshop, Product Designer Helmut Frank is making a prototype for a jug.

2 A steady hand: Product Designer Henrike Stein sketches a decor.

The design process in the Bathroom and Wellness Division has parallels with its Tableware equivalent: sketching, visualising ideas using computer programmes and creating prototypes in a model workshop are all important steps here, too. However, decorative design development plays a less important role when it comes to Bathroom and Wellness products. Form and functionality are the key.

A focus on form – design in the Bathroom and Wellness Division

For Johan de Groot and Chris Hegeman, designers of wellness products such as bathtubs and shower tubs in Roden in the Netherlands, extensive brainstorming at the start of the design process is a vital element. Together with creative minds, internal and external design experts and engineers. "Good design usually comes from several people working together," explains de Groot. In keeping with this, he ensures a permanent flow of ideas with his colleague Hegeman throughout the design process, from sketching by hand or in 3D space on the computer through to experimenting with colour tones, shapes and materials. Models of the shower tubs and bathtubs are then built on the basis of the drawings. The scale is usually 1:2.5, meaning that a bathtub model comes in at around 80 centimetres by 30 centimetres. It is not rare for the designers to model several versions of a design idea. Materials such as wood, foam and polyester are used depending on the model. The favourite is then built again as a 1:1 model so that the design can be seen in its original size and tested for functionality. A special coating sprayed onto the bathtub models means they actually repel water. When it comes to designing bathtubs, it is particularly important to capture the imagination with innovative ideas in order to differentiate yourself from the competition, Hegeman explains. The duo recently proved the success of this approach with the "Squaro Edge 12" bathtub, which received the "Interior Innovation Award" 2014. The model is characterised by clear lines and flatly integrated functions, as well as thin walls and fine details made possible by the use of Quaryl as a material.

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"Fantastic synergies" can be generated by cooperation with external designers

In addition to the creative ideas it develops internally in its two divisions, Villeroy & Boch has a tradition of cooperation with external designers. The company enters into partnerships with young designers from art and design colleges or via crowdsourcing platforms on the Internet, as well as with internationally renowned designers such as Paloma Picasso, Sebastian Conran, Robin Levien, Christian Haas, and the Belgian artist Isabelle de Borchgrave. "The main thing when selecting an external designer is to ensure that their 'fingerprints' are a good match for us. This way, fantastic synergies can be generated," explains Béatrice Jungblut, Head of Corporate Marketing.

1 Johan de Groot (left) and Chris Hegeman regularly share ideas throughout the design process. In Roden in the Netherlands, the two men design products including bathtubs and shower trays.

2 Paper, pencil and a stencil of the human body are essential tools when sketching bathtubs or whirlpools.

Villeroy & Boch presented a new gift collection at the "Ambiente" in Frankfurt in February 2015, the leading international trade fair for the Tableware Division. The "Little Gallery" series consists of a coffee mug, a mini-vase, a tea light holder and a ceramic candle holder, and is available in four different designs each with two finishes. At first glance, this might not seem like anything out of the ordinary – after all, the gift range has become increasingly important over the years. The unusual thing is how the designs were created: by crowdsourcing on the online platform "jovoto".

CROWDSOURCING DELIVERS DESIGNS FOR NEW GIFT COLLECTION

DIGITAL PRODUCT DEVELOPMENT

Marketing experts define crowdsourcing as the outsourcing of tasks or projects that would normally be performed internally to a group of voluntary users via channels such as the Internet. "In our case, the task was to create a new design family for a porcelain gift collection that prompts impulse buys at the point of sale and that encourages people to collect the items," explains Nathalie Müller, Ceramic Product Manager at Villeroy & Boch and the person responsible for the company's first crowdsourcing project. Only the shape of the products was prescribed by the company – the design itself was left entirely open in order to generate the most creative and varied suggestions possible.

115 IDEAS – FROM ALMOST EVERY PART OF THE WORLD

The professional and amateur designers on jovoto had just over five weeks to accept the challenge and submit their design ideas. All on a voluntary basis – only those who feel drawn to a given project take part. The outcome was 115 ideas and 789 idea variations, which attracted more than 2,000 comments and almost 3,000 ratings on the platform. Rating each other's work is a key element of the crowdsourcing approach, as the winner ultimately receives a cash prize – and the company gets its first impression of the mood among an international audience with a flair for design. And the audience really was international: Creative talents from almost every part of the world submitted their ideas, with participants from Australia, South America, India and Sri Lanka, among others.

Following the creative process, a Tableware jury evaluated all of the ideas and selected its favourites. The winning submissions came from Venezuela, Mexico, Portugal and Germany. The four best designs were then presented at the "Ambiente" in Frankfurt in February under the product name "Little Gallery" and will soon be available in-store.

THE BENEFIT OF CROWDSOURCING: ACCESS TO EXTERNAL TALENT

"Calling on an anonymous online community, particularly when it comes to design – our established area of expertise for more than 265 years – was an entirely new arena for us," comments project manager Müller. "However, crowdsourcing offers an interesting benefit compared with the conventional development process: A digital approach gives us access to external talent and a diverse range of ideas from all around the world. Especially for a company like Villeroy & Boch, which offers its products in 125 countries, this creative input is extremely valuable and provides new impetus for the continued development of our portfolio."

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1 Little Friends: Joint submission by Ramona Herrmann (Germany) and Jorge Abraham García Razo (Mexico).

2 Imperio: Idea by Joana Serra de Matos dos Reis Ferreira of Lisbon (Portugal).

3 Fleurs: Suggestion by Samantha Moreno of Mérida (Venezuela).

4 Flower Lines: Design by Steve Albertsen of Brunswick (Germany).

5 Nathalie Müller, Ceramic Product Manager at Villeroy & Boch, headed the company's first crowdsourcing project.

ONLINE SUCCESS WITH TOILETS AND CUPS

The mega-trend of digitalisation: In 2014, both Villeroy & Boch divisions delivered an impressive demonstration of how good online communication should work. While the Bathroom and Wellness communication team caused quite a stir with an entertaining video entitled "A Day in a Life of a Toilet", Tableware added the Barcelona cup to the "NewWave Caffè Cities of the World" series with a full and exclusive online launch for the first time – with the help of a spectacular street art video.

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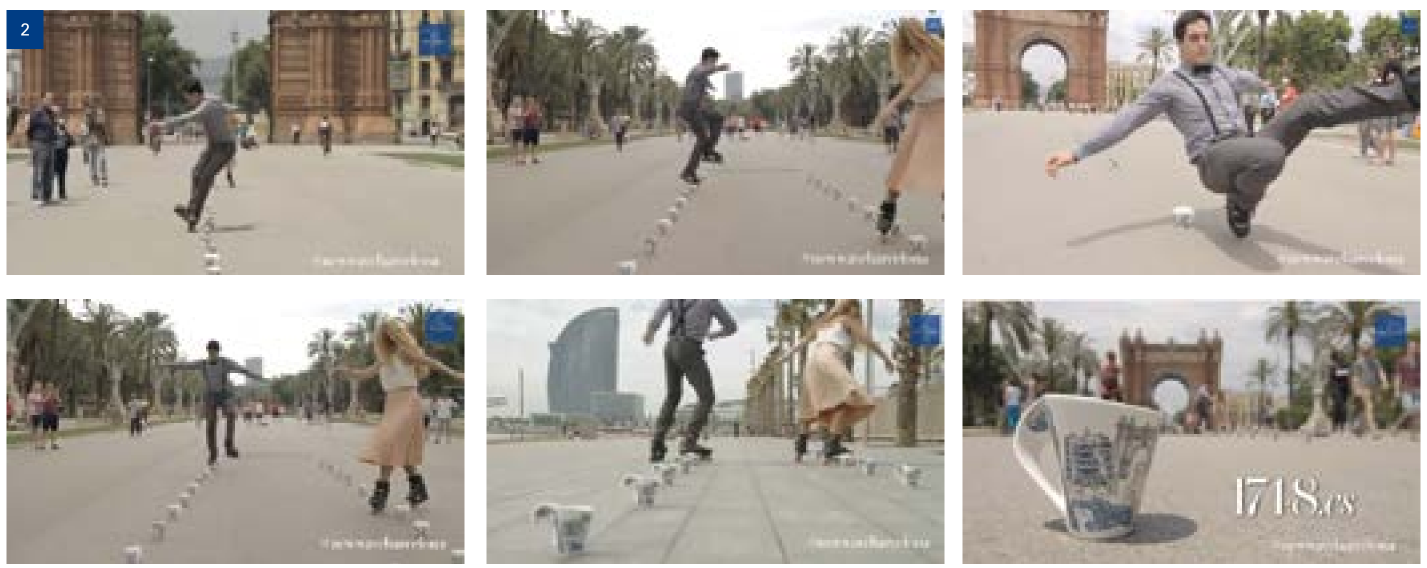

BATHROOM AND WELLNESS The two-minute video "A Day in a Life of a Toilet", which was shared on all Villeroy & Boch digital channels in 2014, shows how turbulent things can get in the bathroom and what situations a WC can find itself exposed to. This energetic and humorous illustration of how the toilet is at the centre of family life has already been viewed more than 370,000 times on YouTube alone. Incidentally, the viewer finds out that the toilet is a DirectFlush WC only right before the end. But anyone who knows how easy the rimless models are to clean would probably have already guessed the toilet's identity, given the extensive and unusual use it gets in the clip.

"The video shows real family life from an unexpected but, at second glance, familiar perspective. It is aimed at all age groups, but particularly a younger target segment, and we actively incorporated it into our communications, whether encouraging people to contact us or to share or recommend the video," explains Tanja Lockwood, Head of Customer Marketing for the Bathroom and Wellness Division. "We have made this new generation in particular aware of our products at an early stage and positioned Villeroy & Boch as a truly contemporary brand."

TABLEWARE What is the best way of reaching the desired target group when presenting a new cup that is primarily aimed at a young audience? Online, of course! The concept: Take between ten and twenty cups, set them up in a busy on-street location, get inline skating acrobats to do tricks and stunts around the products, film these unusual scenes, and share the completed video on Facebook. This is how our Tableware colleagues from Spain and the Social Media team from Mettlach decided to launch the Barcelona cup, a new element in the "NewWave Caffè Cities of the World" collection, in July 2014. The campaign was a success: Within just 24 hours, the video had been shared more than 5,500 times on Facebook. The number of shares has since doubled, while the clip has also been "liked" more than 21,000 times. The Barcelona campaign video has reached around three million Facebook users worldwide – the number of times it has appeared in users' news feeds.

"This was an unprecedented viral success for Villeroy & Boch, not least because the campaign led to significantly higher levels of user interaction than usual," commented André May, Head of E-Commerce and Online-Marketing for the Tableware Division. "In this case, Facebook was the ideal medium for capturing the imagination of the target group of 25- to 45-year-olds and enthusing them for the new product and for Villeroy & Boch. Encouragingly, the campaign also had a positive cross-marketing effect for the other cups in the city collection."

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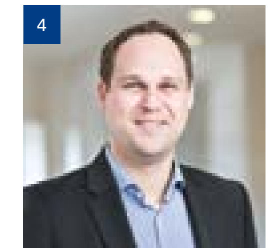

1 This QR code will take you to the Villeroy & Boch YouTube channel.

2 Street-art video for the launch of the "Barcelona cup"

3 Tanja Lockwood

4 André May

5 Scenes from the video "A day in a life of a toilet"

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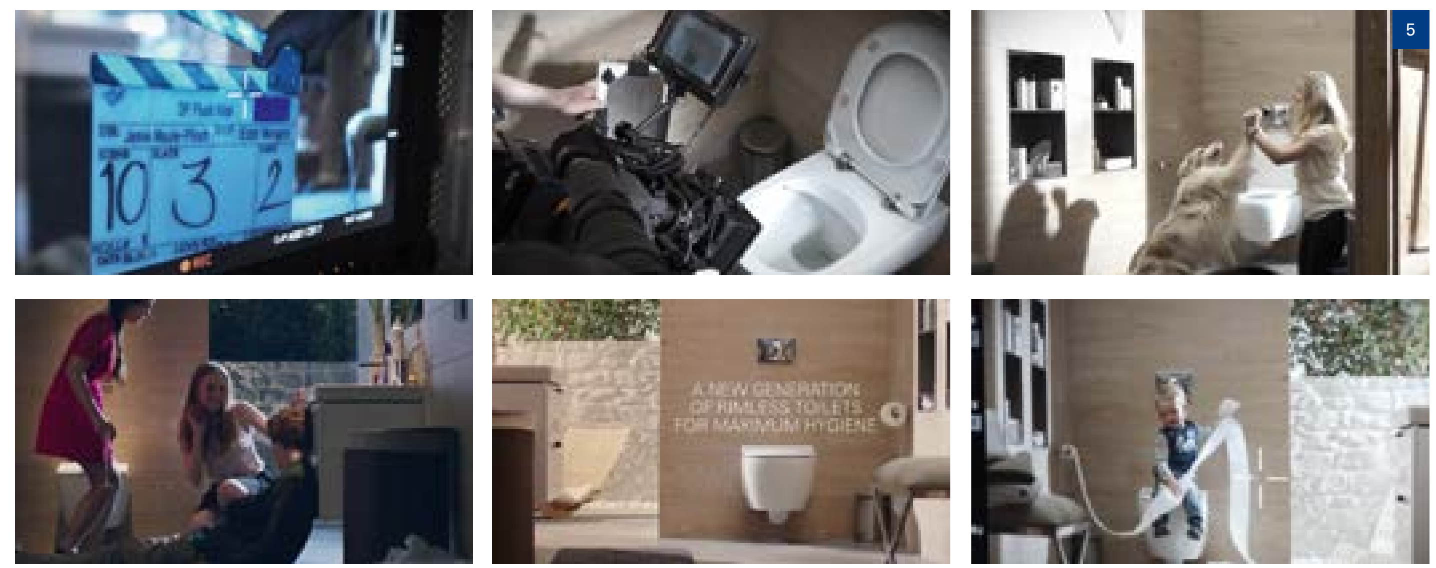


BEHIND THE SCENES WITH THE TRADE FAIR TEAM

For Villeroy & Boch, trade fairs are an important platform for presenting new products to a wide international (specialist) audience and making the brand into an experience. In this interview, interior designer Christian Sonntag, Head of the Exhibitions and Trade Fairs department in the Bathroom and Wellness Division, talks about the last-minute work that often takes place behind the scenes – and why improvisation is so important when it comes to trade fair stands.

1

Mr. Sonntag, how many trade fairs do you and your team plan every year?
Sonntag: We organise around 90 trade fair projects a year for both Bathroom and Wellness and Tiles. This encompasses everything from the largest fairs with up to 2,000 square metres through to small stands on just nine square metres – whatever their size, they all have to be well-planned.

How do you keep generating new stand ideas when you have so many trade fairs to prepare?
Sonntag: We develop a lot of ideas as a team, but we also work with external design agencies, creating basic concepts and using the exchange as an inspiration to shape the ideas we collect in such a way as to optimally present our products. To ensure brand consistency, however, we do not start from scratch for every single trade fair. Instead, we have developed a modular system that can be rolled out flexibly. For example, this includes mobile concepts for trade fair stands below 60 square metres. These can then be used at several trade fairs with panelling that is customised for the respective event. This is one example of our efficiency.

And trade fairs are also an opportunity to learn from what other companies are doing.
Sonntag: We certainly use them to gain valuable inspiration – particularly at trade fairs outside our own industry, such as the IAA car show or the major industrial and book fairs. After all, the main aim is the same: to present new products in an appropriate manner.

Just a few weeks ago, Frankfurt played host to the ISH, the leading international trade fair for the sanitary ware industry, which is held every two years. How long does it take you develop a stand concept for this event?
Sonntag: We start around a year in advance. Planning has to be complete by around three months before the start of the event, as the sheer scale means the builders need a few weeks to produce the stand itself.

Is the stand concept always finalised at this stage? Some new products are planned right through to January, after all.
Sonntag: The concept is only finalised on the last day of set-up! When I talk about planning, I mean the rough outline of the concept – which has to be so flexible that it can be adapted for changes at short notice.

What are the criteria for developing a trade fair stand?
Sonntag: One central aspect is the brand image, and hence our brand presence. Working together with the experienced designer Kai Steffan, we have also developed a point of sale concept that is reflected in our trade fair design. For the customer, this creates a visible connection between the point of sale and our trade fair stand. We also want to be and remain the digital innovation leader within our industry. To provide our visitors with a digital experience, we looked into some very special interactive highlights for our stand at the ISH 2015, such as virtual reality glasses that allow the wearer to walk through a bathroom that they have just planned on a PC or tablet. A good layout of the stand is another important factor.

What are the decisive aspects for a successful appearance at a trade fair?
Sonntag: First and foremost, the products being presented. It is difficult to develop a good trade fair stand without good products. At a trade fair like ISH, the presentation, the lighting and the "wow, I haven't seen that before" factor all play a major role. After all, the event marks the first time we show our new products to our customers, and you never get a second chance to make a first impression. For us, the ISH in Frankfurt is the ideal platform for highlighting the size, the charisma and the special qualities of the Villeroy & Boch brand.

2

1 He's the trade-fair man: Interior designer Christian Sonntag heads the Exhibitions and Trade Fairs Department in the Bathroom and Wellness Division. Together with his team, he plans around 90 trade-fair projects a year.

2 Clear navigation of the stand is just as important to the success of a trade fair as the layout and lighting. However, the most important factor is the products to be presented.

Villeroy & Boch's trade stands at the ISH are up to 2,000 square metres in size. How long does it take to set them up and how many people are involved?
Sonntag: Setting up takes twelve days. At its peak, as many as 90 tradesmen might be working on the stand at the same time, as well as the six-person V & B trade fair team.

Does the last work on a trade fair stand really continue into the early hours of the morning, like we sometimes hear?
Sonntag: If things go well, we are finished by the evening before. But we have been known to still be working hard on our stand just a few minutes before the doors open.

A trade fair like the ISH surely poses some logistical challenges for you?
Sonntag: One general challenge is getting all of the products on-site in good time. After all, we are talking about new products in a large number of cases. And they come from Villeroy & Boch's locations all over the world. Furthermore, it is not just a question of presenting individual products, but complete bathrooms. From ceramic ware, bathtubs and tiles via mirrors, fittings and lighting through to decoration – everything has to be in place. In the first three days of set-up, trucks can still drive into the hall and unload directly at the stand. After that, we have to use pallet trucks to bring materials into the hall.

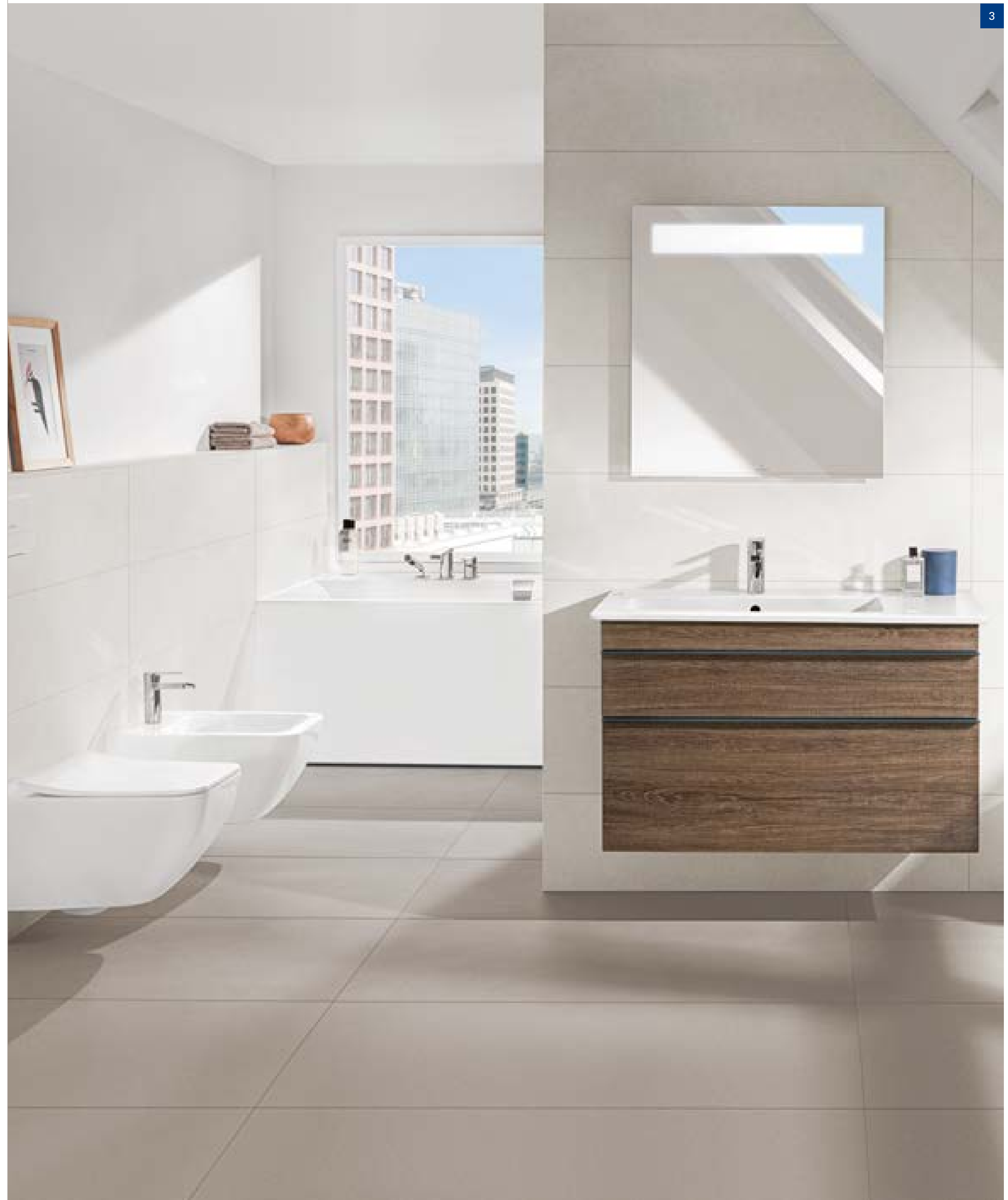
You have been planning Villeroy & Boch's trade fair appearances for more than 15 years. Do you still get nervous about something major going wrong?
Sonntag: You always get nervous. There are so many things to get done in a short space of time, and things never go exactly as planned. But I think this is precisely our strength: we are an experienced team that can improvise when unexpected challenges rear their head, such as when a product presentation is cancelled at short notice. After all, one thing is clear: the start date for the trade fair is fixed, and everything has to look perfect when the doors open.

Could we finish with a specific example of these improvisational skills?
Sonntag: I remember a trade fair in Chicago. The terrorist attacks in Madrid had recently taken place and customs regulations had been stepped up as a result. Both of our trade fair containers were delayed in customs – just a few days before the event! We had to improvise. We flew in various products by air cargo at short notice and our builders constructed new mobile units on-site. One of the containers arrived the evening before the trade fair began – so we had to work through the night. But against all odds, our stand ended up looking anything but improvised – and that is what counts.

1 With a surface area of up to 2,000 square metres, the stand at the ISH in Frankfurt is one of the biggest trade-fair projects. Christian Sonntag says: "For us, the ISH is the ideal platform for showcasing the size, appeal and uniqueness of the Villeroy & Boch brand".

2 With smart extras, the new Vivia collection ensures maximum comfort and wellbeing in the bathroom.

3 The highlights of ISH 2015 included the Venticello bathroom collection, which impresses with its thin edges and modern aesthetics.



Things are going well for Villeroy & Boch's Hotel and Restaurant Division: in more than 95 countries across every continent, the tables of countless prestigious hotels and restaurants, embassies and congress centres are laid with Villeroy & Boch products. The aim of the 30-person team headed by divisional director Burkhard Schmidt is clear: further growth.

OF TRAINS, HOTELS AND WEDDING HOUSES

In the 2014 financial year, the Hotel and Restaurant Division recorded business growth of more than 12 % – an impressive success. What were the reasons for this development?
Schmidt: The first encouraging thing is that we increased both the number and the average volume of our orders. We also won several major projects, including one for supplying 120,000 items to the Waldorf Astoria in Jerusalem. Our designers have developed a total of six different and individual decors for the Stella premium collection for the luxury hotel. Orders like these provide strong impetus for our continued growth.

In 2012, Villeroy & Boch equipped the legendary Venice Simplon Orient Express with tableware. A comparatively small order, but one with a big external impact. How important are references like these?
Schmidt: Very important! On the one hand, the order had a strong advertising appeal – people talk to us about it frequently and it attracted a lot of media attention. On the other hand, it was also a strategically important pilot project in terms of establishing a long-term business relationship with the Belmond Group, which owns more than 40 exclusive hotels and river cruise ships in addition to its luxurious passenger trains in Europe, Asia and South America. A successful move: since 2014, we have been Belmond's "preferred tableware supplier". In this role, we have already delivered a special decoration for the Belmond Orcaella cruise ship in Myanmar. Our latest project is equipping the Eastern & Oriental Express luxury train, which runs from Thailand to Singapore via Malaysia.

You mention special decorations – decors that are developed individually for the respective customer. This is one of the many services offered by Villeroy & Boch

1 A prestigious project: In 2012, Villeroy & Boch provided high-quality tableware for the legendary Venice Simplon-Orient-Express.

2 Burkhard Schmidt, Head of the Hotel and Restaurant Division, says: "Major orders from the likes of the Waldorf Astoria in Jerusalem give our growth a massive boost."

that are important for the industry. What else is important for B2B success?
Schmidt: Put simply, we have to deliver everything the customer needs to any location, in full, on time, and in immaculate – which especially means robust – quality. The ten-year guarantee of chipping resistance that we provide for all ceramic products shows that we take this objective seriously. It goes without saying that our products are safe to use in dishwashers, salamanders and microwaves, and punctual delivery is also a matter of course. It is important to note that tableware is usually only ordered a few weeks before a hotel opens, so there is often not much time – and our sales, production, logistics and customer service colleagues have to cooperate extremely quickly, closely and efficiently.

Residential homes for elderly people, ocean and river cruise ships, airport lounges or wedding houses in Asia: the potential of project business is huge.

In addition to the traditional target groups we have already talked about, are there others that will become interesting in the future?
Schmidt: In the USA and Western Europe, a new category is currently emerging that may seem unusual compared with our references to date: residential homes for elderly people. Other promising areas include ocean and river cruise ships and airlines, where our products can find a home in business and senator lounges as well as business and first-class cabin service on board. For example, the lounges at Luxembourg Airport are equipped with Villeroy & Boch tableware.

And in Asia?
Schmidt: In Japan, one market with potential is comparatively unknown in western cultures: the tradition of “wedding houses”. These event locations are built and fitted specifically to host weddings. We have already equipped several such houses with tableware, with lucrative volumes of up to 15,000 items in each case. And there are around 800 wedding houses throughout Japan.

So Asia is also one of your growth regions?
Schmidt: Yes. And our offices and teams in Singapore, China, Thailand, Hong Kong and Tokyo mean we have a presence and a strong position in the most important regions. In 2015, we are even launching a collection for Asia that is specifically tailored to local needs.

1 2 Villeroy & Boch’s team of designers spent several months working on the special decors for the legendary luxury train operated by the Belmond Group. The decors are geared towards the interior of the restaurant cars “L’Oriental”, “Etoile du Nord” and “Côte d’Azur”.

3 Earth, wind, water and air: Inspired by the four elements and with a view to the current food and style trends in high-end gastronomy, Villeroy & Boch has developed the Amarah decor.

4 Amarah brings subtle decoration and colour to the table, and adds an extra ingredient to the chef’s creations. Therefore, the decor catches the eye both in casual dining and high-end gastronomy, as well as in lobbies, lounges and bars.

"From university to working life" – this is the motto of Villeroy & Boch's graduate entry programme, which it has stepped up significantly over recent years. The company's junior management programme trains young men and women for specialist and management positions. 34 graduates are currently completing the three years of specialist on-the-job training.

"WE WANT TO ACHIEVE SOMETHING AND MAKE A DIFFERENCE"

Ewa Margiel, who has been on the engineering programme for two years, and Ralph Kimmerle, who began his career with Villeroy & Boch in October 2014 with a focus on marketing, talk about their decision to join the Villeroy & Boch graduate entry programme, their expectations and their experiences.

Why did you decide to join Villeroy & Boch's junior management programme?

Kimmerle: I saw the programme on the Internet and immediately thought it looked very appealing. As I have not yet decided which area of marketing I ultimately want to work in, the junior management programme is ideal for me because it allows me to get to know different areas. The three-year timeframe in particular won me over: Quite simply, the phases spent in the individual marketing areas are longer than in the programmes offered by other companies, and this gives you the opportunity to learn a great deal.

> *"The great thing is that you are given responsibility for projects early on."*

Margiel: I had previously done an internship at V & B and I wrote my master's thesis here, so I very much wanted to stay with the company. The junior management programme was the perfect opportunity.

How did the application and selection process work and what were your experiences of it?

Kimmerle: A telephone interview was arranged relatively soon after I submitted my application – I thought that was very positive. Following the interview, I was invited to the two-day assessment centre in Mettlach. The first day was quite strenuous, with presentations, individual tasks, group work and psychological tests. On the second day, I had a specialist interview with managers from the individual departments.

Margiel: For me, the application process was a little different. During my internship, my current manager asked me if I would be interested in the programme. We then discussed the potential content – I am one of the first people to participate in the engineering programme at Villeroy & Boch, after all. In other words, I started with the specialist interview, followed by the psychological tests and the assessment centre.

1 Taking responsibility right at the start of their career: Ewa Margiel and Ralph Kimmerle. They are both on the three-year junior management programme at Villeroy & Boch.

In some cases, Villeroy & Boch's three-year junior management programme varies considerably from area to area. What does your own tailored programme involve?

Kimmerle: In my first year, I am working in product management in the Tableware Division. This relatively long phase will give me the opportunity to experience the product life cycle of plates, cups and bowls first hand – from the initial idea to the eventual launch. In the two remaining years, I will get to know other areas of marketing, including at Bathroom and Wellness.

Margiel: In the first phase of the junior engineering programme, we were familiarised with every aspect of production, from mould making and body and glaze preparation through to firing. The junior programme then takes less of a station-based approach, focusing more on projects: For example, I have worked on improving production workflows in Tableware production in Merzig with the aim of preventing bottlenecks in the process flow. I am now part of a project that we are realising at the sanitary ware factory in Mettlach.

> *"Mentor helps us with technical issues and soft skills"*

What exactly does this involve?

Margiel: I am working on a process database. When a washbasin is produced, for example, a wide range of data on this specific item is fed into the process database, such as the glazing time and the room temperature at the respective moment. Analysing this data allows us to identify the optimal production parameters. I am working intensively on this project and will also be implementing the process database at other plants – which is something I am looking forward to.

What do you particularly like about your programme?

Margiel: I enjoy the project-related work. Also, each of us has a mentor to support us on technical issues as well as developing our soft skills. I like that, because it means you always have someone you can talk to about what you want from the programme and what you can achieve within it.

Kimmerle: It is good to know that you will quickly gain the confidence of employees and, in particular, be given responsibility for projects. I was included as a full member of the team right from the start. I also think it is great that the programme lets you travel and gain experience abroad.

1

JUNIOR MANAGEMENT PROGRAMME AT VILLEROY & BOCH

- Three-year graduate entry programme in the areas of controlling/finance, procurement, human resources, engineering, marketing, supply chain management and sales
- Practice-oriented programme with a focus on learning by doing and targeted management training
- Job rotation with up to six stations covering all divisions and relevant specialist areas
- Opportunity to spend time abroad
- Support from Corporate HR Development and possibility of mentoring by an experienced manager
- Regular feedback discussions and potential analysis
- More information on the junior management programme can be found here: http://www.villeroyboch-group.com/en/careers/hochschulabsolventen/infos-rund-um-das-juniorenprogramm.html

1 Ralph Kimmerle is partway through his first station in the junior management programme in Tableware Product Management. Here, he gets to experience the lifecycle of crockery and glass collections first-hand.

2 Her specialist subject is data, processes and analyses. Ewa Margiel is currently working on a database for identifying the optimum production parameters.

Margiel: Yes, this is something that also interests me a lot. For example, I got to spend time at the production facilities in Hungary and Romania – which was a great experience.

Mettlach cannot really be compared with cities like Berlin, Munich or Hamburg. Are the town, and Saarland generally, still an attractive place to live and work?
Margiel: Absolutely! Before this, I lived in Warsaw, so it was only natural that the change took some getting used to at first – but now I am very happy here. I don't have to sit in a traffic jam every day, I live ten minutes from work, there is so much greenery here. I like going horse-riding. The region is very good for that. I also got to know other people incredibly quickly, including through the junior management programme.
Kimmerle: Of course Mettlach is a small place. As a place to work, that's just what I want. Being close to nature is great. However, I did decide to live in Trier, which isn't too far away and is easily accessible by train. Another good thing about the location is its proximity to Luxembourg and France.

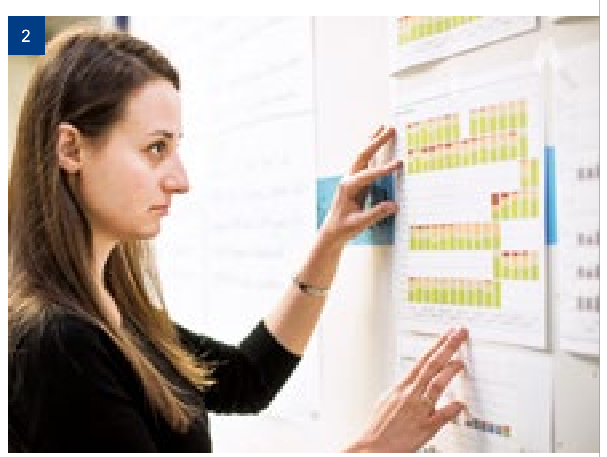
Villeroy & Boch can look back on a 267-year history. What personal contribution do you want to make in order to help ensure that the company is still here in 200 years from now?
Margiel: Digitalisation is an important issue for Villeroy & Boch. I would like to help take the company into an even more digital future.
Kimmerle: I believe tradition is an important aspect that should not be neglected solely in favour of innovation. I would like to work to bridge the gap between these two priorities.

What are your professional ambitions?
Kimmerle: I would love to take up a management position in the longer term.
Margiel: I certainly want to continue working with the data and information collected in the production process. I can well imagine becoming a specialist in this area.

Soft skills are extremely important in today's employment market. What does a junior manager need in this respect?
Kimmerle: You should always be open to new ideas, you should not be afraid to approach people and to be a team player. You should be creative but also precise in your work. And you need to have a certain degree of stress-resistance, because there is always a project deadline on the horizon.

What tips would you give to potential applicants?
Margiel: I would advise them to be genuine. Pretending to be something you are not is no use to anyone.

Thank you for the interview!



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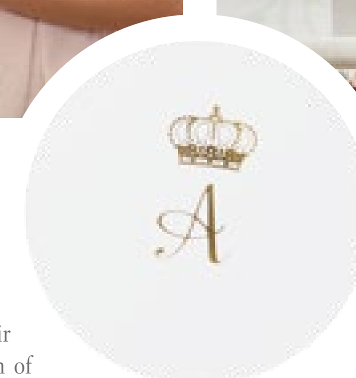
EXCLUSIVE ORDER FOR THE BAPTISM OF PRINCESS AMALIA

Villeroy & Boch's manufacturing plant in Rollingergrund, Luxembourg, is the first port of call when it comes to high-quality, customised porcelain. As well as collectors' figures and its own collections – each in limited editions – the plant produces commissioned work following the "méthode traditionelle".

Source: Cour grand-ducale/Guy Wolff



With great attention to detail, the customers' every wish is fulfilled – customers that recently also included the Grand Ducal Family of Luxembourg. Guests at the baptism of Princess Amalia Gabriela Maria Teresa on 12 uly 2014 received a particularly special souvenir gift: a handmade bowl decorated with the monogram of the Princess.

The optical highlight was the filigree décor of the premium porcelain bowl, which was designed by the parents of the newborn Amalia, Prince Félix and Princess Claire of Luxembourg, together with Villeroy & Boch. The artfully designed monogram of Princess Amalia was applied by hand to the centre of the bowl in 18-carat yellow gold. The ceramic ware was based on a traditional form that was reproduced especially for the baptism.

Nicolas Luc Villeroy, Head of the Tableware Division at Villeroy & Boch AG, underlines the importance of the company's location in Luxembourg: "The manufacturing plant in Rollingergrund is symbolic of our high-quality tableware, which continues to set the standard in terms of material quality and design strength – just as it has always done."

France, the country of the culinary art and the home of exquisite tableware: In the heart of the nation's capital, Villeroy & Boch operates a "La Maison de Villeroy et Boch", the French name for its "The House of Villeroy & Boch" stores. We take a visit to one of the best addresses in Paris.

C'EST SI BON: A VISIT TO VILLEROY & BOCH PARIS

Paris in the autumn: The air is still a little chilly on this particular Monday morning. Most of the people on the street are clearly in a hurry to get somewhere. But not in the Rue Royale. This is a place for strolling and taking your time; shoppers here appreciate the finer side of life. Surrounded by exclusive shops and high-end flagship brand stores, between Gucci, Prada and Chanel, is the home of Villeroy & Boch's premium store.

Elegant and inviting at the same time – this is the face of the traditional European brand in Paris. A warm light emanates from the building. The windows are stylishly decorated: Wood adds an autumnal accent, muted colours let the products shine. Unlike its fancy neighbours, the shop door is open. Store manager Isabelle Baudrier greets shoppers with a charming and undemonstrative smile. She has been working here for seven years and knows that many customers want to begin by being left in peace to browse. Saturdays are particularly busy. The guests come from all over the world, from China, South America, Dubai – tourists are particularly attracted to the classy Rue Royale. For customers who end up buying a lot, the boss is more than happy to help with packing and carrying the items or organising home delivery. Good service is included in the price.

What Villeroy & Boch products does Isabelle Baudrier herself own? She laughs, because she has long since lost count. She was particularly taken by the clear-cut NewWave and Anmut in white. Her motto is "Il faut aimer ses produits pour les vendre" – you have to love your products to sell them. Quality plays a particularly important role. Competition in

1

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France is strong, and a well-known porcelain manufacturer from Limoges has a store nearby. Isabelle Baudrier takes a relaxed view, however: "Our products offer impressive design and durability, and this is what our customers appreciate." Like the Spanish couple who are just entering the store and heading for a table of floral décors, for example. "We have this collection at home," enthuses the woman. "My grandmother owned Villeroy & Boch tableware, and I won't allow anything else on my table."

"You have to love your products to sell them"

Villeroy & Boch enjoys a high level of brand recognition and uninterrupted popularity going back generations. Alongside classics such as Alt Luxemburg and French Garden, newer collections like Artesano and Anmut are now gaining widespread recognition. One popular souvenir is the Paris cup from the "New Wave Caffè – Cities of the World" collection. A group of young Japanese people also take an interest in the presentation corner – only to be distracted by a small metal Christmas tree bearing numerous decorations. Christmas business starts to kick into gear in late September. "During this period, we sell accessories, table sets and decorative elements en masse," explains Isabelle Baudrier while one of her colleagues dresses a Christmas display. Because most tourists leave on Sunday, Monday morning is a quieter time – making it a good opportunity to focus on new presentations.

The Villeroy & Boch store on the Rue Royale occupies an area of around 130 square metres and was extensively renovated in 2010. The furnishing concept is an impressive combination of elegant white and muted grey tones, while high-quality real wood flooring and isolated leather elements give the boutique a flair that fits its surroundings in the Rue Royale. Out on the street, the day resonates to the impatient honking of car horns and the conversations of window-shoppers in every imaginable language. By contrast, the store is an oasis of calm, inviting shoppers to take their time and browse. Is this still a relevant quality in a world where consumers can order everything their heart desires online with a click of the mouse button? Isabelle Baudrier smiles and says: "Customers who visit us here in the Rue Royale want to experience our products at first hand. They want to look at them, touch them and find out what suits them best. And everyone is welcome to come and do the same, whenever they want."

1 In Rue Royale, one of the most exclusive addresses in Paris, customers at the "Maison de Villeroy et Boch" can expect the best service as well as high-quality products.

2 A sought-after souvenir in Rue Royale, too: The Paris city cup from the "NewWave Caffè – Cities of the World" series.

TABLEWARE AT THE POINT OF SALE

168
"The House of Villeroy & Boch" stores.

67
Factory outlets.

560
Concession and consignment stores.

4,830
Placement with specialist retailers.

BERND SCHWEBACH RIDES AGAIN

Bernd Schwebach has worked in field sales for Bathroom and Wellness for the past 20 years. His customers: retailers. The areas he covers: Saarland, Rhineland-Palatinate and North Rhine-Westphalia. Insights editor Nicole Hofmann reports back from a day spent in his company.

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8 A.M.: Bernd Schwebach's working day begins. Cool November air accompanies him on the way to his company car, a mid-sized estate car in metallic mineral grey. Automatic transmission, navigation system, hands-free telephone. These are all useful tools for Schwebach. The 48-year-old spends a lot of time on the road, and his car is his mode of transportation, his office and, to a certain extent, his living space. A cross pendant on a brown chain hangs from the windscreen wiper stalk. A little detail that gives Bernd Schwebach's company car a personal touch, like a family photo in an office. Schwebach starts the car. He has four wholesalers on his schedule for the day. The first destination is Prüm, a climatic spa town in the West Eifel region, just a few kilometres from the national border with Belgium and Luxembourg. Schwebach has an hour and a half of driving ahead of him. The radio plays quietly in the background.

After just a few minutes, the phone rings for the first time. At the other end of the line is a colleague who is responsible for contract business in southern Germany: hotels, restaurants, hospitals, nursery schools and senior citizens' centres looking for suitable sanitary ware products. But Schwebach's hands-free device also resonates to the sound of colleagues who work in retail or plumbing sales. "It is important for the interplay between contract, retail and wholesale business to work well. I talk to my regional colleagues on the phone almost every day. The main thing is to leverage synergies. For example, when talking to retailers I often get to hear about hotels that are in the planning phase. This is information that I can pass on to my colleagues," he explains.

9.35 A.M.: Schwebach reaches his first customer. They know each other already and the atmosphere is relaxed. Synergies are at play here, too: coffee is served in Villeroy & Boch cups. Schwebach starts by talking to the showroom manager. Which products are doing well, and which are doing less well? Which new Villeroy & Boch products are being launched and should be included in the showroom display?

Next, he takes a look at the Villeroy & Boch items that are on display. He tests the SoftClosing technology in the WC seats, checks whether products with signs of wear and tear need to be replaced, and compares his own display list with the items installed in the showroom. These are routine tasks that have to be performed at regular intervals, albeit not every time. After all, the products are supposed to make a good first impression on potential buyers.

It is now 11 A.M. After briefly talking to the sales specialist about collections and customer feedback, Bernd Schwebach takes a look at returns handling. Generally speaking, very few products are returned to wholesalers by retailers. However, field sales is responsible for examining whether a refund is necessary.

BY 12:35 P.M., Bernd Schwebach is back in his car again. A quick sweep of his e-mails and incoming calls, a few return calls. Two customers and an office-based colleague have tried to reach him in the meantime. He cannot spend too long worrying about that, though: he is due at the next wholesaler at 1 p.m. and still has 30 minutes of driving ahead of him. But Schwebach is unfazed. Days like this are standard procedure for the sales professional. He flips down the sun visor and starts the car. The sun is showing its face for the first time.

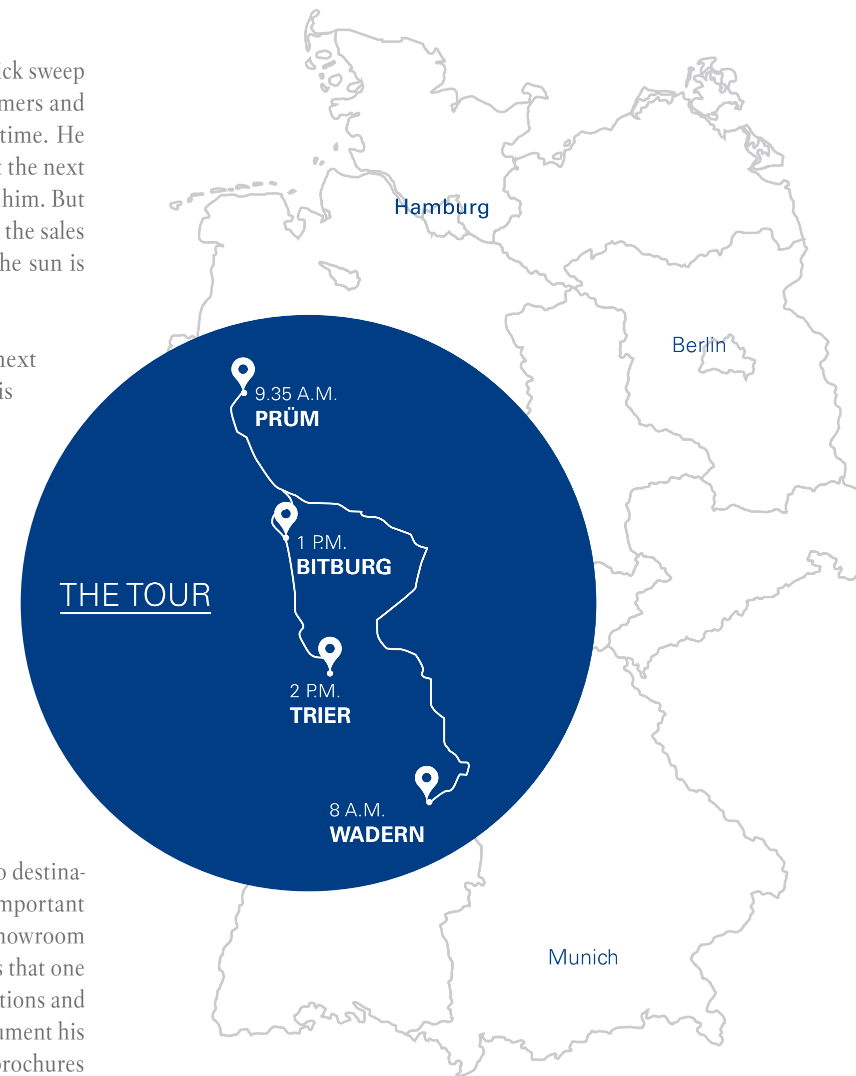
JUST AFTER 1 P.M., Bitburg: Schwebach reaches his next customer almost on time. The showroom manager is still on his lunch break. Schwebach uses these valuable minutes to make some more phone calls and reply to e-mails. Time is money. And free time is scarce.

The meeting with the wholesaler underlines the importance of information, expert advice and service. Schwebach and the showroom manager discuss the difference between Quaryl and acrylic in detail. Later, Schwebach will arrange for material samples to be sent, as well as making contact with the sales team at V & B Fliesen GmbH: he has learned that the customer WCs at the building are in need of renovation. Once again, he proves himself to be a man who knows how to recognise and leverage synergies.

After a good hour, Schwebach continues to Trier and the last two destinations on his list. One of them is one of Villeroy & Boch's most important wholesale customers, with an impressive 650 square metres of showroom space. The conversation is an informative one: Schwebach learns that one of the products on display is not meeting the initial sales expectations and is able to ask about the reasons right there and then. He will document his findings and share them with his colleagues. Whereas the new brochures and colour samples that he has brought with him will stay behind.

The last bathroom showroom on Bernd Schwebach's tour is around 200 square metres in size. He accompanies the showroom manager on a walk around the attractively designed booths to get a picture of the situation on the ground. In the subsequent discussion with the bathroom expert, he establishes where the Squaro Edge 12 bathtub – a Villeroy & Boch success story – should be integrated.

5 P.M.: Darkness has fallen by the time Bernd Schwebach starts to make his way back home. His day's work will soon be over, although he still has to write up reports on today's four visits and plan his next route. "Things never get boring in field sales. But that is just one of the reasons why I love my job so much," he explains. Tomorrow, Schwebach will be back on the road again. More customer visits await him – and, with them, many more reasons for him to stay loyal to Villeroy & Boch's field sales.



1 As a sales representative, Bernd Schwebach does a lot of driving. The wholesalers he deals with are based in Saarland, Rhineland-Palatinate and North Rhine-Westphalia.

2 A critical look: Bernd Schwebach examines products returned by retailers in the return department of a wholesaler.

DESIGN AWARDS 2014

Along with good sales figures, awards for product design and functionality are the deserved reward for all product developers and managers. The Bathroom and Wellness Division received these and other awards in 2014 alone.

ARCHITECTURA
In the autumn, the Architectura bathroom ceramic collection received the Iconic Award 2014 in the product category. The Architectura collection, whose clear design language is based on the geometric forms of the circle, square and oval, was created by the renowned design office Oliver Conrad Studio in Düsseldorf.

ARCHITECTURA METALRIM SHOWER TRAYS

The new shower trays from the Architectura MetalRim collection won the Red Dot Design Award, one of the most prestigious international design awards, in the product design category. This was the fifth year in succession that an award was given to a Villeroy & Boch Bathroom and Wellness product. The special feature of the Architectura MetalRim shower trays is their ultra-flat, rimless design, which makes them a harmonious fit for every bathroom. The new MetalRim technology – a galvanised steel reinforcement integrated into the rim area – guarantees maximum material stability and offers unlimited design creativity.

OMNIA ARCHITECTURA DIRECTFLUSH WC
A double honour for the Omnia Architectura WC with DirectFlush technology: while an expert jury gave the product the universal design award 2014, it was also recognised as the universal design consumer favourite 2014 by a panel of consumers. DirectFlush, the WC innovation from Villeroy & Boch, is setting new standards in the field of hygiene. The rimless surface allows quick and easy cleaning. This makes DirectFlush ideal for meeting today's high standards of hygiene not only in hospitals and public buildings with heavy use, but also in private households.

VICLEAN-U SHOWER TOILET
The ViClean-U shower toilet was one of the prize-winners at the iF product design awards 2014. The innovative WC offers gentle intimate cleaning thanks to a wide range of customisable functions. The water temperature, jet strength and nozzle position can all be adjusted. A warm air blower with adjustable temperature ensures comfortable drying.

SQUARO EDGE 12 BATHTUB
The Squaro Edge 12 bathtub won the Interior Innovation Award, which was presented by the German Design Council during the "imm cologne" trade fair. The bathtub family catches the eye with its clear lines and 12 mm rim, which can only be realised in this form using Quaryl, the material developed exclusively by Villeroy & Boch.

2014 IN NUMBERS

1,000,000

ceramic products from the O.novo sanitary ware collection have been sold by Villeroy & Boch since its launch in 2011. O.novo encompasses a vast range of product types and sizes, from washbasins, WCs, bidets and urinals through to showers and bathtubs.

192,000

is the number of Facebook fans Villeroy & Boch had at the end of 2014 – an increase of 111,000 or 137 % compared with the previous year.

80,000

people visited the Villeroy & Boch Discovery Centre at its headquarters in Mettlach in 2014. The Keravision exhibit and the museum of ceramics present the company's history, which stretches back over a quarter of a millennium. Other attractions include the nostalgic museum café, the Tableware world of discovery and the Bathroom and Wellness information centre.

64

trade fairs were organised by the Tableware marketing and sales team in the past year. New products for the "perfectly laid table" were presented to specialist audiences and private visitors around the world.

35

young men and women started an apprenticeship or dual course of studies at Villeroy & Boch in Saarland in September 2014. The company is currently training around 100 young talents in Saarland, making it one of the largest training providers in the region.

EXQUISITE COOKING MEETS ELEGANT PORCELAIN

1

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Exquisite food belongs on exquisite porcelain. So it is no surprise that Villeroy & Boch has been a partner of two of the world's most prestigious cooking competitions for a number of years: the "Bocuse d'Or" and the "Villeroy & Boch Culinary World Cup". In the case of the latter, the company has even acted as main sponsor and lent its name to the event for the past two years. "With high standards in terms of quality, expertise, creativity and innovation, both of these cooking competitions stand for the same values that our brand has always represented. As such, we are delighted to be a partner of these high-class events," explains Nicolas Luc Villeroy, Head of the Tableware Division at Villeroy & Boch AG.

More than 1,000 cooks and patissiers all set to start in Luxembourg

In November 2014, more than 1,000 chefs and confectioners from around the world gathered in Luxembourg to crown the best cooking team as part of the "Villeroy & Boch Culinary World Cup". The chefs all came up with delicious creations – presented on Villeroy & Boch tableware, of course. This year, a dinner plate from Villeroy & Boch's "Affinity" hotel series was selected. Appropriately enough, the plate was created at the headquarters of the company's hotel and restaurant division in Luxembourg.

Another plate from the "Affinity" collection was used to present the excellent cuisine at the "Bocuse d'Or" competition. Chefs from 24 countries gathered in Lyon, France, in January 2015 having previously qualified from national and regional pre-selections. "The aim of the competition is not only to find the best chef, but also to promote young talents and offer them a platform. This is something we are pleased to support," explains Nicolas Luc Villeroy.

3

AFFINITY

Villeroy & Boch has produced the successful 70-piece "Affinity" series since 2013. With a diameter of 29 and 31.5 centimetres, the elegant round dinner plates and underplates from the series give chefs plenty of space to present their creations appealingly. Clear shapes, light weight and top quality make the plates the ideal product for high-end gastronomy.

Cooking competitions to promote young talents

Villeroy & Boch was a partner for the event for the eleventh year in succession.

For Burkhard Schmidt, Director of the Hotel and Restaurant Division in the Tableware Division, competitions like the "Villeroy & Boch Culinary World Cup" and the "Bocuse d'Or" are important marketing and sales platforms. "They give us the opportunity to present our collections, which are specially tailored to the needs of the high-end restaurant and hotel industry, in an appropriate environment. Top chefs from around the world arrange their creations on our products, and hence come into contact with us. The 'Affinity' collection is now on everyone's lips," notes Schmidt.

1 For two years now, Villeroy & Boch has been the title sponsor of the "Culinary World Cup", one of the most famous cooking competitions in the world.

2 Emotions run high: Prize-winners in this prestigious competition experience uncontained joy.

3 A plate sets the stage for exquisite meals: In the cooking competitions "Bocuse d'Or" and the "Villeroy & Boch Culinary World Cup", plates in the "Affinity" range form the backdrop to the participants' culinary creations.

"WE STAND FOR CHANGE"

The expansion of the Sanipa bathroom furniture plant in Treuchtlingen continued in 2014 with extensive investments. The brand and the production site have belonged to the Villeroy & Boch Group for the past seven years and are important pillars of the Bathroom and Wellness Division. But Sanipa is also an object lesson in achieving a turnaround. How to guide a distressed company to a successful future with great commitment – this is the moral of the story of the company as told in seven chapters.

1 STARTING SITUATION

2007 is not a good year for the bathroom furniture brand Sanipa. The medium-sized company in Treuchtlingen in Franconia has built up a good reputation since its formation in 1976, but revenue has been falling for years – by 20 percent in 2007 alone – and the threat of bankruptcy is real. The shareholders attempt to ward off insolvency. Without success.

2 "THERE MAY BE TROUBLE AHEAD"

Sanipa files for insolvency on 16 January 2008. At its peak, the company had a workforce of 500; over the coming months, the number of employees will fall to just 110. Managers leave the company. Villeroy & Boch starts negotiations in spring. Sanipa manufactures high-quality products and has enjoyed a strong presence as a partner of the three-stage channel in the sanitary ware sector for more than 30 years – making it a good fit for Villeroy & Boch. The contracts are sewn up in May. But the specialist press is sceptical. Their doomy prophecy: "There may be trouble ahead for the production of bathroom furniture."

3 PILLAR FOR THE MID-PRICE SEGMENT

Indeed, the insolvency not only damaged Sanipa's image; the half-year shutdown in Treuchtlingen prompts customers to find new providers. Sanipa's market share in Germany collapses. Villeroy & Boch enters with substantial investment and a clear vision for the brand and the location. Naturally, the aim is to increase in-house production capacities in order to satisfy international demand for bathroom furniture. With the acquisition of Sanipa, Villeroy & Boch is also making a targeted foray into the mid-price segment – and hence expanding its bathroom furniture activities as a whole. A two-brand strategy is adopted. "Sanipa" will continue to exist in the German-speaking nations: plumbers and trade customers have always appreciated its quality and service as a craftsmen's brand, and

1 Yubel bathroom furniture collection: A simple, purist design combined with functionality.

2 The management duo in Treuchtlingen: Herbert Stabauer (left) and Markus Rühl.

the production of private labels for wholesale customers will become a pillar of the business model once again. For the rest of the world, the products – largely manufactured in Mondsee in Austria – will be marketed under the Villeroy & Boch name. A decision that will open the doors to the Sanipa brand for many customers.
The plans prove successful. From 2010, Sanipa records double-digit growth rates. The brand is not only one of the big winners in the bathroom furniture sector, but also establishes itself as an important element of the Villeroy & Boch world. Andreas Pfeiffer, member of the Villeroy & Boch Management Board responsible for Bathroom and Wellness, neatly sums up the development in a single sentence: "We acquired Sanipa in an extremely difficult situation in 2008 and have helped the brand to find its feet again thanks to a systematic realignment."

4
AUTOMATION AROUND THE EDGES

Villeroy & Boch has invested a total of Euro 6.3 million in the Treuchtlingen production site since 2008. And at Euro 4 million in 2014 alone, Sanipa saw the largest single investment in its entire history.
The centrepiece of this latest invention is an edging machine. Herbert Stabauer, Technical Director at the plant and member of Sanipa's Management Team, explains the benefits of the machine: "Furniture components can now be edged fully automatically, thereby improving our workflows and raising the quality of our workmanship. In future, too, we will be able to deliver optimal edge processing for a wide range of requirements." Investment activity also focuses on 3D coating: thanks to another new machine, MDF boards can be covered with a film entirely automatically before being used in components such as cabinet doors.

Cutting, milling and drilling are already automated. In addition, a barcode is attached to each work piece before it is transported by conveyor belt to the parts store. Components that require further processing – such as film application or edging – are automatically called up from the store and transported to the respective machine. Stabauer: "Automation makes a huge contribution to our competitiveness at the site. And it generates additional capacity, which we will surely need before long in light of our current growth."

5
COMBINING EFFORTS FOR THE FUTURE

Growth plans combined with confidence – Herbert Stabauer is not the only one to feel this way. Markus Rühl is the Commercial Director at Sanipa and a member of the Management Team, as well as being the Head of Sales. "Quite an effort," he concedes, but then he does have experience in this area. Rühl saw Sanipa's fate at first hand: "Without Villeroy & Boch as a strong partner, this success story would not have been possible," he summarises.

He can well remember the period following the "zero hour": the constructive support provided to the sales organisation by his managers, Jürgen Beining and Martin Metzler. The deliberately aggressive external campaign with a strong team. The fact that Villeroy & Boch temporarily reassigned all product development capacities for furniture to Sanipa and redefined all of the collections within 18 months. And, last but not least, the impact that was made at the International Sanitary and Heating (ISH) trade fair in March 2009: a clear sign to the market that caused a stir. "We were back. Our appearance at the trade fair also embodied the evolution of our image – from a "me too" provider to a company with an innovative approach and innovative products."

6
A CHANGING BRAND

Today, Sanipa has around 130 employees, meaning that its workforce is around 25 % larger than seven years ago. 25 new jobs have been created since the acquisition in 2008. From bathroom furniture and washbasins to backlit mirrors and mirrored cabinets: Sanipa is positioned as a contemporary furniture specialist with a healthy mix of craftsmanship, outstanding quality and attractive design. These characteristics, combined with a high level of service, mean it also enjoys stable customer retention.
Nonetheless: "Sanipa is very much an object lesson in change," explains Markus Rühl. The company's turnaround can be attributed not only to state-of-the-art systems, but also to its employees' adaptability and willingness to change. "It is about the people behind the brand. Our team pulls in the same direction and our colleagues are not afraid to think outside the box. This is reflected in the appreciation shown by Villeroy & Boch for our performance."

7
GROWTH

This performance can be quantified: in the last four years, Sanipa has recorded double-digit growth rates and doubled its revenue. "A success that every employee has been a part of," states Rühl. He has a clear vision when it comes to the next steps for Sanipa: efficient capacity utilisation and further process automation. Offering innovative, user-friendly products and services. Optimising the earnings situation and, of course, continuing to provide a positive working environment. "We want to reinforce the role of the Treuchtlingen site as a competence centre for bathroom furniture within the Villeroy & Boch Group while becoming the market leader in Germany within our three-stage sales channel." This may sound ambitious. But the success enjoyed by the brand makes it far from unrealistic. With a combination of dedicated employees, modern production facilities and clear objectives, the future looks bright for Sanipa.


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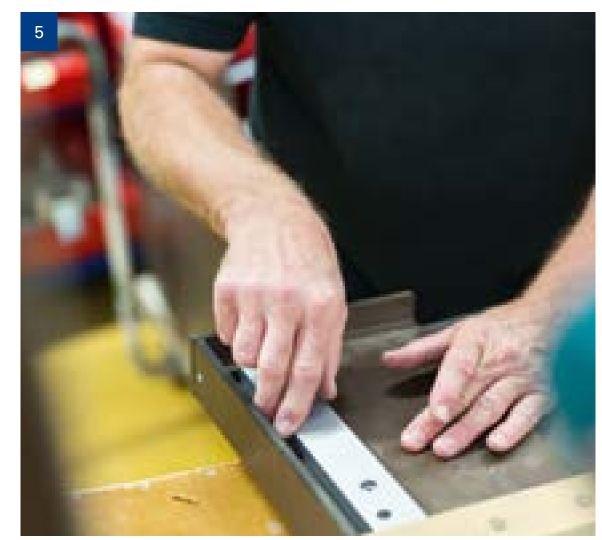
1 State-of-the-art technology and maximum precision: In edging and coating, nothing is left to chance.

2 Benjamin Glas prepares the foiling of a piece of furniture.

3 Quality control is still done by hand at Sanipa. Pictured: Brigitte Schneikert.

4 Employee Reinhold Schmidt applies adhesive to adapters in the assembly shop.

5 The pre-glued adapters are then put in place to support the round fronts.


4

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Villeroy & Boch AG

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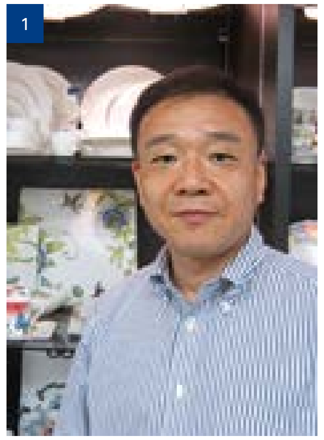

From NewWave and Old Luxembourg to Mariefleur and Artesano Provençal, European tableware is big business in Japan. The Asian nation is an important and promising market for Villeroy & Boch. In figures, the Japanese Tableware team generated revenue of Euro 5.5 million in the 2014 financial year – and the trend is a positive one. This was underlined once more by the opening of the new flagship store in the Japanese capital, Tokyo. Since September 2014, the “House of Villeroy & Boch” at the “Roppongi Hills” shopping mall has presented products for the perfectly laid table.

VILLEROY & BOCH EXPANDS ITS PRESENCE IN JAPAN

Over 105 square metres, the expert team led by shop manager Tomoyo Higuchi advises customers and helps them to realise their personal tableware ideas. In addition to traditional tableware, a range of accessories including napkins and table cloths completes the image of the perfectly laid table. Gift items are also an important part of the product range. “Demand in this area is immense, from smaller personal gifts right through to wedding presents,” explains Hirotaka Ogawa, managing director of the Tableware Division’s activities in Japan.

With the new store in Tokyo, the company is pressing ahead with the expansion of its presence in Japan, and hence in the strategic growth region of Asia/Pacific. “Roppongi Hills was our first choice of location for the new Villeroy & Boch flagship store. Our brand is a perfect match for the high-end environment of this exclusive shopping centre in the heart of Tokyo,” explains Nicolas Luc Villeroy, Villeroy & Boch AG Management Board member responsible for the Tableware Division. He insisted on travelling to Tokyo for the opening event in order to get an impression of the new store and welcome the invited guests in person. The importance of the store opening for the cooperation between Japan and Germany was underlined by the presence of a very special guest: the German ambassador to Japan, Dr. Hans Carl von Werthern, gave a speech to the invitees in which he expressed his enthusiasm about the new store. “Our new flagship store in Tokyo will further increase our brand awareness in Japan,” Ogawa says with confidence. This will also be driven by intensified marketing and PR activities such as in-store events. “With our excellent position in this shopping and business complex, we will reach not only Japanese customers who appreciate the authenticity, design and quality of European tableware, but also a large number of international customers,” Ogawa explains.

The flagship store in Tokyo is the 13th Tableware point of sale in Japan. There are two other “House of Villeroy & Boch” stores in Jiyugaoka and Aoyama, as well as three factory outlet centres and seven department stores offering products from the Villeroy & Boch brand – and further points of sale in major Japanese cities are planned. The company is also pressing ahead with the expansion of e-shop activities in Japan.

1 Hirotaka Ogawa says: “Our new flagship store in Tokyo will raise our brand profile in Japan further”.

2 The response to the new flagship store in Tokyo shows that there is high demand for European tableware in Japan.

2

The construction boom of the mid-2000s in Dubai, Qatar and co. was followed by a wake-up call: The global financial crisis in 2008 also hit the Arabian Peninsula, with investments scaled back and construction projects halted. Following the award of the Expo 2020 to Dubai and the Football World Cup 2022 to Qatar, however, building activity has picked up again. And Villeroy & Boch wants to benefit from this trend. After all, where there is construction, there is demand for high-quality bathrooms.

EXPO 2020 AND FOOTBALL WORLD CUP 2022 GIVE PROJECT BUSINESS A BOOST

1

Thorsten Bies, who is now the Bathroom and Wellness Division's Sales Director for the regions Middle East, Africa, India and Southeast Europe, remembers 2007 very well. The next stop in his career was Dubai, where he was tasked with kick-starting the company's project business in the Gulf States. "In Dubai in particular, things were going crazy. International investors and banks had discovered the city – and so had the international architectural scene," Bies recalls. His job was to make contact with architects, designers and project developers in order to position Villeroy & Boch as a premium European provider of ceramic sanitary ware and complete bathrooms in sophisticated hotels and high-quality residential and infrastructural properties.

As quickly as the bubble expanded in Dubai, however, many of the investors' construction plans were swiftly put on ice again with the onset of the global financial crisis. Some of them stayed there until autumn 2013, when it was announced that Expo 2020 would be held in Dubai – the event's first visit to the Arabian Peninsula. Bies: "This gave a new lease of life to many projects and master plans, because Dubai wants to present itself as a model of a developed city in time for the world exposition."
Between now and 2020, a number of hotel projects will be realised in the city with two million inhabitants. One current example is the three buildings belonging to the five-star hotel chain "The Address". The fact that all 1,785 bathrooms in these hotels will be fitted with Villeroy & Boch products is thanks to the hard work of Stefan Dillschneider, Head of Sales for the Middle East since April 2014, and his two-man local team. The centrepiece of the bathrooms will be free-standing baths from the Aveo New Generation collection – absolute premium products, in other words. "When it comes to projects of this nature, the difference compared with our European business becomes clear: Planned investments often include scope for luxury and premium products. This is rarely the case in Europe, which is what makes working in the Gulf region so exciting," explains Dillschneider, who – like Bies – has been with Villeroy & Boch for a number of years.

But Dubai is about more than just hotels. Numerous residential construction projects are also in the pipeline as high-net-worth investors from Europe, Russia and India look for opportunities to invest their money. Sometimes for owner-occupancy, sometimes for rental to expats, i. e. managers and specialists from abroad who are temporarily seconded to the Gulf region. "In this case, the Villeroy & Boch brand is used as a badge of quality and prestige in order to market the properties more successfully," says Stefan Dillschneider with some pride.
In addition to Dubai, Qatar is the most exciting market in the Gulf region at present – and all because of the Football World Cup 2022. Because Qatar is not yet an established tourist destination, massive investments will be required over the coming years, particularly in hotel capacities for accommodating the huge numbers of international guests that are expected. To give an indication, around 700,000 foreign visitors travelled to Brazil for the 2014 competition – and Qatar is still some way away from having this number of hotel beds. This is good news for all sanitary ware manufacturers, as it means the number of projects with business potential has increased even further. And Dillschneider has no doubt that many of the bathrooms will be fitted with Villeroy & Boch products: "We have such good and, in some cases, long-standing contacts in the region that we will definitely be one of the beneficiaries." Many of these contacts were initiated by Thorsten Bies during his "one-man show" in the Gulf States as Director of Sales between 2007 and 2010. Networking pays off, in other words – sometimes within a few months, sometimes only several years later.

2

3

1 Dubai's cityscape could be very different by the time of Expo 2020.

2 Thorsten Bies has been boosting project business in the Gulf States since 2007.

3 Stefan Dillschneider has been Head of Sales for the Middle East since April 2014.

4 Eye-catchers at three "The Address" hotels in Dubai: The "Aveo New Generation" free-standing bath.

4

SELECTION OF CURRENT REFERENCE PROJECTS IN THE MIDDLE EAST:

BAHRAIN
Reference: **Four Seasons "Bahrain Bay" in Manama**
Products: **Subway one-piece WCs**

QATAR
Reference: **Marsa Malaz Kempinski Hotel in Doha**
Products: **Rooms fitted with Loop & Friends and Subway**

OMAN
Reference: **Royal Opera House in Muscat**
Products: **Lavatory facilities fitted with Loop & Friends and Subway**

SAUDI ARABIA
Reference: **King Abdullah Financial District (new business and financial centre) in Riyadh**
Products: **Several buildings fitted with the premium collections La Belle, Pure Stone and Hommage**

UNITED ARAB EMIRATES
Reference: **Three buildings belonging to the new luxury hotel brand "The Address" in Dubai**
Products: **Rooms fitted with Aveo New Generation, Memento, Loop & Friends and Subway**

IMPRINT

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CONTENT

DIVISIONS

BATHROOM AND WELLNESS (in the 2014 financial year)

in € million

		2014	2013	Change in %
Revenue		469.3	456.0	2.9
EBIT		29.1	27.8	4.7
Net operating assets (12 months average)		201.2	201.3	0.0
Return on net operating assets	in %	15.8	14.3	10.5

TABLEWARE (in the 2014 financial year)

in € million

		2014	2013	Change in %
Revenue		297.0	289.3	2.7
EBIT		9.3	8.4	10.7
Net operating assets (12 months average)		93.8	100.2	–6.4
Return on net operating assets	in %	13.4	8.6	55.8

THE GROUP AT A GLANCE

VILLEROY&BOCH

in the 2014 financial year

in € million

		2014	2013	Change in %
Revenue (on a constant currency basis)		766.3	745.3	2.8 (4.0)
Revenue – Germany		218.8	212.8	2.8
Revenue – Abroad (on a constant currency basis)		547.5	532.5	2.8 (4.5)
EBITDA (before special proceeds)		65.3	62.5	4.5
EBITDA		70.1	69.5	0.9
EBIT (before special proceeds)		38.4	36.2	6.1
EBIT		43.2	43.2	0.0
EBT (before special proceeds)		30.1	26.8	12.3
EBT		34.9	33.8	3.3
Group result		24.3	23.9	1.7
Net operating assets (12 months average)		295.0	301.5	–2.2
Balance sheet total		623.1	599.6	3.9
Cash flow from operating activities		50.9	31.6	61.1
Capital Expenditure		44.6	26.4	68.9
Depreciation and amortisation		26.7	26.3	1.5
Employees (annual average)		7,675	7,756	–1.0
Return on net operating assets	in %	13.0	12.0	8.3
Net operating margin (before special proceeds)	in %	5.0	4.9	2.0
Return on equity (ROE; before special proceeds)	in %	13.5	10.5	28.6
Cash flow sales profitability	in %	6.6	4.2	57.1
Equity ratio (incl. minority interests)	in %	23.2	26.8	–13.4
Earnings per ordinary share	in €	0.90	0.88	2.3
Earnings per preference share	in €	0.95	0.93	2.2
Dividend per ordinary share	in €	0.39	0.37	5.4
Dividend per preference share	in €	0.44	0.42	4.8

TO OUR SHAREHOLDERS

GROUP MANAGEMENT REPORT

LETTER TO SHAREHOLDERS

FRANK GÖRING

Chairman of the Management Board (CEO)

Dear Shareholders,

2014 was an extremely good year for Villeroy & Boch. We increased our revenue by 4.0 % on a constant currency basis and 2.8 % in nominal terms. Our operating result improved by an impressive 6.1 % to € 38.4 million, while our return on net operating assets rose by one percentage point to 13.0 % – meaning we reached all of our targets for the year.

I am particularly pleased to note that both divisions contributed to this revenue and earnings growth. On a constant currency basis, revenue in the Bathroom and Wellness Division increased by 4.6 %, while Tableware revenue rose by 3.1 %. In terms of the operating result, the Tableware Division enjoyed substantial growth of 10.7 % to € 9.3 million, while our colleagues in the Bathroom and Wellness Division recorded an increase of 4.7 % to € 29.1 million. This development was largely driven by two effects. On the one hand, we are benefiting from our revenue growth and the optimisation of our revenue quality thanks to an improvement in the product, price and country mix. On the other hand, we have increased our production efficiency largely as a result of our yield improvement programme, which is aimed at generating continuous productivity improvements and minimising reject rates at our sanitary ware plants. We were also able to limit the rise in procurement prices and even reduce our administrative expenses.

As you can see, dear shareholders, we are taking great efforts to increase our operating result – which reflects our actual performance – year after year. We have achieved this goal in each of the past five years. Back in 2010, our operating EBIT amounted to € 23.6 million. In the meantime, we have gradually increased this figure to its current level of € 38.4 million. And because the growth in our operating result has continuously outstripped our revenue development, we have also raised Villeroy & Boch's profitability at the same time. This is an achievement to be proud of.

In addition to EBIT of € 38.4 million, we again generated non-recurring income from the sale of the plant property in Gustavsberg in 2014, although this was slightly lower than in the previous year at € 4.8 million (2013: € 7.0 million). Including the non-recurring income from the real estate sale, EBIT for the past twelve months was unchanged year-on-year at € 43.2 million.

As a faithful reader of the letter to shareholders, you will expect me to tell you not only about our key financial data, but also about our future markets and current projects. I would like to start with China, where our revenue growth of 28.1 % to € 22.7 million made it an outstanding performer even within the generally strong Asia-Pacific region. A look back at the past five years shows an impressive average annual growth rate of 24.4 %. And this success is no coincidence. It can mainly be attributed to the Bathroom and Wellness Division, which is responsible for over 90 % of revenue in the "Middle Kingdom". Over the past three years, we have expanded our distribution network from the eastern coastal belt and the centres of Beijing and Shanghai to include additional conurbations. This is reflected in the number of showrooms, which has almost doubled to 114. Our investments in a dedicated logistics platform have also paid off. We can now offer goods directly to the market and without customs barriers for our customers, allowing us to deliver more quickly and hence reach a broader customer base.

There is a similar situation in Russia, another important future market for us. At 80 %, Bathroom and Wellness products are responsible for a significant proportion of revenues in this market, too – and a dedicated logistics platform, coupled with a growing presence at the point of sale, have given our business a substantial boost. Revenue across both divisions has almost doubled in the past five years, increasing from € 14.0 million to € 27.3 million, with an average annual growth rate of 14.4 %. We even enjoyed strong performance in 2014 despite the political and economic problems and the weakness of the rouble, recording revenue growth of 7.4 % in Group currency and as much as 22.7 % in local currency. However, it is unclear as to how the Russian market will develop in 2015. Experts believe the economy could slide into a severe recession, and we are also observing the development of the rouble with some concern – not an easy environment in which to build upon our recent growth, in other words.

Let us now turn our attention to the other news from our two divisions.

In the Tableware Division, the Hotel and Restaurant sector that is responsible for our project business enjoyed extremely good development in 2014. This sales channel generated revenue of € 29.6 million, an impressive year-on-year increase of 12.6 %. For example, guests in the Waldorf Astoria in Jerusalem and in all of Turkey's embassies worldwide have been eating from our tableware since 2014. In terms of our traditional business with tableware collections, it is particularly encouraging to note that revenue is being borne by more and more shoulders. Unlike previously, we now have six different product families – NewWave, Royal, Mariefleur, Anmut, Amazonia and Artesano – each of which generated revenue of between € 8 million and € 16 million in 2014. The Tableware Division also saw the opening of a number of new stores, including an exclusive flagship store in Tokyo and four stores with our joint venture partner in India. A presence at the point of sale is particularly important in order to allow customers to touch and feel the Villeroy & Boch brand in the most literal sense.

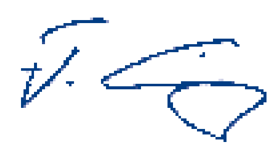
In the Bathroom and Wellness Division, we further expanded our distribution network in the USA in particular. The number of showrooms operated with our partner Toto increased to more than 300, giving us a visibility among existing and potential customers and creating the conditions for continuous revenue growth. Our bathroom furniture business also delivered good news once again, with revenue enjoying further substantial growth of 9.5 % to € 43.3 million in 2014. As a reminder: five years ago, revenue in this area amounted to just € 28.4 million. Our rimless DirectFlush WC category also generated positive headlines. We sold 170,000 of these particularly hygienic and easy-to-clean WCs in 2014, an increase of 263 % on the previous year. In order to enable us to meet the sustained high level of demand, we have further expanded our production capacity and invested in an additional die casting plant at the sanitary ware factory in Mettlach.

Dear shareholders, we hope that this letter and the report that follows will demonstrate that we are on the right path to enjoy even greater success in future. Our 7,657 employees are the main reason we are able to take this path in the first place. Every day, they work hard to advance our products and processes, give our company a face and represent our brand in 125 countries around the world. I would like to take this opportunity to express my gratitude to them on behalf of the entire Management Board.

Your company recorded an encouraging operating result in 2014, and we would like you to participate in this success. Accordingly, the Management Board and Supervisory Board will propose to the General Meeting of Shareholders on 27 March 2015 the payment of a dividend of € 0.39 per ordinary share and € 0.44 per preference share, representing a further increase of € 0.02 on the previous year in each case.

My colleagues on the Management Board and I would like to thank you for the confidence you have placed in us, and we would be delighted if you continued to accompany our development as a company at close proximity as shareholders.

Yours,



Frank Göring, Chairman of the Management Board
Mettlach, March 2015

MEMBERS OF THE MANAGEMENT BOARD

MEMBERS OF THE MANAGEMENT BOARD (F. L. T. R.)

Nicolas Luc Villeroy
Management Board member responsible for Tableware Division

Andreas Pfeiffer
Management Board member responsible for Bathroom and Wellness Division

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

MEMBERS OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD (F. L. T. R.)

Werner Jäger
Chairman of the Head Office Works Council Villeroy & Boch AG

Ralf Runge
First Vice Chairman of the Supervisory Board, Chairman of the Faiencerie Merzig Works Council

Peter Prinz Wittgenstein
Second Vice Chairman of the Supervisory Board, Management Consultant

Dr. Alexander von Boch-Galhau
Management Consultant

Dietmar Geuskens
District Manager of IG Bergbau, Chemie, Energie

Dietmar Langenfeld
Chairman of the Villeroy & Boch AG Central Works Council

François Villeroy de Galhau
Member of the Executive Committee of BNP Paribas S.A.

Yves Elsen
Managing Partner & CEO of HITEC Luxembourg S.A.

Wendelin von Boch-Galhau
Chairman of the Supervisory Board

Christina Rosenberg
Managing Director of Hermès GmbH

Luitwin Gisbert von Boch-Galhau
Honorary member of the Supervisory Board

Bernhard Thömmes
Head of Research and Development Bathroom and Wellness Division Villeroy & Boch AG

Not in the picture:
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 2014 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 discuss and advise on the relevant matters at its meetings. In its resolutions, the Supervisory Board approved the proposed resolutions by the Management Board following its own detailed examination and discussion.

KEY TOPICS DISCUSSED BY THE SUPERVISORY BOARD

In the 2014 financial year, the Supervisory Board held five ordinary meetings and adopted two resolutions by written circulation procedure. No member of the Supervisory Board attended fewer than half of these meetings. 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 2014 focused on discussing the single-entity and consolidated financial statements for 2013 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 2013 and defined the new targets for 2014. Furthermore, the Management Board informed the Supervisory Board of the Group's current position.
The meeting in March 2014, which was held following the General Meeting of Shareholders, discussed the proceedings and results of the General Meeting of Shareholders. It also elected Francesco Grioli to the Conciliation Committee and the Human Resources Committee as the successor to Ralf Sikorski. The meeting in June 2014 discussed the position of the Group, the adjustment to the pension system and key strategic issues.

WENDELIN VON BOCH-GALHAU

CHAIRMAN OF THE SUPERVISORY BOARD

At the meeting in September 2014, the Management Board reported to the Supervisory Board on the Group's position. A further core element of this meeting was the strategic development of the Group. The Management Board's strategic projects were presented to the Supervisory Board and discussed. The meeting also resolved the early prolongation of the Management Board mandates of Andreas Pfeiffer (Bathroom and Wellness Division) and Nicolas Luc Villeroy (Tableware Division) by a further five years until 1 May 2020.
The meeting in November 2014 focused on the presentation of the figures as of 31 October 2014 and the resulting orientation for the single-entity and consolidated financial statements for 2014, the Management Board's report on the position of the Group, the adoption of the amendments to the rules of procedure, the review of the risk management system, the topic of compliance (both in the past and in the future) and the approval of the positions held by Management Board members on the controlling bodies of subsidiaries. The meeting also adopted the annual planning for 2015.
The Supervisory Board also passed two resolutions by way of circulation in 2014: Following the departure of CFO Jörg Wahlers, his responsibility was transferred to CEO Frank Göring, who was also appointed as Director of Human Resources. Dr. Markus Warncke was appointed to the Management Board as Chief Financial Officer (CFO) with effect from 1 January 2015.
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 meetings in the year under review. At the meeting in January, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft reported on its audit of the single-entity financial statements for 2013, 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 single-entity and consolidated financial statements for the 2014 financial year. The meeting in May discussed the further procedure and conclusions on the so-called EU bathroom case. The main topics discussed at the meeting in November 2014 were the preparation of the forthcoming Supervisory Board meeting, and in particular the status of the preliminary audit of the single-entity and consolidated financial statements by the auditor, the monitoring of the effectiveness of the activities of the Supervisory Board and the presentation of the reports by a group of experts on the implications of the EU bathroom case in terms of stock corporation law.

The Investment Committee met once in the year under review. The meeting of the Investment Committee in November 2014 focused on the preparation of corporate and investment planning for 2015 for resolution by the Supervisory Board.

The members of the Human Resources Committee met five times in 2014 to discuss the assessment of the level of target attainment in the 2013 financial year, the status of target attainment in 2014, the objectives for the Management Board for the 2015 financial year and the other conditions of Management Board contracts that are required to be presented to the full Supervisory Board for resolution in preparation for the corresponding resolutions by the Supervisory Board.

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.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

Bernhard Thömmes was appointed to the Supervisory Board by court order as the representative of senior management. He succeeded Jürgen Beining, who stepped down at the end of the 2013 financial year.

At the end of the General Meeting of Shareholders on 21 March 2014, Ralf Sikorski stepped down from the Supervisory Board for professional reasons. Francesco Grioli was appointed as his successor by court order.

AUDIT OF THE SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS

The single-entity financial statements, the IFRS consolidated financial statements and the combined Management Report of Villeroy & Boch AG and the Villeroy & Boch Group for the 2014 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 single-entity financial statements in January and February 2015. The single-entity financial statements were also intensively discussed at the balance sheet meeting of the Supervisory Board in February 2015. 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 single-entity and consolidated financial statements and the combined Management Report for the 2014 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 single-entity financial statements prepared by the Management Board at its balance sheet meeting in February 2015 in accordance with the recommendation by the Audit Committee. The single-entity 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 combined 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 Ralf Sikorski, who stepped down in the past financial year, for his many years of cooperation in a spirit of mutual trust. We would also like to thank the members of the Management Board and all of the employees of the Villeroy & Boch Group for their great personal commitment and our shareholders for the confidence they have placed in us.

For the Supervisory Board

Wendelin von Boch

Wendelin von Boch-Galhau, Chairman of the Supervisory Board
Mettlach, February 2015

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 (1) 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. In filling management positions at the Company, the Management Board seeks to take regard of diversity and, in particular, to take appropriate account of women.

The Supervisory Board appoints, advises and monitors the Management Board. Its workings 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 to have appropriate participation by women. When examining potential candidates to fill vacant positions on the Management Board, qualified women are included in the selection process and are taken into account to an appropriate extent.

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 takes its role of monitoring a globally operating company seriously. It 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 10 March 2011:

"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 proposing members for election, the Supervisory Board shall also seek to ensure appropriate participation by women. Qualified women should be included in the selection process when examining potential candidates as new members or filling vacant positions on the Supervisory Board and should be taken into account to an appropriate extent in the members proposed for election. The Supervisory Board will strive to have at least one female member in future. 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 laid down by the Supervisory Board in the Rules of Procedure will be taken into account. No more than two former members of the Management Board of Villeroy & Boch AG should sit on the Supervisory Board."

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. The Supervisory Board took these targets into account when advising on the proposals for election that were presented to the General Meeting of Shareholders in the year under review.

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 2014. 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 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 Supervisory Board and 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 two shareholder representatives and one employee representative. 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 on page 114 and 115 of this report. 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 10 March 2015 for the fiscal year 2014. 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 prepare the resolutions to be passed by the full Supervisory Board.

DIRECTORS' DEALINGS

The directors' dealings reported to us in the 2014 financial year are published on the following website: http://www.villeroyboch-group.com/de/investor-relations/corporate-governance/directors-dealings.

At the end of the year under review, the members of the Supervisory Board held 2.88 % of all the ordinary and preference shares issued by the Company either directly or indirectly (within the meaning of section 15a of the German Securities Trading Act). Of this figure, 1.65 % were attributable to Dr. Alexander von Boch-Galhau. The members of the Management Board held 0.48 % 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 set out in section 7.1.2 of the German Corporate Governance Code was again observed this year. The single-entity 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. Annual and interim reports by Villeroy & Boch AG are also available for download in German and English from the Investor Relations section. The publications comply with the transparency requirements set out in 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 to audit the single-entity and consolidated financial statements for the 2014 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.

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, the Management Board and the Supervisory Board issued a 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 in German at www.villeroyboch-group.com/de/investor-relations/corporate-governance/entsprechenserklaerungen.html).

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 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 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 also 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 reviewed in accordance with the principles of Audit Standard 980 promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). The external audit focused on the design and appropriateness of the compliance management system. The audit firm Noerr AG (for compliance with anti-trust law) and Dr. Kleeberg & Partner GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (for corporate compliance) confirmed that the design of our compliance management system is appropriate and that the principles and measures derived as a result are suitable for detecting and preventing risks relating to breaches of legal provisions at an early stage with reasonable assurance. The required audit of the effectiveness of the compliance system is scheduled to be conducted by the end of 2015.

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 2014 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. The fixed annual basic remuneration is € 20,000. The Chairman receives an additional € 45,000, while the Vice Chairman receives an additional € 13,500. Members of the Supervisory Board receive a fee of € 1,250 for each meeting of the full Supervisory Board.

The Chairmen of the Investment Committee, the Human Resources Committee and the Audit 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 € 631 thousand was reported in consolidated earnings for the 2014 financial year (previous year: € 563 thousand). In addition to the fixed remuneration paid and the meeting fees for 2014, this figure includes € 75 thousand (previous year: € 63 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 43 thousand (previous year: € 22 thousand) as well as insurance premiums in the amount of € 97 thousand (previous year: € 77 thousand).

In € thousand

	Fixed remuneration	Meeting fees	Variable remuneration for 2013	Total	Previous year
Wendelin von Boch-Galhau 2*), 3*)	73	6	6	85	83
Peter Prinz Wittgenstein 1*), 2), 3)	43	6	6	55	52
Ralf Runge 4)	34	6	6	46	44
Werner Jäger 1), 4)	23	6	6	35	33
Dietmar Langenfeld 2), 4)	23	6	6	35	33
Yves Elsen 1)	23	6	4	33	20
Dr. Alexander von Boch-Galhau	20	7	6	33	30
François Villeroy de Galhau	20	6	6	32	30
Dietmar Geuskens 4)	20	6	6	32	30
Christina Rosenberg	20	4	4	28	19
Bernhard Thömmes (since Jan 2014)	19	6	–	25	–
Francesco Grioli (since Mar 2014) 3)	18	5	–	23	–
Ralf Sikorski (until Mar 2014)	6	1	6	13	31
Jürgen Beining (until Dec 2013)	–	–	6	6	29
Dr. Jürgen Friedrich Kammer (until Mar 2013)	–	–	1	1	11
Charles Krombach (until Mar 2013)	–	–	1	1	11
Rounding differences	–4	2	–2	–4	2
Total	**338**	**73**	**68**	**479**	**458**

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 committee

MANAGEMENT BOARD REMUNERATION

An expense of € 2,126 thousand (previous year: € 2,846 thousand) is reported in the income statement for the 2014 financial year. This figure is composed of fixed (€ 1,189 thousand; previous year: € 1,444 thousand) and variable salary components (€ 937 thousand; previous year: € 1,401 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 509 thousand (previous year: € 647 thousand) and a remuneration for several years in the amount of € 428 thousand (previous year: € 715 thousand). The fixed remuneration includes remuneration in kind of € 64 thousand (previous year: € 76 thousand), of which € 2 thousand (previous year: € 3 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 25,451 thousand (previous year: € 22,706 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,620 thousand (previous year: € 1,437 thousand).

The provisions of section 314 (2) sentence 2 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 2015 financial year and until 12 May 2016 at the latest.

VILLEROY & BOCH'S SHARES

STOCK MARKETS 2014

A SATISFACTORY END AFTER SOME UPS AND DOWN

Most of the leading German indices closed 2014 comparatively unchanged on the whole. However, the moderate overall rises in the DAX, MDAX and SDAX should not hide the fact that there were considerable fluctuations during the course of the year. Following solid performance in the first half of the year, fears of an escalation in Eastern Europe in particular led to significant price falls in late summer and autumn. The upturn that followed and the largely satisfactory end to the year were again attributable to the availability of cheap money, with the central banks providing impetus for the stock markets through massive bond purchases and a sustained policy of low interest rates.

The German leading index DAX rose slightly by 2.65 % to close the year at 9,805 points. The MDAX, which has been bullish for a number of years, climbed 2.17 % to 16,934 points, while the SDAX recorded growth of 5.85 % to close at 7,186 points.

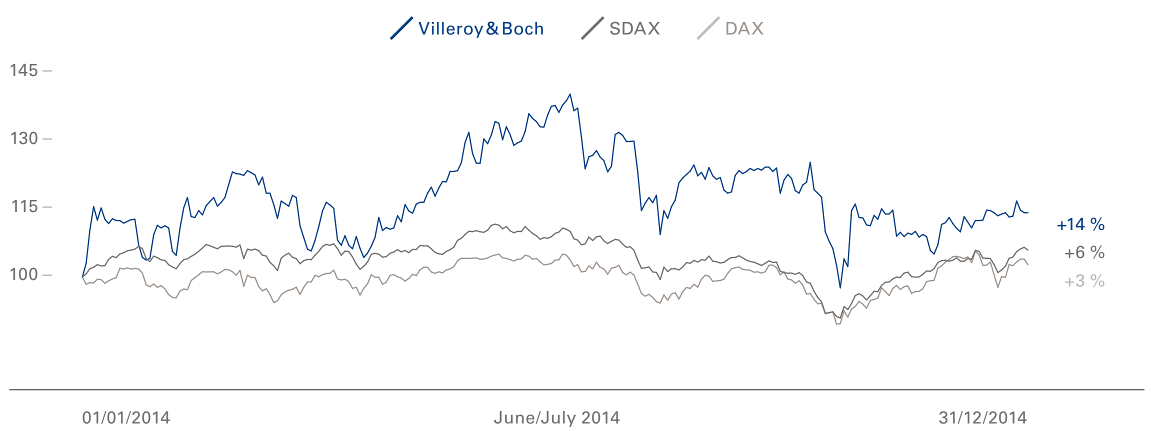
VILLEROY & BOCH'S PREFERENCE SHARES: 14 % PRICE GROWTH

Starting from a price of € 10.57 at the end of 2013, Villeroy & Boch's preference shares recorded growth of 14.0 % to € 12.05 in 2014. This meant the shares again outperformed the SDAX, which Villeroy & Boch returned to in November 2013.

The share price was relatively strong in the first half of the year, closing at a high of € 14.78 in July. In the subsequent weeks and months, however, Villeroy & Boch's shares were unable to escape the effects of the general development on the stock markets, with the fluctuations leading to increased volatility. Reflecting the performance of the market as a whole, the lowest share price of € 10.32 was recorded in October. The share price then recovered in the final quarter to close 2014 at € 12.05, up 14.0 % on the start of the year. In March, a dividend of € 0.42 per preference share was paid for the 2013 financial year.

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

in the period from 1 Jan 2014 to 31 Dec 2014 (indexed)

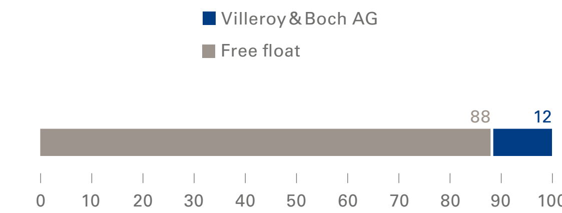


PROPOSED DIVIDEND

Based on business development in 2014, the Management Board and the Supervisory Board will propose to the General Meeting of Shareholders on 27 March 2015 the payment of a dividend of € 0.44 per preference share and € 0.39 per ordinary share; once again, this represents an increase of € 0.02 on the previous year. This results in a Group distribution ratio of 45 % excluding treasury shares.

STRUCTURE OF PREFERENCE SHAREHOLDERS

in %

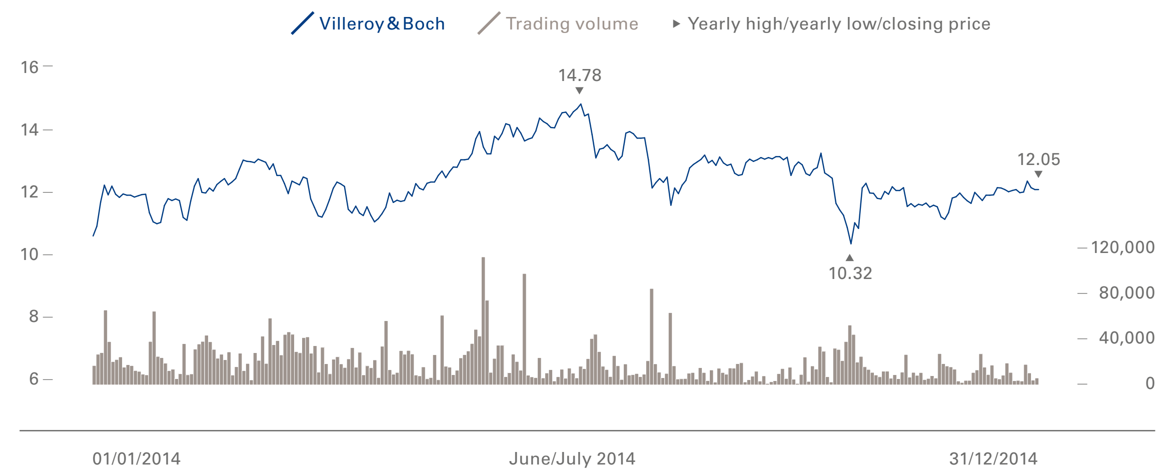


MASTER DATA

ISIN	DE0007657231
GSIN	765723
Securities exchange symbol	VIB3
Index membership	SDAX

PERFORMANCE OF VILLEROY & BOCH'S SHARES

in the period from 1 Jan 2014 to 31 Dec 2014



"GROWTH POTENTIAL ABROAD"

Interview with equity analyst Tim Kruse from research company Montega AG

Mr. Kruse, you have been observing Villeroy & Boch closely since 2012. How do you see the company from outside – and what are other capital market participants, especially institutional investors, saying about V & B?

Kruse: For some years, Villeroy & Boch has been evolving from a "normal" manufacturer of ceramic products into a modern consumer and industrial goods company. The management team has also gradually opened up to the capital markets. This is being rewarded by investors, as the company's encouraging share price performance shows.

What has been the main progress made by Villeroy & Boch since your first study of the company?

Kruse: Villeroy & Boch has made progress in the area of production in particular. Reject rates have been reduced significantly following the modernisation of production in the Bathroom and Wellness Division, leading to an appreciable improvement in the gross margin. The company has also generated additional cash by selling some of its non-operational assets, such as the properties in Lübeck and Gustavsberg.

Where do you see the company as having further potential for development?

Kruse: The Villeroy & Boch brand has further growth potential in the high-end price segment – particularly in Asia and, above all, in China. The fact that the company is serious about growth is underlined not only by its latest figures, but also by the increase in the number of showrooms for the Bathroom and Wellness Division and points of sale for Tableware products. Logistics have also been improved with the establishment of a dedicated warehouse near Shanghai. It will be interesting to see how things proceed in the region.

TIM KRUSE

EQUITY ANALYST FROM RESEARCH COMPANY MONTEGA AG

What is the role of a strong brand, tangible products and a long tradition in a financial world that is focused on numbers?

Kruse: Generally speaking, the financial world primarily focuses on a business model's competitiveness and profitability. A long tradition and a strong brand may be indicators of these factors, but they are no guarantee.

KEY FIGURES OF VILLEROY & BOCH'S SHARES

	2014	2013	2012	2011	2010
Closing price (in €)	**12.05**	10.57	6.63	5.88	4.55
Yearly high/low (in €)	**14.78/10.32**	10.77/6.74	8.63/5.85	7.79/4.40	5.65/3.74
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
Shares held by Villeroy & Boch	**1,683,029**	1,683,029	1,683,029	1,683,029	1,683,029
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)	**169.2**	148.5	93.1	82.6	63.9
Average daily turnover, Xetra (in shares)	**19,521**	22,059	14,841	19,093	12,846
PER based on yearly high/PER based on yearly low (in €)	**15.56/10.86**	11.58/7.25	14.88/10.01	10.82/6.11	–/–
Consolidated earnings per ordinary share (in €)*	**0.90**	0.88	0.53	0.67	–2.40
Consolidated earnings per preference share (in €)	**0.95**	0.93	0.58	0.72	–2.35

* Ordinary shares not publicly traded

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

- Consolidated revenue up 4.0 % on a constant currency basis, nominal up 2.8 % to € 766.3 million.
- Operating EBIT improves by 6.1 % to € 38.4 million.
- Non-recurring income of € 4.8 million realised as part of our property project in Sweden (previous year: € 7.0 million), resulting in total EBIT of € 43.2 million.
- Consolidated net income increases year-on-year to € 24.3 million (previous year: € 23.9 million).
- Return on net operating assets up from 12.0 % to 13.0 %.

BASIC INFORMATION ON THE GROUP

BUSINESS MODEL OF THE GROUP

Organisational structure of the Group

Villeroy & Boch is a leading international ceramic manufacturer. Our operating business is divided into two divisions: Bathroom and Wellness, and Tableware. We also sell supplementary products on a licence basis. Group-wide tasks are performed by our central functions.

Villeroy & Boch AG is the Group parent for a total of 55 fully consolidated direct or indirect subsidiaries. The investment structure of the Villeroy & Boch Group reflects operational concerns and the legal and tax situation.

Segments and sales markets

Our products are sold in 125 countries. End consumers in the Bathroom and Wellness Division are generally reached through a two- or three-tier sales channel. Our product range includes ceramic bathroom collections in various styles, bathroom furniture, shower, tub and whirlpool systems, ceramic kitchen sinks, and fittings and accessories. Our products in this division are displayed in more than 7,500 showrooms worldwide.

In the Tableware Division, customers are addressed via specialist retailers as well as our own retail activities. Our product range includes high-quality tableware, glasses and cutlery and the corresponding accessories, kitchen and tableware textiles and gift items. All in all, our products are available at more than 5,800 points of sale worldwide. Our own retail activities include 130 dedicated stores and around 560 points of sale operated by our own staff at high-profile department stores. We also sell our Tableware products via our online shops in more than 20 countries.

In the project business of both divisions, our customers are targeted by a dedicated sales organisation. For sanitary projects, key contacts include the architects, interior designers and planners of public institutions, office buildings, hotels, high-quality residential complexes, etc. For tableware projects, hotel and restaurant operators are our primary target group.

Locations

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

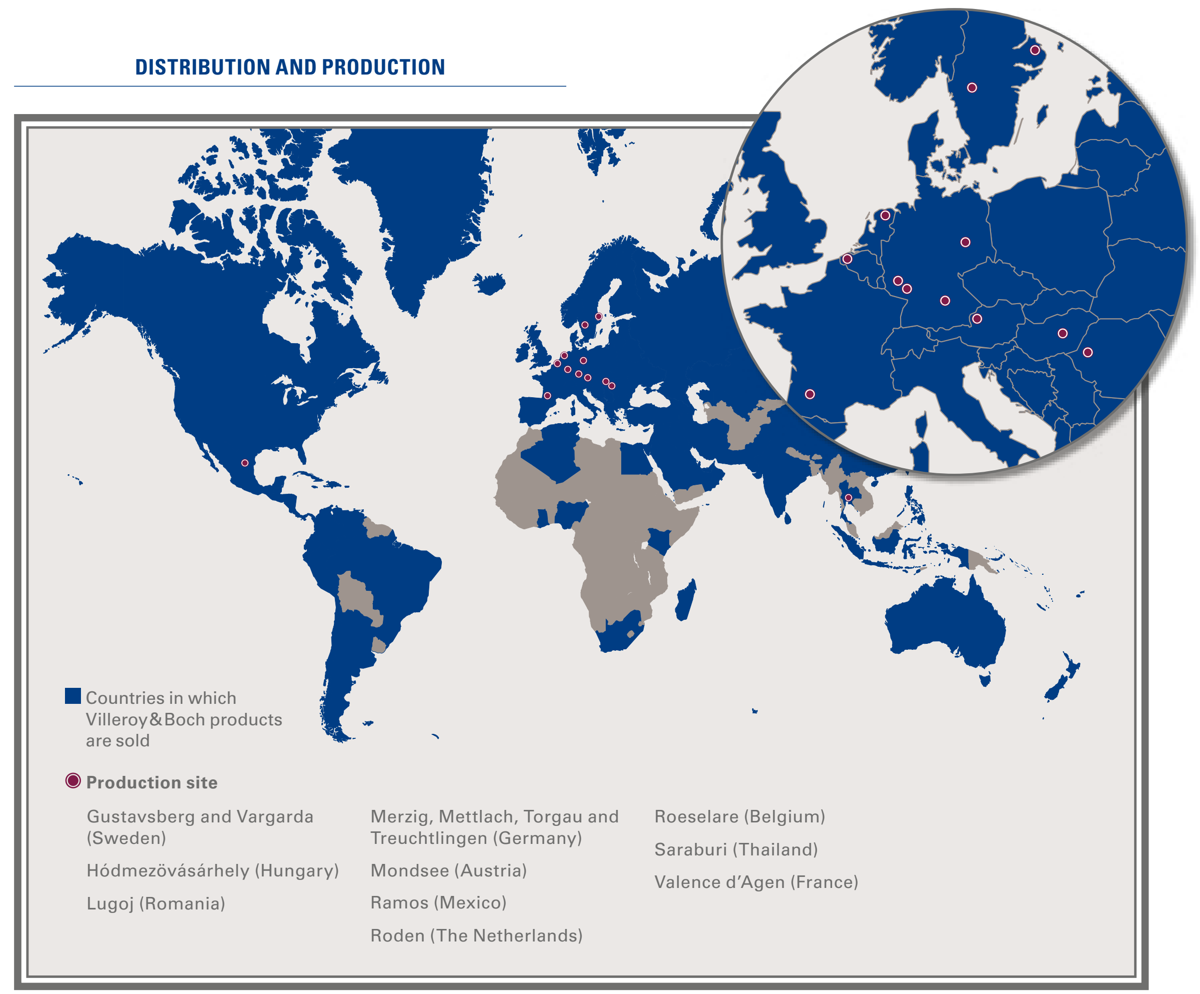
We currently have 14 production sites in Europe, Asia and the Americas. Our products for the Tableware Division are produced at the Merzig and Torgau plants in Germany. The

other twelve plants manufacture products for the Bathroom and Wellness Division. We manufacture bathroom furniture in Treuchtlingen (Germany) and Mondsee (Austria), bathtubs, whirlpools and shower tubs in Roden (Netherlands) and Roeselare (Belgium), and fittings in Vargarda (Sweden). The remaining locations manufacture ceramic sanitary ware and ceramic kitchen sinks.

MANAGEMENT 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. The performance of the Group as a whole, and the two divisions individually, is measured using the following key figures: net revenue, earnings before interest and taxes (EBIT) and the rolling operating return on net assets. The latter is calculated as the operating result divided by the average operating net assets for the last twelve months. The operating result applied is the result from ordinary activities at a Group level and at the level of the respective divisions before the expenses attributable to the central functions. 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.

DISTRIBUTION AND PRODUCTION



RESEARCH AND DEVELOPMENT

One of the focal points of our research and development activity in the 2014 financial year was the area of additive production technology such as 3D printing. In the past financial year, we started assessing the potential of this technology, including for ceramic materials, by analysing the procedures that are currently available or in development. This is being accompanied by feasibility studies in cooperation with external experts who are testing additive production techniques using ceramic materials such as slurry and powder.

The "DryControl" joint project supported by the German Federal Ministry of Education and Research (BMBF) with the focal points of "non-destructive testing" and "microwave drying" has now been completed. We are currently examining whether and how the results can be applied in our network of production locations. Another BMBF joint project in which we are participating is aimed at advancing innovative production technologies such as pressure glazing in terms of energy efficiency and quality improvements. Computer simulations are used to optimise tools and processes. In addition to these new developments in the area of production technology, standardisation remains an important element of the further efficiency improvement of our development and production methods. Our activities also continue to focus on the further development of ceramic materials. To this end, we have expanded our network to include additional research institutions and universities with an international profile. Feasibility studies on the use of new materials were commissioned on the basis of existing preliminary work at Villeroy & Boch and research work by the respective partners. If successful, the results can be incorporated into the further development of products with innovative design, improved performance characteristics or functional surfaces.

Including design development, the Villeroy & Boch Group invested € 13.9 million in research and development in 2014 (previous year: € 12.8 million). Of this figure, € 10.1 million (previous year: € 9.3 million) was attributable to the Bathroom and Wellness Division and € 3.8 million (previous year: € 3.5 million) was attributable to the Tableware Division.

Innovation

Innovation lies in the design and function of a product, but also in the nature of its development and production.

One example from the Bathroom and Wellness Division is the DirectFlush WC technology with which Villeroy & Boch is setting new standards in the field of hygiene. Instead of a conventional rim, the rimless DirectFlush WCs boast an intelligent water flow, ensuring that the flush reaches right up to the level directly below the open rim. The innovative flush technology means that high flush performance is guaranteed with water consumption of just 3 or 4.5 litres. The fully glazed rimless surface allows quick and easy cleaning.

Another functional innovation is our antibacterial ceramic glaze AntiBac, which reduces the growth of bacteria by almost 100 % thanks to a specially developed silver ion glaze. The effectiveness of AntiBac has been analysed and confirmed by two independent bodies, the German Federal Institute for Materials Research and Testing in Berlin and the BOKEN Quality Evaluation Institute in Japan. This means we can offer a tailored solution for frequently used property types in particular, such as hospitals and care facilities, where there is a high risk of bacterial transfer and hygiene is becoming increasingly important.

Innovations in our Tableware Division relate in particular to new product designs, with the mega-trends of globalisation, digitalisation, mobility and the resulting change in consumer behaviour being the driving factors behind the development of innovative, user-oriented solutions. In 2014, we adopted a new approach to conceptual product development by calling for designs for a new gift collection on the online crowdsourcing platform Jovoto.

The four best designs will be presented at the "Ambiente 2015" trade fair in Frankfurt under the product name "Little Gallery".

Digitalisation is also becoming increasingly important in the area of stationary sales. We are currently equipping selected retail stores with a tablet-based digital sales assistant in order to optimally combine stationary and online retail. If customers cannot find what they are looking for in-store, sales staff can now use the tablet to provide assistance, show them the products that are not in stock and, where applicable, order items directly from the online shop.

PROCUREMENT

The Villeroy & Boch Group's procurement portfolio encompasses raw materials, energy and operating and maintenance materials for its own production facilities as well as finished and semi-finished goods in areas without dedicated production facilities. The Group also purchases capital goods, packaging materials, transport services and a wide range of additional services. The overarching 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.

Procurement prices are primarily influenced by the development of the global economy and hence, to a large extent, by the (global) market prices for raw materials. In the 2014 financial year, we succeeded in limiting the price rise across all product groups to below 2 % thanks to optimised procurement processes, including pooling requirements. We also benefited from falling prices for gas and electricity in many regions, especially at our production sites.

CHANGES IN LEGAL OR REGULATORY CONDITIONS

Following years of deregulation and the removal of trade barriers, there has been a growing trend towards the government regulation of economic conditions – a development that will lead to an increase in bureaucratic costs. At European Union level, this includes the planned expansion of financial reporting with the aim of establishing integrated reporting, as well as the proposal on the prevention of tax competition, which will require the more comprehensive documentation of cross-border transactions. In Germany, too, topics such as the financial transaction tax, the minimum wage, early pensions and new legislation on temporary and subcontracted work suggest a move towards greater government regulation.

Meanwhile, the planned European free trade agreements with the USA (TTIP) and Canada (Ceta) could lead to deregulation. Both agreements are intended to facilitate mutual market access for companies with transatlantic operations. In specific terms, they involve the removal of customs and the equal treatment of European and American companies when it comes to public tenders. The agreements are not expected to come into force prior to 2016.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

According to the International Monetary Fund, the global economy grew by 3.3 % in 2014. The key drivers of the global economy were China and, thanks to a dynamic second half of the year in particular, the USA. Europe, and especially the euro zone countries, lagged behind the global economic trend with economic growth of 0.8 %. This was underlined in particular by the weak development in France and Italy. While France recorded only minimal growth, the Italian economy actually contracted slightly. By contrast, the German economy expanded by 1.5 % in the past year. Consumer spending was the primary growth driver, with the good employment market situation, low inflation and low interest rates prompting consumers to spend more than in 2013. All in all, economic growth in Western Europe amounted to 1.2 %. Meanwhile, the Russian economy entered a recession in November 2014 for the first time in five years.

Housing construction in Europe, which is a key indicator for our Bathroom and Wellness Division, saw moderate growth of 0.9 % in 2014. However, there were significant differences between the individual markets: While the construction volume in France, Italy and Spain continued to decline as in the previous year, markets such as Germany, Austria, Belgium, the United Kingdom and Sweden enjoyed solid growth.

Economic development in the Tableware industry was supported by the largely positive consumer climate among private households in the first half of 2014. Sentiment among European consumers in the third quarter of 2014 was adversely affected by the geopolitical crises in particular. However, the overarching picture for 2014 was a positive one, especially as the situation picked up again in the final quarter of the year not least as a result of falling oil prices and the upturn in available income.

COURSE OF BUSINESS AND POSITION OF THE GROUP

Our assessment of the economic position of the Group is positive.

In the 2014 financial year, we continued to systematically invest in our growth markets, thereby further strengthening the basis for accelerated growth outside our core markets in Western Europe. At the same time, we made substantial progress in the optimisation of our processes and continued to pursue strict cost management.

We achieved all of the targets we set ourselves for the 2014 financial year. The table below shows a comparison of the forecast and actual key figures for 2014 and the forecasts for 2015:

GROUP TARGETS

	Forecast 2014	Actual 2014	Forecast 2015
Revenue growth *	3–5 %	4.0 % (2.8 %)	3–5 %
EBIT growth (operating)	> 5 %	6.1 %	> 5 %
Return on net operating assets	12 %	13.0 %	> 13 %
Investments	> € 26 million	€ 44.6 million	> € 30 million

* On a constant currency basis; in brackets: nominal revenue growth

With revenue growth of 4.0 %, we achieved our revenue target for 2014 on a constant currency basis, i.e. assuming unchanged exchange rates as against the previous year. In nominal terms, revenue increased by 2.8 % or € 21.0 million to € 766.3 million. Negative exchange rate effects were recorded in Russia, Sweden, Norway and Japan in particular. With growth of 6.1 %, we also achieved the forecast growth rate in our operating result (EBIT) of just over 5 % year-on-year. This was largely due to two effects. On the one hand, we further improved productivity and quality in our production network and optimised our procurement activities. On the other hand, we are benefiting from our revenue growth and an improvement in the quality of our revenue thanks to a corresponding improvement in the product, price and country mix. All in all, these effects are reflected in an increase in the gross margin of 1.1 percentage points to 44.6 % (previous year: 43.5 %). This meant that the revenue growth resulted in an above-average increase in gross profit of € 17.4 million to € 341.4 million. The improvement in EBIT was also supported by administrative cost reductions. All in all, we therefore succeeded in offsetting both the higher level of investment in sales and marketing and the non-operating income contained in prior-year earnings, e.g. from exchange rate hedges (€ 4.3 million).

The improvement in the return on net operating assets from 12.0 % as of 31 December 2013 to 13.0 % at the reporting date is primarily attributable to the earnings growth, to the reduction in the rolling net assets employed and, in particular, to the reduction in our inventories.

As forecast, our investments were up significantly year-on-year at € 44.6 million (previous year: € 26.4 million). The above-average level of investment in 2014 was primarily due to the construction of our new assembly and logistics centre in Sweden and the investment in the combined heat and power plant in Mettlach.

RESULTS OF OPERATIONS

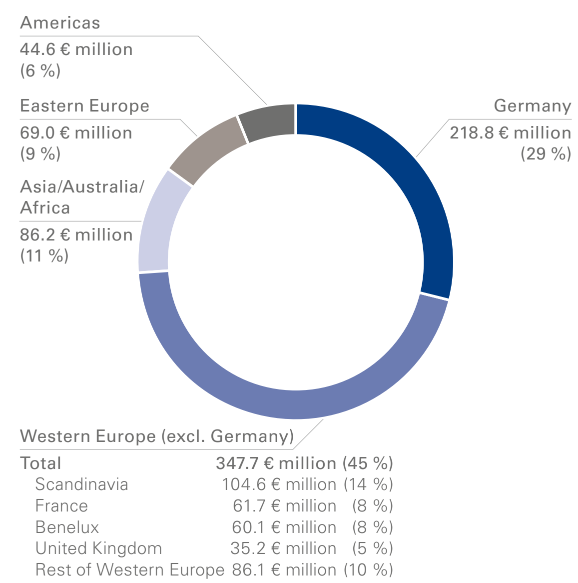
The following information provides an overview of our results of operations in the 2014 financial year.

GLOSSARYSTRUCTURE OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

In € million

	2014	% of revenue	2013	% of revenue
Revenue	766.3	100.0	745.3	100.0
Cost of sales	–424.9	–55.4	–421.3	–56.5
Gross profit	**341.4**	**44.6**	**324.0**	**43.5**
Selling, marketing and development costs	–255.1	–33.3	–249.5	–33.5
General administrative expenses	–45.1	–5.9	–46.6	–6.3
Other expenses/income	–2.8	–0.4	8.3	1.2
Operating EBIT (before non-recurring income)	**38.4**	**5.0**	**36.2**	**4.9**
Real estate income from Gustavsberg property	4.8	0.6	7.0	0.9
Earnings before interest and taxes (EBIT)	**43.2**	**5.6**	**43.2**	**5.8**
Financial result	–8.3	–1.1	–9.4	–1.3
Earnings before taxes (EBT)	**34.9**	**4.5**	**33.8**	**4.5**
(EBT before non-recurring income)	(30.1)	(3.9)	(26.8)	(3.6)
Income taxes	–10.6	–1.3	–9.9	–1.3
Consolidated net income	**24.3**	**3.2**	**23.9**	**3.2**

CONSOLIDATED REVENUE BY REGION AND COUNTRY



Consolidated revenue 2014

Consolidated revenue up 4.0 % on a constant currency basis

In the 2014 financial year, we increased our revenue by 4.0 % on a constant currency basis. Nominal revenue growth, i.e. at current exchange rates, amounted to 2.8 %. This meant that we generated revenue of € 766.3 million after € 745.3 million in the previous year.

As in the previous years, we enjoyed robust revenue growth in our home market of Germany, where revenue rose by € 6.0 million or 2.8 % year-on-year to € 218.8 million.

Revenue in Western Europe increased slightly by 0.8 % year-on-year to € 347.7 million, with revenue growth recorded in the Netherlands (+13.4 %), Belgium (+10.4 %) and Austria (+8.3 %) in particular. By contrast, there was a downturn in revenue in both France (–7.4 %) and Italy (–7.0 %) as a result of economic factors in particular.

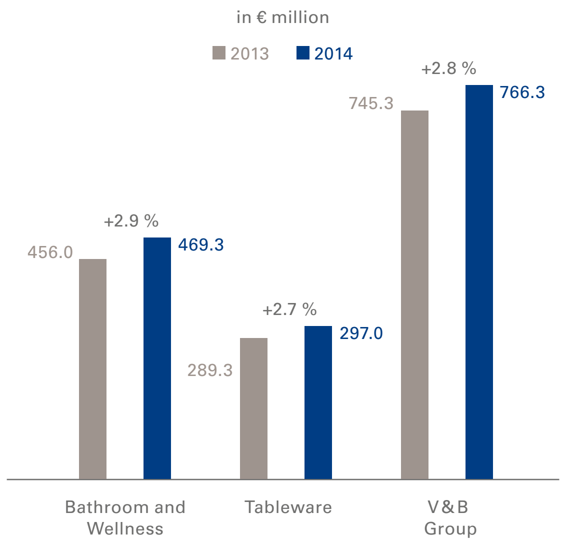
In Eastern Europe, revenue increased by 3.8 % year-on-year to € 69.0 million. Despite the strained political situation, revenue in Russia, one of our strategic growth markets, rose by 7.4 % in nominal terms and by as much as 22.7 % in local currency. However, there was a huge downturn in revenue in Ukraine (–49.2 %).

We recorded strong revenue growth of 12.7 % to € 86.2 million in the Asia/Australia/Africa region. In China, our largest and most important market in this region, our business volume increased by 28.1 %. Revenue declined in Japan (–15.7 %) and Thailand (–10.8 %), due in part to exchange rate developments.

Revenue in the Americas region increased slightly year-on-year to € 44.6 million, with the downturn in Mexico (–9.1 %) being offset by revenue growth in the USA (+3.0 %).

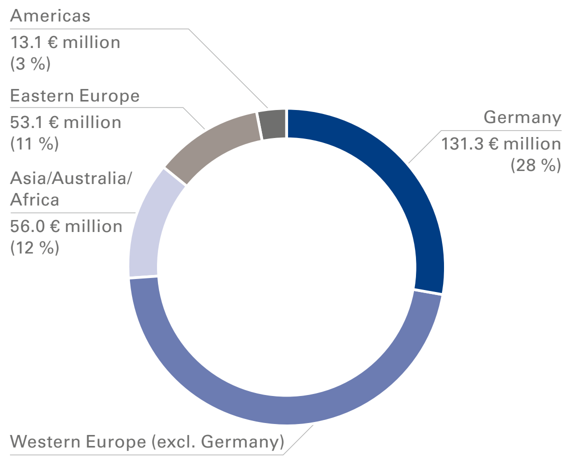
Revenue by division

CONSOLIDATED REVENUE BY DIVISION



In the 2014 financial year, the *Bathroom and Wellness Division* recorded revenue growth of 4.6 % on a constant currency basis. Revenue increased by 2.9 % in nominal terms, from € 456.0 million in the previous year to € 469.3 million.

BATHROOM AND WELLNESS REVENUE BY REGION AND COUNTRY



Total	215.8 € million	(46 %)
Scandinavia	90.6 € million	(19 %)
Benelux	40.9 € million	(9 %)
France	36.9 € million	(8 %)
United Kingdom	20.0 € million	(4 %)
Rest of Western Europe	27.4 € million	(6 %)

In our important domestic market of Germany, we recorded revenue of € 131.3 million in the past financial year (+3.2 %), not least thanks to strong bathroom furniture business once again. Business in the Baltic States (+28.6 %), the United Kingdom (+16.2 %) and the Netherlands (+12.6 %) also saw extremely encouraging development. We even recorded nominal growth of +11.4 % in Russia despite the weakness of the rouble, with the year-on-year revenue growth in local currency amounting to as much as 30.9 %. This was due to our investments in a local logistics platform in the previous years and the accelerated expansion of our business beyond the major cities of Moscow and St. Petersburg. There was less satisfactory development in Ukraine (–50.2 %) and the economically weak markets of Italy (–15.6 %) and France (–10.0 %), where the housing construction volume declined in 2014 for the third year in succession.

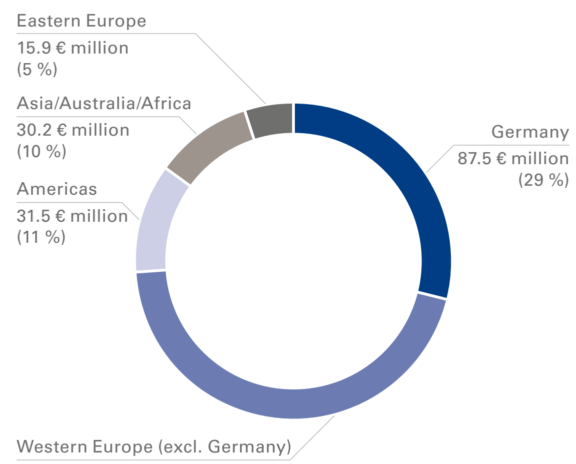
In the Asia/Australia/Africa region, we generated revenue growth of +14.2 %. This development was driven by a number of countries, particularly our extremely strong performance in China (+26.6 %), where we increasingly shifted our strategic focus to the expansion of our retail business.

We generated revenue of € 13.1 million in the Americas region (–5.4 %). The Mexico market saw particularly weak

development (–10.1 %), with the property crisis that has been underway since 2012 intensifying further following the insolvency of some major developers.

In the *Tableware Division*, we generated revenue growth of +3.1 % on a constant currency basis. Revenue increased by 2.7 % in nominal terms, from € 289.3 million in the previous year to € 297.0 million.

TABLEWARE REVENUE BY REGION AND COUNTRY



Total	131.9 € million	(45 %)
France	24.8 € million	(8 %)
Benelux	19.2 € million	(6 %)
United Kingdom	15.2 € million	(5 %)
Scandinavia	14.0 € million	(5 %)
Rest of Western Europe	58.7 € million	(21 %)

Germany also saw robust development in the Tableware Division in 2014, with revenue increasing by 2.3 % year-on-year to € 87.5 million. In Western Europe, we recorded revenue growth in markets including the Netherlands (+15.7 %), Austria (+10.3 %) and Sweden (+9.9 %). The markets with the most notable downturns in revenue were Italy (–3.1 %), France (–3.3 %) and also the United Kingdom (–6.9 %), where we closed three factory outlets and eight shops-in-shops as part of our retail optimisation.

Eastern Europe saw moderate revenue growth of +1.0 %, with rising revenue in smaller markets such as the Czech Republic (+9.5 %) offsetting the downturn in Russia (–5.9 %) as a result of the depreciation of the rouble and reduced consumer spending.

The Asia/Australia/Africa region generated encouraging revenue growth of +9.8 % in the past year. In addition to China, China (+56.6 %), we recorded substantial growth in South Korea in particular, with our revenue volume almost quadrupling to more than € 2 million following the change in our market cultivation model in late 2013. By contrast, revenue in Japan declined by 16.2 % as a result of both economic and exchange rate-related factors.

We recorded solid revenue growth of +2.6 % in the Americas region. The main driver was our business in the USA (+3.0 %) and, in particular, e-commerce sales.

Across all markets, our intensified sales and marketing activities paid off in the hotel and restaurant sector (+12.6 %) and in the area of e-commerce (+35.6 %) in particular. We also successfully pressed ahead with the expansion of our second brand business with brands such as Vivo and Gallo, more than doubling revenue to over € 6 million.

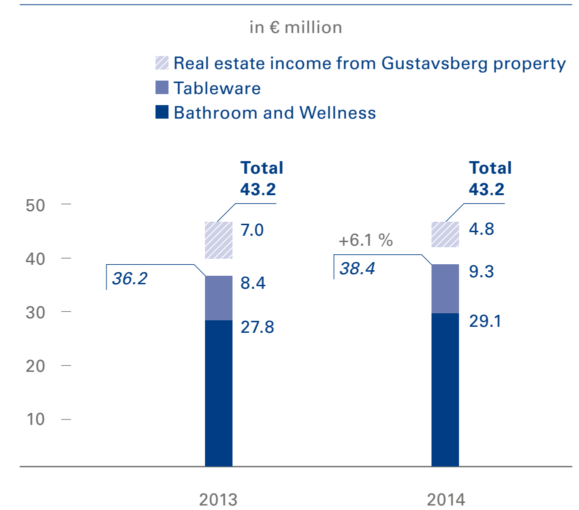
Orders on hand

Orders on hand amounted to € 51.4 million at 31 December 2014, up € 6.1 million on the prior-year figure of € 45.3 million. The Bathroom and Wellness Division accounted for € 36.5 million of orders on hand, with the remaining € 14.9 million attributable to the Tableware Division.

Consolidated EBIT

Our earnings before interest and taxes (EBIT) developed as follows in the 2014 financial year:

CONSOLIDATED EBIT INCL. BREAKDOWN BY DIVISION



Operating EBIT up 6.1 % year-on-year to € 38.4 million

In the 2014 financial year, our operating EBIT – excluding real estate income from Gustavsberg – increased by 6.1 % to € 38.4 million.

This earnings development was reflected in particular in an improvement in the gross margin of 1.1 percentage points. This was due to continued productivity improvements at our plants and optimised procurement activities, as well as revenue growth and an improvement in the quality of our revenue thanks to a corresponding improvement in the product, price and country mix.

Our sales, marketing and development structures have been expanded in a targeted manner, largely in conjunction with investments in new markets, resulting in expenditure of € 255.1 million – € 5.6 million more than in the previous year. This was offset by a reduction in general administrative expenses of € 1.5 million to € 45.1 million despite higher personnel expenses due to collective agreements.

Other expenses/income amounted to € –2.8 million, a change of € 11.1 million as against the previous year (€ +8.3 million). The prior-year figure contained non-recurring income from exchange rate hedges (€ +4.3 million) and the settlement of pension benefits (€ +2.7 million). However, these extraordinary effects that were not repeated in 2014 were more than offset by the aforementioned operational earnings improvements.

Real estate income from properties in Gustavsberg, Sweden

We signed additional purchase agreements as part of our property project in Sweden in the 2014 financial year, thereby generating further non-recurring income of € 4.8 million (previous year: € 7.0 million). The conversion of our site in Gustavsberg, which was previously used for industrial purposes, for residential development has significantly increased the value of the property. As a result, we sold the site to two investors and, in part, to the municipality of Gustavsberg. In total, we generated non-recurring income of € 11.8 million in 2013 and 2014. As previously, we assume that the total income from this property transaction will amount to around € 17 million.

At the same time, we have constructed an assembly and logistics centre on another site owned by the company close to the former plant site. The new location is characterised by state-of-the-art technology and highly automated processes.

Including the non-recurring income of € 4.8 million realised in the 2014 financial year, we generated consolidated EBIT of € 43.2 million, meaning that consolidated EBIT remained essentially unchanged year-on-year despite real estate income being € 2.2 million lower.

Operating result (EBIT) by division

Bathroom and Wellness Division

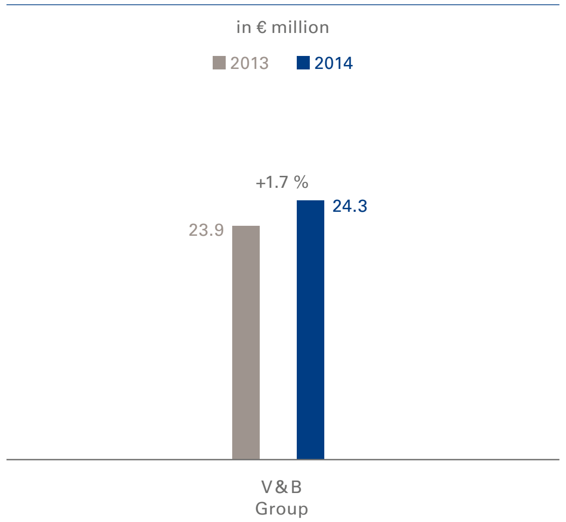
The Bathroom and Wellness Division recorded an operating result (EBIT) of € 29.1 million in the 2014 financial year, up 4.7 % on the previous year (€ 27.8 million). In addition to increased and higher-quality revenue, this development was due to the aforementioned productivity improvements and efficient cost management in the area of administration.

Tableware Division

The Tableware Division increased its operating result (EBIT) by 10.7 % year-on-year to € 9.3 million. Here, too, the main drivers were increased revenue, higher revenue quality and improved cost structures in production and administration. We also systematically closed retail stores with below-average returns.

Group result

CONSOLIDATED NET INCOME



We generated a Group result of € 24.3 million in the 2014 financial year. This represents an increase of € 0.4 million or a moderate 1.7 %. The highly satisfactory operational performance in 2014 is not fully reflected in the Group result because the non-recurring income from the sale of the plant property in Gustavsberg that was included in the prior-year figure was € 2.2 million higher than in the year under review.

Tax expense amounted to € –10.6 million, corresponding to a tax rate of 30.4 % (previous year: 29.3 %). The increase in the tax rate was due to backpayments of taxes following the completion of external tax audits, which was not sufficiently offset by the reduction in deferred tax liabilities.

Our financial result improved by € 1.1 million year-on-year to € –8.3 million. This was due to the higher level of net liquidity and, in particular, the prolongation of a long-term loan at significantly more favourable conditions.

Dividend proposal

At the General Meeting of Shareholders on 27 March 2015, the Supervisory Board and the Management Board will propose that the unappropriated surplus of Villeroy & Boch AG be used to distribute a dividend of

€ 0.39 per ordinary share

€ 0.44 per preference share

This represents a total dividend distribution of € 11.7 million. Based on the number of preference shares held by the company at the payment date, the total cash outflow will be € 10.9 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.

Group Treasury performs uniform financial management for the entire Group. The framework is provided by external statutory and regulatory requirements and 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 of at least A–/A3, 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 on page 39 ff. of the Group Management Report.

Capital structure

Our financing structure as shown in the table below changed significantly in the 2014 financial year.

In € million

	2014	2013
Equity	144.4	160.4
Non-current liabilities	266.1	238.5
Current liabilities	212.6	200.7
Total equity and liabilities	**623.1**	**599.6**

The historically low interest rates driven by the low interest rate policy adopted by the European Central Bank led to a further reduction in the discount rate for pension obligations from 3.0 % to 1.7 %. This discount rate, which is based on the interest rates for first-class debt instruments with the same maturity in the respective economic area, is applied in measuring provisions for pensions and led to an increase in pension obligations to € 212.0 million (previous year: € 182.7 million). This increase was also the main reason for the reduction in equity recognised outside profit or loss, taking into account the deferred tax assets to be recognised, with a net effect of € 25.5 million. This interest-driven reduction in equity was not fully offset by the Group result generated in the amount of € 24.3 million. Taking into account the dividend payment of € 10.4 million and exchange rate effects, our equity declined by € 16.0 million year-on-year to € 144.4 million, resulting in an equity ratio of 23.2 % (previous year: 26.8 %). At the reporting date, 63.2 % of the Group's non-current assets in the amount of € 228.5 million were covered by equity.

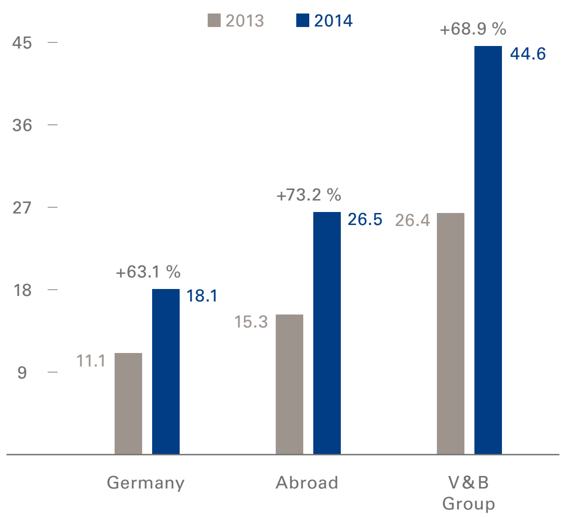
In addition to pension obligations, non-current liabilities include financial liabilities, provisions for personnel and deferred tax liabilities. Non-current financial liabilities remained unchanged year-on-year at € 25.0 million. They related to banks and had a medium-term maturity and a fixed interest rate in euro.

Current liabilities primarily consist of other liabilities, trade payables, financial liabilities and other provisions. In the year under review, current liabilities increased by a total of € 11.9 million. This was primarily due to the increase of € 9.7 million in trade payables and € 4.9 million in other current liabilities, which was partially offset by the development of other current provisions and income tax liabilities.

Investments

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

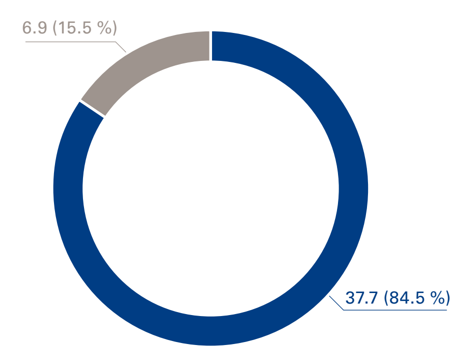
in € million



At € 44.6 million (previous year: € 26.4 million), our investments in property, plant and equipment and intangible assets in the 2014 financial year were well above the level of depreciation. 41 % of the investments made in the year under review were attributable to Germany (previous year: 42 %). At 31 December 2014, the Group had obligations to acquire property, plant and equipment in the amount of € 1.5 million. These are financed from the operating cash flow.

BREAKDOWN OF INVESTMENTS BY DIVISION

in € million



At 85 % or € 37.7 million, investing activities were concentrated on the Bathroom and Wellness Division. Of this figure, € 24.0 million was invested outside Germany. 63 % of this amount related to Western Europe, with Asia accounting for 24 % and Eastern Europe for 13 %. Activities in the *Bathroom and Wellness Division* focused on investments in the construction of our new Swedish logistics and assembly centre in Gustavsberg and a new combined heat and power plant in Mettlach. We also made investments as part of our yield improvement programme for efficiency and quality improvement, such as in a new die casting plant in Mettlach.

Investments in the *Tableware Division* amounted to € 6.9 million or 15 % of total investments. Activities were concentrated on the Torgau production site and the optimisation of our sales network. For example, new or renovated retail outlets were opened in Lübeck-Dänischburg (Germany), Luxembourg, Marseille (France), Wijnegem (Belgium) and Tokyo (Japan).

Financing

CONDENSED CASH FLOW STATEMENT

In € million

	2014	2013
Consolidated net income	24.3	23.9
Current depreciation and amortisation of non-current assets incl. reversals	26.9	26.3
Change in non-current provisions	–12.7	–21.8
Profit from disposal of fixed assets	–0.9	–1.6
Changes in inventories, receivables, liabilities, current provisions and other assets and liabilities	5.8	–1.2
Other non-cash income/expenses	7.5	6.0
Net cash flow from operating activities	**50.9**	**31.6**
Net cash flow from investing activities	**–33.1**	**–15.5**
Net cash flow from financing activities	**–10.5**	**–10.0**
Total cash flows	**7.3**	**6.1**
Cash and cash equivalents on 1 Jan	**60.3**	**55.3**
Total cash flows	7.3	6.1
Change in cash and cash equivalents due to exchange rate effects	–0.8	–1.1
Cash and cash equivalents on 31 Dec	**66.8**	**60.3**

Our net cash flow from operating activities amounted to € 50.9 million, up € 19.3 million on the previous year. This was due to the reduction in inventories (€ 9.2 million) and liabilities to suppliers (€ 9.7 million). The prior-year figure also included pension settlements in the amount of € 5.4 million. This development was offset by the increase in receivables from customers (€ 6.8 million).

The net cash flow from investing activities increased by € 17.6 million year-on-year to € –33.1 million. Investments totalling € 44.6 million were offset by cash receipts from asset disposals in the amount of € 13.2 million. Investments included expenditure for the new factory in Sweden (€ 11.0 million) and the new combined heat and power plant in Mettlach (€ 5.1 million), while asset disposals included € 6.8 million from the sale of our former plant property in Sweden.

The net cash flow from financing activities amounted to € –10.5 million (previous year: € –10.0 million) and primarily contained the dividend payment for the 2013 financial year.

Liquidity

Net liquidity

Our net liquidity amounted to € 15.8 million at the reporting date, an improvement of € 6.7 million as against the previous year. This development was primarily due to the net income for the period and the cash inflow from the sale of the plant property in Sweden, as well as the reduction in inventories. This was offset by cash outflows due to the high level of investment in the 2014 financial year in particular.

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

At 31 December 2014, we had unutilised credit facilities totalling € 170 million.

NET ASSETS

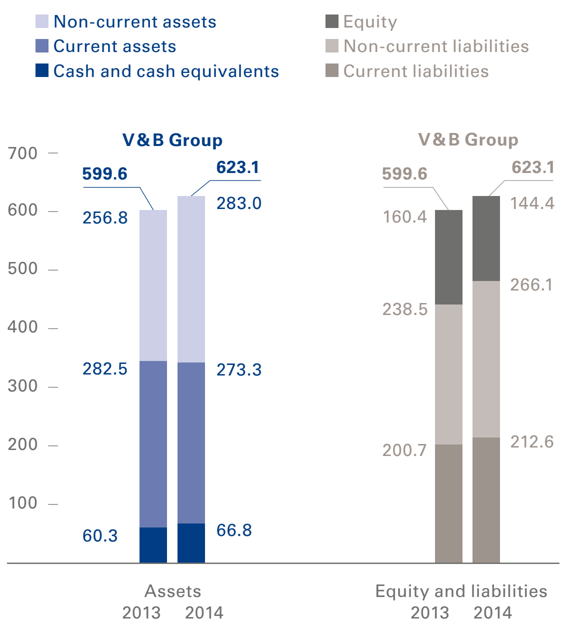
Structure of the statement of financial position

Total assets amounted to € 623.1 million at the reporting date compared with € 599.6 million in the previous year. The structure of the statement of financial position was as follows:

Year-on-year comparison of the structure of the statement of financial position

BALANCE SHEET STRUCTURE

in € million



Non-current assets consist of non-current fixed assets, deferred tax assets and other non-current assets. At the reporting date, non-current assets increased by a total of € 26.2 million to € 283.0 million. Non-current fixed assets rose by € 20.5 million year-on-year to € 228.5 million. This was primarily due to the higher level of property, plant and equipment (€ +18.9 million) and other financial assets (€ +3.4 million). The main reason for the increase in property, plant and equipment was the substantial investment in the construction of our new assembly and logistics centre in Sweden and our new combined heat and power plant in Mettlach. The increase in other financial assets was largely attributable to the increase in the non-current receivable from the buyers of the property in Sweden (€ +3.1 million). Deferred tax assets also increased by € 4.7 million.

The share of total assets attributable to non-current assets increased to 36.7 % (previous year: 34.7 %).

Current assets are primarily composed of inventories, trade receivables, other current assets and cash and cash equivalents. Current assets declined by € 2.7 million year-on-year, from € 342.8 million to € 340.1 million. This was reflected in particular in a decrease of€ 9.2 million in inventories and € 6.5 million in non-current assets held for sale (see note 16 of the notes to the consolidated financial statements), although this was partially offset by an increase in trade receivables (€ +6.8 million) and cash and cash equivalents (€ +6.5 million).

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

FINANCIAL PERFORMANCE INDICATORS

In addition to the key performance indicators of revenue and earnings before interest and taxes (EBIT), our activities focus 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

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

In the 2014 financial year, 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	2014	2013
Net operating assets	**295.0**	**301.5**
Property, plant and equipment	171.3	165.3
Inventories	147.8	159.7
Receivables (from third parties)	112.3	110.0
Liabilities	–61.1	–55.5
Other assets	–75.3	–78.0
Operating result (EBIT)	**38.4**	**36.2**
Return on net operating assets	**13.0 %**	**12.0 %**

In the past financial year, we succeeded in improving our rolling operating return on net assets by one percentage point to 13.0 % (previous year: 12.0 %). This development was based on an improved operating result compared with the previous year and a reduction in rolling net operating assets, which is clearly reflected in the lower level of inventories. However, this sharp downturn was partially offset by the increase in property, plant and equipment due to the investments made in 2014.

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	2014	2013
Net operating assets	**201.2**	**201.3**
Property, plant and equipment	138.7	130.1
Inventories	80.1	89.0
Receivables (from third parties)	80.5	79.5
Liabilities	–43.5	–39.1
Other assets	–54.6	–58.2
Operating result (EBIT)*	**31.8**	**28.8**
Return on net operating assets	**15.8 %**	**14.3 %**

* 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	2014	2013
Net operating assets	**93.8**	**100.2**
Property, plant and equipment	32.6	35.1
Inventories	67.6	70.7
Receivables (from third parties)	31.8	30.5
Liabilities	–17.6	–16.4
Other assets	–20.6	–19.7
Operating result (EBIT)*	**12.6**	**8.6**
Return on net operating assets	**13.4 %**	**8.6 %**

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

NON-FINANCIAL PERFORMANCE INDICATORS

Customers

Target group-specific market cultivation: an important factor for success

Our key target groups in the Bathroom and Wellness Division are dealers, craftsmen, architects, interior designers and planners. In the Tableware Division, we address end consumers and dealers alike, from small specialist porcelain retailers to large department store chains. We reflect the individual requirements of the various target groups with specially trained staff and various communication media. One example is our Business Portal for Bathroom and Wellness customers on the Internet, which provides our partners with mobile access to all relevant information including technical product specifications.

The adequate presentation of our products – primarily including dealers' displays in the case of Bathroom and Wellness products – and the advice provided to end consumers are core elements of our marketing approach. We use our CRM (customer relationship management) system to continuously measure the presence of our product range, and our new products in particular, with customers. In addition to a strong display presence, qualified advice is a vital factor in our success, and hence in the success of our customers. Accordingly, we offer a wide-ranging employee training programme every year. The corresponding training measures are conducted as part of our internal "Global Academy". These measures are paying off and are being recognised by customers – as confirmed by the award won by the Tableware Division, which was named Service Champion 2014 in the household and gift provider category.

In our project business, where there can be a long period of time between initial contact and delivery in the Bathroom and Wellness Division in particular, the project pipeline is an important leading indicator of future business development. Here, too, we use our CRM system for continuous process analysis and controlling between the specification and realisation phases. In a number of countries, we have also established a dedicated project field sales team to provide support for specific target groups such as architects and project developers.

Proximity to the markets is a key factor in our success. We are continuously expanding our sales organisations, particularly in the strategic growth regions of China and Russia, in order to achieve direct access to the markets and increase our proximity to our customers.

Customer surveys

Our sales and marketing strategies are shaped by our customers' opinion on our company, our brand and our products. The voice of the customer, i.e. our customers' expectations and requirements, also serves as a key indicator for the permanent improvement and safeguarding of our quality. For this reason, we conduct regular internal and external customer surveys on various topics. As well as providing us with valuable information on trends and forecasts, these surveys also show how customers rate our performance. Targeted questions on subjects such as the bathroom planner and the use of kitchen sinks or on consumer-related topics via Facebook and crowdsourcing in the Tableware Division give us an insight into how our products are perceived by the customer. The results allow us to identify the right points of leverage and derive and successfully implement targeted improvement measures.

Supplier relationships

Value-wise, our procurement volume is equivalent to greater than 60 % of our revenue. This means that our supplier relationships are extremely important. As part of our systematic strategic procurement management, we continuously evaluate our suppliers with a view to furthering our cooperation. We also aim to structure our supplier relationships so that all risks are minimised, and hence kept away from the company to the greatest possible extent. To this end, contracts with suppliers are negotiated accordingly, compliance with statutory provisions is ensured and corresponding risk management is practiced. 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.

Environment

As companies and individuals, we are all responsible for our environment. Our actions today shape the state of the environment for future generations. As such, the efficient use of raw materials and energy and a commitment to cutting emissions also form key elements of our environmental strategy. For example, we have significantly reduced our waste water volume and continuously improved our energy efficiency over recent years by making targeted investments in optimising our production processes. The commissioning of a new combined heat and power plant will reduce our CO_2 emissions at the Mettlach site by 4,000 tonnes a year. The reduction in emissions also means that the location will no longer be subject to emissions trading from 2015 onwards. Another positive effect - our Mettlach site will be largely unaffected by the development of electricity prices, our energy costs will be easier to plan, and our annual expenditure on energy and heat supply at the Mettlach sanitary ware factory and our head office will be reduced by a high six-figure amount.

As discussed in the 2013 Annual Report, our German sites are certified in accordance with ISO 50001 for the successful introduction of an energy management system. To meet the requirements of this international standard, management-oriented criteria and defined energy-saving targets must be complied with.

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 increase our energy efficiency by renovating existing building structures, for example.

At an operational level, we have defined ambitious targets for all of the sites that are already ISO 50001-certified, and we are seeking to achieve these targets by the end of 2015. Here, too, the focus is on reducing energy consumption and CO_2 emissions. The targets are backed up by concrete measures, such as the use of particularly efficient dryers in production or the use of heat recovery.

In addition to the energy management measures at the German sites, energy-related success has been achieved at the Group's largest sanitary ware factories in Lugoj (Romania) and Hódmezővásárhely (Hungary). We have introduced an energy management system at both locations, and all of the relevant process steps have been under examination from an energy consumption perspective since October 2014.

Employees

Our employees are well-trained, capable and motivated. To ensure that this remains the case, our undertaking as a modern, responsible employer is to provide our employees with interesting and stimulating tasks and an attractive working environment and offer them fair remuneration and interesting benefits.

We also offer our employees different working time models, such as flexible working hours, part-time work and mobile work. The continuing process of internationalisation means our employees have the opportunity to spend time on attractive placements abroad, thereby advancing not only their professional development but, in particular, also their intercultural skills.

Pension provision is extremely important to our employees as a way of securing their standard of living after retirement. To support our workforce in selecting the appropriate pension products, we offer a comprehensive, individual consulting concept in cooperation with an insurance broker. For example, a number of information events and individual consultations took place at our German sites in 2014. Our employees can also obtain information about company and collectively agreed pension schemes at Villeroy & Boch, calculate individual offers and clarify detailed questions with the respective contact persons at any time. Supporting our employees in achieving a better work/life balance is also becoming increasingly important. We co-finance a day care centre at our head office in Mettlach that can be used by employees with children. In 2014, we repeated a scheme in Germany providing working parents with financial support for reliable childcare during the school holidays.

Professional development and training

Vocational training is an important pillar of our sustainable HR policy. At the reporting date, we employed a total of 123 trainees and students in 15 commercial and technical professions, primarily in Germany. In addition to the major training locations in Mettlach and Merzig, we are also using smaller locations and organisational units to train our new talents. At the reporting date, a total of six trainees were learning to be retail sales personnel at our regional factory outlet centres and the "House of Villeroy & Boch" Tableware stores in Hamburg and Düsseldorf. Our Tableware production site in Torgau had five trainees in two technical professions at the reporting date, while the Sanipa bathroom furniture factory in Treuchtlingen had eleven trainees in five different professions. A further four trainees were employed at our bathroom furniture company in Austria. The aim of our training programmes is not only to help school-leavers with the first steps in their career, but also to assist them in discovering and developing their talents so that they can take up a vacant position at our company after completing their training in particular.

Incorporating employees into process design

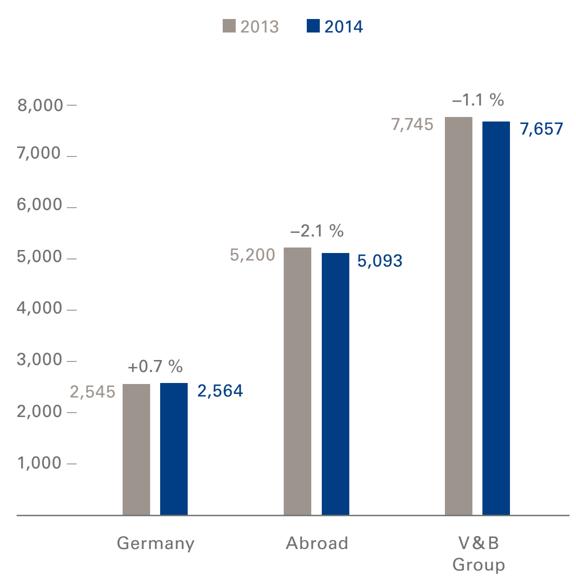
We also believe it is important to actively involve our employees in improving our business processes and reducing their complexity. The tools we use to achieve this include employee surveys and corresponding workshops in order to collect suggestions for improvement from all departments and prioritise 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

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 prevention and employee awareness of occupational safety and healthcare. It is extremely important for us to not only comply with the statutory limits – e.g. with regard to dust exposure – but also to fall below these limits wherever possible. One concrete example is the fitting of special white plaster cabins at the Mettlach sanitary ware factory, which has significantly reduced the dust levels to which our employees are exposed. The cabins, which represent a new standard in the prevention of health risks in the ceramic industry, were installed as part of a joint pilot project with the employers' liability insurance association.
Another important aspect is the definition of and compliance with safety standards, which are tied to strict criteria and have been successively harmonised throughout the Group. The measurable indicators of accidents are also subject to uniform evaluation in order to identify the results achieved and the areas for improvement. For example, our Swedish fittings factory in Vargarda can boast three accident-free years in succession. As part of a pilot project, our Belgian wellness production site in Roeselare became the first location in the Villeroy & Boch Group to be certified in accordance with the OHSAS 18001 (Occupational Health and Safety Assessment Series) standard. The individual workstations are also systematically assessed at all locations throughout the Group. To ensure that all of the locations are working to improve occupational health and safety, we conduct international audits with internal experts with a view to assessing the organisation and projects and measures aimed at protecting employees and preventing accidents and damage to health in the workplace. Where there is a need for optimisation, we initiate the corresponding organisational, technical or medical measures. In addition to the legally prescribed examinations on the performance of specific activities, we regularly offer our employees a range of health campaigns, such as medical checks. There is a growing focus on medical prevention at all locations. Training and education on health, hygiene, safety and prevention round off our activities in this area.

Workforce

NUMBER OF EMPLOYEES (AT END OF PERIOD)



We had a total of 7,657 employees as at 31 December 2014. Compared with 31 December 2013, the number of employees declined by 88. The Bathroom and Wellness Division accounted for 4,879 employees, while a total of 2,305 people were employed in the Tableware Division and 473 in central functions. 33.5 % of the workforce was employed in Germany. Taken as an average for the year as a whole, the number of employees decreased from 7,756 to 7,675.

Social responsibility

Social responsibility is an important element of our identity as a company. With our long tradition dating back to 1748, we take this task extremely seriously and are aware of our responsibility to society. This is not least documented in our corporate guidelines and the statement: "Villeroy & Boch – Maintaining the tradition".
Our aim is to be a strong and reliable partner for society. We help to improve the lives of people in need through selected, targeted measures. In the 2014 financial year, our activities focused on donations of money and goods to social organisations at a regional level. We also encourage our employees to take responsibility themselves. In the "Wunschweihnachtsbaum" project, children from the SOS Children's Village in Merzig were asked to wish for small gifts that were provided by our employees at the Mettlach site. Due to the extremely positive response, we are planning to expand this project to additional locations in 2015.
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 supported the football club SV Mettlach for a number of years. Since 2013, we have also supported the handball club in the neighbouring town of Merzig.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no events of particular importance after the end of the 2014 financial year.

REPORT ON RISKS AND OPPORTUNITIES

RISK STRATEGY

Our management is committed to the long-term existence of Villeroy & Boch and the maintenance of its independence. To this end, our aim is to ensure sustainable growth and a long-term increase in our enterprise value. It is also important for us to retain our shareholders on a long-term basis.

Business activities involve both opportunities and risks. In terms of day-to-day business, aside from general economic and industry-specific risks, we are exposed to the usual financial and economic risks.
In accordance with our approach to risk, these business risks are identified, evaluated and, where it is economically reasonable to do so, minimised or avoided. 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 with a clear functional organisation. The risk management system serves to secure our continued existence and help us to achieve our objectives as a company.

RISK MANAGEMENT SYSTEM

Our risk management system covers all of the areas of the Group and allocates clear responsibilities and duties to all organisational units.
In this system, which encompasses both opportunities and risks, the Management Board defines the principles of the risk policy and their implementation together with the general principles of Group strategy and ensures that they are monitored. The Group-wide Code of Conduct limiting the risks of possible breaches of the law and regulations is a further component of this system.
Various coordinated risk management, planning and control systems have been put in place in implementing the system as a whole with 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. The allocation of risk management to the respective process responsibilities ensures that all areas of the Group are involved. 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 existing Group-wide decentralised controlling organisation. Risk management functions are also coordinated centrally in order to guarantee a consistent and seamless workflow throughout the Group.
At the same time, our Group Internal Audit team is responsible for identifying, independently evaluating and assessing risks (identification and evaluation function) and presenting the resulting recommendations for improvement (advisory function) and implementing them (tracking function).
The Audit Committee of the Supervisory Board is also integrated in this system. As part of its activities, it monitors the effectiveness of the risk management, internal control and internal audit system and, in particular, the financial reporting process. In this connection, it also exercises a control function with regard to the measures to limit the principal risks. The suitability of the risk early warning system is also regularly examined by our auditors as part of their statutory audit of the single-entity financial statements and the management report.

INTERNAL CONTROL SYSTEM

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 financial reporting process in accordance with section 289 (2) no. 2a HGB. The risk management system encompasses all organisational provisions and measures aimed at identifying and dealing with business risks. Accordingly, an internal control system is defined as those principles, processes and measures (activities and systems) introduced by a company's management with a view to the organisational implementation of management decisions. The concrete tasks and objectives of the internal control system are:

- to ensure the effectiveness and efficiency of the company's business activities, including the protection of tangible and intangible assets and the prevention and coverage of asset losses caused by the company's staff or third parties;
- to ensure the correctness and reliability of accounting and internal and external financial reporting; and
- to ensure compliance with the statutory provisions that are relevant to the company.

The additional disclosures on the structures introduced at Villeroy & Boch and the key characteristics of the internal control and risk management system, particularly those that could have a significant influence on financial reporting, are based on this definition.
The principles, organisational structure, workflows and processes of the internal control and risk management system with respect to financial reporting are set out in specialised guidelines and work instructions that are continuously adjusted to reflect external and internal developments. The controls defined on a Group-wide basis are set out in a checklist. The provisions contained in these guidelines and work instructions are based on mandatory legal standards as well as company standards that are defined on a voluntary basis. At an organisational level, this is also reflected in a degree of centralisation that varies from area to area depending on usefulness and materiality considerations and the respective cost/benefit ratio. While the operational functions are oriented as close to the market as possible, services in the areas of financial accounting, information technology (IT), financing, the procurement of raw materials and energy capacities primarily used in production, and legal and tax advisory services are, to a large extent, provided on a Group-wide basis.
The following characteristics of the internal control and risk management system have a significant influence on financial reporting:

- Our Group is characterised by a clear organisational, corporate, controlling and monitoring structure.
- Planning, reporting and controlling processes and early warning systems have been agreed and reconciled for the comprehensive analysis and management of risk factors affecting the Group's earnings and risks that could endanger the continued existence of the Group. Risk management with regard to the financial reporting process is integrated into the general risk management system.
- Functions in all areas of the accounting and consolidation process (e. g. financial accounting, payroll, taxes, controlling, Group reporting, Group treasury) are clearly allocated.
- The main processes of relevance to financial reporting are defined and are analysed on a regular basis.
- The completeness and correctness of financial reporting data is examined regularly on the basis of spot checks and plausibility checks, as well as manual controlling and using the software employed. Risk-, process- and content-oriented controls are installed at a divisional level.
- The principle of dual control is applied for all key processes of relevance to financial reporting, and functional separation is also applied as required.
- The proper IT-based processing of transactions and data relating to financial reporting is ensured in particular through the use of a uniform standard software system for processing all accounting-related data. This system is reviewed externally on a regular basis.
- Logical access to the IT systems and the granting of functional authorisations are strictly and systematically regulated through appropriate workflows and measures. The principle of minimum information applies, i.e. employees are only informed about transactions to the extent that this is necessary for their work. All material controls are regularly documented and examined for effectiveness.
- Group Internal Audit forms part of the internal monitoring and opportunity/risk management system and has a corresponding mandate within the Villeroy & Boch Group as delegated by the Management Board. Using a systematic target- and risk-oriented approach, the functionality and effectiveness of the internal control and risk management system and other aspects are examined and assessed primarily on a test basis. Where weaknesses are identified, proposals for improvement are developed in conjunction with the units under review and it is agreed that their implementation will be regularly monitored on the basis of an established follow-up process.

With regard to the financial reporting process, the points described above serve to ensure that business transactions and events are identified and processed correctly and in full and financially assessed. The appropriate human resources, the use of adequate software and clear statutory and internal provisions form the basis for the proper, uniform and continuous financial reporting process. The clear demarcation between areas of responsibility and various control and review mechanisms serve to ensure correct and responsible financial reporting. In the process, the control system relating to financial reporting, irrespective of the degree of care with which it is set up and operated, is able to provide appropriate but not absolute certainty that all errors will be avoided or all wrong assessments identified in a timely manner.

REPORT ON INDIVIDUAL RISKS

General market risks

We monitor and analyse 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. The specific risks that could arise from the overall economic environment or the industry are presented in the report on expected developments.

Financial and economic risks

As an international Group, we are exposed to a number of 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 the central Group Treasury. 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, potential usage and changes to individual items. 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 2014.

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 by receiving collateral deposited by customers (guarantees, mortgages, etc.) and through prompt collection measures. Specific valuation allowances are recognised for default risks that occur despite this, and particularly in the event of significant financial difficulties on the part of the debtor and impending bankruptcy (see section 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 only deals with contract partners with an investment grade rating of at least A–/A3 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 2014.

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 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 this 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 2014. 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 risk arising from transactions in foreign currencies. Currency futures contracted with banks with good credit ratings are employed as hedging transactions. We 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 through-out 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 or extent of these risks or the risk management and measurement methods in 2014. Further information on the management of exchange rate risks can be found in section 53 of the notes to the consolidated financial statements. The turbulence affecting the Russian rouble as a result of the fall in oil prices and geopolitical tensions mean that there is a heightened risk arising from this currency in 2015. We are using a dynamic hedging approach to counter this risk.

Management of interest rate risks: Interest rate risk occurs 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 2014. Further information on the management of interest rate risks can be found in section 53 of the notes to the consolidated financial statements. Towards the end of 2014, a few banks discussed the possibility of passing on the negative deposit rates imposed by the European Central Bank to business customers. However, the Villeroy & Boch Group has sufficient alternative banking partners and investment options, meaning it is not subject to negative deposit rates at present and does not expect this to be the case in 2015.

Management of other price risks: These 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 2014. On conclusion of the contract, the volume cover is checked between the hedge and the actual requirements for the duration of the hedge. Changes in the prices in the contract and the underlying price change in the hedged commodity are compared as at the end of each reporting period. In 2014, 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 2014. Further information on the management of commodity price risks can be found in section 53 of the notes to the consolidated financial statements.

Impact of the planned financial transaction tax: Together with ten other EU member states, Germany has agreed to levy a tax on transactions involving financial instruments. The aim of the new tax, which is also contained in the coalition agreement of the German Federal Government, is to ensure that the financial sector participates in the cost of the financial and economic crisis. Our exchange rate hedging activities in particular mean that we would be affected by the introduction of this new tax, either directly by way of classification as a financial institution or indirectly as a result of banks passing on the tax burden and the reduced availability of derivatives. All in all, the financial transaction tax would increase the cost of hedging financial risks.

Personnel risks

Our future success also depends on the extent to which we succeed in appointing, integrating and retaining talented and capable specialists and managers in the long term. Demographic change and the growing shortage of skilled professionals are posing considerable challenges for us when it comes to attracting new employees, as both of these social trends are leading to a shift in supply and demand on the employment market.

To encourage qualified graduates from commercial and technical courses to start their career with Villeroy & Boch, we offer a three-year junior management programme with on-the-job training. 34 young talents are currently being prepared to perform specialist and management functions in various departments.

Our other human resources instruments also help to safeguard new talents and expertise on a targeted basis. For example, our internal Global Academy offers a wide range of management and personality training programmes and tutorials for developing subject-specific skills and expertise.

Demographic development also means that our workforce is set to become progressively older in the medium term. We are addressing this change with our workplace design and a wide range of health and safety measures. On the basis of agreements with the employee representatives, we also offer programmes for professional integration management and flexible provisions for family nursing care that go beyond the statutory provisions.

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 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

Although we act in a responsible and legally compliant manner as a matter of principle, as an internationally active company we are still exposed to 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 at first instance announced its verdict on the action filed by the affected Villeroy & Boch companies against the decisions by the EU in the so-called 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 appeal is still pending. Sufficient provisions were recognised for the costs of these legal proceedings. The fines in the amount of € 71.5 million were paid in 2010. The underlying matters in connection with the aforementioned proceedings and their assessment in terms of stock corporation and insurance law are currently being examined.

Tax risks

Like all commercial enterprises, we are subject to the ongoing examination of our tax declarations and payments by the German fiscal authorities. In quantitative terms, the largest share of the Group's business volume relates to Villeroy & Boch AG, where the external tax audit for the financial years 2005 to 2007 was continued in 2014. The audit is expected to be concluded in the 2015 financial year. Key points of discussion include the valuation allowances on inventories, the cost of acquisition or disposal of equity interests and the interest rate for loans to foreign subsidiaries. A provision has been recognised for potential backpayments of taxes.

The external tax audit at our subsidiary in Thailand is primarily concentrated on the level of realised revenue. An objection has been lodged against the backpayment that has already taken place for 2010. We currently expect the outcome of these proceedings to be in our favour. At the same time, this matter also embodies a risk for subsequent years.

Procurement market risksts

Estimates of economic development for 2015 – the International Monetary Fund is forecasting growth of 3.5 % – mean that procurement prices can be expected to see a comparatively moderate increase on the whole. As in the previous years, the risks arising from the sovereign debt crisis and the financial sector mean there is still a considerable range in terms of the potential development of the economy, and hence market prices. The potential opportunities resulting from a reduction in the global market prices of largely USD-traded raw materials are accompanied by the relative weakness of the euro, which is likely to partially offset these opportunities if it persists.

In addition to price risks, there is a range of additional general procurement risks. In the critical area of production supply in particular, this includes 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 critical 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 critical area of raw materials – the current circumstances are such that there are no alternative sources available on the market.

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

Sales market risks

Although the global economy is expected to grow, there are numerous risks that could endanger the achievement of our revenue targets. In the financial sector, for example, the further reduction in risk positions on bank balance sheets could have a dampening effect on the economy that more than offsets the growth impetus from expansive monetary policy. The sustained credit crunch in the Mediterranean EU member states and the continued weak development in our important markets of France and Italy could also mean increased sales risks. In particular, the crises in Ukraine and Russia and the Middle East embody additional risk potential for our company's sales forecasts.

In the Bathroom and Wellness Division, sales risks could arise from the development of new construction activity and the fact that resources that would otherwise have been committed to bathroom renovations are being redirected to other areas, such as energy efficiency, as a result of government growth incentives. Mergers in the sanitary ware sector, such as the announced acquisition of Sanitec Holdings Sweden AB by Geberit AG and the competed acquisition of Grohe Group S.à r.l. by the K.K. Lixil Group, may lead to the acceleration of market dynamics on the European market in particular. The growing concentration in the German wholesale sector is also contributing to a shift in market power in favour of wholesalers. In addition to the aforementioned risks, the slowdown in the Chinese property sector may constitute a further challenge in the Bathroom and Wellness Division's international activities.

As well as general economic sales risks, our Tableware Division is exposed to the additional challenges of a change in consumer demand and consolidation in the retail sector.

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.

Production and environmental risks

Environmental protection and occupational health and safety are fixed elements of our corporate culture. Despite this, the possibility of environmental pollution caused by production cannot be ruled out. As a preventive measure, we inform and sensitise our employees to all aspects of environmental protection and occupational health and safety. They are encouraged to leverage potential in their respective area that could be beneficial and economically useful when it comes to environmental protection and occupational health and safety. We have also established an environmental management system in accordance with the international standard ISO 14001 and obtained certification at most of our sites. One or more officers are appointed in the areas of water protection, waste and emission protection at every site. These experts prepare reports on the local environmental situation at regular intervals. This information is sent to the managers in charge of the respective site, the technical directors and the responsible member of the Management Board. Where risks are identified, proposals for technical and organisational solutions are presented and quantified.

The interruption of operations, e.g. due to machine or furnace failures, represents another risk that can have significant financial consequences and adversely affect our business performance. Accordingly, our maintenance budget is sufficient 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.

Risks from the use of information technology

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.

We apply general standards with regard to IT management, data protection and data security in all key aspects. This includes the ITIL (IT Infrastructure Library), organisational and process specifications for IT service management and the BSI standard for information security management. Accordingly, in 2011 the external IT service provider responsible for data centre operation was certified in accordance with ISO 27001. This was followed by certification in accordance with IDW PS 951 Type 2 (new version) in 2013. Among other things, these certifications take into account the provision of redundant IT systems, version-driven backup procedures, virus protection software, access controls and encryption systems, thereby guaranteeing a recognised high security standard.

Overall risk position

Group-wide risk management consolidates and aggregates the risks reported by the two divisions, the central functions and the Group companies. The Management Board of Villeroy & Boch AG regularly examines the risk situation of the Group. Our risk profile did not change materially in 2014. The Management Board has satisfied itself as to the effectiveness of the risk management system.

There are no risks that could endanger the continued existence of our company. The aforementioned individual risks are managed within the risk management system. Sufficient risk cover is available for the individual risks. We do not expect the risks to which our Group is exposed to have a material influence on its net assets, financial position and results of operation.

REPORT ON OPPORTUNITIES

Growth markets

Our activities in the saturated markets of Europe are primarily focused on expanding our market share, whereas our approach in the growth markets is geared towards increasing brand awareness and hence establishing ourselves on the respective market.

We still consider China and – despite the current geopolitical and currency-related uncertainty – Russia to be the individual markets offering the greatest growth potential for us. Both markets are characterised by a growing middle and upper class of keen consumers with, in particular, a strong brand affinity; we believe that this will offer 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. In the past financial year, this allowed us to significantly increase the number of points of sales in both markets, and hence our revenue volume. In local currency, we recorded growth of 27 % in China and as much as 31 % in Russia.

Sales and licence partnerships

Sales partnerships in international markets are a key element of our strategic development as a company. In spring 2013, we launched our sales partnership for the North American market with the Japanese sanitary ware group Toto. This not only provides us with direct access to a broad customer base, but also allows us to leverage synergies in the areas of sales, service and logistics. At the end of 2013, our sanitary ware products were represented in around 165 Toto showrooms in the USA and Canada; in the 2014 financial year, we almost doubled our distribution reach to a total of 320 showrooms.

In India, we have been working in partnership with Genesis Luxury Fashion since June 2013 and have formed a joint venture for the exclusive distribution of our Tableware products in India. Genesis is one of the most successful companies for luxury products in India. It already works with a number of premium and luxury brands and has the expertise and knowledge of the market to ensure the successful distribution of our products, too. Following the establishment of the country's first Villeroy & Boch retail store in Mumbai in August 2013, a further four stores were opened in Kolkata, Bangalore, Hyderabad and Delhi in 2014, and more stores in high-quality shopping centres are currently in the planning phase.

Our opportunities are based on our strong brand and the continuous development of our product range, not least in cooperation with licence partners. Granting brand licences is seen as an instrument for brand capitalisation in the form of licence income, while licence business is also a way of attracting new target groups and expanding our product range beyond our current core portfolio.

Project business

We believe that there remains good potential for increasing the sales volume in our global project business. Both divisions have an extensive range of products and services that is precisely tailored to the needs of our professional partners. In the area of sales, we benefit from the continuous development of our customer relationship management, which means that the majority of projects are recorded early in the planning phase and 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 our price-sensitive project business in future. In the Bathroom and Wellness Division, we increased revenue from our product and service range for project business by 13 % in the past financial year. In the Tableware Division, we succeeded in significantly expanding our revenue volume with hotels and restaurants by 13 % year-on-year following several years of consolidation.

Online activities

The expectations of online users are rising continuously, and the Internet has become a regular part of everyday life across all population and age groups. Since 2013, we have massively increased our structures and investments in digitalisation. All of 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, fascination, entertainment, service and dialogue in full and in a targeted manner, we have significantly expanded our online presence by improving our website and intensifying our social media activities. 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. Global revenue from our dedicated e-shops increased by around 35 % in the past financial year, and we expect to continue to see above-average growth rates in the years ahead.

In the Bathroom and Wellness Division, the service range also plays a primary role. Applications such as our bathroom planner and our whirlpool configurator generate valuable leads that we pass on to our dealers with the customer's permission, thereby leading to revenue with a high degree of probability.

Efficiency improvements in production and administration

The continuous optimisation of our cost structures encompasses productivity improvements in our production workflows as well as in administrative areas. In 2012, we launched the yield improvement programme with the aim of leveraging the full potential offered by our plants. The core of the programme is a bundle of optimisation measures with which we are aiming to systematically increase the first pass yield at our sanitary ware factories. This indicator describes the proportion of products that pass through all of the steps in the manufacturing process without requiring additional work. The levers for improving this figure are statistical fault analyses, the stabilisation of environmental parameters and process integration. This programme has already led to impressive productivity improvements, which is reflected in the statement of comprehensive income in a significant improvement in the gross margin (2014: +1.1 percentage points). We expect the successive roll-out of the programme across all of our plants to lead to further relevant earnings improvements in the coming years.

In the area of administration, we have defined and begun to implement concrete measures for efficiency improvements in the support functions. The optimisation potential lies in the Group-wide standardisation of processes, particularly in the areas of human resources, procurement and finance. At an organisational level, one of our aims is the bundled

processing of business transactions at shared service centres. In the past year, for example, we continued to expand the shared service centre for financial accounting in Hungary. The centre provides location-independent support for our companies in Austria, the Czech Republic, Romania and Poland.

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 2014, non-recurring income of € 11.8 million had been realised in various tranches, with € 4.8 million of this figure attributable to the 2014 financial year. The total income from the disposal of the plant properties is expected to be up to € 17 million.

The development of our property in Luxembourg still offers additional earnings potential. However, realisation will be dependent on the conversion of the property from industrial to residential development. This must be compliant with the relevant urban development plans and requirements and necessitates the involvement of political bodies. We are currently still in a phase of the process that means a reliable statement on a potential realisation date is not possible.

REPORT ON EXPECTED DEVELOPMENTS

We expect to see only moderate global economic momentum in the 2015 financial year. Despite the tailwind provided by the low oil price, economic indicators have recently deteriorated on the back of the weaker investment outlook, particularly in the euro zone. At the same time, the revised growth forecasts for most economies remain above the prior-year level, meaning that the global economy can be expected to grow slightly.

There is a clearly positive trend in the USA, where we are anticipating a robust upturn. Growth momentum in Asia, and China in particular, will remain above-average in 2015 but is set to be weaker than the long-term average. The Russian economy will contract as a result of lower income from oil exports and political tension.

In addition to geopolitical conflicts (Russia/Ukraine, Middle East), we consider the deflationary tendencies in the euro zone and the resulting threat of stagnation to be material risks for economic momentum.

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 2015 financial year.

Our operating earnings growth (EBIT) in 2015 will be slightly higher than the forecast revenue growth, i. e. in excess of 5 %.

We also expect to generate further non-recurring income in 2015 from the agreements that have already been concluded for the sale of additional parts of our plant property in Gustavsberg, Sweden.

Our return on net operating assets in 2015 is expected to be slightly higher than the prior-year figure of 13 %, with the effects of the forecast earnings growth being partially offset by the increase in the asset volume.

Our operating investments in property, plant and equipment will amount to more than € 30 million in the 2015 financial year. This represents a significant decrease on the prior-year level of € 45 million, which was extraordinarily high due to the construction of a new plant location in Sweden and the commissioning of a combined heat and power plant in Mettlach. In addition to efficiency improvements, key areas in 2015 will include market investments in the development of region-specific product ranges and the further expansion of our own retail activities in particular. Around 72 % of investments will be made in the Bathroom and Wellness Division, with the Tableware Division accounting for the remaining 28 %.

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 2014 Annual Report, which is also available online at www.villeroy-boch.com/corporate-governance.

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 2014 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.

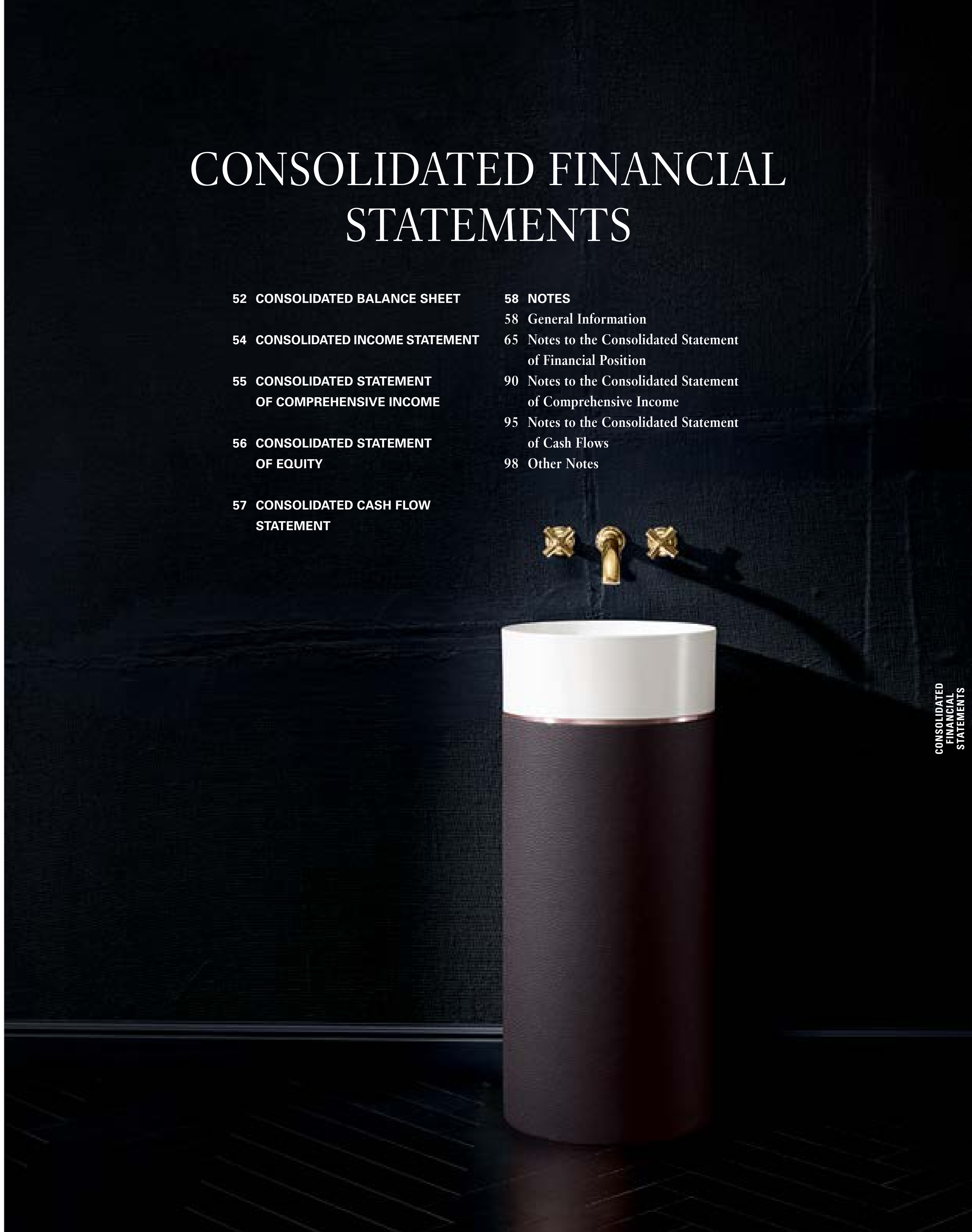
COMBINED RESPONSIBILITY STATEMENT

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, 2 February 2015

Frank Göring | Nicolas Luc Villeroy

Andreas Pfeiffer | Dr. Markus Warncke



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as of 31 Dec 2014

in € million

Assets	Notes	As of 31/12/2014	As of 31/12/2013
Non-current assets			
Intangible assets	5	36.8	38.1
Property, plant and equipment	6	160.2	141.3
Investment property	7	12.2	13.1
Investments accounted for using the equity method	8	1.8	1.4
Other financial assets	9	17.5	14.1
		228.5	**208.0**
Other non-current assets	13	1.0	0.0
Deferred tax assets	10	53.5	48.8
		283.0	**256.8**
Current assets			
Inventories	11	139.6	148.8
Trade receivables	12	108.9	102.1
Other current assets	13	21.3	21.0
Income tax receivables	14	2.3	2.9
Cash and cash equivalents	15	66.8	60.3
		338.9	**335.1**
Non-current asset held for sale	**16**	**1.2**	**7.7**
Total assets		**623.1**	**599.6**

as of 31 Dec 2014

in € million

Equity and Liabilities	Notes	As of 31/12/2014	As of 31/12/2013
Equity attributable to Villeroy & 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	–51.5	–57.4
Valuation surplus	21	–54.7	–32.8
		144.3	**160.3**
Equity attributable to minority interests	**22**	**0.1**	**0.1**
Total equity		**144.4**	**160.4**
Non-current liabilities			
Provisions for pensions	26	212.0	182.7
Non-current provisions for personnel	27	15.6	15.2
Other non-current provisions	28	1.3	1.4
Non-current financial liabilities	29	25.0	25.0
Other non-current liabilities	30	2.4	2.7
Deferred tax liabilities	10	9.8	11.5
		266.1	**238.5**
Current liabilities			
Current provisions for personnel	27	13.4	12.9
Other current provisions	28	19.4	21.3
Current financial liabilities	29	26.0	26.2
Other current liabilities	30	80.1	75.2
Trade payables	31	70.4	60.7
Income tax liabilities		3.3	4.4
		212.6	**200.7**
Total liabilities		**478.7**	**439.2**
Total equity and liabilities		**623.1**	**599.6**

CONSOLIDATED INCOME STATEMENT

for the period 1 Jan to 31 Dec 2014

in € million

	Notes	01/01/2014 –31/12/2014	01/01/2013 –31/12/2013
Revenue	**32**	**766.3**	**745.3**
Costs of sales	33	–424.9	–421.3
Gross profit		**341.4**	**324.0**
Selling, marketing and development costs	34	–255.1	–249.5
General administrative expenses	35	–45.1	–46.6
Other operating income	36	17.7	27.0
Other operating expenses	37	–15.9	–12.1
Result of associates accounted for using the equity method	38	0.2	0.4
Operating result (EBIT)		**43.2**	**43.2**
(Operating result before non-recurring income from real estate sale)		(38.4)	(36.2)
Interest income and other finance income	39	1.3	1.1
Interest expenses and other finance expenses	40	–9.6	–10.5
Financial result		**–8.3**	**–9.4**
Earnings before taxes		**34.9**	**33.8**
Income taxes	41	–10.6	–9.9
Group result		**24.3**	**23.9**
Thereof attributable to:			
▎Villeroy & Boch AG shareholders		24.3	23.9
▎Minority interests	42	0.0	0.0
		24.3	**23.9**
Earnings per share		**In €**	**In €**
▎Earnings per ordinary share	43	0.90	0.88
▎Earnings per preference share	43	0.95	0.93

During the reporting period there were no dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 Jan to 31 Dec 2014

in € million

	2014	2013
Group result	**24.3**	**23.9**
Other comprehensive income		
Items to be reclassified to profit or loss:		
▎Gains or losses on cash flow hedge	1.2	–1.6
▎Gains or losses on translations of exchange differences	–4.7	–0.1
▎Gains or losses on value changes of securities	0.0	–
▎Deferred income tax effect on items to be reclassified to profit or loss	–0.9	–1.0
Items not to be reclassified to profit or loss:		
▎Actuarial gains or losses on defined benefit plans	–35.9	–0.4
▎Deferred income tax effect on items not to be reclassified to profit or loss	10.4	0.2
Total other comprehensive income	**–29.9**	**–2.9**
Total comprehensive income net of tax	**–5.6**	**21.0**
Thereof attributable to:		
▎Villeroy & Boch AG shareholders	–5.6	21.0
▎Minority interests	0.0	0.0
	–5.6	**21.0**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 Jan to 31 Dec 2014

in € million

	Equity attributable to Villeroy & Boch AG shareholders							
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Valuation surplus	**Total**	Equity attributable to minority interests	**Total equity**
Notes	17	18	19	20	21		22	
As of 01/01/2013	**71.9**	**193.6**	**–15.0**	**–72.1**	**–29.2**	**149.2**	**0.1**	**149.3**
Group result				23.9		23.9	0.0	23.9
Other comprehensive income				0.7	–3.6	–2.9		–2.9
Total comprehensive income net of tax				**24.6**	**–3.6**	**21.0**	**0.0**	**21.0**
Dividend payments				–9.9	–	–9.9		–9.9
As of 31/12/2013	**71.9**	**193.6**	**–15.0**	**–57.4**	**–32.8**	**160.3**	**0.1**	**160.4**
As of 01/01/2014	**71.9**	**193.6**	**–15.0**	**–57.4**	**–32.8**	**160.3**	**0.1**	**160.4**
Group result				24.3		24.3	0.0	24.3
Other comprehensive income				–8.0	–21.9	–29.9		–29.9
Total comprehensive income net of tax				**16.3**	**–21.9**	**–5.6**	**0.0**	**–5.6**
Dividend payments				–10.4		–10.4		–10.4
Acquisition of non-controlling interests				0.0		0.0	0.0	0.0
As of 31/12/2014	**71.9**	**193.6**	**–15.0**	**–51.5**	**–54.7**	**144.3**	**0.1**	**144.4**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 Jan to 31 Dec 2014

in € million

	Notes	**01/01/2014 –31/12/2014**	01/01/2013 –31/12/2013
Group result		24.3	23.9
Depreciation of non-current assets	44	26.9	26.3
Change in non-current provisions		–12.7	–21.8
Profit from disposal of fixed assets		–0.9	–1.6
Change in inventories, receivables and other assets		–1.5	11.6
Change in liabilities, current provisions and other liabilities		13.0	–7.5
Taxes paid/received in the financial year		–3.0	–2.2
Interest paid in the financial year		–3.6	–3.8
Interest received in the financial year		0.9	0.7
Other non-cash income/expenses	48	7.5	6.0
Cash Flow from operating activities	**48**	**50.9**	**31.6**
Purchase of intangible assets, property, plant and equipment		–44.6	–26.4
Investment in non-current financial assets and cash payments		–1.7	–0.1
Cash receipts from disposals of Gustavsberg's assets		6.4	5.4
Cash receipts from disposals of fixed assets		6.8	5.6
Cash Flow from investing activities	**49**	**–33.1**	**–15.5**
Change in financial liabilities		–0.1	–0.1
Dividend payments	23	–10.4	–9.9
Cash Flow from financing activities	**50**	**–10.5**	**–10.0**
Sum of cash flows		**7.3**	**6.1**
Balance of cash and cash equivalents as of 01 Jan		**60.3**	**55.3**
Change based on total cash flows		7.3	6.1
Changes due to exchange rates		–0.8	–1.1
Net increase in cash and cash equivalents		**6.5**	**5.0**
Balance of cash and cash equivalents as of 31 Dec	**15+51**	**66.8**	**60.3**

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 an internationally established Group whose activities as a leading lifestyle provider are focused on the Bathroom and Wellness and Tableware segments. Villeroy & Boch AG is listed in the Prime Standard operated by Deutsche Börse AG. Villeroy & Boch's preference shares are represented in the CDAX and SDAX and were included in the MSCI Germany Small Cap Index on 30 May 2014.
In line with section 315 of the HGB (German Commercial Code), the consolidated financial statements as at 31 December 2014 were prepared in accordance with the current provisions of the International Accounting Standards Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All accounting policies endorsed by the European Commission effective for the financial year beginning on 1 January 2014 were applied. The consolidated financial statements are supplemented by additional explanatory notes in accordance with section 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 AG have been published in the electronic Bundesanzeiger (Federal Gazette).
The Management Board of Villeroy & Boch AG approved the consolidated financial statements for submission to the Supervisory Board on 2 February 2015. 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 Villeroy & Boch 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 (asset value) and the value in use (capitalised earnings value) of the respective asset. The net selling price represents the proceeds that could be generated in an arm's length transaction after deduction of all disposal costs incurred. The value in use is calculated by discounting the (net) cash flows attributable to the asset using the discounted cash flow method, applying an appropriate long-term interest rate before income taxes. Rates of revenue and earnings growth are taken into consideration in the underlying calculations. The cash flows recognised are usually derived from current medium-term planning, with payments in the years beyond the planning horizon derived from the situation in the final year of the planning period. Planning premises are based on current information. Reasonable assumptions on macroeconomic trends and historical developments are also taken into account.
Any impairment losses identified are recognised in profit or loss. If the reason for the recognition of an impairment loss ceases to exist in a future period, the impairment loss is reversed accordingly. The reversal of impairment losses on capitalised goodwill is prohibited.
Annual impairment testing for capitalised goodwill is performed at divisional level.

Property, plant and equipment

Property, plant and equipment are carried at cost less depreciation in accordance with the useful life. 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 extraordinary 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 substantially all the risks and rewards incident to ownership (operating lease), the lease instalments or rental expenses are recognised directly as expenses in the statement of comprehensive income.
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 only recognised when it is certain that the Group has met the respective conditions 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 generally determined on the basis of the official land value maps, taking into account appropriate premiums or discounts for the respective property.

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 statement of comprehensive income.

Financial instruments
Financial instruments arise from contracts which lead to a financial asset or financial liability or an equity instrument. They are recognised in the statement of financial position as soon as the Villeroy & Boch Group concludes a contract to this effect. 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. 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 statement of comprehensive income.

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 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 depostits 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 is 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 recognised for temporary differences between the consolidated statement of financial position and the tax base, as well as for tax reduction claims arising from the expected future utilisation of existing tax loss carryforwards. Deferred taxes are calculated on the basis of the tax rates that are expected to apply when the temporary differences between the financial statements and the tax base are reversed.

Management estimates and assumptions

In preparing the consolidated financial statements, assumptions and/or estimates are required to a certain extent. These may affect impairment testing for the assets recognised in the statement of financial position, 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. 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 IASC publications 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 composition of the companies included in consolidation is now based on IFRS 10 "Consolidated Financial Statements". The previous differentiation between traditional subsidiaries (IAS 27) and special purpose entities (SIC 12) has been replaced by a uniform consolidation concept. Under both IAS 27 and IFRS 10, a group consists of a parent and the subsidiaries controlled by the parent. The new IFRS 10 provides a stricter definition of "control" which requires all of the following three criteria to be met:

- The parent has the ability to direct the relevant activities of the investee,
- the parent receives variable returns from its involvement with the investee, and
- the parent has the ability to affect decisions on the amount of the variable returns it receives.

The new IFRS 10 does not affect the Villeroy & Boch Group.
The new IFRS 11 "Joint Arrangements" supersedes IAS 31 "Interests in Joint Ventures" and divides arrangements that are subject to joint control into joint ventures and joint operations. In the case of joint ventures, the parties have rights to the net assets of a jointly controlled, legally independent entity on account of their position as shareholders. In the case of joint operations, the parties that have joint control of the arrangement have direct rights to the assets and obligations for the liabilities relating to the arrangement. Under the new standard, interests in joint ventures must be accounted for using the equity method in accordance with IAS 28. For joint operations, the proportionate assets, liabilities, revenues and expenses must be accounted for.
The Villeroy & Boch Group continues to account for its investments in associates using the equity method in accordance with IAS 28.
Similarly, the other changes to the regulations requiring mandatory application for the first time in the 2014 financial year had no material effect on the accounting policies of the Villeroy & Boch Group.
Information on new developments within the IASB Framework can be found in note 62.

2. BASIS OF CONSOLIDATION

The companies included in consolidation are defined based on the application of the new IFRS 10 (see note 1).
In addition to Villeroy & Boch AG, the consolidated financial statements include all 12 (previous year: 12) German and 43 (previous year: 43) foreign subsidiaries that Villeroy & Boch AG – directly or indirectly – controls and has included in consolidation. The changes to the Villeroy & Boch Group are as follows:

VILLEROY & BOCH AG AND CONSOLIDATED COMPANIES:

	Germany	Abroad	Total
As at 1 Jan 2014	13	43	56
Additions due to new companies (a)	–	1	1
Disposals due to mergers (b)	–	–1	–1
As at 31 Dec 2014	**13**	**43**	**56**

(a) Additions due to new companies

Villeroy & Boch Ukraine TOV, domiciled in Kiev, was founded on 26 December 2014 to handle the marketing of Bathroom and Wellness products in Ukraine.

(b) Disposals due to mergers

As part of the ongoing optimisation of the Group's investment structure, the sales company Vilbona Inc., San Diego, USA, was merged with its sole parent company, Villeroy & Boch USA Inc., New York, USA, as at 31 January 2014.

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 of the 2006 UK Companies Act for Villeroy & Boch (UK) 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., Osterhout, 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.

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 statement of comprehensive income from the actual acquisition date or until the actual disposal date accordingly.
If any differences in tax expenses are expected to reverse in later financial years, deferred taxes are recognised for consolidation measures in profit or loss.
When including an associated company in consolidation for the first time, the differences arising from initial consolidation are treated in accordance with the principles of full consolidation. 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. Until the reporting date, there were no joint operations as defined by IFRS 11. For this reason, the consolidation principles applied in the previous year were retained with the exception of the rules for determining the consolidated entity. This change has no influence on the consolidated financial statement or the income statement of the Villeroy & Boch Group.

4. CURRENCY TRANSLATION

On the basis of the single-entity financial statements, all transactions denominated in foreign currencies are recognised at the prevailing exchange rate at the date of their occurrence. They are measured at the closing rate as at the end of the respective reporting period. The single-entity statements of financial position of consolidated companies are translated into euro in accordance with the functional currency concept. For all foreign Group companies, the functional currency is the respective national currency, as these companies perform their business activities independently from a financial, economic and organisational perspective. For practical reasons, assets and liabilities are translated at the middle rate at the end of the reporting period, while all statement of comprehensive income items are translated using average monthly rates. Differences resulting from the translation of the financial statements of foreign subsidiaries are recognised outside profit or loss (see note 21(a)). Currency effects arising from net investments in foreign Group companies are also reported in the revaluation surplus (see note 21(b)). 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	
		2014	2013	2014	2013
Mexican peso	MXN	17.87	18.07	17.66	17.00
Swedish krona	SEK	9.39	8.86	9.09	8.64
US dollar	USD	1.21	1.38	1.34	1.33
Hungarian forint	HUF	315.54	297.04	308.12	297.14

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5. INTANGIBLE ASSETS

Intangible assets developed as follows:

In € million

	Concessions, patents, licences and similar rights	Goodwill	Total
Accumulative cost			
As at 1 Jan 2013	**18.7**	**40.1**	**58.8**
Currency adjustments	–0.3	–0.1	–0.4
Additions	2.2	–	2.2
Disposals	–1.0	–	–1.0
As at 1 Jan 2014	**19.6**	**40.0**	**59.6**
Currency adjustments	0.0	–0.3	–0.3
Additions	1.3	–	1.3
Disposals	–0.6	–	–0.6
Reclassifications	–0.3	–	–0.3
As at 31 Dec 2014	**20.0**	**39.7**	**59.7**
Accumulative amortisation and impairment			
As at 1 Jan 2013	**12.0**	**8.8**	**20.8**
Currency adjustments	–0.1	–	–0.1
Amortisation	1.2	–	1.2
Disposals	–0.4	–	–0.4
As at 1 Jan 2014	**12.7**	**8.8**	**21.5**
Currency adjustments	0.0	–	0.0
Amortisation	1.5	–	1.5
Disposals	–0.1	–	–0.1
As at 31 Dec 2014	**14.1**	**8.8**	**22.9**
Residual carrying amounts			
As at 31 Dec 2014	**5.9**	**30.9**	**36.8**
As at 31 Dec 2013	6.9	31.2	38.1

Concessions, patents, licences and similar rights mainly include capitalised software licences, capitalised key money for rented retail space in French subsidiaries and emission allowances.

In Germany, the Group has software licences amounting to € 1.6 million (previous year: € 1.6 million). New licences worth €0.7 million were acquired in the past financial year (previous year: € 0.4 million). Amortisation on software amounted to € 0.7 million in the reporting year (previous year: € 0.7 million).

As in the previous year, impairment tests did not give rise to any indication of impairment with regard to the capitalised key money with a carrying amount of € 3.2 million (previous year: € 3.3 million). In this financial year, key money with a carrying amount of € 0.3 million was sold (previous year: € 0.1 million).

As at the end of the reporting period, CO_2 emission allowances were capitalised in the amount of € 1.0 million (previous year: € 0.6 million). This carrying amount was offset by equal liability items.

Goodwill in the amount of € 30.9 million (previous year: € 31.2 million) was allocated to the Bathroom and Wellness Division as the relevant cash-generating unit. Adjusted for currency effects, the carrying amount dropped by € 0.3 million (previous year: € –0.1 million). 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 2018 were discounted using an interest rate before income tax of 7.4 % p.a. (previous year: 7.6 % p.a.), while subsequent cash flows were discounted using an interest rate before income tax of 6.8 % p.a. (previous year: 7.0 % p.a.). 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.

In addition to the impairment test, a sensitivity analysis was also performed for the two divisions defined as cash-generating units. Changes in basic assumptions were assumed in these calculations. There were no additional impairment requirements in the event of either a € –1.0 million reduction in earnings or a 2 % increase in the discount rates used.

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 2013	**184.2**	**326.5**	**94.3**	**9.6**	**614.6**
Currency adjustments	–2.2	–4.3	–1.4	–0.3	–8.2
Additions	1.9	6.3	5.6	10.4	24.2
Disposals	–0.5	–10.8	–7.4	0.0	–18.7
Reclassifications	0.0	3.8	0.6	–4.9	–0.5
As at 1 Jan 2014	**183.4**	**321.5**	**91.7**	**14.8**	**611.4**
Currency adjustments	0.9	–1.2	0.6	–0.4	–0.1
Additions	0.9	14.2	7.6	20.6	43.3
Disposals	–0.9	–28.0	–7.0	0.0	–35.9
Reclassifications	0.9	11.0	0.8	–12.7	0.0
As at 31 Dec 2014	**185.2**	**317.5**	**93.7**	**22.3**	**618.7**
Accumulative depreciation and impairment					
As at 1 Jan 2013	**117.5**	**272.8**	**79.2**	**–**	**469.5**
Currency adjustments	–0.9	–3.6	–1.3	–	–5.8
Depreciation	4.9	14.0	5.4	–	24.3
Disposals	–0.4	–10.4	–7.0	–	–17.8
Reclassifications	0.0	–0.1	0.0	–	–0.1
As at 1 Jan 2014	**121.1**	**272.7**	**76.3**	**–**	**470.1**
Currency adjustments	0.2	–1.6	0.6	–	–0.8
Depreciation	4.9	13.7	5.7	–	24.3
Impairments	–	0.1	–	0.1	0.2
Disposals	–0.8	–27.6	–6.9	–	–35.3
Reclassifications	0.0	0.0	0.0	–	0.0
As at 31 Dec 2014	**125.4**	**257.3**	**75.7**	**0.1**	**458.5**
Residual carrying amounts					
As at 31 Dec 2014	**59.8**	**60.2**	**18.0**	**22.2**	**160.2**
As at 31 Dec 2013	62.3	48.8	15.4	14.8	141.3

The Villeroy & Boch Group acquired property, plant and equipment in the amount of € 43.3 million (previous year: € 24.2 million). In the Bathroom and Wellness Division, investment focused on the construction of our new Swedish logistics and assembly centre for sanitary ware in Gustavsberg, new energy headquarters in Mettlach, a production line in Saraburi (Thailand) and a Bathroom and Wellness World of Discovery at the new LUV SHOPPING shopping centre in Dänischburg (Germany). The Tableware Division invested in a new glazing line in the Torgau plant and the optimisation of the distribution network, among other things. For example, new or renovated retail outlets were opened in Lübeck-Dänischburg (Germany), the City of Luxembourg, Marseille (France) and Wijnegem (Belgium).
The disposals in the financial year in cost of € 35.9 million (previous year: € 18.7 million) and the cumulative depreciation of € 35.3 million (previous year: € 17.8 million) predominantly result from the scrapping of assets already written down in full that can no longer be used. This resulted in a total disposal of property, plant and equipment with a residual carrying amount of € 0.6 million (€ 0.9 million).
Assets with a residual carrying amount of € 0.1 million were reclassified from property, plant and equipment to "Other non-current assets" (note 13) in the statement of financial position. In the previous year the premises available for sale of the discontinued manufacturing plant in Lerma, Mexico, with a residual carrying amount of € 0.4 million, were reclassified to "Non-current assets held for sale" (note 16).
In the financial year, government grants in the amount of € 0.0 million (previous year: € 0.2 million) were offset against the cost of property, plant and equipment. Deferred income (see note 30) includes government grants in the amount of € 0.6 million as at the end of the reporting period (previous year: € 0.6 million). € 0.1 million of this (previous year: € 0.1 million) was reversed to profit or loss.

Operating leases

In the 2014 financial year, rental expenses under operating leases amounted to € 35.5 million (previous year: € 35.0 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 € 0.5 million was generated from subletting unused properties with current leases (previous year: € 0.6 million). Any ancillary costs and other obligations are borne by the sublessors. The subleases end no later than 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 2014	21.1	31.5	4.1
As at 31 Dec 2013	20.3	29.7	4.0
Future sublease income			
As at 31 Dec 2014	0.3	0.6	–
As at 31 Dec 2013	0.5	0.2	–

7. INVESTMENT PROPERTY

Investment property developed as follows:

In € million

	Land	Buildings	Investment property 2014	Investment property 2013
Accumulative cost				
As at 1 Jan	**0.9**	**90.4**	**91.3**	**91.5**
Additions	–	–	–	0.0
Disposals	–	–	–	–0.2
As at 31 Dec	**0.9**	**90.4**	**91.3**	**91.3**
Accumulative depreciation and impairment				
As at 1 Jan	**–**	**78.2**	**78.2**	**77.5**
Depreciation	–	0.9	0.9	0.8
Disposals	–	–	–	–0.1
As at 31 Dec	**–**	**79.1**	**79.1**	**78.2**
Residual carrying amounts				
As at 31 Dec	**0.9**	**11.3**	**12.2**	**13.1**

This item includes property in the Saarland, Luxembourg and France.
In total, the market value of properties capitalised as at 31 December 2014 was € 49.5 million (previous year: € 50.2 million). The market value is based on appraisals or current land value tables. 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

	31/12/2014	31/12/2013
Rental income	0.8	0.5
Property management and similar expenses	–0.1	–0.3

Rental income is expected to develop as follows:

In € million

	less than 1 year	1 to 5 years	more than 5 years
As at 31 Dec 2014	0.5	1.9	6.6
As at 31 Dec 2013	0.5	1.8	6.6

Future rents rise in line with the trend in the consumer price index. The tenants usually bear all maintenance expenses. There are no restrictions on disposal on the investment property held by the Villeroy & Boch Group. Similarly, there are no contractual obligations to acquire the property recognised in this item.

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, New Delhi, India, markets Tableware products in India. A further unlisted company domiciled in Germany, to which section 313 II no. 4 HGB applies, is not allocated to an operating segment. The Villeroy & Boch Group holds 50 % of the voting rights in each company.
The carrying amounts of the investments developed as follows in the period under review:

In € million	2014	2013
As at 1 Jan	**1.4**	**1.0**
Addition due to measurement at recognition	–	0.1
Pro rata results of associated companies	0.4	0.5
Distribution to the Villeroy & Boch Group	–	–0.2
As at 31 Dec	**1.8**	**1.4**

9. OTHER FINANCIAL ASSETS

Other financial assets include:

In € million	31/12/2014	31/12/2013
Equity investments (a)	**2.6**	**2.6**
Loans to:		
Equity investments (b)	2.4	3.6
Third parties (c)	11.2	7.9
Securities (d)	**1.3**	**–**
Total	**17.5**	**14.1**

(a) A 10 % holding in share capital of V & B Fliesen GmbH, Merzig, with a carrying amount of € 2.5 million is reported under equity investments.

(b) This item contains a loan receivable to V & B Fliesen GmbH, Merzig, which was established in connection with the sale of the majority stake in the company in 2007. The repayment of € 1.2 million was made in the financial year. The remaining term of the loan is two years. A guarantee was provided by Eczacibasi Holding A.S., Istanbul, Turkey, as security for the loan.

(c) In connection with the gradual sale of the plant property in Gustavsberg, Sweden, the loan receivable to Porslinsfabriksstaden AB, Gustavsberg, Sweden, a company of the IKANO Bostad Group, that was established in 2013 was increased by € 5.5 million. The loan, which is denominated in SEK, has an equivalent value of € 9.3 million as at 31 December 2014 and a term of seven years. A repayment of € 2.0 million was made in December 2014. Repayments will be made every two years from 2015. A bank guarantee from Svenska Handelsbanken AB (publ), Stockholm, Sweden, and transferred ownership rights to material assets serve as collateral for the loan.

In addition, loans to third parties essentially include mandatory government loans from France and start-up finance for German franchisees.

Loans to third parties mature as follows:

In € million	2014	2013
Gross carrying amount as at 31 Dec	**11.2**	**7.9**
of which: Neither impaired nor past due as at end of reporting period	11.2	7.9
Due within one year	4.9	0.1
Due in two to five years	4.5	6.5
Due in more than five years	1.8	1.3

(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 Governance. A portion of the fund was invested in listed securities for the first time. 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 TAXES

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

In € million	31/12/2014	31/12/2013
Deferred tax assets from temporary differences	42.5	35.3
Deferred tax assets from tax loss carryforwards	11.0	13.5
Deferred tax assets	**53.5**	**48.8**
Deferred tax liabilities	**9.8**	**11.5**

Deferred taxes from temporary differences are due to different carrying amounts in the consolidated statement of financial position and the tax base in the following items:

In € million		Deferred tax assets		Deferred tax liabilities	
	Note	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Intangible assets	5	0.5	0.6	1.2	1.4
Property, plant and equipment	6	7.3	6.4	2.8	3.3
Financial assets	9	0.0	0.0	0.0	0.0
Inventories	11	1.7	2.6	0.0	0.0
Other assets	13	0.1	0.4	0.7	1.2
Special tax items		0.0	0.0	4.3	4.7
Provisions for pensions	26	29.0	21.3	0.2	0.3
Other provisions	28	2.6	3.0	0.2	0.1
Other liabilities		1.3	1.0	0.4	0.5
Deferred taxes from temporary differences		**42.5**	**35.3**	**9.8**	**11.5**

The increase in deferred tax assets mainly results from provisions for pensions, the rise in which was essentially due to the decline in discount rates from 3.0 % to 1.75 %.
Deferred tax on loss carryforwards is as follows:

In € million	31/12/2014	31/12/2013
Deferred taxes on German loss carryforwards		
▌ from corporate income tax and solidarity surcharge	0.2	1.4
▌ from trade tax	1.1	2.2
Total German share	**1.3**	**3.6**
Deferred taxes on foreign loss carryforwards	30.5	30.3
Total before write-downs	**31.8**	**33.9**
Write-downs	–20.8	–20.4
Deferred taxes on tax loss carryforwards	**11.0**	**13.5**

Whereas German loss carryforwards can be carried forward indefinitely subject to minimum taxation requirements, country-specific time limits apply to some foreign loss carryforwards. Deferred tax assets on tax loss carryforwards were written down in the amount of € 20.8 million (previous year: € 20.4 million) as the result of an impairment test as it will presumably not be possible to utilise the corresponding pro rata tax loss carryforwards in line with tax planning by the end of the 2015–2019 planning horizon. Villeroy & Boch AG and essentially four subsidiaries abroad reduced their loss carryforward with profits. Furthermore, deferred taxes of € 13.0 million were not capitalised in light of the non-final utilisation of loss carryforwards.

11. INVENTORIES

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

In € million	31/12/2014	31/12/2013
Raw materials and supplies	19.4	20.0
Work in progress	13.1	14.7
Finished goods and goods for resale	107.1	114.1
Advance payments	0.0	0.0
Carrying amount	**139.6**	**148.8**

Inventories were broken down between the individual divisions as follows:

In € million	31/12/2014	31/12/2013
Bathroom and Wellness	77.8	84.9
Tableware	61.8	63.9
Total	**139.6**	**148.8**

The write-downs on inventories increased by € 0.6 million in the year under review, from € 16.2 million to € 16.8 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	31/12/2014	31/12/2013
Germany	21.4	18.9
Rest of euro zone	26.8	26.5
Rest of world	62.8	60.4
Gross carrying amount	**111.0**	**105.8**
Write-downs	–2.1	–3.7
Carrying amount	**108.9**	**102.1**

€ 72.4 million (previous year: € 66.4 million) relates to the Bathroom and Wellness Division and € 36.5 million (previous year: € 35.7 million) to the Tableware Division.
The receivables were composed as follows:

In € million	2014	2013
Items neither impaired nor past due	**80.1**	**80.0**
Not impaired but past due	**11.6**	**9.5**
Customer in default for 90 days or less	11.1	8.2
Customer in default between 91 and 360 days	0.5	0.6
Customer in default for 361 days or more	0.0	0.7
Impaired but not past due [1)]	**15.9**	**12.1**
Impaired and past due	**3.4**	**4.2**
Total gross amount	**111.0**	**105.8**
Write-downs	–2.1	–3.7
Net carrying amount	**108.9**	**102.1**

[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 recoverable collateral for the 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 increased by € 3.8 million to € 15.9 million in the reporting year. This was essentially due to a rise in the receivables not covered by trade credit insurance, as the maximum cover agreed with credit insurers was exceeded as a result of increased sales revenue for some customers. A flat-rate write-down was recognised on the uninsured share for general risk provisioning.
As at 31 December 2014 a total of € 1.1 million (previous year: € 2.2 million) of impairment related to the impaired and past due category and € 1.0 million (previous year: € 1.5 million) to the impaired but not past due category.

Impairment developed as follows:

In € million	2014			2013		
	Specific	Global	Total	Specific	Global	Total
As at 1 Jan	**2.2**	**1.5**	**3.7**	**2.1**	**0.8**	**2.9**
Additions	0.8	0.1	0.9	1.7	1.0	2.7
Currency adjustments	–0.1	0.0	–0.1	0.1	–0.1	0.0
Utilisation	–1.3	–0.1	–1.4	–1.2	–0.1	–1.3
Reversals	–0.5	–0.5	–1.0	–0.5	–0.1	–0.6
As at 31 Dec	**1.1**	**1.0**	**2.1**	**2.2**	**1.5**	**3.7**

As at the end of the reporting period, trade receivables in the amount of € 0.1 million (previous year: € 0.2 million) were transferred to an insurance company for regulation purposes.

13. OTHER NON-CURRENT AND CURRENT ASSETS

Other assets are composed as follows:

In € million	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2014	Less than 1 year	More than 1 year	31/12/2013	Less than 1 year	More than 1 year
Fair values of hedging instruments	2.7	2.7	–	2.1	2.1	0.0
Advance payments and deposits	2.8	1.8	1.0	2.2	2.2	0.0
Miscellaneous other assets	6.6	6.6	–	7.6	7.6	–
Total financial instruments within meaning of IAS 39*	12.1	11.1	1.0	11.9	11.9	0.0
Other tax receivables	8.0	8.0	–	7.1	7.1	–
Prepaid expenses	2.2	2.2	0.0	2.0	2.0	0.0
Total other assets	**22.3**	**21.3**	**1.0**	**21.0**	**21.0**	**0.0**

* Financial instruments are described in note 53.

As at the end of the reporting period, the hedging instruments were currency futures (€ 2.5 million/previous year: € 2.1 million) and brass swaps (€ 0.2 million/previous year: € 0.0 million). There is a revaluation surplus in the same amount outside profit or loss (see note 21(c)). The financial trading transactions exclusively serve the purpose of reducing risk on planned operating transactions (see note 53).
The Group has recognised security deposits in the amount of € 1.4 million (previous year: € 1.1 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 other investees, receivables from the French government from the "crédit d'impôt pour la compétetivité et l'emploi" receivables for the employees, creditors with debit balances and a number of individual items.
Other tax receivables in the amount of € 8.0 million (previous year: € 7.1 million) primarily include VAT credit of € 6.6 million (previous year: € 5.9 million).
Prepaid mainly include rent payments, insurance premiums and claims for compensation under the partial retirement programme.
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 2014. 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 € 2.3 million (previous year: € 2.9 million) primarily include outstanding corporate income tax assets. € 1.7 million (previous year: €2.6 million) of this figure relates to foreign Group companies.

15. CASH AND CASH EQUIVALENTS

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

In € million	31/12/2014	31/12/2013
Cash on hand incl. cheques	0.3	0.4
Current bank balances	22.4	17.7
Cash equivalents	44.1	42.2
Total cash and cash equivalents	**66.8**	**60.3**

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

These assets are recognised at amortised cost or fair value less the expected costs to sell.
The following non-current assets were held for sale in the financial year:

In € million	2014	2013
Property (a)	1.2	4.0
Equity investment (b)	–	3.7
As at 31 Dec	**1.2**	**7.7**

(a) The property item developed as follows in the reporting year:

Gustavsberg project development

Additional purchase agreements were signed in the 2014 financial year in connection with our property project in Gustavsberg, Sweden. Pro rata purchase prices of € 5.5 million have been transferred since 1 January 2014.

Total income of around € 17 million is anticipated from this multi-year project. The previous production building was replaced by an assembly plant with an integrated logistics centre. The new site is characterised by near fully-automated processes and state-of-the-art technology.

The carrying amount as at the end of the reporting period was € 1.2 million (previous year: € 3.6 million).

Disposal

The property of the former manufacturing plant in Lerma, Mexico, was sold on 22 May 2014. The purchase price of € 0.8 million was in excess of the residual carrying amount of the property of € 0.4 million.

(b) A 15 % interest in V & B Fliesen GmbH was transferred to the Eczacıbaşı Group retroactively as at 1 January 2014 at a purchase price equal to the carrying amount of € 3.7 million.

17. ISSUED CAPITAL

The issued capital of Villeroy & Boch AG as at the end of the reporting period was unchanged at € 71.9 million and is divided into 14,044,800 fully paid-up ordinary shares and 14,044,800 fully paid-up non-voting preference shares. Both share classes have an equal interest in the share capital.
The holders of non-voting preference shares receive a dividend from the annual unappropriated 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	
	2014	2013
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 not yet owned or attributable to it in accordance with sections 71a et seq. 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) 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 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 buyback 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 % of 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 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 disapplied of 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 € –51.5 million (previous year: € –57.4 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	2014	2013
As at 1 Jan	–57.4	–72.1
Consolidated earnings attributable to Villeroy & Boch AG shareholders	24.3	23.9
Dividend distribution	–10.4	–9.9
Currency adjustments	–8.0	0.7
Acquisition of non-controlling interests	0.0	–
As at 31 Dec	**–51.5**	**–57.4**

The currency adjustments essentially result from the translation of retained earnings denominated in the Hungarian forint, the US dollar and the Mexican peso.

21. VALUATION SURPLUS

The valuation surplus comprises the reserves of "Other comprehensive income":

In € million	2014	2013	Change
Items to be reclassified to profit or loss:			
Currency translation of financial statements of foreign group companies (a)	14.6	10.6	4.0
Currency translation of long-term loans classified as net investments in foreign group companies (b)	–1.3	–0.6	–0.7
Cash flow hedges (c)	1.6	0.4	1.2
Valuation results on securites (d)	0.0	–	0.0
Deferred tax effect on items to be reclassified to profit or loss (e)	–2.7	–1.8	–0.9
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit obligations (f)	–94.6	–58.7	–35.9
Deferred tax effect on items not to be reclassified to profit or loss (g)	27.7	17.3	10.4
As at 31 Dec	**–54.7**	**–32.8**	**–21.9**

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

Group companies that report in foreign currency are translated into euro in accordance with the functional currency concept (see note 4). This resulted in a change in net equity in the financial year of € 4.0 million (previous year: € 0.0 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 € –0.7 million (previous year: € –0.8 million). The requirement for a loan to be classified as a net investment in a foreign operation ceased to apply in the financial year. A gain of € 0.1 million (previous year: € –0.4 million) from this currency reserve was therefore recognised in profit or loss.

(c) Reserve for cash flow hedges

This item arises from the recognition outside profit or loss of fluctuations in the fair value of cash flow hedges (see note 53). This item developed as follows in the reporting period:

In € million	Forward exchange transactions		Commodity swaps		Total cash flow hedges	
	2014	2013	2014	2013	2014	2013
As at 1 Jan	**0.8**	**2.2**	**–0.4**	**–0.2**	**0.4**	**2.0**
Changes outside profit or loss						
Currency adjustments	–0.1	0.0	0.0	0.0	–0.1	0.0
Additions to new contracts	1.4	0.8	0.1	–0.1	1.5	0.7
Portfolio value	0.0	0.0	0.2	–0.2	0.2	–0.2
Non-controlling interests	0.0	0.0	–	–	0.0	0.0
Total	**1.3**	**0.8**	**0.3**	**–0.3**	**1.6**	**0.5**
Reversals to profit or loss (aa)	–0.7	–2.2	0.3	0.1	–0.4	–2.1
As at 31 Dec	**1.4**	**0.8**	**0.2**	**–0.4**	**1.6**	**0.4**

(aa) The reversal of the reserve from the revaluation of currency forwards and commodity swaps is included in the net operating result.

The total amount of the cash flow hedge reserve broke down as follows:

In € million	2014	2013
Positive fair value changes (see note 13)	2.7	2.1
Negative fair value changes (see note 30)	–1.1	–1.7
Non-controlling interests	0.0	0.0
As at 31 Dec	**1.6**	**0.4**

(d) Reserve for valuation results on securities

The Villeroy & Boch Group recognises listed securities as part of a fund (see note 9(d)). Measurement differences owing to fluctuations in market price while holding these securities are recognised in this equity item. Unrealised gains on remeasurement amounted to € 0.0 million. Under IAS 39 classification, these securities are considered "available-for-sale financial assets" (see note 53).

(e) Reserve for deferred tax 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	2014	2013
As at 1 Jan	**–1.8**	**–0.8**
Currency adjustments	0.0	–0.1
Additions	0.3	0.2
Disposals	–1.2	–1.1
Non-controlling interests	0.0	0.0
As at 31 Dec	**–2.7**	**–1.8**

On settlement of the respective hedging instrument the deferred taxes recognised in this reserve will be reclassified to profit or loss. In the financial year this figure was € –1.2 million (previous year: € –1.1 million).

(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 € –35.9 million from € –58.7 million to € –94.6 million (see note 26).

(g) Reserve for deferred tax 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 € 10.4 million (previous year: € 0.2 million).

22. EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Non-controlling interests in equity amounted to € 0.1 million (previous year: € 0.1 million). There are non-controlling interests in one Group company (previous year: two). The purchase price for the non-controlling interests acquired was € 0.0 million.

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 2014 amounted to € 11.1 million. Taking into account the profit carried forward of € 4.5 million, the unappropriated surplus amounts to € 15.6 million.

At the next General Meeting of Shareholders on 27 March 2015, 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:

€ 0.39 per ordinary share
€ 0.44 per preference share

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

Ordinary share:	*€ 5.5 million*
Preference share:	*€ 6.2 million*
	€ 11.7 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:

	24/03/2014		25/05/2013	
Eligible share class	Dividend per unit in €	Total dividend in € million	Dividend per unit in €	Total dividend in € million
Ordinary shares	0.37	5.2	0.35	4.9
Preference shares	0.42	5.2	0.40	4.9
		10.4		**9.8**

24. CAPITAL MANAGEMENT

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

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

In € million	31/12/2014	31/12/2013
Equity	144.4	160.4
Provisions for pensions	212.0	182.7
Financial liabilities	51.0	51.2
Non-current sources of finance	**407.4**	**394.3**

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(1)* and *section 25a(1) WpHG* is shown below.

1) 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.

2) 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.

3) 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.

4) 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.

5) Since 20 February 2013, Villeroy & 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.

6) 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

7) 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 ordinary shares 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	31/12/2014	31/12/2013
Germany	190.7	165.9
Rest of euro zone	13.9	12.6
Rest of world	7.4	4.2
Provisions for pensions	**212.0**	**182.7**

In Germany there are a final salary plan and several 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.

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

in %	2014		2013	
	Ø	Range	Ø	Range
Discount rate	1.7	1.2–6.5	3.0	2.0–7.0
Expected long-term wage and salary trend	2.5	1.0–5.6	2.5	1.0–5.6
Expected long-term pension trend	1.5	0.1–2.0	1.6	0.6–2.5

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 1.2 % in Switzerland to 6.5 % in Mexico. A discount rate of 1.75 % (previous year: 3.0 %) 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 2005G mortality tables. Country-specific mortality tables were used in the other Group companies.

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

The present value of defined benefit obligations can be reconciled to the provision reported in the statement of financial position as follows:

In € million	31/12/2014	31/12/2013
Present value of defined benefit obligations	237.6	207.2
Fair value of plan assets	–25.6	–24.5
Carrying amount	**212.0**	**182.7**

The present value of pension obligations developed as follows:

In € million	2014	2013
As at 1 Jan	**207.2**	**218.5**
Current service cost	2.1	2.0
Interest income and interest expenses	6.1	6.4
Return on plan assets excluding the above interest	0.0	0.1
Actuarial gains and losses arising from		
changes in demographic assumptions	0.0	0.1
changes in financial assumptions	30.7	1.2
changes in other assumptions	7.6	–0.3
Past service cost	–	–
Gains or losses from settlements	–0.6	–2.1
Contributions from the Villeroy & Boch Group as employer	0.0	0.0
Contributions from plan participants	0.3	0.4
Benefits paid	–13.9	–12.8
Settlement payments	–0.9	–5.3
Currency changes arising from non-euro-denominated plans	–1.0	–1.0
As at 31 Dec	**237.6**	**207.2**

There were the following changes to plan assets:

In € million	2014	2013
As at 1 Jan	**24.5**	**23.6**
Interest income and interest expenses	0.2	0.3
Return on plan assets excluding the above interest	0.6	0.5
Gains and losses from plan assets	1.8	0.4
Contributions from the Villeroy & Boch Group as employer	0.5	0.8
Contributions from plan participants	0.3	0.5
Benefits paid	–1.8	–0.9
Settlement payments	–0.3	–
Currency changes arising from non-euro-denominated plans	–0.2	–0.7
As at 31 Dec	**25.6**	**24.5**

The portfolio structure of plan assets was as follows:

	31/12/2014		31/12/2013	
	in € million	in %	in € million	in %
Annuities/annuity funds	11.8	46	9.8	40
Equities/equity funds	5.7	22	5.2	21
Property	1.6	7	1.5	6
Cash and cash equivalents	0.3	1	0.0	0
Investments on an active market	**19.4**	**76**	**16.5**	**67**
Insurance policies	6.2	24	8.0	33
Plan assets	**25.6**	**100**	**24.5**	**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".

Given the minor volumes, the Villeroy & Boch Group considers the risks in connection with the recognised plan assets, such as equity price risk and issuer default risk, to be appropriate. 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 or 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	
		31/12/2014	31/12/2013
Present value of defined benefit obligations		**237.6**	**207.2**
	Increase by 0.25 %	230.5	202.5
Discount rate	Reduction by 0.25 %	245.2	214.4
	Increase by 0.25 %	238.1	207.5
Wage and salary trend	Reduction by 0.25 %	237.2	206.4
	Increase by 0.25 %	243.1	212.2
Pension trend	Reduction by 0.25 %	232.6	203.4

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

In € million	Forecast 2015	Forecast 2014
Defined benefit obligations as at 31 Dec. 2014 resp. 2013	237.6	207.2
Forecast service cost	2.4	1.9
Forecast interest costs	4.1	5.4
Forecast pension payments	–12.9	-10.6
Forecast defined benefit obligations	**231.2**	**203.9**

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 2014 was 12.4 years (previous year: 12.0 years). The weighted duration for the pension plans of German companies is 12.3 years (previous year: 11.5 years).

27. NON-CURRENT AND CURRENT PROVISIONS FOR STAFF

Provisions for staff 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
	Anniver-sary bonuses	Partial retirement	Sever-ance pay	Other	Total		
As at 1 Jan 2013	**6.0**	**7.1**	**3.6**	**0.0**	**16.7**	12.6	29.3
Currency adjustments	0.0	–	–0.1	–	–0.1	–0.3	–0.4
Utilisation	–0.5	–2.4	–0.3	–	–3.2	–11.1	–14.3
Reversals	–0.2	–	–	–	–0.2	–0.4	–0.6
Additions	0.8	0.6	0.6	–	2.0	12.1	14.1
Reclassifications	–	–	–	–	–	–	–
As at 1 Jan 2014	**6.1**	**5.3**	**3.8**	**0.0**	**15.2**	**12.9**	**28.1**
Currency adjustments	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Utilisation	–0.5	–2.9	–0.4	–	–3.8	–11.4	–15.2
Reversals	0.0	–	–	–	0.0	–0.3	–0.3
Additions	1.1	1.5	0.7	–	3.3	13.0	16.3
Reclassifications	–	–	–	0.9	0.9	–0.9	0.0
As at 31 Dec 2014	**6.7**	**3.9**	**4.1**	**0.9**	**15.6**	**13.4**	**29.0**

Provisions for anniversary bonuses are recognised by Group companies that have undertaken to pay their employees cash or non-cash benefits on the occasion of work anniversaries. Villeroy & Boch AG accounted for 75.6 % (previous year: 74.2 %) 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.

Current provisions for staff mainly include provisions for variable remuneration bonuses in the amount of € 12.3 million (previous year: € 12.8 million).

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

28. OTHER NON-CURRENT AND CURRENT PROVISIONS

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

In € million

	Other non-current provisions	Other current provisions for:					Total amount
		Warranties	Restructuring programme	Other taxes	Miscellaneous	Total	
As at 1 Jan 2013	**3.0**	**6.0**	**9.3**	**0.5**	**11.9**	**27.7**	30.7
Currency adjustments	0.0	–0.1	–0.1	0.0	–0.2	–0.4	–0.4
Utilisation	–1.0	–0.8	–4.0	–0.1	–5.8	–10.7	–11.7
Reversals	–0.9	–0.1	–	0.0	–2.9	–3.0	–3.9
Additions	0.3	0.7	–	0.1	6.9	7.7	8.0
Reclassifications	–	–	–	–	0.0	0.0	0.0
As at 1 Jan 2014	**1.4**	**5.7**	**5.2**	**0.5**	**9.9**	**21.3**	**22.7**
Currency adjustments	–0.1	0.0	0.0	0.0	0.1	0.1	0.0
Utilisation	–0.3	–1.2	–1.9	–0.1	–3.8	–7.0	–7.3
Reversals	–	–0.1	–0.3	–	–0.5	–0.9	–0.9
Additions	0.3	1.4	–	0.2	5.1	6.7	7.0
Reclassifications	–	–	–0.8	–	–	–0.8	–0.8
As at 1 Dec 2014	**1.3**	**5.8**	**2.2**	**0.6**	**10.8**	**19.4**	**20.7**

In particular, non-current provisions relate to future recultivation projects (reporting year: € 0.7 million; previous year: € 1.0 million).

The provision for warranties was measured on the basis of past company-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.

The provision for restructuring contained the share of expenses from the restructuring programme that had not yet been paid out.

Miscellaneous other provisions included provisions for litigation risks, commission, restoration obligations, consulting costs, audit costs and a large number of individual items.

29. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Financing was obtained from banks in the following regions:

In € million

	31/12/2014	thereof non current	31/12/2013	thereof non current
Germany	25.5	25.0	25.8	–
Rest of euro zone	25.5	–	25.4	25.0
Carrying amount	**51.0**	**25.0**	**51.2**	**25.0**

Net receivables from and liabilities to banks amounted to € 12.7 million (previous year: € 13.8 million). The requirements for offsetting have been met and it is intended to settle them on a net basis.

30. OTHER NON-CURRENT AND CURRENT LIABILITIES

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

In € million

	Carrying amount	Remaining term		Carrying amount	Remaining term	
	31/12/2014	Less than 1 year	More than 1 year	31/12/2013	Less than 1 year	More than 1 year
Bonus liabilities	34.8	34.8	–	33.9	33.9	–
Changes in fair values of hedging instruments	1.1	1.1	–	1.7	1.7	0.0
Advance payments received on account of orders	3.9	3.9	–	3.5	3.5	–
Miscellaneous other liabilities	9.4	7.9	1.5	7.5	6.0	1.5
Total financial instruments within meaning of IAS 39*	49.2	47.7	1.5	46.6	45.1	1.5
Personnel liabilities	20.8	20.4	0.4	20.6	20.0	0.6
Other tax liabilities	10.6	10.6	–	9.4	9.4	–
Deferred income	1.9	1.4	0.5	1.3	0.7	0.6
Total carrying amount	**82.5**	**80.1**	**2.4**	**77.9**	**75.2**	**2.7**

* Financial instruments are described in note 53.

The measurement of hedging instruments (see note 53) relates to currencies in the amount of € 1.1 million (previous year: € 1.3 million) and commodities in the amount of € 0.0 million (previous year: € 0.4 million). There is a revaluation surplus in the same amount outside profit or loss (see note 21(c)). The financial trading transactions exclusively serve the purpose of reducing risk on planned operating transactions (see note 53).

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

Other tax liabilities primarily included payroll and church tax in the amount of € 3.5 million (previous year: € 3.4 million) and VAT in the amount of € 6.1 million (previous year: € 5.1 million).

Deferred income essentially consisted of government grants for property, plant and equipment (see note 6) and from the free allocation of emission allowances (see note 5).

31. TRADE PAYABLES

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

In € million	2014	2013
Germany	34.1	32.1
Rest of euro zone	7.7	7.3
Rest of world	28.6	21.3
Carrying amount as at 31 Dec	**70.4**	**60.7**

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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	2014	2013
Bathroom and Wellness	–10.1	–9.3
Tableware	–3.8	–3.5
Total	**–13.9**	**–12.8**

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	2014	2013
Income from property transactions	4.8	7.0
License income	3.9	3.3
Exchange rate gains	1.4	5.4
Reversal of liabilities	1.4	1.9
Book profits on the disposal of non-current assets	1.3	2.0
Reversal of write-downs on receivables	1.0	0.6
Reversal of provisions*	0.8	3.6
Reimbursement for damages	0.2	0.1
Other	2.9	3.1
Total	**17.7**	**27.0**

*Not including amounts in other statement of consolidated income items

The line "Income from property transactions" includes the net result already generated in the 2014 financial year from the sale of the former Swedish plant property (see "Results of operations" on page 27 ff. in the management report) of € 4.8 million (previous year: € 7.0 million).

Miscellaneous other operating income includes a number of individual items.

37. OTHER OPERATING EXPENSES

Other operating expenses were composed as follows:

In € million	2014	2013
Exchange rate losses	–2.6	–0.9
Consulting services	–2.4	–1.2
Addition to write-downs on receivables	–1.2	–2.7
Book losses on the disposal of non-current assets	–0.4	–0.4
Costs of maintenance/repairs	–0.1	–0.2
Other	–9.2	–6.7
Total	**–15.9**	**–12.1**

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 € 0.2 million (previous year: € 0.4 million).

39. INTEREST INCOME AND OTHER FINANCIAL INCOME

Financial income consisted of:

In € million	2014	2013
Interest income from:		
Cash and cash equivalents	1.1	0.8
Loans and receivables	0.2	0.1
Held-to-maturity investments	–	–
Other investments	0.0	0.0
Total interest income	**1.3**	**0.9**
Dividends from securities available-for-sale	0.0	–
Other financial income	0.0	0.2
Total financial income	**1.3**	**1.1**

40. INTEREST EXPENSES AND OTHER FINANCIAL EXPENSES

Finance costs related to:

In € million	2014	2013
Interest expenses from:		
Provisions	–6.4	–6.2
Overdraft facilities	–1.7	–2.1
Non-current loans	–1.5	–1.8
Other borrowing	–0.0	–0.0
Total interest expenses	**–9.6**	**–10.1**
Other finance costs	0.0	–0.4
Total finance costs	**–9.6**	**–10.5**

The interest expense on provisions climbed by € 0.2 million from € 6.2 million to € 6.4 million in the 2014 financial year. This is essentially based on a rise in interest expense of € 0.5 million on the provision for anniversary bonuses on account of this year's cut in interest rates from 3.0 % to 1.75 %. The interest expense on pension plans declined in the reporting period as the defined benefit obligations were reduced by settlement payments. The interest expenses for pension

obligations for the current year were calculated using the discounting rate from the previous year. The current drop in interest rates from 3.0 % to 1.75 % will therefore only affect pensions in the income statement for 2015.
The interest expense on current and non-current loans declined by € 0.7 million from € 3.9 million to € 3.2 million, essentially as a result of the generally lower market interest rates.

41. INCOME TAXES

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 %. The corporate income tax rate is 15 % plus a solidarity surcharge of 5.5 %. Rates vary between 10.0 % and 39.43 % for the other countries.
Deferred taxes are calculated in the individual countries on the basis of the expected tax rates at the realisation date. These largely comply with the legislation in force or substantially enacted as at the end of the reporting period.

In € million	2014	2013
Taxes paid or due in Germany	–1.4	–1.8
Taxes paid or due outside Germany	–5.7	–4.5
Current taxes	**–7.1**	**–6.3**
Deferred taxes	–3.5	–3.6
Income taxes	**–10.6**	**–9.9**

The increase of the actual tax rate is mainly due to the completed tax audit in Austria.

The reconciliation of the posted income tax based on the consolidated earnings before taxes to the Group's actual tax expense is as follows:

In € million	2014	2013
Earnings before taxes (EBT)	**34.9**	**33.8**
Expected income tax (EBT x tax rate of 29.5 %)	–10.3	–10.0
Differences arising from foreign tax rates	2.2	2.7
Tax effects arising from:		
Non-deductible expenses	–1.5	–1.9
Adjustment/write-downs on deferred taxes	–0.2	–0.1
Tax-free income	0.2	0.2
Other deferred taxes	–1.0	–0.8
Actual income tax expense	**–10.6**	**–9.9**
Actual tax rate in %	**30.4**	**29.2**

As in the previous year, the German income tax rate is 29.5 %.

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

In € million	2014	2013
Change in profit or loss in		
deferred tax assets (note 10)*	–5.7	–4.6
deferred tax liabilities (note 10)*	2,4	–0.5
Reserve for deferred taxes on items to be reclassified to profit or loss (note 21(e))	–1.2	1.0
Currency adjustments	1.0	0.5
Deferred taxes recognised in statement of comprehensive income	**–3.5**	**–3.6**

* Not including shares transferred to reserve (note 21(e)).

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:

Ordinary shares	31/12/2014	31/12/2013
Number of shares outstanding	14,044,800	14,044,800
Pro rata consolidated net income (€ million)*	12.6	12.4
Earnings per share (€)*	0.90	0.88
Preference shares	**31/12/2014**	**31/12/2013**
Number of shares outstanding	12,361,771	12,361,771
Pro rata consolidated net income (€ million)*	11.7	11.5
Earnings per share (€)*	0.95	0.93

* 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.

44. DEPRECIATION AND AMORTISATION

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

In € million	2014	2013
Amortisation of intangible assets	–1.5	–1.2
Impairment losses on intangible assets	–	–
Depreciation of property, plant and equipment	–24.3	–24.3
Impairment losses on property, plant and equipment	–0.2	–
Depreciation of investment property	–0.9	–0.8
Impairment losses on investment property	–	–
Impairment losses on financial assets	–	–
Total depreciation, amortisation and impairments	**–26.9**	**–26.3**

45. COST OF MATERIALS

The cost of materials comprised the following:

In € million	2014	2013
Cost of raw materials and supplies (including primary products)	–109.8	–109.6
Cost of purchased goods	–93.5	–95.1
	–203.3	**–204.7**
Cost of purchased services	–36.8	–38.9
Total cost of materials	**–240.1**	**–243.6**

46. PERSONNEL EXPENSES

Personnel expenses were composed as follows:

In € million	2014	2013
Wages and salaries	–213.4	–211.5
Post-employment benefits:		
▪ Expenses for defined benefit plans (see note 26)	–2.1	–2.0
▪ Income from settlement of defined benefit obligations (see note 26)	0.6	2.0
▪ Expenses for defined contribution plans	–15.0	–14.2
Termination benefits	–3.2	–2.0
Other services	–35.0	–36.6
Total staff costs	**–268.1**	**–264.3**

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	2014	2013
Wage earners	4,080	4,229
Salaried employees	3,595	3,527
Average	**7,675**	**7,756**

Of the workforce as a whole, a total of 2,554 people are employed in Germany (previous year: 2,516), with the remaining 5,121 employed outside Germany (previous year: 5,240).

NUMBER OF EMPLOYEES	2014	2013
Bathroom and Wellness	4,910	5,048
Tableware	2,307	2,280
Other	458	428
Average	**7,675**	**7,756**

47. OTHER TAXES

Other taxes amounted to € 3.9 million (previous year: € 3.5 million) and were composed as follows:

In € million	2014		2013	
	Germany	Abroad	Germany	Abroad
Wealth tax	–	–0.2	–	–0.2
Vehicle tax	–0.1	–0.1	–0.1	–0.1
Real estate tax	–0.5	–1.3	–0.5	–1.3
Miscellaneous other taxes	–0.2	–1.5	–0.1	–1.2
Total other taxes	**–0.8**	**–3.1**	**–0.7**	**–2.8**

The item "Miscellaneous other taxes" essentially included expenses for the French "contribution économique territoriale" (€ 0.5 million) and "taxe organic" (€ 0.2 million).

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

48. CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities is calculated using the indirect method. Here, consolidated earnings after taxes are 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 € 50.9 million, up by € 19.3 million on the previous year. The improvement was caused by the reduction in inventories (€ 9.2 million) and the increased level of trade payables (€ 9.7 million). In addition, pension settlements of € 5.4 million were paid in the previous year. This was countered by the increase in customer receivables (€ 6.8 million). Furthermore, proceeds from operating activities and the change in other asset items of the statement of financial position were slightly more than compensated by the utilisation of other provisions.

The "Other non-cash income and expenses" item includes:

In € million	2014	2013
Interest from the provision for pensions and similar obligations	6.3	6.1
Expenses/income from deferred taxes	3.3	4.3
Additions to tax provisions	2.9	3.0
Income from property	–4.8	–7.0
Other non-cash items	–0.2	–0.4
Total	**7.5**	**6.0**

49. CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities changed by € 17.6 million as against the previous year to € –33.1 million (previous year: € –15.5 million).

Investments in the 2014 financial year were significantly higher than the previous year's level at € 44.6 million (previous year: € 26.4 million). The high investments in 2014 were due on the one hand to the construction of the new logistics and assembly centre in Sweden in the amount of € 11.0 million. On the other, € 5.1 million was invested in new energy headquarters with a state-of-the-art combined heat and power system in Mettlach. This was offset by asset disposals of € 13.2 million (previous year: € 12.0 million), which mainly related to the disposal of our former plant property in Sweden (€ 6.4 million), a 15 % interest in V & B Fliesen GmbH (€ 3.8 million) and the annual repayment of the loan to V & B Fliesen GmbH (previous year: sale of Frankfurt/Main branch).

50. CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to € –10.5 million (previous year: € –10.0 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 € 66.8 million (previous year: € 60.3 million), a rise of € 6.5 million as against the previous year. This is primarily due to the reduction in customer receivables and inventories.

52. GROUP SEGMENT REPORT

The Villeroy & Boch Group reports in two business segments internally:

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 purchased from third parties, among other things.

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

In addition to net revenues, the operating result of the business units is the key performance indicator and used as a basis for decisions on the allocation of resources and for determining the units' earnings power. Furthermore, the rolling operating return on net assets is also used to measure the earnings power of the Group and the individual segments. This is calculated from the operating net assets as at the end of the month as an average of the last twelve months as a percentage of 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 business segments. Pricing for inter-segment transfers is based on standard market conditions.
The segments of the Villeroy & Boch Group generated the following revenue:

In € million

	Revenue from external customers		Intersegment revenue		Total	
	2014	2013	2014	2013	2014	2013
Bathroom and Wellness	469.3	456.0	0.2	1.1	469.5	457.1
Tableware	297.0	289.3	0.0	0.0	297.0	289.3
Total segment revenue	**766.3**	**745.3**	**0.2**	**1.1**	**766.5**	**746.4**
Eliminations	0.0	0.0	–0.2	–1.1	–0.2	–1.1
Consolidated revenue	**766.3**	**745.3**	**0.0**	**0.0**	**766.3**	**745.3**

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

In € million

	31/12/2014	31/12/2013
Bathroom and Wellness	29.1	27.8
Tableware	9.3	8.4
Real estate income Gustavsberg	4.8	7.0
Operating result (EBIT)	**43.2**	**43.2**
Net finance cost (see notes 39 and 40)	–8.3	–9.4
Earnings before taxes	**34.9**	**33.8**
Income taxes (see note 41)	–10.6	–9.9
Consolidated earnings	**24.3**	**23.9**

The following assets and liabilities were assigned to the segments:

In € million

	Assets		Liabilities		Net assets	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Bathroom and Wellness	311.9	292.3	121.8	113.1	190.1	179.2
Tableware	133.2	137.3	43.7	42.6	89.5	94.7
Reconciliation	178.0	170.0	313.2	283.5	–135.2	–113.5
Total	**623.1**	**599.6**	**478.7**	**439.2**	**144.4**	**160.4**

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	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Bathroom and Wellness	309.7	308.2	108.5	106.9	201.2	201.3
Tableware	136.0	140.2	42.2	40.0	93.8	100.2
Total	**445.7**	**448.4**	**150.7**	**146.9**	**295.0**	**301.5**

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 primarily includes financial assets, cash and cash equivalents, investment property, deferred tax assets, provisions for pensions, financial liabilities and deferred tax liabilities. The provision for restructuring is also allocated there.

Other segment information:

In € million

	Additions to intangible assets and property, plant and equipment		Depreciation and amortisation	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Bathroom and Wellness	37.7	18.6	–17.3	–17.3
Tableware	6.9	7.8	–9.4	–9.0
Total	**44.6**	**26.4**	**–26.7**	**–26.3**

Depreciation and amortisation relates to the intangible assets and property, plant and equipment allocated to the individual segments. The Bathroom and Wellness segment reported impairment losses of € 0.2 million (see note 6.).

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*	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
German companies	384.4	372.6	76.5	70.7
Rest of euro zone	146.2	145.3	25.7	28.8
Rest of world	235.7	227.4	104.8	91.7
Total	**766.3**	**745.3**	**207.0**	**191.2**

* 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 measurement categories defined in IAS 39:

- The *"assets or liabilities at fair value through profit or loss"* category includes financial instruments held for trading in particular. As in the previous year, this category is not currently used as the Villeroy & Boch Group has no trading portfolio.
- The *"held-to-maturity investments"* category is for assets with fixed or determinable payments and fixed maturity that the Villeroy & Boch Group has the positive intention and ability to hold to maturity. This category includes demand deposits, for instance, which are recognised at amortised cost using the effective interest method as applicable.
- *"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 funds. 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 statement of financial position at fair value. The connection between the hedged item and the hedging instrument is documented at the inception of the hedge. Changes in fair value that prove effective in accordance with 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 statement of comprehensive income. Ineffective portions of the change in fair value are taken directly to profit or loss when they arise.

List of financial instruments

The Villeroy & Boch consolidated statement of financial position contains the following financial instruments:

In € million

			Amounts measured under IAS 39						
			Nominal value	Amortised cost		Fair Value			
	Carrying amount as at 31 Dec 2014	Amounts not measured under IAS 39	Cash reserve	Loans and receivables	Available for sale	Available for sale	Cash flow hedges	Carrying amount as at 31 Dec 2014	Fair value as at 31 Dec 2014
Cash and cash equivalents (note 15)	66.8	–	66.8	–	–	–	–	66.8	66.8
Trade receivables (note 12)	108.9	–	–	108.9	–	–	–	108.9	108.9
Other financial assets (note 9)	17.5	–	–	13.6	2.6	1.3	–	17.5	17.5
Other assets (note 13)	22.3	10.2	–	9.4	–	–	2.7	12.1	12.1
			66.8	**131.9**	**2.6**	**1.3**	**2.7**	**205.3**	**205.3**
Other assets not recognised under IAS 39 (a)								10.2	–
Non-current assets – not including other financial assets (note 9)								211.0	–
Inventories (see note 11)								139.6	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)								55.8	–
Assets held for sale (see note 16)								1.2	–
Total assets								**623.1**	**–**

In € million

	Carrying amount as at 31 Dec 2013	Amounts not measured under IAS 39	Amounts measured under IAS 39 – Amortised cost: Liabilities	Amounts measured under IAS 39 – Fair value: Cash flow hedges	Carrying amount as at 31 Dec 2013	Fair value as at 31 Dec 2013
Trade payables (note 31)	70.4	–	70.4	–	70.4	70.4
Financial liabilities (note 29)	51.0	–	51.0	–	51.0	51.0
Other liabilities (note 30)	82.5	33.3	48.1	1.1	49.2	49.2
			169.5	**1.1**	**170.6**	**170.6**
Other liabilities not recognised under IAS 39 (b)					33.3	–
Equity					144.4	–
Current and non-current provisions (c)					261.7	–
Deferred tax liabilities (see note 10) and income tax liabilities					13.1	–
Total equity and liabilities					**623.1**	**–**

(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 staff liabilities, other tax liabilities and deferred income (see note 30).

(c) The current and non-current provisions include provisions for pensions (see note 26), personnel provisions (see note 27) and other provisions (see note 28).

The following financial instruments were included in the statement of financial position in the previous year:

In € million

	Carrying amount as at 31 Dec 2013	Amounts not measured under IAS 39	Amounts measured under IAS 39 – Nominal value: Cash reserve	Amounts measured under IAS 39 – Amortised cost: Loans and receivables	Amounts measured under IAS 39 – Amortised cost: Available for sale	Amounts measured under IAS 39 – Fair value: Cash flow hedges	Carrying amount as at 31 Dec 2013	Fair value as at 31 Dec 2013
Cash and cash equivalents (note 15)	60.3	–	60.3	–	–	–	60.3	60.3
Trade receivables (note 12)	102.1	–	–	102.1	–	–	102.1	102.1
Other financial assets (note 9)	14.1	–	–	11.5	2.6	–	14.1	14.1
Other assets (note 13)	21.0	9.1	–	9.8	–	2.1	11.9	11.9
			60.3	**123.4**	**2.6**	**2.1**	**188.4**	**188.4**
Other assets not recognised under IAS 39 (a)							9.1	–
Non-current assets – not including other financial assets (note 9)							193.9	–
Inventories (see note 11)							148.8	–
Deferred tax assets (see note 10) and income tax receivables (see note 14)							51.7	–
Assets held for sale (see note 16)							7.7	–
Total assets							**599.6**	**–**

In € million

	Carrying amount as at 31 Dec 2013	Amounts not measured under IAS 39	Amounts measured under IAS 39 – Amortised cost: Liabilities	Amounts measured under IAS 39 – Fair Value: Cash flow hedges	Carrying amount as at 31 Dec 2013	Fair value as at 31 Dec 2013
Trade payables (note 31)	60.7	–	60.7	–	60.7	60.7
Financial liabilities (note 29)	51.2	–	51.2	–	51.2	51.2
Other liabilities (note 30)	77.9	31.5	44.7	1.7	46.4	46.4
			156.6	**1.7**	**158.3**	**158.3**
Other liabilities not recognised under IAS 39 (b)					31.5	–
Equity					160.4	–
Current and non-current provisions (c)					233.5	–
Deferred tax liabilities (see note 10) and income tax liabilities					15.9	–
Total equity and liabilities					**599.6**	**–**

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, 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 in 2015:

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	13.8	0.6	15.5	0.3
In three to six months	17.9	1.1	16.7	0.3
In six to twelve months	23.6	0.8	29.2	0.5
Total	**55.3**	**2.5**	**61.4**	**1.1**

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 US dollar (USD). 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 2014 would have been €2.7 million higher/lower (previous year: €1.6 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income.

Management of commodity price risks

Commodity price risk refers to the uncertainty of fluctuations in the fair value or future cash flows from financial instruments due to changes in market prices. The hedging strategy of the Villeroy & Boch Group is described in the management report under "Management of other price change risks". The following cash flows from the brass commodity swaps in place are due in 2015:

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	0.5	0.1	0.1	0.0
In three to six months	0.4	0.0	0.0	0.0
In six to twelve months	0.9	0.1	0.1	0.0
Total	**1.8**	**0.2**	**0.2**	**0.0**

As at the reporting date and on the basis of production planning for the 2015 financial year, there is an unhedged brass position totalling 390 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 2014 would have been € 0.1 million higher/lower (previous year: € 0.5 million). As in the previous years, these two scenarios would have had no effect on the statement of comprehensive income in 2014.
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 2014 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: € 0.2 million).

Management of default and credit risks

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

Management of liquidity risks

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

In € million

	Carrying amount as at 31 Dec	Cash outflow expected in the following time bands			
		Gross	Within three months	Between three months and one year	Between one and five years
Trade payables	60.7	60.7	60.7	–	–
Current and non-current financial liabilities (a)	51.2	66.5	13.7	27.0	25.8
Other liabilities	44.9	44.9	41.0	2.4	1.4
Cash flow hedge liabilities (b)	1.7	45.7	10.6	12.7	22.4
Total as at 31 Dec 2013	**158.5**	**217.8**	**126.0**	**42.1**	**49.6**
Trade payables	70.4	70.4	70.4	–	–
Non-current and current financial liabilities (a)	51.0	66.7	12.7	26.5	27.5
Other liabilities	48.0	48.2	43.5	3.2	1.5
Cash flow hedge liabilities (b)	1.1	62.2	15.8	46.4	–
Total as at 31 Dec 2014	**170.5**	**247.5**	**142.4**	**76.1**	**29.0**

(a) The cash flow from current and non-current financial liabilities includes future interest payments of € 4.0 million (previous year: € 2.8 million) that will not be incurred until after 31 December 2014.

(b) The transaction volume of cash flow hedge liabilities in the amount of € 61.6 million (previous year: € 45.7 million) is offset by the opposing effects of the respective hedged items. As at the end of the reporting period, a net effect of € 1.1 million (previous year: € 1.7 million) is forecast, equal to the statement of financial position item. € 0.3 million of this will be settled in the next three months (previous year: € 0.4 million).

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

Net income from financial instruments

In the reporting year, the Villeroy & Boch Group generated the following net income from the use of primary and derivative financial instruments:

In € million

	Net interest income	Gain or loss on remeasurement				Total
		Fair value	Currency	Write-downs	Reversal	
Cash and cash equivalents	–1.3	–	–	–	–	–1.3
Loans and receivables/other						
Liabilities	–1.6	–	0.0	–2.7	0.6	–3.7
Cash flow hedge	–	0.5	0.0	–	–2.1	–1.6
Net result for the 2013 financial year	**–2.9**	**0.5**	**0.0**	**–2.7**	**–1.5**	**–6.6**
Cash and cash equivalents	–0.6	–	–	–	–	–0.6
Loans and receivables/other						
Liabilities	–1.4	–	–0.1	0.9	–1.0	–1.6
Available-for-sale Assets	–	0.0	–	–	–	–
Cash flow hedge	–	1.7	–0.1	–	–0.4	1.2
Net result for the 2014 financial year	**–2.0**	**1.7**	**–0.2**	**0.9**	**–1.4**	**–1.0**

Net interest income is explained in detail in notes 39 and 40. The development of cash flow hedges is described in note 21c.

54. CONTINGENT LIABILITIES AND COMMITMENTS

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

In € million

	31/12/2014	31/12/2013
Guarantees	28.7	28.0
Trustee obligations	0.0	0.1
Other contingent liabilities	0.0	0.0

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

	31/12/2014	31/12/2013
Obligations arising from orders placed:		
▪ for investments in intangible assets	0.0	0.1
▪ for investments in property, plant and equipment	1.5	3.7

40.3 % of the obligations to acquire property, plant and equipment in the amount of € 1.5 million related to Villeroy Boch AG, followed by Vilbomex S.A. de C.V. (26.6 %) and Ucosan B.V. (26.1 %).

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 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. In the period under review, it has increased the number of sales offices by four to five. 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, is considered a related party in the Villeroy & Boch Group. The Villeroy & Boch Group generated service income of € 0.4 million in 2014 (previous year: € 0.5 million). An amount of € 0.1 million (previous year: € 0.0 million) was recognised at the reporting date.

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	2014	2013
Current employee benefits	3.1	3.7
Post-employment benefits	1.8	1.6
Termination benefits	–	–
Total	**4.9**	**5.3**

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.

The fixed annual basic remuneration is € 20,000. The Chairman receives an additional € 45,000, while the Vice Chairman receives an additional € 13,500. Members of the Supervisory Board receive a fee of € 1,250 for each meeting of the full Supervisory Board.

The Chairmen of the Investment Committee, the Human Resources Committee and the Audit 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:

In € thousand	Fixed remuneration	Meeting fees	Variable remuneration for 2013	Total	Previous year
Wendelin von Boch-Galhau [2*), 3*)]	73	6	6	85	83
Peter Prinz Wittgenstein [1*), 2), 3)]	43	6	6	55	52
Ralf Runge [4)]	34	6	6	46	44
Werner Jäger [1), 4)]	23	6	6	35	33
Dietmar Langenfeld [2), 4)]	23	6	6	35	33
Yves Elsen [1)]	23	6	4	33	20
Dr. Alexander von Boch-Galhau	20	7	6	33	30
François Villeroy de Galhau	20	6	6	32	30
Dietmar Geuskens [4)]	20	6	6	32	30
Christina Rosenberg	20	4	4	28	19
Bernhard Thömmes (since Jan 2014)	19	6	–	25	–
Francesco Grioli (since Mar 2014) [3)]	18	5	–	23	–
Ralf Sikorski (until Mar 2014)	6	1	6	13	31
Jürgen Beining (until Dec 2013)	–	–	6	6	29
Dr. Jürgen Friedrich Kammer (until Mar 2013)	–	–	1	1	11
Charles Krombach (until Mar 2013)	–	–	1	1	11
Rounding differences	–4	2	–2	–4	2
Total	**338**	**73**	**68**	**479**	**458**

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 committee

A total expense of € 631 thousand was reported in consolidated earnings for the 2014 financial year (previous year: € 563 thousand). In addition to the fixed remuneration paid and the meeting fees for 2014, this figure includes € 75 thousand (previous year: € 63 thousand) for the provision for variable remuneration and the reimbursement of other expenses in the amount of € 43 thousand (previous year: € 22 thousand) as well as insurance premiums in the amount of € 97 thousand (previous year: € 77 thousand).

Management Board remuneration

An expense of € 2,126 thousand (previous year: € 2,846 thousand) is reported in the income statement for the 2014 financial year. This figure is composed of fixed (€ 1,189 thousand; previous year: € 1,444 thousand) and variable salary components (€ 937 thousand; previous year: € 1,401 thousand). The variable remuneration is composed of a one-year remuneration in the amount of € 509 thousand (previous year: € 647 thousand) and a remuneration for several years in the amount of € 428 thousand (previous year: € 715 thousand). The fixed remuneration includes remuneration in kind of € 64 thousand (previous year: € 76 thousand), of which € 2 thousand (previous year: € 3 thousand) relates to insurance premiums.

Provisions for pensions for former members of the Management Board amount to € 25,451 thousand (previous year: € 22,706 thousand). In the financial year, former members of the Management Board received pension benefits totalling € 1,620 thousand (previous year: € 1,437 thousand).

The provisions of section 314(2) sentence 2 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 2015 financial year and until 12 May 2016 at the latest.

58. AUDITORS' FEES AND SERVICES

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

in € million	2014	2013
Audits of financial statements	0.4	0.4
Other assurance or valuation services	–	–
Tax advisory services	0.2	0.0
Other services	0.0	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 2014 financial year was submitted by the Management Board and the Supervisory Board of Villeroy & Boch AG on 26 November 2014. The declaration is permanently available to shareholders on the Internet.

60. EVENTS AFTER THE END OF THE REPORTING PERIOD

There are currently no significant events that took place 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 %		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.	Alföldi Kerámia Kft., Hódmezövásárhely (Hungary)	–	100	100
14.	Delfi Asset S.A., Luxembourg (Luxembourg)	–	100	100
15.	EXCELLENT INTERNATIONAL HOLDINGS LIMITED, Hongkong (China)	100	–	100
16.	Hissnabben Växjö AB, Växjö (Sweden)	–	100	100
17.	Kiinteistö Oy, Helsinki (Finland)	–	100	100
18.	Villeroy & Boch Gustavsberg Oy, Helsinki (Finland)	–	100	100
19.	Proiberian S.L., Barcelona (Spain)	70	30	100
20.	Rollingergrund Premium Properties SA, Luxembourg (Luxembourg)	–	100	100
21.	S.C. Mondial S.A., Lugoj (Romania)	99.44	–	99.44
22.	Ucosan B.V., Roden (Netherlands)	100	–	100
23.	Vilbomex S.A. de C.V., Ramos Arizpe, Coahuila (Mexico)	88.32	11.68	100
24.	VILBONA MEXICO S.A. de C.V., Ramos Arizpe, Coahuila (Mexico)	–	100	100
25.	Villeroy & Boch (Thailand) Co. Ltd., Bangkok (Thailand)	17.73	82.27	100
26.	Villeroy & Boch (U.K.) Ltd., London (England)	–	100	100
27.	Villeroy & Boch Arti della Tavola S.r.l., Milano (Italy)	0.2	99.8	100
28.	Villeroy & Boch Asia Pacific PTE. LTD., Singapur (Singapore)	100	–	100
29.	Villeroy & Boch Australia Pty. Ltd., Brookvale (Australia)	–	100	100
30.	Villeroy & Boch Austria GmbH, Mondsee (Austria)	100	–	100
31.	Villeroy & Boch Belgium S.A., Brussels (Belgium)	99.99	0.01	100
32.	Villeroy & Boch Czech s.r.o., Prag (Czech Republic)	100	–	100
33.	Villeroy & Boch Danmark A/S, Brondby (Denmark)	–	100	100
34.	Villeroy & Boch Gustavsberg AB, Gustavsberg (Sweden)	100	–	100
35.	Villeroy & Boch Hogar S.L., Barcelona (Spain)	44	56	100
36.	Villeroy & Boch Magyarország Kft., Hódmezövásárhely (Hungary)	100	–	100
37.	Villeroy & Boch MC S.à.r.l. , Monaco (Monaco)	99.99	0.01	100
38.	Villeroy & Boch Norge AS, Lorenskog (Norway)	–	100	100
39.	Villeroy & Boch ooo, Moscow (Russia)	100	–	100
40.	Villeroy & Boch Polska Sp.z o.o., Warsaw (Poland)	–	100	100
41.	Villeroy & Boch S.à r.l. Faiencerie de Septfontaines, Luxembourg (Luxembourg)	100	–	100
42.	Villeroy & Boch Sales India Private Limited, Mumbai (India)	99.99	0.01	100
43.	Villeroy & Boch (Schweiz) AG, Lenzburg (Switzerland)	–	100	100
44.	Villeroy & Boch Sociéte Générale de Carrelage S.A.S., Paris (France)	–	100	100
45.	Villeroy & Boch Tableware (Far East) Ltd., Hongkong (China)	–	100	100
46.	Villeroy & Boch Tableware B.V., Oosterhout (Netherlands)	100	–	100
47.	Villeroy & Boch Tableware Japan K.K., Tokyo (Japan)	–	100	100
48.	Villeroy & Boch Tableware Ltd., Toronto (Canada)	–	100	100
49.	Villeroy & Boch Tableware Oy, Helsinki (Finland)	100	–	100

		Direct	Indirect	Total
50.	Villeroy & Boch Trading Shanghai Co. Ltd., Shanghai (China)	100	–	100
51.	Villeroy & Boch Ukraine TOV, Kiev (Ukraine)	100	–	100
52.	Villeroy & Boch USA Inc., New York (USA)	–	100	100
53.	Villeroy & Boch Wellness N.V., Roeselare (Belgium)	99.99	0.01	100
54.	Villeroy et Boch Arts de la Table S.A.S., Paris (France)	–	100	100
55.	Villeroy et Boch S.A.S., Paris (France)	100	0	100
	Investments	**Direct**	**Indirect**	**Total**
56.	V&B Lifestyle India Private Limited, Gurgaon (India)	50	–	50
57.	Rödl System Integration GmbH, Nuremberg (Germany)	49	–	49
58.	V&B Fliesen GmbH, Merzig (Germany)	10	–	10

* Section 313 II no. 4 and section 313 II HGB are applied to two German investments.

62. DEVELOPMENTS WITHIN THE IASB FRAMEWORK

The following IASB publications were adopted by the EU and are required to be applied for financial years beginning after 31 December 2013:

Standard		Name
IAS	12	Income Taxes – Deferred Tax: Recovery of Underlying Assets
IAS	27	Separate Financial Statements
IAS	28	Investments in Associates and Joint Ventures
IAS	32	Amendment to IAS 39 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS	36	Amendment of IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
IAS	39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRS	10	Consolidated Financial Statements
IFRS	11	Joint Arrangements
IFRS	12	Disclosure of Interests in Other Entities
Var.		Transition guidance (amendments to IFRS 10. IFRS 11 and IFRS 12)
Var.		Investment companies (amendments to IFRS 10. IFRS 12 and IAS 27)

The introduction of the consolidation project with the standards IFRS 10, IFRS 11 and IFRS 12 did not result in a reclassification of our Group companies.

The following IASB regulations were endorsed by the EU but are not yet effective for the current financial year:

Standard		Name
IAS	19	Defined Benefit Plans: Employee Contributions; effective for financial years beginning on or after 1 February 2015
IFRIC	21	Levies; effective for financial years beginning on or after the date of enactment (18 June 2014)
Var.		Annual improvements to International Financial Reporting Standards. 2011–2013 cycle; effective for financial years beginning on or after the date of enactment (24 December 2014)
Var.		Annual improvements to International Financial Reporting Standards. 2010–2012 cycle; effective for financial years beginning on or after the date of enactment (1 February 2015)

The Villeroy & Boch Group will adopt these regulations from the financial year in which they are effective within the EU. According to current information, the impact of the amendments described above is only minor.

The EU has not yet adopted the following IASB publications:

Standard		Name
IFRS	9	Financial Instruments (issued on 24 July 2014)
IFRS	11	Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014)
IFRS	14	Regulatory Deferral Accounts (issued on 30 January 2014)
IFRS	15	Revenue from Contracts with Customers (issued on 28 May 2014)
IAS	1	Amendments to IAS 1: Disclosure Initiative (issued on 18 Decmeber 2014)
IAS	27	Amendments to IAS 27: Equity Method in Separate Financial Statements (issued on 12 August 2014)
DIV		Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)
DIV		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)
DIV		Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014)
DIV		Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014)
DIV		Annual Improvements to IFRSs 2012–2014 Cycle (issued on 25 September 2014)

IFRS 15 “Revenue from Contracts with Customers” regulates when and in what amount revenue must be recognised. In future, companies will recognise revenue in the amount to which it expects to be entitled in exchange for transferring goods or services. The new standard contains significantly more extensive application guidance, including on revenue from licences and services and on commission agreements. The disclosure requirements in the notes to the consolidated financial statements will be more extensive. No significant changes for the Villeroy & Boch Group are currently discernible, IFRS 15 was published on 28 May 2014 and, according to the IASB, is effective for reporting periods beginning on or after 1 January 2017. The EU has not yet endorsed this standard in European law. For this reason, the date of first-time adoption of this regulation in the Villeroy & Boch Group has not yet been stipulated.

The above standards and interpretations will be applied when they become effective within the European Union. Recognition by the EU serves to implement IASB publications in European law. Due to the absence of such recognition, early adoption is not possible. According to current understanding, the new regulations described above will have only an immaterial effect on the Villeroy & Boch Group.

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 2014. 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 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 IFRSs 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 and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Mannheim, 3 February 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle,
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., Hódmezövásárhely/Hungary
Villeroy & Boch Trading Shanghai Co., Ltd

NICOLAS LUC VILLEROY
Management Board member responsible for Tableware Division

JÖRG WAHLERS *(until 30 April 2014)*
Chief Financial Officer
b) Linnenbecker GmbH & Co. KG, Erkrath/Germany
Rödl System Integration GmbH, Nuremberg/Germany

DR. MARKUS WARNCKE *(since 1 January 2015)*
Chief Financial Officer

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)

MANDATES OF THE SUPERVISORY BOARD

LUITWIN GISBERT VON BOCH-GALHAU
Honorary member of the Supervisory Board
b) Banque CIC Est S.A., Strasbourg/France (Member of the Administrative Board)
within the Group: Villeroy & Boch Magyarország Kft., Hódmezövásárhely/Hungary (Chairman 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 Faiencerie 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 ELSEN
Managing Partner & CEO HITEC Luxembourg S.A.
b) BGP Investment S.à r.l., Luxembourg
CBRail S.à r.l., Luxembourg
Ascendos Rail Leasing S.à r.l., Luxembourg
Fonds National de la Recherche, Luxembourg (Chair)
Carrosserie Robert Comes & Compagnie S.A., Luxembourg

DIETMAR GEUSKENS *
District Manager of IG Bergbau, Chemie, Energie, Saarbrücken/Germany
a) Steag Power Saar GmbH, Saarbrücken/Germany

FRANCESCO GRIOLI * *(since 21 March 2014)*
- Trade Union Secretary
- District Manager of IG Bergbau, Chemie, Energie for Rhineland-Palatinate and Saarland, Mainz/Germany

a) BASF SE, Ludwigshafen/Germany (since May 2014)
Symrise AG, Holzminden/Germany (January-April 2014)
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 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

CHRISTINA ROSENBERG
Managing Director of Hermès GmbH, Munich/Germany

RALF SIKORSKI * *(until 21 March 2014)*
- Trade Union Secretary
- Member of the Central Board of Executive Directors of IG Bergbau, Chemie, Energie

a) BASF SE, Ludwigshafen/Germany
Steag Power Saar GmbH, Saarbrücken/Germany (Vice Chairman)
KSBG GmbH, Essen/Germany (Vice Chairman)
RWE Power AG, Essen and Cologne/Germany (Vice Chairman)
RWE Generation SE, Essen/Germany
b) Steag New Energies GmbH, Saarbrücken/Germany (Vice Chairman)

FRANÇOIS VILLEROY DE GALHAU
Member of the Executive Committee (Directeur general délégué) of BNP Paribas S.A., Paris/France
b) BGL – BNP PARIBAS, Luxembourg
BNP Paribas Fortis S.A., Brussels/Belgium
BNP Paribas Leasing Solutions, Puteaux/France
Banca Nazionale del Lavoro S.p.A., Rome/Italy
Arval, Rueil-Malmaison/France
Bayard Presse S.A., Montrouge/France

BERNHARD THÖMMES * *(since 27. January 2014)*
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)

GLOSSARY

Cash flow
Describes the internal financing potential of the company and is the result of inflows and outflows of cash. In the cash flow statement, these cash flows are broken down into operating, investing and financing activities.

Cash flow from financing activities
Cash flow resulting from changes in financial liabilities proceeds from sales of or payments for acquisitions of treasury shares and dividend payments.

Cash flow from investing activities
Cash flow in connection with the acquisition or disposal of financial assets and property, plant and equipment.

Cash flow from operating activities
Cash flow from operations, such as sales of goods or purchases of materials and services or wages and salaries.

Cash flow sales profitability
The "cash flow sales profitability" shows the relationship of cash generated by and used in operating activities to consolidated sales and is expressed as a percentage.

Corporate Governance
The sound, responsible management and control of a company geared towards long-term value added.

Constant currency basis
Comparisons with the previous year are performed on a constant currency basis to eliminate the effects of exchange rate fluctuations. This means that the currency conversion of the item in question in the current fiscal year is calculated using the exchange rate of the comparable item of the previous financial year. For balance sheet items, the exchange rate of the reporting date for the previous year is used. Items in the consolidated income statement are calculated using the average exchange rates for the corresponding month of the previous fiscal year.

DAX®
The DAX® is the selection index of Deutsche Börse AG that comprises the 30 biggest German stock corporations listed on the German stock exchange.

Earnings per share
The "earnings per share" ratio indicates the proportionate consolidated earnings per share outstanding.

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EBT
Earnings before tax.

Equity ratio
Ratio of equity to balance sheet total.

Goodwill
The difference by which the purchase price paid to acquire an enterprise exceeds the carrying amount of the net assets acquired.

Market capitalisation
Market capitalisation (or market cap) is the total value of the shares outstanding of a publicly traded company; it is equal to the share price times the number of shares outstanding.

Net operating margin
Ratio of EBIT (earnings before interest and tax) to sales.

NOPAT (net operating profit after tax)
Net total of gross profit, selling, marketing and development costs, general administrative expenses and taxes on income.

Net Operation Assets
Net total of property, plant and equipment, inventories, trade receivables and other operating assets, liabilities to suppliers, provisions and other operating liabilities.

PER (price-earnings ratio)
Performance indicator used in share valuation. The share price of a company is compared with its earnings per share. This shows the multiple at which earnings per share is valued by the stock market.

Prime Standard
The Prime Standard comprises the companies that are traded on the German stock exchange and that also satisfy particularly high transparency standards at the same time. Deutsche Börse collates its selection indices, such as the DAX® or SDAX®, from these equities.

Return On Equity (ROE)
Ratio of consolidated earnings to equity including non-controlling interests.

Return on Net Operation Assets
Ratio of the result from ordinary activities at a Group level and at the level of the respective divisions before the expenses attributable to the central functions to Net Operation Assets (12 month average). The latter is calculated as the operating result divided by the average operating net assets for the last twelve months.

SDAX®
The SDAX® is the selection index of Deutsche Börse AG for smaller companies in conventional industries, also referred to as "small caps". It includes 50 equities that are traded in the Prime Standard® of the official market or the regulated market.

Xetra
An electronic trading system of the Frankfurt Stock Exchange; Xetra accounts for more than 90 % of the traded shares in Germany.

Yield Improvement Program
Internal project which was started in 2012 with the aim of improving the productivity of our sanitary ware plants. The main goal is to enlarge the first pass yield. This indicator describes the proportion of products that pass through all of the steps in the manufacturing process without requiring additional work.

COMPANY CALENDAR 2015

27 March 2015 – General Meeting of Shareholders, Merzig Town Hall

22 April 2015 – Report on the first three months of 2015

20 July 2015 – Report on the first half of 2015

20 October 2015 – Report on the first nine months of 2015

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 and certain chapters are also available in French. In the event of variances, the German version shall take precedence over the English and French translations.

Villeroy & Boch
1748