Villeroy & Boch
1748

INTERIM REPORT
1 January to 30 September 2019

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- Revenue and operating result (EBIT) back at previous year's level in third quarter after difficult first half-year.
  - Business performance improves significantly in Bathroom and Wellness Division in third quarter, especially in main EMEA region.
  - Tableware Division continues positive development.
- Consolidated revenue (€ 587.9 million) and operating result (€ 22.3 million) down year-on-year overall due to first half-year.
- Revised revenue and earnings guidance for 2019 as a whole confirmed (revenue target: € 825 to € 850 million; earnings target: € 48 to € 52 million as defined after the first six months).

EMEA = Europe, Middle East, Africa

THE GROUP AT A GLANCE	1/1/2019 - 30/9/2019 in € million	1/1/2018 - 30/9/2018 in € million	Change in € million	Change in %
Revenue	587.9	615.9	-28.0	-4.5
Revenue – Germany	179.0	175.6	3.4	1.9
Revenue – Abroad	408.9	440.3	-31.4	-7.1
On a constant currency basis	587.0	615.9	-28.9	-4.7
EBIT	22.3	25.8	-3.5	-13.6
EBT	18.3	22.4	-4.1	-18.3
Group result	12.8	15.7	-2.9	-18.5
Return on net operating assets (rolling)	14.3 %	16.7 % (1)	-	-2.4 PP
Investments (without leasing)	17.9	25.7	-7.8	-30.4
Investments „Leases“ - IFRS 16 (2)	51.6	-	-	-
Employees (FTEs as at end of period)	7,359 FTE	7,495 FTE	-136 FTE	-1.8

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

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ISIN: DE0007657207, DE0007657231
Villeroy & Boch AG • 66688 Mettlach • Germany
Phone: +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 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

The development of the global economy has continued to slow over the year to date, with industry especially being increasingly held back by the ongoing trade conflicts. In particular, the continuing escalation of the conflict between the United States and China is having a growing impact on economic performance in Europe and thus in Germany as well. In addition, there is a great deal of persistent uncertainty stemming from Brexit, which has still not been resolved.

While the Chinese economy is growing at a robust level overall, this growth is lower than expected on account of the influence of the trade conflict with the United States and the country's structural problems. This was also increasingly seen in the construction sector with major housing projects, which were either postponed or no longer went ahead.

The economy in Europe is currently expanding at only a modest rate, and the German economy is on the brink of recession, though it is expected that German exports will gradually regain their momentum.

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 € 587.9 million (including licence income) in the first nine months of 2019, a decline of € 28.0 million as against the previous year. Currency effects had a differing impact in the two divisions but were insignificant as a whole in the reporting period.

As forecast after the first six months, we have succeeded in stabilising revenue almost at the prior-year level at € 194.7 million after the first two quarters of the 2019 financial year. As a result, the revenue shortfall was reduced from -6.3 % after the first half of the year to -4.5 % after the first nine months.

The Tableware Division continued its positive performance in the third quarter of 2019.

In the Bathroom and Wellness Division, we achieved a significant improvement in revenue as against the first half of the year in the third quarter – the best quarter in the year to date. This was mainly driven by the positive development in our main EMEA region. However, this was counteracted by revenue in China, which had previously been our growth market. Above all, the main reason for this was the delay in implementing major residential construction projects triggered by the trade conflict between the United States and China.

Orders on hand developed positively and increased by € 14.9 million as against 31 December 2018 to € 74.7 million as at 30 September 2019. The Bathroom and Wellness Division accounted for € 59.5 million of this and the Tableware Division for € 15.2 million.

Thanks to the improvement in revenue in the third quarter of 2019, operating result (EBIT) for the third quarter was stable at the previous year's level at € 6.8 million. Thus, after the first nine months of the 2019 financial year, consolidated EBIT amounted to € 22.3 million, down by € 3.5 million compared to the first half of the year mainly on account of the revenue development. The Group's rolling return on net operating assets was 14.3 % as at 30 September 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

Bathroom and Wellness

As forecast, business in the Bathroom and Wellness Division picked up significantly thanks to the recovery in incoming orders in the third quarter. This led to gratifying growth in revenue (up 4.5 %) in our main EMEA region in this period. Within this region, there were strong increases on our core markets of Netherlands (up 49.6 %), Belgium (up 14.4 %), Germany (up 9.8 %) and Sweden (up 2.4 %). By contrast, revenue was down in the United Kingdom (by 13.4 %) and in the Near and Middle East (by 32.9 %).

Developments overseas are primarily defined by the reduction in revenue in China, which was previously our growth region. Revenue there was also down significantly year-on-year in the third quarter (by 33.0 %), more than offsetting the positive revenue trend in the EMEA region. In particular, the decline in revenue to date in China was as a result of the effects of the trade conflict with the United States and residential construction projects postponed on economic grounds.

However, we have seen significant increases in incoming orders since July 2019, elevating orders on hand in China to € 25.5 million by the end of September 2019, hence we expect to partially make up for our revenue shortfall in the fourth quarter.

As a result of this development, the Bathroom and Wellness Division generated total revenue of € 401.6 million in the first nine months of the 2019 financial year (previous year: € 436.1 million).

Thanks to the improving revenue situation in the third quarter, the Bathroom and Wellness Division reported operating result (EBIT) of € 6.6 million, up € 0.3 million on the previous year. In total, operating EBIT amounts to € 28.9 million after the first nine months (previous year: € 34.0 million), with a rolling return on net operating assets of 17.1 % (23.4 % as at 31 December 2018).

The orders on hand of € 59.5 million and the steady growth in incoming orders since July give us confidence of reaching or outperforming our prior-year revenue and earnings levels in the final quarter.

Tableware

The Tableware Division generated revenue of € 184.1 million in the first nine months of the 2019 financial year, up by € 6.5 million or 3.7 % year-on-year, aided by positive currency effects from the US dollar.

The main growth driver was our largest sales market of Germany (up 9.2 %), where we increased our revenue across almost all sales channels, including e-commerce in particular. E-commerce business in the EMEA region performed exceptionally well, climbing by 19.1 %. Significant revenue growth was also achieved in Eastern Europe (Poland especially). This offset the downturns in Northern Europe and Russia, with the result that the EMEA region grew by 2.3 % overall.

We achieved overseas revenue growth of 9.3 %, though in the United States (up 10.6%) this was partly on account of exchange rate effects.

The Tableware Division improved its operating result (EBIT) by € 1.6 million (up 19.5 %) in the

first three quarters of 2019, from € -8.2 million to € -6.6 million, thanks in particular to the positive revenue development.
As a result, the rolling return on net operating assets in the Tableware Division rose by 3.0 percentage points as against 31 December 2018 to 6.5 %.

Capital structure

Our equity declined by € 11.1 million as against the end of 2018, amounting to € 198.3 million as at 30 September 2019. The change in equity mainly resulted from the dividend paid by Villeroy & Boch AG in April 2019 (€ 15.1 million), which was partially offset by the Group result of € 12.8 million generated in the first nine months of the 2019 financial year. The revaluation surplus in equity also changed by € -8.8 million resulting in neither profit nor loss. At 27.7 %, our equity ratio (including minority interests) was down 3.0 percentage points as against 31 December 2018 (30.7 %). This was partially (-1.3 %) 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 invested € 17.9 million in property, plant and equipment and intangible assets in the first nine months of 2019 (previous year: € 25.7 million). The Bathroom and Wellness Division accounted for € 14.8 million, with the remaining € 3.1 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 of € 51.6 million also arose in connection with the adoption of IFRS 16 "Leases". Further information can be found in the notes to the consolidated financial statements (see note 2).
The Group had obligations to acquire property, plant and equipment and intangible assets in the amount of € 9.4 million as at the end of the reporting period. Our investments are financed from operating cash flow.
Given the current development of the world economy, and the greater investment restraint as a result, we are forecasting an investment volume of between € 30 and € 35 million for 2019 as a whole.

Net liquidity

Our net liquidity amounted to € -50.6 million as at 30 September 2019, down € 50.1 million as against 31 December 2018. This development was defined by the dividend distribution for the previous financial year (€ 15.1 million), the partially seasonal increase in inventories (€ 22.7 million) and various other seasonal effects such as the annual payment of customer bonuses and variable performance-based remuneration.

Balance sheet structure

Total assets amounted to € 715.4 million at the end of the reporting period as against € 681.6 million as at 31 December 2018, an increase of € 33.8 million. This mainly results from the adoption of IFRS 16 "Leases", which increased total assets by € 42.1 million. Under this IFRS standard, existing leases are to be recognised in the consolidated statement of financial position 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 financial reporting standard increased the share of total assets attributable to non-current assets to 40.6 % (31 December 2018: 36.4 %). Current assets fell by € 8.2 million as against 31 December 2018, mainly as a result of the seasonal reduction in cash and cash

equivalents and trade receivables, which was partially offset by an increase in inventories.

On the equity and liabilities side of the balance sheet, the main changes as against the end of 2018 related to the lease liabilities of € 42.2 million that were recognised for the first time and an increase in current financial liabilities due to the use of interim finance. This was offset by a reduction in non-current financial liabilities, other current liabilities, trade payables 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.

A further escalation of the trade conflicts instigated by the United States and uncertainty over the economic impact of political changes are weighing on the outlook. In addition, the timing and terms of Brexit are still unclear.

The Management Board of Villeroy & Boch AG is standing by its revised figures from July 2019, and is still forecasting consolidated revenue of between € 825 million and € 850 million and operating result (EBIT) of between € 48 million and € 52 million. In order to achieve the targets revised after the first half of the year in the Bathroom and Wellness Division, we will continue the sales measures already initiated and our strict cost management. In addition, the orders on hand of € 59.5 million and the growth in incoming orders since July give us confidence of reaching or outperforming our prior-year revenue and earnings levels in the final quarter.

In the Tableware Division, we are assuming a traditionally strong fourth quarter driven by Christmas business, and we expect that the positive performance in revenue and earnings will continue given the good response to our new products.

The return on net operating assets is still expected to be slightly below the previous forecast of around 16 % on account of the revision of targets in July 2019.

Since this February, we have been negotiating the planned sale of our former plant property in Luxembourg exclusively with a real estate developer. It is highly likely that the contracts will be signed in December 2019. The transaction is expected to generate high eight-figure income.

Mettlach, 16 October 2019

Frank Göring

Gabi Schupp

Andreas Pfeiffer

Dr Markus Warncke

CONSOLIDATED BALANCE SHEET

as of 30 September 2019

in € million

Assets	Notes	30/9/2019	31/12/2018
Non-current assets			
Intangible assets		38.8	38.9
Property, plant and equipment	1	182.5	183.2
Right-of-use assets	2	42.1	-
Investment property		6.6	7.0
Investment accounted for using the equity method		1.5	1.6
Other financial assets	3	18.9	17.1
		290.4	**247.8**
Other non-current assets	6	2.1	3.5
Deferred tax assets		37.1	36.5
		329.6	**287.8**
Current assets			
Inventories	4	189.2	166.5
Trade receivables	5	130.5	137.4
Other current assets	6	24.9	27.6
Income tax receivables		8.5	3.9
Cash and cash equivalents	7	31.7	57.6
		384.8	**393.0**
Non-current asset held for sale		**1.0**	**0.8**
Total assets		**715.4**	**681.6**

Equity and Liabilities	Notes	30/9/2019	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		29.6	31.9
Revaluation surplus	8	-86.7	-77.9
		193.4	**204.5**
Equity attributable to minority interests		**4.9**	**4.9**
Total equity		**198.3**	**209.4**
Non-current liabilities			
Provisions for pensions		171.9	177.2
Non-current provisions for personnel	9	16.8	17.1
Other non-current provisions		5.4	8.8
Non-current financial liabilities	10	-	25.0
Non-current lease liabilities	11	29.4	-
Other non-current liabilities	12	4.9	4.4
Deferred tax liabilities		3.3	4.1
		231.7	**236.6**
Current liabilities			
Current provisions for personnel	9	12.2	15.2
Other current provisions		19.7	20.0
Current financial liabilities	10	82.3	33.1
Current lease liabilities	11	12.8	-
Other current liabilities	12	82.0	86.6
Trade payables		73.5	77.3
Income tax liabilities		2.9	3.4
		285.4	**235.6**
Total liabilities		**517.1**	**472.2**
Total equity and liabilities		**715.4**	**681.6**

CONSOLIDATED INCOME STATEMENT

for the period 1 January to 30 September 2019

in € million

	Notes	1/1/2019 - 30/9/2019	1/1/2018 - 30/9/2018
Revenue	13	**587.9**	**615.9**
Costs of sales		-342.6	-358.7
Gross profit		**245.3**	**257.2**
Selling, marketing and development costs	14	-194.8	-202.3
General administrative expenses		-31.2	-33.3
Other operating income and expenses		3.1	4.1
Result of associates accounted for using the equity method		-0.1	0.1
Operating result (EBIT)		**22.3**	**25.8**
Financial result	15	**-4.0**	**-3.4**
Earnings before taxes		**18.3**	**22.4**
Income taxes	16	-5.5	-6.7
Group result		**12.8**	**15.7**
Thereof attributable to:			
Villeroy & Boch AG shareholders		12.8	15.3
Minority interests		0.0	0.4
		12.8	**15.7**

EARNINGS PER SHARE		**in €**	**in €**
Earnings per ordinary share		0.46	0.57
Earnings per preference share		0.51	0.62

During the reporting period there were no share dilution effects.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 30 September 2019

in € million

		1/1/2019 - 30/9/2019	1/1/2018 - 30/9/2018
Group result		**12.8**	**15.7**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-3.2	-2.6
Gains or losses on translations of exchange differences		-5.6	-0.5
Deferred income tax effect on items to be reclassified to profit or loss		-1.0	0.4
Items not to be reclassified to profit or loss:			
Actuarial gains or losses on defined benefit plans		0.0	0.0
Gains or losses on other value changes		0.7	-0.2
Deferred income tax effect on items not to be reclassified to profit or loss		0.4	0.0
Total other comprehensive income		**-8.7**	**-2.9**
Total comprehensive income net of tax		**4.1**	**12.8**
Thereof attributable to:			
Villeroy & Boch AG shareholders		3.9	12.6
Minority interests		0.2	0.2
Total comprehensive income net of tax		**4.1**	**12.8**

CONSOLIDATED INCOME STATEMENT

for the period 1 July to 30 September 2019

in € million

	Notes	1/7/2019 - 30/9/2019	1/7/2018 - 30/9/2018
Revenue	13	**194.7**	**196.3**
Costs of sales		-117.3	-117.5
Gross profit		**77.4**	**78.8**
Selling, marketing and development costs	14	-62.7	-65.4
General administrative expenses		-10.2	-10.8
Other operating income and expenses		2.6	4.2
Result of associates accounted for using the equity method		-0.3	0.0
Operating result (EBIT)		**6.8**	**6.8**
Financial result	15	**-1.6**	**-1.2**
Earnings before taxes		**5.2**	**5.6**
Income taxes	16	-1.6	-1.7
Group result		**3.6**	**3.9**
Thereof attributable to:			
Villeroy & Boch AG shareholders		3.7	3.8
Minority interests		-0.1	0.1
		3.6	**3.9**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period 1 July to 30 September 2019

in € million

		1/7/2019 - 30/9/2019	1/7/2018 - 30/9/2018
Group result		**3.6**	**3.9**
Other comprehensive income			
Items to be reclassified to profit or loss:			
Gains or losses on cash flow hedge		-1.3	0.8
Gains or losses on translations of exchange differences		-3.4	2.3
Deferred income tax effect on items to be reclassified to profit or loss		-0.1	-0.1
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		0.5	0.0
Deferred income tax effect on items not to be reclassified to profit or loss		0.0	0.0
Total other comprehensive income		**-4.5**	**3.0**
Total comprehensive income net of tax		**-0.9**	**6.9**
Thereof attributable to:			
Villeroy & Boch AG shareholders		-0.9	6.8
Minority interests		0.0	0.1
Total comprehensive income net of tax		**-0.9**	**6.9**

CONSOLIDATED STATEMENT OF EQUITY

for the period 1 January to 30 September 2019

in € million

	Equity attributable to Villeroy & Boch AG shareholders							
	Issued capital	Capital surplus	Treasury shares	Retained earnings	Revaluation surplus	**Total**	Equity attributable to minority 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				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**
As of 1/1/2019	**71.9**	**193.6**	**-15.0**	**31.9**	**-77.9**	**204.5**	**4.9**	**209.4**
Group result				12.8		12.8	0.0	12.8
Other comprehensive income					-8.8	-8.8	0.1	-8.7
Total comprehensive income net of tax				**12.8**	**-8.8**	**4.0**	**0.1**	**4.1**
Dividend payments				-15.1		-15.1	-0.1	-15.2
As of 30/9/2019	**71.9**	**193.6**	**-15.0**	**29.6**	**-86.7**	**193.4**	**4.9**	**198.3**

CONSOLIDATED CASH FLOW STATEMENT

for the period 1 January to 30 September 2019

in € million

	1/1/2019 - 30/9/2019	1/1/2018 - 30/9/2018
Group result	12.8	15.7
Depreciation of non-current assets	28.2	17.7
Change in non-current provisions	-12.8	-13.5
Profit from disposal of fixed assets	0.1	-2.7
Change in inventories, receivables and other assets	-24.1	-39.0
Change in liabilities, current provisions and other liabilities	-14.2	-24.2
Other non-cash income/expenses	3.4	1.5
Cash Flow from operating activities	**-6.6**	**-44.5**
Purchase of intangible assets, property, plant and equipment	-17.9	-25.7
Investment in non-current financial assets	-4.0	-4.9
Cash receipts from disposals of fixed assets	3.8	5.4
Cash Flow from investing activities	**-18.1**	**-25.2**
Change in financial liabilities	24.1	16.6
Cash payments for the principal portion of the lease liabilities (1)	-10.1	-
Cash payments for the acquisition of non-controlling interests	0.0	0.0
Dividends paid to minority shareholders	-0.1	-0.2
Dividends paid to shareholders of Villeroy & Boch AG	-15.1	-14.3
Cash Flow from financing activities	**-1.2**	**2.1**
Sum of cash flows	**-25.9**	**-67.6**
Balance of cash and cash equivalents as at 1 Jan	57.6	108.7
Net increase in cash and cash equivalents	-25.9	-67.6
Balance of cash and cash equivalents as at 30 Sept	**31.7**	**41.1**

(1) Application of IFRS 16 "Lease" from 01.01.2019; previous year not adjusted.

CONSOLIDATED SEGMENT REPORT

for the period 1 January to 30 September 2019

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch-Group	
	1/1/2019 - 30/9/2019	1/1/2018 - 30/9/2018	**1/1/2019 - 30/9/2019**	1/1/2018 - 30/9/2018	**1/1/2019 - 30/9/2019**	1/1/2018 - 30/9/2018	**1/1/2019 - 30/9/2019**	1/1/2018 - 30/9/2018
Revenue								
Segment revenue from sales of goods to external customers	**401.1**	435.9	**180.8**	175.4	**-**	-	**581.9**	611.3
Segment revenue from transactions with other segments	**-**	-	**0.0**	0.0	**0.0**	-	**0.0**	0.0
Segment revenue from licence	**0.5**	0.2	**3.3**	2.2	**2.2**	2.2	**6.0**	4.6
Revenue	**401.6**	436.1	**184.1**	177.6	**2.2**	2.2	**587.9**	615.9
Result								
Segment result	**28.9**	34.0	**-6.6**	-8.2	**-**	-	**22.3**	25.8
Financial result	**-**	-	**-**	-	**-4.0**	-3.4	**-4.0**	-3.4
Investments and depreciations								
Investments of intangible assets, property, plant and equipment	**14.8**	21.6	**3.1**	4.1	**-**	-	**17.9**	25.7
Investments of rigth-of-use assets on leases (1)	**13.6**	-	**38.0**	-	**-**	-	**51.6**	-
Scheduled depreciation of intangible assets, property, plant and equipment	**14.4**	13.5	**3.8**	4.2	**-**	-	**18.2**	17.7
Scheduled depreciation of rigth-of-use assets on leases (1)	**2.9**	-	**7.0**	-	**-**	-	**9.9**	-

(1) Application of IFRS 16 "Lease" from 01.01.2019; previous year not adjusted.

Assets and Liabilities	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**
Segment assets	**412.2**	393.2	**163.6**	128.1	**139.6**	160.3	**715.4**	681.6
Segment liabilities	**148.4**	147.8	**72.3**	41.3	**296.4**	283.1	**517.1**	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	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**	**30/9/2019**	**31/12/2018**
Rolling operating assets	**403.2**	374.0	**146.7**	125.1	**-**	-	**549.9**	499.1
Rolling operating liabilities	**138.8**	139.6	**61.1**	39.1	**-**	-	**199.9**	178.7
Rolling net operation assets	**264.4**	234.4	**85.6**	86.0	**-**	-	**350.0**	320.4
Rolling operating result (EBIT) *								
Rolling operating result (EBIT) *	**45.2**	54.8	**5.5**	3.0	**-0.5**	-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 July to 30 September 2019

in € million

	Bathroom & Wellness		Tableware		Transition / Other		Villeroy & Boch-Group	
	01.04.2019 - 30/9/2019	01.04.2018 - 30.06.2018	**01.04.2019 - 30/9/2019**	01.04.2018 - 30.06.2018	**01.04.2019 - 30/9/2019**	01.04.2018 - 30.06.2018	**01.04.2019 - 30/9/2019**	01.04.2018 - 30.06.2018
Revenue								
Segment revenue from sales of goods to external customers	**129.8**	132.9	**63.5**	61.8	**-**	-	**193.3**	194.7
Segment revenue from transactions with other segments	**-**	-	**0.0**	-	**0.0**	-	**0.0**	0.0
Segment revenue from licence	**0.2**	0.1	**0.5**	0.8	**0.7**	0.7	**1.4**	1.6
Revenue	**130.0**	133.0	**64.0**	62.6	**0.7**	0.7	**194.7**	196.3
Result								
Segment result	**6.6**	6.3	**0.2**	0.5	**-**	-	**6.8**	6.8
Financial result	**-**	-	**-**	-	**-1.6**	-1.2	**-1.6**	-1.2
Investments and depreciations								
Investments of intangible assets, property, plant and equipment	**6.3**	8.7	**1.6**	1.8	**-**	-	**7.9**	10.5
Investments of rigth-of-use assets on leases (1)	**0.7**	-	**0.2**	-	**-**	-	**0.9**	-
Scheduled depreciation of intangible assets, property, plant and equipment	**4.9**	3.7	**1.3**	1.2	**-**	-	**6.2**	4.9
Scheduled depreciation of rigth-of-use assets on leases (1)	**1.0**	-	**2.5**	-	**-**	-	**3.5**	-

(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 ON THE THIRD QUARTER 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 September 2019. It was approved for publication on 17 October 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, Mettlach. Villeroy & Boch Innovations GmbH bundles additional equity investments in the digital sector as a holding company. Villeroy & Boch Venture GmbH, 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 non-consolidated subsidiaries are not of material importance to the presentation of the net assets, financial position and results of operations 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 amounted to € 182.5 million as at 30 September 2019 (31 December 2018: € 183.2 million). Property, plant and equipment in the amount of € 16.2 million was acquired in the period under review (previous year: € 23.5 million). Investment 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, and for the plant in France specialising in kitchen sinks. For example, the Thailand plant was fitted with a dryer, a chamber furnace and new workbenches. New machinery was acquired for Direct Flush models in the Hungarian plant. The Belgian wellness plant received production facilities and moulds for the Planeo and Collaro series. The Tableware Division purchased a new colour application system and new pressing tools for production in Merzig, and invested in 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 € 17.2 million (previous year: € 16.5 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 € 9.2 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 capitalised 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 € 11.7 million in the period after the initial application. The Group recognised right-of-use assets of € 42.1 million as at 30 September 2019, essentially from rent for buildings (€ 37.3 million). Depreciation amounted to € 9.9 million in the reporting period, 81.9 % of which was attributable to right-of-use assets on buildings. Leased assets of € 0.4 million, which were already recognised as leased property, plant and equipment under the old regulation, were also classified as rights of use. Expenses for variable property leases amounted to € 5.3 million. Expenses for short-term property rentals amounted to € 3.0 million, while expenses for short-term rentals of other assets and the rental of low-value assets amounted to € 2.9 million in the reporting period.

3. Other financial assets

Other financial assets include:

in € million	30/9/2019	31/12/2018
Shares in non-consolidated subsidiaries (see note 17)	0.7	-
Shares in other participations	2.1	2.1
Loans	3.7	3.8
Securities	12.4	11.2
Other financial assets (total)	**18.9**	**17.1**

4. Inventories

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

in € million	30/9/2019	31/12/2018
Raw materials and supplies	25.2	23.6
Work in progress	20.7	19.0
Finished goods and goods for resale	142.6	123.9
Advance payments	0.7	0.0
Inventories (total)	**189.2**	**166.5**

In the period under review, impairment losses on inventories increased by € -4.6 million to a total of € -22.1 million.

5. Trade receivables

Trade receivables are broken down as follows:

by customer domicile/in € million	30/9/2019	31/12/2018
Germany	30.0	23.9
Rest of euro zone	25.7	28.8
Rest of world	79.1	87.7
Gross carrying amount of trade receivables	**134.8**	**140.4**
Impairment due to expected losses (step 1)	-0.5	-0.5
Impairment due to objective evidence (step 2)	-3.9	-2.5
Impairment losses	**-4.4**	**-3.0**
Receivables from non-consolidated subsidiaries	**0.1**	**-**
Total trade receivables	**130.5**	**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	30/9/2019		31/12/2018	
	Current	Non-current	Current	Non-current
Other tax receivables	6.6	-	9.1	-
Prepaid expenses	3.4	-	1.8	-
Advance payments and deposits	2.4	1.9	3.1	1.8
Receivables from equity investments	2.2	-	2.3	-
Contract assets	1.5	-	1.6	-
Fair values of hedging instruments	1.0	0.2	1.5	1.7
Miscellaneous other assets	7.8	-	8.2	-
Other assets (total)	**24.9**	**2.1**	**27.6**	**3.5**

7. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

in € million	30/9/2019	31/12/2018
Cash on hand incl. cheques	0.3	0.6
Current bank balances	20.0	19.9
Cash equivalents	11.4	37.1
Total cash and cash equivalents	**31.7**	**57.6**

The € 25.9 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 € 20.3 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	30/9/2019	31/12/2018
Items to be reclassified to profit or loss:		
▌ Currency translation of financial statements of foreign group companies	-12.1	-5.0
▌ Currency translation of long-term loans classified as net investments in foreign group companies	-5.1	-6.5
▌ Cash Flow Hedges	-0.7	2.5
▌ Deferred taxes for this category	-5.6	-4.6
Sub-total (a)	**-23.5**	**-13.6**

in € million	30/9/2019	31/12/2018
Items not to be reclassified to profit or loss:		
Actuarial gains and losses on defined benefit obligations	-89.9	-89.9
Miscellaneous gains and losses on measurement	0.4	-0.3
Deferred taxes for this category	26.3	25.9
Sub-total (b)	**-63.2**	**-64.3**
Total revaluation surplus [(a)+(b)]	**-86.7**	**-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

Current and non-current financial liabilities developed as follows:

in € million	30/9/2019	31/12/2018
Non-current financial liabilities	-	25.0
Current financial liabilities	82.3	33.1
Total financial liabilities	**82.3**	**58.1**

A bank loan of € 25.0 million was reclassified from non-current to current financial liabilities as it has a remaining term of less than twelve months. The increase of € 24.2 million in financial liabilities was mainly due to the use of interim finance.

11. Non-current and current lease liabilities

Non-current and current lease liabilities of € 39.9 million were recognised as liabilities as at 1 January 2019, and were offset by capitalised right-of-use assets in the same amount. These liabilities rose by € 2.3 million to € 42.2 million in the reporting period. This change mainly results from an addition from new leases of € 11.7 million and a decline of € -10.1 million from repayments of principal. Interest expenses for leased right-of-use assets came to € 0.6 million in the reporting period. The Villeroy & Boch Group recognised € 0.2 million as at the end of the reporting period from the remeasurement of rent liabilities already recognised (31 December 2018: € 0.3 million).
Lease liabilities amounting of € 12.8 million fall due in the next twelve months and are recognised as current lease liabilities. Lease liabilities in the amount of € 4.9 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	30/9/2019		31/12/2018	
	current	non-current	current	non-current
Bonus liabilities (a)	34.7	-	43.0	-
Personnel liabilities (a)	23.7	0.1	19.4	0.1
Other tax liabilities	9.6	-	12.3	-
Advance payments on orders	5.7	-	4.5	-
Deferred income	3.7	1.2	2.7	1.6
Fair value of hedging instruments	0.8	1.1	0.4	0.3
Liabilities due to non-consolidated subsidiaries	0.5	-	-	-
Miscellaneous liabilities	3.3	2.5	4.3	2.4
Other liabilities (total)	**82.0**	**4.9**	**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	
	Q1-3	Q3	Q1-3	Q3
Bathroom and Wellness	-8.7	-2.8	-8.9	-3.1
Tableware	-3.3	-1.1	-2.8	-1.0
Research and development costs (total)	**-12.0**	**-3.9**	**-11.7**	**-4.1**

15. Financial result

The financial result is broken down as follows:

in € million	2019		2018	
	Q1-3	Q3	Q1-3	Q3
Financial expenses	-2.1	-0.7	-1.9	-0.8
Interest expense on lease liabilities	-0.6	-0.2	-	-
Interest expenses for provisions (pensions)	-2.3	-0.8	-2.4	-0.8
Financial income	1.0	0.1	0.9	0.4
Net finance expense (total)	**-4.0**	**-1.6**	**-3.4**	**-1.2**

16. Income taxes

The main components of income tax expense are as follows:

in € million	2019		2018	
	Q1-3	Q3	Q1-3	Q3
Current income taxes	-6.4	-1.8	-6.8	-3.1
Deferred taxes	0.9	0.2	0.1	1.4
Income taxes (total)	**-5.5**	**-1.6**	**-6.7**	**-1.7**

OTHER NOTES

17. 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 non-consolidated subsidiaries 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 (see note 5). Bank balances of non-consolidated companies amounting to € 0.5 million were transferred to Villeroy & Boch AG (see note 12).

18. 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.

19. 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 October 2019

The Management Board

FINANCIAL CALENDAR

06 February 2020	Annual press conference for the 2019 financial year
27 March 2020	General Meeting of Shareholders of Villeroy & Boch AG
22 April 2020	Report on the first three months of 2020

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.