Annual Report 2010

VBH HOLDING AKTIENGESELLSCHAFT

Alles einfach.
Einfach alles.

Always one idea ahead.

SIMPLY EVERYTHING. EVERYTHING SIMPLE.

Our brand makes a clear promise: Simply everything that industry and skilled trades need to manufacture and install windows, doors and furniture. Everything simple, from initial contact to daily cooperation. VBH's experts are here to provide uncomplicated, fast help, setting the pace with innovative services and making life simpler for our customers.

CE-FIX – THE ONLINE SYSTEM PLATFORM FOR WINDOWS AND DOORS.

The CE-fix industry solution focuses on the general system security of window and door constructions and simple, low-cost CE labelling.

FIND, DON'T SEARCH THE INTUITIVE ITEM FINDER.

"Find, Don't Search" makes it easy for VBH customers to choose the right item in the comprehensive VBH range – without knowing what it looks like or what it's called.

KNOWLEDGE DATABASE – ADVICE AND ACTION.

The VBH knowledge database bundles expert knowledge and up-to-date information on window and door mountings, provides practical suggestions and allows industry participants to exchange ideas.

LOGOS – FASTER, SIMPLER AND ERROR-FREE ORDERING.

The LOGOS materials procurement system simplifies warehousing and ordering processes for VBH customers. Whether in production, in the office or on the building site.

VBH24 – THE VBH CUSTOMER PORTAL.

Whatever VBH customers need – they can get it with vbh24. Clearly, globally and at any time of day or night. The customer portal offers access to all of VBH's items and services.

Key Figures

Sales and Earnings		2006	2007	2008	2009	2010
Revenues continuing operations	in € m	783.2	808.4	863.3	755.1	800.0
EBITDA	in € m	48.0	54.8	45.5	23.2	29.0
EBITDA margin	%	6.1%	6.8%	5.3%	3.1%	3.6%
EBITDA adjusted	in € m					27.6
EBITDA margin adjusted	%					3.5%
EBIT	in € m	40.3	49.4	39.6	17.2	12.9
EBIT margin	%	5.1%	6.1%	4.6%	2.3%	1.6%
EBIT adjusted	in € m					21.6
EBIT margin adjusted	%					2.7%
EBT	in € m	30.2	38.2	31.5	9.9	4.5
EBT adjusted	in € m					13.2
Net result after minorities	in € m	19.8	27.6	17.8	5.6	-1.7
Net result after minorities adjusted	in € m					7.0

Key Figures		2006	2007	2008	2009	2010
Cash flow from operating activity	in € m	11.0	31.5	33.7	33.6	4.8
Cash flow from investing activity	in € m	-6.0	-8.7	-17.5	-9.3	-3.7
Free Cash Flow	in € m	5.0	22.8	16.2	24.4	1.2
Cash flow from financing activity	in € m	-6.3	-18.9	-5.2	-23.5	-3.2
Total investments	in € m	11.5	18.6	27.6	11.8	4.5
Working Capital	in € m	164.6	179.1	191.4	166.9	183.8
Capital employed	in € m	228.7	252.7	264.7	257.9	264.8
ROCE	%	17.6%	19.5%	15.0%	6.7%	4.9%
ROCE adjusted	%					8.2%
Net debt	in € m	138.3	118.2	107.6	103.6	112.4
Gearing	%	192.8%	106.6%	78.3%	79.7%	88.4%
Return on equity (ROE)	%	31.8%	27.1%	13.8%	4.6%	-1.4%
Number of employees		2,175	2,686	2,886	2,968	2,934

Share data		2006	2007	2008	2009	2010
Earnings per share diluted	in €	0.54	0.72	0.41	0.12	-0.02
Earnings per share undiluted	in €	0.50	0.67	0.41	0.12	-0.02
Earnings per share diluted adjusted	in €					0.15
Earnings per share undiluted adjusted	in €					0.15
Dividend per share	in €	0.12	0.15	0.19	0.05	0.06
Book value per share	in €	1.97	2.78	3.00	2.83	2.77
Equity per share	in €	1.71	2.55	2.81	2.65	2.59
Share price at year-end	in €	6.10	6.00	3.68	4.00	4.26
Shares outstanding	in Tsd.	36,495	39,865	45,790	45,869	45,879
Market capitalization at year-end	in € m	222.6	239.2	168.5	183.5	195.4

Balance Sheet		2006	2007	2008	2009	2010
Long-term assets	in € m	72.7	86.8	96.6	99.0	89.1
Short-term assets	in € m	262.0	271.1	279.1	251.0	265.0
Equity	in € m	71.7	110.8	137.4	130.0	127.1
Book value	in € m	62.3	101.7	128.9	121.4	118.8
Long-term liabilities	in € m	78.5	121.5	91.3	89.0	33.6
Short-term liabilities	in € m	184.4	125.6	147.0	131.0	193.4
Balance sheet total	in € m	334.6	357.9	375.7	350.0	354.1

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THE VBH CUSTOMER PORTAL.

On vbh24, VBH customers can find everything they need for their day-to-day work: clearly, globally and round the clock, 24 hours a day. The Internet portal offers access to the full range in the online shop and all service tools developed by VBH and tested in practice, such as virtual in-house fair, personal shopping assortments and individual catalogue creation.

TO OUR SHAREHOLDERS

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Letter to the shareholders

Dear Shareholders,

The global economy was in much better condition in the past year following the massive disruptions of the economic and financial crisis. While uncertainty as to further developments was still prevalent at the start of 2010, the economic stimulus programmes and political intervention have made a substantial contribution towards stabilising the global financial and economic situation.

However, growth trends diverged as the year progressed. While the emerging nations of Asia and Latin America, above all China and Brazil in addition to Russia, returned to their former growth paths, growth in the US and Japan slowed on account of lingering unemployment and deflationary tendencies.

Varying developments were also seen in the European region following its recovery. Export-oriented nations such as the “growth engine” of Germany and several Eastern European countries grew strongly. However, considerable uncertainty continued to dominate Southern European markets such as Italy, Spain and Greece. The path back to growth in these countries will be stonier and the recovery on these markets will be significantly slower than forecast even in mid-2010.

One thing is clear: the world has become more complex and more interconnected and quantitative forecasts on future economic performance have failed in many cases. Thus, it is all the more crucial for us to think in scenarios and to position the VBH Group (“VBH”) internationally so that we can play out our strategic and operative strengths as the only global mountings dealer. We succeeded in doing this in the 2010 financial year overall – both economically and strategically.

Economic performance

VBH generated consolidated sales of around € 800 million and improved on the figure for the previous year by 5.9 %. Over the same period, adjusted consolidated operating earnings even increased by around 33 % to € 13.2 million – in spite of the negative operating effects of our companies in Belgium, Italy and China.

As in the global economy, the business performance of the individual VBH regions was varied:

- Sales in Germany expanded sustainably with a rise of 7.6 % as against the previous year, significantly outperforming the market as a whole;

- Eastern Europe, influenced by the healthy development in Russia and enormous potential for renovation, is back on track for growth with a sales increase of 12.2 % year-on-year;
- Sales in Western Europe declined by 7.4 %, essentially as a result of the influence of the companies in Italy and Belgium;
- The Other Markets segment, driven by Turkey, improved its sales by a gratifying 22.6 %.

In addition, non-cash goodwill impairment of € 8.7 million was recognised in the Group. On the basis of the annual impairment test, this was needed for the regional companies that are taking a little longer to return to their old earnings power.

Strategic positioning

We also continued to work systematically on our **strategic goal** of developing VBH away from being a dealer and towards becoming a service provider. Here we are standing by the following strategy elements that are based on our motto of “Simply Everything. Everything Simple”:

- selective expansion of our international presence, which can also include taking on national markets that do not fit VBH’s business model;
- expansion of our greenteQ own brand to a share of consolidated sales of 10 %;
- systematic expansion of our service portfolio.

Thanks to our **successful international positioning**, we offer our suppliers a global sales platform and our customers a comprehensive and internationally coordinated range of products and services. After VBH’s area of operations was extended to include Argentina in 2009, a central warehouse is now being established in Panama to initially supply the current VBH companies in Argentina and Mexico, and to deliver to further markets in South and Central America in future as well. VBH Caucasus was founded in Tbilisi together with a partner and is responsible for Georgia and other neighbouring regions. Following a strategic review, VBH discontinued its activities in Australia over the course of the year.

The **greenteQ** own brand is now an anchor point of **range policy** and excellently rounds off the VBH product portfolio with its strong manufacturer brands (“Simply Everything”). greenteQ is opening up new options to raise our profile among existing customers and to attract new customer groups and is also still proving a growth driver. With now more than 1,800 items, greenteQ products account for 6 % of total sales at VBH Deutschland GmbH. VBH intends to continue pushing its own brand systematically and to accelerate the market penetration of greenteQ products on international markets.

Our service range, which we are gradually rolling out in our subsidiaries, is allowing us to stand out clearly in the competitive environment. Of particular interest is the CE-fix tool developed together with IFT Rosenheim with which window and door manufacturers and suppliers can obtain all necessary CE documentation from product passes to component sheets with extensive processing information online instantly. We are gradually expanding CE-fix to create a system platform with a view to becoming a system provider in the wood area in particular. Other services such as our VBH knowledge base are also becoming increasingly popular with an average of more than 2,000 hits per month. The mobile LOGOS app for smartphones, which customers can use to order online from the construction site, is proving to be an innovation that our customers are more than happy to use. We are currently working on further creative solutions to make work easier for our customers (“Everything Simple”).

Stable share price performance

As with the economic and strategic performance, the price of VBH shares also developed stably in 2010. In June 2010, VBH Holding AG shares were removed from Deutsche Börse’s SDAX segment. There were indications of this from the start of 2010 as a result of declining trading volumes in light of the lower free float and market capitalisation.

Dividend policy

We would like for you, our shareholders, to participate in the success of VBH with a consistent dividend policy. A distribution rate of at least 35 % to 40 % of the operating earnings per share will be retained in the medium term, provided that this does not have a negative effect on the financial stability of VBH. On the basis of this, the Executive Board resolved to submit a proposal on the appropriation of profits to the Supervisory Board allowing for a dividend for the 2010 financial year of € 0.06 per share. This corresponds to a distribution rate of 40 % based on the adjusted consolidated net profit for the period.

Outlook for 2011

The global economic and political situation is still volatile and is currently marked by political unrest in Northern Africa and the Middle East as well as the continuing uncertainty with regard to the situation in Japan. Nonetheless, leading institutes are forecasting moderate global economic growth for 2011 with a visible recovery by the end of the year at the earliest. It will presumably take several years to return to the higher level of 2008.

Expectations for the European region are predominantly confident for the next six months. The ifo Institute for Economic Research is forecasting a positive performance for Germany in particular. The economic prospects for Central and Eastern Europe and the Baltic states are assessed as slightly positive, while the outlook for Southern Europe including Greece, Italy and Spain is considered very weak by experts.

The construction industry will continue to benefit from government investment programmes and investment incentives for climate-efficient building in 2011 and thus lift itself up from the overall economic situation. In particular, the window market in Germany is experiencing a boom thanks to government subsidies and is therefore standing out positively in the general construction industry.

Despite this cautious optimism, the possibility cannot be ruled out that external factors could ruin the economic upturn. In addition to the political developments and acts of God already sketched out, these include further fluctuations in the price of oil and exchange rates plus the financial difficulties of some European nations.

As the Executive Board of VBH, we are forecasting single-digit sales growth for the Group as against the 2010 financial year for the rest of the year. We are assuming slight increases in sales for the Germany segment, while sales in the Western/Southern Europe segment will remain flat and those in Eastern Europe will improve significantly. The Other Markets segment will again grow significantly in the 2011 financial year if exchange rates remain constant. The other goals of management include ongoing market penetration with the help of our greenteQ own brand and the optimisation of working capital while retaining constant cost structures, which should lead to a reduction of net debt within the Group.

Overall, we anticipate that 2011 will be a successful year for VBH. The disruptions on the international markets have made it clear that planning ahead and thinking in scenarios will play an increasingly important role for us as well. We are facing these new challenges gladly and energetically to shape a successful future with our employees, without whose extraordinary dedication we could not have mastered the difficulties now behind us.

We would like to thank you for your confidence in our work.

Korntal-Münchingen, March 2011

For the Executive Board

Rainer Hribar	Frieder Bangerter
Chairman of the board	Member of the board

Report of the Supervisory Board

Dear Shareholders:

General information

In the 2010 financial year, the Supervisory Board supported the Executive Board of VBH Holding AG using proven methods, monitored it in line with stock corporation law requirements and advised it on the management of the company. This was based on detailed and timely verbal and written reporting by the Executive Board on the business position of VBH Holding AG and the Group. The reports by the Executive Board chiefly concerned business policy, fundamental financial and investment policy issues, and the profitability and risk situation of VBH Holding AG and the Group.

The Supervisory Board received monthly reports on the course of the business, including analyses of divergences from the budget and the previous year. These reports also documented the liquidity and financial position of the company, including current credit lines, their utilisation and the available liquidity, providing both actual and forecast figures and the terms of receivables. All business transactions requiring approval were discussed in depth with the Supervisory Board, which granted its authorisation where required.

The Supervisory Board performed the tasks for which it is responsible according to law and the Articles of Association of the company with great care, extensively reviewing the business transactions of VBH. Based on the reports and information provided by the Executive Board, the Supervisory Board has satisfied itself that the company was managed in a proper manner. The Supervisory Board also assured itself that all risk management system requirements were met within the company and the Group by questioning the Executive Board and the auditor. The Executive Board informed the Supervisory Board in detail regarding projects and plans that were urgent or of particular importance for the company, including between meetings, and sought its approval where necessary.

The Chairman of the Supervisory Board maintained constant, close contact with the company outside of Supervisory Board meetings as well, receiving regular information from the Executive Board concerning current developments, the state of business and important individual transactions.

Main issues addressed at Supervisory Board meetings

Six supervisory Board meetings were held in the 2010 financial year. Each Supervisory Board meeting focused on the discussion of the current business performance of VBH and planning by the Executive Board on the key points of sales, cost, earnings development and the financial position. The Executive Board responded in full to the detailed questions posed by Supervisory Board members concerning the regularly submitted written reports and presentations as well as verbal comments made during meetings. The discussions and reviews conducted by the Supervisory Board at the Supervisory Board meetings chiefly related to the following:

- In the meeting on 20 January 2010, the constituting meeting of the Supervisory Board, Professor Rainer Kirchdörfer was elected as the Chairman of the Supervisory Board. Mr. Andreas Schill was elected as the Deputy Chairman of the Supervisory Board. The following committees were formed: Personnel Committee, Audit Committee and the Committee for Strategy/Marketing/Sales. The current sales and earnings development of the Group in the past financial year were discussed in depth. Owing to the change in the Supervisory Board, the budget figures for 2010 and the planning for 2011 were explained in detail again. Finally, the present corporate strategy was discussed.
- Following corresponding preparations by the Audit Committee, the Supervisory Board's accounts meeting on 30 March 2010 focused on the audit of the annual financial statements, consolidated annual statements and management reports for VBH Holding AG and the Group for the 2009 financial year. In addition to its own – original – audit activities in preparation for the Supervisory Board accounts meeting, the Supervisory Board asked the auditor present at the meeting a number of questions and discussed these at length with him. The Supervisory Board also intensively discussed the situation in Italy. The agenda for the Annual General Meeting on 08 June 2010 was approved.
- In its meeting on 02 June 2010, the Supervisory Board discussed the current sales and earnings development at length. At the proposal of the Audit Committee, there was intensive discussion, leading to a resolution, on the topic of expanding the group of companies included in the consolidation of the VBH Group. The Supervisory Board then looked at detailed analyses of the Group's companies in Italy, Belgium and China and also discussed personnel issues.
- In its meeting on 08 June 2010 – following the re-election of the Supervisory Board by the Annual General Meeting – Professor Kirchdörfer was elected as the Chairman of the Supervisory Board; Mr. Schill was elected as the Deputy Chairman of the Supervisory Board. The appointments to the committees were discussed and the preceding Annual General Meeting was discussed thoroughly. Personnel issues were also on the agenda.

- At its meeting on 16 September 2010, which was part of a VBH strategy conference held over several days, the Supervisory Board and the Executive Board again discussed year-to-date sales and earnings and the forecast in depth, with particular reference to the overseas markets. Personnel issues were also discussed and outstanding points from prior meetings of the Supervisory Board were concluded. At this meeting, the Supervisory Board appointed Mr. Frieder Bangerter as a further member of the Executive Board of the company (for more information see “Executive bodies of the company” below).
- At and prior to the meeting on 14 December 2010, the Supervisory Board focused its audit activities on the corporate budget submitted for the financial year 2011. The Supervisory Board examined the budget and discussed the opportunities and risks presented in it with the Executive Board. It resolved the budget for 2011 and also discussed alternative forms of financing to the syndicated loan agreement currently in place after it expires plus Internal Auditing matters.

Committees

The Audit Committee, which is formed within the Supervisory Board, met three times in the reporting year (12 February 2010, 30 March 2010 and 27 October 2010) and prepared the resolution of the Supervisory Board on the adoption of the annual financial statements and approval of the consolidated financial statements for the period ended 31 December 2009. It also discussed Risk Management and Internal Auditing matters and prepared for the annual financial statements for 2010. The Personnel Committee met once in the reporting year (12 February 2010), as did the Committee for Strategy/Marketing/Sales (2 June 2010).

Declaration of compliance

The Supervisory Board addressed the continued development of corporate governance at VBH Holding AG, made suitable adjustments and approved the declaration of compliance with the German Corporate Governance Code, which can also be found on page 54 of this annual report. There were no indications of conflicts of interest on the part of Executive Board or Supervisory Board members in the past financial year.

Risk management

The Supervisory Board received reports and information from the Executive Board indicating that the requirements pertaining to the risk management system at VBH Holding AG and the Group are being met. All areas of risk identifiable from the perspective of the Executive Board and the Supervisory Board were discussed. The risk management system underwent extensive examination by the auditor, in which it was confirmed that the Executive Board had implemented the measures required in accordance with section 91 (2) of the Aktiengesetz (AktG – German Stock Corporation Act) and established a monitoring system capable of identifying at an early stage developments that could jeopardise the continued existence of the company.

Annual and consolidated financial statements for 2010

The Annual General Meeting on 8 June 2010 appointed Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, as the auditor for the financial year 2010. Following preparation by the Audit Committee and a corresponding resolution of the Supervisory Board, the auditor was notified in writing of its engagement to audit the accounts. Prior to the Supervisory Board's proposal to shareholders at the Annual General Meeting, the Chairman of the Supervisory Board received written confirmation from the auditor that no circumstances existed that could impair the independence of the auditor.

Rödl & Partner audited the annual financial statements of VBH Holding AG and the consolidated financial statements for the period ended 31 December 2010, as well as the management reports of VBH Holding AG and the Group, together with the bookkeeping system, and issued an unqualified audit opinion in each case.

The auditor provided each member of the Supervisory Board a copy of the audit report. The Supervisory Board met to adopt the financial statements – following corresponding preparations by the Audit Committee – on 30 March 2011, together with the company's auditor. At the meeting, the VBH Holding AG annual financial statements, the consolidated financial statements for the period ended 31 December 2010 and the management reports of VBH Holding AG and the Group plus the audit reports were discussed in detail with the auditor. The Supervisory Board reviewed the audit reports and annual financial statements, consolidated financial statements and management reports of VBH Holding AG and of the Group, including disclosures in accordance with section 289 (4-5) and section 315 (2) no. 5 and (4) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Executive Board's proposal on the use of unappropriated surplus. The Supervisory Board had sufficient time to review the audited annual financial statements and the copies, thus it was possible to review all the relevant documents. On conclusion of its audit, the Supervisory Board raised no objections, concurring with the auditor's findings regarding the annual financial statements, the consolidated annual financial statements and the management reports for VBH Holding AG and the Group, including the disclosures under section 289 (4-5) and section 315 (2) no. 5 and (4) HGB. The Supervisory Board approved the annual financial statements of VBH Holding AG and the consolidated financial statements for the 2010 financial year produced by the Executive Board. The annual financial statements were thus adopted. The Supervisory Board reviewed the Executive Board's proposal for the use of unappropriated surplus and approved it. The Supervisory Board also approved the corporate governance declaration.

Executive bodies of the company

Dr. Ralf Lieb, who was responsible for the Finance department, retired from the Executive Board of the company at his own request effective 31 August 2010. The Supervisory Board appointed Mr. Frieder Bangerter as a new member of the Executive Board of the company effective 1 January 2011. Mr. Bangerter has taken on the function of CFO and is responsible for the areas of Controlling and Accounting, Finance, Investor Relations, IT, HR, Auditing and Taxes.

The Annual General Meeting elected Prof. Rainer Kirchdörfer, Matthias Linnenkugel and Andreas Schill as members of the Supervisory Board on 8 June 2010. The above gentlemen had previously been appointed by the Court of Registration as the successors to the departed members of the Supervisory Board Prof. Brun-Hagen Hennerkes, Jürgen Bockstette and Dr. Ralph Mühleck.

The Supervisory Board would like to thank all the staff and the members of the Executive Board for their dedication and commitment, as well as their many extraordinary and everyday accomplishments in the past financial year. The management and employees of VBH Holding AG and its subsidiaries all made significant individual contributions to the positive enhancement of the company in the year under review.

Korntal-Münchingen, March 2011

Prof. Rainer Kirchdörfer
Chairman of the Supervisory Board

The Executive Board

Rainer Hribar

Rainer Hribar, born on 25 March 1957, is the Chairman of the Executive Board of VBH Holding AG, Korntal-Münchingen, in charge of Sales and Distribution, Marketing, Logistics and Category Management.

After studying electrical engineering at ETH Zurich, he first worked for Gebrüder Sulzer AG (Winterthur), where in 1986 he became an authorised signatory of the company. He became the managing director of NEEF Unternehmensgruppe (Karlsruhe) in 1991 and in 1994 he became the managing director for sales and marketing at GEZE (Leonberg).

In February 1996, Mr. Hribar was appointed as the Director of Exports at VBH Holding AG, Korntal-Münchingen, and took on responsibility for the management of the international subsidiaries. In February 2002, he was appointed to VBH Holding AG's Executive Board and put in charge of the pending reorganisation. He was appointed Chairman of the Board in March 2008.

For ten years, Mr. Hribar was also head of the electrical engineering department and taught at Fachhochschule Zürich polytechnic for 18 years. He is currently president of the Hochschule Zürich college examination board (engineering department).

Frieder Bangerter

Frieder Bangerter, born 24 June 1965, is a member of the VBH Holding AG Executive Board, Korntal-Münchingen, responsible for Controlling and Accounting, Finance, Investor Relations, IT, HR, Auditing and Taxes.

After completing a banking apprenticeship and studying business, he completed an internship in the US. His professional career began in 1993 as a controller at GEHE AG, Europe's largest pharma wholesaler and retailer. Mr. Bangerter became head of corporate accounting in 1994. After joining GEHE Pharma Handel GmbH (pharma wholesaler in Germany and the Czech Republic) in 1998, he was responsible for the area of controlling and accounting and, after becoming financial managing director in 2000, for IT in addition to the commercial areas.

Outside of work, Mr. Bangerter was a member of the economics working group of the Stuttgart Chamber of Industry and Commerce.

VBH shares

Stock market environment

2010 began promisingly on the stock markets and the price of VBH shares quickly rose to a value of € 4.75 per share. The performance that followed was stable but marked by low trading volumes.
Effective 21 June 2010, the shares of VBH Holding AG were removed from Deutsche Börse's SDAX segment. There were indications of this from the start of the year as a result of declining trading volumes in light of the lower free float and market capitalisation. This development was due in large part to Ascalon Holding GmbH, Vienna, Austria, which has increased its holding to 21.85 % by January 2011.

Stock exchange listing

VBH shares are listed on Xetra and on the regulated markets of the Frankfurt and Stuttgart stock exchanges in the Prime Standard.

Performance of VBH shares

VBH shares began 2010 well on the stock markets, but then lost ground significantly over the course of the year. The shares reached their high for the year of € 4.75 on 19 January 2010 and their lowest point on 23 December 2010 at € 3.99. VBH shares closed the year at € 4.25. The share price had risen by 6.3 % as against the price at the end of the previous year of € 4.00. The price currently stands at around € 4.50 with a low volume.
Market capitalisation amounted to € 195 million as at the end of the reporting period after € 183.5 million in the previous year.

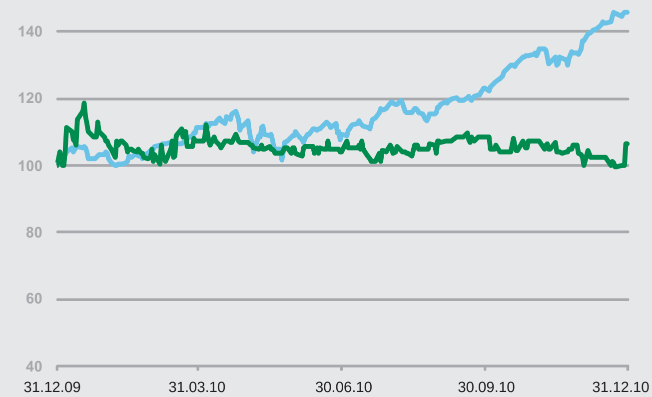
Shareholder structure in 2010

The free float of VBH shares decreased as against 2009 from 55.4 % to 31.9 % as at the end of the reporting period.

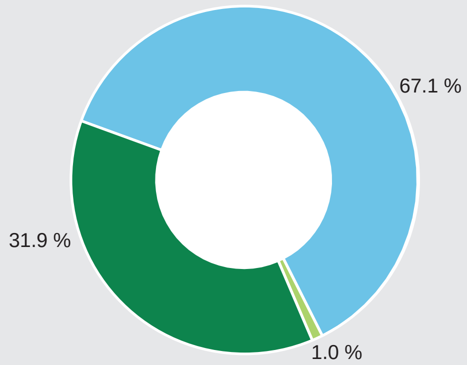
In accordance with section 21 (1) sentence 1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), shareholders are required to notify the company and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Federal Financial Supervisory Authority) if their voting rights exceed or fall below certain percentage thresholds. The following reporting thresholds apply: 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % and 75 %. The following changes in shareholder structure of greater than 10% had occurred as at 31 December 2010:

- Mr. Viktor Trenev, Russia, notified us on 19.07.10 in accordance with section 21 (1) WpHG that his share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 20 % threshold on 16.07.10 and amounted to 20.58 % (9,442,023 voting rights) on this date. 20.58 % (9,442,023) of the voting rights are attributable to Mr. Trenev through Ascalon Holding GmbH, Vienna, Austria, in accordance with section 22 (1) sentence 1 no. 1 WpHG.

Share price performance VBH share and SDAX
Stock performance indexed, 31.12.2009 = 100



Shareholder structure 2011
Number of shares: 45,879 m



- Ascalon Holding GmbH, Vienna, Austria, notified us on 19.07.10 in accordance with section 21 (1) WpHG that its share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 20 % threshold on 16.07.10 and amounted to 20.58 % (9,442,023 voting rights) on this date.
- Mr. Viktor Trenev, Russia, notified us on 5 March 2010 in accordance with section 21 (1) WpHG that his share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 15 % threshold on 4 March 2010 and amounted to 16.75 % (7,684,492 voting rights) on this date. 16.75 % (7,684,492) of the voting rights are attributable to Mr. Trenev through Ascalon Holding GmbH, Vienna, Austria, in accordance with section 22 (1) sentence 1 no. 1 WpHG.
- Ascalon Holding GmbH, Vienna, Austria, notified us on 5 March 2010 in accordance with section 21 (1) WpHG that its share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 15 % threshold on 4 March 10 and amounted to 16.75 % (7,684,492 voting rights) on this date.

Notifications after the end of the reporting period

Mr. Victor Trenev, Russia, and Ascalon Holding GmbH, Vienna, Austria, notified us in accordance with section 27a (1) WpHG on 20 January 2011 by letter dated 14 January 2011 that Mr. Victor Trenev, Russia, (including all voting rights of Ascalon Holding GmbH, Vienna, Austria, attributable to him in accordance with section 22 (1), sentence 1 no. 1 WpHG) and Ascalon Holding GmbH, Vienna, Austria, currently hold 21.85 % in VBH Holding AG.

The corresponding threshold notifications in accordance with sections 21 and 22 in conjunction with section 26 WpHG were properly issued by the reporting parties in all cases. According to the information of the reporting parties, there were no further reportable changes in accordance with sections 21 and 22 WpHG in the period since the last notification on 16 July 2010.

In addition, the reporting parties have now also satisfied the reporting requirement of section 27a (1) WpHG and notified the company as follows:

I. Goals pursued with the acquisition of voting rights:

1. The investment is for the purpose of implementing strategic objectives.
2. It is intended to obtain further voting shares by way of acquisition or otherwise within the next twelve months.
3. It is intended to influence the composition of a supervisory body of VBH Holding AG.
4. It is not intended to implement a significant change in the capital structure of the company, particularly with regard to the ratio of equity and borrowed capital and to the dividend policy.

II. Origin of the funds used:

The funds used originated as the own funds of the sole shareholder of Ascalon Holding GmbH, Vienna, Austria, Mr. Victor Trenev, and as loans received by Ascalon Holding GmbH from third parties.

Investor relations activities

VBH attaches great importance to a continuous, transparent dialogue with the capital market, analysts and institutional and private investors. The aim is to communicate the VBH Group's strategy and growth potential through a transparent presence on the capital market, thus achieving a fair valuation for VBH shares.

Investor relations activities continued throughout the financial year 2010 in addition to regular quarterly, six-month and annual reporting. VBH held an analysts' conference at the Equity Forum in Frankfurt. The Executive Board held talks with various investors and attended conferences in addition to giving the annual accounts press conference. Through intensive dialogue, we intend to serve existing shareholders while attracting new German and international investors for VBH shares. However, parallel to the decreasing free float, VBH shares have also attracted less attention on the capital market.

The Annual General Meeting on 9 June 2010 was again utilised by our shareholders to hear extensive information directly from the VBH Holding AG Executive Board on the performance of business. 79.6 % of voting share capital was registered and represented at the Annual General Meeting.

The Internet site of VBH offers current information for shareholders and investors, enabling all interested parties to form a comprehensive view of VBH. In addition to personal meetings, the legally relevant information provided is also a good way of staying informed about the company.
Financial reports, analysts' ratings, presentations and other publications are available at http:\\www.vbh-holding.com.

As in previous years, Equinet Bank AG, Frankfurt was VBH's designated sponsor in the past financial year. The company is currently monitored on an ongoing basis by four analysts at major banks.

Dividend policy

The Executive Board would like for the shareholders to participate in the success of VBH with a consistent dividend policy and has resolved to submit a proposal on the appropriation of profits to the Supervisory Board allowing for a dividend for the 2010 financial year of € 0.06 per share. This corresponds to a distribution rate of 40 % based on the adjusted operating consolidated net profit for the period (before goodwill impairment). The primary goal of the Executive Board is still to continue to scale back the net debt and to retain a long-term distribution rate of at least 35-40 % of operating earnings per share. A fundamental requirement for this is the financial stability of the VBH Group, which is to be guaranteed by the active management of working capital in particular. Through these goals, shareholders should be able to participate appropriately in the company’s profits.

FINDEN
statt suchen
www.vbh24.de

THE INTUITIVE ITEM FINDER.

The new “Find, Don’t Search” item finder from VBH will show you the right products intuitively and at a glance – without searching for hours.
It runs a guided search through the entire VBH range using suitable properties such as material, shape or colour. This way, customers quickly find what they really need.

VBH HOLDING AG GROUP MANAGEMENT REPORT

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Group management report

OF VBH HOLDING AG

The VBH business model

In its core business, VBH operates as an international production connection dealer between component manufacturers and processors in the door and window industry. It creates a well-rounded range from the complex product offerings of suppliers and thereby plays a key role in range design, distribution logistics and sales for a highly fragmented market that comprises around 500 suppliers and more than 30,000 customers in Germany alone. The customer base extends from craftsmen to industrial operations and essentially comprises door and window manufacturers, metalworkers, fitters, joiners and interior decorators. Efficient processes, high inventory turnover and short payment periods make VBH the sector's cost leader.

The extensive product range for PVC, wood and metal window and door manufacturing includes window, door and furniture mountings in addition to mouldings, seals, construction chemistry and components, fastening technology and tools. Thus, VBH supplies a majority of all components and materials that its customers need to build and install windows and doors. Since 2009, VBH has extended its product range as a manufacturer with the greenteQ own brand, which is now a fixed component of range policy with over 1,800 items and to date has focused on PVC window manufacturing in particular.

In addition to VBH's core business model, the subsidiary esco Metallbausysteme GmbH ("esco") serves a specific customer group with its branches in Austria and Poland. esco offers system solutions for metal working and steel construction in the field of doors, windows and façades. The company develops and sells a broad range of products from renowned suppliers and its systeQ own brand. As an exclusive supplier for WICONA door mountings and thanks to the development of special mounting constructions for façades for large properties, the company offers its customers bespoke individual system solutions. In addition to operating as a dealer, esco sells the FERRO-WIC steel system. In the field of mechatronics, end-to-end solutions and individual custom work are designed, delivered, fitted and serviced for automatic doors and windows, security technology and smoke and heat exhaust ventilation.

Organisation and regional coverage

Within its core business model, VBH operates on over 40 national markets worldwide and enjoys a leading position in its regional markets. Operative management is broken down by the four regional segments Germany, Western Europe, Eastern Europe and Other Markets. The table below shows the individual countries in which these segments operate.

Germany	Western Europe	Eastern Europe	Other Markets
Germany	Belgium	Bosnia	Argentina
	Greece	Bulgaria	China
	United Kingdom	Estonia	India
	Ireland	Georgia	Kuwait
	Italy	Kazakhstan	Malaysia
	Netherlands	Kosovo	Mexico
	Austria	Croatia	Panama
	Spain	Latvia	Singapore
	Cyprus	Lithuania	Thailand
		Montenegro	Turkey
		Moldavia	UAE
		Poland	
		Romania	
		Russia	
		Serbia	
		Slovakia	
		Slovenia	
		Czech Republic	
		Ukraine	
		Hungary	
		Belarus	

Overall, VBH is therefore comprehensively represented in Western and Eastern Europe. The Other Markets segment is still being developed, while its companies have already assumed leading positions in the regional markets.

Strategy

VBH's operations around the world are all geared to our vision:

"Simply everything. Everything simple.",

a motto intended to mirror our standard for an extensive product range and the development of innovative services for our customers. This motto will continue to shape VBH's direction moving forward.

VBH is also pursuing a long-term, strategic plan built on three pillars (see also figure):

- selective expansion of the international presence, which can also include taking on national markets that do not fit VBH's business model;
- expansion of the greenteQ own brand to a share of consolidated sales of 10 %;
- systematic expansion of the service portfolio.

Thanks to its **successful international positioning**, VBH can offer its suppliers a global sales platform and its customers a comprehensive and internationally coordinated range of products and services. The partnership with suppliers and the success in procurement are based on moving high volumes, very good payment methods and the ability to open and expand new markets for business partners through the VBH sales platform.

The Other Markets segment is under development and currently focuses on the Middle East and Asia. The Group's company in Turkey plays a key role in the segment's further expansion. VBH's area of operations in South America was also extended to include Argentina in 2009. A central warehouse is currently being established in Panama to initially supply the current VBH companies in Argentina and Mexico, and to deliver to further markets in South and Central America in future as well. VBH Caucasus was founded in Tbilisi together with a partner and is responsible for Georgia and other neighbouring regions. Following a strategic review, however, VBH discontinued its activities in Australia over the course of the year.

The **greenteQ** own brand is now an anchor point of **range policy** and excellently rounds off the VBH product portfolio with its strong manufacturer brands (“Simply Everything”). greenteQ is opening up new options for VBH to raise its profile among existing customers and to attract new customer groups and is also still proving a growth driver. With now more than 1,800 items, greenteQ products account for 6 % of total sales at VBH Deutschland GmbH. VBH intends to continue pushing its own brand systematically and to accelerate the market penetration of greenteQ products on international markets.

The innovative **service range**, which VBH is gradually rolling out in its subsidiaries, is allowing the Group to stand out clearly in the competitive environment. Where additional products and services are needed, we develop tailored solutions to create value added for our customers.
One example of this is the CE-fix tool developed together with IFT Rosenheim with which window and door manufacturers and suppliers can obtain all necessary CE documentation from product passes to component sheets with extensive processing information online instantly. VBH is gradually expanding CE-fix to create a technology platform with a view to becoming a strategic system provider in the wood area in particular. Other services such as the VBH knowledge base are also becoming increasingly popular with an average of more than 2,000 hits per month. The mobile LOGOS app for smartphones, which customers can use to order online from the construction site, is proving to be an innovation that VBH customers are more than happy to use. VBH is currently working on further creative and innovative solutions to make work easier for its customers (“Everything Simple”).

In summary, we as VBH have repeatedly proved that we are internationally successfully positioned. This is shown by the sustainability of our strategic policies; we will continue to work systematically within this framework in 2011 as well.

Overall economic environment and sector performance

1. ECONOMIC ENVIRONMENT

The global economy was in much better condition in 2010 following the massive disruptions of the economic and financial crisis. While uncertainty as to further developments was still prevalent at the start of 2010, the economic stimulus programmes and political intervention have made a substantial contribution towards stabilising the global financial and economic situation. Current figures assume an increase in global gross national product of 4.8 % in 2010 as against 2009.

For 2011 and 2012, the International Monetary Fund (IMF) is forecasting global economic growth of around 4.5 %. In spite of positive developments, the IMF feels that problems lie in the high debt levels of the industrialised nations, high commodities prices and the absence of essential financial reforms. Current political unrest in Northern Africa and the Middle East as well as the continuing uncertainty with regard to the situation in Japan could lead to further shifts. Accordingly, growth forecasts also vary for the different regions of the world. Growth of 2.5 % is predicted for the industrialised nations for 2011 and 2012. In contrast, the emerging and developing nations are expected to see growth rates of over 6.0 %. The IMF sees the industrialised nations of Germany and the US as the growth engines. In the emerging nations, China and India stand out with high forecast growth rates, though the risk of high inflation rates is also on the rise.

2. CONSTRUCTION INDUSTRY

The European construction industry shrank for the third time in a row in 2010. Based on the calculations of the 19 European research institutes in the renowned Euroconstruct network, it contracted by 9% in the crisis year of 2009 and a further 3% in 2010. The construction industry performed differently in the various segments:

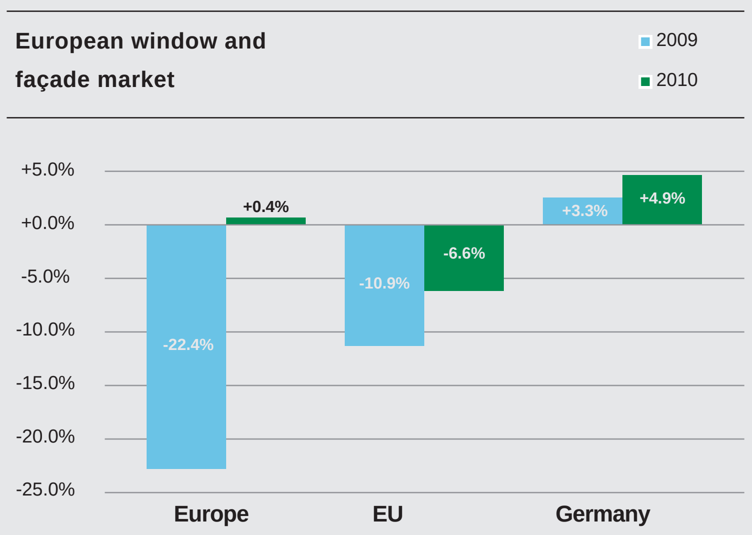
- Residential construction stabilised in 2010 with a decline of 2.9% (previous year: down 12.9%). Moderate growth of 2.9% is anticipated for 2011. According to Euroconstruct, a greater share of redevelopment work is expected from 2013, consolidating the current level. The general conditions for residential construction are currently very good in Germany. Financing costs are extremely attractive due to the favourable interest rates. Jobs are safer thanks to the positive developments in the economy as a whole and rising income is forecast for 2011. According to the German Window and Façade Association, the positive trend in residential construction will continue in 2011 as well.
- Commercial construction, defined as structural engineering without residential construction, declined by 5.1% overall as against the previous year. A slight drop of 1.2% is expected for the current year with only a slow recovery in subsequent years. In particular, the developments in Ireland, Spain, Portugal and Greece will exert a negative influence owing to the high debt levels and the restrictions on investing activities this entails. More positive trends are forecast for Central and Eastern Europe. Slight growth of 2.2% is assumed for Germany.

According to the analyses of the Euroconstruct institutes, the European construction market is expected to stagnate in 2011 (down 0.1%) and grow by 2% in 2012. Positive developments are forecast for Scandinavia, Poland, Italy and Germany in particular. A further recovery in the European construction industry is anticipated for 2013.

The construction market in Asia is one of the biggest growth markets in the world, with India and China in particular standing out with double-digit growth rates forecast. The construction market in the Middle East is also playing an increasingly important role for VBH and industry experts are forecasting continuing high growth for 2011.

3. WINDOW AND DOOR MARKET

In the wake of the economic crisis, the European window market suffered a sharp drop of 22.4% in 2009. The market stabilised in 2010 and grew slightly by 0.4% on the previous year. Thus, a volume of 125.8 million window units was achieved (see press graphic from the German Window and Façade Association (VFF) below).



Press graphic: German Window and Façade Association (VFF)

The stabilisation of the market as a whole resulted in particular from the market growth of the Eastern European nations such as Poland, Russia and the Ukraine. In Poland, the market has expanded steadily since 2008 and should continue to grow in 2011 as well. Russia and the Ukraine had recorded substantial market contraction in 2009. However, both countries posted clear double-digit growth rates in 2010 and are also anticipating further market stabilisation in 2012. In the Middle East, Turkey enjoyed growth in particular.

In Western Europe, positive trends were observed on the window markets of the UK and Italy, with slight growth forecast here for 2011. By contrast, the window market in Spain again performed negatively in 2010. It has suffered double-digit market declines since 2008.

The German window market clearly rose above the Western European level. In 2010 it grew by 4.9% after 3.3% in the previous year. Germany is continuing to benefit from the subsidisation of energy modernisation in its economic stimulus packages. Thanks to the market's growth, sales of 12.6 million window units were achieved in 2010. This is 0.5 million more units than in the previous year.

The rise in sales of window units from 12.1 million to 12.6 million was due solely to the residential sector. Units increased from 7.1 million in 2009 to 7.6 million in 2010. The commercial construction sector remained constant with sales of 5 million window units. The areas of renovation and new construction also again moved further apart. Given the further subsidisation of energy modernisation, the renovation area's share of window units rose by 8% from 7.6 million in 2009 to 8.2 million in 2010. New construction saw a decline of 2.3% from 4.5 million in 2009 to 4.4 million window units in 2010. The German window market is expected to remain at a level of 12.6 million in 2011.

There was also a positive trend in the German exterior door market, which developed largely parallel to the window market. After an increase of 5.1% to 1.17 million units in 2009, it rose by a further 5.6% to 1.23 million units in 2010. Frame materials in this area break down as 34% wood, 32% PVC, 28% aluminium and 6% wood/metal.

The exterior door market displayed similar trends to the window market. The divergence between new construction and renovation continued to widen due to subsidisation. Here, too, the positive development was due solely to the residential sector. Non-residential construction remained stable year-on-year.

Earnings, financial position and net assets

1. SALES AND EARNINGS

Consolidated sales recovered as against the crisis year of 2009 and rose by 5.9 % from € 755.1 million to € 800.0 million.

Regions of VBH

In m €	2009	2010	change in %
Germany	382.5	411.4	+7.6
Western Europe	143.9	133.3	-7.4
Eastern Europe	221.1	247.9	+12.1
Other markets	25.8	31.2	+20.9
Consolidation	-18.2	-23.8	
Group	**755.1**	**800.0**	**+5.9**

The table shows the different developments in the individual segments:

Sales climbed by 7.6 % in the Germany segment, accounting for just over half of consolidated sales. Thus, the German market is still the most important sales market in the Group and has proven to be a high-growth region following a modest start. This development was driven by ongoing government programmes and the boom on the window market in Germany. Sales rose from € 382.5 million to € 411.4 million.

In the Western Europe segment, which is characterised by weak markets, sales declined by 7.4 % from € 143.9 million to € 133.3 million. This further sales slide since 2009 is mainly due to Greece, Belgium, Ireland, Italy and Spain.

The Eastern Europe segment recovered very rapidly following a weak first quarter and contributed to the Group's growth with a sales increase of 12.1 %. Sales rose from € 221.1 million in the previous year to € 247.9 million. Much of this impetus came from the CIS nations, which recovered significantly overall and again showed substantial momentum.

The Other Markets segment in Asia (Singapore, China, Thailand and Malaysia), the Middle East (Dubai and Kuwait) and Turkey are showing a highly positive development overall, though the organisation in China is still falling far short of the internal targets. VBH achieved sales of € 31.2 million after € 25.8 million in the previous year in this segment.

Owing to the regulations of IFRS 5.33, the discontinued operations must be adjusted retrospectively in earlier reporting periods. The income statement for continuing operations is as follows:

Profit and Loss

Income statement: Calculation of adjusted EBIT and adjusted EBITDA

In € T	2009 continuing operations	2010 continuing operations
Sales	**755,143**	**800,011**
Total operating profit	**755,143**	**800,011**
Costs of raw materials, supplies and purchased merchandise	571,855	607,801
Gross operating profit	**183,288**	**192,210**
Personnel expenses	92,511	94,916
Other operating income	12,890	18,008
Other operating expenses	80,437	86,269
EBITDA	**23,230**	**29,033**
Depreciation / Amortization	6,008	16,090
EBIT	**17,222**	**12,943**
Income from investments	0	0
Other interest and similar income	734	514
Interest and similar expenses	8,085	8,906
Depreciation on financial assets and securities	0	9
Financial result	**-7,351**	**-8,401**
EBT	**9,871**	**4,542**
Current taxes	4,043	6,278
Deferred taxes	-811	-1,393
EBT continuing operations	**6,639**	**-343**
discontinued operations	-80	-887
EAT	**6,559**	**-1,230**
Minorities	986	481
Net result after Minorities	**5,573**	**-1,711**

Within the Group, gross operating profit increased by € 8.9 million in absolute terms in the reporting period. The gross profit margin declined slightly from 24.3 % in the previous year to 24.0 % in the current financial year. Staff costs grew only slowly as a result of restructuring measures at some VBH companies and climbed by a total of 3 %. Other operating income was positively influenced by subsequent purchase price reductions on an acquisition and currency gains. Other operating expenses increased from € 80.4 million to € 86.3 million. Depreciation, amortisation and write-down expenses rose from € 6.0 million to € 16.1 million, particularly as a result of the goodwill impairment of € 10.1 million. Net finance costs deteriorated from € -7.4 million to € -8.4 million due to the higher utilisation of credit lines on account of the greater working capital requirements and the higher interest rates. Income taxes rose from € 3.2 million to € 4.9 million.

Calculation of adjusted EBIT and EBITDA

The key control parameter for VBH is the Group's operating performance, which is measured as EBITDA and EBIT. As these figures are also affected by extraordinary effects, we have chosen a form of presentation for the first time that permits a more objective assessment of operating Group performance and are reporting "adjusted" results. Extraordinary effects are factors that occur only once or do not recur regularly. "EBITDA", "adjusted EBITDA" and "adjusted EBIT" are internal figures. They are not defined by IFRS regulations and are intended as additional information for readers of the financial statements. In particular, these key figures were adjusted for the effects of amortisation on intangible assets and purchase price reductions as extraordinary effects totalling € T 8,692. To improve understanding of these figures, we have presented a statement of reconciliation below.

Reconciliation of adjusted income statement VBH Holding AG

In € T	2010 continuing operations	special items		2010 adjusted earnings
Sales	**800,011**		**Sales**	**800,011**
Changes in finished goods, work in progress / capitalized payments	0		Changes in finished goods, work in progress / capitalized payments	0
Total operating profit	**800,011**		**Total operating profit**	**800,011**
Costs of raw materials, supplies and	607,801		Costs of raw materials, supplies and	607,801
Gross operating profit	**192,210**		**Gross operating profit**	**192,210**
Personnel expenses	94,916		Personnel expenses	94,916
Other operating income	18,008	-1,456	Other operating income adjusted	16,552
Other operating expenses	86,269		Other operating expenses	86,269
EBITDA	**29,033**	**-1,456**	**EBITDA adjusted**	**27,577**
Depreciation / Amortization	16,090	-10,148	Depreciation / Amortization	5,942
EBIT	**12,943**	**8,692**	**EBIT adjusted**	**21,635**
Income from investments	0		Income from investments	0
Other interest and similar income	514		Other interest and similar income	514
Interest and similar expenses	8,906		Interest and similar expenses	8,906
Depreciation on financial assets and securities	9		Depreciation on financial assets and securities	9
Financial result	**-8,401**		**Financial result**	**-8,401**
EBT	**4,542**		**EBT adjusted**	**13,234**
Current taxes	6,278		Current taxes	6,278
Deferred taxes	-1,393		Deferred taxes	-1,393
EBT continuing operations	**-343**		**EBT continuing operations adjusted**	**8,350**
discontinued operations	-887		discontinued operations	-887
EAT	**-1,230**	**8,692**	**EAT adjusted**	**7,462**
Minorities	481		Minorities	481
Net result after Minorities	**-1,711**	**8,692**	**Net result after Minorities adjusted**	**6,988**
EPS in €	**-0.04**	**0.19**	**EPS in € adjusted**	**0.15**
EPS diluted in €	**-0.04**	**0.19**	**EPS diluted in € adjusted**	**0.15**

The key operating figures produced by the adjustment are as follows:

Key ratios

		2009	2010
EBITDA adjusted	in € m	23.2	27.6
EBITDA-margin adjusted	in %	3.1%	3.5%
EBIT adjusted	in € m	17.2	21.6
EBIT-margin adjusted	in %	2.3%	2.7%
EBT	in € m	9.9	4.5
EBT adjusted	in € m	9.9	13.2
EAT net result after minorities	in € m	5.6	-1.7
EAT net result after minorities adjusted	in € m	5.6	7.0

Adjusted EBITDA climbed by 19.0 % from € 23.2 million to € 27.6 million. The margin of adjusted EBITDA to sales improved from 3.1 % to 3.5 %. Adjusted EBT performed better and rose by 25.6 % from € 17.2 million in the previous year to € 21.6 million.

2. FINANCIAL POSITION AND NET ASSETS

Financial position

Investments in the VBH Group amounted to € 4.6 million after € 11.6 million in the previous year. There were no additions to goodwill in the past financial year (previous year: € 2.5 million); € 0.8 million of additions related to other intangible assets (previous year: € 1.3 million) and € 3.7 million to property, plant and equipment (previous year: € 2.8 million). There were no additions to financial assets (previous year: € 4.8 million).

Investments in property, plant and equipment and intangible assets not including goodwill (capex) amounted to € 4.6 million were therefore up on the previous year's level (€ 4.2 million). The ratio of capital expenditure to depreciation and amortisation climbed from 0.7 to 0.8.

Capex and depreciation

In € m	2009	2010
Capex	4.2	4.6
Depreciation on assets	6.0	5.9
Capex vs. depreciation ratio	0.7	0.8

Capital expenditure was offset by virtually unchanged depreciation on property, plant and equipment and amortisation on intangible assets not including goodwill amounting to € 5.9 million (previous year: € 6.0 million).

Consolidated statement of cash flows

The Group's cash flow declined in the reporting year as a result of the strong expansion of inventories and receivables and thereby of working capital of € 16.8 million, while in the previous year there had been a reduction of € 13.2 million. As a result, operating cash flow fell from € 33.6 million to € 4.8 million in the financial year.

The cash flow from investing activities dropped again to € 3.7 million after € 9.3 million in the previous year, reflecting the Group's restrictive investing activities. Free cash flow (total net cash inflows and outflows from operating and investing activities) declined from € 24.4 million in the previous year to € 1.2 million due to the expansion of current assets. Cash flow from financing activities declined to € -3.1 million after € -23.5 million in the previous year. As at the end of the reporting period, cash and cash equivalents were € 1.8 million lower than at the start of the year at € 12.7 million.

In € m	2009	2010
Cash flow from operating activity	33.6	4.8
Cash flow from investing activity	-9.3	-3.7
Free Cash Flow	24.4	1.2
Cash flow from financing activity	-23.5	-3.2
Changes in cash and cash equivalents and changes owing to exchange gains/ losses	0.1	0.2
Cash and cash equivalents at the beginning of the period	13.5	14.4
Cash and cash equivalents at the end of the period	14.4	12.7

Net assets

Assets

In € T	31.12.2009	31.12.2010
Long-term assets		
Intangibles assets	51,500	41,034
Property, plant and equipment	30,343	29,232
Financial assets	2,424	1,955
Other long-term assets	4,482	5,140
Deferred tax assets	10,092	11,741
Total	**98,841**	**89,102**
Short-term assets		
Inventories	110,236	124,848
Trade receivables	96,187	103,274
Trade receivables affiliated companies	4,300	3,133
Other assets	24,109	20,270
Cash and cash equivalents	14,411	12,663
Tax receivables	2,055	762
Total	**251,298**	**264,950**
Total assets	**350,139**	**354,052**

In spite of the growth in its business activities, the Group's total assets rose only slightly from € 350.1 million to € 354.1 million on account of the goodwill impairment.

Non-current assets declined from € 98.8 million to € 89.1 million, largely as a result of goodwill impairment of € 10.1 million. Intangible assets were down from € 51.5 million to € 41.0 million while property, plant and equipment decreased by € 1.1 million from € 30.3 million to € 29.2 million. Deferred tax assets increased by € 1.6 million from € 10.1 million to € 11.7 million.

Current assets rose by € 13.7 million from € 251.3 million to € 265.0 million. This change reflected a € 14.6 million increase in inventories, a € 7.1 million sales-driven rise in trade receivables and a € 1.2 million decline in receivables from Group companies. The reduction in other assets amounted to € 3.8 million. Cash and cash equivalents declined from € 14.4 million in the previous year to € 12.7 million as at the end of the reporting period.

Equity and Liabilities

In € T	31.12.2009	31.12.2010
Equity		
Subscribed capital	45,869	45,879
Capital reserve	41,847	41,906
Revenue reserve	35,585	37,257
Profit retained	-2,135	-6,302
Equity attributable to shareholders of VBH AG	121,166	118,740
Minority interests	8,580	8,338
Treasury stock	0	0
Equity	**129,746**	**127,078**
Non-current liabilities		
Pension provisions	12,497	12,812
Other long-term provisions	3,130	3,046
Long-term financial liabilties	67,888	10,921
Other long-term liabilities	2,015	2,416
Deferred tax liabilities	3,823	4,411
Total	**89,353**	**33,606**
Current liabilities		
Short-term provisions	5,127	4,785
Short term financial liabilties	50,141	114,114
Advances received	538	593
Trade payables	43,801	47,476
Trade payables affiliated companies	0	0
Other short-term liabilities	30,330	26,127
Tax liabilities	1,103	273
Total	**131,040**	**193,368**
Total equity and liabilities	**350,139**	**354,052**

On the liabilities side, equity decreased from € 129.7 million to € 127.1 million. Share capital and the capital reserves rose slightly due to the payment from the option programme. Equity was reduced by the dividend payment for the financial year 2009 and the net loss for the year. Owing to the reduction in total assets due to the goodwill impairment, the consolidated equity ratio is now 35.9 % after 37.0 % in the previous year.

Non-current liabilities fell by € 55.8 million from € 89.4 million to € 33.6 million, largely as a result of the reclassification of financial liabilities from non-current to current. Other items in non-current liabilities were at virtually the same level as in the previous year.
Current liabilities rose from € 131.0 million to € 193.4 million as a result of the reclassification mentioned above. Trade payables increased by € 3.7 million on the previous year due to sales, while other liabilities fell by € 4.2 million. Current and non-current financial liabilities rose by € 7.0 million. This was as a result of operating activities and the financing of current assets.

The Group's lines of credits given by commercial banks provided VBH with adequate credit in the current financial year to continue developing its operating activities and performing investments. Given the expiry of the syndicated loan agreement currently in place as at the end of 2011, VBH Holding AG is currently restructuring the Group's financing. Based on the talks conducted with the banks to date, the Executive Board is confident of ensuring financing in the long term. It is aiming to conclude negotiations by the middle of 2011.

Net working capital (defined as inventories plus trade receivables less trade payables) rose in proportion to sales overall by € 16.2 million or 9.6 % to € 183.8 million. The ratio of net working capital to sales increased from 22.2 % to 22.9 %, essentially as a result of the increases in inventories. The Group is still aiming to bring this ratio to a level of 20 %.

3. SEGMENT REPORT

VBH is structurally organised into five segments, reflecting the management structure of the Group. The segments are: Germany, Western Europe, Eastern Europe, Other Markets and Corporate Services.

Germany accounts for 49.9 % (previous year: 49.5 %) of total Group sales, while Western Europe accounts for 16.2 % (previous year: 18.6 %), Eastern Europe for 30.1 % (previous year: 28.6 %) and Other Markets 3.8 % (previous year: 3.3 %).

Germany

The Germany segment comprises the two companies VBH Deutschland GmbH and esco Metallbausysteme GmbH, which cover the markets for wood and PVC window manufacturers and metal workers.
The sales performance in the Germany segment was highly positive. Sales rose by 7.6 % or around € 29 million from € 382 million to € 411 million. This was due to an increase in market share as the market as a whole grew by only 4.9 %. The positive business development was largely influenced by the healthy condition of the German window market. Performance was most stable in the renovation area, followed by residential construction which saw a slight recovery. Commercial construction bottomed out in 2009 and is slowly consolidating its position. In addition, the economic aid programmes and measures to promote energy modernisation, combined with favourable mortgage loans, are leading to stable capacity utilisation among our customers. EBIT increased by € 5.0 million to € 14.2 million (previous year: € 9.2 million). The EBIT margin improved to 3.5 % (previous year: 2.5 %).

International

Western Europe

In the Western Europe segment, consisting of the markets of the UK, Ireland, Italy, Belgium, Spain, the Netherlands, Greece and Austria, sales declined by 7.4% from € 143.9 million to € 133.3 million. While sales were up in the UK, our sales companies in Ireland, Belgium, Greece and Italy suffered declines in sales as a result of the difficult general economic situation in particular. Competitive pressure is also high in these countries. In the Netherlands, the company benefited from government intervention to stimulate the economy and reduced the drop in sales in the fourth quarter.

EBIT declined to € -5.0 million after € -3.3 million in 2009. In spite of poor markets, many Western European companies still made positive contributions to earnings. However, results were squeezed by a lack of contributions to margins and the ongoing restructuring activities in Belgium and Italy.

Eastern Europe

The Eastern Europe segment consists of Central Eastern Europe, the CIS nations and Southeast Europe. In the past year, sales in this segment increased by 12.1 % to € 247.9 million. The main growth driver was the Russian market with sales growth of 25 % together with the CIS nations. Central Eastern Europe was stable overall with the markets in the Baltic states, Poland, the Czech Republic, Romania and Bulgaria, which stabilised at the previous year's level. High competitive pressure was also seen here. In the Baltic states in particular, VBH profited from weak competition and increased its market share. Sales in the Balkan states stabilised overall as against the previous year and grew strongly in individual countries.

Owing to the substantial exchange rate fluctuations caused by a weak Euro at the start of the year, which mainly impacted the margins in Russia and Central Eastern Europe, earnings did not keep pace with the sales performance. At € 17.6 million, EBIT was roughly on par with the previous year's level.

Other Markets

This segment comprises VBH's other international activities in China, Malaysia, Thailand, Singapore, the VBH companies in Dubai, Kuwait, Turkey and, since 2010, our company in Mexico. The start-ups are still at a low sales level, but will gradually share in the positive development forecast for the window markets. The key sales drivers are our established companies in Singapore and Turkey, which generate the majority of sales in this region. Sales increased by 21 % to € 31.2 million in 2010. The Chinese company in Beijing was restructured over the course of 2010 with the help of employees from the Group's headquarters and realigned towards the market.

The segment's loss in terms of EBIT was reduced from € -1.0 million in the previous year to € -0.3 million despite the negative earnings effects of the restructuring in Beijing. The earnings contributions from Turkey proved the most stable.

Corporate Services segment

Non-operational companies are grouped together in the Corporate Services segment. In addition to VBH Holding AG as the parent company, this is a sale-and-lease-back company consolidated in line with IFRS regulations. EBIT for the two companies amounted to € -4.4 million (previous year: € -5.0 million). The expenses incurred by VBH Holding AG are more than compensated for by the dividend distributions by the VBH companies and income within the Group. The segment's overall result is based on the net financial income of VBH Holding AG, which has reflected a waiver of interest from VBH Germany GmbH in place since 2004 and still valid in 2010. The carrying amounts of the investments recognised by VBH Holding AG are tested for impairment annually in the preparation of the financial statements. There were write-downs in the segment for the companies that are currently undergoing a reorganisation and restructuring process owing to internal and external conditions.
The far-reaching measures will be implemented in the medium term with the support of VBH Holding AG employees so that these companies can sustainably generate income for the Group once again.

4. RISK REPORT

The business activities of VBH in more than 40 countries around the world naturally entail a number of risks and opportunities, not all of which can be avoided or realised respectively. The only real potential for risk comes from unrecognised and therefore unmanaged risks. Thanks to the active risk controlling work in the context of risk management, VBH reduces this potential to a minimum. This plays a significant role in the successful and economical management of the company within the framework of its strategic objectives. Within VBH, the heart of the risk detection system is formed by risk management with the monthly reporting system of the Group companies, an ad hoc system and the Internal Auditing department. It is therefore a strategic success factor for the reduction of the threat potential and the management of the continuation and ongoing development of the company.

Risk management system

The risk management system essentially pursues four objectives in the intentional handling of risks in the entire VBH Group. These are compliance with legal requirements, supporting corporate governance, raising risk awareness and increasing enterprise value. VBH employs a risk diversification strategy to achieve these goals.

Risks are identified at all VBH companies using a standardised procedure every six months. Firstly, this tracks external risks such as those relating to suppliers, customers, competition, market and currency factors on the one hand and internal risks such as those relating to receivables, inventories and management factors, risks arising from the financial/liabilities structure and risks of current business operations on the other. These risks are then measured using a risk score and EBT-@-risk. The findings of this method are aggregated at Group level and, if necessary, measures to eliminate risks are implemented immediately. Our Risk Controlling Committee ensures the sustainable elimination of risks. The findings are also used by the Internal Auditing department.

Regular reporting system of the Group companies

This covers all significant management and reporting processes for the Group, including corporate planning. A robust international controlling system for equity holdings in place at VBH Holding AG provides direct access to the information of investment companies on a monthly basis. The aim is to ensure a highly effective, intensive and rapid early warning system for all international markets. This allows VBH to gather information on changes in the earnings power of each individual company unit quickly and to convert this information into measures to protect sales and earnings immediately.

Ad hoc system

In addition to the risk prevention systems in place in the VBH Group described above, there is also an ad hoc reporting system. Operational risk controlling falls within the responsibility of the national managing director. If defined thresholds are exceeded, e.g. for monetary risks, the persons responsible at the various levels of hierarchy are involved in the process without delay. This thereby guarantees immediate and central communication up to Group management.

Internal Auditing

The aim of Internal Auditing is to ensure compliance in day-to-day operations with the processes and guidelines defined in the manuals, to present potential for improvement in processes and control systems and to identify fraud in the susceptible processes. It should also identify potential for economic improvement.

Internal Auditing works according to procedural instructions coordinated between the Executive Board and the Supervisory Board. Several companies undergo an internal audit each year. The companies audited are selected according to various factors.

The Supervisory Board receives reports on the current status of audit work at regular intervals. In the context of the annual audit, the auditor assesses whether the Executive Board has adopted the measures incumbent on it, and in particular whether it has established a monitoring system to ensure that any developments that threaten the continued existence of the company are recognised in a timely manner.

In addition to the factors described above, the following risks will be explicitly analysed below:

Sales and procurement risks

Material risks can arise as a result of negative developments in the economy and construction industry in the regions in which VBH operates. The VBH Group counters the risk of a sales downturn by regularly analysing and adjusting the structure of its sales mix and orienting its product programme to the requirements of the customer structure. This is aided by the Group's service range, such as the VBH24 service platform, CE-fix designation, the knowledge database and the introduction of high-profitability products with substantial margins under the greenteQ brand name. VBH attempts to minimise potential supply risks through strategic partnerships and continuous monitoring of the market. At the same time, the strong national and international market position allows VBH to obtain better purchasing conditions.

Legal risks

The international focus of the VBH Group requires the observance of many different national laws and regulations. The Group addresses the risk of changes in these laws by systematically monitoring the legal environment and consulting internal and external legal advisers at an early stage. All contracts of material significance are subject to a legal review.

IT risks

A dependence on the availability and reliability of IT systems and the networking of individual company units represents an increasing risk. To minimise this risk, extensive preventive steps have been taken, such as firewall systems and virus protection, setting up a back-up computer system and data protection training sessions for employees. In addition, the implementation of largely standardised IT structures within the Group should enable future work to be carried out more effectively and efficiently.

Risks of acquisitions

The acquisition of or investments in new companies and their integration into the Group always entails risks. To ensure the sustained success of the company, both business due diligence reviews and legal and tax due diligence reviews are carried out.

Financial risks

Financial risks for the VBH Group primarily include currency, interest rate and loan default risks.

Currency risk

As a global company, the currency risk to which the VBH Group is exposes includes transaction and translation-related risks. Transaction risk arises from changes in the value of foreign currency payments due to exchange rate fluctuations in the single-entity financial statements. Transaction risks are to some extent avoided by purchasing products in the countries in which VBH sells them. Translation risk relates to the risk of a change to items on the statement of financial position and/or statement of comprehensive income of a subsidiary due to currency changes occurring when the separate local financial statements are translated into the Group currency. Risks arising as a result are measured using sensitivity analyses and if necessary hedged by using financial derivatives.

Interest rate risk

Interest rate risks include any positive or negative influence arising from changes to interest rates on income or equity in current or future reporting periods. Interest-bearing financial instruments are utilised with the aim of reducing negative effects on interest income as an element of financial policy. The Group uses interest rate derivatives for this purpose. Sensitivity analyses are carried out to quantify risks in connection with interest rate changes.

Risk of default

VBH manages ever-present default risk through detailed local monitoring, use of a comprehensive credit management system and credit insurance providing partial protection against defaults.

5. FORECAST

The outlook for the financial year 2011 is clouded by persistent uncertainty regarding economic and in some cases political developments. However, we are assuming the basic economic recovery will continue. The markets in the emerging nations will perform better than the established markets.

Development of the global economy

According to expert opinion, the recovery of the global economy will continue in 2011. The forecasts assume growth of between 4% and 5%, which means a slowdown as against the previous year due to the end of government stimulus measures. However, the positive overall performance of the global economy will be influenced by various factors, such as exchange rates, even within the Eurozone. Furthermore, there is also not insubstantial uncertainty regard the political developments in Northern Africa, which could spread as far as the Middle East.
Following a decent recovery in 2010, experts state that the European economy will progress more slowly in 2011. This will be caused by lower government spending in most EU countries combined with decreased consumer activity due to wage cuts and tax increases. The forecast increase in unemployment in several Member States will also not contribute positively to the recovery. Moreover, the property crisis in countries such as Spain and Ireland is still continuing undiminished. Growth forecasts in the Eurozone for 2011 are for up to 1.5%, a dip on the previous year's figure of around 1.7%.

The economy recovered more quickly in Germany in 2010, thanks significantly to a clear recovery in export business. This momentum is supported by a stable labour market with strong demand for highly qualified personnel. New debt is rising but is below average compared to other Euro nations. The momentum of growth will be slowed by the end of economic stimulus programmes in 2011, with gross domestic product forecast to grow by 2.2% after 3.7% in the previous year. This forecast is therefore at the upper end of the range compared to the rest of the Eurozone.

Despite the moderate growth rates forecast around the world, the Latin American and Asian emerging markets will continue to drive the global economy in 2011. In particular, it will be aided significantly by the BRIC countries:

The OECD is forecasting growth of around 9.7% for China in 2011 with 8.2% for India, 4.3% for Brazil and 4.4% for Russia.

The fundamental uncertainty will also continue to affect the outlook for the global construction industry. The development of commercial construction will be faltering following the end of several government economic stimulus programmes. New residential construction will still depend on favourable mortgage loans, while the renovation sector should perform stably thanks to rising energy prices. Positive impetus is anticipated from Russia especially on account of the high renovation potential.

In the VBH Group, the Executive Board is assuming slight increases in sales in the Germany segment in 2011 as planning permission is on the rise and incentive programmes for energy modernisation are still in place.
Following considerable setbacks in previous years, Western Europe is expected to bottom out over the course of 2011. However, there are still substantial risks in some countries such as Spain, Italy and Greece.
In the Eastern Europe segment, assuming stable exchange rates, a significant overall recovery is anticipated with mid-single-digit growth, driven mainly by Russia and the CIS nations. The Asian market should recover and return to strong growth.

The Executive Board is forecasting a single-digit increase in sales in the current and subsequent financial year and is confident that earnings growth will outstrip sales development in both these years. The Group has a broad international positioning with potential as yet untapped in many markets. This will be tackled systematically going forward. Cost structures are monitored closely at all times and are developing more slowly than sales growth. Working capital will be optimised further, cash flow should rise on account of restrictive investments and the planned earnings increases.

The 2011 financial year

The business performance of VBH in the first two months of the current year slightly exceeded expectations and planning. Prior-year figures and planning were clearly outperformed in the Germany and Eastern Europe segments, while the Western Europe and Other Markets segments roughly matched the previous year's figures but did not meet targets. By the end of February 2011, sales throughout the Group had increased by around 9% as against the previous year.

In the medium term, the Executive Board is assuming that there will be no material changes in the current financial situation of the VBH Group.

It will continue to push forward with the implementation of the strategic positioning, focusing on internationalisation, expanding the product range, strengthening the greenteQ own brand and expanding existing services and introducing new ones. The policies of VBH do not require any changes in this respect and will remain in effect in the long term. These and other strategic information are available at all times on our website, www.vbh-holding.com.

6. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Mr. Victor Trenev, Russia, and Ascalon Holding GmbH, Vienna, Austria, notified us in accordance with section 27a (1) WpHG on 20 January 2011 by letter dated 14 January 2011 that Mr. Victor Trenev, Russia, (including all voting rights of Ascalon Holding GmbH, Vienna, Austria, attributable to him in accordance with section 22 (1), sentence 1 no. 1 WpHG) and Ascalon Holding GmbH, Vienna, Austria, currently hold 21.85 % in VBH Holding AG.

The corresponding threshold notifications in accordance with sections 21 and 22 in conjunction with section 26 WpHG were properly issued by the reporting parties in all cases. According to the information of the reporting parties, there were no further reportable changes in accordance with sections 21 and 22 WpHG in the period since the last notification on 16 July 2010. In addition, the reporting parties have now also satisfied the reporting requirement of section 27a (1) WpHG and notified the company as follows:

I. Goals pursued with the acquisition of voting rights

1. The investment is for the purpose of implementing strategic objectives.
2. It is intended to obtain further voting shares by way of acquisition or otherwise within the next twelve months.
3. It is intended to influence the composition of a supervisory body of VBH Holding AG.
4. It is not intended to implement a significant change in the capital structure of the company, particularly with regard to the ratio of equity and borrowed capital and to the dividend policy.

II. Origin of the funds used

The funds used originated as the own funds of the sole shareholder of Ascalon Holding GmbH, Vienna, Austria, Mr. Victor Trenev, and as loans received by Ascalon Holding GmbH from third parties.

7. CORPORATE GOVERNANCE DECLARATION

The principles of responsible and professional corporate governance shape the actions of the management and controlling bodies of VBH Holding AG with the aim of safeguarding the success of the company in the long term. This declaration represents a corporate governance report by the Executive Board in accordance with section 289 (1) HGB. This declaration includes the declaration of compliance, the corporate governance report, disclosures on the corporate governance practices applied, the description of the working methods of the Executive Board and the Supervisory Board and information on compliance at VBH Holding AG.

Declaration of compliance

The first version of the German Corporate Governance Code was presented in February 2002. Since then, the Code has been updated and expanded each year. The Government Commission on the German Corporate Governance Code is responsible for the formulation and ongoing development of the Code (www.corporate-governance-code.de). The Code is based on legal requirements, including in particular the German Stock Corporation Act. It offers comprehensive recommendations for the cooperation of management and supervisory boards, for transparent communications with the capital market and for the protection of shareholder and stakeholder interests.

VBH Holding AG submitted its latest declaration of compliance in accordance with section 161 AktG in March 2011, and posts its most recent declaration on its website. The declaration is required annually and indicates where VBH Holding AG is not in compliance with the Code and the reasons why. The text of the latest declaration of compliance reads as follows:

“The Executive Board and the Supervisory Board of VBH Holding AG submitted the latest declaration of compliance in accordance with section 161 AktG on 30 March 2010. For the period 31 March 2010 to 2 July 2010, the declaration shown below pertains to the version of the Code dated 18 June 2009, published on 5 August 2009 in the electronic Bundesanzeiger (German Federal Gazette). For the period from 3 July 2010, the declaration below pertains to the version of the Code dated 26 May 2010, published on 2 July 2010 in the electronic Bundesanzeiger (German Federal Gazette).

The Executive Board and the Supervisory Board of VBH Holding AG declare that the company has complied with and will continue to comply with the recommendations of the German Corporate Governance Code with the following exceptions:

Code 3.8.

The D&O insurance policy concluded by VBH for Supervisory Board members does not feature a deductible, as the group insurance policy also covers a number of employees within and outside Germany.

VBH Holding AG is furthermore of the opinion view that having such a deductible would not enhance motivation and responsibility on the part of Supervisory Board members with regard to their duties.

A deductible for members of the Executive Board has been agreed in their contracts in line with legal requirements.

Code 4.2.3.

At this time, the variable remuneration components for Executive Board members do not feature stock options or similar incentives. As before, the Executive Board is to be primarily incentivised through variable remuneration components based on corporate earnings. Individual Executive Board member remuneration is comprised solely of fixed and performance-based components and a discretionary bonus, as the Supervisory Board believes that stock options are only of limited value under present circumstances for incentivising the Executive Board.

Executive Board contracts do not contain any provisions relating to a lump sum settlement or its basis of calculation in the event of their premature termination, nor do they contain any provisions relating to termination of Executive Board members following a change of control. This provides the necessary degree of flexibility in the event of premature termination of Executive Board members, with the aim of achieving a reasonable outcome to negotiations according to the specific situation at hand.

Code 5.3.3

There is no nomination committee within the Supervisory Board constituted exclusively of shareholder representatives. This would likely be impractical at present, as the Supervisory Board is currently composed of four shareholder representatives, so that voting on shareholder representative candidates for the Supervisory Board is not a problem in this constellation.

Code 5.4.1

In addition to the legal requirements, the Supervisory Board bases its proposals for the election of Supervisory Board members solely on the technical and personal aptitude of candidates and on objective matters of expediency – that promote the function of the Supervisory Board. This includes, for example, the affiliation of members with relevant business experience. The Supervisory Board will refrain from stating more specific goals for its composition, especially as merely stating such specific goals does not necessarily entail an improvement in the quality of Supervisory Board work.

Code 5.4.3.

Due to practical considerations, VBH reserves the right to hold elections for Supervisory Board candidates at the Annual General Meeting in block form if necessary, as this procedure has proven highly effective in the past, and the efficient conduct of the Annual General Meeting is in the interest of shareholders. Shareholders' right to petition for individual voting remain thereby unaffected.

The company reserves the right to file unexpiring petitions for court appointment of Supervisory Board members. However, the intention is to propose court-appointed Supervisory Board members for election by shareholders to the Supervisory Board at the next Annual General Meeting to follow the court appointment. This ensures the Supervisory Board's ability to act at all times while simultaneously ensuring that shareholders may exercise their participation rights to involvement in the election of Supervisory Board members.

Code 5.4.6.

Supervisory Board member remuneration is governed by the company's Articles of Association and outlined in detail in the remuneration report, which is part of the management report, as well as in the notes to the financial statements. For this reason, further disclosures and breakdowns by individual are not provided.

Code 7.1.2

Prior to publication, the half-yearly and quarterly financial reports are discussed only with the Chairman of the Audit Committee and not with the entire Audit Committee, as the Executive Board views this as the only means of maintaining the necessary flexibility and preventing overlapping responsibility problems, particularly with regard to matters relevant for ad hoc release.

Corporate Governance Report

Corporate governance

The concept of “corporate governance” can be described as “corporate management and control”, referring to the general legal and institutional conditions that indirectly or directly influence the management decisions of a company, and thus its performance. Efficient cooperation between the company management and supervisory committees, regard for shareholders‘ interests and openness and transparency in corporate communications are all essential aspects of good corporate governance. At VBH Holding AG, corporate governance is firmly anchored in the corporate culture. Both the Executive Board and the Supervisory Board regularly concern themselves with German and international developments in the area of corporate governance. The corporate governance report outlined below provides an overview of the principles most relevant to corporate governance at VBH Holding AG.

General information on the management structure

VBH Holding AG is subject to the provisions of the German Stock Corporation Act (Aktiengesetz - AktG) and the German One-Third Employee Participation Act (Drittelbeteiligungsgesetz - DrittelbG), as well as to capital market regulations, the provisions of its Articles of Association and the rules of procedure for the Executive and Supervisory Boards. VBH Holding AG maintains a divided management and supervisory structure in its governance bodies, the Executive and Supervisory Boards. The Executive and Supervisory Boards are and consider themselves to be obligated to the interests of the shareholders and the welfare of the company. The Annual General Meeting is the third executive body of the company.

The Supervisory Board

The Supervisory Board is comprised of six members. In accordance with German DrittelbG, it is two-thirds comprised of shareholders and one-third of employee representatives. Shareholder representatives are elected at the Annual General Meeting, while employee representatives are elected pursuant to the provisions of DrittelbG. The Supervisory Board advises and monitors the Executive Board’s management of the company.

The composition of the Supervisory Board, with independent, qualified members, guarantees efficient supervisory work. As an auditor and tax consultant, the Chairman of the Audit Committee in the past financial year, Mr. Matthias Linnenkugel, has experience – including internationally – in the application of accounting policies and internal control procedures.

With the Executive Board, the Supervisory Board regularly discusses business developments, the strategic and operative focus and corporate planning and its implementation. The annual financial statements, including the management report and the proposal on the appropriation of the profits of VBH Holding AG, the consolidated financial statements and the Group management report are audited by the Supervisory Board. It also handles the quarterly financial statements and the results of the committee meetings.

The Executive Board and the Supervisory Board work closely in a spirit of cooperation to sustainably increase the enterprise value of VBH Holding AG. The main areas of the work between the Executive Board and the Supervisory Board can be read in the "Report of the Supervisory Board", which is a component of this annual report.

The Rules of Procedure of the Supervisory Board stipulate clear and transparent procedures and structures as a component of the monitoring and controlling process. The Supervisory Board further stipulated the information and reporting duties of the Executive Board. The new version of the Rules of Procedure of the Supervisory Board, dated 20 January 2010, reflects the recommendations of the German Corporate Governance Code for the Supervisory Board.

There were no conflicts of interest among Executive Board and Supervisory Board members, which would have had to have been disclosed to the Supervisory Board immediately.

The Executive Board

The Executive Board of VBH Holding AG (currently consisting of two members) manages the company and oversees its transactions.

The Executive Board must represent the interests of the company. The objective of its activities is to enhance the value of the company on a sustainable basis. It develops the strategic orientation of the company, coordinates it with the Supervisory Board and ensures that it is implemented. It is also responsible for the company's annual and multi-year planning and for preparing mandatory reports, such as the annual and consolidated financial statements and quarterly reports. In addition, it provides for appropriate risk management and risk control, as well as regular, prompt and comprehensive reporting to the Supervisory Board on all strategic, corporate planning, business development, risk position and risk management issues of relevance to the Group.
It also ensures compliance with statutory regulations, legal provisions and internal corporate policy by the Group companies.

The assignment of duties and cooperation within the Executive Board is governed by rules of procedure. Shareholders and the capital market are notified in good time of measures and transactions of fundamental importance to ensure that decision-making processes remain transparent during the fiscal year and capital market participants properly informed. Significant transactions are subject to approval by the Supervisory Board.

The Annual General Meeting

Shareholders exercise their rights and voting rights at the Annual General Meeting. VBH Holding AG has shares with full voting rights only. Each share grants entitlement to one vote. The Annual General Meeting is held within the first eight months of each fiscal year. The agenda of the Annual General Meeting, including required reports and documents, is published on the company's website.

To facilitate shareholders' exercising of their respective rights, VBH Holding AG provides a proxy representative for the Annual General Meeting who is bound by instructions. The invitations to the Annual General Meeting explain how instructions for exercising voting rights can be issued before the Annual General Meeting. In addition, shareholders are at liberty to select a proxy representative of their choice to represent them. The registration and proof of identity procedures comply with the internationally recognised record date procedure required by law. In this process, the 21st day prior to the Annual General Meeting is the authoritative date for verification of a shareholder's identity for participation in the Annual General Meeting.

Transparency

VBH Holding AG uses its website, <<http://www.vbh-holding.com >>, to communicate information to shareholders and investors. In addition to the consolidated and annual financial statements and quarterly reports, shareholders and third parties are informed of current developments by way of ad hoc disclosures and press releases. VBH Holding AG publishes a financial calendar in good time ahead of all important dates and company releases.

Accounting, auditing and risk management

The consolidated financial statements of VBH Holding AG and the Group management reports are prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs); the annual financial statements and management report of VBH Holding AG are prepared in accordance with German Commercial Code (Handelsgesetzbuch – HGB).

Prior to submitting an election proposal at the Annual General Meeting, the Supervisory Board obtained confirmation of independence from the proposed auditor. The Chairman of the Supervisory Board requested that the auditor immediately report any and all matters arising during conduct of the audit that in any way concern the duties of the Supervisory Board with respect to material findings or occurrences in the event such matters cannot be immediately resolved.

The current risk management system in place at VBH Holding AG is designed for the identification, recording, assessment and managing of business and financial risks to which the company is exposed in the course of its activities. The individual elements of the monitoring system provide reliable information on the current risk situation and support documentation, risk examination and the elimination of weak points, thus helping minimise potential risk-related costs. Detailed information on the risk management system of VBH Holding AG can be found in the management report (risk report) to the consolidated financial statements comprising part of this annual report.

Declaration of compliance – German Corporate Governance Code

The German Corporate Governance Code contains recommendations and important provisions on managing and monitoring German listed companies, incorporating standards of professional and responsible corporate management recognised internationally and within Germany. The aim of the German Corporate Governance Code is to render the German corporate governance system transparent and verifiable, in the interest of greater confidence on the part of German and international investors, customers, employees and the general public in the management and monitoring of German listed companies. The German Corporate Governance Code was last updated by the Government Commission on 26.05.10.

The Executive Board and Supervisory Board of VBH Holding AG have reviewed the new recommendations in detail and last updated the declaration of compliance in March 2011. Any deviations from the recommendations of the German Corporate Governance Code as amended 26 May 2010 have been presented and reasons provided. The declaration of compliance and the reasons for any non-compliance are provided in this annual report.

The current version and previous versions of the declaration of compliance dating from 2004 onwards are permanently available to shareholders on the website (http://www.vbh-holding.com).

Reportable securities transactions, material shares of voting rights and shareholdings of the executive bodies

In accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), VBH Holding AG publishes directors' dealings disclosures in accordance with section 15a WpHG, i.e. disclosures of securities transactions in VBH Holding AG shares by members of the Executive Board and the Supervisory Board and other persons who perform management functions at VBH Holding AG in accordance with section 15a of the WpHG, as well as by natural and legal persons closely related to these persons, immediately upon their receipt. These disclosures are published on the company's website (http://www.vbh-holding.com).

The company also publishes disclosures on the acquisition or disposal of significant shares of voting rights pursuant to Section 21 of the German Securities Trading Act, and disclosures on holding financial instruments pursuant to Section 25 of the German Securities Trading Act, immediately upon their receipt.

The shareholdings of the executive bodies of VBH Holding AG are broken down in the notes to the consolidated financial statements.

"Annual Document" pursuant to Section 10 of the German Securities Prospectus Act

The "Annual Document" in accordance with section 10 (1) of the Wertpapierprospektgesetz (WpPG – German Securities Prospectus Act) has been published under the "Corporate Governance" section of the website, http://www.vbh-holding.com, and can be viewed there.

Remuneration report

The remuneration report forms part of both the Group management report and the corporate governance report. The Supervisory Board has included it in its approval of the Group management report and used it as a source for reporting on corporate governance and remuneration.

Disclosures on corporate governance practices

The duties of the Executive Board of a stock corporation include the monitoring of external factors and developments affecting operating business and operations and financing, and making decisions in regard to opportunities and risks in connection therewith. In doing so, the Executive Board is bound by the established rules of procedure for the Executive Board.

The Executive Board receives the information necessary for managing the company and decision-making in the form of monthly financial reports from the subsidiaries, through regular contact with the managing directors of the subsidiaries and by visiting company locations in Germany and abroad. Furthermore, geographical regions are assigned to regional heads, who report regularly to the Executive Board.

The company observes all corporate governance practices required by law, and requires all employees to comply with a corporation-wide code of internal conduct. In view of the midmarket size of the subsidiaries, no other corporation- wide standards of an ethics, labour or social-related nature are in place.

The VBH Holding AG Executive Board, Supervisory Board and managers regularly review strategic objectives, revising these as necessary.

Since the start of the financial year 2010, the internal audit function has been transferred to an independent auditor, who audits the Group companies in coordination with the analyses of the risk management system and the Executive Board to detect weaknesses early on and to devise solutions. The risk managers appointed within Group controlling support the work of internal auditing.

The risk management system was developed further in 2010. The risks of individual companies were analysed and presented uniformly to communicate a comprehensive status. If need for action is identified, measures and defined and specified. Risks are measured using an EBIT-@-risk model.

Procedures followed by the Executive and Supervisory Boards

The VBH Holding AG Executive Board (consisting of two members) manages the company and oversees its businesses. The Executive Board is bound to representing the interests of the company. The objective of its activities is to enhance the value of the company on a sustainable basis. It develops the strategic orientation of the company, coordinates it with the Supervisory Board and ensures that it is implemented. It is also responsible for the company's annual and multi-year planning and for preparing mandatory reports, such as the annual and consolidated financial statements and quarterly reports. In addition, it provides for appropriate risk management and risk control, as well as regular, prompt and comprehensive reporting to the Supervisory Board on all strategic, corporate planning, business development, risk position and risk management issues of relevance to the Group.

The Chief Executive Officer directs business operations including regional activities, sales and logistics; the Chief Financial Officer is in charge of controlling and accounting, finance, investor relations, IT, HR, internal auditing and taxes. Both are closely involved in operational activities. The regional directors for Western Europe, Spain and America, Central and Eastern Europe, CIS (excluding Russia) and the Baltics, Russia and Other Markets regularly report to the Executive Board on the performance of the business divisions and are responsible for results in their respective regions.

The composition of the Executive Board is outlined in Section 6 of the VBH Holding AG Articles of Association. The Board must consist of a minimum two individuals, appointed by the Supervisory Board. The Supervisory Board is responsible for establishing rules of procedure for the Executive Board outlining actions/transactions conducted by the latter requiring Supervisory Board approval. The Supervisory Board may also establish its own rules of procedure in accordance with Section 11 (7) of the Articles of Association.

At meetings of the full Supervisory Board and its committees, the Executive Board provides verbal and written reports on agenda items and resolution proposals in addition to responding to questions posed by individual members. The Executive Board participates in all Supervisory Board meetings unless the Supervisory Board should resolve otherwise in certain cases, particularly concerning specific agenda items.

Resolution petitions and all relevant documentation must be provided to Supervisory Board members in a timely manner ahead of the meetings. The Supervisory Board convenes at least four times a year on a regular basis, and additional meetings may be called as necessary. Resolutions may be voted on by written circulation procedure when necessary.

The Supervisory Board chairman discusses the activity of the Supervisory Board and its committees in the annual Supervisory Board Report to shareholders, and at the Annual General Meeting. The current Supervisory Board report is provided on page 14 of this annual report.

In particular, the Supervisory Board chairman regularly discusses the course of business and current issues with the Executive Board. Outside of these meetings, the Executive Board reports verbally and in writing to the Supervisory Board chairmen on current developments. The Supervisory Board met six times in 2010.

VBH Holding AG has organised Supervisory Board committees for the following areas: Human Resources, the Audit Committee and Strategy, Marketing and Sales.
The Audit Committee met three times in the reporting year and prepared the resolution of the Supervisory Board on the adoption of the annual financial statements and approval of the consolidated financial statements for the period ended 31 December 2009. The HR Committee met once in the year under review. The Strategy, Marketing and Sales Committee also met once in 2010.

The Supervisory Board reviews its own effectiveness annually.
The members comprising the Supervisory Board are outlined in the notes to the consolidated financial statements.

Compliance – the framework for entrepreneurial and business activity

Acting with responsibility is an integral part of the corporate culture at VBH Holding AG. This extends to integrity in our dealings with fellow staff members, with business partners, shareholders and the public, demonstrated through impeccable conduct.

For VBH Holding AG, compliance means obeying laws, regulations, the Articles of Association and internal policies. To ensure that our actions and conduct are at all times exemplary, a code of conduct is in place for the entire corporation establishing guidelines and standards for the conduct of the Executive Board, on-site management, managers and all employees of the company.

This code of conduct outlines ways in which all personnel can work together to uphold these standards, providing a guide for resolving ethical and legal concerns that may arise in daily work as well as conflict situations. Violations are investigated in the interest of all employees and the company itself, in order to eliminate the corresponding causes.

8. EXPLANATORY REPORT OF THE EXECUTIVE BOARD IN ACCORDANCE WITH SECTION 315 (4) HGB.

In accordance with Section 315 (4) of German Commercial Code (Handelsgesetzbuch - HGB), a publicly listed parent entity is required to make disclosures on the capital structure, shareholder rights and restrictions, affiliated companies and the governing bodies of the company to the extent relevant for acquisitions. These disclosures are required per European Parliament and Council Directive 2004/25 EC dated 21 April 2004 on takeover bids. Companies whose voting shares are listed on an organised market per Section 2 (7) Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetzes - WpÜG) must make such disclosures irrespective of whether a takeover bid has been advanced or is expected. These disclosures are intended to enable potential bidders to obtain comprehensive information on the company and any obstacles to a takeover. These disclosures are also found in the company's management report in accordance with Section 289 (4) of German Commercial Code. According to Section 176 (1) Sentence 1 of the German Stock Corporation Act (Aktiengesetz - AktG), the Executive Board is also required to present an explanatory report on these disclosures to the Annual General Meeting. A summary of the disclosures according to Section 315 (4) of the German Commercial Code and corresponding explanations according to Section 176 (1) Sentence 1 of the German Stock Corporation Act is presented below.

Structure of subscribed capital

The subscribed capital of VBH Holding AG, totalling € 45,879,408 is divided into 45,879,408 no-par bearer shares (ordinary shares), each bestowing the same rights, including voting rights. There are no different share classes. An individual no-par share corresponds to a notional share of subscribed capital of € 1.00.

VBH's shares are listed in the Prime Standard segment on Xetra and on the regulated market of the Frankfurt and Stuttgart stock exchanges.

Security	SCN	ISIN	Symbol
Share	760070	DE0007600702	VBH

Restrictions on voting rights and transfers

The Executive Board is not aware of any restrictions affecting voting rights or the transfer of shares.

Equity interests above 10 %

As of 31.12.10, the following direct or indirect interests in the equity of VBH Holding AG in excess of 10 % of voting rights were known to the Executive Board, per disclosures under securities law received by the company:

Mr. Wieland Frank, Germany, informed us on 29.06.2007 in accordance with Section 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) that his voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had fallen below the 25 % threshold on 31.05.2007, on that day amounting to 23.43 % (9,258,553 votes). Of that number, 18.62 % (7,358,242 votes) are attributable to him per Section 22 (1) Sentence 1 (1) WpHG. The attributed voting rights are held by the following company, which he controls and whose voting rights in VBH Holding AG amount to 3 % or more: ADWIAN oHG, Kampen, Germany.

Ms. Annette Wagener, Germany, informed us on 29.06.2007 in accordance with Section 21 (1) WPhG that her voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had fallen below the 20 % reporting threshold on 31.05.2007, on that day amounting to 18.62 % (7,358,242 votes). Of that number, 18.62 % (7,358,242 votes) are attributable to her per Section 22 (1) Sentence 1 (1) WpHG. The attributed voting rights are held by the following company, which she controls and whose voting rights in VBH Holding AG amount to 3 % or more: ADWIAN oHG, Kampen, Germany.

ADWIAN oHG, Kampen, Germany, informed us on 29.06.2007 in accordance with Section 21 (1) WPhG that its voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had fallen below the 20% reporting threshold on 31.05.2007, on that day amounting to 18.62 % (7,358,242 votes).

Dr. Eike Tobias Matthiessen, Germany, informed us on 17.06.2009 in accordance with Section 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) that his voting rights in VBH Holding AG, Korntal- Münchingen, Germany, had exceeded the 10 %, 15 %, 20 % and 25 % reporting thresholds on 15.06.2009, on that day amounting to 25.1 % (11,493,689 votes). Of that number, 25.1 % (11,493,689 votes) are attributable to him per Section 22 (1) Sentence 1 (1) WpHG. The attributed voting rights are held by the following company, which he controls and whose voting rights in VBH Holding AG amount to 3 % or more: LISOMA Beteiligungs GmbH, Hamburg, Germany.

Lisoma Beteiligungs GmbH, Hamburg, notified the company on 17 June 2009 in accordance with section 21 (1) WpHG that its share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 10 %, 15 %, 20 % and 25 % thresholds on 15 June 2009 and amounted to 25.1 % (11,493,689 voting rights) on this date.

Mr. Viktor Trenev, Russia, notified the company on 19 July 2010 in accordance with section 21 (1) WpHG that his share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 20 % threshold on 16 July 2010 and amounted to 20.58 % (9,442,023 voting rights) on this date. 20.58 % (9,442,023) of the voting rights are attributable to Mr. Trenev through Ascalon Holding GmbH, Vienna, Austria, in accordance with section 22 (1) sentence 1 no. 1 WpHG.

Ascalon Holding GmbH, Vienna, Austria, notified the company on 19 July 2010 in accordance with section 21 (1) WpHG that its share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 20 % threshold on 16 July 2010 and amounted to 20.58 % (9,442,023 voting rights) on this date.

No other direct or indirect shareholdings exceeding 10 % of voting rights were known on the balance sheet date.

Shares with special rights

The company has no shares with special rights that grant powers of control.

Voting right control for employee participation

The Executive Board is not aware of any employees holding an equity interest in the company who do not exercise their control rights directly.

Appointment and dismissal of Executive Board members and amendments to the Articles of Association

The VBH Holding AG Executive Board must be constituted of a minimum two individuals. Beyond this requirement, the number of Executive Board members is determined by the Supervisory Board. Appointment and dismissal of Executive Board members is carried out in accordance with the legal provisions outlined under Sections 84 and 85 of the German Stock Corporation Act. With the exception of a court-appointed replacement, the Supervisory Board has sole responsibility for appointing and dismissing Executive Board members. It appoints Executive Board members for a maximum term of 5 years. A member may be re-appointed or his or her term of office be extended for a maximum of 5 years. The Supervisory Board may appoint an Executive Board Chairman and Deputy Chairman.
In accordance with German Corporate Governance Code, initial appointments are generally not made for the 5-year maximum term.
Per Section 17 (2) of the Articles of Association and at variance to Section 179 (2) of the German Stock Corporation Act, amendments to VBH Holding AG's Articles of Association require a shareholder resolution by a simple majority vote, except as provided otherwise by law or in other Articles of Association. The Supervisory Board is authorised to amend the Articles of Association in wording only. Sections 179 and 133 of the German Stock Corporation Act also apply.

Executive Board powers to issue and repurchase shares

On 10 June 2009 the Annual General Meeting approved new authorised capital with the option of increasing capital against cash or non-cash contributions under disapplication of shareholders' statutory subscription rights and the corresponding amendment of the Articles of Association. Accordingly, the Executive Board is authorised to increase the share capital of the company (Authorised Capital) one or more times until 9 June 2014 by a maximum € 20,000,000 through the issuance of new no-par value ordinary bearer shares carrying voting rights (no-par value shares), subject to Supervisory Board approval. Thus far the Executive Board has not exercised this power, and has no plans at present to do so.

The Executive Board power outlined here to issue new shares from Authorised Capital is to enable the Executive Board to cover any capital requirements arising in a rapid, flexible and cost-effective way, and to utilise financing options that are attractive relative to the market. The ability to finance the acquisition of companies or stakes in companies by issuing company shares to the sellers in certain cases allows the company to carry out expansion without negatively impacting liquidity.

The share capital of the company has also been contingently increased by € 40,000 by the issue of up to 40,000 no-par ordinary bearer shares with voting rights (Contingent Capital II). This contingent capital increase serves exclusively to cover exercised option rights issued by a 24 May 2004 Annual General Meeting authorisation (share option plan) through the date 24 May 2009. This contingent capital increase will only be implemented to the extent that holders of the option rights issued exercise their right to purchase shares, and the company does not provide treasury shares to fulfil these option rights.
In addition, the authorised and contingent capital provisions outlined here are standard for comparable listed companies, and are not designed to impede potential takeover bids.

The Annual General Meeting authorised the Executive Board to acquire treasury shares on 8 June 2010.

The company is therefore authorised to acquire treasury shares until 7 June 2015 in the amount of up to 10 % of the share capital available at the time of the resolution for purposes other than trading in treasury shares, whereby the acquired shares together with other treasury shares owned by or attributable to the company cannot account for more than 10 % of the share capital at any time.

If the shares are purchased on the stock exchange, the purchase price must not be more than 10 % above or below the average market price for the ten trading days prior to purchase. If purchased in a public tender offer to all shareholders, the price paid to shareholders may not be more than 20 % above or below the average market price for the ten trading days prior to announcement of the offer.

The Executive Board is also authorised, with the approval of the Supervisory Board and disapplying the subscription rights of shareholders, to dispose of the treasury shares acquired in a way other than on the stock exchange or by offer to all shareholders if the acquired treasury shares are sold for cash at a price not significantly less than the stock market price at the time of disposal. However, this authorisation only applies on the condition that the shares sold under disapplication of subscription rights in accordance with section 186 (3) sentence 4 AktG do not exceed a total of 10% of the share capital or if the shares are disposed against non-cash contributions for the purpose of acquiring companies or equity interests in companies or if the shares are used to satisfy subscription rights granted to managers of the company and affiliated domestic companies under the stock option plan resolved by the Annual General Meeting of 24 May 2004, item 11 of the agenda, or if the shares are issued in the form of employee shares to employees of the company and/or to managers and employees of affiliated companies as part of an employee participation model.

Finally, the Executive Board is authorised to withdraw treasury shares without this requiring a further resolution by the Annual General Meeting.

Material agreements of the company with change-of-control clauses

There are no material agreements in place concerning a change of control over the company in the case of a takeover bid.

Compensation agreements of the company

The company has no compensation agreements in place with Executive Board members or employees in the event of a takeover bid.
In the reporting period, there was no cause for the Executive Board to consider takeover-related matters or particularities with regard to disclosures required under the Takeover Directive Implementation Act. Accordingly, the Executive Board does not consider necessary further explanations beyond the information provided here and in the management and Group management reports.

9. EXPLANATORY REPORT OF THE EXECUTIVE BOARD IN ACCORDANCE WITH SECTIONS 289 (5) AND 315 (2) NO. 5 HGB

Legal background

The Accounting Law Reform Act (BilMoG) enacted 29 May 2009 amended Sections 289 and 315 HGB and Sections 120 and 175 AktG. Pursuant to the Reform Act, the Executive Board must present a written report to shareholders at the Annual General Meeting on matters including the new disclosure requirements in the management report per Section 289 (5) HGB and in the Group management report per Section 315 (2) No. 5 HGB regarding the internal control and risk management system in place for the accounting and consolidated accounting process

In the later German Act Implementing the Shareholders' Rights Directive (Gesetz zur Umsetzung der Aktionärsrechterichtlinie – ARUG) legislators bundled requirements for providing explanatory reports under Section 176 (1) AktG and eliminated the previous regulations under Section 120 (3) Sentence 2 and Section 175 (2) Sentence 1 AktG. The reference to Section 289 (5) HGB added by BilMoG and the management report disclosures on the internal control and risk management system in place for the accounting and consolidated accounting process were not incorporated. It has not been finally settled whether this was merely an editorial error, resulting in an explanatory report to the disclosures per Section 289 (5) HGB (and Section 315 (2) No. 5 HGB) still being required after ARUG goes into force. As a precaution, the VBH Holding AG Executive Board has elected to provide such a report for fiscal year 2010.

Subject of the report

According to the legal justification of BilMoG, the internal system of controls extends to principles, methods and measures intended to ensure the effectiveness, efficiency and properness of accounting as well as compliance with applicable laws. This includes the internal auditing system, to the extent it concerns accounting.

As part of the internal system of controls, the risk management system as it pertains to the accounting process similarly involves accounting control and monitoring processes, particularly for financial accounting positions relating to the company's risk management.

Key accounting features of the internal system of controls and risk management system

The salient features of the internal system of controls and risk management system in place at VBH Holding AG concerning the (consolidated) accounting process can be described as follows:

- The VBH Group has clear organisational, corporate and control and monitoring structures;
- There are Group-wide planning, reporting, controlling and early warning systems and processes tailored to the company's size for full analysis and management of earnings-relevant risk factors and going-concern threats;
- Functional responsibilities are clearly outlined for all accounting-related areas (e.g. financial accounting and controlling);
- The IT systems used for accounting are protected against unauthorised access;
- The financial systems used primarily run on standard software;
- Adequate internal policies (including group-wide risk management policies) are in place and adapted as needed;
- The departments involved in the accounting process meet quantitative and qualitative requirements;
- Material accounting processes are regularly audited. The corporation-wide risk management system in place is continuously being adapted as events require and constantly reviewed in terms of its effectiveness. The system has been reviewed by the auditor Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, as part of a Group audit;
- The dual control principle is applied to all accounting-related processes without exception;
- The Supervisory Board's responsibilities include addressing key issues regarding accounting and risk management
- A comprehensive, uniform Group accounting guideline governs subsidiaries' accounting. It is revised annually and updated to reflect the latest legal regulations;
- Group Controllers visit the subsidiaries on an ongoing basis to keep abreast of significant events that also include accounting related events. Also monitor the progress of work on the annual financial statements and compliance with the Group accounting guidelines;
- All material annual financial statements incorporated in the consolidated financial statements are reviewed by local auditors;
- Standard consolidation software is used for processing the single-entity financial statements and converting them to IFRS accounting;
- External experts are engaged for opinions on complex accounting and consolidation issues;
- Meetings on the annual financial statements are conducted with the managements of the relevant companies, the local auditor, Group management and the Group auditor.

Notes concerning key accounting features of the internal system of controls and risk management system

The internal control and risk management system for the accounting process, the salient features of which have been discussed previously, ensures that business data are properly accounted for, prepared and approved before flowing into external accounting.

Clear organisational, corporate and control and monitoring structures and adequate accounting personnel and equipment form the foundation for efficient work by the areas involved in accounting. Unambiguous laws and internal Group rules and policies ensure uniform and proper accounting. Clearly outlined review mechanisms within the areas directly involved in accounting and early-warning risk management ensure correct and consistent accounting.

The internal control and risk management system in place at VBH Holding AG ensures that accounting is uniform and conforms to laws, regulations and internal policies for VBH Holding AG and all companies included in the consolidated financial statements. The Group-wide risk management system, which fully conforms to regulatory requirements, is specifically designed for the early identification, evaluation and adequate communication of risks. This allows a providing of accurate, pertinent and dependable information to the relevant parties concerned.

10. REMUNERATION REPORT

Main features of the Executive Board remuneration system

The remuneration report is a part of the corporate governance report and the Group management report. This remuneration report presents the details of the remuneration of the Executive Board and the Supervisory Board.

The remuneration system of VBH Holding AG is based on performance and earnings-based principles and represents a corporate culture of performance and counterperformance.

The total remuneration of the Executive Board features fixed and variable components. In addition to basic salary, Executive Board members receive non-cash benefits, the amount of which is determined as the private portion of company car usage recognisable under tax regulations. The overall remuneration structure is geared towards sustainable corporate development and was adjusted as at 1 April 2010 in respect of Mr. Hribar in line with the amended legal requirements of the Vorstandsvergütungsangemessenheitsgesetz (VorstAG – German Act on the Appropriateness of Management Board Compensation). The variable remuneration components are based on the consolidated operating earnings before taxes (IFRS) that exceed a defined basic amount. Some of the variable remuneration is carried forward to a bonus bank for a future date rather than being paid immediately. In the event of negative developments, these amounts carried forward can be fully or partially offset and can therefore lapse. A corresponding agreement was concluded with Mr. Bangerter on this basis from 1 January 2011. The variable remuneration components in Executive Board contracts utilise a multi-year calculation basis. They also contain regulations permitting appropriate remuneration reductions if the company's situation deteriorates in such a way that would make continued payment of such amounts inappropriate. In accordance with section 120 (4) AktG, the Annual General Meeting of VBH Holding AG approved the remuneration system for the Executive Board on 8 June 2010. This has established additional transparency and control in respect of the remuneration decisions of the Supervisory Board.

In addition to their fixed salaries of € T 315 and € T 168 respectively, Mr. Hribar and Dr. Lieb (until 30 August 2010) received variable remuneration in accordance with the provisions of their Executive Board contracts of € T 236 and € T 30 respectively, based on consolidated operating earnings before taxes (IFRS) and a discretionary variable bonus. The discretionary bonus was stipulated by the Supervisory Board and granted to the members of the Executive Board on the basis of the long-term strategy of the VBH Group. The company retained options to offset these bonuses in the event that there is no future benefit for VBH.

Executive Board agreements do not contain any explicit severance commitments in the event of premature termination of employment. Executive Board members do not receive loans from the company.

Remuneration for the 2010 reporting year broke down as follows:

Executive Board remuneration

		2009		
In € T	**Fixed**	**Variable**	**Fringe benefits**	**Total**
Rainer Hribar	250.0	240.0	73.6	563.6
Dr. Ralf Lieb	252.0	125.0	9.8	386.8
Total	**502.0**	**365.0**	**83.4**	**950.4**

		2010		
In € T	**Fixed**	**Variable**	**Fringe benefits**	**Total**
Rainer Hribar	314.5	236.4	79.9	630.8
Dr. Ralf Lieb (until 31.08.2010)	168.0	30.0	6.7	204.7
Total	**482.5**	**266.4**	**86.6**	**835.5**

Share option programmes and similar securities-based incentive systems

No options were granted to Executive Board members in the past financial year. The Executive Board also no longer has any options outstanding from earlier option programmes. Mr. Hribar held 459,684 shares as at 31 December 2010. Supervisory Board members held a total of 1,605,272 shares.

Pension commitments

The Executive Board members have received pension commitments in line with their individual contracts, which provide for a pension to be drawn no earlier than the age of 60.
Former Executive Board members and their surviving dependants received total benefits of € T 466 in the past financial year (previous year: € T 544). Defined benefit obligations (DBO) under IFRS for all pension commitments to former Executive Board members, managers and their surviving dependants totalled € 5.6 million in the 2010 financial year (previous year: € 5.6 million). Defined benefit obligations for all pension commitments (IFRS) amounted to € T 827 for Mr. Hribar (previous year: € T 551) and € T 89 for Dr. Lieb (previous year: € T 80). Total additions in the year under review amounted to € T 284 (previous year: € T 152).

Supervisory Board member remuneration

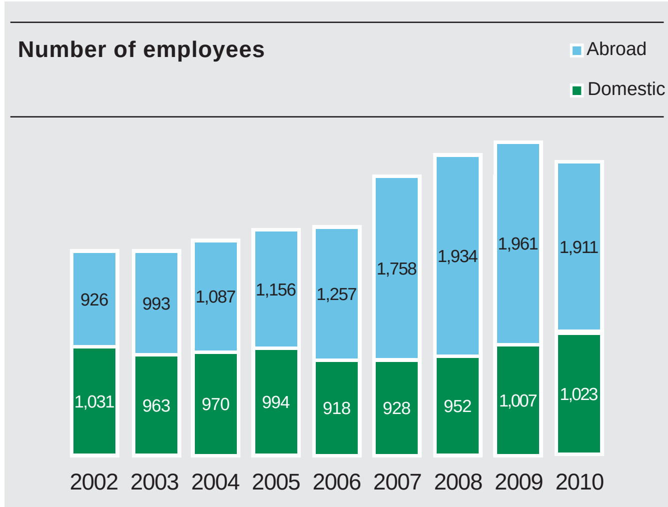
Supervisory Board member remuneration is determined by shareholders at the Annual General Meeting, and governed by Article 12 of the Articles of Association. In line with the provisions of the Articles of Association, Supervisory Board members receive fixed and variable remuneration components. In addition to expense reimbursements, Supervisory Board members receive annual fixed remuneration of € 12,000. Additionally, Supervisory Board members receive remuneration of € 1,100, capped at the amount of fixed remuneration, for every non-fractional cent of dividends per share distributed to shareholders above the level of 5 cents per share. The Chairman receives double this amount of remuneration; the Deputy Chairman receives 1.5 times this amount. Remuneration also increases by € 5,000 for each membership of a Supervisory Board committee, by an additional € 2,500 for each deputy chairmanship of a Supervisory Board committee, and by an additional € 5,000 for each chairmanship of a Supervisory Board committee. On the basis of the dividend resolution of six cents per share to be proposed to the Annual General Meeting, total remuneration of the Supervisory Board members for the financial year 2010 amounts to € T 172 (previous year: € T 163).

The law firm of the Chairman of the Supervisory Board acted for the company in an advisory capacity. Remuneration for these services is in line with standard market rates and was approved by the Supervisory Board, totalling € T 56 for the financial year 2010 (previous year: € T 56). The Deputy Chairman of the Supervisory Board advises the two operating German companies on market issues and the management of major clients. The consultancy agreements were approved by the Supervisory Board of VBH Holding AG. The remuneration amounted to € T 127 in the past financial year (previous year: € T 257 including non-cash benefits and general agent benefits). The Deputy Chairman of the Supervisory Board also receives ongoing pensions from German companies of € T 90 (previous year: € T 30).

Members of the Supervisory Board do not receive loans from the company.

Korntal-Münchingen, March 2011

For the Executive Board	For the Supervisory Board
Rainer Hribar	Prof. Rainer Kirchdörfer
Frieder Bangerter	



11. EMPLOYEES

In the past financial year, the VBH Group employed a total of 2,934 people as against 2,968 in the previous year. Thus, VBH now employs 34 less people.

Given the good developments in Germany, the headcount was increased here and the number of employees increased from 1,007 in the previous year to 1,023. Internationally, the number of employees declined from 1,961 in the previous year to 1,911.

VBH offers training opportunities in many areas. For example, there are programmes for people taking their first steps in the world of work through to trainee programmes for university graduates, who are specifically trained within VBH's international environment while working for VBH. After completing the internal programme, trainees are usually hired in management functions within the Group. Priorities during this two-year scheme are intercultural collaboration and project work.

The Executive Board and the Supervisory Board would like to take this opportunity to thank all the employees of the VBH Group, both in Germany and abroad, for their personal commitment to implementing the Group's goals and plans, and thereby making the most important contribution to its overall success.

ADVICE AND ACTION.

Providing current information, bundling expertise and promoting an exchange of ideas among industry participants – this is what the VBH knowledge database does. Using the online encyclopaedia, partners, customers and suppliers can find help on technical questions, share their expertise and discuss new issues and questions.

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Consolidated Statements

OF VBH HOLDING AG

CONSOLIDATED BALANCE SHEET

Assets

In € T	Notes	31.12.2009	31.12.2010
Long-term assets			
Intangibles assets	5.1	51,500	41,034
Property, plant and equipment	5.2	30,343	29,232
Financial assets	5.3	2,424	1,955
Other long-term assets		4,482	5,140
Deferred tax assets	5.8	10,092	11,741
Total		**98,841**	**89,102**
Short-term assets			
Inventories	5.4	110,236	124,848
Trade receivables	5.5	96,187	103,274
Trade receivables affiliated companies	5.5	4,300	3,133
Other assets	5.5	24,109	20,270
Cash and cash equivalents	5.6	14,411	12,663
Tax receivables	5.6	2,055	762
Total		**251,298**	**264,950**
Total assets		**350,139**	**354,052**

Equity and Liabilities

In € T	Notes	31.12.2009	31.12.2010
Equity			
Subscribed capital	5.9	45,869	45,879
Capital reserve	5.9	41,847	41,906
Revenue reserve	5.9	35,585	37,257
Profit retained	5.9	-2,135	-6,302
Equity attributable to shareholders of VBH AG	5.9	121,166	118,740
Minority interests	5.9	8,580	8,338
Treasury stock	5.9	0	0
Equity		**129,746**	**127,078**
Non-current liabilities			
Pension provisions	5.12	12,497	12,812
Other long-term provisions	5.13	3,130	3,046
Long-term financial liabilties	5.11	67,888	10,921
Other long-term liabilities	5.11	2,015	2,416
Deferred tax liabilities	5.14	3,823	4,411
Total		**89,353**	**33,606**
Current liabilities			
Short-term provisions	5.13	5,127	4,785
Short term financial liabilties	5.11	50,141	114,114
Advances received	5.11	538	593
Trade payables	5.11	43,801	47,476
Trade payables affiliated companies	5.11	0	0
Other short-term liabilities	5.11	30,330	26,127
Tax liabilities	5.11	1,103	273
Total		**131,040**	**193,368**
Total equity and liabilities		**350,139**	**354,052**

CONSOLIDATED INCOME STATEMENT

In € T	Notes	2009	2010
Sales	6.1	**755,143**	**800,011**
Changes in finished goods, work in progress / capitalized payments		0	0
Total operating profit		**755,143**	**800,011**
Costs of raw materials, supplies and purchased merchandise	6.2	571,855	607,801
Gross operating profit		**183,288**	**192,210**
Personnel expenses	6.3	92,511	94,916
Other operating income	6.4	12,890	18,008
Other operating expenses	6.5	80,437	86,269
EBITDA		**23,230**	**29,033**
Depreciation / Amortization	6.6	6,008	16,090
EBIT		**17,222**	**12,943**
Income from investments		0	0
Other interest and similar income		734	514
Interest and similar expenses		8,085	8,906
Depreciation on financial assets and securities		0	9
Financial result	6.7	**-7,351**	**-8,401**
EBT		**9,871**	**4,542**
Current taxes	6.8	4,043	6,278
Deferred taxes	6.9	-811	-1,393
EBT continuing operations		**6,639**	**-343**
discontinued operations		-80	-887
EAT		**6,559**	**-1,230**
Minorities	6.10	986	481
Net result after Minorities		**5,573**	**-1,711**
EPS in €	6.11	**0.12**	**-0.04**
EPS diluted in €	6.11	**0.12**	**-0.04**
EPS in € continuing operations		**0.12**	**-0.02**
EPS diluted in € continuing operations		**0.12**	**-0.02**
EPS in € discontinuing operations		**0.00**	**-0.02**
EPS diluted in € discontinuing operations		**0.00**	**0.02**

TOTAL COMPREHENSIVE INCOME FOR THE PERIOD OF VBH GROUP

In € T	2009	2010
Earnings after taxes (EAT)	**6,559**	**-1,230**
thereof attributable to shareholders of VBH AG	5,573	1,711
thereof attributable to minorities	986	481
Changes in IAS 39 Hedge Accounting	**-403**	**510**
Currency differences	**926**	**2,613**
Total changes of value in equity	**523**	**3,123**
thereof attributable to shareholders of VBH AG	517	2,775
thereof attributable to minorities	6	348
Total comprehensive income for the period	**7,082**	**1,893**
thereof attributable to shareholders of VBH AG	6,090	1,064
thereof attributable to minorities	992	829

CONSOLIDATED CASH FLOW STATEMENT

In € T		Notes	2009	2010
	EBT continuing operations		9,868	4,542
	EBT discontinuing operations		-80	-887
	EBT		**9,788**	**3,655**
+	Depreciation on tangible assets		6,030	16,090
+/-	Increase/decrease in long-term provisions		146	231
+/-	Other non-cash income/expense		351	866
-	Taxes paid		-3,229	-7,233
+/-	Interest paid / received		7,404	8,392
=	**Cash earnings**		**20,490**	**22,001**
	(thereof discontinued operations)		**-1,219**	**-764**
-/+	Increase/decrease in inventories		19,129	-14,247
-/+	Increase/decrease in trade receivables		15,775	-2,340
+/-	Increase/decrease in short-term provisions		-1,993	-348
+/-	Increase/decrease in liabilities		-19,483	-98
=	**Total changes in working capital**		**13,428**	**-17,033**
-/+	Profit/loss from the disposal of non-current assets		-309	-133
=	**Cash flow from operating activity**		**33,609**	**4,835**
	(thereof discontinued operations)		**-1,124**	**-165**
-	Cash outflows for investments in intangible assets		-793	-638
-	Cash outflows for investments in tangible assets		-2,702	-3,339
-	Cash outflows for investments in financial assets		-3,379	-24
-	Cash outflows for other financial assets		0	-230
+	Cash inflows from disposal of intangible assets		0	372
+	Cash inflows from disposal of tangible assets		2,668	558
+	Cash inflows from disposal of financial assets		0	0
-/+	Payments for acquisition and disposal of consolidated companies		-5,732	-618
+	Interest received		680	246
=	**Cash flow from investing activity**		**-9,258**	**-3,673**
	(thereof discontinued operations)		1,200	**119**
=	**Free Cash Flow**		**24,351**	**1,162**
+	Cash inflows from equity contributions		296	30
+	Cash inflows from loans raised		0	18,449
-	Cash outflows for repayment of loans		-4,994	-11,442
-	Interest paid		-8,369	-7,246
-	Dividens paid		-10,417	-2,951
=	**Cash flow from financing activity**		**-23,484**	**-3,160**
	(thereof discontinued operations)		1,200	**119**
=	**Changes in cash and cash equivalents**		**867**	**-1,998**
+	Changes in cash and cash equivalents		76	249
+	Cash and cash equivalents at the beginning of the period		13,468	14,411
=	**Cash and cash equivalents at the end of the period**		**14,411**	**12,662**

STATEMENT OF CHANGES IN GROUP EQUITY

Statement of changes in group equity

In € T	Capital stock	Capital reserve	Revenue reserve
Balance at 01 January 2009	**45,790**	**41,630**	**33,437**
Changes to the consolidated Group			-273
Minority Interests			-144
Capital increase convertible issue rights			
Stock options	79	139	
Share based compensation		78	
Total ccomprehensive income	**0**	**0**	**517**
Payout			
Changes in retained reserves and other changes			2,048
Balance at 31 December 2009 / Balance at 01 January 2010	**45,869**	**41,847**	**35,585**
Changes to the consolidated Group			-642
Minority Interests			-624
Capital increase convertible issue rights			
Stock options	10	20	
Share based compensation		39	
Total ccomprehensive income	**0**	**0**	**2,775**
Payout			
Changes in retained reserves and other changes			163
Balance at 31 December 2010	**45,879**	**41,906**	**37,257**

Thereof reserve curreny translation	Thereof cashflow-hedge reserve	Profit retained	Equity attributable to shareholders of VBH AG	Minority interests	Treasury shares	Shareholders equity
-9,568	**-1,623**	**7,994**	**128,851**	**8,548**	**0**	**137,399**
			-273	-20		**-293**
			-144	-293		**-437**
			0			**0**
			218			**218**
			78			**78**
920	**-403**	**5,573**	**6,090**	**992**	**0**	**7,082**
		-8,700	**-8,700**			**-8,700**
		-7,002	**-4,954**	-647		**-5,601**
-8,648	**-2,026**	**-2,135**	**121,166**	**8,580**	**0**	**129,746**
1,232			**-642**	31		**-611**
			-624	-445		**-1,069**
			0			**0**
			30			**30**
			39			**39**
2,265	**510**	**-1,711**	**1,064**	**829**	**0**	**1,893**
		-2,293	**-2,293**	-657		**-2,950**
		-163	**0**			**0**
-5,151	**-1,516**	**-6,302**	**118,740**	**8,338**	**0**	**127,078**

SEGMENT REPORTING

Segments by region

	Germany		Western Europe		Eastern Europe	
In € T	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
External revenue	369,807	394,189	139,047	126,565	219,328	247,322
Internal revenue	12,649	17,254	4,849	6,736	1,748	613
Total revenue	**382,456**	**411,443**	**143,896**	**133,301**	**221,076**	**247,935**
EBITDA	**10,757**	**15,736**	**-1,880**	**-3,705**	**19,451**	**19,332**
Depreciation, amortisation and write-downs	1,533	1,495	1,375	1,273	1,777	1,759
Profit or loss from operating	**9,224**	**14,241**	**-3,255**	**-4,978**	**17,674**	**17,573**
Result from participations	39	177	0	0	3	0
Interest income	285	267	69	64	182	111
Interest expense	981	937	1,923	1,638	294	239
Financial result	-657	-493	-1,854	-1,574	-109	-128
Earnings before taxes (EBT)	**8,567**	**13,748**	**-5,109**	**-6,552**	**17,565**	**17,445**
Taxes	-2,414	-4,220	-318	666	-2,958	-3,750
Earnings after taxes (EAT)	**6,153**	**9,528**	**-5,427**	**-5,886**	**14,607**	**13,695**
Segment assets	**103,156**	**102,976**	**89,791**	**86,519**	**89,711**	**98,658**
Segment liabilities	**118,498**	**112,857**	**79,173**	**78,211**	**28,546**	**35,848**
Number of Employees	**975**	**990**	**503**	**455**	**1,224**	**1,218**
Adjustments	**-96**	**-41**	**735**	**2,269**	**2,486**	**1,598**

* Consolidation represents non-intersegmentary group sales.

Other markets		Corporate Services		Consolidation*		Group	
2009	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
25,495	30,673	0	0	0	0	753,676	798,749
351	516	0	0	-18,130	-23,857	1,467	1,262
25,846	**31,189**	0	**0**	**-18,130**	**-23,857**	**755,143**	**800,011**
-820	**-3**	**-4,241**	**-3,617**	**-37**	**1,290**	**23,230**	**29,033**
213	266	789	830	321	10,467	6,008	16,090
-1,033	**-269**	**-5,030**	**-4,447**	**-358**	**-9,177**	**17,222**	**12,943**
0	0	14,126	22,951	-14,168	-23,128	0	0
245	2	1,422	2,039	-1,469	-1,969	734	514
1,355	1,451	5,004	6,606	-1,472	-1,956	8,085	8,915
-1,110	-1,449	10,544	18,384	-14,165	-23,141	-7,351	-8,401
-2,143	**-1,718**	**5,514**	**13,937**	**-14,523**	**-32,318**	**9,871**	**4,542**
197	46	2,683	2,203	-422	170	-3,232	-4,885
-1,946	**-1,672**	**8,197**	**16,140**	**-14,945**	**-32,148**	**6,639**	**-343**
22,493	**33,284**	**222,977**	**216,557**	**-177,989**	**-183,942**	**350,139**	**354,052**
26,218	**36,872**	**91,217**	**89,951**	**-123,260**	**-126,765**	**220,392**	**226,974**
234	**238**	**32**	**33**	**0**	**0**	**2,968**	**2,934**
1,363	**1,278**	**0**	**0**	**0**	**10,148**	**4,488**	**15,252**

Notes to the consolidated financial statements

1. Disclosures and presentation of the consolidated financial statements

VBH HOLDING AKTIENGESELLSCHAFT (also ‘VBH’ or ‘the Company’) is registered with Stuttgart Regional Court under HRB 203096. The Company‘s registered office is in Korntal-Münchingen. The shares of the Company are listed on the Deutsche Börse Prime Standard and trade on the regulated market on Xetra and on the floor of the Frankfurt and Stuttgart stock exchanges.

Purpose of the Company is the wholesale distribution of metal fittings. VBH distributes products in seven primary groups: window, door, furniture and fastener systems, profiles and sealings, construction chemicals, construction elements and tools.

VBH is Europe‘s top-selling wholesaler of construction fittings. VBH acts as agent between hardware suppliers and customers who process these products for industrial and technical purposes.

The consolidated financial statements of VBH Holding AG and its consolidated subsidiaries as at 31 December 2010 were prepared in accordance with International Financial Reporting Standards (IFRS) applicable in the EU and with applicable German Commercial Code regulations (Handelsgesetzbuch – HGB) per Section 315a (1) HGB.

All standards which have entered into force as at the balance sheet date have been complied with.

The consolidated financial statements were prepared in Euro and rounded to thousands of Euro (€ thousand). Unless otherwise indicated, all figures represent thousands of Euro. In tables showing the breakdown of items in the individual amounts in the consolidated balance sheet and income statement, minor differences are the result of rounding differences.

The income statement is structured in accordance with the nature of expense method. In order to improve clarity of presentation, items are summarised in the consolidated balance sheet and income statement and explained separately below.

The provisions of IAS 1 require presentation of balance sheet items by maturity. For this reason, the balance sheet of VBH Holding AG shows assets and liabilities according to their maturities.

The consolidated financial statements were prepared in accordance with the going concern principle, based on historical cost. Available-for-sale financial assets, derivative financial instruments, plan assets and receivables are measured at fair value on initial recognition.

2. IASB accounting rules

New or amended standards and interpretations applicable for financial years ending 31 December 2010 are outlined below.

2.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME IN THE FINANCIAL YEAR

The following new and amended standards and interpretations have already been adopted and are mandatory for reporting periods starting on or after 1 January 2010:

IAS 28, "Investments in Associates" and IAS 31

Interests in Joint Ventures" are applicable to acquisitions in financial years starting on or after 1 July 2009.

IFRIC 17, "Distributions of Non-cash Assets to Owners"

(applicable to financial years starting on or after 1 July 2009).

IFRIC 18, "Transfers of Assets from Customers"

(applicable to financial years starting on or after 1 July 2009).

Standards and interpretations that were already published as at 1 June 2010 and are applicable to financial years starting after 1 January 2010:

IFRIC 9, "Reassessment of Embedded Derivatives" and IAS 39 (amended),

"Financial Instruments: Recognition and Measurement – Embedded Derivatives" (applicable to financial years starting on or after 1 July 2009).

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

(applicable to financial years starting on or after 1 July 2009).

IAS 38 (amended), "Intangible Assets"

(applicable to financial years starting on or after 1 January 2010).

IAS 1 (amended), "Presentation of Financial Statements"
(applicable to financial years starting on or after 1 January 2010).

IAS 36 (amended), "Impairment of Assets"
(applicable to financial years starting on or after 1 January 2010).

IFRS 2 (amended), "Group Cash-settled Share-based Payment Transactions"
(applicable to financial years starting on or after 1 January 2010).

IFRS 5 (amended), "Non-current Assets Held for Sale and Discontinued Operations"
(applicable to financial years starting on or after 1 January 2010).

The new and amended standards and interpretations do not have any material effects on the consolidated financial statements of VBH Holding AG.

2.2 PUBLISHED STANDARDS ADOPTED BY THE EU BUT NOT YET APPLICABLE

New or amended standards and interpretations applicable for financial years after 31 December 2010 that were not observed in preparation of these consolidated financial statements are outlined below.

IFRS 9, "Financial Instruments" was published in November 2009.
This standard is the first step in replacing the standard IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 fundamentally changes the previous regulations on the categorisation and measurement of financial assets and is likely to affect accounting for financial assets in the Group. The standard is applicable to financial years starting on or after 1 January 2013 but can be adopted early. However, the standard has not yet been endorsed in EU law. The Group is still analysing the full effects of IFRS 9. However, it is already apparent that accounting for available-for-sale financial assets is affected by the changes, as IFRS 9 permits the recognition of gains and losses in fair value only in other comprehensive income in the statement of comprehensive income if these gains and losses originate from equity instruments that are not held for trading purposes.

Gains and losses from changes in the fair value of available-for-sale financial assets are recognised directly in profit or loss.

In addition, further new regulations of IFRS 9 on financial liabilities and the derecognition of financial instruments were published October 2010. The changes relate in particular to financial liabilities measured voluntarily at fair value. No effect on the consolidated financial statements is expected.

IAS 24 (revised), "Related Party Disclosures", was published in November 2009 and replaces IAS 24 (2003).

The new standard is applicable to financial years starting on or after 1 January 2011. It was not applied early. No material effect on the consolidated financial statements is expected.

IAS 32 (amended), "Classification of Rights Issues" was published in October 2009.

The amendment is applicable to financial years starting on or after 1 February 2010. No effect on the consolidated financial statements is expected.

IFRIC 14, "IAS 19 – Prepayments for Minimum Funding Contributions".

The amendment is applicable to financial years starting on or after 1 January 2011. No effect on the consolidated financial statements is expected.

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (applicable to financial years starting on or after 1 July 2010).

No effect on the consolidated financial statements is expected.

Other amendments to the standards will not have any material effect on the consolidated financial statements of VBH Holding AG.

3. Principles of consolidation

The consolidated financial statements contain the financial statements of the parent company and the companies it controls, including special-purpose vehicles (its subsidiaries). Control is gained once the Company has the option of governing the financial and operating policies of a company so as to derive benefit from its activities. The results of the subsidiaries acquired or sold over the course of the year are recognised accordingly in the consolidated income statement from the actual date of acquisition or up to the actual date of disposal. If necessary, the annual financial statements of the subsidiaries are adjusted so that the accounting and measurement methods are aligned with those applied on the Group level. All intragroup transactions, balances and results are completely eliminated in consolidation.

Subsidiaries are all companies in which the Group exercises control over financial and operating policy, usually in combination with a share of voting rights that exceeds 50%. In an assessment of whether such control is present, the existence and effect of potential voting rights currently exercisable or convertible are considered as necessary. Subsidiaries are generally included in the consolidated financial statements (fully consolidated) as at the date on which control has been transferred to the Group, unless control is material to the consolidated financial statements. They are deconsolidated on the date on which this control ends.

Capital consolidation is performed in accordance with IFRS 3, ‘Business Combinations’ using the purchase accounting method. In this method, the acquisition costs of the participation are charged against the pro rata share of the parent company in the revalued equity of the subsidiary as at the acquisition date. Intangible assets acquired in business combinations and identified within the framework of purchase price allocation are recognised at fair value.
Any difference arising on the assets side after this charging and purchase price allocation is reported under noncurrent assets as goodwill.
If further interests are acquired in already fully consolidated companies, the purchase price of the additional acquisition is offset directly in equity against the additional equity acquired. The asset-side difference resulting from the offsetting is charged against retained earnings.

Shares in the equity of subsidiaries attributable to external minority interests are reported separately under equity. Shares in the subsidiaries‘ results attributable to external minority interests are shown as a separate item in the income statement.

3.1 SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Overview of equity interests at 31 December 2010 according to Section 313 (2) HGB (German Commercial Code)

Fully consolidated companies	Registered office location	Country	Percentage equity held in %
Germany			
esco Metallbausysteme GmbH	Ditzingen	D	100.0%
Gedalia Grundstücksverwaltungsges. mbh & Co	Mainz	D	100.0%
VBH Deutschland GmbH	Korntal-Münchingen	D	100.0%
Abroad			
Esco Metallbausysteme Austria GmbH (indirect via esco Metallbausysteme GmbH)	Eugendorf	A	100.0%
VBH Belgium NV	Beringen	B	100.0%
VBH Hody	Marche en Famenne	B	100.0%
VBH Bulgaria OOD	Sofia	BG	93.0%
VBH Siecom OOD	Plovdiv	BG	100.0%
VBH Dems d.o.o.	Sarajevo	BIH	100.0%
IP VBH BEL	Minsk	BY	100.0%
VBH ZP (indirect via VBH Polska Sp.z.o.o.)	Minsk	BY	100.0%
VBH, Vereinigter Baubeschlag-Handel, s.r.o.	Prague	CZ	100.0%
VBH Malum S.L.	Gava	E	68.4%
VBH Estonia AS	Tallinn	EST	100.0%
LG Fasteners Ltd. (indirect via Wagner GB Ltd.)	Swansea	GB	100.0%
VBH (GB) Ltd.	Gillingham	GB	100.0%
VBH Hellas S.A.	Thessaloniki	GR	100.0%
VBH Budapest Kft	Budapest	H	100.0%
VBH Okovi d.o.o.	Sveta Nedjelja	HR	100.0%
C.D.A. S.r.l. (indirect via VBH Italia Holding S.p.A.)	Bologna	I	100.0%
VBH Italia Holding S.p.A.	Bozen	I	100.0%
VBH Italia S.r.l.	Bozen	I	50.0%
VBH Service S.r.l.(indirect via VBH Italia Holding S.p.A.)	Fogliano Redipuglia	I	100.0%
VBH S.r.l.(indirect via VBH Italia Holding S.p.A.)	Fogliano Redipuglia	I	100.0%

Fully consolidated companies	Registered office location	Country	Percentage equity held in %
VBH Ireland	Dunshaughlin	IE	60.0%
VBH Kuwait for General Trading Co. (W.L.L)	Safat	KW	80.0%
TOO VBH	Almaty	KZ	56.5%
VBH West (Aktobe) (indirect via TOO VBH)	Aktobe	KZ	100.0%
UAB VBH Vilnius	Vilnius	LT	100.0%
„VBH-TBM",UAB	Vilnius	LT	70.0%
SIA VBH Latvia Ltd.	Riga	LV	95.0%
VBH Malaysia SDN. BDH.	Petaling Jaya	MAL	100.0%
VBH MEXICO S.A. de C.V.	Heróica Puebla de Zaragoza	MEX	70.0%
VBH Montenegro d.o.o..	Podgorica	MNE	100.0%
VBH-OFIR S.R.L. (Kischinau (indirect via VBH LLC))	Kischinau	MOL	80.0%
VBH Nederland B.V.	Oosterhout	NL	100.0%
ESCO Polska Sp.z.o.o. (indirect via esco Metallbausysteme GmbH)	Warsaw	PL	89.8 %
VBH Polska Sp.z.o.o.	Warsaw	PL	93.3%
S.C. VBH Romcom SRL	Tirgu Mures	RO	100.0%
Rodkomplektservice OOO (indirect via VBH Rekta AO))	Moscow (Odintsovo)	RUS	100.0%
VBH OOO (Novosibirsk)	Novosibirsk	RUS	100.0%
VBH OOO (St. Petersburg)	St. Petersburg	RUS	95.0%
VBH Rekta AO (indirect via VBH OOO (St.Petersburg))	Moskau (Odintsovo)	RUS	100.0%
VBH Samara OOO (indirect via VBH OOO (St. Petersburg))	Samara	RUS	100.0%
VBH SIB OOO	Omsk	RUS	100.0%
VBH Kosovo L.L.C.	Fushe Kosove	SCG	80.0%
VBH Singapore Pte.Ltd.	Singapore	SGP	100.0%
VBH Trgovina d.o.o.	Skofia Loka	SL	100.0%
VBH Naisus Nis d.o.o.	Nis	SRB	95.0%
VBH (Thailand) Co., Ltd.	Bangkok	THB	100.0%
VBH Kapi ve Pencere Sistemleri San. ve.Tic. A.S.	Bagcilar/Istanbul	TR	65.0%
VBH LLC	Browary	UA	51.0%
VBH Ofir DP (Dnepropetrowsk (indirect via VBH LLC))	Dnepropetrowsk	UA	100.0%
VBH Ofir DP (Kharkow (indirect via VBH LLC))	Kharkow	UA	100.0%
VBH Ofir DP (Lwow (indirect via VBH LLC))	Lwow	UA	100.0%

Fully consolidated companies	Registered office location	Country	Percentage equity held in %
VBH Ofir DP (Makeewka (indirect via VBH LLC))	Makeewka	UA	100.0%
VBH Ofir DP (Odessa (indirect via VBH LLC))	Odessa	UA	100.0%
VBH Ofir DP (Simferopol (indirect via VBH LLC))	Simferopol	UA	100.0%
VBH-OFIR DP (Vinnitsa (indirect via VBH LLC))	Vinnitsa	UA	100.0%
V.B.H. Trading (L.L.C.) (indirect via VBH Middle East FZCO)	Dubai	UAE	100.0%
VBH Middle East FZCO	Dubai	UAE	100.0%
Beijing VBH Construction Hardware Co.Ltd	Beijing	VC	100.0%
Shanghai VBH Construction Hardware Co., Ltd.	Shanghai	VC	65.0%

Unconsolidated companies	Registered office location	Country	Percentage equity held in %
Germany			
VKH Verwaltungs GmbH i.K.	Braunsbedra	D	49.0%
Abroad			
Steelpro S.R.L.	Buenos Aires	AR	100.0%
VBH (Cypern) LTD	Limassol	CY	100.0%
Lokman OÜ (indirect via VBH Estonia AS)	Tallinn	EST	100.0%
VBH Caucasus	Tbilisi	GE	25.0%
C.D.A.Cagliari S.r.l. (indirect via VBH Italia Holding S.p.A.)	Cagliari	I	10.0%
VBH HOLDING INDIA PRIVAT LIMITED	Delhi	IND	100.0%
ESCO RUS OOO (indirect via VBH Holding AG and esco Metallbausysteme GmbH)	Moscow	RUS	100.0%
VBH Irkutsk OOO (indirect via VBH OOO (Novosibirsk))	Irkutsk	RUS	100.0%
VBH Slovakia s.r.o.(indirect via VBH Polska Sp.z.o.o.)	Bratislava	SK	100.0%
CENTAR DISTRIBUCIJE OKOVA CDO d.o.o.	Belgrade	SRB	100.0%
VBH Ofir DP (Odessa (indirect via VBH LLC))	Odessa	UA	100.0%
Guangzhou VBH Construction Hardware Trading Co.,Ltd.	Guangzhou	VC	100.0%
VBH VIETNAM CO., LTD	Ho Chi Minh City	VN	100.0%
VBH Australia PTY. Ltd.	Seaford	AUS	100.0%

15 (previous year: 17) companies whose individual or collective impact on assets, financial position and earnings is minor are not consolidated. For all companies the share of capital corresponds to the share of voting rights.

Fully consolidated companies

As at 31 December 2010, the scope of consolidation under IFRS includes 3 German and 60 foreign subsidiaries, in addition to the parent company. Changes in the area of fully consolidated subsidiaries between 1 January 2010 and 31 December 2010 are shown in the table below.

Change in consolidated companies

VBH consolidated companies	Domestic	Abroad	Total
January 01, 2009	**3**	**65**	**68**
Additions	0	9	9
Disposal	0	0	0
Other changes	0	-8	-8
December 31, 2009	**3**	**66**	**69**
Additions	0	2	2
Disposal	0	-2	-2
Other changes	0	-6	-6
December 31, 2010	**3**	**60**	**63**

Other changes relate to companies being merged or closed.

Additions in the scope of consolidation

Initial consolidations

The main registered object of the companies to be consolidated for the first time is trading in building hardware. With the exception of the company in Lithuania, due to materiality reasons, these companies had not been included in the consolidated accounts before 2010.

The company „VBH-TBM", UAB, Lithuania is a founding company which commenced activities in Lithuania on 01 January 2010.

VBH Mexico was chiefly founded by VBH Malum, Spain and sold to VBH Holding AG on 01 January 2009. It was included in the scope of consolidation on 01 January 2010. Due to the minor importance of the company, the previous-year figures were not adjusted.

VBH Bulgaria OOD was founded on 09 June 2005 as a subsidiary of VBH Polska Sp.z.o.o. By way of purchase agreement dated 12 May 2009, VBH Polska Sp.z.o.o. sold 93% of the shares to VBH Holding AG.

A majority stake in VBH Siecom OOD, Plovdiv, Bulgaria, was acquired by way of purchase agreement dated 01 October 2008. This company was then acquired in full on 12 May 2009. At the same time, the company's client base was transferred to VBH Bulgaria EOOD. The companies deemed significant for the first time in financial year 2010 were included retrospectively in the comparable Group balance sheet and income statement figures for financial year 2009. This did not have any material impact on assets, financial position and earnings.

Disposals and discontinued operations

The VBH Holding AG Executive Board decided to discontinue VBH's activities in Australia, as the Australian window market had not developed as expected.

The resulting earnings effect of € T -887 (previous year: € T -80) was shown in a separate item on the income statement as result from discontinued operations.

Impact on earnings of discontinued operations Australia

In € T	2009	2010
Turnover	1,246	493
Income and expenses	-1,649	-280
Profit / loss of discontinued operations before taxes	-403	213
Income tax	0	0
Profit / loss of discontinued operations after taxes	-403	213
Impact of deconsolidation	323	-674
Profit / loss of discontinued operations after deconsolidation	-80	-887

In October 2010, VBH Italia Holding S.p.A. sold the entire 100% holding in C.D.A. Arezzo Srl to the two managers of the company. The transaction resulted in sales proceeds of € T 450 and net expenses in the Group of € T 155 which was recognised in other operating expenses. Expenses from deconsolidation totalled € T 317.

Other changes within the Group not relating to the scope of consolidation are reported with financial assets. Changes to the scope of consolidation are of only minor importance for the consolidated financial statements and do not significantly affect comparisons with the previous year.

4. Accounting policies

The main accounting policies used in the preparation of these consolidated financial statements are outlined below. The methods described are applied consistently to the reporting periods presented unless otherwise indicated.

The income statement was translated on the basis of weighted average price. The balance sheet was translated at rates as at the reporting date.

Borrowing costs are recognised on the balance sheet in accordance with IAS 23.

Discontinued assets or non-current assets held for sale are reported when a component of an entity has been clearly separated and classified as held for sale or has already been disposed of. This component can be a major branch of business or a geographical area or part of material or geographical business segments or companies to be sold as part of an overall plan that were acquired solely with a view to resale.

In the financial year 2010, the Executive Board resolved to withdraw completely from the Australian market. The discontinued Australian business is reported as a discontinued operation in the statement of comprehensive income.

The resulting retrospective adjustment of the previous year’s figures from 2009 in the consolidated statement of comprehensive income is to be adjusted in accordance with IFRS 5.34.

Profit and Loss

In € T	2009 as reported	2009 continuing operations
Sales	**754,115**	**755,143**
Changes in finished goods, work in progress / capitalized payments	0	0
Total operating profit	**754,115**	**755,143**
Costs of raw materials, supplies and purchased merchandise	570,910	571,855
Gross operating profit	**183,205**	**183,288**
Personnel expenses	92,788	92,511
Other operating income	13,817	12,890
Other operating expenses	80,417	80,437
EBITDA	**23,817**	**23,230**
Depreciation / Amortization	5,953	6,008
EBIT	**17,864**	**17,222**
Income from investments	0	0
Other interest and similar income	752	734
Interest and similar expenses	8,083	8,085
Depreciation on financial assets and securities	0	0
Financial result	**-7,331**	**-7,351**
EBT	**10,533**	**9,871**
Current taxes	4,043	4,043
Deferred taxes	-814	-811
EBT continuing operations	**7,304**	**6,639**
discontinued operations	0	-80
EAT	**7,304**	**6,559**
Minorities	1,009	986
Net result after Minorities	**6,295**	**5,573**
EPS in €	**0.14**	**0.12**
EPS diluted in €	**0.14**	**0.12**

4.1 CURRENCY TRANSLATION

In the single-entity financial statements of VBH Holding AG and included subsidiaries, foreign currency transactions are translated at the exchange rates in effect at the transaction dates. On the balance sheet we recognise monetary items in foreign currencies at the mid-market rate at the balance sheet date, with exchange rate gains and losses recognised in income.
The financial statements of foreign subsidiaries are translated into Euro, applying the functional currency concept. Assets and liabilities are translated on the balance sheet date. Equity is stated at historical prices, with the exception of income and expenses directly recognised in equity. The resulting translation differences are recognised in equity until disposal of the subsidiary and reported as a separate item in equity.

The table below shows the exchange rates used for translating currency:

Currency translation

Country	Currency unit		Mid-market rate in € on balance sheet date		Weighted average rate in € for the year under review	
			31.12.2009	31.12.2010	2009	2010
Australien	100	AUD	62.4610	76.2137	58.1283	65.2903
Belarus	100	BYR	0.0242	0.0249	0.0255	0.0255
Bosnien	100	BAM	51.1292	51.1292	51.1292	51.1292
Bulgarien	100	BGN	51.1274	51.1326	51.1288	51.1268
People's Republic of China	100	CNY	10.2396	11.4029	10.5274	11.2093
Estonia	100	EEK	6.3904	6.3912	6.3978	6.3908
United Kingdom	100	GBP	111.9570	115.8749	112.1446	116.6364
Kazakhstan	100	KZT	0.4712	0.5108	0.4766	0.5182
Croatia	100	HRK	13.6454	13.5404	13.6112	13.7162
Kuwait	100	KWD	243.4275	267.3082	254.4879	262.5940
Latvia	100	LVL	141.0437	140.9443	141.6240	141.0374
Lithuania	100	LTL	28.9553	29.0015	28.9654	28.9655
Malaysia	100	MYR	20.3753	24.4170	20.2621	23.5619
Mexico	100	MXN		6.0798		5.9761
Poland	100	PLN	24.2014	25.2048	23.0362	25.0107
Romania	100	RON	23.5888	23.3155	23.6525	23.6231
Russian Federation	100	RUB	2.3067	2.4674	2.2631	2.4959
Serbia	100	CSD	1.0400	0.9481	1.0660	0.9607
Singapore	100	SGD	49.7067	58.2343	49.1076	55.4362
Thailand	100	THB	2.0933	2.4918	2.0804	2.4013
Czech Republic	100	CZK	3.7863	3.9720	3.7855	3.9553
Turkey	100	TRL	46.2257	48.4848	46.1303	50.1072
Ukraine	100	UAH	8.7288	9.4585	8.8487	9.6003
Hungary	100	HUF	0.3667	0.3577	0.3580	0.3610
United Arab Emirates	100	AED	19.0349	20.4981	19.1619	20.5330

4.2 INTANGIBLE ASSETS, GOODWILL

Patents, licences and trademarks acquired are measured at historical cost.
They have specific useful lives and are measured at cost less accumulated amortisation. The amortisation expense is recognised as an expense on a straight line basis over the expected useful life. For the major part of depreciable assets the useful life is 15 years. This includes in particular capitalised customer relationships. Software licences acquired are capitalised on the basis of the costs incurred at acquisition and for preparing the software for its intended use. These costs are generally amortised over a useful life of three years.

If there are indications of impairment, the intangible assets are subjected to an impairment test and if necessary written down to the recoverable amount in accordance with IAS 36. The goodwill resulting from consolidation is the positive difference between the cost of an acquisition and the share of the Group in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition. After initial recognition, the goodwill acquired in a business combination is measured at cost less accumulated impairment losses.

In line with IAS 36, goodwill and intangible assets with indefinite useful lives are subject both to an annual impairment test and in the event of relevant indications also to an impairment test during the year and when necessary written down to the recoverable amount (“impairment only approach”). At the date of the acquisition, the goodwill is distributed to cash generating units. At VBH this means to each company (“legal entity”) or at the level of a subgroup. Any impairment is immediately recognised in the income statement. There is no subsequent reversal.

We refer to Section 4.5 of the Notes with regard to calculation of the recoverable amount of a cash-generating unit. A five-year financial projection was applied to this calculation. The projections reflect expected percentage growth in the low single digits for the majority of the cash-generating units (or groups of units). In some 'Other Markets' countries representing growth regions for VBH Holding AG we project slightly higher growth. VBH also anticipates improving operating margins, primarily through implementation of the proprietary brand concept for greenteQ products. Future tax payments were calculated applying the tax rates for the individual cash-generating units (or groups of units).

Goodwill from the full consolidation was calculated as follows:

Goodwill from fully consolidated companies

	Acquisition costs			
In € T	Balance at 01 January 2009	„currency-adjustments“	Additions	Disposals
VBH GB L.t.d	1,404	0	0	0
esco Metallbausysteme GmbH	8,700	0	0	0
VBH Deutschland GmbH	19,583	0	0	0
VBH Belgium NV	1,550	0	0	0
VBH Nederland B.V.	3,935	0	0	0
VBH Italia Holding S.p.A.	15,641	0	115	37
esco Metallbausysteme Austria GmbH	3,790	0	0	0
VBH Singapore Pte. Ltd.	3,569	-76	0	0
VBH Ireland	1,926	0	0	0
VBH Hody	4,660	0	0	0
Beijing VBH Constr.Hardware Co. Ltd	1,250	-27	0	0
VBH Kapi A.S.	0	-6	2,378	-1,148
Other consolidation	5,144	-127	0	0
Goodwill from individual financial statements	7,854	0	110	0
Total	**79,006**	**-236**	**2,493**	**-1,111**

	Acquisition costs				
In € T	Balance at 01 January 2010	„currency-adjustments“	Additions	Disposals	Balance at 31 December 2010
VBH GB L.t.d	1,404	0	0	0	1,404
esco Metallbausysteme GmbH	8,700	0	0	0	8,700
VBH Deutschland GmbH	19,583	0	0	0	19,583
VBH Belgium NV	1,550	0	0	0	1,550
VBH Nederland B.V.	3,935	0	0	0	3,935
VBH Italia Holding S.p.A.	15,793	0	0	0	15,793
esco Metallbausysteme Austria GmbH	3,790	0	0	0	3,790
VBH Singapore Pte. Ltd.	3,493	599	0	0	4,092
VBH Ireland	1,926	0	0	0	1,926
VBH Hody	4,660	0	0	0	4,660
Beijing VBH Constr.Hardware Co. Ltd	1,222	139	0	0	1,361
VBH Kapi A.S.	1,223	60	0	0	1,283
Other consolidation	5,127	86	0	0	5,213
Goodwill from individual financial statements	7,745	-2	0	-25	7,718
Total	**80,152**	**882**	**0**	**-25**	**81,008**

	Depreciation					Bookvalue	
Balance at 31 December 2009	Balance at 01 January 2009	„currency-adjustments“	current year	Disposals	Balance at 31 December 2009	Balance at 01 January 2009	Balance at 31 December 2009
1,404	749	0	0	0	749	655	655
8,700	3,974	0	0	0	3,974	4,726	4,726
19,583	14,898	0	0	0	14,898	4,685	4,685
1,550	1,550	0	0	0	1,550	0	0
3,935	1,309	0	0	0	1,309	2,626	2,626
15,793	1,235	0	0	0	1,235	14,406	14,558
3,790	3,790	0	0	0	3,790	0	0
3,493	2,500	-22	0	0	2,478	1,069	1,014
1,926	0	0	0	0	0	1,926	1,926
4,660	0	0	0	0	0	4,660	4,660
1,222	500	0	0	0	504	750	718
1,223	0	0	0	0	0	0	1,223
5,127	1,458	0	0	0	1,458	3,686	3,669
7,745	3,176	0	0	0	3,176	4,568	4,568
80,152	**35,140**	**-18**	**0**	**0**	**35,122**	**43,746**	**45,028**

Depreciation						Bookvalue	
Balance at 01 January 2010	„currency-adjustments“	current year	Impair-ment losses	Disposals	Balance at 31 December 2010	Balance at 01 January 2010	Balance at 31 December 2010
749	0	0	0	0	749	655	655
3,974	0	0	0	0	3,974	4,726	4,726
14,898	0	0	0	0	14,898	4,685	4,685
1,550	0	0	0	0	1,550	0	0
1,309	0	0	0	0	1,309	2,626	2,626
1,235	0	0	5,991	0	7,226	14,558	8,567
3,790	0	0	0	0	3,790	0	0
2,478	425	0	0	0	2,903	1,014	1,188
0	0	0	1,456	0	1,456	1,926	470
0	0	0	1,791	0	1,791	4,660	2,869
504	57	0	800	0	1,361	718	0
0	0	0	0	0	0	1,223	1,283
1,458	0	0	110	0	1,568	3,669	3,645
3,177	0	0	0	-13	3,164	4,568	4,554
35,122	**482**	**0**	**10,148**	**-13**	**45,739**	**45,029**	**35,269**

For the calculation of the recoverable amount of a cash-generating unit, refer to Section 4.5 of the Notes. An impairment test must be carried out annually and as required if there are indications that a cash-generating unit may be impaired.

Fair value is generally calculated using the discounted cash flow method (DCF). DCF calculations are based on forecasts that are in turn based on financial projections for five years that are approved by the Executive Board, and additionally used for internal purposes. The projection timeframe selected reflects assumptions pertaining to short and medium-term market developments. Cash flows exceeding the five-year period are projected on a straight-line basis. Significant assumptions employed in the DCF model include estimates relating to future sales, earnings, growth rates and discount rates. The impairment testing carried out in the current financial year led to the changes in measurements shown above resulting in impairments on goodwill totalling € T 10,148 (previous year: € T 0). The goodwill impairment on the individual companies is based primarily on changed assumptions on future cash flows and the current earnings situation of the companies affected.

The discount rates are based on cost of capital calculations applying a debt/equity financing structure and on financing costs in relation to a defined peer group. The discount rates applied reflect the specific equity risk of the respective cash-generating unit.

The parameters established per company in line with IAS 36 are within the following ranges:

Financial year 2009

Growth rates on company level			1 - 30% (except start up companies)
	average in %	**max. in %**	**min. in %**
Capitalisation rate phase 1	8.8	12.2	7.1
Capitalisation rate phase 2	7.8	11.2	6.1

Financial year 2010

Growth rates on company level			1 - 30% (ausgenommen Gründungsgesellschaften)
	average in %	**max. in %**	**min. in %**
Capitalisation rate phase 1	8.5	10.3	6.4
Capitalisation rate phase 2	7.5	9.3	5.4

In the reporting year, goodwill was impaired by a total of € T 10,148. Impairment relates to companies in Italy, Belgium, China, Bulgaria and Ireland.

In addition, a purchase price liability for the acquisition of an investment in VBH Galro, Ireland was remeasured on the basis of the current earnings situation and the agreed purchase agreement. According to IFRS 3.58 b the contingent consideration classified as a liability is to be recognised in income in line with IAS 39 as other operating income of € T 1,456. The remeasurement of the interest resulted in a write-down at the same level on the goodwill to the net present value.

4.3 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is measured at historical cost less any depreciation. Cost includes expenses directly attributable to the purchase. Subsequent costs are only recognised as part of the cost of the asset or – if relevant – as a separate asset if it is likely that the Group will derive future economic benefit from it and the cost of the asset can be reliably calculated. All other repairs and maintenance are recognised as an expense in the financial year in which they occurred. Land is not depreciated. Depreciation is generally calculated on a straight-line basis, asset cost being depreciated to residual value over the estimated useful lives shown below.

Asset	Useful life in years
Machinery and equipment	4 to 11
Operating facilities	13 to 15
Business equipment	3 to 13
Warehouses	25 to 50
Machines	11 to 15
Administrative buildings	33
Residential buildings	50

The residual values and useful lives of assets are reviewed at each balance sheet date and adjusted as appropriate. If the carrying amount of an asset is greater than its estimated recoverable amount, its carrying amount is written down immediately to the latter amount. Gains and losses on disposals are calculated as the difference between the proceeds of disposal and the carrying amount, and are recognised in profit or loss.

4.4 FINANCIAL INSTRUMENTS

A financial instrument is a contract that simultaneously results in a financial asset for one company and a financial liability or equity instrument for another company. Financial instruments recognised as financial assets or financial liabilities are generally presented separately. Financial instruments are recognised whenever VBH becomes party to the financial instrument. Initial recognition of financial instruments is at fair value. For subsequent measurement, the financial instruments are allocated to one of the measurement categories listed in IAS 39, 'Financial Instruments: Recognition and Measurement'. Transaction costs directly attributable to the purchase or issue are included in calculations of the carrying amount if the financial instruments are not measured at fair value in profit or loss. If the trading date and the fulfilment date (i.e. date of delivery) are different, VBH chooses the trading date for initial recognition or disposal.

Financial assets

Financial assets include trade receivables, receivables from banks, cash in hand, derivative financial assets, marketable securities and financial investments.

Financial assets measured at fair value in profit and loss

Financial assets measured at fair value in profit or loss include financial assets held for trading purposes. Financial assets such as shares or interest-bearing securities are classified as held for trading purposes if they are acquired with the intent to dispose of them in the short term. Derivatives, including embedded derivatives that were separated from the host contract, are also classified as held for trading purposes unless they are included in hedge accounting as hedging instruments and are effective as such. Gains and losses from financial assets held for trading purposes are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not listed on an active market, such as trade receivables. After initial recognition, loans and receivables are measured applying the effective interest method at amortised cost less impairment. Gains and losses are recognised in consolidated earnings if the loans and receivables are derecognised or impaired. Interest rate effects arising from the application of the effective interest rate method are also recognised in profit or loss.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed bullet maturities, which are to be and also can be held to maturity and are not to be allocated to any of the other measurement units. Initial recognition is at fair value. Subsequent recognition is at amortised cost applying the effective interest rate method.
At VBH Holding AG no financial assets are allocated to this measurement category.

Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are categorised as available for sale rather than under one of the categories mentioned above. This category includes equity instruments and debt instruments such as government issues, corporate bonds and commercial papers. After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains or losses are recognised in equity as provisions for available-for-sale assets. If there are objective indications of an impairment, or if changes in the fair value of a debt instrument result from exchange rate fluctuation, they are included in profit or loss. On the disposal of financial assets, the accumulated gains and losses arising from the fair-value measurement and recognised in equity are recognised in profit or loss. If the fair value of non-listed equity instruments cannot be determined to an adequate degree of reliability, the shares are measured at amortised cost (in any given case less impairment). Interest received from these financial assets is generally recognised in profit or loss as interest income, applying the effective interest rate method. Dividends are recognised in profit or loss once the legal claim to payment arises.

Financial liabilities

Financial liabilities include trade accounts payable, amounts owed to banks, bonds, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities are measured applying the effective interest method at amortised cost.

Financial liabilities measured at fair value in profit and loss

Financial liabilities measured at fair value in profit or loss include financial liabilities held for trading purposes. Derivatives, including embedded derivatives that were separated from the host contract, are classified as held for trading purposes unless they are included in hedge accounting as hedging instruments and are effective as such. Gains and losses from financial liabilities held for trading purposes are recognised in profit or loss.

Derivative financial instruments and hedge accounting

VBH uses derivative financial instruments such as forward contracts, swaps, caps and floors mainly for hedging interest rate and currency risks arising from its operating, financing and investing activities. Embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Derivative financial instruments are measured at fair value on initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, fair value is calculated using standard financial valuation models such as discounted cash flow or option pricing models. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

If the requirements for hedge accounting set out in IAS 39 are met, VBH designates and documents the hedging relationship from the date a derivative contract is entered into either as a fair value hedge or a cash flow hedge. In a fair value hedge, the fair value of a recognised asset or liability or an unrecognised firm commitment is hedged. In a cash flow hedge, fluctuating cash flows to be received or paid related to a recognised asset or liability or highly probable future cash flows are hedged. The documentation of the hedging relationship includes the objectives and strategy of risk management, the type of hedging relationship, the nature of risk being hedged, the identification of the hedging instrument and the hedged item as well as a description of the method to assess hedge effectiveness. With regard to the hedged risk, the hedging relationships are expected to be highly effective in offsetting risks arising from changes in fair value or cash flows and are regularly assessed to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated.

Changes in the fair value of derivative instruments are recognised periodically either in earnings or equity, as a component of other reserves, depending on whether the hedging relationship is designated as a hedge of changes in fair value or cash flows. For fair value hedges, changes in the market value of the derivative instruments and the associated hedged items are recognised in profit or loss. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognised in other reserves, net of applicable taxes. Amounts taken to equity are reclassified to the income statement when the hedged transaction affects the income statement. The ineffective portion of the fair value changes is recognised in profit or loss.

If derivative financial instruments are not or no longer included in hedge accounting because the requirements for hedge accounting are not or no longer met, the derivative financial instruments are classified as held for trading purposes.

4.5 IMPAIRMENTS/REVERSALS

At each balance sheet date, VBH assesses whether there is an indication that an asset may be impaired. If such indication exists, or when annual impairment testing for an asset is required (e.g. goodwill, intangible assets with indefinite useful lives as well as intangible assets not yet in use), VBH estimates the recoverable amount of the asset. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (cash-generating units). The recoverable amount is the higher of fair value less selling costs and value in use. VBH determines the recoverable amount as fair value less selling costs and compares it with the carrying amount (including goodwill). Fair value is measured by discounting future cash flows using a risk-adjusted interest rate. If fair value less selling costs cannot be determined or is lower than the carrying amount, value in use is calculated. If the carrying amount is higher than the recoverable amount, an impairment charge is recognised in the amount of the difference.

An assessment is made at each reporting date as to whether any previously recognised impairment not related to goodwill may no longer exist or have decreased. In this case VBH records a partial or full reversal of the impairment and increases the carrying amount to the recoverable amount. However, the increased carrying amount may not exceed the carrying amount that would have been calculated (less amortisation or depreciation) if no impairment losses had been recognised in previous years.

4.6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

Upon initial recognition, receivables and other assets are recognised at cost and less impairment. Impairment on trade receivables is recognised if there is objective evidence that amounts due are not fully recoverable. The amount of the impairment is measured as the difference between the carrying amount of the receivable and the cash value of the estimated future cash flows from this receivable. Impairments are directly recognised in profit or loss. If the reasons for impairments taken in previous periods no longer exist, these are reversed accordingly. Impairments are determined based on the age of the receivables and their recoverability. Receivables and other assets comprise mainly bonuses from suppliers, creditors with debit balances, other loans and receivables, and payments in transit. Deferred tax assets are also recognised. Receivables denominated in foreign currency, if recorded, are measured at the rate as at the reporting date.

4.7 INVENTORIES

Inventories are measured at the lower of cost or net realisable value. Inventories are measured in accordance with the VBH Group guidelines in line with purchase prices, the FIFO method or the weighted average method less impairment for uncommon products or stock.

4.8 LEASES

Leases are classified as ‘Finance Leasing’ if according to the terms of the lease all opportunities and risks associated with the property are transferred to the lessee. All other leases are classified as ‘Operating Leases’. Non-current assets which were rented or leased and whose beneficial ownership resides with the respective Group company (‘finance lease’) are recognised as assets of the Group at fair value or at the cash value of the minimum lease The corresponding amounts owed to the lessor are recognised in the balance sheet as finance lease obligations under amounts owed to banks. Lease payments are allocated to interest expenditure and reduction of the lease in such a way that interest is continuously charged on the remaining commitment. Lease payments as part of an operating lease are recognised as expenditure in the income statement on a straight-line basis over the term of the lease.

4.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, cheques, bank balances and securities, have a term of no more than three months and are measured at nominal value.

4.10 EQUITY

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction, net of tax, if any, from the proceeds. Costs directly attributable to the issue of new shares or options or those directly related to an acquisition are included in the cost of the respective acquisition as part of consideration for the acquisition.

4.11 PROVISIONS

Provisions are formed where the Group has a current legal or constructive obligation resulting from a past event and where it is probable (‘more likely than not’) that the payment of the obligation will negatively impact assets and where it was possible to determine reliably the level of the provision. Provisions are measured at the most likely value of their utilisation. Interest is charged at risk-adequate market rates on long-term provisions if their effect is material.

4.12 PENSION PROVISIONS

The VBH Group has defined benefit plans only. The actuarial valuation of pension provisions for retirement benefits is carried out in line with the projected unit credit method prescribed in IAS 19 (‘Employee Benefits’), in which an actuarial valuation is carried out at every balance sheet date. This method accounts not only for the present value of pension obligations known at the balance sheet date, but also for future salary and benefit increases. Differences resulting at the end of the year (known as actuarial gains and losses) between planned pension obligations and the defined benefit obligation are included in profit or loss in the relevant reporting period. The basis for the pension entitlements is a pension commitment dated 18 February 1981 for a group of pre-retirees employed by VBH Deutschland GmbH or its legal predecessors, VBH Holding AG and esco Metallbausysteme GmbH, until 1 March 1996. In accordance with the supplement dated 22 February 1996, this company pension plan ended for employees hired after 29 February 1996. Individual commitments also exist.

4.13 CONTINGENT LIABILITIES

Contingent liabilities are not recognised. A contingent liability exists if the existence of a present, legal or constructive obligation is possible and if the outflow of resources is merely possible but not likely. An event is considered probable if the occurrence of the event is more likely than not. However, a contingent liability is disclosed in the Notes if the possibility of an outflow of resources embodying economic benefit is not unlikely. Contingent assets are likewise not recognised. However, they are disclosed in the Notes where the inflow of economic benefit is probable.

4.14 REVENUE RECOGNITION

Sales revenue is measured at the fair value of the consideration received or to be received and represents the amounts recoverable for goods and services in the normal course of business. Rebates, VAT and other sales reductions associated with the sale should be deducted from these amounts. The sale of goods is recognised on delivery and transfer of ownership on the basis of the applicable terms and conditions.

4.15 INCOME TAXES

Current income taxes are determined based on respective local taxable income of the period and tax rules. In addition, current income taxes include adjustments for potential tax payments or refunds for periods not yet assessed. Deferred tax is included in income tax expense and reflects the changes in deferred tax assets and liabilities except for changes recognised directly in equity. Deferred tax assets or liabilities are determined based on temporary differences between financial reporting and the tax basis of assets and liabilities, including differences from consolidation, loss carryforwards and tax credits. Measurement takes place on the basis of the tax rates whose effectiveness is expected for the period in which an asset is realised or a liability is settled. For this purpose those tax rates and tax rules in effect at the balance sheet date or those announced are applied. Deferred tax assets are recognised to the extent that taxable profit at the level of the relevant tax authority will be available for the utilisation of the deductible temporary differences. VBH recognises a valuation allowance for deferred tax assets when it is not probable that a respective amount of future taxable profit will be available or when VBH has no control over the tax benefit. Tax benefits resulting from uncertain income tax positions are recognised at the best estimate of the tax amount for which payment is expected.

4.16 ESTIMATES IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

Presentation of the assets, financial position and earnings in the consolidated financial statements relies upon recognition and measurement methods and on assumptions and estimates. Actual results may differ from the estimates. The significant estimates and related assumptions listed below and those uncertainties associated with the accounting policies chosen are key to an understanding of the underlying risks of financial reporting and the effects that these estimates, assumptions and uncertainties may have on the consolidated financial statements. The measurement of the asset value of property, plant and equipment and of intangible assets necessitates estimates for the calculation of fair value at the date of acquisition, if they were acquired as part of a business combination. Moreover, the expected useful economic life of the assets must be estimated. The calculation of the fair value of assets and liabilities and of the useful lives of the assets is based on judgements by management. The calculation of impairment on tangible and intangible assets also involves making estimates relating among other things to the cause, date and amount of the impairment. Impairment is based on many factors including changes in current competitive conditions, expectations of growth in the construction, window and door industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, share-based compensation models, the amount of deferred taxes, warranty obligations, the recoverability of receivables and other changes in circumstances that indicate an impairment is in evidence.

5. Consolidated balance sheet disclosures

5.1 INTANGIBLE ASSETS

In € T	Industrial property and similar rights	Goodwill	Payments on account	Total
Acquisition costs				
Balance at 01 Januar 2009	**13,386**	**79,006**	**350**	**92,742**
Currency translation differences	2	-236	3	-232
Change in scope of consolidation	792	0	0	792
Additions	1,238	2,493	91	3,822
Reclassifications	228	0	-266	-38
Disposals	11	1,111	1	1,123
Balance at 31 Dezember 2009 / 01 Januar 2010	**15,636**	**80,152**	**176**	**95,964**
Currency translation differences	127	882	0	1,010
Change in scope of consolidation	-36	0	0	-36
Additions	791	0	34	825
Reclassifications	167	0	-177	-10
Disposals	347	25	0	372
Balance at 31 Dezember 2010	**16,339**	**81,008**	**34**	**97,381**
Depreciation and impairment losses/reversals				
Balance at 01 Januar 2009	**7,802**	**35,140**	**0**	**42,942**
Currency translation differences	7	-18	0	-11
Change in scope of consolidation	45	0	0	45
Depreciation/amortisation	1,498	0	0	1,498
Reclassifications	-1	0	0	-1
Disposals	8	0	0	8
Balance at 31 Dezember 2009 / 01 Januar 2010	**9,342**	**35,122**	**0**	**44,464**
Currency translation differences	59	482	0	541
Change in scope of consolidation	-40	0	0	-40
Depreciation/amortisation	1,498	10,148	0	11,645
Reclassifications	0	0	0	0
Disposals	251	13	0	263
Balance at 31 Dezember 2010	**10,608**	**45,739**	**0**	**56,347**
Carrying amount at 31 December 2009	**6,294**	**45,029**	**176**	**51,500**
Carrying amount at 31 December 2010	**5,731**	**35,269**	**34**	**41,034**

5.2 PROPERTY, PLANT AND EQUIPMENT

In € T	Land and buildings	Other assets, operational and business equipment	Payments on account, assets under development	Total
Acquisition costs				
Balance at 01 Januar 2009	**38,219**	**38,470**	**1,314**	**78,003**
Currency translation differences	68	-122	-32	-86
Change in scope of consolidation	22	566	0	588
Additions	302	2,097	457	2,857
Reclassifications	22	128	-112	38
Disposals	153	2,120	1	2,273
Balance at 31 Dezember 2009 / 01 Januar 2010	**38,480**	**39,020**	**1,627**	**79,127**
Currency translation differences	128	606	109	843
Change in scope of consolidation	12	-164	0	-151
Additions	221	3,128	423	3,771
Reclassifications	-132	208	-66	10
Disposals	150	4,098	303	4,551
Balance at 31 Dezember 2010	**38,559**	**38,700**	**1,789**	**79,048**
Depreciation and impairment losses/reversals				
Balance at 01 Januar 2009	**17,868**	**27,638**	**0**	**45,505**
Currency translation differences	30	14	0	44
Change in scope of consolidation	13	200	0	213
Depreciation/amortisation	1,170	3,361	0	4,531
Reclassifications	5	-4	0	1
Disposals	8	1,503	0	1,510
Balance at 31 Dezember 2009 / 01 Januar 2010	**19,079**	**29,706**	**0**	**48,785**
Currency translation differences	50	368	0	418
Change in scope of consolidation	-10	-164	0	-174
Depreciation/amortisation	1,076	3,333	0	4,409
Reclassifications	-69	69	0	0
Disposals	134	3,488	0	3,622
Balance at 31 Dezember 2010	**19,992**	**29,824**	**0**	**49,816**
Carrying amount at 31 December 2009	**19,402**	**9,314**	**1,627**	**30,343**
Carrying amount at 31 December 2010	**18,567**	**8,876**	**1,789**	**29,232**

5.3 FINANCIAL ASSETS

In € T	Interests in affiliated companies	Payments on account	Payments on account/ securities	Total
Aquisition costs				
Balance at 01 January 2009	**2,436**	**6**	**93**	**2,535**
Currency translation differences	0	0	0	0
Change in scope of consolidation	-4,846	0	0	-4,846
Additions	4,858	0	6	4,864
Reclassifications	0	0	0	0
Disposals	14	2	93	109
Balance at 31 December 2009 / 01 January 2010	**2,434**	**4**	**6**	**2,444**
Currency translation differences	0	0	0	0
Change in scope of consolidation	-483	0	0	-483
Additions	24	0	0	24
Reclassifications	0	0	0	0
Disposals	0	0	0	0
Balance at 31 December 2010	**1,975**	**4**	**6**	**1,985**
Depreciation and impairment losses/reversals				
Balance at 01 January 2009	**29**	**6**	**0**	**35**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	0	0	0
Depreciation/amortisation	0	0	0	0
Reclassifications	0	0	0	0
Disposals	13	2	0	14
Balance at 31 December 2009 / 01 January 2010	**17**	**4**	**0**	**20**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	0	0	0
Depreciation/amortisation	9	0	0	9
Reclassifications	0	0	0	0
Disposals	0	0	0	0
Balance at 31 December 2010	**26**	**4**	**0**	**30**
Carrying amount at 31 December 2009	**2,418**	**0**	**6**	**2,424**
Carrying amount at 31 December 2010	**1,949**	**0**	**6**	**1,955**

5.4 INVENTORIES

In € T	2009	2010
Raw materials and supplies	82	562
Work in progress	0	0
Finished goods and goods for resale	106,799	122,785
Payments on account	3,355	1,501
Total	**110,236**	**124,848**

Of the inventories recognised at 31 December 2010, € T 122,785 were recognised at net realisable value (previous year: € T 106,799). At the balance sheet date, impairments were recognised in inventories in the amount of € T 10,226 (previous year: € T 10,162). No impairments were reversed in the course of the financial year.

5.5 ACCOUNTS RECEIVABLES AND OTHER ASSETS

	2009			2010		
In € T	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Trade receivables	96,187	744	96,931	103,274	1,095	104,369
Receivables affiliated companies	4,300	0	4,300	3,133	0	3,133
Other assets	24,109	3,738	27,847	20,270	4,045	24,315
Total	**124,596**	**4,482**	**129,078**	**126,677**	**5,140**	**131,817**

Other assets include € T 12,989 receivables and payables largely to suppliers (previous year: € T 15,472) and € T 2,838 receivables from tax authorities (previous year: € T 3,240).

Aging Schedule of Trade Receivables

In € T	2009	2010
Trade receivables	**96,931**	**104,369**
Not impaired and not yet due	43,740	54,455
Not impaired and past-due	13,816	17,660
30 to 60 days	4,813	5,867
60 to 120 days	2,838	3,480
> 120 days	6,165	8,313

Valuation Allowances for Trade Receivables

In € T	2009	2010
Balance as at 01 January	**11,629**	**13,042**
Change in scope of consolidation	149	-16
Currency changes	-25	251
Allocations (impairment losses)	6,166	5,892
Utilisation	2,755	2,080
Withdrawals (gains on impairment reversals)	2,122	2,483
Balance as of 31 December	**13,042**	**14,605**

With respect to receivables that are neither impaired nor past due, there were no indications that they could not be recovered from debtors as at the balance sheet date.

5.6 CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is presented in the following table. At the balance sheet date the maximum default risk was equal to the carrying amount.

In € T	2009	2010
Credit balances with banks	13,468	11,975
Cash in hand and cheques	944	688
Total	**13,374**	**12,663**

5.7 TAX RECEIVABLES

Income taxes

	2009			2010		
In € T	Current	Non-current	Total	Current	Non-current	Total
Tax receivables	2,055	0	2,055	762	0	762

5.8 DEFERRED TAX ASSETS

Deferred tax assets

	2009			2010		
In € T	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Deferred tax assets	0	10,092	10,092	0	11,741	11,741

Deferred tax assets in the amount of € T 650 (previous year: € T 868) are recognised in equity.

5.9 EQUITY

Subscribed capital

Subscribed capital totals € 45,879,408.00, consisting of 45,879,408 non-par bearer shares.

The exercise of options in 2010 caused the following changes in equity:

Breakdown of subscribed capital

Individual shares	**2009**	**2010**
Balance as at 01 January	**45,790,408**	**45,869,408**
Shares from options	79,000	10,000
Balance as at 31 December	**45,869,408**	**45,879,408**

Authorised capital

Subject to Supervisory Board approval, the Executive Board is authorised to increase the share capital of the Company (Authorised Capital) one or more times through 9 June 2014 by a maximum of € 20,000,000.00 through the issuance of new no-par value ordinary bearer shares carrying voting rights (no-par value shares). Capital increases can be made against cash or non-cash contributions.

The Executive Board is also authorised to exclude the legal subscription right of shareholders in the following cases, subject to Supervisory Board approval:

- for fractional amounts arising due to the subscription ratio
- for a capital increase against non-cash contributions for the acquisition of companies or equity interests in companies (even if there is a purchase price component paid out in cash in addition to the shares) if the acquisition of the company or equity interests is understood to be in the interests of the company
- for a capital increase against cash contributions of up to 10% of the subscribed capital existing both on the date of this authorisation becoming effective and on the date of the authorisation being exercised, provided that the initial carrying amount of the new shares does not substantially fall short of the market price of shares of the same class and terms that are already listed. Shares that are acquired on the basis of an appropriate authorisation by the Annual General Meeting in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act during the period in which this authorisation was effective and sold according to Section 71 (1) No. 8 and Section 186 (3) Sentence 4 of the German Stock Corporation Act also count towards this restriction of 10% of the subscribed capital

The Executive Board is also authorised, with the approval of the Supervisory Board, to set a start date for profit-sharing rights that deviates from legislation, as well as further specifics pertaining to a capital increase and its implementation including particularly the issue amount and the compensation to be paid for the new shares and the granting of indirect subscription rights per Section 186 (5) of the German Stock Corporation Act.

Contingent Capital I

The subscribed capital of the Company was increased contingently by € 1,635,039 through the issuance of up to 1,635,039 new no-par value ordinary bearer shares with voting rights (Contingent Capital I). Due to the complete repayment in June 2010 of the convertible bonds of € 8,175,195 terminated as at the end of 2009 and the relevant interest, Contingent Capital I was paid back entirely in 2010.

Contingent Capital II

The subscribed capital of the Company is to be increased contingently by € 40,000 (previous year: € 100,000) through the issuance of up to 40,000 (previous year: 100,000) no-par value ordinary bearer shares with voting rights (Contingent Capital II). This contingent capital increase is exclusively for the purpose of fulfilling option rights that were granted on the basis of the authorisation by the Annual General Meeting from 24 May 2004 until 24 May 2009. The remaining contingent capital increase will be implemented only to the extent that holders of the option rights issued exercise their right to purchase shares, and the Company does not provide treasury shares to fulfil these option rights. The new no-par shares participate in profit from the beginning of the financial year in which the shares are issued.

A total 1,200,000 share options were issued, of which 600,000 were issued to the Executive Board, 120,000 were issued to managing directors of affiliated companies and 480,000 were issued to managers of the Group. Of these issued options, 10,000 were converted to shares in 2010 (previous year: 79,000), 50,000 were returned in 2010 (previous year: 0) and 40,000 options were still outstanding (previous year: 100,000). At year-end Contingent Capital II was € 40,000 (previous year € 100,000).

The profit participation of newly issued shares may be determined at variance to Section 60 of the German Stock Corporation Act.

Capital reserve

Capital reserves increased to € T 41,906 in 2010 (previous year: € T 41,847) due to the exercise of options in the amount of € T 20 (previous year: € T 139) and share-based compensation of € T 39 (previous year: € T 78).

Retained earnings

In € T	2009	2010
Legal reserves	2,142	2,050
Other reserves	44,398	42,154
Reserve for IFRS adjustments	-280	-280
Cash flow hedge reserve	-2,026	-1,516
Currency translation adjustments	-8,648	-5,151
Total	**35,585**	**37,257**

5.10 SHARE OPTION PLAN

The Executive Board was authorised with the approval of the Supervisory Board to issue up to 600,000 subscription rights on up to 600,000 VBH Holding AG no-par bearer shares with voting rights (hereinafter also referred to as ‘options’ and ‘option rights’) through 24 May 2009, subject to the provisions outlined below.

The Supervisory Board was authorised to issue up to 600,000 subscription rights on up to 600,000 VBH Holding AG no-par bearer shares with voting rights (voting shares) through 24 May 2009, subject to the provisions outlined below.

Group of those eligible to subscribe

Options may only be issued to members of the Executive Board of VBH Holding AG, managing directors of affiliated German and non-German companies, and executives of the Company and affiliated German and non-German companies. The Executive Board of the Company determines the specific individuals eligible to subscribe and the number of options to be granted to them. The Supervisory Board of the Company alone decides whether to grant and issue options to Executive Board members. The total volume of options is distributed among the eligible groups of individuals as follows: members of the VBH Holding AG Executive Board may receive a maximum 50% of total options; members of management of affiliated companies may receive a maximum 10% of total options. Managers of VBH Holding AG and its affiliated companies receive a maximum total of 40% of the options. In all cases, eligible members are granted options only as a member of one group of individuals. Double subscription is not allowed. At the time the options are granted, the entitled persons must have an active working relationship or service contract with the Company or an affiliated German or foreign company.

Granting options (acquisition periods), issue date and option right

Options are granted in yearly tranches issued within four weeks beginning the day after the Company's Annual General Meeting, the first time within a period of four weeks from the date the contingent capital increase to be resolved is recorded. The options are issued when a written contract for purchase of options (option agreement) is entered into between the relevant entitled individual and the Company. The Company shall present an option agreement to the eligible individuals for this purpose. The issue date is the date on which the option agreement signed by the Company is delivered to the eligible individuals. Each option authorises the holder to subscribe to a bearer share of VBH Holding AG in return for payment of the exercise price.

Exercise price and performance target

The price to be paid upon exercise of the relevant option (exercise price) corresponds to the average value of the closing prices of the Company's common stock as determined in floor trading on the Frankfurt Stock Exchange over the ten trading days before the day on which the options are issued, i.e. the issue date.
However, the minimum exercise price is the proportional amount of Company share capital represented by the individual common share (Section 9 (1) German Stock Corporation Act). The requirement for exercising options is that the relative increase in the value of the Company's shares between the option issue date and the respective exercise date is greater than the performance of the SDAX or another index functioning in the place of the SDAX. The value of the share at the time of the option is issued is determined by the exercise price, which is obtained from the mean value of the closing prices of the Company's share in floor trading at the Frankfurt Stock Exchange over the ten trading days prior to the issue date. The value of the Company's stock on the exercise date is determined by the mean value of the Company share's closing prices in floor trading on the Frankfurt Stock Exchange over the ten trading days before the relevant exercise period.

The value of the SDAX, or an index which is functionally equivalent to the SDAX, at the time of issue of the options is determined by the mean value of the closing prices of this index over the last ten days of trading before the issue date. The SDAX, or an index which is functionally equivalent to the SDAX, on the issue date is determined by the mean value of the closing prices of this index over the last ten days of trading before the relevant exercise period.

Vesting period for initial exercise and exercise periods

One third of the options granted may be exercised no earlier than two years ("two-year vesting period") after the issue date; an additional third may be exercised no earlier than three years after this date and the remaining third may be exercised no earlier than four years after the relevant issue date. The options can be exercised only within a period not exceeding four weeks from the third bank working day after the Annual General Meeting. In addition, all restrictions associated with the general legal regulations must be observed, particularly the German Securities Trading Act.

The performance of the share options is shown in the following table:

Shares from options

Financial year/ tranche	Remaining term in years	Total options outstanding	Exercise price in €	Options exercised	Forfaited/ expired options	Shares issued on options
2004	0	0	0	0	0	0
2005	0	0	0	0	0	0
2006	0	0	10,000	10,000	0	10,000
2008	3	40,000	0	0	50,000	0
		40,000	**10,000**	**10,000**	**50,000**	**10,000**

Issued options developed as follows:

In pieces/€	2009 Number of weighted options	2009 Weighted average price in €/share	2010 Number of weighted options	2010 Weighted average price in €/share
Balance as at 01 January	270,000	4.12	100,000	5.54
Options granted	0	0	0	0
Options exercised	79,000	2.76	10,000	3.03
Options expired	91,000	3.76	50,000	5.82
Balance as at 31 December	**100,000**	**5.54**	**40,000**	**5.82**

Of the share options remaining in 2010, 40,000 options may still be exercised in line with the option conditions as of 31 December 2010 (previous year: 100,000)

In financial year 2010, the share option plan resulted in personnel expenses of € T 39 (previous year: € T 78).

The parameters used to determine the fair value of the options granted are shown in the table below:

Tranche	2006	2008
Expected share volatility	44.0	38.0
Expected reference index volatility	15.0	20.0
Risk-free investment return	3.4%	4.6%
Residual term in years	1.0	4.0
Fair value per option in €	0.84	1.30

The expected volatilities are based on the historical volatility of VBH shares and the SDAX. The period on which the estimate of VBH share volatility is based is the two years prior to the date at which option fair value is calculated. A binomial model is employed for measurement.

5.11 LIABILITIES

	2009			2010		
In € T	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Liabilities to banks and third parties	41,966	67,888	109,854	114,114	10,921	125,035
Bonds/convertible bonds	8,175	0	8,175	0	0	0
Financial liabilities	**50,141**	**67,888**	**118,029**	**114,114**	**10,921**	**125,035**
Trade payables	43,801	527	44,328	47,476	34	47,510
Advances received	538	0	538	593	0	593
Liabilities from affiliated companies	0	0	0	0	0	0
Other liabilities	30,330	1,488	31,818	26,127	2,382	28,509
Trade payables and other liabilities	**74,669**	**2,015**	**76,684**	**74,196**	**2,416**	**76,612**
Total	**124,810**	**69,903**	**194,713**	**188,310**	**13,337**	**201,647**

Significant items under other current liabilities included deferred liabilities of € T 8,413 (previous year: € T 6,610), tax liabilities of € T 7,442 (previous year: € T 6,547) and payables to customers of € T 3,480 (previous year: € T 5,817).

Under the 2004 capital model, € 50 million in amounts payable primarily to banks were converted into floating-rate convertible bonds. Convertible bonds still outstanding in the amount of € T 8,175 were called in 2009 and paid out with interest to the holders in June 2010 in accordance with the convertible bond conditions.

In the previous year, additional noncurrent other liabilities in the amount of € T 890 represented purchase price liabilities in connection with company acquisitions and the purchase of equity interests, as well as syndicate financing from domestic banks. In the current year, this item largely contains other liabilities of € T 2,166 from interest rate swaps.

VBH Holding AG and its German subsidiaries receive major financing under agreements with the banks BW-Bank Stuttgart, Deutsche Bank AG, Stuttgart, Kreissparkassen Böblingen and Ludwigsburg, Volksbank in Stuttgart AG and IKB, Deutsche Industriebank AG. A syndicated loan agreement for a total line of credit of € 100 million with a five-year term was signed on 19 March 2007 and recognised as current due to the remaining duration (previous year: non-current).

The Group‘s lines of credits given by commercial banks and the syndicated loan due 31 December 2011 provided VBH with adequate credit during the financial year to continue developing its operating activities and making investments. The liquidity plan was observed and included not only the repayment of convertible bonds and due interest but also dividends distributed to VBH shareholders. Although utilisation of credit lines was further reduced thanks to the Group‘s positive cash flow, there was increased utilisation due to the above mentioned repayments and distributions.
Due to the deterioration in economic conditions, the financial covenants for the syndicated loan of VBH Holding AG were adjusted in 2009. In 2010, there was higher interest expense as a result of raising the borrowing interest rates due to a covenant being breached as at the end of the first half of 2010.
Due to the previous syndicated loan agreement expiring as at the end of 2011, VBH Holding AG is currently restructuring the Group financing. It is intended to achieve an agreement by the middle of the current financial year to secure further long-term financing for the Group.

Trade payables include open obligations from the provision of goods and services as well as current expenses. The Executive Board assumes that the carrying value of trade payments is almost equivalent to their fair value.

The table below presents liabilities from financial leases shown under financial liabilities.

In € T	2009	2010
Maturity within 1 year	173	97
Maturity in 1-5 years	417	342
Maturity after 5 years	2,019	1,997
Nominal value	**2,609**	**2,436**

Significant finance lease agreements exist in the Group for warehouse and office buildings used by VBH in Cologne, Germany and Savona, Italy. The leased assets are recognised in property, plant and equipment at a carrying amount of € T 2,500 (previous year: € T 2,628). The fair value of the Group’s lease payment obligations corresponds roughly to their carrying amount. The carrying amounts for land amounted to € T 925 (previous year: € T 925) and for buildings € T 1,575 (previous year: € T 1,653). Lease instalments totalled € T 289 (previous year: € T 295), including interest payments of € T 121 (previous year: € T 134). The conversion date for the Cologne financial lease contract is 1 February 2017. The lease liabilities will be recalculated on this date.

5.12 TAX LIABILITIES

Income tax liabilities relate to payments to the respective tax offices for amounts still open for financial year 2010.

	2009			2010		
In € T	Current	Non-current	Total	Current	Non-current	Total
Income tax liabilities	1,103	0	1,103	273	0	273

5.13 PENSION PROVISIONS

The actuarial report of Towers Watson GmbH, Reutlingen, Germany, of February 2011 was prepared in accordance with IAS 19, focusing on the main pension provisions in Germany. Measurement is based on the following calculation parameters, applying the projected unit credit method:
The actuarial assumptions reflect the fair value of cash and cash equivalents (calculatory interest rate) and the probability that payments will come due (assumptions on mortality, probability of marriage, disability, retirement and fluctuation etc.). The information is also based on mortality table 2005 G of Heubeck Richttafeln GmbH and, in respect of the calculatory pensionable age, the Federal Minster of Finance circular dated 5 May 2010.

Actuarial assumptions

	2007	2008	2009	2010
Discount rate	5.5%	5.8%	5.25%	5.15%
Expected return on plan assets	4.0%	3.0%	3.0%	3.0%
Expected salary increase rate	2.0%	2.0%	2.0%	2.0%
Expected income from reimbursements	0.0%	0.0%	0.0%	0.0%
Expected pension increase rate	1.0%	1.0%	1.0%	1.0%
Contribution assessment in statutory pension insurance	2.0%	2.0%	2.0%	2.0%

The service cost and any past service cost calculated using the projected unit credit method are recognised in the costs for the provision of benefits under defined benefit plans.

Effects in profit and loss from defined benefit plans

In € T	2006	2007	2008	2009	2010
Ongoing service cost	350	281	164	191	205
Interest cost	517	557	610	643	640
Expected return on plan assets	0	0	-22	-17	-19
Actuarial gains and losses	56	0	-15	-32	-12
Total	**923**	**838**	**737**	**785**	**814**

Present value of liabilities from defined benefits plans

In € T	2006	2007	2008	2009	2010
Balance as at 01 January	**11,184**	**11,788**	**12,294**	**12,119**	**12,497**
Service cost	350	281	164	191	205
Interest cost	517	557	610	643	640
Fair value of liability insurance			-540	0	5
Expected return on plan assets			-22	-17	-19
Actuarial gains and losses	56		-15	-32	-12
Plan participant contributions			-29	-28	-32
Benefits paid	-319	-332	-343	-379	-472
Balance as at 31 December	**11,788**	**12,294**	**12,119**	**12,497**	**12,812**

Plan assets and expected return

In € T	2008	2009	2010
Fair value of liability insurance	540	572	**611**
Expected return	3.0%	3.0%	**3.0%**
Balance as at 01 January	540	572	**611**
Employer and employee contributions	29	28	32
Fair value of liability insurance	0	0	-5
Expected return on plan assets	22	17	19
Actuarial gains/losses	19	6	-90
Balance as at 31 December	**572**	**611**	**567**

Present value of pension provisions

In € T	2006	2007	2008	2009	2010
Present value of liabilities funded by plan assets			-1,454	-1,645	-1,760
Plan assets			572	611	567
Funding status			-882	-1,034	-1,193
Present value of liabilities not funded by plan assets	-12,578	-11,282	-9,836	-10,760	-11,301
Non-amortised actuarial gains and losses	790	-1,012	-1,402	-703	-318
Portion of maximum amount not recognised	-11,788	-12,294	-12,119	-12,497	-12,812

The table below shows estimated expenses from allocations to provisions in future financial years.

Allocations to pension provisions

In € T		2011	2012
Expense in subsequent years		167	176

5.14 PROVISIONS

In € T	Pension and similar obligations	Taxes	Product liability	Other	Total
Balance at 01 January 2009	**12,129**	**7,314**	**1,684**	**4,712**	**25,839**
Change in scope of consolidation	0	5	0	152	157
Currency changes	0	-79	0	5	-74
Allocations	785	917	375	2,362	4,439
Reclassifications	-10	0	0	10	0
Utilisation	407	406	516	2,073	3,402
Reversals	0	5,760	0	444	6,204
Balance at 31 December 2009	**12,497**	**1,991**	**1,543**	**4,724**	**20,755**
thereof short-term	0	1,991	375	2,761	5,127
thereof long-term	12,497	0	1,168	1,963	15,628

In € T	Pension and similar obligations	Taxes	Product liability	Other	Total
Balance at 01 January 2010	**12,497**	**1,991**	**1,543**	**4,724**	**20,755**
Change in scope of consolidation	0	0	0	-329	-329
Currency changes	0	102	4	32	138
Allocations	819	1,133	345	2,581	4,878
Reclassifications	0	0	0	0	0
Utilisation	504	597	7	2,247	3,355
Reversals	0	397	326	721	1,444
Balance at 31 December 2010	**12,812**	**2,232**	**1,559**	**4,040**	**20,643**
thereof short-term	0	2,232	449	2,104	4,785
thereof long-term	12,812	0	1,110	1,936	15,858

Significant items under other provisions income included bonus provisions of € T 335 (previous year: € T 524) and provisions for personnel of € T 1,482 (previous year: € T 1,607).
Product warranty provisions contain possible claims from already realised property orders and warranties recognised for a period of five years.

5.15 DEFERRED TAX LIABILITIES

	2009			2010		
In € T	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Deferred tax liabilities	0	3,823	3,823	0	4,411	4,411

6. Notes to the income statement

6.1 SALES REVENUE / SEGMENT

In accordance with IFRS guidelines, the organisational structure of VBH is comprised of four primary operating segments and one non-operating segment. These segments form the basis for the primary segment reporting format while reflecting the internal control structure of the Group. Because the Group does not operate any different business segments, a breakdown according to business segments is not necessary.

Germany, Western Europe, Eastern Europe and Other Markets (this segment includes the subsidiaries in Asia and America) are the operating segments, while Corporate Services is the non-operating segment.

Sales revenues by segments were as follows:

In € T	**2009**	**2010**
Germany	382,456	411,443
Western Europe	143,896	133,301
Eastern Europe	221,076	247,935
Other Markets	25,846	31,189
Corporate Services	0	0
Consolidation *	-18,130	-23,857
Group	**755,143**	**800,011**

* Consolidation represents non-intersegmentary Group sales.

Business segments are organised by geographical designation in segment reporting. They also reflect the operating responsibilities of the Group‘s management structure, and are monitored regularly by management in order to assess the financial position of the Group as a whole and of the subgroup. These are segments subject to reporting under IFRS 8 (‘Segment Reporting’). A business segment constitutes a group of assets and operating activities that is distinct from other segments with respect to risks and opportunities.

Segment reporting is carried out in line with balance sheet recognition and measurement methods employed with the IFRS consolidated financial statements on which it is based. Intersegment consolidation was carried out. Segment reporting was prepared based on the single-entity financial statements prepared in accordance with IFRSs, presenting a true and fair view of the assets and liabilities of the segments.

As a trading group that specifies and determines its products or services individually within a specific economic environment in the respective markets, focusing on market-specific particularities and maintaining flexibility in the range of products is key to success. The core product ranges in the individual markets and segments are generally similar in type. Their difference lies in market readiness, and is further dependent upon political and economic framework conditions in the regions in which the VBH Group is active. These also represent the primary risk criteria for the Group.

The previous-year values have been restated in the respective business segments in relation to the accounting policies outlined in section 4.

6.2 COSTS OF RAW MATERIALS, SUPPLIES AND PURCHASED MERCHANDISE

Cost of materials breaks down as follows:

In € T	2009	2010
Costs of raw materials, supplies and purchased merchandise	570,314	606,713
Costs of purchased services	1,541	1,088
Total	**571,855**	**607,801**

Costs of raw materials, supplies and purchased merchandise in the current period (covering write-downs) included in profit and loss of € T 1,461 (previous year: € T 3,612).

6.3 PERSONNEL EXPENSES

Personnel expenses break down as follows:

In € T	2009	2010
Wages and salaries	77,331	79,314
Social security contributions and pension costs	15,180	15,602
Total	**92,511**	**94,916**

In the Group, personnel costs increased by a total of € 2.4 million or 2.6%. The moderate rise in personnel costs resulted from the German segment, while personnel costs in Western Europe declined as a result of restructuring measures. In Eastern Europe and in other markets, personnel costs rose as a result of expanding business activities.

Employees

	2009	2010
Germany	1,007	1,023
Abroad	1,961	1,911
Total	**2,968**	**2,934**

On average, the Company employed a groupwide workforce of 2,934 during the reporting year (previous year: 2,968).There were 87 trainees groupwide, as compared to 80 in the previous year.

6.4 OTHER OPERATING INCOME

In € T	2009	2010
Income from reversal of provisions	975	1,170
Income from reversal of impairments	2,181	1,862
Income from disposal of fixed assets	458	340
Other operating income	9,276	14,635
Total	**12,890**	**18,008**

Significant items under other operating income included exchange rate gains of € T 6,348 (previous year: € T 4,709), goods reimbursements from previous years of € T 360 (previous year: € T 435) and income from non-cash benefits passed on of € T 1,259 (previous year: € T 1,248).
In line with IFRS, other income also included a reduction in the purchase price for the acquisition of a shareholding of € T 1,456. A write-down on goodwill on the participation was recognised in the same amount in equity.

6.5 OTHER OPERATING EXPENSES

In € T	2009	2010
Administrative expenses	15,811	16,736
Selling expenses	25,056	26,865
Other operating expenses	31,398	33,754
Expenses relating to other periods	8,172	8,914
Total	**80,437**	**86,269**

Other operating expenses increased by € 2.3 million or 7.6% due to extended trading activites.

Significant items under other operating expenses included exchange rate losses of € T 4,783 (previous year: € T 5,512), rent and incidental rental costs of € T 12,887 (previous year: € T 12,271), rental/leasing costs of € T 4,512 (previous year: € T 4,541) and maintenance cost of € T 3,807 (previous year: € T 2,759).

6.6 DEPRECIATION / AMORTISATION

In € T	2009	2010
Amortisation of goodwill/intangible assets	1,163	11,416
Depreciation on property, plant and equipment	4,845	4,674
Total	**6,008**	**16,090**

Goodwill impairment related to the following companies:

In € T	2009	2010
VBH Ireland	0	1,456
VBH Hody, Belgium	0	1,791
VBH Italia Holding S.p.A., Italy	0	5,991
Siecom OOD, Bulgaria	0	110
VBH Construction Hardware Co. Ltd., China	0	800
Total	**0**	**10,148**

6.7 FINANCIAL RESULT

Interest income is accounted for on an accrual basis, including outstanding loan amounts and the applicable interest rate. The applicable interest rate is precisely the interest rate used for discounting estimated future cash inflows over the life of the financial asset to the net carrying amount of the asset. Dividend income from financial investments is recognised when the shareholder‘s legal claim to payment arises.

The financial result breaks down as follows:

In € T	2009	2010
Income from equity interests	0	0
Interest and similar income	733	514
Interest and similar expenses	-8,084	-8,906
Interest result	**-7,351**	**-8,392**
Depreciation on financial assets and securities	0	9
Total	**-7,351**	**-8,401**

The financial result deteriorated from € T -7,351 in the previous year to € T -8,401. Utilisation of credit facilities was higher in 2010 due to the improvement in the general economy, resulting in a higher interest charge. Furthermore, as a result of the conditions in the syndicate agreement interest expenses were higher in the second half of the year. There was no change against the previous year in the VBH Group rating. Interest expenses from pension obligations in the amount of € T 640 (previous year: € T 643) were shown in the financial result.

6.8 CURRENT TAXES

Income taxes

In € T	2009	2010
Current taxes	**4,043**	**6,278**
Germany	149	1,435
Abroad	3,894	4,843
Deferred taxes	**-811**	**-1,393**
Germany	-264	230
Abroad	-547	-1,623
Total	**3,232**	**4,885**

As in the previous year, income tax is calculated on the basis of expected taxable income for the financial year.

In accordance with IAS 12.81, actual tax expense must be compared with the tax expense that would theoretically have resulted if the applicable tax rates had been used on the reported earnings before taxes for the year. The overall tax rate applied, currently 19.9 % (31.5 %), reflects the theoretical group tax rate for VBH. Deferred taxes in foreign countries are calculated at the respective national income tax rates for retention of earnings.

The tax reconciliation of the expected versus actual tax expense for the year under review is provided below.

Tax reconciliation

In € T	2009	2010
Earnings before taxes (EBT)	9,871	4,542
Calculated income tax rate in %	35.1%	19.9%
Expected tax expense	3,460	902
Tax-exempt income/losses	-161	-180
Tax additions and deductions	-464	-435
Special items on impairments		1,730
Impact of not used losses carried forward	1,557	2,747
Tax payments/refunds in previous years and expenses for external audits	-1,160	122
Income taxes and deferred taxes	3,232	4,885
Tax rate in %	32.7%	107.5%

As a result of the loss carryforwards in foreign VBH companies which cannot be used for tax purposes there was a weighted calculatory income tax rate of 19.9 % (previous year: 35.3 %). The taxrate in an amount of 107.5 % is effected by special items.

6.9 DEFERRED TAXES

Deferred taxes are measured on the basis of the expected tax rates applicable at the date on which a debt is settled or asset realised. Deferred tax assets and liabilities reflecting temporary differences in carrying amount for individual balance sheet items are shown below.

Deferred taxes for temporary differences and tax loss carried forward

	2009		2010	
In € T	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Deferred taxes for temporary differences				
Assets	163	3,060	131	2,931
Long-term current assets	212	0	37	117
Short-term current assets	1,193	541	1,782	1,123
others	443	138	993	55
Long-term provisions	607	0	210	30
Short-term provisions	77	0	51	0
Long-term liabilities	524	14	1,160	103
Short-term liabilities	1,123	70	590	52
Total	**4,342**	**3,823**	**4,954**	**4,411**
Tax losses carried forward	5,750	0	6,787	0
Carrying amount	**10,092**	**3,823**	**11,741**	**4,411**

In the financial year, the German companies recognised deferred taxes on trade tax loss carryforwards of € T 19,654 (previous year: € T 19,325) and on corporation tax loss carryforwards of € T 12,648 (previous year: € T 14,730). An average tax rate of 30 % was applied. In line with corporate planning for the specific Group companies, the loss adjustment volume will be used up within five years.

The remaining tax losses, which can be carried forward in full, result from corporation tax in the amount of € T 21,629 (previous year: € T 18,502) and from trade tax of € T 14,324 (previous year: € T 28,693).

In Germany there is no limit for carrying forward losses. In certain countries, minimum tax rules affect the usability of loss carryforwards. Foreign subsidiaries recognised deferred tax assets on loss carryforwards of a total € T 1,942 (previous year: € T 942). Major unused tax losses in foreign companies amount to € T 4,588 (previous year: € T 7,893). For € T 4,285 of this amount (previous year: € T 6,883), there is no time limit for carrying forward.

6.10 MINORITY INTERESTS

Minority interests in consolidated earnings came to € T 481 (previous year: € T 986). These primarily represent minority interests of the subsidiaries in Spain, Poland, Russia, Bulgaria the Ukraine, Mexico and Kazakhstan.

6.11 EARNINGS PER SHARE

In € T	2009	2010
Net result after minorities	5,573	-1,711
Total number of shares	45,869,408	45,879,408
Weighted average of own shares	0	0
Weighted average of own shares diluted	0	0
Weighted average of shares from convertible bonds and options	37,833	4,167
Weighted average shares from convertible bond and options diluted	100,000	40,000
Weighted average of shares outstanding	45,828,241	45,873,575
Weighted average of shares outstanding diluted	45,828,241	45,873,575
Earnings per share in €	**0.12**	**-0.04**
Earnings per share (diluted) in €	**0.12**	**-0.04**

The calculation of fully diluted earnings includes all stock options granted and available. The following instruments may have a significant diluting effect in future: exercise of option rights with a volume of up to 40,000 shares (Contingent Capital II), of which 40,000 shares are still outstanding or available.

An additional 20 million shares have also been authorised (Authorised Capital).

6.12 ADJUSTED EARNINGS / CALCULATING ADJUSTED EARNINGS PER SHARE

Non-recurring items chiefly result from the integration of acquired companies, implemented or planned restructuring, impairment losses and the result of divestments. The expenses and income reported as such did not arise from ordinary business activities. Intangible assets predominantly result from purchase price allocations following acquisitions. Amortisation of intangible assets may be temporary.

Earnings per share adjusted for non-recurring items and amortisation of intangible assets is an increasingly common key figure that has also become established internationally, as it reflects the Group's sustainable earnings generated from operating business.

Adjusted earnings before taxes, the adjusted net profit for the year after minorities and adjusted earnings per share are key figures that are not defined under International Financial Reporting Standards (IFRS). They should therefore be considered not in isolation but as additional information.

Adjusted earnings

In € T	**2009**	**2010**
EBT	9,871	4,542
Special items	0	-1,445
Depreciation goodwill and intangible assets	0	10,148
EBT adjusted	**9,871**	**13,234**
Income tax adjusted	-3,232	-4,885
Discontinued operations	-80	-887
EAT adjusted	**6,559**	**7,462**
Minority shares	-986	-481
EAT adjusted after minorities	**5,537**	**6,981**
Weighted average of issued shares	45,828,241	45,873,575
EPS adjusted	**0.12**	**0.15**

7. Cash flow disclosures

Cash and cash equivalents on the cash flow statement comprise exclusively the cash and cash equivalents recognised in the balance sheet. The cash flow statement details the Group's cash flows, broken down into cash inflows and outflows into and from ongoing operating, investing and financing activities. The change to the scope of consolidation impacts the presentation of the figures.

Cash-Flow discontinued operations

In € T	2009	2010
Cash flow from operating activity	-1,124	-165
Cash flow from investing activity	-10	70
Cash flow from financing activity	1,200	119

8. Other disclosures

8.1 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

Fair value of financial instrument per IAS 39

				Fair value		
In € T		Carrying value 31 December 2009	Amortised cost	Directly in equity	In profit or loss	Fair value 31 December 2009
Assets						
Interests in affiliated companies	AfS	2,418	2,418			2,418
Equity interests	AfS	0	0			0
Payments on account financial assets	AfS	0	0			0
Stocks	AfS	6	6			6
Trade receivables	LaR	96,931	96,931			96,931
Receivables affiliated companies	LaR	4,300	4,300			4,300
Other assets	LaR	27,847	27,847			27,847
Cash and cash equivalents	LaR	14,411	14,411			14,411
Liabilities						
Derivates with hedging relationship	n.a.	2,895		2,895		2,895
Liabilities to banks	FLAC	109,854	109,854			109,854
thereof liabilities from finance leases	FLAC	1,874	1,874			1,874
(Convertible) bonds	FLAC	8,175	8,175			8,175
Trade payables	FLAC	44,328	44,328			44,328
Other liabilities	FLAC	29,461	29,461			29,461

AfS: Available for Sale Financial Asset; LaR: Loans and Receivables; FAHfT: Financial Assets Held for Trading
FLAC: Financial Liabilities Measured at Amortised Cost; n.a.; not available

Fair value of financial instrument per IAS 39

In € T		Carrying value 31 December 2010	Amor-tised cost	Fair value: Directly in equity	Fair value: In profit or loss	Fair value 31 December 2010
Assets						
Interests in affiliated companies	AfS	1,949	1,949			1,949
Equity interests	AfS	0	0			0
Payments on account financial assets	AfS	0	0			0
Stocks	AfS	6	6			6
Trade receivables	LaR	104,369	104,369			104,369
Receivables from affiliated companies	LaR	3,133	3,133			3,133
Other assets	LaR	24,315	24,315			24,315
Cash and Cash Equivalents	LaR	12,663	12,663			12,663
Liabilities						
Derivates with hedging relationship	n.a.	2,166		2,166		2,166
Liabilities to banks	FLAC	125,035	125,035			125,035
thereof liabilities from finance leases	FLAC	1,701	1,701			1,701
(Convertible) bonds	FLAC	0	0			0
Trade payables	FLAC	47,510	47,510			47,510
Other liabilities	FLAC	26,936	26,936			26,936

AfS: Available for Sale Financial Asset; LaR: Loans and Receivables; FAHfT: Financial Assets Held for Trading
FLAC: Financial Liabilities Measured at Amortised Cost; n.a.; not available

Carrying values of financial instruments by valuation category per IAS 39

In € T	2009	2010
Available-for-sale financial assets	2,424	1,955
Loans and receivables	143,489	144,480
Financial liabilities measured at amortised cost	191,818	199,481
Derivates with hedging relationship	2,895	2,166

The fair value of cash and cash equivalents, current receivables, trade payables and other payables approximately corresponds to the carrying amount. This is attributable to the short duration of these financial instruments. Shares in private companies are carried at cost, as fair value cannot be reliably determined.

The fair values of other noncurrent receivables correspond to the present values of the cash flows connected with the assets, factoring in the applicable interest rate parameters, which reflect market and partner-related conditions and expectations.

The fair values of liabilities to banks, liabilities to convertible bond holders and other financial liabilities are reported at nominal value.

Interest from financial instruments is reported under net interest income/expense; dividends are reported under other net financial income (EBIT). VBH recognises the remaining components of the net result in other financial result.

Excluded from this are valuation adjustments to trade receivables attributable to the loans and receivables measurement category. These are shown under other operating expenses.

Exchange losses and gains on financial assets classified as loans and receivables chiefly result from intragroup forwarding of loans and deliveries and are shown under other operating income/expenses.

Interest income/expense from financial liabilities classified as financial liabilities measured at amortised cost include interest expense from bonds in the amount of € T 119 (previous year: € T 368). The convertible bonds were paid back with accumulated interest to the convertible bond holders in June 2010 at a level of € T 8,175.

Also included are interest expense and income from interest rate derivatives. Cash flow hedges are recognised as an interest rate hedging instrument for containing interest rate risks arising from financial liabilities. Net interest income also includes expenses for bank loans extended.

Net income from financial instruments

In € T	2009	2010
Available for Sale	0	0
Loans and receivables	-3,285	-4,204
Financial Liabilities Measured at Amortised Costs	-8,085	-8,906

The net result for the loans and receivables category primarily includes currency translation effects and changes in valuation adjustments. Financial liabilities measured at amortised costs contain largely interest expense.

8.2 RISK MANAGEMENT

The Group is exposed to a range of financial risks resulting from its operating and financing activities. The most significant financial risks for the Group arise from changes in the interest rates and in the creditworthiness and solvency of the Group's contract counterparties. Financial risks are managed within the Group in accordance with the policies established by management. These include interest rate, market, lending and liquidity risks. Polices and guidelines also exist for other areas, such as liquidity management, and for obtaining short or long-term loans.

8.2.1 Capital management

The aim of capital management is to hedge the risks mentioned above to the extent necessary, thus containing any negative effects on the Group's income statement and balance sheet. In compliance with the principle of functional separation, financial risks to which the Group is exposed are assessed, monitored and actively addressed. Measures for achieving risk management objectives include optimisation of the capital structure, adjusting the amount of dividends, acquisitions, divestments and reducing debt.

8.2.2 Market risk

Market risk from financial instruments primarily consists of currency and interest rate risk. Sensitivity analyses are conducted to monitor these risks.

8.2.3 Liquidity risk

Central liquidity planning is based on the Group financing. To ensure the liquidity and financial flexibility of VBH Group, the Group has fixed credit lines in the amount of approximately € 175 million. The timing and content of dividend distributions are also coordinated with the subsidiaries on the basis of liquidity planning. There is an option of issuing up to 20,000,000 new shares from authorised capital, subject to Supervisory Board approval. The maturity dates of financial liabilities are listed under point 5.11.

The figures below pertain to contractual, undiscounted cash flows:

Liquidity risk

In € T	2010 Carrying value	2010 Total	Remaining term < 1 year	Remaining term >1 year < 5 years	Remaining term > 5 years
Financial liabilities	**125,035**	**132,167**	**121,125**	**5,738**	**5,304**
- of which bonds					
- of which liabilities to banks	125,035	132,167	121,125	5,738	5,304
Trade payables	**47,510**	**47,510**	**47,476**	**34**	
Other liabilities	**28,509**	**28,509**	**26,127**	**2,382**	
- of which derivative financial instruments	2,166	2,181	1,645	536	
Tax liabilities	**273**	**273**	**273**		
Advances received	**593**	**593**	**593**		
Financial liabilities	**201,920**	**209,052**	**195,594**	**8,154**	**5,304**

8.2.4 Currency risk

As a global acting company, the VBH Group is exposed to transaction and translation-related risks. Transaction risk arises both in Group financing and from the sale and purchase of goods and services not invoiced in the base currency of the respective VBH Company. The resulting currency risks are analysed as part of cash management and the Group treasury system, and hedged with derivatives as necessary. The offsetting effects of the hedged item and currency hedging are recognised as profit or loss and thus reflected on the income statement.

Translation risk results from the fact that many VBH companies are located outside the Eurozone, while the VBH Holding AG consolidated financial statements are prepared in Euro. The balance sheets and income statements of subsidiaries outside the Eurozone therefore have to be translated into Euro in the consolidated financial statements. The translation-related effects of changes in foreign exchange rates are recognised under equity in the VBH consolidated financial statements. Because the equity interests are of long duration, VBH Holding AG elects not to directly hedge net asset items.

In accordance with IFRS 7, a sensitivity analysis was conducted for foreign exchange risks. The table below shows the effect a 10% fluctuation in the respective foreign currency would have on equity and/or net profit. The analysis is based on the respective volume as at the balance sheet date.

Sensitivity analysis of foreign currency risks

	2009 Foreign currency		2010 Foreign currency	
In € T	**10% increase**	**10% decrease**	**10% increase**	**10% decrease**
Change in net profit				
EUR / CNY	478	-435	167	-152
EUR / CZK	105	-96	270	-245
EUR / GBP	127	-115	140	-128
EUR / PLN	233	-212	255	-232
EUR / RUB			1,518	-1,380
EUR / SGD	306	-278	355	-323
EUR / AUD	478	-434	16	-14
EUR / AED	154	-140	162	-147
EUR / THB	142	-130	168	-152
EUR / TRY	105	-95	261	-237
EUR / BYR			133	-121
Total	**2,128**	**-1,935**	**3,445**	**-3,131**

8.2.5 Interest rate risk

In € T	2009	2010
Fixed-rate financial debts	11,734	11,355
Variable-rate financial debts	98,119	113,680
Total	**109,853**	**125,035**

VBH is exposed to interest rate risks arising from liabilities, primarily in connection with financial liabilities.

8.2.6 Hedge accounting

As part of syndicate financing, two conventional interest rate swaps were used for the first time in 2007 requiring hedge accounting. These are cash flow hedges. The nominal value of these swaps is € 40 million. In January 2009 VBH Holding AG concluded another interest rate swap for € 30 million. The aim here was to lock in the interest rate on the minimum utilisation of German credit lines over the course of the year and secure the resulting financing need at the Eurozone subsidiaries.

In financial year 2010, interest rate risks resulted from floating-rate financing debts and the market values of these two financial derivatives (interest rate swaps). In an interest rate swap, the Group swaps fixed and variable interest payments calculated on the basis of contractual nominal amounts. Such agreements allow the Group to mitigate the risk of changing interest rates on the fair value of issued fixed-interest debt instruments as well as cash flow risks posed by floating-rate debt instruments issued. The fair value of interest rate swaps at the reporting date is determined by discounting future cash flows applying yield curves at the reporting date, factoring in credit risks associated with the contracts. The following sensitivity analysis shows what effect a fluctuation of one percentage point at the respective market level would have had on equity or earnings for the year. The analysis is based on the respective volume as at the balance sheet date.

Sensitivity analysis of interest rates risks

In € T	2009 Market interest rate 1 percent increase	2009 Market interest rate 1 percent decrease	2010 Market interest rate 1 percent increase	2010 Market interest rate 1 percent decrease
Variable rate instruments				
Change in net profit	-981	981	-1,137	1,137
Interest rate swaps				
Change in net profit	1,482	-1,488	909	-892
Overall impact	**501**	**-507**	**-228**	**245**

Hedge Accounting

In € T	2009	2010
Total volume of interest rate swaps	70,000	70,000
Fair value	-2,895	-2,166
Expiration	30.12.2011/ 01.06.2012	30.12.2011/ 01.06.2012

In financial year 2010, the market values of interest rate derivatives were shown in consolidated reserves taken directly to equity in the amount of € T -2,166 (previous year: € T -2,895).

According to IFRS 7, financial instruments recognised at fair value are to be classified into measurement levels. These are quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), input factors other than quoted prices included within Level 1 that are observable for an asset or liability either directly or indirectly (Level 2) and factors for the measurement of the asset or liability not based on observable market data (Level 3).

Hierarchical fair value levels of financial instruments per IFRS 7

In € T	Level 1	Level 2	Level 3
Derivatives with hedging relationship	0	2,166	0
Financial liabilities	0	2,166	0

During the reporting period there were no transfers between Level 1 and Level 2.

8.2.7 Default risk

Because of its business dealings with third parties in various sectors, VBH Group is exposed to default risk globally. This risk represents the possibility of non-performance on the part of a contract counterparty. The maximum default risk is stated on the basis of the carrying amounts of financial assets recognised on the balance sheet. To minimise default risk, in companies with a default risk a comprehensive credit control system has been implemented. Credit information has been collected and historical data used pertaining to the business relationship to date, particularly regarding payment practices, in order to avoid default on payments. Valuation allowances are recognised for default risks identified sufficiently in advance. See point 5.5 ‘Receivables and other assets’ concerning the carrying amount of receivables overdue or amortised, the collection date of which has been renegotiated.

9. Other financial liabilities and contingencies

As at the balance sheet date, other financial liabilities existed, particularly arising from leases and lease agreements for buildings, land, machines, tools, office and other equipment and subject to classification as operating leases under IAS 17. In financial year 2010 no other financial obligations or contingencies existed in connection with affiliates. Total future payments arising from non-cancellable contracts are classified by due date as follows:

Obligations from rental contracts

In € T	2009	2010
Maturity within 1 year	9,168	10,009
Maturity in 2-5 years	12,612	16,616
Maturity after 5 years	1,331	1,674
Total	**23,111**	**28,299**

Obligations from leasing contracts

In € T	2009	2010
Maturity within 1 year	2,851	2,827
Maturity in 2-5 years	2,253	1,715
Maturity after 5 years	0	0
Total	**5,104**	**4,542**

Contingencies are presented at the amount drawn on or correspond to the nominal value of the liabilities.

Obligations from contingent liabilities

In € T	2009	2010
Liabilities from the issue and transfer of bills of exchange	436	454
Liabilities from guarantees, bills of exchange and cheque guarantees	849	493
Liabilities from warranties	56	199
Contingency from providing collateral for external liabilities	0	142
Total	0	0
Gesamt	**1,341**	**1,146**

Real estate liens

In € T	2009	2010
Real estate liens	29,189	29,190
Total	**29,189**	**29,190**

VBH Holding AG, VBH Deutschland GmbH and esco Metallbausysteme GmbH have entered into a syndicated loan agreement with domestic lending banks governing the pledging of shares in major Group companies to the participating banks and the assignment of all outstanding debts and claims arising from shareholder loans, as well as the assignment of all inventory as security and the creation of land charges. Outside Germany, fixed and current assets were assigned as collateral to secure local credit agreements. Total assets used as collateral amounted to € 18.4 million (previous year: € 21.7 million). No unrelated parties have placed collateral with VBH. The total carrying amount of companies pledged was € T 55,422 (previous year: € T 57,972).

10. Litigation and claims for damages

Should individual legal disputes or claims for damages give rise to circumstances within the Group requiring recognition, these are covered adequately by provisions allocated on the individual financial statements of Group companies. The Group is not aware of other any material risks.

In connection with the acquisition of companies, VBH is involved in court, arbitration and out-of court proceedings which could result in pro rata repayments of purchase prices or to liability compensation. A case relating to fraud in Greece is pending.

11. Related party disclosures

Executive and Supervisory Board members, their immediate family members and subsidiaries that are not fully consolidated are considered related parties per IAS 24, 'Related Party Disclosures'. No related parties were involved in any significant or unusual transactions in type or nature with VBH Holding Group companies. Sales between the VBH Group and unconsolidated companies are of minor significance. Further relationships with equity interests outside the scope of consolidation are accounted for using the cost-plus method.

Business transactions between consolidated companies and related parties concern ongoing consulting services from the law firm of the Supervisory Board Chairman, which acted in an advisory category for the Company. Remuneration for these services is in line with prevailing market rates and was approved by the VBH Holding AG Supervisory Board, totalling € T 54 for financial year 2010 (previous year: € T 56). The Vice Chairman of the Supervisory Board advises the two operating German companies in matters of the market and servicing key accounts. The consultancy agreements were approved by the VBH Holding AG Supervisory Board. Compensation in financial year 2010 totalled € T 127 (previous year: € T 257 including non-cash benefits and remuneration as General Manager). In addition, the Vice Chairman of the Supervisory Board received an ongoing pension from the German companies totalling € T 90 (previous year: € T 30). The Executive Board did not effect any such transactions.

Receivables from related parties amounted to € T 3,133 as at the balance sheet date (previous year: € T 4,300); there were no related-party liabilities in either financial year.

The trade receivables primarily represent sales of goods by consolidated subsidiaries to foreign distribution companies. The products/services sold concern passed on outsourcing and services.

Unconsolidated companies

In € T	2009	2010
Carrying values at 31 December		
Loans	744	626
Receivables	3,556	2,507
Transactions in the financial year		
Goods purchased	2,068	3,790
Other expenses	58	118
Sales revenue	1,467	1,261
Interest income	58	49
Other operating income	85	66

12. Significant events after the balance sheet date

Publication in accordance with section 26 (1) WpHG by VBH Holding AG dated 26 January 2011

Mr. Victor Trenev, Russia, and Ascalon Holding GmbH, Vienna, Austria, notified us in accordance with section 27a (1) WpHG on 20 January 2011 by letter dated 14 January 2011 that Mr. Victor Trenev, Russia, (including all voting rights of Ascalon Holding GmbH, Vienna, Austria, attributable to him in accordance with section 22 (1), sentence 1 no. 1 WpHG) and Ascalon Holding GmbH, Vienna, Austria, currently hold 21.85% in VBH Holding AG.
The corresponding threshold notifications in accordance with sections 21 and 22 in conjunction with section 26 WpHG were properly issued by the reporting parties in all cases. According to the information of the reporting parties, there were no further reportable changes in accordance with sections 21 and 22 WpHG in the period since the last notification on 16 July 2010. In addition, the reporting parties have now also satisfied the reporting requirement of section 27a (1) WpHG and notified the company as follows:

I. Goals pursued with the acquisition of voting rights

1. The investment serves the implementation of strategic objectives.
2. It is intended to obtain further voting shares by way of acquisition or otherwise within the next twelve months.
3. It is intended to influence the composition of a supervisory body of VBH Holding AG.
4. It is not intended to implement a significant change in the capital structure of the company, particularly with regard to the ratio of equity and borrowed capital and to the dividend policy.

II. Origin of the funds used

The funds used originated as the equity of the sole shareholder of Ascalon Holding GmbH, Vienna, Austria, Mr. Victor Trenev, and as loans received by Ascalon Holding GmbH from third parties.

There were no other significant events after the end of the reporting period.

13. Remuneration of auditors

During financial year 2010 remuneration paid to auditors as per Section 318 of the German Commercial Code (including affiliates as per Section 271 (2) German Commercial Code) broke down as follows:

Expenses for remuneration of auditors

In € T	2009	2010
Audit of financial statements	364	378
Other attestation and valuation services	71	25
Tax consultancy	20	25
Other services	0	27
Total	**455**	**455**

14. Remuneration of executive bodies

Concerning remuneration of executive bodies per Section 314 HGB (German Commercial Code), we refer to the report provided in the corporate governance report.

Remuneration of executive bodies

	2009			
In € T	Fixed	Variable	Non-cash benefits	Total
Executive Board	502	365	83	950
Supervisory Board	163	0	0	163
Total	**665**	**365**	**83**	**1,113**

	2010			
In € T	Fixed	Variable	Non-cash benefits	Total
Executive Board*	482	266	87	835
Supervisory Board	166	6	0	172
Total	**648**	**272**	**87**	**1,007**

(*) pro rata

Options and shares held by

	31.12.2009		31.12.2010	
Individual shares	Options	Shares	Options	Shares
Executive Board	0	459,684	0	459,684
Supervisory Board	0	10,000	0	1.605,272
Total	**0**	**469,684**	**0**	**2.064,956**

Pension commitments

All Executive Board members have received pension commitments in line with their individual contracts, which provide for pensions to be drawn no earlier than the age of 60.

Former Executive Board members and their surviving dependants received total benefits of € T 466 in the past financial year (previous year: € T 544). Defined benefit obligations (DBO) per IFRS for all pension commitments to former Executive Board members, managers and their surviving dependants totalled € T 5,710 at the end of 2010 (previous year: € T 5,550). Defined benefit obligations for all pension commitments per IFRS amounted to € T 827 for Mr. Hribar (previous year: € T 551) and € T 89 for Dr. Lieb (previous year: € T 80). Additions during the reporting year totalled € T 284 (previous year: € T 152).

15. Declaration of conformity with Corporate Governance Code

The Company's Executive and Supervisory Board submitted the declaration of conformity required under Section 161 of the Stock Corporation Act on 30 March 2011 and also made it available to the shareholders. Any deviations from the German Corporate Governance Code have been documented accordingly and can be viewed at any time on the VBH Holding AG website (www.vbh.de).

16. Shareholdings of VBH Holding AG, Stuttgart as at 31 December 2010

Disclosures of shareholdings are made in a separate document, which is filed with the Stuttgart Commercial Register under HRB 203096. The companies included in the consolidated financial statements, esco Metallbausysteme GmbH, domiciled in Ditzingen, Germany, and VBH Germany GmbH, domiciled in Korntal-Münchingen, Germany, are exercising their right of exemption under Section 264 (3) of the German Commercial Code.

17. Corporate governance bodies

Executive Board

Dipl.-Ing. ETH Rainer Hribar, Tägerwilen/Switzerland

Other Supervisory Board mandates:
GU Bodensee AG, Tägerwilen, Switzerland, – Chairman –
Leicom AG, Winterthur, Switzerland, – Board member –
Group internal:
VBH Estonia AS, Tallinn/Estonia (board of directors)
VBH-TBM UAB, Vilnius/Lithuania (board of directors)
VBH Middle East FZCO, Dubai/U.A.E. (board of directors)
VBH Hellas S.A., Salonika/Greece (board of directors)
VBH Italia Holding Spa, Bologna/Italy (board of directors)
VBH Kapi ve Pencere, Istanbul/Turkey (board of directors)
Beijing VBH Construction Hardware Co.Ltd., Beijing/China (board of directors)
Shanghai VBH Construction Hardware Co.Ltd., Shanghai/China (board of directors)

Dipl. Kaufm. Frieder Bangerter, Leinfelden-Echterdingen (from 01 January 2011)

Dr. rer. pol. Ralf Lieb, Arnstorf/Germany (until 31 August 2010)

Group internal:
VBH Estonia AS, Tallinn/Estonia (board of directors until 31.08.10)
UAB VBH Vilnius, Vilnius/Lithuania (board of directors until 31.08.10)
VBH Kapi ve Pencere, Istanbul/Turkey (board of directors until 31.08.10)
Beijing VBH Construction Hardware Co.Ltd., Beijing/China (board of directors until 31.08.10)
Shanghai VBH Construction Hardware Co.Ltd., Shanghai/China (board of directors until 31.08.10)

Supervisory Board

Prof. Rainer Kirchdörfer, lawyer, Korntal-Münchingen – Chairman – (from 01January 2010)

Other Supervisory Board mandates:

Bauerfeind AG, Zeulenroda, – Chairman –

Berner SE, Künzelsau, – member –

Cronbank AG, Dreieich, – member –

Heiler Software AG, Stuttgart, – Vice Chairman –

Kohl Medical AG, Perl, – Vice Chairman –

MHK Group AG, Dreieich, – Chairman –

Andreas Schill, businessman, Stuttgart – Vice Chairman – (from 01 January 2010)

No other mandates

Stephan M. Heck, businessman, Mannheim

No other mandates

Dipl.-Kfm. Matthias Linnenkugel, auditor, tax advisor, Hamburg (from 01 January 2010)

No other mandates

Klaus Meichner, business economist, Donaustauf, – **employee representative**

No other mandates

Martin Morlok, commercial employee, (from 09 June 2008) Trochtelfingen, – **employee representative**

No other mandates

In the reporting year, six Supervisory Board meetings took place.

18. Approval of the consolidated financial statements per IAS 10.17

The Executive Board will present these consolidated financial statements to the Supervisory Board on 30 March 2011 for approval and release for publishing.

Proposal for the appropriation of profits

The Executive Board will recommend to the Supervisory Board to present the following proposal on the appropriation of profits to shareholders for approval at the Annual General Meeting on 15 June 2011. The distribution of a dividend of € 0.06 per no-par share (ISIN: 760070) is proposed from the net result of € 5,779,215.49 (previous year € 7,710,150.99) shown on the VBH Holding AG annual financial statements prepared in accordance with the German Commercial Code, on eligible subscribed capital of € 45,879,408.

Korntal-Münchingen, March 2011

VBH HOLDING AKTIENGESELLSCHAFT

– Executive Board –
Rainer Hribar Frieder Bangerter

Declaration of the Executive Board

We assure that to the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and that the Group management report presents a fair view of the development and performance of the business and the position of the Group, outlining the principal opportunities and risks associated with the expected development of the Group.

Korntal-Münchingen, March 2011

VBH HOLDING AKTIENGESELLSCHAFT

– Executive Board –

19. Auditor's report

We have audited the consolidated financial statements prepared by VBH Holding Aktiengesellschaft, Korntal-Münchingen, comprising the balance sheet, income statement, total comprehensive income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and group management report in accordance with IFRSs as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315a (1) HGB (German Commercial Code) and the additional provisions of the Articles of Association, are the responsibility of the parent company‘s management. Our task is to issue an opinion on the consolidated financial statements and the group management report on the basis of our audit. We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (German Commercial Code) and German generally accepted standards for the auditing of financial statements issued by the Institute of Public Auditors in Germany (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, in accordance with the applicable financial reporting framework, and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB (German Commercial Code) and the additional provisions of the Articles of Association, and provide a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group‘s position and suitably presents the opportunities and risks of future development.

Nuremberg, 25 March 2011

Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dr. Bömelburg	Leupold
Public accountant	Public accountant

FASTER, SIMPLER AND ERROR-FREE ORDERING.

Thanks to the established LOGOS scanner system, VBH assists its customers in warehousing and provides a fast, error-free ordering process. Different online connections are available, from a simple modem to WLAN, a high-performance EDI solution and mobile use by phone – true to the motto: everything simple.

VBH HOLDING AG

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VBH Holding AG

Balance sheet, income statement

Notes on VBH Holding AG

While the consolidated financial statements are drawn up in accordance with IFRS, the annual financial statements of VBH Holding AG are prepared in accordance with the German Commercial Code. In the past fiscal year, the amendments to the Act of Modernizing German Accounting Law (BilMoG) were taken into account and necessary adjustments done. In some areas, the accounting and valuation rules applied in the VBH Holding AG individual financial statements differ from those in the consolidated financial statements. VBH Holding AG is a management holding that directly manages most of its domestic and foreign subsidiaries. It is responsible for corporate planning, strategy and financing, and controls the subsidiaries and sub-subsidiaries centrally. The annual financial statements dated 31 December 2010 and the VBH Holding AG management report were audited by Roedl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, which examined the Company's accounting and provided an unqualified opinion. The holding company's financial statements are posted on the internet at www.vbh.de for review. Data from the VBH Holding AG balance sheet and income statement are provided below.

BALANCE SHEET OF VBH HOLDING AG

Assets

In € T	31.12.2009	31.12.2010
A. FIXED ASSETS		
Intangible assets	**909**	**754**
EDP Software	909	720
Advances paid	0	34
Tangible Assets	**844**	**740**
Real estate, leasehold rights and buildings including construction on non-owned real estate	619	556
Other fixed assets, operational and business equipment	225	184
Financial Assets	**162,324**	**151,062**
Interests in affiliated companies	87,324	76,062
Loans to affiliated companies	75,000	75,000
Participations	0	0
Total fixed assets	**164,077**	**152,556**
B. CURRENT ASSETS		
Accounts receivables and other assets	**45,343**	**60,256**
Accounts receivables affiliated companies	41,780	56,544
Other assets	3,563	3,712
Cheques, cash on hand, credit balances at banks	**2,494**	**707**
Total current assets	**47,837**	**60,963**
C. ACCRUALS AND DEFERRALS	235	303
Total assets	**212,149**	**213,822**

Equity and Liabilities

In € T	31.12.2009	31.12.2010
A. EQUITY		
Subscribed capital	**45,869**	**45,879**
Capital reserves	**41,847**	**41,906**
Revenue reserves	**38,214**	**38,214**
Legal reserves	1,407	1,407
Other group reserves	36,807	36,807
Profit retained	**7,710**	**5,779**
Total equity	**133,640**	**131,778**
B. SPECIAL ITEMS WITH RESERVES PROPORTION AS PER §6B ESTG	**0**	**0**
C. ACCRUED LIABILITIES		
Provisions for pensions and similar obligations	4,653	5,799
Provisions for taxation	618	1,136
Other provisions	1,757	1,346
Total accrued liabilities	**7,028**	**8,281**
D. LIABILITIES		
Convertible bond issued	8,175	0
Financial liabilities	56,350	66,315
Liabilities from supplies and services	380	327
Liabilities affiliatied companies	2,146	3,621
Other liabilities	4,430	3,500
thereof from taxes	1,900	2,271
thereof for social security	2	0
Total liabilities	**71,481**	**73,763**
Total equity and liabilities	**212,149**	**213,822**

INCOME STATEMENT OF VBH HOLDING AG

Profit and Loss Account

In € T	2009	2010
Sales revenue	**4,569**	**5,083**
Other operating income of which for currency translation € T 528 (prev.year.: € T 117)	3,984	1,834
Total operating profit	**8,553**	**6,917**
Personnel Expenditure of which for pensions € T 268 (prev.year.: € T 342)	-4,738	-4,855
Depreciation of intangible and tangible assets	-488	-547
Other operational expenditure of which for currency translation € T 165 (prev.year.: € T 652)	-6,010	-6,194
Dividends from associated companies of which from affiliated companies € T 22,951 (prev.year.: € T 14,126)	14,126	22,951
Income from profit transfer agreement	3,175	3,910
Other interest and similar income of which from affiliated companies € T 1,745 (prev.year: € T 1,270)	1,422	2,039
Depreciation of financial assets	0	-18,948
Interest and similar expenditure of which affiliated companies € T 26 (prev.year: € T 0) of which discounting € T 372 (prev.year: € T 0)	-4,487	-6,221
EBT of ordinary activities	**11,553**	**-948**
Extraordinary results	-2,688	-1,147
Taxes on income and earnings and other taxes	2,405	2,458
EAT earning after taxes	**11,270**	**363**
Profit carried forward from previous year	1,440	5,416
Withdrawal from reserve for treasury stock	0	0
Transfer to other earnings reserves	-5,000	0
Net income for the year	**7,710**	**5,779**

THE ONLINE SYSTEM PLATFORM FOR WINDOWS AND DOORS.

CE-fix from VBH offers the entire window and door industry an effective online option for CE labelling and a convenient way of ensuring general system security. Experience from hundreds of individual checks in all materials groups such as wood, metal and PVC also forms the basis for advising manufacturers on the development of sustainable constructions and on choosing the right tools.

FURTHER INFORMATION

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Further Information

Glossar

Adjusted result
The adjusted result is a business ratio which excludes non-recurring effects from the annual result of a company.

Cash flow hedge
Used to hedge against risk from cash flow fluctuations as a result of changes in interest rates.

Derivative financial instruments
Financial products for which valuation is based on the performance of the underlying instrument.

Dynamic gearing ratio
Net debt in relation to free cash flow.

EBIT
Abbreviation for Earnings before Interest and Taxes. Operating result before interest and taxes.

EBITDA
Abbreviation for Earnings before Interest, Taxes, Depreciation and Amortisation. Operating result before interest and taxes and depreciation / amortisation.

Equity
Equity comprises funds from the equity holdings available to the company as capital contributions and/or deposits and retained profits and well as equity attributable to minority interests.

Equity ratio
Equity in relation to total assets. The higher the indicator, the lower the level of indebtedness.

Return on equity (ROE)
Net income in relation to equity.

Fair value

Amount at which an asset would be transferred in an arm’s length transaction.

Free cash flow

Operating cash flow minus cash flow from investing activities. Free cash flow is available for dividend payments to shareholders, to pay interest and repay loans.

Borrowings

Total assets minus equity.

Goodwill

Positive difference between a company’s purchase price and its net assets (assets minus debts).

Hedge accounting

Accounting treatment of hedge transactions.

IFRIC (International Financial Reporting Interpretations Committee – previously SIC)

Concrete interpretations on individual IFRS.

IFRS/IAS (International Financial Reporting Standards – previously IAS)

Accounting standards issued by an international committee (International Accounting Standards Committee) with the aim of creating transparent accounting that is comparable worldwide.

Impairment

Reduction in value that is performed as soon as the carrying amount of an asset is greater than its recoverable amount, i.e. the higher value which would result from either its sale or its continued use.

Cash flow statement
Presentation of an organisation’s liquidity during the course of a financial year, reflecting the effects of the origin of funds and of allocating resources.

Deferred taxes
Tax assets and/or liabilities reported in the balance sheet to equalise the difference between the tax debt actually assessed and the commercial tax burden based on financial reporting in accordance with IFRS for the commercial balance sheet. The basis for determining deferred taxes is the difference between the value of the assets and liabilities reported in the IFRS balance sheet and in the local tax balance sheet.

Margin
A margin represents the ratio of an indicator to sales revenue.

Net debt
Financial liabilities less cash and cash equivalents.

Discontinued operations
Discontinued assets or non-current assets held for sale are reported when a component of an entity has been clearly separated and classified as held for sale or has already been disposed of. This component can be a major branch of business or a geographical area or part of material or geographical business segments or companies to be sold as part of an overall plan that were acquired solely with a view to resale.

Plan assets
Assets which are held in long-term funds or qualified insurance policies to fulfil payments to employees

Temporary differences
Differences between the carrying amount of an asset and its tax base.

Actuarial gains/losses
Effects of changes in actuarial parameters in the calculation of pension obligations.

Financial calendar

Interim Report Q1 2011
13 May 2011

Annual General Meeting
15 June 2011

Interim Report Q2 2011
12 August 2011

Interim Report Q3 2011
11 November 2011

Contacts

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Securities code no.	760070
ISIN code:	DE0007600702

Disclaimer

This report contains statements that are based on the future. Such forecast-related statements are based on certain assumptions and expectations that were made at the time this report was published. They are therefore linked to risks and uncertainties, and actual results may deviate considerably from the results described in statements that are based on the future. A large number of such risks and uncertainties will be determined by factors that are not subject to the influence of VBH Holding AG and that cannot be assessed with certainty today. These include future market conditions and economic developments, the conduct of other market participants, achievement of any anticipated synergy effects and legal and political decisions. VBH Holding AG does not perceive itself as obligated to publish corrections of such statements that are based on the future in order to reflect events or conditions that occur after publication of this report.