Villeroy & Boch

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INTERIM REPORT

1 January to 30 September 2018

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1 January to 30 September 2018

- Consolidated revenue up 3.2 % on a constant currency basis and 1.4 % in nominal terms to € 611.3 million.
- EBIT improves by 5.3 % to € 25.8 million.
- Earnings target for 2018 as a whole confirmed.

THE GROUP AT A GLANCE	1/1/2018 - 30/9/2018 in € million	1/1/2017 - 30/9/2017 in € million	Change in € million	Change in %
Revenue incl. licence income (1)	615.9	–	–	–
Revenue (constant currency) (2)	622.2	602.7	19.5	3.2
Revenue (nominal) (2)	611.3	602.7	8.6	1.4
Revenue – Germany	171.0	175.6	-4.6	-2.6
Revenue – Abroad	440.3	427.1	13.2	3.1
EBIT	25.8	24.5	1.3	5.3
EBT	22.4	20.9	1.5	7.2
Group result	15.7	14.6	1.1	7.5
Return on net operating assets (rolling)	16.7 %	17.7 % (3)	-1.0 PP	
Investments	25.7	15.9	9.8	61.6
Employees (FTEs as at end of period)	7,495 FTE	7,527 FTE	-32 FTE	-0.4

(1) Income from licence business is reported in revenue from the 2018 financial year having been reported in other operating income until 31 December 2017. The corresponding prior-year figures have not been restated.

(2) Revenue from sale of goods (i.e. excluding licence income)

(3) Return on net assets as at 31 December 2017

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Villeroy & Boch AG • 66688 Mettlach • Germany
Tel.: +49 6864 81-2715 • Fax: +49 6864 81-72715
Internet: http://www.villeroyboch-group.com

INTERIM MANAGEMENT REPORT OF THE VILLEROY & BOCH GROUP ON THE THIRD QUARTER OF 2018

GENERAL CONDITIONS OF THE GROUP

The basic information on the Group as presented in the 2017 Group management report remains unchanged. Information on changes in the consolidated group and on research and development costs can be found on page 13 and in note 12 to the consolidated financial statements respectively.

ECONOMIC REPORT

General economic conditions

Global economic momentum has slowed slightly over the course of the year to date. This development was driven by negative sentiment indicators, and in particular the smouldering trade conflicts and the impact of capital withdrawal by foreign investors on the emerging economies.

Nevertheless, the German economy continued to enjoy positive performance, with the domestic economy benefiting from increased employment and low interest rates. Despite the generally favourable conditions, however, growth in the construction industry was more muted than in recent years due to bottlenecks in fitting capacity.

Economic growth in China remained above-average, with the punitive tariffs imposed on Chinese goods by the USA having had no tangible impact on our industry to date. The strong momentum of the US economy peaked midway through the year before economic sentiment deteriorated slightly on the back of the mutual effects of the international trade conflict.

Course of business and position of the Villeroy & Boch Group

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

We generated consolidated revenue of € 615.9 million in the first nine months of 2018. This figure includes income from our licence business in the amount of € 4.6 million, which was previously reported in other operating income. Further information on this change in reporting can be found in note 11 of the notes to the consolidated financial statements.

Excluding licence income, consolidated revenue from the sale of goods increased by 1.4 % to € 611.3 million. Revenue performance in both divisions was significantly impacted by negative exchange rate effects. On a constant currency basis, i.e. assuming unchanged exchange rates against the previous year, we generated revenue growth of 3.2 %. The currencies with the most pronounced depreciation were the Swedish krona, the US dollar and the Russian rouble.

Orders on hand amounted to € 78.6 million as at 30 September 2018. Of this figure, € 65.3 million related to the Bathroom and Wellness Division and € 13.3 million to the Tableware Division. The change compared with orders on hand as at 31 December 2017 (€ 107.0 million) was primarily attributable to ceramic sanitary ware and, in particular, the delivery of major orders in China.

In the first nine months of the current financial year, we increased consolidated EBIT by 5.3 % to € 25.8 million. The improvement in the Group's operating result was driven in particular by robust revenue and earnings development in the Bathroom and Wellness Division and the intensification of cost management throughout the Group. Further information on the course of business in the two divisions can be found in the sections below.

The Group's rolling return on net operating assets was 16.7 % as at 30 September 2018. The change compared with the end of the 2017 financial year (17.7 %) is due to the rise in rolling net operating assets to € 307.0 million (31 December 2017: € 280.4 million), which was largely attributable to the consolidation of Argent Australia Pty. Ltd. and the increased investment volume.

Course of business and position of the divisions

Bathroom and Wellness

The Bathroom and Wellness Division generated revenue of € 436.1 million in the first nine months of 2018, of which € 0.2 million was attributable to licence business. Excluding licence income, revenue from the sale of goods increased by 4.4 % to € 435.9 million. Revenue increased by 6.1 % on a constant currency basis.

Revenue performance on the European market varied from region to region. While we enjoyed growth in Southern Europe (+11.3 %) in particular, as well as in our markets in Eastern Europe excluding Russia (+4.3 %) and Northern Europe (+1.1 %), revenue development in our home market of Germany (-1.3 %) was impacted by the muted performance in the area of showroom business as a result of the unusually warm summer, particularly in the third quarter.

In the markets outside Europe, we increased our revenue volume in the growth region of Asia-Pacific by a substantial 56.2 %. Our business in China continued to enjoy outstanding performance with revenue growth of 49.9 %.

Thanks to its strong revenue performance and systematic cost discipline, the Bathroom and Wellness Division increased its operating result (EBIT) by € 5.0 million or 17.2 % year-on-year to € 34.0 million.

Tableware

The Tableware Division generated a revenue volume of € 177.6 million in the first nine months of 2018, of which € 2.2 million was attributable to licence income. Revenue from the sale of goods decreased by 5.2 % year-on-year to € 175.4 million.

Revenue performance in the Tableware Division was influenced to a large extent by various non-recurring effects. In addition to negative exchange rate effects amounting to € 3.6 million – revenue declined by just -3.3 % on a constant currency basis – the changes to the distribution model in some markets resulted in lower nominal revenue. In addition, our new products were delivered later than in the previous year. The unusually hot, long summer in Europe also led to lower visitor numbers, including at our own retail stores.

Finally, the division's revenue situation was also characterised by the changes to our pricing and discount policy that were initiated in the previous year. This led to a reduction in orders from some of our trading partners that was more pronounced than expected in some cases, which had a negative effect on revenue in our home market of Germany in particular (-5.7 %).

Positive development was recorded in the markets of Italy (+8.4 %), Luxembourg (+6.0 %), Eastern Europe (+4.2 %) and France (+2.1 %).

In terms of the markets outside Europe, positive underlying revenue development in the USA was more than offset by exchange rate losses (-4.7 %); on a constant currency basis, we recorded revenue growth of 2.9 %.

Across all markets and sales channels, we increased our online revenue by 7.0 % thanks to our intensified sales and marketing activities in e-commerce.

The Tableware Division closed the first three quarters of 2018 with an operating result (EBIT) of € -8.2 million (previous year: € -4.6 million). This development was due primarily to the lower level of revenue. Earnings were also impacted by higher procurement prices (including freight costs).

Capital structure

Our equity amounted to € 192.9 million as at 30 September 2018 (31 December 2017: € 194.6 million). The change in equity during the year was primarily due to the Group result of € 15.7 million generated in the first three quarters and the dividend paid by Villeroy & Boch AG in March 2018 (€ 14.3 million). The revaluation surplus also changed by € -2.7 million. At 28.9 %, our equity ratio (including minority interests) rose by 0.6 percentage points as against 31 December 2017.

Investments

We made investments in property, plant and equipment and intangible assets totalling € 25.7 million in the first nine months of 2018 (previous year: € 15.9 million). The Bathroom and Wellness Division accounted for € 21.6 million, with the remaining € 4.1 million attributable to the Tableware Division.

In the Bathroom and Wellness Division, we acquired new facilities for the ceramic sanitary ware plants in Mettlach, Mexico and Hungary in particular. Investments in the Tableware Division included modernisation measures for the production facilities in Merzig and Torgau. We also invested in the optimisation of our retail network, including in Spain, the United Kingdom and Germany.

At the reporting date, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 14.1 million. We are continuing to forecast an investment volume of more than € 40 million for 2018 as a whole.

Net liquidity

Our net liquidity amounted to € -26.6 million as at 30 September 2018 (31 December 2017: € 57.6 million). The reduction in net liquidity is attributable in particular to the higher level of investing activity (€ 25.7 million) and the dividend payment for the previous financial year (€ 14.3 million), as well as seasonal effects for the annual payment of customer and employee bonuses. Changes in payment terms for our Chinese customers also led to a lower level of advance payments received.

Balance sheet structure

Total assets amounted to € 667.6 million at the end of the reporting period compared with € 687.1 million as of 31 December 2017. The share of total assets attributable to non-current assets increased to 35.5 % (31 December 2017: 33.1 %).

Current assets fell by € 30.1 million as against 31 December 2017, largely as a result of the reduction in cash and cash equivalents, whereas inventories increased due to seasonal effect.

On the equity and liabilities side of the balance sheet, the main changes compared with year-end 2017 related to the reduction in trade payables and other current liabilities, while current financial liabilities increased as a result of interim finance.

REPORT ON RISKS AND OPPORTUNITIES

The opportunities and risks described in the 2017 annual report remain unchanged. There is no evidence of any individual risks that could endanger the continued existence of the Group.

OUTLOOK FOR THE CURRENT FINANCIAL YEAR

For 2018 as a whole, we expect the world economy to expand at roughly the same pace as in the previous year. We expect growth momentum in Europe, and particularly in Germany, to be slightly weaker than we forecast at the start of the year. On the other hand, the phase of robust overall expansion in the US economy will continue, at least in the current year, despite the increased uncertainty concerning trade policy. Our largest growth market of China is expected to see above-average economic growth, albeit at a slightly slower rate.

In light of the varied course of business in both divisions and taking into account all of the available market estimates, the Management Board of Villeroy & Boch AG is forecasting an increase in consolidated revenue of between 2 % and 3 % for the 2018 financial year as a whole. In terms of our earnings performance, we are maintaining our forecast of an improvement in our operating result (EBIT) of between 5 % and 10 %. Our return on net operating assets is expected to amount to around 17 % in 2018.

In the final quarter, we expect showroom business in the Bathroom and Wellness Division to increase again as we are able to satisfy all orders in the extremely popular product segments of DirectFlush WCs and TitanCeram washbasins.

In the Tableware Division, Christmas business is expected to result in a traditionally strong fourth quarter. This will be supported by the imminent delivery of this year's new products and the upturn in visitor numbers at our retail stores that is anticipated following the end of the hot summer.

Mettlach, 15 October 2018

Frank Göring

Nicolas Luc Villeroy

Andreas Pfeiffer

Dr. Markus Warncke

CONSOLIDATED BALANCE SHEET

as of 30 September 2018

in € million

Assets	Notes	30/9/2018	31/12/2017
Non-current assets			
Intangible assets		38.4	37.5
Property, plant and equipment	1	171.7	165.3
Investment property		7.6	8.2
Investments accounted for using the equity method		1.6	1.5
Other financial assets	2	17.7	14.8
		237.0	**227.3**
Other non-current assets	5	2.5	3.7
Deferred tax assets		39.9	37.3
		279.4	**268.3**
Current assets			
Inventories	3	176.5	154.6
Trade receivables	4	129.7	127.2
Other current assets	5	33.0	25.3
Income tax receivables		7.9	2.5
Cash and cash equivalents	6	41.1	108.7
		388.2	**418.3**
Non-current asset held for sale		**0.0**	**0.5**
Total assets		**667.6**	**687.1**

Equity and Liabilities	Notes	30/9/2018	31/12/2017
Equity attributable to Villeroy & Boch AG shareholders			
Issued capital		71.9	71.9
Capital surplus		193.6	193.6
Treasury shares		-15.0	-15.0
Retained earnings		13.7	12.7
Revaluation surplus	7	-76.7	-74.0
		187.5	**189.2**
Equity attributable to minority interests		**5.4**	**5.4**
Total equity		**192.9**	**194.6**
Non-current liabilities			
Provisions for pensions		176.5	185.1
Non-current provisions for personnel	8	17.8	19.0
Other non-current provisions		10.8	11.3
Non-current financial liabilities	9	50.1	50.2
Other non-current liabilities	10	4.5	4.7
Deferred tax liabilities		4.0	3.4
		263.7	**273.7**
Current liabilities			
Current provisions for personnel	8	12.1	15.4
Other current provisions		19.8	20.0
Current financial liabilities	9	17.6	0.9
Other current liabilities	10	83.4	92.5
Trade payables		73.5	83.5
Income tax liabilities		4.6	6.5
		211.0	**218.8**
Total liabilities		**474.7**	**492.5**
Total equity and liabilities		**667.6**	**687.1**

CONSOLIDATED INCOME STATEMENT

for the period 1 January to 30 September 2018

in € million

	Notes	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017
Revenue	11	**615.9**	**602.7**
Costs of sales		-358.7	-342.6
Gross profit		**257.2**	**260.1**
Selling, marketing and development costs	12	-202.3	-203.9
General administrative expenses		-33.3	-33.9
Other operating income and expenses	13	4.1	2.0
Result of associates accounted for using the equity method		0.1	0.2
Operating result (EBIT)		**25.8**	**24.5**
Financial result	14	**-3.4**	**-3.6**
Earnings before taxes		**22.4**	**20.9**
Income taxes	15	-6.7	-6.3
Group result		**15.7**	**14.6**
Thereof attributable to:			
Villeroy & Boch AG shareholders		15.3	14.6
Minority interests		0.4	0.0
		15.7	**14.6**
EARNINGS PER SHARE		**in €**	**in €**
Earnings per ordinary share		0.57	0.53
Earnings per preference share		0.62	0.58

During the reporting period there were no share dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 30 September 2018

in € million

		1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017
Group result		**15.7**	**14.6**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-2.6	0.0
Gains or losses on translations of exchange differences		-0.5	-1.9
Deferred income tax effect on items to be reclassified to profit or loss		0.4	-0.4
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		0.0	1.9
Gains or losses on value changes of securities		-0.2	0.0
Deferred income tax effect on items not to be reclassified to profit or loss		0.0	-0.5
Total other comprehensive income		**-2.9**	**-0.9**
Total comprehensive income net of tax		**12.8**	**13.7**
Thereof attributable to:			
Villeroy & Boch AG shareholders		12.6	13.7
Minority interests		0.2	0.0
Total comprehensive income net of tax		**12.8**	**13.7**

CONSOLIDATED INCOME STATEMENT

for the period 1 July to 30 September 2018

in € million

	Notes	1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017
Revenue	11	**196.3**	**200.3**
Costs of sales		-117.5	-115.7
Gross profit		**78.8**	**84.6**
Selling, marketing and development costs	12	-65.4	-67.4
General administrative expenses		-10.8	-11.0
Other operating income and expenses	13	4.2	0.1
Result of associates accounted for using the equity method		0.0	0.1
Operating result (EBIT)		**6.8**	**6.4**
Financial result	14	**-1.2**	**-1.0**
Earnings before taxes		**5.6**	**5.4**
Income taxes	15	-1.7	-1.7
Group result		**3.9**	**3.7**
Thereof attributable to:			
Villeroy & Boch AG shareholders		3.8	3.7
Minority interests		0.1	0.0
		3.9	**3.7**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 July to 30 September 2018

in € million

		1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017
Group result		**3.9**	**3.7**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		0.8	0.0
Gains or losses on translations of exchange differences		2.3	-0.4
Deferred income tax effect on items to be reclassified to profit or loss		-0.1	-0.3
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		0.0	0.1
Gains or losses on value changes of securities		0.0	0.0
Deferred income tax effect on items not to be reclassified to profit or loss		0.0	0.0
Total other comprehensive income		**3.0**	**-0.6**
Total comprehensive income net of tax		**6.9**	**3.1**
Thereof attributable to:			
Villeroy & Boch AG shareholders		6.8	3.1
Minority interests		0.1	0.0
Total comprehensive income net of tax		**6.9**	**3.1**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 30 September 2018

in € million

	Equity attributable to Villeroy & Boch AG shareholders							
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	Total	Equity attri-butable to mi-nority interests	Total equity
Notes					7			
As of 1/1/2017	**71.9**	**193.6**	**-15.0**	**-3.9**	**-74.1**	**172.5**	**0.1**	**172.6**
Group result				14.6		14.6	0.0	14.6
Other comprehensive income					-0.9	-0.9		-0.9
Total comprehensive income net of tax				**14.6**	**-0.9**	**13.7**	**0.0**	**13.7**
Dividend payments				-13.3		-13.3		-13.3
Acquisition of non-controlling interests						0.0	5.3	5.3
As of 30/9/2017	**71.9**	**193.6**	**-15.0**	**-2.6**	**-75.0**	**172.9**	**5.4**	**178.3**
As of 1/1/2018	**71.9**	**193.6**	**-15.0**	**12.7**	**-74.0**	**189.2**	**5.4**	**194.6**
Group result				15.3		15.3	0.4	15.7
Other comprehensive income					-2.7	-2.7	-0.2	-2.9
Total comprehensive income net of tax				**15.3**	**-2.7**	**12.6**	**0.2**	**12.8**
Dividend payments				-14.3		-14.3	-0.2	-14.5
As of 30/9/2018	**71.9**	**193.6**	**-15.0**	**13.7**	**-76.7**	**187.5**	**5.4**	**192.9**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 30 September 2018

in € million

	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017
Group result	15.7	14.6
Depreciation of non-current assets	17.7	19.5
Change in non-current provisions	-13.5	-8.0
Profit from disposal of fixed assets	-2.7	-0.3
Change in inventories, receivables and other assets	-39.0	-20.5
Change in liabilities, current provisions and other liabilities	-24.2	-4.5
Other non-cash income/expenses	1.5	1.2
Cash Flow from operating activities	**-44.5**	**2.0**
Purchase of intangible assets, property, plant and equipment	-25.7	-15.9
Investment in non-current financial assets	-4.9	-9.5
Cash receipts from disposals of fixed assets	5.4	16.6
Cash Flow from investing activities	**-25.2**	**-8.8**
Change in financial liabilities	16.6	11.3
Dividends paid to minority shareholders	-0.2	-
Dividends paid to shareholders of Villeroy & Boch AG	-14.3	-13.3
Cash Flow from financing activities	**2.1**	**-2.0**
Sum of cash flows	**-67.6**	**-8.8**
Balance of cash and cash equivalents as at 1/1/	108.7	111.2
Net increase in cash and cash equivalents	-67.6	-8.8
Balance of cash and cash equivalents as at 30/9/	**41.1**	**102.4**

CONSOLIDATED SEGMENT REPORT

for the period 1 January to 30 September 2018

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch Group	
	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017	1/1/2018 - 30/9/2018	1/1/2017 - 30/9/2017
Revenue								
Segment revenue from sales of goods to external customers	435.9	417.6	175.4	185.1	0.0	0.0	611.3	602.7
Segment revenue from transactions with other segments	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Segment revenue from licence	0.2	-	2.2	-	2.2	-	4.6	-
Revenue	436.1	417.6	177.6	185.1	2.2	0.0	615.9	602.7
Result								
Segment result	34.0	29.0	-8.2	-4.6	-	-	25.8	24.4
Financial result	-	-	-	-	-3.4	-3.6	-3.4	-3.6
Investments and depreciations								
Investments	21.6	12.4	4.1	3.5	-	-	25.7	15.9
Scheduled depreciation	13.5	13.9	4.2	5.6	-	-	17.7	19.5
Assets and Liabilities	30/9/2018	31/12/2017	30/9/2018	31/12/2017	30/9/2018	31/12/2017	30/9/2018	31/12/2017
Segment assets	381.1	358.8	137.3	124.4	149.2	203.9	667.6	687.1
Segment liabilities	145.5	157.6	41.1	42.7	288.1	292.2	474.7	492.5

The rolling net operating assets and rolling operating result (EBIT) of the two divisions were as follows as at the end of the reporting period:

Rolling net operating assets	30/9/2018	31/12/2017	30/9/2018	31/12/2017	30/9/2018	31/12/2017	30/9/2018	31/12/2017
Rolling operating assets	365.0	339.3	123.8	120.8	-	-	488.8	460.1
Rolling operating liabilities	142.4	137.2	39.4	42.5	-	-	181.8	179.7
Rolling net operation assets	222.6	202.1	84.4	78.3	-	-	307.0	280.4
Rolling operating result (EBIT) *								
Rolling operating result (EBIT) *	50.7	47.5	3.8	9.3	-3.3	-7.0	51.2	49.8

* Central function earnings components that cannot be influenced by the division are not taken into account in calculating the operating result of both divisions.

CONSOLIDATED SEGMENT REPORT

for the period 1 July to 30 September 2018

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch Group	
	1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017	1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017	1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017	1/7/2018 - 30/9/2018	1/7/2017 - 30/9/2017
Revenue								
Segment revenue from sales of goods to external customers	132.9	134.4	61.8	65.9	0.0	0.0	194.7	200.3
Segment revenue from transactions with other segments	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Segment revenue from licence	0.1	-	0.8	-	0.7	-	1.6	-
Revenue	133.0	134.4	62.6	65.9	0.7	0.0	196.3	200.3
Result								
Segment result	6.3	5.6	0.5	0.8	-	-	6.8	6.4
Financial result	-	-	-	-	-1.2	-1.0	-1.2	-1.0
Investments and depreciations								
Investments	8.7	5.8	1.8	1.3	-	-	10.5	7.1
Scheduled depreciation	3.7	4.7	1.2	1.7	-	-	4.9	6.4

NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE VILLEROY & BOCH GROUP ON THE THIRD QUARTER OF 2018

GENERAL INFORMATION

Villeroy & Boch AG is domiciled in Mettlach (Germany) and is a listed stock corporation under German law. It is the parent company of the Villeroy & Boch Group. The Group is divided into two operating divisions: Bathroom and Wellness, and Tableware. Villeroy & Boch's preference shares are listed in the Prime Standard operated by Deutsche Börse AG.

This interim report covers the period from 1 January to 30 September 2018. It was approved for publication on 15 October 2018 after the Management Board discussed the interim report with the Audit Committee of the Supervisory Board. It was prepared in accordance with section 315e of the German Commercial Code (HGB), applying the IFRS regulations as endorsed by the European Commission. These condensed interim financial statements have not been audited or reviewed by an audit company. In the opinion of the Management Board, these interim financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group. The interim report includes condensed consolidated financial statements with selected explanatory notes in accordance with IAS 34. For this reason, it should be read in conjunction with the consolidated financial statements as at 31 December 2017. These can be ordered in the Investor Relations section of the website at www.villeroyboch-group.com.

In the period under review, the accounting and consolidation policies described in the 2017 Annual Report were expanded to include the accounting standards adopted by the EU and required to be applied for financial years starting on or after 1 January 2018, particularly IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". None of these changes had a material effect on this report.

Basis of consolidation

The basis of consolidation of the Villeroy & Boch Group consists of 55 companies (31 December 2017: 54 companies). V & B South Africa Pty. Ltd., Cape Town, was formed on 4 July 2018. It is allocated to the Bathroom and Wellness Division.

Dividend paid by Villeroy & Boch AG for the 2017 financial year

The General Meeting of Shareholders on 23 March 2018 approved the dividend of € 0.52 per ordinary share and € 0.57 per preference share as proposed by the Supervisory Board and Management Board of Villeroy & Boch AG. The distribution corresponds to a dividend payment of € 7.3 million for the ordinary share capital (previous year: € 6.7 million) and € 7.0 million for the preference share capital (previous year: € 6.6 million). The dividend was paid on 28 March 2018. As in the previous year, the Villeroy & Boch Group held 1,683,029 preference treasury shares at the distribution date. These shares were not entitled to dividends.

Seasonal influences on business activities

Owing to Christmas business, the Tableware Division habitually expects to generate a higher level of revenue and operating result in the fourth quarter than in the other quarters of the year.

NOTES ON SELECTED ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. Property, plant and equipment

Property, plant and equipment amounted to € 171.7 million as at 30 September 2018 (31 December 2017: € 165.3 million). Property, plant and equipment in the amount of € 23.5 million was acquired in the period under review (previous year: € 15.4 million). The Bathroom and Wellness Division primarily invested in new facilities for the sanitary ware plants in Mettlach, Ramos (Mexico) and Hódmezővásárhely (Hungary). At the bathroom furniture production site in Mondsee (Austria) the installation of a new painting facility was started, while the fittings plant in Vargarda (Sweden) received a new lathe. In the Tableware Division, new facilities were acquired for the production plants in Merzig and Torgau as well as the logistics centre in Merzig. We also invested in our retail stores in Spain, the United Kingdom, Germany and elsewhere. Depreciation amounted to € 16.5 million (previous year: € 18.3 million). As at the end of the reporting period, the Villeroy & Boch Group had obligations to acquire property, plant and equipment in the amount of € 14.0 million (31 December 2017: € 2.1 million).

2. Other financial assets

Financial assets increased by € 2.9 million in the period under review as a result of the acquisition of additional securities as a freely marketable investment.

3. Inventories

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

in € million	30/9/2018	31/12/2017
Raw materials and supplies	23.4	21.1
Work in progress	18.5	17.5
Finished goods and goods for resale	134.6	116.0
Inventories (total)	**176.5**	**154.6**

In the period under review, impairment losses on inventories increased by € 3.1 million to a total of € 18.5 million.

4. Trade receivables

At recognition, trade receivables are carried at their transaction price less expected losses over the agreed payment period. An additional impairment loss is recognised if there are objective evidences that a customer may default on a receivable.
Trade receivables are broken down as follows:

by customer domicile/in € million	30/9/2018	31/12/2017
Germany	29.9	26.8
Rest of euro zone	24.9	29.0
Rest of world	78.0	74.5
Gross carrying amount of trade receivables (a)	**132.8**	**130.3**

Continued / in € million	30/9/2018	31/12/2017
Gross carrying amount of trade receivables (a)	**132.8**	**130.3**
Impairment due to expected losses (step 1)	-0.4	-0.4
Impairment due to objective evidence (step 2)	-2.7	-2.7
Impairment losses (b)	**-3.1**	**-3.1**
Total trade receivables [(a)+(b)]	**129.7**	**127.2**

Valuation allowances are recognised by using the simplified method as the Group's receivables do not contain any significant financing components. An insurance policy is in place to cover the material default risk. Uninsured receivables are managed by using limits based on insurance classification and an internal rating. Expected losses are primarily calculated on the basis of external and internal customer ratings and the associated probabilities of default.

5. Other non-current and current assets

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

in € million	30/9/2018		31/12/2017	
	Current	Non-current	Current	Non-current
Other tax receivables	13.7	-	9.4	-
Advance payments and deposits (a)	4.4	1.9	1.1	1.9
Deferred income (b)	3.4	-	2.1	-
Fair values of hedging instruments (b)	1.2	0.6	2.7	1.8
Miscellaneous assets	10.3	-	10.0	-
Other assets (total)	**33.0**	**2.5**	**25.3**	**3.7**

(a) Advance payments and deposits increased by a total of € 3.3 million to € 6.3 million. This was primarily attributable to advance payments for purchases of ViClean tools and the establishment of a new kiln hall at the Mexican sanitary ware plant.

(b) Seasonal change

6. Cash and cash equivalents

Cash and cash equivalents are initially recognised at cost and are composed as follows:

in € million	30/9/2018	31/12/2017
Cash on hand incl. cheques	0.5	0.5
Current bank balances	13.5	48.6
Short-term bank deposits	27.1	59.6
Total cash and cash equivalents	**41.1**	**108.7**

The € 67.6 million decrease in cash and cash equivalents is primarily attributable to the dividend payment of € 14.3 million, the higher level of investing activity compared with the previous year (€ 25.7 million) and seasonal effects, such as the payment of customer bonuses (see note 10) and variable remuneration for 2017. Bank balances were offset against matching liabilities in the amount of € 25.0 million (31 December 2017: € 14.6 million). Cash is held solely in the short term and at banks of good credit standing that are predominantly members of a deposit protection system. Accordingly, we do not anticipate any defaults within the next twelve months. We continually observe the creditworthiness of our banking partners in order to counteract any significant increase in default risk.

7. Revaluation surplus

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

in € million	30/9/2018	31/12/2017*
Items to be reclassified to profit or loss:		
Currency translation of financial statements of foreign group companies	-4.8	-3.3
Currency translation of long-term loans classified as net investments in foreign group companies	-6.3	-7.5
Change in fair value of cash flow hedges	0.9	3.5
Deferred taxes for this category	-4.8	-5.2
Sub-total (a)	**-15.0**	**-12.5**
Items not to be reclassified to profit or loss:		
Actuarial gains and losses on defined benefit obligations	-86.8	-86.8
Valuation results on securities *	-0.1	0.1
Deferred taxes for this category	25.2	25.2
Sub-total (b)	**-61.7**	**-61.5**
Total revaluation surplus [(a)+(b)]	**-76.7**	**-74.0**

* Prior-period amounts restated: Non-current investments (see note 2) are recognised using the fair value option in accordance with IFRS 9.

8. Non-current and current provisions for personnel

The main decrease within non-current provisions for personnel related to the provision for partial retirement and anniversary programmes. The change in current provisions for personnel is primarily due to the payment of variable remuneration components for 2017.

9. Non-current and current financial liabilities

Non-current financial liabilities did not change significantly in the reporting period. The change in current financial liabilities was mainly attributable to the utilization of interim finance.

10. Other non-current and current liabilities

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

in € million	30/9/2018		31/12/2017	
	current	non-current	current	non-current
Bonus liabilities (a)	36.5	-	43.7	-
Personnel liabilities (a)	24.8	0.1	20.1	0.2
Other tax liabilities	9.5	-	12.1	-
Advance payments	6.7	-	11.5	-
Deferred income	2.8	1.7	1.1	1.7
Change in fair value of hedging instruments	0.5	0.4	0.8	0.2
Miscellaneous liabilities	2.6	2.3	3.1	2.6
Other liabilities (total)	**83.4**	**4.5**	**92.5**	**4.7**

(a) Seasonal change

NOTES ON SELECTED ITEMS OF THE CONSOLIDATED INCOME STATEMENT

11. Revenue

The application of IFRS 15 "Revenue from Contracts with Customers" means that income from Villeroy & Boch's licence business in the amount of € 4.6 million has been reported in revenue since 1 January 2018, having previously been reported in other operating income until 31 December 2017 (see note 13). The prior-period figures were not restated. Revenue is broken down in the segment report.

12. Selling, marketing and development costs

This item includes the following expenses for research and development in the period under review:

in € million	2018		2017	
	Q1-3	Q3	Q1-3	Q3
Bathroom and Wellness	-8.9	-3.1	-8.6	-3.0
Tableware	-2.8	-1.0	-2.6	-0.8
Research and development costs (total)	**-11.7**	**-4.1**	**-11.2**	**-3.8**

13. Other operating income and expenses

Other operating income and expenses increased by € 2.1 million to € 4.1 million in the period under review. This includes the reimbursement of an additional customs charge paid in 2015 and income from the disposal of the former production location in Selb.

14. Financial result

The financial result is broken down as follows:

in € million	2018		2017	
	Q1-3	Q3	Q1-3	Q3
Financial income	0.9	0.4	0.9	0.3
Finance expenses	-1.9	-0.8	-2.5	-0.6
Interest expenses for provisions (pensions)	-2.4	-0.8	-2.0	-0.7
Net finance expense (total)	**-3.4**	**-1.2**	**-3.6**	**-1.0**

15. Income taxes

The main components of income tax expense are as follows:

in € million	2018		2017	
	Q1-3	Q3	Q1-3	Q3
Current income taxes	-6.8	-3.1	-6.5	-1.8
Deferred taxes	0.1	1.4	0.2	0.1
Income taxes (total)	**-6.7**	**-1.7**	**-6.3**	**-1.7**

OTHER NOTES

16. Related party disclosures

No material contracts were concluded with related parties in the period under review. The pro rata transaction volume is largely the same as in the 2017 annual financial statements. All transactions are conducted at arm's-length conditions.

17. Events after the end of the reporting period

No further significant events occurred by the time the interim report was approved for publication.

FINANCIAL CALENDAR

7 February 2019	Annual press conference for the 2018 financial year
29 March 2019	General Meeting of Shareholders of Villeroy & Boch AG
18 April 2019	Report on the first three months of 2019

This interim report is available in English and German. In the event of variances, the German version shall take precedence over the translation. Due to rounding differences, there may be slight discrepancies in the totals and percentages contained in this report. Percentages are generally shown as rounded numbers. This interim report and further information can also be downloaded at www.villeroyboch-group.com.