Villeroy & Boch

1748

INTERIM REPORT

1 January to 30 June 2019

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- Consolidated revenue (€ 393.2 million) and operating result (€ 15.5 million) under previous year.
- Bathroom and Wellness Division affected by sustained reduction in customer inventories and muted development in China in the first half-year. Turnaround anticipated in the second half of the year resulting from the sales measures defined.
- Tableware Division continues positive business development from first quarter.
- Adjustment of forecast for full-year 2019: slight decline of consolidated revenue to € 825–850 million and operating result (EBIT) to € 48–52 million expected.

| THE GROUP AT A GLANCE | 1/1/2019 - 30/6/2019 in € million | 1/1/2018 - 30/6/2018 in € million | Change in € million | Change in % |
|---|---|---|---|---|
| Revenue | 393.2 | 419.6 | -26.4 | -6.3 |
| Revenue – Germany | 119.6 | 120.4 | -0.8 | -0.7 |
| Revenue – Abroad | 273.6 | 299.2 | -25.6 | -8.6 |
| On a constant currency basis | 392.9 | 419.6 | -26.7 | -6.4 |
| EBIT | 15.5 | 19.0 | -3.5 | -18.4 |
| EBT | 13.1 | 16.8 | -3.7 | -22.0 |
| Group result | 9.2 | 11.8 | -2.6 | -22.0 |
| Return on net operating assets (rolling) | 14.6 % | 16.7 % (1) | - | -2.1 PP |
| Investments (without leasing) | 10.0 | 15.2 | -5.2 | -34.2 |
| Investments „Leases“ - IFRS 16 (2) | 50.7 | - | - | - |
| Employees (FTEs as at end of period) | 7,321 FTE | 7,499 FTE | -178 FTE | -2.4 |

(1) Return on net operating assets as at 31 December 2018
(2) Accounting in accordance with new IFRS 16 “Leases”

German Securities Code Numbers (WKN): 765 720, 765 723

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# INTERIM MANAGEMENT REPORT OF THE VILLEROY & BOCH GROUP FOR THE FIRST HALF-YEAR OF 2019

## GENERAL CONDITIONS OF THE GROUP

The basic information on the Group as presented in the 2018 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 14 to the consolidated financial statements respectively.

## ECONOMIC REPORT

### General economic conditions

Global economic development slowed further in the second quarter, particularly as a result of the sustained trade conflicts – particularly between the United States and China – and the uncertainty in connection with Brexit. The pace of growth in the Chinese economy is continuing to slow, while European growth remains weak. The German economy is currently in a downturn and companies are considerably more pessimistic with regard to the future. As previously, this environment is having a significant economic impact on industry and has now also led to a tangible deterioration in investment activity.

### Course of business and position of the Villeroy & Boch Group

The Management Board of Villeroy & Boch AG considers the economic position of the Group as a whole to be unsatisfactory, particularly in light of the failure to meet revenue expectations in the first six months of the current financial year.

We generated consolidated revenue of € 393.2 million (including licence income) in the first half of 2019, representing a year-on-year decline of € 26.4 million or 6.3 %. Currency effects had a differing impact in the two divisions but were insignificant as a whole in the reporting period.
Revenue development in our two divisions has been extremely varied in the year to date. While the Tableware Division continued its positive performance in the second quarter of 2019, revenue development in the Bathroom and Wellness Division in the first half of 2019 was characterised in particular by the reduction in inventories on the part of our customers as well as delayed implementation of large residential construction projects, especially in China.

Orders on hand developed positively and increased by € 14.3 million compared with 31 December 2018, amounting to € 74.1 million as at 30 June 2019. Of this figure, € 52.7 million related to the Bathroom and Wellness Division and € 21.4 million to the Tableware Division.

EBIT fell by € 3.5 million to € 15.5 million in the first half of 2019, largely as a result of the revenue development. The Group’s rolling return on net operating assets amounted to 14.6 % as at 30 June 2019.

The following section contains further information on development in the divisions, particularly with regard to revenue and earnings.

### Course of business and position of the divisions

<u>Bathroom and Wellness</u>

The Bathroom and Wellness Division generated revenue of € 271.6 million in the first half of 2019 (previous year: € 303.1 million). Revenue in the EMEA region declined by 8.5 % or € 21.5 million, while revenue in the rest of the world (APAC region and Americas) fell by € 10.1 million.
In the EMEA region, our customers have taken our return to full delivery capability as an opportunity to scale back their safety stock, thereby contributing significantly to our lower revenue.

In addition, the general economic conditions have weakened and, not least, the political conflict between the USA and China led to uncertainty in investment activity in our important Chinese market. This also caused delays in the implementation of large residential construction projects. In China, for example, this resulted in a downturn of € 5.9 million in the first half of 2019 after two extremely good years.
Reflecting its revenue performance, the Bathroom and Wellness division closed the first half of 2019 with operating result (EBIT) of € 22.3 million, € 5.4 million down on the previous year.
The rolling operating return on net assets decreased accordingly to 17.8 % (31 December 2018: 23.4 %).

For the second half of 2019, we expect a significant improvement of revenue due to our orders on hand, which have risen by 8.2 % since the start of the year. We plan to achieve this with the realisation of project revenue that was originally scheduled for the first half of 2019, mainly in China, and the implementation of the sales promotion measures we have defined with our retail partners. We therefore expect revenue for the second half of the year to be at or above the comparable prior-year period and are confident of significantly reducing the revenue shortfall.

Regarding the earnings, we will be able to benefit in the second half of the year from the expected increase in revenue, the acceleration of cost saving measures already initiated and a further improvement in the margin. We therefore expect EBIT in the second half of 2019 to be higher than in the same period of the previous year.

Tableware

The Tableware Division generated revenue of € 120.1 million in the first half of 2019, up 4.4 % on the previous year. Positive currency effects resulted from the US dollar.
The main growth driver was our largest sales market of Germany (+12.9 %), where we increased our revenue across almost all sales channels, particularly in e-commerce and our wholesale activities. E-commerce business in the EMEA region performed exceptionally well, climbing by 20.4 %. This offset the downturns in Northern Europe and Russia, meaning that the EMEA region grew by 2.9 % overall.
We achieved significant revenue growth of 11.7 % in the rest of the world, thanks chiefly to extremely positive performance in the USA (+17.4 %). This growth was driven by wholesale and project business.
The Tableware Division improved its operating result (EBIT) significantly by € 1.9 million in the first half of the year, from € -8.7 million to € -6.8 million, thanks in particular to the encouraging revenue development.
The rolling return on net operating assets in the Tableware Division rose by 4.6 percentage points as against 31 December 2018 thanks primarily to the upturn in earnings, amounting to 8.1 % at the reporting date.

In the second half of 2019, we expect the positive development of revenue and earnings to continue, not least due to the good response to our new products.

### Capital structure

Our equity declined by € 10.2 million as against the end of 2018, amounting to € 199.2 million as at 30 June 2019. The change in equity was primarily attributable to the dividend paid by Villeroy & Boch AG in April 2019 (€ 15.1 million), which was partially offset by the Group result of € 9.2 million in the first half of 2019. The revaluation surplus in equity also changed by € -4.3 million resulting in neither profit nor loss. At 28.5 %, our equity ratio (including minority interests) declined by 2.2 percentage points as against 31 December 2018 (30.7 %). This was partially due to the increase in total assets as a result of the first-time application of the new accounting standard for leases, IFRS 16.

### Investments

We made investments in intangible assets and property, plant and equipment totalling € 10.0 million in the first half-year of 2019 (previous year: € 15.2 million). The Bathroom and Wellness Division accounted for € 8.6 million, with the remaining € 1.4 million attributable to the Tableware Division.

In the Bathroom and Wellness Division, we acquired new facilities for the sanitary ware plants in Thailand, Hungary and France in particular. Investments in the Tableware Division included essentially new facilities and modernisation measures for the production facilities in Merzig and Torgau.

Right-of-use assets amounting to € 50.7 million also arose in connection with the first-time application of IFRS 16 "Leases". You can find further information on this in the notes to the consolidated financial statements (cf. no. 2).

At the reporting date, the Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 10.2 million.

Our investments are financed from operating cash flow.

We are continuing to forecast an investment volume of more than € 40 million for 2019 as a whole.

### Net liquidity

Our net liquidity amounted to € -46.7 million as at 30 June 2019, down € 46.2 million compared with 31 December 2018. This was due to the dividend distribution for the previous financial year (€ 15.1 million), the increase in inventories (€ 20.1 million) and various seasonal effects such as the annual payment of customer bonuses and variable performance-based remuneration.

### Balance sheet structure

Total assets amounted to € 699.6 million at the end of the reporting period compared with € 681.6 million as at 31 December 2018, an increase of € 18.0 million. This is a result primarily of the first-time application of IFRS 16 "Leases", which increased total assets by € 44.8 million. Under this IFRS standard, existing leases are to be recognised in the consolidated balance sheet as right-of-use assets. At the same time, lease liabilities related to these right-of-use assets are to be carried as liabilities.

The new accounting regulation meant that the share of total assets attributable to non-current assets increased to 41.5 % (31 December 2018: 36.4 %). Current assets fell by € 23.1 million as against 31 December 2018, largely as a result of the seasonal reduction in cash and cash equivalents and trade receivables; this was partially offset by an increase in inventories.

On the equity and liabilities side of the statement of financial position, the main changes compared with year-end 2018 related to the lease liabilities of € 44.1 million that were recognised for the first time and an increase in current financial liabilities. This was offset by a reduction in other current liabilities and current provisions for personnel.

## REPORT ON RISKS AND OPPORTUNITIES

The opportunities and risks described in the 2018 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

We currently still expect to see moderate global economic growth, albeit with weakening momentum. The further intensification of trade conflicts between the United States and China in particular, and the prospect of this spreading to trade relations with the European Union, represents a significant risk to the world economy. In Europe, the lack of clarity concerning Brexit is an additional risk factor. These risks would also impact the German economy and accelerate the downturn.

In light of these factors and the course of business in the first six months of the 2019 financial year, the original forecast of revenue and earnings growth of each 3–5 % is no longer realistic. Instead, the Management Board of Villeroy & Boch AG is forecasting a slight decline of consolidated revenue to between € 825 million and € 850 million and operating result (EBIT) to between € 48 million and € 52 million. The achievement of adjusted goals in the second half of 2019 is to be ensured by sales measures that have already been initiated and the significant increase in orders on hand in the Bathroom and Wellness Division since the beginning of the year as well as by a disciplined cost management. As a result of the revised forecast, the return on net operating assets is also expected to be slightly below the previous expectations of around 16 %.

Since this February, we have been negotiating the planned sale of our former plant property in Luxembourg exclusively with a real estate developer and were now able to reach pre-decisive agreements. The completion of these contractual negotiations is very likely achieved in the second half of 2019. The transaction is expected to generate high eight-figure income.

## COMBINED RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in line with the German generally accepted standards for the audit of financial statements, and the interim 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 over the remainder of the financial year.

Mettlach, 17 July 2019

Frank Göring

Gabi Schupp

Andreas Pfeiffer

Dr Markus Warncke

## CONSOLIDATED BALANCE SHEET

as of 30 June 2019

in € million

| Assets | Notes | 30/6/2019 | 31/12/2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | 39.1 | 38.9 |
| Property, plant and equipment | 1 | 180.2 | 183.2 |
| Right-of-use assets | 2 | 44.8 | - |
| Investment property | | 6.9 | 7.0 |
| Investment accounted for using the equity method | | 1.8 | 1.6 |
| Other financial assets | 3 | 17.5 | 17.1 |
| | | **290.3** | **247.8** |
| Other non-current assets | 6 | 2.2 | 3.5 |
| Deferred tax assets | | 36.4 | 36.5 |
| | | **328.9** | **287.8** |
| **Current assets** | | | |
| Inventories | 4 | 186.6 | 166.5 |
| Trade receivables | 5 | 126.3 | 137.4 |
| Other current assets | 6 | 26.6 | 27.6 |
| Income tax receivables | | 5.9 | 3.9 |
| Cash and cash equivalents | 7 | 24.5 | 57.6 |
| | | **369.9** | **393.0** |
| **Non-current asset held for sale** | | **0.8** | **0.8** |
| **Total assets** | | **699.6** | **681.6** |

| Equity and Liabilities | Notes | 30/6/2019 | 31/12/2018 |
|---|---|---|---|
| **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 | | 25.9 | 31.9 |
| Revaluation surplus | 8 | -82.2 | -77.9 |
| | | **194.2** | **204.5** |
| **Equity attributable to minority interests** | | **5.0** | **4.9** |
| **Total equity** | | **199.2** | **209.4** |
| **Non-current liabilities** | | | |
| Provisions for pensions | | 173.4 | 177.2 |
| Non-current provisions for personnel | 9 | 16.7 | 17.1 |
| Other non-current provisions | | 6.9 | 8.8 |
| Non-current financial liabilities | 10 | 25.0 | 25.0 |
| Non-current lease liabilities | 11 | 31.7 | - |
| Other non-current liabilities | 12 | 4.2 | 4.4 |
| Deferred tax liabilities | | 3.3 | 4.1 |
| | | **261.2** | **236.6** |
| **Current liabilities** | | | |
| Current provisions for personnel | 9 | 8.5 | 15.2 |
| Other current provisions | | 19.1 | 20.0 |
| Current financial liabilities | 10 | 46.2 | 33.1 |
| Current lease liabilities | 11 | 12.4 | - |
| Other current liabilities | 12 | 74.8 | 86.6 |
| Trade payables | | 75.5 | 77.3 |
| Income tax liabilities | | 2.7 | 3.4 |
| | | **239.2** | **235.6** |
| **Total liabilities** | | **500.4** | **472.2** |
| **Total equity and liabilities** | | **699.6** | **681.6** |

## CONSOLIDATED INCOME STATEMENT

for the period 1 January to 30 June 2019

in € million

| | Notes | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 |
|---|---|---|---|
| **Revenue** | 13 | **393.2** | **419.6** |
| Costs of sales | | -225.3 | -241.2 |
| **Gross profit** | | **167.9** | **178.4** |
| Selling, marketing and development costs | 14 | -132.1 | -136.9 |
| General administrative expenses | | -21.0 | -22.5 |
| Other operating income and expenses | | 0.5 | -0.1 |
| Result of associates accounted for using the equity method | | 0.2 | 0.1 |
| **Operating result (EBIT)** | | **15.5** | **19.0** |
| **Financial result** | 15 | **-2.4** | **-2.2** |
| **Earnings before taxes** | | **13.1** | **16.8** |
| Income taxes | 16 | -3.9 | -5.0 |
| Group result | | **9.2** | **11.8** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 9.1 | 11.5 |
| Minority interests | | 0.1 | 0.3 |
| | | **9.2** | **11.8** |

| | | | |
|---|---|---|---|
| **EARNINGS PER SHARE** | | **in €** | **in €** |
| Earnings per ordinary share | | 0.32 | 0.42 |
| Earnings per preference share | | 0.37 | 0.47 |

During the reporting period there were no share dilution effects.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 30 June 2019

in € million

| | | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 |
|---|---|---|---|
| **Group result** | | **9.2** | **11.8** |
| **Other comprehensive income** | | | |
| **Items to be reclassified to profit or loss:** | | | |
| Gains or losses on cash flow hedge | | -1.9 | -3.4 |
| Gains or losses on translations of exchange differences | | -2.2 | -2.8 |
| Deferred income tax effect on items to be reclassified to profit or loss | | -0.9 | 0.5 |
| **Items not to be reclassified to profit or loss:** | | | |
| Actuarial gains or losses on defined benefit plans | | 0.2 | 0.0 |
| Gains or losses on other value changes | | 0.2 | -0.2 |
| Deferred income tax effect on items not to be reclassified to profit or loss | | 0.4 | 0.0 |
| **Total other comprehensive income** | | **-4.2** | **-5.9** |
| **Total comprehensive income net of tax** | | **5.0** | **5.9** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 4.8 | 5.8 |
| Minority interests | | 0.2 | 0.1 |
| Total comprehensive income net of tax | | **5.0** | **5.9** |

## CONSOLIDATED INCOME STATEMENT

for the period 1 April to 30 June 2019

in € million

| | Notes | 1/4/2019 - 30/6/2019 | 1/4/2018 - 30/6/2018 |
|---|---|---|---|
| **Revenue** | 13 | **195.5** | **209.9** |
| Costs of sales | | -113.0 | -120.9 |
| **Gross profit** | | **82.5** | **89.0** |
| Selling, marketing and development costs | 14 | -65.8 | -70.3 |
| General administrative expenses | | -10.0 | -11.4 |
| Other operating income and expenses | | 0.2 | 0.5 |
| Result of associates accounted for using the equity method | | 0.1 | 0.1 |
| **Operating result (EBIT)** | | **7.0** | **7.9** |
| **Financial result** | 15 | **-1.2** | **-1.1** |
| **Earnings before taxes** | | **5.8** | **6.8** |
| Income taxes | 16 | -1.7 | -2.0 |
| Group result | | **4.1** | **4.8** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 4.1 | 4.6 |
| Minority interests | | 0.0 | 0.2 |
| | | **4.1** | **4.8** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 April to 30 June 2019

in € million

| | | 1/4/2019 - 30/6/2019 | 1/4/2018 - 30/6/2018 |
|---|---|---|---|
| **Group result** | | **4.1** | **4.8** |
| **Other comprehensive income** | | | |
| **Items to be reclassified to profit or loss:** | | | |
| Gains or losses on cash flow hedge | | -1.3 | -2.3 |
| Gains or losses on translations of exchange differences | | 0.2 | -2.2 |
| Deferred income tax effect on items to be reclassified to profit or loss | | 0.2 | 0.6 |
| **Items not to be reclassified to profit or loss:** | | | |
| Actuarial gains or losses on defined benefit plans | | 0.2 | -0.1 |
| Gains or losses on other value changes | | -0.4 | 0.1 |
| Deferred income tax effect on items not to be reclassified to profit or loss | | 0.0 | 0.1 |
| **Total other comprehensive income** | | **-1.1** | **-3.8** |
| **Total comprehensive income net of tax** | | **3.0** | **1.0** |
| Thereof attributable to: | | | |
| Villeroy & Boch AG shareholders | | 3.0 | 0.7 |
| Minority interests | | 0.0 | 0.3 |
| Total comprehensive income net of tax | | **3.0** | **1.0** |

## CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 30 June 2019

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 | | | | | 8 | | | |
| **As of 1/1/2018** | **71.9** | **193.6** | **-15.0** | **12.7** | **-74.0** | **189.2** | **5.4** | **194.6** |
| Group result | | | | 11.5 | | 11.5 | 0.3 | 11.8 |
| Other comprehensive income | | | | | -5.8 | -5.8 | -0.1 | -5.9 |
| **Total comprehensive income net of tax** | | | | **11.5** | **-5.8** | **5.7** | **0.2** | **5.9** |
| Dividend payments | | | | -14.3 | | -14.3 | -0.1 | -14.4 |
| **As of 31/3/2018** | **71.9** | **193.6** | **-15.0** | **9.9** | **-79.8** | **180.6** | **5.5** | **186.1** |
| | | | | | | | | |
| **As of 1/1/2019** | **71.9** | **193.6** | **-15.0** | **31.9** | **-77.9** | **204.5** | **4.9** | **209.4** |
| Group result | | | | 9.1 | | 9.1 | 0.1 | 9.2 |
| Other comprehensive income | | | | | -4.3 | -4.3 | 0.1 | -4.2 |
| **Total comprehensive income net of tax** | | | | **9.1** | **-4.3** | **4.8** | **0.2** | **5.0** |
| Dividend payments | | | | -15.1 | | -15.1 | -0.1 | -15.2 |
| **As of 31/3/2019** | **71.9** | **193.6** | **-15.0** | **25.9** | **-82.2** | **194.2** | **5.0** | **199.2** |

## CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 30 June 2019

in € million

| | **1/1/2019 - 30/6/2019** | 1/1/2018 - 30/6/2018 |
|---|---|---|
| Group result | 9.2 | 11.8 |
| Depreciation of non-current assets | 18.5 | 12.8 |
| Change in non-current provisions | -8.0 | -6.6 |
| Profit from disposal of fixed assets | 0.1 | 0.1 |
| Change in inventories, receivables and other assets | -13.5 | -30.7 |
| Change in liabilities, current provisions and other liabilities | -22.8 | -19.2 |
| Other non-cash income/expenses | 1.5 | 2.1 |
| **Cash Flow from operating activities** | **-15.0** | **-29.7** |
| Purchase of intangible assets, property, plant and equipment | -10.0 | -15.2 |
| Investment in non-current financial assets | -1.8 | -3.1 |
| Cash receipts from disposals of fixed assets | 2.8 | 1.7 |
| **Cash Flow from investing activities** | **-9.0** | **-16.6** |
| Change in financial liabilities | 13.1 | 4.4 |
| Cash payments for the principal portion of the lease liabilities [1] | -7.0 | - |
| Cash payments for the acquisition of non-controlling interests | 0.0 | 0.0 |
| Dividends paid to minority shareholders | -0.1 | -0.1 |
| Dividends paid to shareholders of Villeroy & Boch AG | -15.1 | -14.3 |
| **Cash Flow from financing activities** | **-9.1** | **-10.0** |
| **Sum of cash flows** | **-33.1** | **-56.3** |
| Balance of cash and cash equivalents as at 1 Jan | 57.6 | 108.7 |
| Net increase in cash and cash equivalents | -33.1 | -56.3 |
| **Balance of cash and cash equivalents as at 30 June** | **24.5** | **52.4** |

[1] Application of IFRS 16 "Lease" from 01.01.2019; previous year not adjusted.

## CONSOLIDATED SEGMENT REPORT

for the period 1 January to 30 June 2019

in € million

| | Bathroom & Wellness | | Tableware | | Transition / Other | | Villeroy & Boch-Group | |
|---|---|---|---|---|---|---|---|---|
| | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 | 1/1/2019 - 30/6/2019 | 1/1/2018 - 30/6/2018 |
| **Revenue** | | | | | | | | |
| Segment revenue from sales of goods to external customers | 271.3 | 303.0 | 117.3 | 113.6 | - | - | 388.6 | 416.6 |
| Segment revenue from transactions with other segments | - | - | 0.0 | 0.0 | 0.0 | - | 0.0 | 0.0 |
| Segment revenue from licence | 0.3 | 0.1 | 2.8 | 1.4 | 1.5 | 1.5 | 4.6 | 3.0 |
| Revenue | 271.6 | 303.1 | 120.1 | 115.0 | 1.5 | 1.5 | 393.2 | 419.6 |
| **Result** | | | | | | | | |
| Segment result | 22.3 | 27.7 | -6.8 | -8.7 | - | - | 15.5 | 19.0 |
| Financial result | - | - | - | - | -2.4 | -2.2 | -2.4 | -2.2 |
| **Investments and depreciations** | | | | | | | | |
| Investments of intangible assets, property, plant and equipment | 8.6 | 12.9 | 1.4 | 2.3 | - | - | 10.0 | 15.2 |
| Investments of rigth-of-use assets on leases [1] | 12.9 | - | 37.8 | - | - | - | 50.7 | - |
| Scheduled depreciation | 11.4 | 9.8 | 7.1 | 3.0 | - | - | 18.5 | 12.8 |

[1] Application of IFRS 16 "Lease" from 01.01.2019; previous year not adjusted.

| **Assets and Liabilities** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 416.9 | 393.2 | 155.3 | 128.1 | 127.4 | 160.3 | 699.6 | 681.6 |
| Segment liabilities | 142.5 | 147.8 | 72.9 | 41.3 | 285.0 | 283.1 | 500.4 | 472.2 |

**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** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** | **30/6/2019** | **31/12/2018** |
|---|---|---|---|---|---|---|---|---|
| Rolling operating assets | 394.8 | 374.0 | 139.9 | 125.1 | - | - | 534.7 | 499.1 |
| Rolling operating liabilities | 139.0 | 139.6 | 53.3 | 39.1 | - | - | 192.3 | 178.7 |
| Rolling net operation assets | 255.8 | 234.4 | 86.6 | 86.0 | - | - | 342.4 | 320.4 |
| **Rolling operating result (EBIT) *** | | | | | | | | |
| Rolling operating result (EBIT) * | 45.4 | 54.8 | 7.0 | 3.0 | -2.2 | -4.2 | 50.2 | 53.6 |

* 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 April to 30 June 2019

in € million

| | Bathroom & Wellness | | Tableware | | Transition / Other | | Villeroy & Boch-Group | |
|---|---|---|---|---|---|---|---|---|
| | 01.04.2019 - 30/6/2019 | 01.04.2018 - 30.06.2018 | 01.04.2019 - 30/6/2019 | 01.04.2018 - 30.06.2018 | 01.04.2019 - 30/6/2019 | 01.04.2018 - 30.06.2018 | 01.04.2019 - 30/6/2019 | 01.04.2018 - 30.06.2018 |
| **Revenue** | | | | | | | | |
| Segment revenue from sales of goods to external customers | 140.0 | 155.9 | 54.1 | 52.7 | - | - | 194.1 | 208.6 |
| Segment revenue from transactions with other segments | - | - | 0.0 | - | 0.0 | - | 0.0 | 0.0 |
| Segment revenue from licence | 0.2 | 0.0 | 0.5 | 0.6 | 0.7 | 0.7 | 1.4 | 1.3 |
| Revenue | 140.2 | 155.9 | 54.6 | 53.3 | 0.7 | 0.7 | 195.5 | 209.9 |
| **Result** | | | | | | | | |
| Segment result | 13.1 | 14.7 | -6.1 | -6.8 | - | - | 7.0 | 7.9 |
| Financial result | - | - | - | - | -1.2 | -1.1 | -1.2 | -1.1 |
| **Investments and depreciations** | | | | | | | | |
| Investments of intangible assets, property, plant and equipment | 5.0 | 9.2 | 0.8 | 1.2 | - | - | 5.8 | 10.4 |
| Investments of rigth-of-use assets on leases [1] | 1.1 | - | 4.6 | - | - | - | 5.7 | - |
| Scheduled depreciation | 5.7 | 5.0 | 3.7 | 1.5 | - | - | 9.4 | 6.5 |

[1] Application of IFRS 16 "Lease" from 01.01.2019; previous year not adjusted.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE VILLEROY & BOCH GROUP FOR THE FIRST HALF-YEAR OF 2019

## GENERAL INFORMATION

Villeroy & Boch AG is domiciled in Mettlach 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 June 2019. It was approved for publication on 17 July 2019 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 2018. 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 methods described in the 2018 Annual Report were extended or adjusted to include the accounting standards endorsed by the EU and applicable to reporting periods beginning on or after 1 January 2019, and in particular IFRS 16 "Leases", IFRIC 23 "Uncertainty over Income Tax Treatments" and changes to IFRS 9 "Prepayment features with negative compensation". The first-time application of IFRS 16 extended the balance sheet as at 1 January 2019 by € 39.9 million (see note 2, note 11). The transition was made in accordance with the modified retrospective method. No contracts with a remaining term of less than twelve months were converted. The average incremental borrowing rate was 1.8 %. The prior-year figures have not been restated. None of the other changes to accounting provisions had a material impact on this interim report.

### Basis of consolidation

The basis of consolidation of the Villeroy & Boch Group consists of 56 companies (31 December 2018: 56 companies).

On 15 April 2019, Villeroy & Boch AG formed Villeroy & Boch Innovations GmbH based in Mettlach. Villeroy & Boch Innovations GmbH bundles additional equity investments in the digital sector as a holding company. Villeroy & Boch Venture GmbH based in Mettlach, was formed as the first equity investment. It engages in the digital finishing and subsequent sale and distribution of Tableware products. Villeroy & Boch AG holds 100 % of the respective shares either directly or indirectly. These unconsolidated subsidiaries are not of material importance to the presentation of the results of operations as well as of the net assets and financial position of the Villeroy & Boch Group, either individually or cumulatively. Both equity investments are carried at amortised cost (see note 3).

### Dividend paid by Villeroy & Boch AG for the 2018 financial year

The General Meeting of Shareholders on 29 March 2019 approved the dividend of € 0.55 per ordinary share and € 0.60 per preference share as proposed by the Supervisory Board and Management Board of Villeroy & Boch AG. The distribution corresponds to a dividend payment of € 7.7 million for the ordinary share capital (previous year: € 7.3 million) and € 7.4 million for the preference share capital (previous year: € 7.0 million). The dividend was paid on 3 April 2019. 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 BALANCE SHEET

### 1. Property, plant and equipment

Property, plant and equipment in the amount of € 8.3 million was acquired in the period under review (previous year: € 13.8 million). Investments in the Bathroom and Wellness Division focused on foreign countries. In particular, new facilities were acquired for the sanitary ware plants in Thailand and Hungary as well as for the France based plant specializing in kitchen sinks. For example, the Thailand plant was fitted with a dryer, a chamber furnace and new workbenches. Production facilities and moulds for the Planeo and Collaro series were purchased at the Belgian wellness plant. The Tableware Division received a new colour application system and new pressing tools for production in Merzig and made an initial partial investment for the replacement of a pressure casting press in Torgau. The two major projects in the central department are the introduction of new software to support customer relationship management and continuing the redevelopment of the Alte Abtei (Old Abbey) to create a modern administrative headquarters. Depreciation amounted to € 11.3 million (previous year: € 12.0 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 € 10.1 million (31 December 2018: € 6.3 million).

### 2. Right-of-use assets

The application of IFRS 16 as at 1 January 2019 resulted in right-of-use assets from existing leases being capitalized for the first time in the amount of € 39.9 million, which are offset by lease liabilities (see note 11) in the same amount. New right-of-use agreements were concluded in the amount of € 10.8 million in the period after the initial application. The Group recognized right-of-use assets of € 44.8 million as at 30 June 2019, essentially resulting from building rents (€ 39.8 million). Depreciation amounted to € 6.4 million in the reporting period, of which 81.0 % was attributable to right-of-use assets on buildings. Leased assets of € 0.4 million, which were already recognized as leased property, plant and equipment under the old regulation, were also classified as rights of use.
Expenses from current property leases amount to € 7.1 million. € 2.1 million was spent in the reporting period on the remaining current leases and leasing of low-value assets.

## 3. Other financial assets

Other financial assets include:

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| Shares in non-consolidated companies | 0.7 | - |
| Shares in other participations | 2.1 | 2.1 |
| Loans | 3.7 | 3.8 |
| Securities | 11.0 | 11.2 |
| **Other financial assets (total)** | **17.5** | **17.1** |

## 4. Inventories

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

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| Raw materials and supplies | 25.1 | 23.6 |
| Work in progress | 20.9 | 19.0 |
| Finished goods and goods for resale | 140.6 | 123.9 |
| **Inventories (total)** | **186.6** | **166.5** |

In the period under review, impairment losses on inventories increased by € -4.2 million to a total of € -21.7 million.

## 5. Trade receivables

Trade receivables are broken down as follows:

| by customer domicile/in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| Germany | 26.7 | 23.9 |
| Rest of euro zone | 25.4 | 28.8 |
| Rest of world | 77.9 | 87.7 |
| **Gross carrying amount of trade receivables** | **130.0** | **140.4** |
| Impairment due to expected losses (step 1) | -0.5 | -0.5 |
| Impairment due to objective evidence (step 2) | -3.3 | -2.5 |
| **Impairment losses** | **-3.8** | **-3.0** |
| **Receivables from non-consolidated companies** | **0.1** | **-** |
| **Total trade receivables** | **126.3** | **137.4** |

## 6. Other current and non-current assets

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

| in € million | 30/6/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Other tax receivables | 8.9 | - | 9.1 | - |
| Prepaid expenses | 3.5 | - | 1.8 | - |
| Advance payments and deposits | 2.6 | 1.8 | 3.1 | 1.8 |
| Receivables from equity investments | 2.1 | - | 2.3 | |
| Contract assets | 1.2 | - | 1.6 | - |
| Fair values of hedging instruments | 1.0 | 0.4 | 1.5 | 1.7 |
| Miscellaneous other assets | 7.3 | - | 8.2 | - |
| **Other assets (total)** | **26.6** | **2.2** | **27.6** | **3.5** |

## 7. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| Cash on hand incl. cheques | 0.3 | 0.6 |
| Current bank balances | 12.9 | 19.9 |
| Cash equivalents | 11.3 | 37.1 |
| **Total cash and cash equivalents** | **24.5** | **57.6** |

The € 33.1 million decrease in cash and cash equivalents is primarily attributable to seasonal effects such as the dividend payment of € 15.1 million, the payment of customer bonuses (see note 12) and variable remuneration for 2018. Bank balances were offset against matching liabilities in the amount of € 21.9 million (31 December 2018: € 28.3 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.

## 8. Revaluation surplus

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

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| **Items to be reclassified to profit or loss:** | | |
| ▌ Currency translation of financial statements of foreign group companies | -8.3 | -5.0 |
| ▌ Currency translation of long-term loans classified as net investments in foreign group companies | -5.5 | -6.5 |
| ▌ Cash Flow Hedges | 0.6 | 2.5 |
| ▌ Deferred taxes for this category | -5.5 | -4.6 |
| **Sub-total (a)** | **-18.7** | **-13.6** |

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| **Items not to be reclassified to profit or loss:** | | |
| ▌ Actuarial gains and losses on defined benefit obligations | -89.7 | -89.9 |
| ▌ Miscellaneous gains and losses on measurement | -0.1 | -0.3 |
| ▌ Deferred taxes for this category | 26.3 | 25.9 |
| **Sub-total (b)** | **-63.5** | **-64.3** |
| **Total revaluation surplus [(a)+(b)]** | **-82.2** | **-77.9** |

## 9. Non-current and current provisions for personnel

Non-current provisions for personnel only changed to a minor extent. The change in current provisions for personnel is mainly due to the payment of variable remuneration components for 2018.

## 10. Non-current and current financial liabilities

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

## 11. Non-current and current lease liabilities

Non-current and current lease liabilities of € 39.9 million were recognized as liabilities as at 1 January 2019, and were offset by capitalized right-of-use assets in the same amount. These liabilities rose by € 4.2 million to € 44.1 million in the reporting period. This change resulted from an addition from new leases amounting to € 10.8 million, ongoing accrued rent already recognized in the amount of € 0.4 million and a decline of € -7.0 million from repayments made. Interest expenses for leased right-of-use assets came to € -0.4 million in the reporting period.

Lease liabilities amounting of € 12.1 million fall due in the next 12 months and are recognized as current lease liabilities. Lease liabilities in the amount of € 5.4 million are due after five years.

## 12. Other non-current and current liabilities

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

| in € million | 30/6/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| | current | non-current | current | non-current |
| Bonus liabilities (a) | 30.0 | - | 43.0 | - |
| Personnel liabilities (a) | 22.3 | 0.1 | 19.4 | 0.1 |
| Other tax liabilities | 11.0 | - | 12.3 | - |
| Advance payments on orders | 4.3 | - | 4.5 | - |
| Deferred income | 4.0 | 1.3 | 2.7 | 1.6 |
| Fair value of hedging instruments | 1.0 | 0.4 | 0.4 | 0.3 |
| Miscellaneous liabilities | 2.2 | 2.4 | 4.3 | 2.4 |
| **Other liabilities (total)** | **74.8** | **4.2** | **86.6** | **4.4** |

(a) Seasonal change

## NOTES ON SELECTED ITEMS OF THE CONSOLIDATED INCOME STATEMENT

### 13. Revenue

Revenue is broken down in the segment reporting.

### 14. Selling, marketing and development costs

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

| in € million | 2019 | | 2018 | |
|---|---|---|---|---|
| | H1 | Q2 | H1 | Q2 |
| Bathroom and Wellness | -5.9 | -3.0 | -5.8 | -3.0 |
| Tableware | -2.2 | -1.1 | -1.8 | -0.9 |
| **Research and development costs (total)** | **-8.1** | **-4.1** | **-7.6** | **-3.9** |

### 15. Financial result

The financial result is broken down as follows:

| in € million | 2019 | | 2018 | |
|---|---|---|---|---|
| | H1 | Q2 | H1 | Q2 |
| Financial expenses | -1.1 | -0.6 | -1.1 | -0.5 |
| Interest expense on lease liabilities | -0.4 | -0.2 | - | - |
| Interest expenses for provisions (pensions) | -1.5 | -0.7 | -1.6 | -0.8 |
| Financial income | 0.6 | 0.3 | 0.5 | 0.2 |
| **Net finance expense (total)** | **-2.4** | **-1.2** | **-2.2** | **-1.1** |

### 16. Income taxes

The main components of income tax expense are as follows:

| in € million | 2019 | | 2018 | |
|---|---|---|---|---|
| | H1 | Q2 | H1 | Q2 |
| Current income taxes | -4.6 | -2.4 | -3.7 | -1.4 |
| Deferred taxes | +0.7 | +0.7 | -1.3 | -0.6 |
| **Income taxes (total)** | **-3.9** | **-1.7** | **-5.0** | **-2.0** |

## OTHER NOTES

### 17. Human resources

Personnel expenses and the number of employees are broken down as follows:

| in € million | 2019 | | 2018 | |
|---|---|---|---|---|
| | H1 | 30/6 | H1 | 30/6 |
| | Staff costs in € million | Employees (FTEs) | Staff costs in € million | Employees (FTEs) |
| Bathroom and Wellness | -85.6 | 4,975 | -85.5 | 5,115 |
| Tableware | -47.1 | 1,865 | -46.7 | 1,906 |
| Other | -16.3 | 481 | -15.5 | 478 |
| **Total** | **-149.0** | **7,321** | **-147.7** | **7,499** |

### 18. Contingent liabilities, commitments and financial obligations

Contingent liabilities, commitments and financial obligations developed as follows in the period under review:

| in € million | 30/6/2019 | 31/12/2018 |
|---|---|---|
| Obligations to acquire property, plant and equipment | 10.1 | 6.3 |
| Guarantees | 0.9 | 1.3 |
| Trustee obligations | - | 0.9 |
| Obligations to acquire intangible assets | 0.1 | 0.3 |
| **Total** | **11.1** | **8.8** |

### 19. Financial instruments

Primary and derivative financial instruments are reported in a wide range of items in the Villeroy & Boch consolidated statement of financial position. The shares measured in accordance with IFRS 9 for each statement of financial position item are shown at their methodical carrying amount in the following overview:

| in € million | 30/6/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| **Asset-side items containing financial instruments:** | Carrying amount | Carrying amount at | | Carrying amount | Carrying amount at | |
| | | Cost | Fair value | | Cost | Fair value |
| **Assets** | | | | | | |
| Cash and cash equivalents (note 7) | 24.5 | 24.5 | - | 57.6 | 57.6 | - |
| Trade receivables (note 5) | 126.3 | 126.3 | - | 137.4 | 137.4 | - |
| Other financial assets (note 3) | 17.5 | 4.4 | 13.1 | 17.1 | 3.8 | 13.3 |
| Other assets (note 6) | 16.4 | 15.0 | 1.4 | 20.2 | 17.0 | 3.2 |
| **Total asset-side instruments** | 184.7 | 170.2 | 14.5 | 232.3 | 215.8 | 16.5 |

Financial liabilities are also reported as follows in accordance with IFRS 9:

| in € million | 30/6/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| **Liability-side items containing financial instruments:** | Carrying amount | **Carrying amount at** Cost | Fair value | Carrying amount | **Carrying amount at** Cost | Fair value |
| **Equity and liabilities** | | | | | | |
| Trade payables | 75.5 | 75.5 | - | 77.3 | 77.3 | - |
| Financial liabilities (note 10) | 71.2 | 71.2 | - | 58.1 | 58.1 | - |
| Other liabilities (note 12) | 40.3 | 38.9 | 1.4 | 54.9 | 54.2 | 0.7 |
| **Total liability-side instruments** | 187.0 | 185.6 | 1.4 | 190.3 | 189.6 | 0.7 |

## 20. 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 2018 annual financial statements. All transactions are conducted at arm's-length conditions.

The two unconsolidated affiliated companies purchased goods and services from Villeroy & Boch AG in the amount of € 0.1 million. The Villeroy & Boch Group recognises trade receivables in the same amount.

## 21. Changes to the composition of the Management Board of Villeroy & Boch AG

The Villeroy & Boch AG Supervisory Board has appointed Gabi Schupp to the Management Board as Tableware Director with effect from 1 February 2019. She succeeds Nicolas Luc Villeroy, who resigned as member of the Board on 31 January 2019.

## 22. Events after the end of the reporting period

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

Mettlach, 17 July 2019

The Management Board

## FINANCIAL CALENDAR

| | |
|---|---|
| 21 October 2019 | Report on the first nine months of 2019 |
| 06 February 2020 | Annual press conference for the 2019 financial year |
| 27 March 2020 | General Meeting of Shareholders of Villeroy & Boch AG |

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.