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Annual Report

VBH Holding Aktiengesellschaft

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Simply everything.

Everything simple.

Key Figures

Sales and Earnings		2007	2008	2009	2010	2011
Revenues	in € m	808.4	863.3	755.1	767.8	780.1
EBITDA	in € m	54.8	45.5	23.2	32.4	17.3
EBITDA margin	%	6.8%	5.3%	3.1%	4.2%	2.2%
EBITDA adjusted	in € m				30.9	25.8
EBITDA margin adjusted	%				4.0%	3.3%
EBIT	in € m	49.4	39.6	17.2	22.5	2.4
EBIT margin	%	6.1%	4.6%	2.3%	2.9%	0.3%
EBIT adjusted	in € m				25.2	20.2
EBIT margin adjusted	%				3.3%	2.6%
EBT	in € m	38.2	31.5	9.9	14.9	-7.5
EBT adjusted	in € m				17.6	11.7
Net result after minorities	in € m	27.6	17.8	5.6	-1.7	-24.5
Net result after minorities adjusted	in € m				1.0	-5.3

Key Figures		2007	2008	2009	2010	2011
Cash flow from operating activity	in € m	31.5	33.7	33.6	4.8	28.6
Cash flow from investing activity	in € m	-8.7	-17.5	-9.3	-3.7	-6.0
Free Cash Flow	in € m	22.8	16.2	24.4	1.2	22.7
Cash flow from financing activity	in € m	-18.9	-5.2	-23.5	-3.2	-19.1
Total investments	in € m	18.6	27.6	11.8	4.6	7.5
Working Capital	in € m	179.1	191.4	166.9	183.8	152.3
Capital employed	in € m	252.7	264.7	257.9	239.5	183.5
ROCE	%	19.5%	15.0%	6.7%	9.4%	1.3%
ROCE adjusted	%				10.5%	11.0%
Net debt	in € m	118.2	107.6	103.6	112.4	89.1
Gearing	%	106.6%	78.3%	79.7%	88.4%	94.2%
Return on equity (ROE)	%	27.1%	13.8%	4.6%	-1.4%	-27.7%
Number of employees		2,686	2,886	2,968	2,798	2,825

Share data		2007	2008	2009	2010	2011
Earnings per share diluted	in €	0.72	0.41	0.12	-0.04	-0.53
Earnings per share undiluted	in €	0.67	0.41	0.12	-0.04	-0.53
Earnings per share diluted adjusted	in €				0.02	-0.12
Earnings per share undiluted adjusted	in €				0.02	-0.12
Dividend per share	in €	0.15	0.19	0.05	0.06	0.00
Book value per share	in €	2.78	3.00	2.83	2.77	2.06
Equity per share	in €	2.55	2.81	2.65	2.59	1.92
Share price at year-end	in €	6.00	3.68	4.00	4.26	3.79
Shares outstanding	in Tsd.	39,865	45,790	45,869	45,879	45,879
Market capitalization at year-end	in € m	239.2	168.5	183.5	195.4	173.9

Balance Sheet		2007	2008	2009	2010	2011
Long-term assets	in € m	86.8	96.6	99.0	89.1	64.4
Short-term assets	in € m	271.1	279.1	251.0	265.0	228.0
Equity	in € m	110.8	137.4	130.0	127.1	94.5
Book value	in € m	101.7	128.9	121.4	118.8	88.3
Long-term liabilities	in € m	121.5	91.3	89.0	33.6	97.6
Short-term liabilities	in € m	125.6	147.0	131.0	193.4	100.3
Balance sheet total	in € m	357.9	375.7	350.0	354.1	292.4

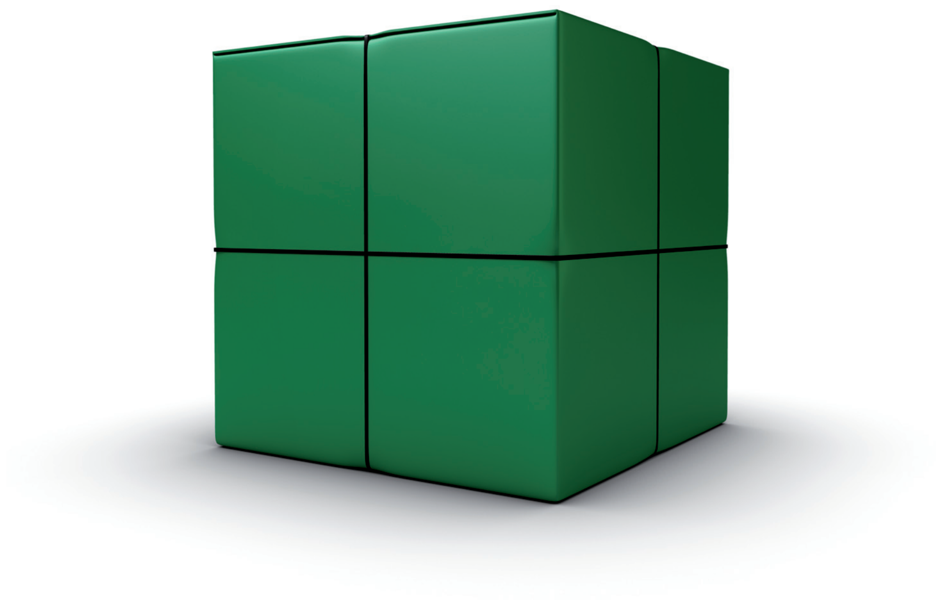
Annual Report

VBH Holding Aktiengesellschaft

VBH is the largest company in the hardware sector. The company that the world‘s most powerful hardware brands trust with their products. The company in which window and door manufacturers place their full trust when it comes to supply and support.
In doing so, our partners focus on the VBH Multi-Service Package:

Simply everything you need to manufacture and install windows and doors is available from VBH. By ‘everything‘ we also mean that our products deliver everything you would expect in terms of quality, too. This means you have access to the most comprehensive and consistently high quality range in the sector.

Everything simple, from the very first conversation through to everyday contact, from good, old fashioned face-to-face meetings to the use of modern communications. At VBH, the people are there to help you, going about our work in a helpful and friendly way.
Our modern communication tools are designed for maximum efficiency and reliability, so that you can concentrate on the essentials: Your customers.



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Letter to the shareholders

Dear Shareholders,

The global economy had to cope with several shocks simultaneously in 2011. In the first half, these included, in particular, the withdrawal of purchasing power from households and companies caused by the increase in commodity prices as well as the disruption to international supply chains triggered by the natural and nuclear disaster in Japan, which led to a slowdown in global economic activity. In the second half, the sovereign debt crisis in the euro zone then escalated, which caused considerable turbulence on the financial market. The economy slowed further. 2011 was also a challenging financial year for VBH Holding AG. While order overhangs and encouraging signals from the general economy were still impacting positively on VBH in the first six months of 2011, causing sales and earnings to increase, the economic environment changed considerably in the second half. Momentum declined significantly. The resultant trend in sales and earnings in VBH subsidiaries, which are particularly hard hit by the crisis, have led to drastic measures in our analyses of critical markets. These measures, which we published in our ad-hoc announcement of 28 October 2011, will lead to an extraordinary charge on earnings of € 33.6 million. The need for this adjustment and the measures associated therewith mainly affect the two smaller segments Western Europe and Other Markets, which accounted for less than 20 % of sales in VBH's overall portfolio in 2011. By contrast, the key sales and earnings segments for VBH, Germany and Eastern Europe, in which over 80 % of consolidated sales are generated, remain well positioned, both strategically and economically. All measures taken to date have only a minor impact on the liquidity of the Group. As at 31 December 2011, the equity ratio was over 30 %.

Adjustment measures in the VBH country portfolio

Following a long and successful period of expansion, VBH is currently undergoing a process of consolidation in which we are reorganising the existing country portfolio from a strategic and operational perspective. We shall continue this course, which was started in 2011, in 2012. The closure of the companies in Malaysia, Thailand and Cyprus as well as the withdrawal from the mass aluminium market in Italy will stabilise the VBH Group's "clout" long-term. The economic situation in the markets affected, extensive market changes in individual submarkets and the results of our systematic, strategic risk analysis support this decision. We had to note and accept that our business model does not work in some Asian markets in particular and that the mass aluminium market in Italy was coming under significant pressure as a result of new energy regulations and was regressing significantly. In addition to the withdrawal from the above-mentioned country markets, we have recognised impairment losses in the current assets of other subsidiaries in 2011. VBH subsidiaries in Southern/Western Europe (Belgium, Ireland, Greece, Spain) and Asia (China, Dubai, India, Singapore, Kuwait) were affected. These accounting measures were associated with strategic and operational interventions and, having implemented them, their success is monitored consistently and managed actively. The vast majority of measures taken to date do not affect liquidity. At Group and Holding level, they will lead to goodwill impairment and will depress VBH's earnings by € 33.6 million in 2011. The aim of our efforts is to consolidate VBH consistently and make it "weatherproof" for the future with these and additional measures.

Economic performance

VBH generated consolidated sales of € 780.1 million and improved on the figure for the previous year of € 767.8 million by 1.6 %. Adjusted operating earnings (EBIT) (excluding the discontinued submarkets) fell during the same period but remained positive, at € 11.7 million.
Like the global economy, the course of business differed in the individual VBH regions:

- Because of the positive environment for the sector – a low unemployment rate, considerable interest in reducing energy consumption, low interest rates, incentive programmes for renovation, few attractive options for financial investments – we achieved a successful 2011 financial year in the **Germany segment** (VBH Deutschland and esco). Sales in Germany expanded sustainably with a rise of 2.4 % as against the previous year, outperforming the market as a whole.
- **Eastern Europe** grew in 2011 at a slower rate than in previous years. Influenced by continuing good economic growth in Russia and Poland as well as persistent enormous potential for renovation, an increase in sales of 5.7 % was recorded in this segment. However, the momentum achieved in the previous year eased slightly in 2011.
- Despite all the progress in operational terms, sales in the **Western Europe segment** also fell again in 2011.The crisis has left its mark here and resolute measures were required: The decision to discontinue the mass aluminium business in Italy has proved to be both good and correct in view of the continuing depressed economic situation in Italy. The company in southern Belgium, which has posted losses for several years, was subjected to tough but much-needed restructuring and this process is ongoing. Sales in Western Europe, mainly influenced by the companies in Italy, Belgium and Greece, fell by 5.9 %. Strong business in the Netherlands and the improvement in the market position in the UK were not sufficient to offset this.

- Business in the **Other Markets** segment has not yet reached a turning point. Sales in this segment rose by only 2.6 % at a low level. Business in Turkey was depressed by political tensions in key export countries. In Asia, efforts were concentrated on the markets with the greatest potential, particularly in the premium segment, with the spotlight focused most clearly on China and India. The controlled expansion in Latin America is going well and will continue in 2012.

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 strategy elements shown in the following diagram that are based on our motto of "Simply everything. Everything simple."

The VBH strategy is based on the following three pillars:

- selective expansion of our international presence in a way that will protect our profits and which can also include giving up national markets that do not fit VBH's business model or are persistently unprofitable;
- expansion of our proprietary brand greenteQ to a share of consolidated sales of 10 %;
- systematic expansion of our service portfolio, both at home and abroad.

Thanks to our **international positioning**, we offer our suppliers a global sales platform and our customers a comprehensive and internationally coordinated range of products and services. This means that it is clear that VBH also takes due account of its partners' interests when deciding to enter and withdraw from markets. However, it would be irresponsible to shareholders to retain loss-making companies with no prospect of making positive contributions to Group earnings in the medium and long-term. In accordance with this maxim, VBH closed its operations in Malaysia, Thailand, Cyprus and in the mass aluminium market in Italy in 2011. We shall examine additional restructuring measures to see whether they have achieved their hoped-for success and will stick to the course we have adopted in 2012. The aim is to direct our strength and energy towards promising expansion in countries in which the VBH business model can be profitably implemented and expanded (for example, Eastern Europe/Latin America). The development of a branch in Chile was initiated here.

The proprietary brand **greenteQ** 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 profitable growth driver. With now more than 2,800 items, greenteQ products account for 6.5 % of total sales at VBH Deutschland GmbH. The share is considerably higher in some of the international subsidiaries, most notably in the Balkans, and easily exceeds the 10 % marker. VBH intends to continue pushing its proprietary brand systematically and to accelerate the market penetration of greenteQ products on international markets.
A sound range policy also includes focussing on materials groups, which are part of VBH's core business. In particular, these are PVC, wood/wood-alu and high-quality metalwork. From this perspective, the withdrawal from the mass aluminium market in Italy is a logical and correct consequence.

Our **service range** 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 4,000 hits per month. The mobile LOGOS app for smartphones, which our 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. Our customers will also continue to benefit quickly and expeditiously from the latest innovations in the IT and communications sector; an example of this is our new ordering platform for mobile tablet computers, which will be completed shortly. In 2011, we have made considerable progress in the change from dealer to service provider. VBH is gladly perceived by customers as a competent partner for all questions regarding the production and installation of windows. – This creates loyalty and secures profitable growth! We are currently working on further creative solutions to make work easier for our customers ("Everything simple"). As an international holding company, we can utilise good experiences from Germany and, having successfully transferred them abroad, profitably secure competitive advantages here too.

Stable share price performance

The share price mainly remained stable in 2011 as well. While the price trended upwards at the beginning of the year, it fell slightly in the second half. As in the previous year, trading in the VBH share was characterised by low trading volumes and a further reduction in the free float.

Dividend policy

The aim of good corporate governance is to maximise the long-term enterprise value. Particularly in economically challenging times it is important to bundle resources for this purpose and to survive on the market from one's own position of strength. In 2011, we have focused everything on making VBH weatherproof by adopting a course of consolidation. A course that we shall also continue in 2012. The net loss for the year of € 26 million resulting from these activities leads to the fact that the Executive Board shall not make a proposal for the appropriation of profits for the past financial year to the Supervisory Board that comprises a dividend. However, this does not change the fact that we shall adhere to a distribution rate of 35 to 40 % of operating consolidated net profit in future in any way.

Outlook for 2012

It is to be expected that, after the current pause in growth, the global economy can find its way back to moderate economic growth in the course of 2012 although this growth will differ from region to region. According to current forecasts, economic growth in the euro zone will shrink slightly in 2012 having grown by 1.6 % in the previous year. By contrast, thanks to strong domestic demand, the stable employment market and comparatively little need to consolidate public finances, the German economy will grow more strongly than the EMU average with growth of 1 % in 2012. According to this scenario, growth will decrease by 2 percentage points following growth of 3 % in 2011.

However, a fundamental requirement for this scenario is that there is no further intensification in the sovereign debt crisis. Otherwise, there is the threat of a massive crisis of confidence, which would have horrendous consequences for the real economy. Politicians must act courageously to prevent this. Here, the consistent and rapid implementation of the resolutions by the Brussels summits and a broad political consensus on the restructuring of government finances in the highly indebted EMU countries are fundamental.

The construction industry will continue to benefit from government investment programmes and investment incentives for climate-efficient building in 2012 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. However, the growth will level off compared with the previous year.

In comparison with the previous year, overall we, the Executive Board, do not expect any significant growth in sales in 2012. A continuation of the course of consolidation we have adopted and growth in margins are a far more promising approach here than expansion and a policy of maximising sales.

- For the key Germany segment, a slight increase in EBT on virtually unchanged sales is expected. Increased productivity and efficient cost management will play a role here.
- In the important Eastern Europe segment, earnings growth will outstrip slight sales growth in the low single-digits. Here, greater market penetration by our successful proprietary brand greenteQ in addition to increased productivity will have a positive impact. We thus expect profitable growth in the two segments that generate over 80 % of our group sales and earnings.
- In the Western Europe segment, we shall also continue the course of consolidation consistently in 2012 in the face of difficult external conditions. We shall press ahead steadily with the restructuring programmes in Belgium and Greece.
- In the Other Markets segment, we expect the most important markets, such as India and China, to stabilise in 2012. Particularly in South America, we are expecting profitable growth with adequate margins. We shall actively pursue the restructuring measures that have been initiated in other countries within the segment and will make these more stringent if necessary. Management's other objectives include international market penetration by the proprietary brand greenteQ and the even more comprehensive adoption of our innovative service tools by customers. Here too, there is still a great deal of potential, particularly outside Germany! We shall make our management of current assets even more professional in 2012. In periods of ongoing crisis, a group-wide approach for optimising receivables management, particularly in Southern Europe and Asia, is called for and will be adopted.

Overall, we expect 2012 to be a year in which VBH's operational strength will consolidate further and should also be reflected positively in the reported result – sights are firmly set on an increase in operating profit. Thanks to the successful adjustment measures taken in 2011, VBH is already better equipped today to survive in a difficult environment. Nevertheless, we must continue to keep to the course we have adopted. Our subsidiaries in Belgium, Greece, Singapore and Turkey will again be faced with considerable challenges in 2012 and will receive a great deal of support from the Executive Board in their development. Since the markets will not provide any significant help in 2012 either, it is essential to strengthen "corporate economy". Together with its strong suppliers, VBH is highly competitive on the global markets and, in combination with our diverse service tools, this gives a clear outline to our promise "Simply everything. Everything simple". Having been tested by the crisis, we are facing these new challenges 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 2012

Chairman of the Board

Executive Board

Executive Board

Report of the Supervisory Board

Prof. Rainer Kirchdörfer

Dear Shareholders,

General information

2011 was a particularly challenging financial year for the VBH Group and its executive bodies. Even though business was satisfactory at an operational level, the pending reorganisation of long-term corporate finance and, in particular, the need to restructure and consolidate our shareholdings, which became ever more apparent during the autumn, were unusually complex and onerous challenges for VBH. The Executive Board and Supervisory Board worked particularly closely on these issues.

It goes without saying that the Supervisory Board supported the Executive Board of VBH Holding AG in the ordinary course of business, monitored it in line with stock corporation law requirements and advised it on the management of the company in the 2011 financial year. The Supervisory Board's monitoring and advisory activities were based on detailed verbal and written reporting by the Executive Board on the business position of VBH Holding 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.

Regular reports on the course of business including a comparison with the previous year and the planning figures were submitted to the Supervisory Board. 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.

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 the company and the Group. 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 the 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 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 Supervisory Board meetings as well, receiving regular information from the Executive Board concerning current developments, the state of business and important individual transactions.
In view of the particular significance of the long-term financing of the VBH Group, the Supervisory Board's discussions in its meeting on 15 June 2011 concentrated on alternatives for the future financing structure and the terms of a new syndicated loan. The course of the company's next General Meeting was also discussed.

Main issues addressed at Supervisory Board meetings

Seven Supervisory Board meetings were held in the 2011 financial year. The object of each meeting was the discussion of the VBH Group's current business performance in comparison with the planning with the Executive Board during which particular attention was paid to sales, costs and earnings development and the financial position. The Executive Board responded in full to the questions posed by Supervisory Board members concerning the regularly submitted written reports and presentations as well as verbal comments made during meetings. There were also numerous conference calls between the meetings in which current issues were discussed. The discussions and reviews conducted by the Supervisory Board at the Supervisory Board meetings chiefly related to the following:

Following corresponding preparations by the Audit Committee, the Supervisory Board's accounts meeting on 30 March 2011 focused on the discussion, audit and adoption of the annual financial statements, consolidated financial statements and management reports for VBH Holding AG and the Group for the 2010 financial year. In addition to its own audit activities in preparation for the Supervisory Board accounts meeting, the Supervisory Board asked the auditors present at the meeting a number of questions and discussed these at length with them. The agenda for the Annual General Meeting on 15 June 2011 was discussed and approved; the Supervisory Board also discussed and approved its report for the 2010 financial year and the declaration of compliance with the German Corporate Governance Code by the Executive Board and the Supervisory Board as well as the corporate governance report. Finally, the Supervisory Board was informed of the results of the efficiency checks.

In view of the particular significance of the long-term financing of the VBH Group, the Supervisory Board's discussions in its meeting on 15 June 2011 concentrated on alternatives for the future financing structure and the terms of a new syndicated loan. The course of the company's next General Meeting was also discussed.

At its meeting on 4 July 2011, the Executive Board reported on the situation at the subsidiaries in Italy and Belgium in particular. The position at the Asian subsidiaries in Beijing, Singapore, India and Malaysia was also discussed in depth with the regional director, who was available to provide the Supervisory Board with detailed information. Financing issues, in particular, the status of the loan agreement with the syndicate banks, were deliberated. Another topic raised at this meeting was VBH Deutschland's planned conversion to SAP.

At the meeting on 15 September 2011, the Supervisory Board dealt exhaustively with the Group's business development up until August. The Executive Board reported on the conclusion of the syndicated agreement. The Executive Board and Supervisory Board then continued their discussions from the July meeting regarding the current business situation at the Asian subsidiaries, as presented in depth by the regional director for Asia, as well as the strategic problems and options in Italy and the plans in Belgium. The status of VBH Deutschland's switch to SAP was also debated at this meeting and a requirements profile for Supervisory Board members was prepared.

The meeting on 6 October 2011 again focused on the situation in Belgium and Italy. The Supervisory Board discussed the status of the restructuring measures and the anticipated financial development of these subsidiaries at length.

The main topic of the meeting of the Supervisory Board on 7 November 2011 was an in-depth discussion between the Supervisory Board and the new member of the Executive Board responsible for International Marketing and Sales, Mr. Ulrich Lindner.

The meeting on 15 December 2011 concentrated on the corporate planning for the 2012 financial year submitted by the Executive Board. The Supervisory Board examined the plans and discussed the opportunities and risks contained therein in detail with the Executive Board. Once again, detailed country reports on Belgium, Italy and Turkey as well as changes to the syndicated agreement provided further topics for discussion. Finally, the Supervisory Board addressed the reorganisation of Executive Board responsibilities and questions regarding the Executive Board's remuneration.

Committees

The Audit Committee, which is formed within the Supervisory Board, met three times in the reporting year (9 February, 30 March and 26 October). The Personnel Committee met once in 2011 (17 February 2011), as did the Committee for Strategy/Marketing/Sales (4 July 2011).

Declaration of compliance

The Supervisory Board addressed the continued development of corporate governance at VBH Holding AG and approved the declaration of compliance with the German Corporate Governance Code, which can also be found on page 38 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. The 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 2011

The Annual General Meeting on 15 June 2011 appointed Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, as the auditor for the 2011 financial year. 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 2011, 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 29 March 2012, 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 2011 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). The Supervisory Board had the audited financial statements, thus it was possible to review all the 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 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 2011 financial year produced by the Executive Board. The annual financial statements were thus adopted. The Supervisory Board also approved the corporate governance declaration.

Corporate governance bodies

The Supervisory Board appointed Mr. Ulrich Lindner as a new member of the Executive Board of the company effective 1 February 2012. Mr. Lindner will be responsible for International Marketing and Sales.

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

Korntal-Münchingen, March 2012

Prof. Rainer Kirchdörfer
Chairman of the Supervisory Board

The Executive Board

Frieder Bangerter Rainer Hribar Ulrich Lindner

Rainer Hribar

Rainer Hribar, born in 1957, is the Chairman of the Executive Board of VBH Holding AG, Korntal-Münchingen, in charge of Sales and Distribution in Germany, Eastern Europe and the CIS countries as well as 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 in 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 GE HE 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.

Ulrich Lindner

Ulrich Lindner, born in 1963, has been a member of the VBH Holding AG Executive Board, Korntal-Münchingen, since 1 February 2012, in charge of International Marketing and Sales.

A native of Hamburg, Mr. Lindner trained as specialist in foreign trade and studied business administration in St. Gallen and Chicago (MBA). Having completed his studies, Mr. Lindner worked for Booz & Co. (management consultants) in Düsseldorf and for Hilti in Liechtenstein and in the USA.
From 2005, Mr. Lindner was responsible for Sales, Marketing and Procurement as Chief Operations Officer (COO) at Berner SA in Künzelsau.
In 2009, Mr. Lindner was appointed to the Advisory Board of seca gmbh & co. kg (medical scales and measuring systems) in Hamburg.

VBH shares

Stock market environment

2011 did not rank as one of the most successful years in stock market history. Viewed in the round, the DAX lost around 15 % in 2011. A more detailed analysis shows that 2011 can be divided into two halves. In the first half, the DAX rose by around 7 %, while it lost more than 20 % in the second half. The SDAX, which is the benchmark index of relevance to VBH, followed a similar course.

The VBH share was unable to buck the trend described above and consequently was listed far higher in the first half than at the year-end. Low trading volumes attest to the confidence that investors place in VBH and its future even in difficult times. The stable sideways trend in the VBH share despite the negative impact on results, particularly in the second half, continues to show that the VBH shareholders have understood VBH's strategy and the opportunities for the future inherent therein.

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. SDAX is the relevant benchmark index for VBH.

Performance of VBH shares

Generally speaking, the VBH share made a positive start in 2011 and maintained its overall position above the average of the SDAX benchmark index in the first nine months. The high was posted right at the start of the year on 2 February 2011 and amounted to € 5.25. On 6 October 2011, the price of the share fell to the low of € 3.70. At the year-end, the share recovered to reach € 3.79 on 30 December 2011. This meant that shareholders suffered a smaller loss, at 11 %, than the fall in the market. Market capitalisation amounted to € 173.9 million as at the end of the reporting period, namely 31 December 2011, after € 195 million in the previous year.

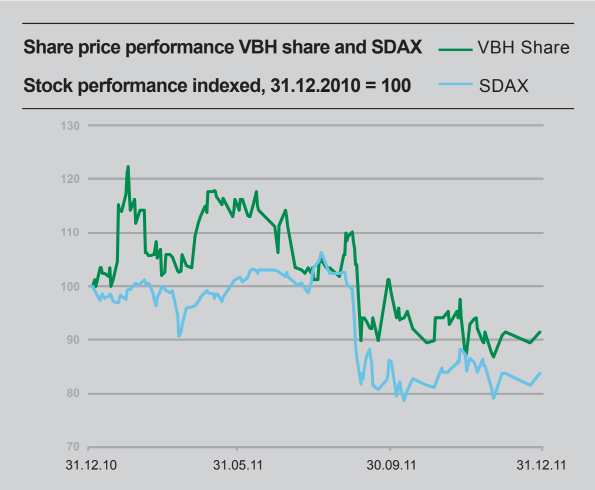
Shareholder structure in 2011

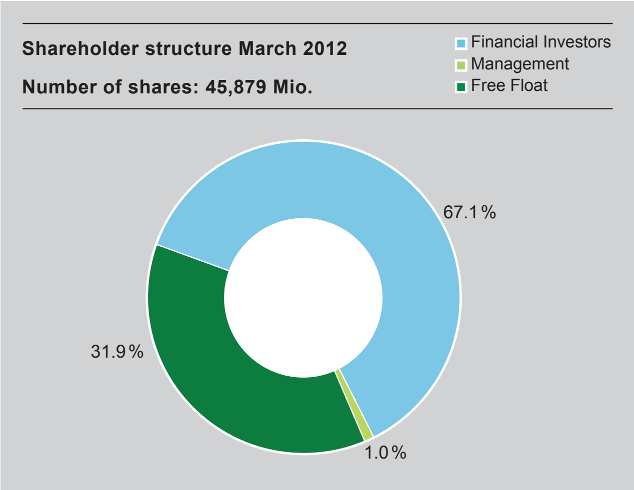
The free float of VBH shares decreased as against 2010 from 55.4 % to 31.9 % as at the end of the reporting period.

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 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.





Notifications after the end of the reporting period

None

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 2011 financial year 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 15 June 2011 was again utilised by our shareholders to hear extensive information directly from the VBH Holding AG Executive Board on the performance of business. 91.15 % 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 three analysts at major banks.

Dividend policy

In 2011, extensive adjustment measures were carried out to make VBH weather-proof for the future. This has led to a net loss for the year of € 26 million. This means that the Executive Board will not make a proposal on the appropriation of net profit that provides for a dividend to the Supervisory Board. However, this waiver of a dividend payment, which is expected to be a one-off occurrence, does not signify a fundamental departure from our ongoing dividend policy, which allows shareholders to participate in VBH's success. 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.

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 27,000 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 the components and materials that its customers need to manufacture and install windows and doors. Since 2009, VBH has extended its product range as a manufacturer with the proprietary brands greenteQ and systeQ, which are now a fixed component of range policy with over 6,000 items and with which we are setting more and more innovative standards. By covering key cross-product areas, such as "threshold systems" and professional window fitting advice VBH is increasingly becoming the sector's system provider.

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 proprietary brand systeQ. 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 in 38 national markets worldwide and enjoys a leading position in its regional markets. Operational 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.

Overall, VBH is therefore comprehensively represented in Western and Eastern Europe. The Other Markets sector is undergoing a period of consolidation for the Asia region, while Latin America is being developed. Some of the companies there have already assumed leading positions in the regional markets.

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

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, demand-oriented 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:

- selective expansion of our international presence in a way that will protect our profits and which can also include giving up national markets that do not fit VBH's business model or are persistently unprofitable;
- expansion of our proprietary brands greenteQ and systeQ to a share of consolidated sales of 10 %;
- systematic expansion of our service portfolio, both at home and abroad.

Thanks to its **international positioning**, VBH can offer its suppliers a global sales platform and its customers a comprehensive and internationally coordinated range of products and services. In 2011, consolidation of the country portfolio started with the aim of strengthening VBH as a Group and highlighting the core competences of VBH in its traditional product and service areas even more strongly in the remaining markets. Expansion took place solely in South America, where VBH's area of operations was extended to Argentina in 2009 and business was developed profitably in Mexico in 2010. The establishment of a subsidiary in Chile is underway. Following a strategic review, however, VBH scaled back its activities in Malaysia over the course of the year.

The proprietary brands **greenteQ** and systeQ are now an anchor point of **range policy** and excellently round off the VBH product portfolio with its strong manufacturer brands ("Simply everything"). greenteQ is opening up new options to raise VBH's profile among existing customers and to attract new customer groups and is also still proving a growth driver. With now more than 2,800 items, greenteQ products account for 6.5 % of total sales at VBH Deutschland GmbH. The international success of greenteQ is apparent from the fact that significant sales are being achieved in international markets. In some countries, sales are already over 10 %. The ability of greenteQ to spearhead the opening up and profitable development of new markets is also apparent here. Impressive successes are also being recorded at product level. The one millionth greenteQ profile cylinder was sold in mid-2011. VBH intends to continue pushing its proprietary brand systematically and to accelerate the market penetration of greenteQ products on international markets. Great progress was made here in 2011: VBH has established itself as a centre of expertise both in Germany and internationally. Areas such as "professional window fitting" and "wheelchair accessible entrances" are covered and actively promoted. Both in Germany and internationally, VBH is establishing itself here as a partner whose advice is much appreciated by our customers.

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 and make their lives easier every day.
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. Even tool manufacturers now use the CE platform. Other services such as the VBH knowledge base are also becoming increasingly popular with an average of more than 4,000 hits per month. The increased perception of VBH as a "think tank" is also catching on among our customers. More and more customers turn to VBH when faced with tricky problems (such as better-fitting windows). Those who impress their customers with their expertise do not need to worry about customer loyalty!
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 now covers every possible method of ordering. From a direct EDI connection for major customers, through orders via scanner, iPhone or the traditional approach by phone or in consultation with a member of our local sales team.
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 shown that we are successfully positioned in many countries. There is no dealer that compares with us in size or in international reach. We shall continue to work systematically within the framework of our strategic policies in 2012 as well.

Overall economic environment and sector performance

OVERALL ECONOMIC ENVIRONMENT

Having appeared in better shape in 2010, the situation in the global economy intensified once more in 2011. According to the current forecast by the International Monetary Fund (IMF), global GDP rose by 4.0 % in 2011 but growth varied significantly from one region to another: while growth in the euro zone was very modest, at 1.6 %, because of the debt crisis, growth of 6.4 % was still achieved in the up-and-coming markets in the emerging and developing nations.

In previous years, the worst effects of the crisis were cushioned by government measures to support the economy. However, this led to a sovereign debt crisis in Europe in 2011, which is still unresolved. In particular, the question of Greece's fiscal future is putting the markets in a state of persistent and debilitating anxiety. The uncertainty associated therewith is having an adverse impact on the consumer and investment climate.

Worldwide, the World Bank is only expecting growth of 2.5 % in 2012. At the same time, it is forecasting a contraction of 0.3 % for the euro zone. This region is not expected to return to growth until 2013. Total growth of only 5.4 % is also forecast for the emerging countries in 2012.

The World Bank and other institutions are even making these so-so forecasts dependent on there being no further escalation in the sovereign debt crisis surrounding Greece and Italy. Should this happen, a global recession is inevitable. Even China, the previous growth engine, will not escape unscathed: it is too dependent on the export countries in Europe and North America. Germany is the only economy for which expectations are somewhat better. The view of the trade associations is that the German economy will continue to grow modestly in 2012.

GERMANY

1. German construction industry

The trend in real construction investment was characterised by decreasing momentum in 2011. With growth of 2.2 %, original forecasts, which had assumed growth of 5.8 %, could not be achieved. A further slowdown is expected in 2012 with growth in real construction investment of only 1.3 % forecast.

The situation looks far more optimistic in the residential construction segment. Starting from a very low base level, residential construction investment rose by 6.7 % in 2011. This is closely linked to a considerable increase in housing permits, which recorded growth of 20 % in 2011. This growth is not expected to be repeated in 2012: growth of only 2.3 % is forecast for residential construction investment.

Public subsidies for efficiency programmes provide crucial impetus for investment in residential construction, which is of particular relevance for the windows sector as well. In the context of the “energy efficient refurbishment” programme, there has been a reduction in new commitments at programme level of -45 %. The unutilised KfW subsidies are attributed to the requirements being too exacting. Nevertheless, the sector can expect to benefit from sustained positive impetus: while the issue of whether the funds for residential refurbishment could be cut dramatically (from € 1.5 billion to € 0.9 billion) in 2012 was still being discussed at the beginning of 2012, in February 2012, the government decided to retain the level of subsidy despite a reduction in federal government's income from the Energy and Climate Fund.

2. German window and door market

According to the consensus estimates of the specialist conference "Statistics and Market" of the German Window and Façade Association (VFF), the German window market grew by 3.2 % in 2011 to reach a volume of 12.9 million window units (WU). Growth at similar levels (2.9 %) reaching 13.2 million window units is forecast for 2012.

The significant divergence between feeble new construction and the dynamic modernisation segment still apparent in 2010 narrowed somewhat in 2011, when the buoyant new construction segment (+9.8 %) was offset by a slightly falling modernisation market (-0.4 %). Nevertheless, the market in the renovation sector, at 8.0 million WU in 2011 is still almost twice as high as the market in new construction (4.8 million WU in 2011).

With regard to the breakdown in materials, the picture is essentially unchanged compared with the previous year: the market continues to be dominated by PVC windows, which accounted for 57 % of the total market in 2011. The proportion of metal/wood windows has increased slightly. Nevertheless, the share of this type of material was only 8 % in 2011, while metal windows came to 19 % and wooden windows to 17 %. Developments in the exterior door market were similar to those in the window market in 2011. With growth of 3.0 %, it reached a level of 1.27 million units. Similar growth (2.7 %) to 1.31 million units is expected in 2012. As with the windows market, the renovation segment more or less maintained its substantial volume of 0.9 million units (-0.2 %), while the weaker new construction segment rose by 11.6 % to 0.37 million units.

Growth of only 4.7 % is forecast for the new construction sector in 2012, while the renovation sector is only expected to grow by 1.7 %.

WESTERN EUROPE

1. Western European construction industry

The European construction industry shrank for the fourth time in a row in 2011. A fifth contraction is expected in 2012; it is not expected to return to growth until 2013. However, the contraction in the market weakened further, to around 1 %, compared with previous years in 2011.
Southern Europe was particularly hard hit by the crisis. There was no positive growth in the markets in Greece, Italy and Spain in particular. Compared with these markets, Northern Western Europe was more stable. The markets in Belgium and the Netherlands were stable at least; the market has bottomed out in Ireland and is even beginning to pick up in the UK.

2. Western European window and door market

Low levels of construction activity had a serious impact on the window and door market in 2011, particularly in Southern Europe. The weak window market is therefore a direct consequence of the havoc the crisis has wrought on construction activity.

EASTERN EUROPE

1. Eastern European construction industry

Overall, the Russian construction sector achieved growth of just under 5 % from January to November 2011.
In the first half of 2011, 4.1 % more buildings were also constructed in Poland than in the same period in the previous year. The positive trend from the first half only continued to a limited extent to the year-end.
In contrast to this, the Czech Republic's construction industry was mired in a serious crisis in 2011. Residential construction was also affected. The number of completed housing units fell for the third time in succession in 2011. Nevertheless, there are bright spots and new projects. For instance, more construction permits were issued once more in 2011, the mortgage market did very well and the volume of house sales is increasing. In many Czech regions, project developers are plucking up courage and starting to build new residential districts. The supply of housing will still far exceed demand in 2012 according to a current study by the management consultants Deloitte.
The construction business in many other smaller economies in Eastern Europe was overshadowed by various specific problems such as the debt crisis in Hungary or high inflation in Belarus. Recovery will be slow here, if at all.

2. Eastern European window and door market

Given the number of individual countries in this segment, it is not easy to provide an overall view and this situation is exacerbated by a lack of data. The Polish window market provides an example of the stagnation in the Eastern European window market: production of PVC windows stood at 9.4 million units in both 2011 and 2010. In the same period, around 2.65 million wooden windows were produced, which also matches the level of 2010.
As far as the door market is concerned, 7.65 million doors were produced in 2011, which equates to a marginal increase year-on-year of less than one percent.

OTHER MARKETS

1. Other Markets construction industry

According to a Freedonia report, growth in the construction sector in China will amount to around 9 % up to 2012. However, overall a slowdown is expected here too, which is linked to measures taken by the Chinese government to ease a possible speculative bubble in the property market. An economic slowdown is therefore expected but double-digit growth rates remain possible. In view of its high base level, China will again be the world's most important construction market in 2012 in any case. However, increased cost awareness in the public sector means that only slight growth can be expected in upscale market segments. This will affect the market segment of relevance to VBH.

For the second major construction market, India, the upward trend in the Indian construction industry has slowed in certain segments, most notably in residential and commercial construction, according to "German Trade and Invest”. However, even if potential purchasers are currently holding back, there is substantial demand for low-cost housing in particular in the long-term.

2. Other Markets window and door market

In the Other Markets segment, the Turkish window market in particular offers good prospects. According to industry representatives, Turkey has now become the third largest producer of PVC windows after the USA and the People's Republic of China. With a sales volume of € 740 million, Turkey is the largest market for windows and doors with PVC mouldings after the UK and Germany. Some 10,000 businesses work in the PVC sector and make sales of some € 2.2 billion per annum. Many of them are not certified – a fact highlighted by the trade associations. PVC windows also dominate the market in Turkey, accounting for 70 %. The remaining market is divided between aluminium (20 %) and wood (10 %). Only 45 % are certified by the Turkish standards body, the TSE, while only 35 % can use the CE symbol.

Earnings, financial position and assets

1. SALES AND EARNINGS

Supported by good economic base data in Germany and Eastern Europe, consolidated sales increased in total from € 767.8 million to € 780.1 million. Despite weaker growth in the crisis-driven regions in Southern Europe, the comparable sales in the Group increased by 1.6 %. The varying developments in the segments are clear from the table:

Regions of VBH

In m €	2010	2011	change in %
Germany	411.4	421.4	+2.4
Western Europe*	101.1	95.1	-5.9
Eastern Europe	247.9	262.0	+5.7
Other markets	31.2	32.0	+2.6
Consolidation	-23.8	-30.4	
Group	**767.8**	**780.1**	**+1.6**

*without discontinued operations

The Germany segment continued to hold its own as the segment generating the highest sales within the Group. Despite a high level of competitive pressure, it has increasingly become the key anchor market for the Group. It is benefiting from energy modernisation and good prospects for residential and commercial construction as well as interest rates on liabilities remaining low. Sales revenues increased by 2.4 % to € 421.14 million. In the process, both companies included in the segment outperformed the market as a whole.

In the Western Europe segment, which is characterised by weak markets and large, comparative sales declined by 5.9 % from € 101.1 million to € 95.1 million. This further sales slide since 2009 and 2010 is mainly due to the economic conditions in Greece, Belgium, Ireland, Italy and Spain.

The majority of the individual markets in Eastern Europe benefited from the economic recovery, but there are also slowdowns in development to report. Strong growth in the CIS countries in the first half flattened increasingly in the second half. Nevertheless, sales in this segment increased by 5.7 % from € 247.9 million to € 262.0 million.

The segment Other markets containing the markets in Asia (Singapore, China, Thailand, Malaysia), Middle East (Dubai and Kuwait) as well as Turkey and Mexico develops very differentiated and is monitored on enhanced focus by the management of the Group. Internal as well as external elements were responsible that the sales in 2011 rise only slightly as against previous year merely due to enhancement of companies consolidated. The sales development was additionally influenced by strategic decisions to withdrawal from unprofitable markets and changes in business models.

As part of the adjustment of our country portfolio in line with the current changes in market circumstances, following a long and successful period of expansion, the Executive Board felt the need for a strategic and operative restructuring of the current country portfolio.

The economic situation in the markets affected, extensive market changes in individual submarkets and the results of our systematic, strategic risk analysis supported this decision. We had to see and accept that our business model does not work in some Asian markets in particular and that the mass aluminium market in Italy was coming under enormous pressure as a result of new energy regulations and thus regressing significantly. Along with the exit from the mass aluminium market in Italy, which is now reported as a discontinued operation, it was decided to scale back business activities and close companies. Other than the Italian sub-market, this also affects the companies in Malaysia, Serbia, Thailand and Cyprus. These measures will allow the Group to stabilise its earnings power in the long term.

In addition to the withdrawal from these countries, extraordinary depreciations were required on current assets at companies in other countries and on goodwill. This affected VBH subsidiaries in Western Europe (Belgium, Ireland, Greece, Spain) and Asia (China, Dubai, India, Singapore, Kuwait). These accounting measures entailed strategic and operational intervention, the success of which is being monitored systematically and actively managed. Total extraordinary effects reducing earnings by € 33.6 million were recognised in the consolidated financial statements. This had a material impact on the result of operations and had led to a loss at Group level. The vast majority of the measures taken to date have not affected the Group's cash position. We shall continue this course, which began in 2011, in 2012 as well. The objective is to systematically consolidate VBH and safeguard its future with these and additional measures.

The financial statements prepared under this premise were adjusted retrospectively for earlier reporting periods to show the discontinued operations (in Italy) on account of the regulations of IFRS 5.34. The income statement for continuing operations is as follows:

Profit and Loss

In T €	2010*	2011
Sales	**767,821**	**780,135**
Gross operating profit	**184,594**	**184,935**
Personnel expenses	88,720	91,434
Other operating income	17,674	15,737
Other operating expenses	81,187	91,965
EBITDA	**32,361**	**17,273**
Depreciation / Amortization	9,815	14,873
EBIT	**22,546**	**2,400**
Financial result	**-7,637**	**-9,854**
EBT	**14,909**	**-7,454**
Taxes	5,819	3,821
EBT continuing operations	**9,090**	**-11,275**
discontinued operations*	-10,320	-14,409
EAT	**-1,230**	**-25,684**

* retroactive hiving-off of aluminium sector in Italy to discontinued operations. A statement of reconciliation for the figures reported in the 2010 financial statements in the previous year can be found in note 4.0.

Within the Group, the absolute gross operating profit remained at the previous year's level and is due to a more cautious measurement of inventories based on the signs of more uncertainty in the markets. The gross profit margin declined slightly from 24.0 % in the previous year to 23.7 % in the current financial year. Staff costs grew only slowly as a result of restructuring measures at some VBH companies, climbing by 3.1 % in total. The increase is mainly due to the build-up in employees in Germany. Other operating income fell by € 1.9 million. Other operating expenses increased from € 81.2 million to € 92.0 million. Considerable non-recurring effects are at play here, which are revealed in the presentation of adjusted income. Depreciation rose from € 9.8 million to € 14.9 million. Goodwill impairment of € 9.3 million (previous year: € 4.2 million) had a significant impact.

Net finance costs deteriorated from € -7.6 million to € -9.9 million due to the higher utilisation of credit lines on account of the greater working capital requirements and depreciation of financial assets belonging to companies, which were discontinued or were not included in the scope of consolidation. Lower earnings meant that income taxes fell from € 5.8 million to € 3.8 million.

Earnings from continuing unadjusted operations fell by € 20.4 million from € 9.1 million to € -11.3 million. Earnings from discontinued operations relate in the previous year to Australia and, retrospectively adjusted, to the aluminium sector in Italy (incl. the pro rata impairment of goodwill). In 2011, the disclosure relates solely to the Italian sector. The loss in the Group from discontinued operations rose by € 4.1 million from € -10.3 million to € -14.4 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, as we did last year, 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, the effects of impairment in the form of amortisation of intangible assets, non-recurring adjustments in current assets and adjustments based on the withdrawal from Asian and Western European submarkets of € 19.1 million were processed in the figures. Goodwill impairment of € 9.3 million (€ 4.2 million) is included here. Taking account of discontinued operations of € 14.4 million, the negative impact on results totalled € 33.6 million.
To improve understanding of these figures, we have prepared a statement of reconciliation.

Reconciliation of adjusted income statement VBH Holding AG

In T €	2010 adjusted earnings as reported	Discontinued operations comparable	2010 adjusted earnings continuing operations	2011 continuing operations	Special items 2011	2011 adjusted earnings continuing operations
Total operating profit	**800,011**	-32,190	**767,821**	**780,135**		**780,135**
Costs of raw materials, supplies and purchased merchandise	607,801	-24,574	583,227	595,200	-1,142	594,058
Gross operating profit	**192,210**		**184,594**	**184,935**		**186,077**
Personnel expenses	94,916	-6,196	88,720	91,434		91,434
Other operating income	16,552	-334	16,218	15,737	-170	15,567
Other operating expenses	86,269	-5,082	81,187	91,965	-7,581	84,384
EBITDA	**27,577**		**30,905**	**17,273**		**25,826**
Depreciation / Amortization	5,942	-284	5,658	14,873	-9,274	5,599
EBIT	**21,635**		**25,247**	**2,400**		**20,227**
Other interest and similar income	514	-25	489	361		361
Interest and similar expenses	8,906	-789	8,117	8,899		8,899
Depreciation on financial assets and securities	9		9	1,316	-1,316	0
Financial result	**-8,401**		**-7,637**	**-9,854**		**-8,538**
EBT	**13,234**		**17,610**	**-7,454**		**11,689**

The key operating figures produced by the adjustment are as follows: the adjusted gross profit margin fell from 24.0 % to 23.9 % and remained virtually at the level of the previous year. Adjusted EBITDA fell by € 5.1 million or 16.5 % from € 30.9 million to € 25.8 million. The margin of adjusted EBITDA to sales decreased from 4.0 % to 3.3 %. Adjusted depreciation fell by € 0.1 million and reflects the Group's very cautious approach when dealing with investments.

Adjusted EBIT decreased in line with EBITDA by € 5.0 million or 19.8 % from € 25.2 million to € 20.2 million. Adjusted interest expense increased from € 7.6 million to € 8.5 million as a result of increased utilisation of international credit lines. Consequently adjusted EBT decreased by a third from € 17.6 million to € 11.7 million.

There were the following adjustments to earnings compared with the previous year

In T €	2010	2011
EBITDA	1,872	8,553
EBIT	12,304	17,827
Financial result	764	1,316
EBT	13,068	19,143

2. FINANCIAL POSITION AND NET ASSETS

Financial position

Investments in the VBH Group amounted to € 7.6 million after € 4.6 million in the previous year. There were additions to goodwill of € 0.4 million (previous year: € 0.0 million). € 3.0 million (previous year: € 0.8 million) was attributable to additions to other intangible assets and € 4.2 million to property, plant and equipment (previous year: € 3.8 million). Intangible assets are mainly payments on account and upfront costs for the introduction of a new IT system in Germany. As in the previous year, there were no additions to financial assets.

Investments in property, plant and equipment and intangible assets not including goodwill (capex) amounted to € 7.1 million and were therefore up on the previous year's level (€ 4.6 million). The ratio of capital expenditure to depreciation and amortisation climbed from 0.8 to 0.9.

Capex and depreciation

In € m	2010	2011
Capex	4.6	7.1
Depreciation on assets	5.9	6.5
Capex vs. depreciation ratio	0.8	0.9

Capital expenditure was offset by depreciation and amortisation of property, plant and equipment and of intangible assets not including goodwill, amounting to € 6.5 million (previous year: € 5.9 million).

Consolidated statement of cash flows

The Group's cash flow developed very positively as a result of the sharp reduction in inventories and receivables and thereby of working capital of € 32.0 million, while there had been an increase of € 17.0 million in the previous year. In conjunction operating cash flow increased to € 28.6 million in the financial year after € 4.8 million in the previous year.

Cash flow from investing activities increased from € -3.7 million to € -5.9 million mainly because of investment in software products. Free cash flow (total net cash inflows and outflows from operating and investing activities) increased from € 1.2 million in the previous year to € 22.6 million. Cash flow from financing activities increased to € -19.1 million after € -3.2 million in the previous year. As at the end of the reporting period, cash and cash equivalents were € 4.6 million higher than at the start of the year at € 17.3 million.

In € m	2010	2011
Cash flow from operating activity	4.8	28.6
Cash flow from investing activity	-3.7	-5.9
Free Cash Flow	1.2	22.6
Cash flow from financing activity	-3.2	-19.1
Changes in cash and cash equivalents and changes owing to exchange gains/losses	0.2	1.1
Cash and cash equivalents at the beginning of the period	14.4	12.7
Cash and cash equivalents at the end of the period	12.7	17.3

Net assets

The Group's total assets are marked by the disposal of discontinued operations and the adjustments on goodwill and other current assets in the Group. Total assets amount to € 292.4 million, having fallen by € 62 million from € 354.1 million.

Assets

In T €	31.12.2010	31.12.2011
Intangibles assets	41,034	24,416
Property, plant and equipment	29,232	27,375
Financial assets	1,955	456
Other long-term assets	5,140	3,333
Deferred tax assets	11,741	8,772
Long-term assets	**89,102**	**64,352**
Inventories	124,848	109,523
Trade receivables	103,274	76,369
Trade receivables affiliated companies	3,133	2,838
Other assets	20,270	21,072
Cash and cash equivalents	12,663	17,328
Tax receivables	762	893
Short-term assets	**264,950**	**228,023**
Total assets	**354,052**	**292,375**

Within assets, non-current assets decreased from € 89.1 million to € 64.3 million. A key factor here was impairment of € 19.6 million in intangible assets, which shrank from € 41.0 million to € 24.4 million. Property, plant and equipment fell by € 1.8 million from € 29.2 million to € 27.4 million as a result of operations being discontinued. Deferred tax assets, which are also associated with this, decreased from € 11.7 million to € 8.8 million.

Overall, current assets fell from € 265.0 million to € 228.0 million. This change reflected a € 15.3 million decrease in inventories, a € 26.9 million decline in trade receivables and further a € 0.3 million decline in receivables from Group companies. Here, too, the items shown are materially affected by the discontinued operation in Italy. Other assets increased by € 0.8 million. As at the reporting date, cash and cash equivalents increased by € 4.7 million from € 12.7 million to € 17.3 million.

Equity and liabilities

In T €	31.12.2010	31.12.2011
Equity	**127,078**	**94,496**
Pension provisions	12,812	13,201
Other long-term provisions	3,046	3,221
Long-term financial liabilties	10,921	76,037
Other long-term liabilities	2,416	1,915
Deferred tax liabilities	4,411	3,197
Non-current liabilities	**33,606**	**97,571**
Short-term provisions	4,785	6,623
Short term financial liabilties	114,114	30,341
Advances received	593	805
Trade payables	47,476	36,443
Other short-term liabilities	26,127	25,472
Tax liabilities	273	624
Current liabilities	**193,368**	**100,308**
Total equity and liabilities	**354,052**	**292,375**

Following substantial interventions in the overall statement of financial position, equity decreased from € 127.1 million in the previous year to € 94.5 million. Nevertheless, the equity ratio in the Group stands at a stable 32.3 % after 35.9 % in the previous year.

Non-current liabilities have risen from € 33.6 million to € 97.6 million. This is mainly due to the conclusion of a medium-term syndicated financing, which had to be classified as short-term last year because the previous loan expired at the end of 2011. A contra item can be found in current liabilities.

There have only been slight changes to the other items in liabilities compared with the previous year. Current liabilities fell significantly from € 193.4 million to € 100.3 million because of the reclassification of the syndicated financing mentioned above and the deconsolidation of discontinued operations. Current financial liabilities fell by € 83.8 million from € 114.1 million to € 30.3 million. Trade payables declined by € 11.0 million on the previous year while other liabilities and income tax liabilities remained at the previous year's level.

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. The existing syndicated loan agreement was extended on a medium-term basis to 30 June 2016 in August 2011. The Group's net debt decreased from € 112.4 million to € 89.1 million. Gearing (net debt/equity) amounts to 94.2 % after 88.4 % in the previous year.

Net working capital (defined as inventories plus trade receivables less trade payables) has reduced significantly to the present figure of € 152.3 million after € 183.8 million in the previous year. The ratio of net working capital to sales has improved from 23.6 % to 19.5 %. In essence, the change is the result of the reduction in current assets and the deconsolidation of discontinued operations.

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 52.0 % (previous year: 52.0 %) of total Group sales, while Western Europe accounts for 11.7 % (previous year: 12.7 %), Eastern Europe for 32.3 % (previous year: 31.4 %) and Other Markets 4.0 % (previous year: 3.9 %).

Germany

The Germany segment comprises the two companies VBH Deutschland GmbH and esco Metallbausysteme GmbH, which handle the markets for wood and PVC window manufacturers and metal workers.

Overall, sales development in the Germany segment matched our expectations. Sales increased from € 411.4 million to € 421.4 million. This equates to an increase of approximately € 10 million. Consequently, VBH has grown by 2.4 % in line with the market. Business development was largely influenced by the healthy condition of the German window market within a flourishing construction sector. Performance was most stable in the renovation area, followed by residential construction which saw a slight recovery. The positive environment for the sector allowed Germany to affirm our high expectations. Successes in the market penetration of greenteQ and systeQ products together with customers' increasing recognition of our expertise in key areas also had a positive impact on margins. Cost increases meant that higher gross profits were not reflected positively in reported earnings for the year. At VBH Deutschland GmbH, higher transport costs in addition to increased wages in logistics led to additional expenses. Staff numbers were increased at esco Metallbausysteme GmbH with the aim of being able to cover innovative areas of business in the field of mechatronics and building technology in future.

EBIT decreased from € 14.2 million in the previous year to € 13.9 million. The EBIT margin fell slightly to 3.3 % (previous year: 3.5 %).

In T €	2010	2011	Change
Total sales	**411,443**	**421,433**	**2.4%**
EBITDA	**15,736**	**15,135**	
EBIT	**14,241**	**13,901**	
Financial result	-493	-639	
EBT	**13,748**	**13,262**	
EBITDA adjusted	**15,736**	**15,135**	**-3.8%**
EBIT adjusted	**14,241**	**13,901**	**-2.4%**

Abroad

VBH's most important international core markets, which are located in Eastern Europe, are operating profitably. Due to the Executive Board's strategic decisions in the Western Europe and Other Markets segments, impairments were required, which were virtually entirely processed in the third quarter. The economic situation in the markets affected, extensive market changes in individual submarkets and the results of our systematic, strategic risk analysis support this decision to concentrate on maximising enterprise value. The losses were properly reported in an ad-hoc disclosure on 28 October 2011 and processed through the income statement in the third quarter. In the 2011 financial year, extraordinary effects within the Group totalled € 33.6 million. This figure includes the negative impact on results caused by the discontinuing aluminium operations in Italy of € 14.4 million. Additional extraordinary effects within the Group totalling € 19.2 million resulted from goodwill impairment of € 9.3 million, adjustments on current assets of € 2.7 million, other expenses of € 2.8 million. There were also deconsolidation effects and adjustments on financial assets following the withdrawal from markets and scaling back of business in Malaysia and Thailand of € 4.3 million. Parts of these extraordinary affects are shown in the individual business segments if they are directly attributable. Continuing economic stagnation in many of the submarkets affected by the measures has led to local reserves being exhausted in many places.

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 from € 133.3 million, as reported in 2010, to € 95.1 million. The strategic decision to withdraw from the Italian market for aluminium windows was implemented at the end of 2011. The operations covered by the Italian VBH holding are being liquidated as planned. The decision to liquidate has proved to be correct in view of the latest negative forecasts for the future of the Italian market and its macroeconomic environment. The Italian window market shrank by over 30 % in 2011 again. The instigation of the liquidation process was the logical and most sensible development after all the efforts to restructure had proved insufficient over several years of continuously contracting sales. A substantial loss factor was eliminated by withdrawing from this submarket and further cash outflows have been prevented. Relinquishment of this business has resulted in the decline of significant sales volume of over € 30 million. The companies affected are being treated as a discontinued operation. The previous year's figures have been adjusted accordingly in the presentation of the segment reporting.

In T €	**2010**	**2011**	**Change**
Total sales	**101,083**	**95,082**	**-5.9%**
EBITDA	**-377**	**-1,537**	
EBIT	**-1,366**	**-4,672**	
Financial result	-810	-1,030	
EBT	**-2,176**	**-5,702**	
EBITDA adjusted	**-377**	**63**	
EBIT adjusted	**-1,366**	**-772**	**+52.8%**

Adjusted for these effects and in relation to continuing operations in Western Europe, comparable sales declined from € 101.1 million to € 95.1 million. The reduction amounted to 5.9 %. While sales have stabilised in the UK and even improved in the Netherlands, falling sales had to be reported for the VBH companies in Belgium, Ireland, Spain and Greece.

The measures to support the Greek national budget initiated by the international community have not had a positive effect on VBH's area of business. From our viewpoint no improvement is expected here in the short and medium-term either.

In Spain, the local subsidiary bucked the general trends with a slightly positive result despite an extremely unfavourable economic environment with only marginal growth and very high unemployment, particularly among younger people. Since the country was already poised on the brink of a recession in the fourth quarter because of austerity measures, VBH has taken measures to adjust the company to the falling market to safeguard results as much as possible.
The subsidiaries in Northern Western Europe are better placed. Despite a weak market environment, the market position in England was consolidated because of the intensely competitive environment and a just positive result was achieved at least.
In Belgium, attention was concentrated on implementing restructuring measures in a satisfactory market environment by and large.

The Dutch subsidiary, which operates very successfully and consequently very profitably in the mixed market environment, remains a star performer in the Western European country portfolio. If all these effects are combined on a comparable basis (excluding discontinued operations), EBIT of € -4.7 million is produced compared with € -1.4 million in 2010. This figure includes extraordinary effects of € 3.9 million resulting from adjustments to current assets of € 1.6 million and goodwill impairment of € 2.3 million. EBIT adjusted for extraordinary effects comes to € -0.8 million after € -1.4 million in the previous year.

Eastern Europe

The Eastern Europe segment consists of Central Eastern Europe, the CIS countries and Southeast Europe. Following a good start at the beginning of the year, the segment's growth was more modest than originally forecasted. As feared, margins were also squeezed. Overall, this segment distinguished itself as a stable, second anchor market for VBH's business in addition to Germany. In the past year, sales in this segment increased by 5.7 % from € 247.9 million to € 262.0 million. 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. In Poland, in particular, the company's very strong market position as a dealer led to a respectable result. In some regions, such as the Baltic states, the past economic situation led to shake-outs in the competitive environment which VBH benefits. Here, VBH profited from weak competition and increased its market share. Strong growth in the CIS countries in the first half flattened off increasingly in the second half of 2011. As a result, the Russian companies are slightly down on the previous year's level. It remains to be seen whether growth will pick up again following the political change at the top of government.
Sales in the Balkan states stabilised overall as against the previous year and grew strongly in individual countries. Tighter receivables management is producing success here, which can be built upon in 2012.
EBIT decreased from € 17.6 million in the previous year to € 16.6 million. In addition to the pressure on margins already mentioned, this was also due to increases in personnel costs and overheads. There were no extraordinary effects that would lead to the adjusted result.
Changes in exchange rates also affected the result in Eastern Europe. The EBIT margin amounted to 6.3 % (previous year: 7.1 %).

In T €	**2010**	**2011**	**Change**
Total sales	**247,935**	**262,026**	**+5.7%**
EBITDA	**19,332**	**18,458**	
EBIT	**17,573**	**16,621**	
Financial result	-128	-162	
EBT	**17,445**	**16,459**	
EBITDA adjusted	**19,332**	**18,458**	**-4.5%**
EBIT adjusted	**17,573**	**16,621**	**-5.4%**

Other Markets

This segment comprises VBH's other international activities in China, Singapore, the 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. Sales in this segment increased by 2.7 % from € 31.2 million to € 32.0 million in 2011. This figure includes the expansion in intra-Group sales resulting from our purchasing company in China. If these sales are excluded, sales fell by 8.0 % from € 31.2 million to € 28.7 million.

The business development and profitability of the key subsidiary in this segment in Turkey was very badly affected by the unstable geopolitical environment among other factors in 2011. Previously flourishing export markets in the wider environment (Iran, Egypt, Libya, Syria) are undergoing a period of upheaval, which does not provide good conditions for the building hardware trade at present. Furthermore, historically established, long terms for receivables on the Turkish market will place high future demands on current risk management and receivables management.

The companies in South and Central America are doing well. Despite its small size, the subsidiary in Mexico, in particular, posted a positive result. VBH is hoping that it will quickly be able to open up new opportunities in South and Central America to generate new high-margin business. This is why a new sales company has already been established in Chile.

In the extended East Asian region, VBH had decided to concentrate its business on the principal markets in China and India. The restructuring of the subsidiary in Beijing has now been successfully completed. Business in India remains at a very low level. Here, VBH deliberately entered the market very early with the aim of shaping the market proactively according to its own standards and, by doing so, achieving stable market leadership.

To focus the Asian companies more effectively on profitable growth, adjustment measures were taken in some subsidiaries in 2011, which had a not insignificantly negative impact on the result.

As a result of decisions in the third quarter, markets were scaled back in Malaysia and discontinued in Thailand. The resultant extraordinary effects and adjustments to fixed assets as well as other expenses were processed in the amount of € 2.3 million in the segment.

EBIT decreased from € -0.3 million in the previous year to € -2.6 million. EBIT adjusted for extraordinary effects comes to € -0.4 million after € -0.3 million in the previous year.

In T €	**2010**	**2011**	**Change**
Total sales	**31,189**	**32,018**	**+2.7%**
EBITDA	**-3**	**-2,368**	
EBIT	**-269**	**-2,636**	
Financial result	-1,449	-1,822	
EBT	**-1,718**	**-4,458**	
EBITDA adjusted	**-3**	**435**	
EBIT adjusted	**-269**	**-369**	**-37.2%**

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. In VBH Holding AG, necessary adjustments to outstanding loans and adjustments to the carrying amounts of subsidiaries were made on the basis of strategic decisions. These arose at companies that are currently undergoing a reorganisation and restructuring process or have been liquidated or discontinued owing to internal and external conditions. At the same time, only low levels of income from equity holdings were realised because of the results in the subsidiaries and earnings in the Group as well as liquidity planning by the subsidiaries.

EBIT decreased from € -4.4 million in the previous year to € -14.5 million. This figure includes extraordinary effects of € 5.5 million. There were also impairment losses on financial assets of € 1.3 million caused by the relinquishment of companies and adjustments to the carrying amounts of non-consolidated companies.
Since 2004, the net finance costs of VBH Holding AG have been shaped by a waiver of interest in favour of VBH Deutschland GmbH, which remained in place in 2011.

In T €	**2010**	**2011**
Total sales	**0**	**0**
EBITDA	**-3,617**	**-13,858**
EBIT	**-4,447**	**-14,539**
Financial result	18,384	-4,106
EBT	**13,937**	**-18,645**
EBITDA adjusted	**-3,617**	**-9,409**
EBIT adjusted	**-4,447**	**-10,091**

Consolidation

The residual effects from preparation of the consolidated financial statements resulting in consolidation essentially comprise cross-segment elimination of sales and income from equity holdings and extraordinary effects from goodwill impairment, which is not allo-cated to the segments for internal controlling purposes. The goodwill impairment not allocated to the segments amounts to € 7.5 million after € 10.1 million in the previous year.

In T €	**2010**	**2011**
Total sales	**-23,829**	**-30,424**
EBITDA	**1,290**	**1,144**
EBIT	**-3,186**	**-6,574**
Financial result	-23,141	-1,796
EBT	**-26,327**	**-8,370**
EBITDA adjusted	**2,746**	**1,144**
EBIT adjusted	**-485**	**935**

4. OPPORTUNITIES AND RISK REPORT

The worldwide business activities of VBH naturally entail a number of risks and opportunities, with unrecognised and therefore unmanaged risks, in particular, constituting a potential hazard. All developments, which have a negative impact on the achievement of qualitative and quantitative goals, are regarded as risks.

At VBH, active risk management is an integral component of the management system and, as such, makes a material contribution to running the company successfully and profitably in the context of its strategic and operational goals.

The VBH risk management system comprises two key pillars:
- Firstly, it encompasses the original risk management system, which together with the reporting system of the Group companies, an ad-hoc system and the Internal Auditing department forms the heart of the risk detection system.
- Secondly the area of risk and liability avoidance with the optimised compliance management system.

Both pillars make a material contribution to reducing the risk threat potential and its proactive management.

In the short-term, the ongoing roll-out of the competitive advantages we enjoy in Germany to our international companies offer opportunities throughout the Group. This relates to the penetration of the market by our proprietary brands greenteQ and systeQ and a further strengthening of the range of services we offer our customers.

Risk management system

In essence, the VBH risk management system pursues four objectives:
- Compliance with legal requirements,
- Supporting corporate governance,
- Raising risk awareness among all employees long-term and
- Increasing enterprise value through proactive risk management.

Risks are identified at all VBH companies every six months and the information is aggregated from country to company level according to clearly defined process. This approach means that all persons responsible at all levels are involved in the risk management process. The process 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 obtained as a result are analysed at country level and subsequently aggregated at Group level.
In addition to the material recording and presentation of risks, it is particularly important for VBH that all recorded risks are discussed in an open dialogue with all requisite decision-makers and appropriate countermeasures instigated without delay. This central role is performed by VBH's Risk Controlling Committee. Together with controlling and the regional directors and managers responsible, countermeasures are discussed and instigated in this committee. The committee also monitors the progress of the measures instigated. Risks arising at short notice, which occur outside the six-monthly recording process, are reported immediately independently of the normal process and tackled by all those involved without delay.

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.

Compliance management system

“Compliance” is an English word and means “observance, obedience” in the narrower sense and “acting in accordance with all applicable rules” in the broader sense. At VBH, “compliance” is understood as "the sum of organisational measures that guarantee that the executive bodies and employees of VBH/esco behave lawfully". This also includes behaving in a way that reflects ethical principles. Directives and codes have been stipulated to this end and communicated within the VBH Group. At the same time, compliance must amount to more than listing rules of this kind and passing them onto employees. Rather, the aim of compliance should be to manifest legal and, in particular, ethical principles in the consciousness and actions of employees and their managers through regular information and training sessions.
The Executive Board and Supervisory Board are updated on the status of the compliance management system at regular intervals. At the same time, the compliance management system is constantly refined by the Compliance Officer in consultation with the Executive Board and adjusted to the constantly changing requirements.

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.

Compliance risks

Possible compliance risks in the VBH Group are countered by a code of conduct implemented throughout the Group, numerous compliance directives, a compliance organisation and a reporting system. Training sessions are also held at regular intervals.

IT risks

A dependence on the availability and reliability of IT systems and the networking of individual company units represents an increasing risk to each company. 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 are hedged 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.

Default risk

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

Anticipated developments on global markets will not help the VBH Group to achieve its targets in 2012. For VBH this means that it will have to plan conservatively, manage flexibly and penetrade VBH's range of innovative services to increase market share. Detailed analysis has shown that the individual segments are influenced by different factors.

With regard to anticipated global economic growth in 2012, the picture is mixed. On the one hand, the fundamental causes of global economic uncertainty, such as the sovereign debt crisis in Europe or the budget crisis in the USA have still not been resolved. On the other hand, the recovery in Eastern Europe and the major Asian countries is progressing. The US economy is also showing the first signs of recovery. Current forecasts assume the global economy will grow by 2.5 % in total in 2012. In their forecasts, however, experts point to the possibility of another recession, particularly in the euro zone. We expect the position to improve slightly in 2013.

Following a fall in GDP in **Germany** in the fourth quarter of 2011, assumptions are that the economy will remain subdued at the beginning of 2012 as well. However, sentiment indicators such as the ifo Economic Climate index and the ZEW (Centre for Economic Research) indicator show that sentiment is stabilising increasingly, meaning that we can be cautiously optimistic for 2012 as a whole at least and expect slightly positive development. Since the export-oriented German economy is heavily dependent on developments in the global economy, which have been impossible to forecast reliably in recent years, it makes little sense to provide apparently exact but ultimately erroneous growth forecasts. Nevertheless, we assume that the German economy will return to more respectable growth in 2013.

Consequently, the Germany segment will also be the segment generating the highest sales for VBH in 2012. We expect a slight increase in sales and earnings for this segment in 2012. There are no serious concerns regarding the current high level, however VBH cannot assume that it will achieve further impressive growth.

Western Europe has become the most important export market for most **Eastern European countries**. As a result, the poor outlook in Western Europe is also casting a shadow over sentiment in Eastern Europe in 2012. Foreign direct investment, one of the key growth drivers in this region, is also increasingly rare. At the same time, the major European banks dominating the market are increasingly restricting lending in Eastern Europe because of their own capital requirements, which is also depressing sentiment. Since cost increases cannot be avoided in Eastern Europe, earnings are expected to come under pressure. At present, there are no indicators promising any fundamental improvement in the situation in 2013.

Debt crisis, banking crisis, currency crisis, growth crisis: the parameters for the **Western European economy** are sufficiently familiar. Given this accumulation of factors generating uncertainty, only one thing is certain: development will not be supported by optimism and a yen for investment in 2012 either. The bottom seems to have been reached in VBH's Western European countries and some companies are undergoing a tough restructuring programme. However, future developments in the Southern European countries such as Greece and Italy, in particular, will determine the fate of the entire continent meaning that there is (unfortunately) no prospect of an upturn yet and none can be expected before the second half of 2013 at the earliest. Overall, however, VBH is confident that the sales level of 2011 can be achieved once more in 2012 and that this segment will once again make a positive contribution to Group earnings in the medium term at least. In the short-term, focus is concentrated on completing the restructuring of the companies in Belgium and Greece.

Compared with VBH's other market segments, the economies of the operations comprising the **Other Markets** segment (Asia, Middle East plus Turkey and Latin America) are supported by buoyant growth rates, which should be maintained in both 2012 and 2013. Admittedly, growth in this segment will also ease somewhat as part of the global economic slowdown. In Asia and Latin America at least, this is secondary for the development of the VBH companies: the relatively small companies still have a great deal of potential, which will be reflected in increased sales in 2012.

Overall, the Executive Board is expecting 2012 to be a year in which the operational strength of VBH is consolidated further and positively reflected in its reported earnings – it is firmly aiming for growth in operating profits. Thanks to the successful adjustment measures taken in 2011, VBH is already better equipped today to survive in a difficult environment. Nevertheless, we must keep to the course we have taken. Our companies in Belgium, Greece, Singapore and Turkey will again face with considerable challenges in 2012 and will be monitored closely by the Executive Board in their development.

On the basis of the companies' aggregate budgets, the Executive Board is expecting sales of around € 790 million and an adjusted EBIT margin of a good 3% in 2012. Should the financial markets stabilise further after 2012, we are assuming low, single-digit growth in sales and further stabilisation of the EBIT margin in 2013.

2012 financial year

VBH's business development was largely satisfactory in the first two months of the current year. By the end of February 2012, sales throughout the Group had increased by around 5% as against the previous year. It will continue to push forward with the implementation of the strategic positioning, focusing on internationalisation, 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. To be able to close 2012 as a whole successfully, above all it is now a matter of exploiting the strategic success factors to maintain the positive momentum in the major core markets, in particular, Germany, Poland and Russia. VBH has an opportunity here to impress as a dealer and service provider and beat its competitors. In view of the uncertain global economic situation it is still advisable to develop scenarios for dealing with serious setbacks in these and other markets in order to be able to adjust processes and strategy rapidly if necessary.
In the smaller growth companies, attention is focused on healthy growth in both sales and profits.

6. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Mr. Ulrich Lindner has supplemented the Executive Board team at VBH Holding AG since 1 February 2012. As an experienced sales expert in the international construction environment, he is poised to return to profitable growth in challenging market segments.

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 regularly updated and expanded. The Government Commission on the German Corporate Governance Code is responsible for the formulation and ongoing development of the Code (www.corporategovernance-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 interests.

VBH Holding AG submitted its latest declaration of compliance in accordance with section 161 AktG in March 2012, 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 2011. The declaration below pertains to the version of the Code dated 26 May 2010, which was published on 2 July 2010 in the electronic Bundesanzeiger (German Federal Gazette) and constitutes the latest version of the code.

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. For this purpose, the Supervisory Board has devised a special requirement profile for candidates for election to the Supervisory Board. The Supervisory Board has not defined specific diversity targets in terms of male and female Supervisory Board members in this requirement profile as this would not necessarily entail an improvement in the quality of Supervisory Board work and there would be substantial practical difficulties in appointing female members to the Supervisory Board in the current market environment.

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”, 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 and the Drittelbeteiligungsgesetz (DrittelbG – German One-Third Employee Participation Act), 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, 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 three 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 multiyear 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 financial 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 financial 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 (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 findings and occurrences arising during conduct of the audit that in any way concern the duties of the Supervisory Board 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 (opportunities and 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 May 2010.

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 2012. The declaration of compliance was reviewed in the Supervisory Board meeting on 15 December 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 WpHG, and disclosures on holding financial instruments pursuant to section 25 WpHG, immediately upon their receipt. These "voting rights announcements" are posted on the company's website.

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 APPLIED

The duties of the Executive Board of a stock corporation include the monitoring of external factors and developments affecting operating business 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 senior employees to comply with a corporation-wide code of internal conduct (compliance code) and also requires all other employees in the Group to be fully informed regarding this and to guarantee implementation of the code of 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 2011. The risks of individual companies were analysed and presented uniformly to communicate a comprehensive status. If need for action is identified, measures are defined and specified. Risks are measured using an EBIT-@-risk model.

WORKING METHODS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board of VBH Holding AG, consisting of three members, manages the company and oversees its transactions. 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 in Germany and Eastern Europe as well as sales and logistics; the Chief Financial Officer is responsible for controlling and accounting, finance, investor relations, IT, HR, internal auditing and taxes. The third Executive Board member is in charge of marketing and sales. He also has segment responsibility for Western Europe, the Balkans and Asia. All three Executive Board members 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 Article 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 Article 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 9 of this annual report.

In particular, the Supervisory Board chairman regularly discusses the course of business and current issues with the Executive Board – even outside Board meetings. Outside these meetings, the Executive Board reports verbally and in writing to the Supervisory Board chairmen on current developments. The Supervisory Board met seven times in 2011.

The Supervisory Board of VBH Holding AG has established the following three committees: Human Resources Committee, the Audit Committee and a committee for 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 2010. The HR Committee met once in the year under review. The Strategy, Marketing and Sales Committee also met once in 2011.

The Supervisory Board reviews its own effectiveness annually.

The members comprising the Supervisory Board and their other mandates 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) 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 in accordance with section 2(7) of the Wertpapiererwerbs- und Übernahmegesetz (WpÜG – Securities Acquisition and Takeover Act) 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) HGB. According to section 176(1) sentence 1 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) HGB and corresponding explanations according to section 176(1) sentence 1 AktG 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 and on the regulated market of the Frankfurt and Stuttgart stock exchanges.

Security	WKN	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 December 2011, 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 June 2007 in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that his voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had fallen below the 25 % threshold on 31 May 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 in accordance with 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 June 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 May 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 in accordance with 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 June 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 May 2007, on that day amounting to 18.62 % (7,358,242 votes).

Dr. Eike Tobias Matthiessen, Germany, informed us on 17 June 2009 in accordance with section 21(1) WpHG that his voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 10 %, 15 %, 20 % and 25 % reporting thresholds on 15 June 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 in accordance with 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 2007 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, ISIN: DE0007600702, SCN: 760070, 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 voting rights) 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, ISIN: DE0007600702, SCN: 760070had 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 at the end of the reporting period.

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 AktG. 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 five years. A member may be re-appointed or his or her term of office be extended for a maximum of five 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.

In accordance with Article 17(2) of the Articles of Association and at variance to section 179(2) AktG, 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 AktG 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 through 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). 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

With the exception of a regulation in the syndicated loan agreement with which the banks financing the VBH Group are granted a cancellation right in the case of a change of control among the shareholders, 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 in accordance with section 289(5) HGB and in the Group management report in accordance with 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 in accordance with 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 the 2011 financial year.

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, which were gradually adapted and extended in recent years.
- 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.
- Accounting processes are a component of the audit by Internal Auditing.
- The responsibilities of the Supervisory Board and, in particular, the Audit Committee, include addressing key issues regarding accounting and risk management. A comprehensive, uniform Group accounting guideline governs subsidiaries' accounting in accordance with IFRS. 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. The Group Controllers also monitor the progress of work on the annual financial statements and compliance with the Group accounting guidelines.
- All material financial statements incorporated in the consolidated financial statements are reviewed by local auditors.
- Group-wide standard consolidation software is used for processing the single-entity financial statements and converting them to IFRS accounting.
- External specialists and auditors as well as lawyers 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 basically ensure correct and consistent accounting.

The internal control and risk management system in place at VBH Holding AG ensures that accounting is uniformly prepared 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.

Internal Auditing is checking the extent to which the internal system of controls covering accounting has been implemented. This is analysed with the help of random tests and detailed investigations in the companies. Internal Auditing's investigations are not subject to any restrictions of any kind regarding access to documents or access to IT systems. In addition, a review of compliance with the internal regulations set and the applicable country-specific rules on compliance is carried out in consultation with the compliance guidelines. The aim of these measures is to avoid possible corruption and its influence on accounting as far as possible.

However, absolute security cannot be completely guaranteed even with an appropriate and effective risk management system.

10. REMUNERATION REPORT

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. 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 adjusted to the Vorstandsvergütungsangemessenheitsgesetz (VorstAG – German Act on the Appropriateness of Management Board Compensation). The variable remuneration components consist of performance-related variable bonus and a discretionary variable bonus. The performance-related variable bonus is based on the consolidated operating earnings before taxes (IFRS) if they exceed a defined basic amount. Some of the performance-related variable bonus 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. The performance-related variable bonus in Executive Board contracts utilises a multi-year calculation basis. It also contains regulations permitting appropriate remuneration reductions if the company's situation deteriorates in such a way that would make continued payment of such amounts inappropriate. The Annual General Meeting of VBH Holding AG approved the remuneration system for the Executive Board on 8 June 2010 in accordance with section 120(4) AktG. This has established additional transparency and control in respect of the remuneration decisions of the Supervisory Board.

Remuneration for the 2011 reporting year broke down as follows:

In addition to their fixed salaries of € 336 thousand (previous year: € 315 thousand) and € 300 thousand (previous year: € 0 thousand) respectively, Mr. Hribar and Mr. Bangerter received variable remuneration in accordance with the provisions of the Executive Board contracts of € 80 thousand (previous year: € 236 thousand) and € 50 thousand (previous year: € 0 thousand). Because of the loss-making situation in the Group in the past financial year, the variable remuneration results solely from the discretionary variable bonus geared to long-term strategy and personal performance targets. A performance-related variable bonus was not applied.

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.

Executive Board remuneration

		2010		
In € T	**Fixed**	**Variable**	**Fringe benefits**	**Total**
Rainer Hribar	315	236	80	631
Dr. Ralf Lieb (until 31.08.2010)	168	30	7	205
Total	**483**	**266**	**87**	**836**

		2011		
In € T	**Fixed**	**Variable**	**Fringe benefits**	**Total**
Rainer Hribar	336	80	80	496
Frieder Bangerter	300	50	17	367
Total	**636**	**130**	**97**	**863**

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 2011. Supervisory Board members held a total of 1,495,525 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 € 436 thousand in the past financial year (previous year: € 466 thousand). 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 2011 financial year (previous year: € 5.6 million). Defined benefit obligations for all pension commitments (IFRS) amounted to € 905 thousand for Mr. Hribar (previous year: € 827 thousand) and € 55 thousand (previous year: € 0 thousand) for Mr. Bangerter. Total additions in the year under review amounted to € 133 thousand (previous year: € 284 thousand).

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. Given the earnings situation in the Group, the Executive Board has not recommended a proposal on the appropriation of profits for 2011 to the Supervisory Board. As a result, the Supervisory Board will lose their variable remuneration. Supervisory Board members' remuneration for the 2011 financial year amounts to € 163 thousand (previous year: € 172 thousand).

Disclosures in accordance with IAS 24 – related parties

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 € 135 thousand for the financial year 2011 (previous year: € 54 thousand). In addition to issues relating to company law, the increase in the payments to the law firm is primarily as a result of the support provided in concluding the syndicated financing. The Vice Chairman of the Supervisory Board advises the two operating German companies in matters of the market and supports them in servicing key accounts. The consultancy agreements were approved by the VBH Holding AG Supervisory Board. In the past financial year, remuneration came to € 127 thousand (previous year: € 127 thousand). In addition, the Vice Chairman of the Supervisory Board received an ongoing pension from the German companies totalling € 91 thousand (previous year: € 90 thousand).

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

11. EMPLOYEES

In the past financial year, the VBH Group employed a total of 2,825 people in its continuing operations as against 2,798 in the previous year. As a result, VBH employs 30 more people than in the previous year. The relinquishment of the aluminium business in Italy resulted in a reduction of 113 employees (136 employees).

Due to the positive economic situation in Germany, employees in the logistics sectors were given permanent contracts to replace temporary positions. The number of technical employees working in automation and mechatronics for the metal construction sector was increased, as were numbers in the central functions at VBH Holding AG. The new "Corporate Development/M&A" department was created at the parent company to make the work of the Holding more professional and to support the restructuring work in the companies efficiently.

In Germany, the number of employees increased from 1,023 in the previous year to 1,070.

Abroad, the number of people employed in the continuing operations decreased by 20 from 1,775 in the previous year to 1,755. This change breaks down across the segments as follows:

	2010	2011	Change
Western Europe	319	294	-25
Eastern Europe	1,218	1,219	1
Other Markets	238	242	4
Abroad	1,775	1,755	-20

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

A coaching programme has been initiated at management level at VBH Holding AG, which aims to optimise cross-departmental collaboration further.

Comprehensive measures to promote individual health have been carried out for the companies in Germany under the motto "aktiv vital". Investments here will pay off by reducing sickness and increasing employee's agility.

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.

Consolidated financial statements

OF VBH HOLDING AKTIENGESELLSCHAFT

Consolidated balance sheet

Assets

In T €	Notes	31.12.2010	31.12.2011
Long-term assets			
Intangibles assets	5.1	41,034	24,416
Property, plant and equipment	5.2	29,232	27,375
Financial assets	5.3	1,955	456
Other long-term assets		5,140	3,333
Deferred tax assets	5.8	11,741	8,772
Total		**89,102**	**64,352**
Short-term assets			
Inventories	5.4	124,848	109,523
Trade receivables	5.5	103,274	76,369
Trade receivables affiliated companies	5.5	3,133	2,838
Other assets	5.5	20,270	21,072
Cash and cash equivalents	5.6	12,663	17,328
Tax receivables	5.7	762	893
Total		**264,950**	**228,023**
Total assets		**354,052**	**292,375**

Equity and Liabilities

In T €	Notes	31.12.2010	31.12.2011
Equity			
Subscribed capital	5.9	45,879	45,879
Capital reserve	5.9	41,906	18,812
Revenue reserve	5.9	37,257	23,654
Profit retained	5.9	-6,302	0
Equity attributable to shareholders of VBH AG	5.9	118,740	88,345
Minority interests	5.9	8,338	6,151
Total		**127,078**	**94,496**
Non-current liabilities			
Pension provisions	5.12	12,812	13,201
Other long-term provisions	5.13	3,046	3,221
Long-term financial liabilties	5.11	10,921	76,037
Other long-term liabilities	5.11	2,416	1,915
Deferred tax liabilities	5.14	4,411	3,197
Total		**33,606**	**97,571**
Current liabilities			
Short-term provisions	5.13	4,785	6,623
Short term financial liabilities	5.11	114,114	30,341
Advances received	5.11	593	805
Trade payables	5.11	47,476	36,443
Other short-term liabilities	5.11	26,127	25,472
Tax liabilities	5.12	273	624
Total		**193,368**	**100,308**
Total equity and liabilities		**354,052**	**292,375**

CONSOLIDATED INCOME STATEMENT

In T €	Notes	2010	2011
Sales	6.1	**767,821**	**780,135**
Total operating profit		**767,821**	**780,135**
Costs of raw materials, supplies and purchased merchandise	6.2	583,227	595,200
Gross operating profit		**184,594**	**184,935**
Personnel expenses	6.3	88,720	91,434
Other operating income	6.4	17,674	15,737
Other operating expenses	6.5	81,187	91,965
EBITDA		**32,361**	**17,273**
Depreciation / Amortization	6.6	9,815	14,873
EBIT		**22,546**	**2,400**
Other interest and similar income		489	361
Interest and similar expenses		8,117	8,899
Depreciation on financial assets and securities		9	1,316
Financial result	6.7	**-7,637**	**-9,854**
EBT		**14,909**	**-7,454**
Current taxes	6.8	6,163	4,194
Deferred taxes	6.9	-344	-373
EBT continuing operations		**9,090**	**-11,275**
EBT discontinued operations		-10,320	-14,409
EAT		**-1,230**	**-25,684**
Minorities	6.10	481	-1,212
Net result after Minorities		**-1,711**	**-24,472**
EPS in €	6.11	**-0.04**	**-0.53**
EPS diluted in €	6.11	**-0.04**	**-0.53**
EPS in € continuing operations		**0.19**	**-0.22**
EPS diluted in € continuing operations		**0.19**	**-0.22**
EPS in € discontinuing operations		**-0.22**	**-0.31**
EPS diluted in € discontinuing operations		**-0.22**	**-0.31**

TOTAL COMPREHENSIVE INCOME FOR THE PERIOD OF VBH GROUP

In T €	2010	2011
Earnings after taxes (EAT)	**-1,230**	**-25,684**
thereof attributable to shareholders of VBH AG	-1,711	-24,472
thereof attributable to minorities	481	-1,212
Changes in IAS 39 Hedge Accounting	**510**	**-83**
Currency differences	**2,613**	**-3,094**
Total changes of value in equity	**3,123**	**-3,177**
thereof attributable to shareholders of VBH AG	2,775	-3,113
thereof attributable to minorities	348	-64
Total comprehensive income for the period	**1,893**	**-28,861**
thereof attributable to shareholders of VBH AG	1,064	-27,585
thereof attributable to minorities	829	-1,276

CONSOLIDATED CASH FLOW STATEMENT

In T €		2010	2011
	EBT continuing operations	8,826	-7,454
	EBT discontinuing operations	-5,171	-12,199
	EBT	**3,655**	**-19,653**
+	Depreciation on tangible assets	16,090	25,700
+/-	Increase/decrease in long-term provisions	231	564
+/-	Other non-cash income/expense	866	-14,570
-	Taxes paid	-7,233	-4,194
+/-	Interest paid / received	8,392	9,048
=	**Cash earnings**	**22,001**	**-3,105**
	(thereof discontinued operations)	**-4,344**	**-9,978**
-/+	Increase/decrease in inventories	-14,247	12,862
-/+	Increase/decrease in trade receivables	-2,340	15,209
+/-	Increase/decrease in short-term provisions	-348	4,150
+/-	Increase/decrease in liabilities	-98	-205
=	**Total changes in working capital**	**-17,033**	**32,017**
-/+	Profit/loss from the disposal of non-current assets	-133	-286
=	**Cash flow from operating activity**	**4,835**	**28,625**
	(thereof discontinued operations)	**-3,511**	**-89**
-	Cash outflows for investments in intangible assets	-638	-3,010
-	Cash outflows for investments in tangible assets	-3,339	-4,009
-	Cash outflows for investments in financial assets	-24	0
-	Cash outflows for other financial assets	-230	0
+	Cash inflows from disposal of intangible assets	372	2
+	Cash inflows from disposal of tangible assets	558	672
+	Cash inflows from disposal of financial assets	0	0
-/+	Payments for acquisition and disposal of consolidated companies	-618	0
+	Interest received	246	388
=	**Cash flow from investing activity**	**-3,673**	**-5,957**
	(thereof discontinued operations)	**201**	**25**
=	**Free Cash Flow**	**1,162**	**22,667**

In T €		2010	2011
+	Cash inflows from equity contributions	30	0
+	Cash inflows from loans raised	18,449	0
-	Cash outflows for repayment of loans	-11,442	-8,044
-	Interest paid	-7,246	-7,251
-	Dividens paid	-2,951	-3,838
=	**Cash flow from financing activity**	**-3,160**	**-19,133**
	(thereof discontinued operations)	3,330	**628**
=	**Changes in cash and cash equivalents**	**-1,998**	**3,535**
+	Exchange rate related changes in cash and cash equivalents	249	1,131
+	Cash and cash equivalents at the beginning of the period	14,411	12,662
=	**Cash and cash equivalents at the end of the period**	**12,662**	**17,328**

STATEMENT OF CHANGES IN GROUP EQUITY

Statement of changes in group equity

In T €	Capital stock	Capital reserve	Revenue reserve
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 comprehensive income	**0**	**0**	**2,775**
Payout			
Changes in retained reserves and other changes			163
Balance at 31 December 2010 / Balance at 01 January 2011	**45,879**	**41,906**	**37,257**
Changes to the consolidated Group			-67
Minority Interests			
Capital increase convertible issue rights			67
Stock options			
Share based compensation			
Total comprehensive income	**0**	**0**	**-3,113**
Payout			
Changes in retained reserves and other changes		-23,094	-10,799
Other changes			309
Balance at 31 December 2011	**45,879**	**18,812**	**23,654**

Thereof reserve curreny translation	Thereof cashflow-hedge reserve	Profit / loss retained	Equity attributable to shareholders of VBH AG	Minority interests	Treasury shares	Shareholders equity
-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**
-5,151	**-1,516**	**-6,302**	**118,740**	**8,338**	**0**	**127,078**
79			**-67**			**-67**
			0			**0**
			67			**67**
			0			**0**
			0			**0**
-3,030	**-83**	**-24,472**	**-27,585**	**-1,276**	**0**	**-28,861**
		-2,753	**-2,753**	-1,277		**-4,030**
		33,527	**-366**	366		**0**
			309			**309**
-8,102	**-1,599**	**0**	**88,345**	**6,151**	**0**	**94,496**

Notes to the Consolidated Financial Statements

1. General information 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 registered office of the company is in Korntal-Münchingen. The shares of the company are listed in the Prime Standard of Deutsche Börse and traded on the regulated market on Xetra and on the floor of the Frankfurt and Stuttgart stock exchanges.

The 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 an 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 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and the applicable regulations of section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code).

All standards which are effective as at the end of the reporting period have been complied with.

The consolidated financial statements were prepared in euro and rounded to thousands of euro (€ thousand). Unless stated otherwise, all figures are stated in thousands of euro. In tables showing the breakdown of items in the consolidated statement of financial position and the consolidated income statement, minor deviations are due to 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 statement of financial position and the consolidated income statement and explained separately below.

The provisions of IAS 1 require presentation of statement of financial position items by maturity. For this reason, the statement of financial position 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 first-time recognition.

2. IASB accounting provisions

New or amended standards and interpretations applicable to financial years ended 31 December 2011 are outlined below.

2.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE FIRST TIME IN THE FINANCIAL YEAR

The following new and amended standards and interpretations have already been adopted and are effective for reporting periods starting on or after 1 January 2011:

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 7 "Financial Instruments: Disclosure"
  The amendment temporarily exempts first-time IFRS adopters from the comparative disclosures on fair value and liquidity risk required under IFRS 7.

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
  The revision of IFRS 1 grants alternatives for first-time IFRS preparers operating in oil and gas and for the reassessment of embedded leases in the context of transition to IFRS accounting.

- Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”
  The amended structure of the newly released IFRS 1 is intended to facilitate the transition to IFRS accounting for first-time preparers.

- Amendments to IAS 24 “Related Party Disclosures” and IFRS 8 “Operating Segments”
  The revised definition of related parties is intended to simplify the application of IAS 24. A further convenience in this standard’s reporting requirements applies to companies under at least significant government influence. Consequential changes also arose in IFRS 8 from the new version of IAS 24.

- Amendment to IAS 32 “Financial Instruments: Presentation”
  This amendment to IAS 32 clarifies how the provisions for distinguishing between equity and borrowed capital apply to rights issues not denominated in the functional currency of the issuer.

- Amendment to IFRIC 14 “Prepayments for Minimum Funding Contributions”
  The interpretation regulates the treatment of prepayments for minimum funding contributions for defined benefit plans. It allows for the benefit of such prepayments to be recognised as an asset.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
  The interpretation regulates how an obligor accounts for the renegotiation of the terms of a financial liability that entitles it to extinguish the liability in full or in part with its own equity instruments.

- “Annual Improvement Process”
  On 18 February 2011, the EU endorsed the IASB’s third omnibus standard making minor improvements to its regulations.

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

2.2 PUBLISHED STANDARDS ENDORSED BY THE EU BUT NOT YET EFFECTIVE

New or amended standards and interpretations applicable for financial years after 31 December 2011 that were not applied in the preparation of these consolidated financial statements are outlined below.

- IFRS 7 “Financial Instruments: Disclosures”
  The extended regulations of this standard are effective for financial years beginning on or after 1 July 2011. The extended regulations of the standard are intended to improve disclosures on the type and risks of transactions for the purpose of transferring assets. It was not adopted early. Other than additional or modified disclosures in the notes, no material effect on the consolidated financial statements is expected.

- IFRS 7 “Financial Instruments: Disclosures”
  The revised standard is effective for financial years beginning on or after 1 January 2013. The revised standard added new disclosure requirements in connection with the offsetting of financial assets and financial liabilities. It was not adopted early. The European Union has not yet endorsed the amendments. Other than additional or modified disclosures in the notes, no material effect on the consolidated financial statements is expected.

- IFRS 9, “Financial Instruments: Classification and Measurement”
  The revised standard is effective for financial years beginning on or after 1 January 2015 but can be adopted early. 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. 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.

  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 in October 2010. The changes relate in particular to financial liabilities measured voluntarily at fair value. No effect on the consolidated financial statements is expected.

- IFRS 10 “Consolidated Financial Statements”
  The new standard is effective for financial years beginning on or after 1 January 2013 and replaces the consolidation guidelines of IAS 27 and the regulations of the interpretation SIC 12 “Consolidation – Special-purpose Entities”. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of IFRS 10.

- IFRS 11 “Joint Arrangements”
  The new standard is effective for financial years beginning on or after 1 January 2013 and regulates accounting for joint ventures and joint operations. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of IFRS 11.

- IFRS 12 “Related Party Disclosures”
  The new standard is effective for financial years beginning on or after 1 January 2013. IFRS 12 bundles all disclosure requirements for the consolidated financial statements relating to subsidiaries, joint arrangements, associates and unconsolidated, structured entities. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of IFRS 12.

- IFRS 13 “Fair Value Measurement”
  The new standard is effective for financial years beginning on or after 1 January 2013. IFRS 13 combines all regulations on fair value measurement. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of IFRS 13.

- IAS 1 (2011), “Presentation of Financial Statements”
  The amended standard is effective for financial years beginning on or after 1 July 2012. The amendments state that the items of other comprehensive income must be shown in two separate categories. Components that can be reclassified to profit or loss over time are shown separately from those that will not be reclassified. The standard has not yet been endorsed in EU law. The Group has yet to analyse the full effects of the amendment and is currently assuming the changes described above in the income statement.

- IAS 19 (2011) “Employee Benefits”
  The revised standard is effective for financial years beginning on or after 1 January 2013. The amendments omit the current options for the recognition of actuarial gains and losses. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of the amendment.

- IAS 27 (2011) “Separate Financial Statements”
  The amended standard is effective for financial years beginning on or after 1 January 2013. The revision of this standard is due to consequential changes arising from the publication of IFRS 10. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of the amendment.

- IAS 28 (2011) “Investments in Associates and Joint Ventures”
  The amended standard is effective for financial years beginning on or after 1 January 2013. The revision of this standard is due to consequential changes arising from the publication of IFRS 11 and IFRS 12. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of the amendment.

- IAS 32 (2011) “Financial Instruments: Presentation”
  The amended standard is effective for financial years beginning on or after 1 January 2014. The amendments make the regulations on offsetting more precise. Additional application guidance for the netting of financial assets and financial liabilities was also added to the standards. The standard has not yet been endorsed in EU law. The Group is still analysing the full effects of the amendment.

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 when the company has the power to govern the financial and operating policies of a company so as to obtain benefits 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 until the actual date of disposal. If necessary, the annual financial statements of the subsidiaries are adjusted so that the accounting policies are aligned with those applied in the Group. 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 entailed by a share of voting rights of more than 50 %. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence. Subsidiaries are generally included in the consolidated financial statements (fully consolidated) as at the date on which control is transferred to the Group if they are not of subordinate importance to the consolidated financial statements. They are deconsolidated as at the date on which 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 investment are offset 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 in purchase price allocation are recognised at fair value.
Any positive difference after this offsetting and purchase price allocation is reported under non-current assets as goodwill.
If further interests are acquired in already fully consolidated companies, the purchase price of the additional acquisition is offset directly against the additional equity acquired. The asset difference resulting from offsetting is charged against retained earnings.

Shares in the equity of subsidiaries attributable to non-controlling interests are reported separately under equity. Shares in the subsidiaries’ results attributable to non-controlling interests are shown separately in the income statement.

3.1 SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Overview of equity interests at 31 December 2011 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 EOOD	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.	Prag	CZ	100.0%
VBH Malum S.L.	Gava	E	68.4%
VBH Estonia AS	Tallinn	EST	100.0%
LG Fasteners Ltd.(indirect via VBH (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%
VBH Italia S.r.l.	Bozen	I	50.0%
Galro (Ireland) Ltd.	Dunshaughlin	IE	60.0%
VBH Kuwait for General Trading Co. (W.L.L)	Safat	KW	80.0%
TOO VBH	Almaty	KZ	56.5%
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)	Warschau	PL	89.8%
VBH Polska Sp.z.o.o.	Warschau	PL	93.3%
S.C. VBH Romcom SRL	Tirgu Mures	RO	100.0%
Rodkomplektservice OOO (indirect via VBH Rekta AO))	Moskau (Odintsovo)	RUS	100.0%

Fully consolidated companies	Registered office location	Country	Percentage equity held in %
Abroad			
VBH OOO (St. Petersburg)	St. Petersburg	RUS	95.0%
VBH Rekta AO (indirect via VBH OOO (St. Petersburg))	Moskau (Odintsovo)	RUS	100.0%
VBH SIB OOO	Omsk	RUS	100.0%
VBH Kosovo L.L.C.	Fushe Kosove	SCG	80.0%
VBH Singapore Pte.Ltd.	Singapur	SGP	100.0%
VBH Trgovina d.o.o.	Skofia Loka	SL	100.0%
VBH Naisus Nis d.o.o.	Nis	SRB	95.0%
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%
VBH Ofir DP (Makeewka(indirect via VBH LLC))	Makeewka	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%
Guangzhou VBH Construction Hardware Trading Co. Ltd.	Guangzhou	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%
VBH Holding Americas S.L.	Gava	E	100.0%
Lokman OÜ (indirect via VBH Estonia AS)	Tallinn	EST	100.0%
VBH Kaukasus	Tiflis	GE	25.0%
C.D.A.Cagliari S.r.l. (indirect via VBH Italia Holding S.p.A.)	Cagliari	I	10.0%
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 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%
VBH HOLDING INDIA PRIVAT LIMITED	Delhi	IND	100.0%
esco RUS OOO (indirect via VBH Holding AG und esco Metallbausysteme GmbH)	Moskau	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.	Belgrad	SRB	100.0%
VBH Ofir DP (Odessa(indirect via VBH LLC))	Odessa	UA	100.0%
VBH VIETNAM CO., LTD	Ho Chi Minh City	VN	100.0%
VBH Australia PTY. Ltd.	Seaford	AUS	100.0%
VBH (Thailand) Co., Ltd.	Bangkok	THB	49.0%

19 (previous year: 15) 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 2011, the scope of consolidation under IFRS includes three German and 52 foreign subsidiaries in addition to the parent company. Changes in fully consolidated subsidiaries between 1 January 2011 and 31 December 2011 are shown in the table below.

Change in consolidated companies

VBH consolidated companies	Domestic	Abroad	Total
January 01, 2010	**3**	**66**	**69**
Additions	0	2	2
Disposal	0	-2	-2
Other changes	0	-6	-6
December 31, 2010	**3**	**60**	**63**
Additions	0	2	2
Disposal	0	-6	-6
Other changes	0	-4	-4
December 31, 2011	**3**	**52**	**55**

Other changes relate to companies being merged or shut down.

Changes in the scope of consolidation

First-time consolidation

The purpose of the companies included in consolidation for the first time is essentially trading in building hardware. The companies had not been included in the consolidated financial statements before 2011 for reasons of materiality.

Guangzhou VBH Construction Hardware Trading Co. Ltd., China, was established on 7 December 2007 as a subsidiary of VBH Holding AG. It is a purchasing company for the procurement of the VBH Group's proprietary brand products in China. It coordinates purchasing activities and ensures that defined quality standards are fulfilled and that these product ranges are delivered to the VBH companies on schedule.

VBH Irkutsk, Russia, was treated as an addition to the scope of consolidation and merged with VBH SIB, Russia, in the third quarter.

Other changes in the scope of consolidation

The consolidated company VBH West in Aktobe, Kazakhstan, was dissolved on 8 December 2011.

VBH Samara OOO, a subsidiary of VBH OOO (St. Petersburg), Russia, was dissolved on 15 April 2011.

The consolidated company VBH OOO (Novosibirsk), Russia was merged with VBH SIB, Russia, in the third quarter.

As a result of the disposal of the 51 % majority interest in the VBH company in Thailand, this company was deconsolidated on 31 December 2011. The Group no longer controls this company. The company's equity amounted to € -1,099 thousand as at 31 December 2011, its result for the year was € -414 thousand.

Sales and discontinued operations

VBH Italia Holding S.p.A. and its subsidiaries, which operate in the aluminium sector, have been hit by massive market setbacks in recent years. Specific restructuring measures and drastic organisational changes did not improve the loss-making situation in the declining market and economic environment.

Additional risk analyses and alternative scenarios on the basis of the 2011 half-year financial statements confirmed the limited projections for these companies as going concerns. On this basis, the Executive Board decided to sell the companies with the Supervisory Board's approval. The planned disposal was not possible in the current market environment. As a result, voluntary liquidation was initiated in December 2011 and the companies have since been attributable to an Italian liquidator.

The discontinued operations are reported separately in the income statement. The previous year was retrospectively adjusted in accordance with IAS provisions and shown comparatively.

This relates specifically to the following Group companies:

VBH Italia Holding S.p.A., Bolzano
C.D.A. S.r.l., Bologna
VBH Service S.r.l., Fogliano Redipuglia
VBH S.r.l., Fogliano Redipuglia

Effect on earnings in 2011 of the discontinued operations in Italy (previous year including the discontinued operations in Australia):

Effect on earnings of discontinued operations

In T €	2010	2011
Sales	32,683	27,648
Costs and expenses	-36,846	-39,029
Profit / loss of discontinued operations before taxes	-4,163	-11,381
Income tax	934	-2,209
Profit / loss of discontinued operations after taxes	-3,229	-13,590
Impairment Goodwill	-5,991	-8,567
Impact of deconsolidation	-1,100	7,748
Profit / loss of discontinued operations after deconsolidation	-10,320	-14,409

The effect of the deconsolidation of discontinued operations in Australia reported in 2010 was restated from € -674 thousand to € -1,100 thousand.

This had no other effect. The subsidiary of VBH LLC, VBH Ofir DP based in Odessa, Ukraine, was sold at carrying amount on 4 February 2011.

Other discontinued operations:

Owing to inadequate prospects for success and limited development opportunities, the Executive Board resolved to discontinue or liquidate the following companies:

Fully consolidated companies:	Registered office location	Country	Status
VBH Malaysia SDN. BDH.	Petaling Jaya	MAL	Liquidation

Unconsolidated companies:	Registered office location	Country	Status
VBH (Cypern) LTD	Limassol	CY	Liquidation
CENTAR DISTRIBUCIJE OKOVA CDO d.o.o.	Belgrad	SRB	Liquidation
VBH (Thailand) Co., Ltd.	Bangkok	THB	Discontinued

Other changes within the Group not relating to the scope of consolidation are reported with non-current financial assets. Changes in the scope of consolidation are of only subordinate 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 presented 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 exchange rates. The statement of financial position was translated using rates as at the end of the reporting period.

Borrowing costs are recognised in the statement of financial position 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. These are separate major lines of business or a geographical area of operations, or a part of major or geographical areas of operations or companies to be sold as part of an overall plan or geographical areas of operations or companies acquired solely to be resold.

In the 2011 financial year, the Executive Board resolved to withdraw fully from the aluminium sector in Italy. The discontinued business is reported as a discontinued operation in the income statement.

The resulting retrospective adjustment of the previous year's figures from 2010 in the consolidated income statement must to be restated in accordance with IFRS 5.34.

in T €	2010 as reported	2010 continuing operations
Sales	**800,011**	**767,821**
Costs of raw materials, supplies and purchased merchandise	607,801	583,227
Gross operating profit	**192,210**	**184,594**
Personnel expenses	94,916	88,720
Other operating income	18,008	17,674
Other operating expenses	86,269	81,187
EBITDA	**29,033**	**32,361**
Depreciation / Amortization	16,090	9,815
EBIT	**12,943**	**22,546**
Other interest and similar income	514	489
Interest and similar expenses	8,906	8,117
Depreciation on financial assets and securities	9	9
Financial result	**-8,401**	**-7,637**
EBT	**4,542**	**14,909**
Current taxes	6,278	6,163
Deferred taxes	-1,393	-344
EBT continuing operations	**-343**	**9,090**
discontinued operations	-887	-10,320
EAT	**-1,230**	**-1,230**

4.1 CURRENCY TRANSLATION

In the separate financial statements of VBH Holding AG and the included subsidiaries, foreign currency transactions are translated at the exchange rates in effect at the transaction dates. On the statement of financial position, we recognise monetary items in foreign currency at the mid-market rate at the end of the reporting period with exchange rate gains and losses recognised in profit or loss.
The financial statements of foreign subsidiaries are translated into euro in line with the functional currency concept. Assets and liabilities are translated at the rate as at the end of the reporting period. Except for other comprehensive income, equity is reported at historic rates. The resulting translation differences are recognised outside profit or loss until the disposal of the subsidiary and reported as a separate item in equity.

The financial statements of a hyperinflationary nation are adjusted in the amount of the change in purchasing power resulting from inflation. In 2011 this affected our companies in Belarus. All items of the consolidated statement of financial position and the consolidated income statement for these companies are calculated using the mid-spot rate and translated as at the end of the reporting period. Non-monetary items of the consolidated statement of financial position, which are recognised at cost in the Group, and amounted reported in the consolidated income statement are adjusted using a prescribed price index to the date of first-time recognition. The effects of the inflation adjustment resulted by the end of the reporting period are reported in retained earnings and recognised in profit or loss in subsequent periods. The official inflation rate in 2011 measured against the consumer price index was 208.7 %.

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

Currency translation

Country	Currency unit		Mid-market rate in € on balance sheet date		Weighted average rate in € for the year under review	
			31.12.2010	31.12.2011	2010	2011
Belarus	100	BYR	0.0249	0.0092	0.0255	0.0140
Bosnia	100	BAM	51.1292	51.1292	51.1292	51.1292
Bulgaria	100	BGN	51.1326	51.1292	51.1268	51.1251
People's Republic of China	100	CNY	11.4029	12.2722	11.2093	11.0689
United Kingdom	100	GBP	115.8749	119.4459	116.6364	114.7634
Kazakhstan	100	KZT	0.5108	0.5209	0.5182	0.4838
Croatia	100	HRK	13.5404	13.2698	13.7162	13.4385
Kuwait	100	KWD	267.3082	277.3925	262.5940	258.6954
Latvia	100	LVL	140.9443	142.8775	141.0374	141.4735
Lithuania	100	LTL	29.0015	28.9562	28.9655	28.9683
Malaysia	100	MYR	24.4170	24.3297	23.5619	23.2573
Mexico	100	MXN	6.0798	5.5331	5.9761	5.6729
Poland	100	PLN	25.2048	22.4452	25.0107	24.1920
Romania	100	RON	23.3155	23.0808	23.6231	23.5127
Russian Federation	100	RUB	2.4674	2.3956	2.4959	2.4350
Serbia	100	CSD	0.9481	0.9428	0.9607	0.9850
Singapore	100	SGD	58.2343	59.4778	55.4362	57.0031
Czech Republic	100	CZK	3.9720	3.8740	3.9553	4.0762
Turkey	100	TRL	48.4848	40.9433	50.1072	42.8388
Ukraine	100	UAH	9.4585	9.6408	9.6003	8.9139
Hungary	100	HUF	0.3577	0.3197	0.3610	0.3581
United Arab Emirates	100	AED	20.4981	21.0446	20.5330	19.3536

4.2 INTANGIBLE ASSETS, GOODWILL

Purchased patents, licences and trademarks are measured at cost. They have specific useful lives and are measured at cost less cumulative amortisation.
The amortisation expense is recognised on a straight-line basis over the expected useful life. For the majority of depreciable assets the useful life is 15 years. This includes capitalised customer relationships in particular. 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 tested for impairment 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 Group's share in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition. After first-time recognition, the goodwill acquired in a business combination is measured at cost less cumulative impairment losses.

In line with IAS 36, goodwill and intangible assets with indefinite useful lives are tested for impairment both annually and when there are relevant indications of impairment. They are written down to the recoverable amount as necessary ("impairment only approach"). At the date of the acquisition, the goodwill is distributed among cash generating units. At VBH this means to each individual company (legal entity) or at the level of a subgroup. Any impairment is immediately recognised in profit or loss. There is no subsequent reversal.

Please see section 4.5 of the notes for information on the calculation of recoverable amount. This calculation usually uses five-year financial planning. Planning reflects expected percentage sales growth in the low single digits for the majority of the cash-generating units (or groups of units). Future tax payments were calculated using the tax rates for the individual cash-generating units (or groups of units).

Goodwill was calculated as follows:

Goodwill

In T €	Acquisition costs			
	Balance at 01 January 2010	Currency-adjustments	Additions	Disposals
VBH Italia Holding S.p.A.	15,793	0	0	0
VBH Deutschland GmbH	22,968	0	0	-25
esco Metallbausysteme GmbH	8,701	0	0	0
VBH Malum S.L.	4,544	0	0	0
VBH Hody	4,784	0	0	0
VBH Nederland B.V.	3,935	0	0	0
VBH Kapi A.S.	1,223	60	0	0
VBH Singapore Pte. Ltd.	3,493	599	0	0
VBH (GB) Ltd.	1,404	0	0	0
VBH Estonia AS	888	0	0	0
Galro (Ireland) Ltd.	1,926	0	0	0
VBH Belgium NV	1,700	0	0	0
Beijing VBH Constr.Hardware Co. Ltd	1,222	139	0	0
esco Metallbausysteme Austria GmbH	3,790	0	0	0
Other Goodwill	3,781	84	0	0
Total	**80,152**	**882**	**0**	**-25**

In T €	Acquisition costs			
	Balance at 01 January 2011	Currency-adjustments	Additions	Disposals
VBH Italia Holding S.p.A.	15,793	0	0	-15,793
VBH Deutschland GmbH	22,942	0	0	0
esco Metallbausysteme GmbH	8,701	0	0	0
VBH Malum S.L.	4,544	0	0	0
VBH Hody	4,784	0	0	0
VBH Nederland B.V.	3,935	0	0	0
VBH Kapi A.S.	1,283	-200	0	0
VBH Singapore Pte. Ltd.	4,092	87	0	0
VBH (GB) Ltd.	1,404	0	0	0
VBH Estonia AS	888	0	0	0
Galro (Ireland) Ltd.	1,926	0	0	0
VBH Belgium NV	1,700	0	0	0
Beijing VBH Constr.Hardware Co. Ltd	1,361	104	0	0
esco Metallbausysteme Austria GmbH	3,790	0	0	0
Other Goodwill	3,865	40	369	0
Total	**81,008**	**31**	**369**	**-15,793**

	Depreciation					Bookvalue	
Balance at 31 December 2010	Balance at 01 January 2010	Currency-adjustments	Additions	Abgänge	Balance at 31 December 2010	Balance at 01 January 2010	Balance at 31 December 2010
15,793	1,235	0	5,991	0	7,226	14,558	8,567
22,942	16,917	0	0	-13	16,905	6,050	6,038
8,701	3,974	0	0	0	3,974	4,726	4,726
4,544	1,236	0	0	0	1,236	3,308	3,308
4,784	124	0	1,791	0	1,915	4,660	2,869
3,935	1,309	0	0	0	1,309	2,626	2,626
1,283	0	0	0	0	0	1,223	1,283
4,092	2,478	425	0	0	2,903	1,014	1,188
1,404	749	0	0	0	749	655	655
888	237	0	0	0	237	651	651
1,926	0	0	1,456	0	1,456	1,926	470
1,700	1,550	0	0	0	1,550	150	150
1,361	504	57	800	0	1,361	718	0
3,790	3,790	0	0	0	3,790	0	0
3,865	1,018	0	110	0	1,128	2,763	2,736
81,008	**35,122**	**482**	**10,148**	**-13**	**45,739**	**45,029**	**35,269**

	Depreciation					Bookvalue	
Balance at 31 December 2011	Balance at 01 January 2011	Currency-adjustments	Additions	Abgänge	Balance at 31 December 2011	Balance at 01 January 2010	Balance at 31 December 2011
0	7,226	0	8,567	-15,793	0	8,567	0
22,942	16,905	0	0	0	16,905	6,038	6,038
8,701	3,974	0	0	0	3,974	4,726	4,726
4,544	1,236	0	2,300	0	3,536	3,308	1,008
4,784	1,915	0	2,869	0	4,784	2,869	0
3,935	1,309	0	0	0	1,309	2,626	2,626
1,084	0	0	1,084	0	1,084	1,283	0
4,179	2,903	103	1,173	0	4,179	1,188	0
1,404	749	0	0	0	749	655	655
888	237	0	0	0	237	651	651
1,926	1,456	0	470	0	1,926	470	0
1,700	1,550	0	0	0	1,550	150	150
1,465	1,361	104	0	0	1,465	0	0
3,790	3,790	0	0	0	3,790	0	0
4,274	1,128	27	1,377	0	2,533	2,737	1,740
65,615	**45,739**	**234**	**17,840**	**-15,793**	**48,020**	**35,269**	**17,595**

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 in turn are based on financial planning for five years approved by the Executive Board and also used for internal purposes. The planning horizon chosen 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. Impairment testing performed in the current financial year led to the changes in the amounts shown above and total goodwill impairment of € 17,840 thousand (previous year: € 10,148 thousand). The goodwill impairment on the individual companies is based primarily on changes in assumptions about future cash flows and the current earnings situation of the companies concerned.

The discount rates are based on cost of capital calculations applying a debt/equity financing structure and financing costs in relation to a defined peer group. The discount rates applied reflect the specific equity risk of the respective cash-generating unit. A growth factor of 0.5 % (previous year: 0.5 %) was used to calculated perpetual maturity.

The table below shows the discount rate (before taxes) for the individual companies:

Discount rates

	2010	2011
VBH Deutschland GmbH	8.73%	6.78%
esco Metallbausysteme GmbH	7.76%	7.26%
VBH Malum S.L.	6.70%	6.61%
VBH Hody	6.66%	6.25%
VBH Nederland B.V.	6.76%	6.26%
VBH Kapi A.S.	8.47%	8.71%
VBH Singapore Pte. Ltd.	10.49%	9.81%
VBH UK L.t.d	7.22%	6.59%
VBH Estonia AS	7.44%	6.32%
Galro (Ireland) Ltd.	6.49%	6.08%
Beijing VBH Constr.Hardware Co. Ltd	7.60%	-

In the reporting year, total goodwill impairment amounted to € 17,840 thousand. The impairment relates to the following companies:

In T €	
VBH Italia Holding S.p.A., Italy	8,567
VBH Hody, Belgium	2,869
VBH Malum S.L., Spain	2,300
VBH Singapores Pte. Ltd., Singapore	1,173
VBH Kapi A.S., Turkey	1,084
VBH Middle East FZCO, United Arab Emirates	726
VBH Hellas S.A., Greece	651
Galro (Ireland) Ltd., Ireland	470

4.3 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is measured at cost less 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, whereby cost is depreciated to residual carrying amount over the estimated useful lives shown below.

Asset	Useful life in years
Machinery and equipment	4 to 11
Operating facilities	13 to15
Business equipment	3 to13
Warehouses	25 to 50
Machines	11 to 15
Administrative buildings	33
Residential buildings	50

The residual carrying amounts and useful lives of assets are reviewed as at the end of each reporting period 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. First-time 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 through profit and loss. If the trading date and the fulfilment date (i.e. date of delivery) are different, VBH chooses the trading date for first-time 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 through profit and loss

Financial assets measured at fair value through profit and loss include financial assets held for trading.
Financial assets such as shares or interest-bearing securities are classified as held for trading 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 unless they are included in hedge accounting as hedging instruments and are effective as such. Gains and losses from financial assets held for trading 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 first-time recognition, loans and receivables are measured using the effective interest rate 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 categories. First-time recognition is at fair value. Subsequent measurement is at amortised cost using the effective interest rate method. No financial assets are allocated to this measurement category at VBH Holding AG.

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 bonds, corporate bonds and commercial papers. After first-time measurement, available-for-sale financial assets are measured at fair value. Unrealised gains or losses are recognised in equity in the reserve for available-for-sale assets. If there are objective indications of 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 cumulative gains and losses arising from 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 (less impairment as appropriate). Interest received from these financial assets is generally recognised in profit or loss as interest income using 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 payables, amounts due to banks, bonds, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortised cost

After first-time recognition, financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit and loss include financial liabilities held for trading. Derivatives, including embedded derivatives that were separated from the host contract, are classified as held for trading unless they are included in hedge accounting as hedging instruments and are effective as such. Gains and losses from financial liabilities held for trading 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 first-time recognition and at the end of each subsequent reporting period. 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 the 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 is recognised in profit or loss. 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.

4.5 IMPAIRMENT/REVERSALS

At the end of each reporting period, 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 and 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 costs to sell and value in use. VBH determines the recoverable amount as fair value less costs to sell and compares it against the carrying amount (including goodwill). Fair value is measured by discounting future cash flows using a risk-adjusted interest rate. If the fair value less costs to sell cannot be determined or is lower than the carrying amount, the value in use is calculated. If the carrying amount is higher than the recoverable amount, an impairment loss is recognised in the amount of the difference.

An assessment is made as at the end of each reporting period as to whether any previously recognised impairment not related to goodwill may no longer exist or have decreased. In this case VBH recognises a partial or full reversal of the impairment and increases the carrying amount to the recoverable amount. However, the increased carrying amount cannot 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 RECEIVABLES AND OTHER ASSETS

On first-time 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 impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable. Impairment is directly recognised in profit or loss. If the reasons for impairment recognised in previous periods no longer exist, it is reversed accordingly. Impairment is determined based on the age of the receivables and their recoverability. Receivables and other assets mainly comprise 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 any, are measured at the rate as at the end of the reporting period.

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 leases if, in accordance with 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 leases) are recognised as assets of the Group at fair value or at the present value of the minimum lease payments. The corresponding amounts owed to the lessor are recognised in the statement of financial position as finance lease obligations under amounts due to banks. Lease payments are allocated to interest expenses and the reduction of the lease such that interest is charged at a constant rate on the remaining commitment. Lease payments for operating lease are recognised as expenses in profit or loss 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, 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 recognised when 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 result in an outflow of assets and when the amount of the provision can be calculated reliably. Provisions are measured at the most likely value of their utilisation. Interest is charged at risk-adequate market rates on non-current provisions if the effect is material.

4.12 PENSION PROVISIONS

The VBH Group has defined benefit plans only. The actuarial measurement 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 the end of each reporting period. This method accounts not only for the present value of pension obligations known at the end of the reporting period, 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 shown in the profit or loss for 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 also not recognised. However, they are disclosed in the notes if 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 the respective local taxable income of the period and national tax regulations. 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 is based on the tax rates 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 end of the reporting period 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 write-down for deferred tax assets when it is not likely 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

The presentation of the assets, financial position and earnings in the consolidated financial statements depends upon accounting policies in addition to assumptions and estimates. Actual results may differ from 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 property, plant and equipment and 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 the useful lives of the assets is based on judgements by management. The calculation of impairment on property, plant and equipment and intangible assets also involves 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 impairment.

5. Notes to the consolidated statement of financial position

5.1 INTANGIBLE ASSETS

In T €	Industrial property and similar rights	Goodwill	Payments on account	Total
Acquisition costs				
Balance at 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 / 01 Januar 2011	**16,339**	**81,008**	**34**	**97,381**
Currency translation differences	-218	31	0	-186
Change in scope of consolidation	-438	-15,793	0	-16,231
Additions	646	369	2,345	3,360
Reclassifications	2	0	0	2
Disposals	238	0	0	238
Balance at 31 Dezember 2011	**16,092**	**65,615**	**2,379**	**84,086**
Depreciation and impairment losses/reversals				
Balance at 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 / 01 Januar 2011	**10,608**	**45,739**	**0**	**56,347**
Currency translation differences	-132	234	0	102
Change in scope of consolidation	-429	-15,793	0	-16,222
Depreciation/amortisation	1,742	17,840	0	19,583
Reclassifications	0	0	0	0
Disposals	139	0	0	139
Balance at 31 Dezember 2011	**11,651**	**48,020**	**0**	**59,670**
Carrying amount at 31 December 2010	**5,731**	**35,269**	**34**	**41,034**
Carrying amount at 31 December 2011	**4,442**	**17,595**	**2,379**	**24,416**

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 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 / 01 Januar 2011	**38,559**	**38,700**	**1,789**	**79,048**
Currency translation differences	-191	-709	-50	-950
Change in scope of consolidation	-1,682	-2,796	0	-4,478
Additions	134	3,631	396	4,161
Reclassifications	313	160	-474	-1
Disposals	348	2,336	1	2,686
Balance at 31 Dezember 2011	**36,784**	**36,650**	**1,660**	**75,094**
Depreciation and impairment losses/reversals				
Balance at 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 / 01 Januar 2011	**19,992**	**29,824**	**0**	**49,816**
Currency translation differences	-74	-469	0	-543
Change in scope of consolidation	-1,413	-2,555	0	-3,968
Depreciation/amortisation	1,354	3,447	0	4,801
Reclassifications	0	0	0	0
Disposals	343	2,044	0	2,387
Balance at 31 Dezember 2011	**19,516**	**28,203**	**0**	**47,719**
Carrying amount at 31 December 2010	**18,567**	**8,876**	**1,789**	**29,232**
Carrying amount at 31 December 2011	**17,268**	**8,447**	**1,660**	**27,375**

5.3 NON-CURRENT FINANCIAL ASSETS

In T €	Interests in affiliated companies	Payments on account	Payments on account/ securities	Total
Acquisition costs				
Balance at 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 / 01 January 2011	**1,975**	**4**	**6**	**1,985**
Currency translation differences	-1	0	0	-1
Change in scope of consolidation	-187	-1	0	-188
Additions	3	0	0	3
Reclassifications	0	0	0	0
Disposals	17	0	0	17
Balance at 31 December 2011	**1,774**	**3**	**6**	**1,783**
Depreciation and impairment losses/reversals				
Balance at 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 / 01 January 2011	**26**	**4**	**0**	**30**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	-1	0	-1
Depreciation/amortisation	1,316	0	0	1,316
Reclassifications	0	0	0	0
Disposals	17	0	0	17
Balance at 31 December 2011	**1,324**	**3**	**0**	**1,327**
Carrying amount at 31 December 2010	**1,949**	**0**	**6**	**1,955**
Carrying amount at 31 December 2011	**450**	**0**	**6**	**456**

5.4 INVENTORIES

In T €	2010	2011
Raw materials and supplies	562	80
Work in progress	0	0
Finished goods and goods for resale	122,785	108,150
Payments on account	1,501	1,293
Total	**124,848**	**109,523**

€ 108,150 thousand of the inventories recognised on 31 December 2011 were recognised at net realisable value (previous year: € 122,785 thousand). As at the end of the reporting period, impairment losses of € 11,734 thousand (previous year: € 10,226 thousand) were recognised in inventories. No impairment losses were reversed in the financial year.

5.5 RECEIVABLES AND OTHER ASSETS

	2010			2011		
In T €	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Trade receivables	103,274	1,095	104,369	76,369	14	76,383
Receivables affiliated companies	3,133	0	3,133	2,838	0	2,838
Other assets	20,270	4,045	24,315	21,072	3,319	24,391
Total	**126,677**	**5,140**	**131,817**	**100,279**	**3,333**	**103,612**

Other assets include € 14,653 thousand in receivables and creditors with debit balances (previous year: € 12,989 thousand) and € 2,640 thousand in receivables from tax authorities (previous year: € 2,838 thousand).

Aging Schedule of Trade Receivables

In T €	2010	2011
Trade receivables	**104,369**	**76,383**
Not impaired and not yet due	54,455	25,912
Not impaired and past-due	17,660	5,706
30 to 60 days	5,867	2,551
60 to 120 days	3,480	2,387
> 120 days	8,313	768

Valuation Allowances for Trade Receivables

In T €	2010	2011
Balance as at 01 January	**13,042**	**14,605**
Change in scope of consolidation	-16	-5,460
Currency changes	251	-453
Allocations (impairment losses)	5,892	11,318
Utilisation	2,080	2,212
Withdrawals (gains on impairment reversals)	2,483	1,411
Balance as of 31 December	**14,605**	**16,387**

Regarding the receivables that are neither impaired nor past due, there were no indications as at the end of the reporting period that debtors would fail to make payment.

5.6 CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents is presented in the following table. At the end of the reporting period the maximum default risk was equal to the carrying amount.

In T €	2010	2011
Credit balances with banks	11,975	16,620
Cash in hand and cheques	688	708
Total	**12,663**	**17,328**

5.7 TAX RECEIVABLES

Income taxes

	2010			2011		
In T €	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Tax receivables	762	0	762	893	0	893

5.8 DEFERRED TAX ASSETS

Deferred tax assets

	2010			2011		
In T €	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Deferred tax assets	0	11,741	11,741	0	8,772	8,772

In the 2011 financial year, deferred tax assets of € 685 thousand (previous year: € 650 thousand) were recognised outside profit or loss for interest swaps in hedge accounting.

5.9 EQUITY

Issued capital

Issued capital amounts to € 45,879,408.00, consisting of 45,879,408 bearer shares.

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

Breakdown of subscribed capital

Individual shares	2010	2011
Balance as at 01 January	**45,869,408**	**45,879,408**
Shares from options	10,000	0
Balance as at 31 December	**45,879,408**	**45,879,408**

Authorised capital

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or several occasions by up to a total of € 20,000,000 by issuing new no-par-value ordinary bearer shares with voting rights until 9 June 2014 (Authorised Capital). Capital increases can be implemented against cash or non-cash contributions.

The Executive Board is also authorised, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emption rights in the following cases:

- 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 in cash in addition to 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 issued 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 is not substantially less than 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 Aktiengesetz (AktG – German Stock Corporation Act) in the period in which this authorisation was effective and sold in accordance with section 71(1) no. 8 and section 186(3) sentence 4 AktG also count towards this restriction of 10 % of issued 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 in particular the issue amount and the compensation to be paid for the new shares and the granting of indirect pre-emption rights in accordance with section 186(5) AktG.

Contingent capital

The issued capital of the company is contingently increased by € 40,000 (previous year: € 40,000) by issuing up to 40,000 (previous year: 40,000) no-par-value ordinary bearer shares with voting rights (Contingent Capital). 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-value shares participate in profit from the beginning of the financial year in which the shares are issued.

A total of 1,200,000 share options were issued, of which 600,000 were issued to the Executive Board, 120,000 to managing directors of affiliated companies and 480,000 to executives of the Group. No options issued were converted to shares in 2011 (previous year: 10,000), 0 were returned in 2011 (previous year: 50,000) and 40,000 options were still outstanding (previous year: 40,000). As at the end of the year, the contingent capital amounted to € 40,000 (previous year € 40,000).

The profit participation of newly issued shares may be determined differently to section 60 AktG.

Capital reserves

There were no changes in capital reserves due to options being exercised in 2011. In the previous year, capital reserves changed as a result of options being exercised in the amount of € 20 thousand and share-based remuneration rights of € 39 thousand.

In the financial year, € 23,095 thousand was withdrawn from the capital reserves. Capital reserves amounted to € 18,812 thousand as at the end of the reporting period.

Retained earnings

In T €	2010	2011
Legal reserves	2,050	1,950
Other reserves	42,154	31,685
Reserve for IFRS adjustments	-280	-280
Cash flow hedge reserve	-1,516	-1,599
Currency translation adjustments	-5,151	-8,102
Total	**37,257**	**23,654**

5.10 STOCK OPTION PLAN

The Executive Board was authorised, with the approval of the Supervisory Board, to issue up to 600,000 pre-emption rights on up to 600,000 no-par-value ordinary shares with voting rights in VBH Holding AG (hereinafter also referred to as “options” and “option rights”) until 24 May 2009, subject to the following provisions.
The Supervisory Board is authorised to issue up to 600,000 pre-emption rights on up to 600,000 no-par-value ordinary shares with voting rights in VBH Holding AG (voting shares) until 24 May 2009, subject to the following provisions.

Persons 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 entered in the commercial register.
The options are issued when a written contract for the 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 ordinary shares 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 the share capital of the company represented by the individual ordinary shares (section 9(1) AktG). 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
2006	0	0	0	0	0	0
2008	2	40,000	0	0	0	0
		40,000	**0**	**0**	**0**	**0**

Issued options developed as follows:

In pieces/€	2010 Number of weighted options	2010 Weighted average price in €/share	2011 Number of weighted options	2011 Weighted average price in €/share
Balance as at 01 January	100,000	5.54	40,000	5.82
Options granted	0	0	0	0
Options exercised	10,000	3.03	0	0
Options expired	50,000	5.82	0	0
Balance as at 31 December	**40,000**	**5.82**	**40,000**	**5.82**

40,000 of the share options remaining in 2011 can still be exercised in line with the option conditions as at 31 December 2011 (previous year: 40,000).

There were no staff costs under stock option plan in the current financial year (previous year: € 39 thousand).

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%
Maturity 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 the fair value of the options is calculated. They are measured using a binomial model.

5.11 LIABILITIES

In T €	2010 Current	2010 Non-current	2010 Total	2011 Current	2011 Non-current	2011 Total
Liabilities to banks and third parties	114,114	10,921	125,035	30,341	76,037	106,378
Financial liabilities	**114,114**	**10,921**	**125,035**	**30,341**	**76,037**	**106,378**
Trade payables	47,476	34	47,510	36,443	21	36,464
Advances received	593	0	593	805	0	805
Other liabilities	26,127	2,382	28,509	25,472	1,894	27,366
Trade payables and other liabilities	**74,196**	**2,416**	**76,612**	**62,720**	**1,915**	**64,635**
Total	**188,310**	**13,337**	**201,647**	**93,061**	**77,952**	**171,013**

Significant items under other current liabilities included deferred liabilities of € 9,238 thousand (previous year: € 8,413 thousand), tax liabilities of € 7,551 thousand (previous year: € 7,442 thousand) and amounts due to customers of € 3,391 thousand (previous year: € 3,480 thousand).

In the current financial year, non-current other liabilities essentially included interest swaps of € 1,725 thousand (previous year: € 2,166 thousand).

VBH Holding AG and its German subsidiaries receive major financing under agreements with the banks BW-Bank Stuttgart, HSBC Trinkaus & Burkhardt AG, Düsseldorf, Kreissparkassen Böblingen and Ludwigsburg and IKB Deutsche Industriebank AG, Düsseldorf. On 19 March 2007, a five-year syndicated loan agreement with a total volume of € 100 million was concluded with six German merchant banks. Interest is variable and linked to the external rating of the Group as a whole. This was prolonged to 30 June 2016 by way of an amendment dated 28 August 2011. In this context, as always, shares in subsidiaries were pledged, sales receivables were generally assigned and security agreements for inventories were transferred. Group loans were also transferred. The financial covenants of the syndicate agreement were redefined and, based on Group planning, reference the total term of the agreement. The liabilities under the syndicated finance have been classified as non-current.

The Group's lines of credits granted by merchant banks and the syndicated loan provided VBH with adequate credit in the current financial year to continue developing its operating activities and performing investments. The liquidity plan was complied with.

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

The table below shows the finance lease liabilities included financial liabilities.

In T €	2010	2011
Maturity within 1 year	97	82
Maturity in 1-5 years	342	273
Maturity after 5 years	1,997	1,691
Nominal value	**2,436**	**2,046**

Significant finance leases exist in the Group for warehouse and office buildings used by VBH in Cologne, Germany. The leased assets are recognised in property, plant and equipment at a carrying amount of € 2,157 thousand (previous year: € 2,500 thousand). The fair value of the Group's lease payment obligations corresponds roughly to their carrying amount. The carrying amounts for land amounted to € 925 thousand (previous year: € 925 thousand) and € 1,232 thousand (previous year: € 1,575 thousand) for buildings. Lease instalments totalled € 223 thousand (previous year: € 289 thousand), including interest payments of € 116 thousand (previous year: € 121 thousand). The conversion date for the Cologne finance lease 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 outstanding for the 2011 financial year.

	2010			2011		
In T €	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Income tax liabilities	273	0	273	624	0	624

5.13 PENSION PROVISIONS

The actuarial report of Towers Watson GmbH, Reutlingen, Germany, of February 2012 was prepared in accordance with IAS 19, focusing on the main pension provisions in Germany. Measurement is based on the following calculation parameters using 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 2005 G Heubeck mortality tables and, in respect of the calculatory pensionable age, the Federal Minster of Finance circular dated 5 May 2010.

Actuarial assumptions

	2007	2008	2009	2010	2011
Discount rate	5.5%	5.8%	5.25%	5.15%	5.14%
Expected return on plan assets	4.0%	3.0%	3.0%	3.0%	3.0%
Expected salary increase rate	2.0%	2.0%	2.0%	2.0%	2.0%
Expected income from reimbursements	0.0%	0.0%	0.0%	0.0%	0.0%
Expected pension increase rate	1.0%	1.0%	1.0%	1.0%	1.0%
Contribution assessment in statutory pension insurance	2.0%	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 €	**2007**	**2008**	**2009**	**2010**	**2011**
Ongoing service cost	281	164	191	205	167
Interest cost	557	610	643	640	659
Expected return on plan assets	0	-22	-17	-19	-15
Actuarial gains and losses	0	-15	-32	-12	0
Total	**838**	**737**	**785**	**814**	**811**

Present value of liabilities from defined benefits plans

In T €	**2007**	**2008**	**2009**	**2010**	**2011**
Balance as at 01 January	**11,788**	**12,294**	**12,119**	**12,497**	**12,812**
Service cost	281	164	191	205	167
Interest cost	557	610	643	640	659
Fair value of liability insurance		-540	0	5	0
Expected return on plan assets		-22	-17	-19	-15
Actuarial gains and losses		-15	-32	-12	0
Plan participant contributions		-29	-28	-32	139
Benefits paid	-332	-343	-379	-472	-561
Balance as at 31 December	**12,294**	**12,119**	**12,497**	**12,812**	**13,201**

The change in contributions by plan participants is due to payments from reinsurers in 2011.

Plan assets and expected return

In T €	2008	2009	2010	2011
Fair value of liability insurance	**540**	**572**	**611**	**567**
Expected return	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Balance as at 01 January	**540**	**572**	**611**	**567**
Employer and employee contributions	29	28	32	-139
Fair value of liability insurance	0	0	-5	0
Expected return on plan assets	22	17	19	15
Actuarial gains/losses	19	-6	-90	17
Balance as at 31 December	**572**	**611**	**567**	**460**

Present value of pension provisions

In T €	2007	2008	2009	2010	2011
Present value of liabilities funded by plan assets		-1,454	-1,654	-1,760	-1,807
Plan assets		572	611	567	460
Funding status		-882	-1,034	-1,193	-1,347
Present value of liabilities not funded by plan assets	-11,282	-9,836	-10,760	-11,301	-11,628
Non-amortised actuarial gains and losses	-1,012	-1,402	-703	-318	-226
Portion of maximum amount not recognised	-12,294	-12,119	-12,497	-12,812	-13,201

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

Allocations to pension provisions

In T €		2012	2013
Expense in subsequent years		226	238

5.14 PROVISIONS

In T €	Taxes	Product liability	Other	Total
Balance at 01 January 2010	**1,991**	**1,543**	**4,724**	**8,258**
Change in scope of consolidation	0	0	-329	-329
Currency changes	102	4	32	138
Allocations	1,133	345	2,581	4,059
Impact on interest	0	-59	-24	-83
Reclassifications	0	0	0	0
Utilisation	597	7	2,247	2,851
Reversals	397	267	697	1,361
Balance at 31 December 2010	**2,232**	**1,559**	**4,040**	**7,831**
thereof short-term	2,232	449	2,104	4,785
thereof long-term	0	1,110	1,936	3,046
Balance at 01 January 2011	**2,232**	**1,559**	**4,040**	**7,831**
Change in scope of consolidation	0	0	-1,224	-1,224
Currency changes	-15	1	-2	-16
Allocations	340	233	5,895	6,468
Impact on interest	0	-6	25	19
Reclassifications	0	0	0	0
Utilisation	227	34	1,124	1,385
Reversals	1,187	189	473	1,849
Balance at 31 December 2011	**1,143**	**1,564**	**7,137**	**9,844**
thereof short-term	1,143	384	5,096	6,623
thereof long-term	0	1,180	2,041	3,221

Significant items under other provisions included provision for onerous contracts for rent obligations of € 1,855 thousand (previous year: € 0 thousand), staff provisions of € 390 thousand (previous year: € 1,482 thousand) and bonus provisions of € 324 thousand (previous year: € 335 thousand).
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

	2010			2011		
In T €	Current	Non-current	Total	Current	Non-current	Total
Deferred tax liabilities	0	4,411	4,411	0	3,197	3,197

6. Notes to the income statement

6.1 SALES REVENUE/SEGMENTS

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. As the Group does not operate any different business segments, a breakdown in accordance with business segments is not necessary.

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

Sales revenues by segments were as follows:

In T €	2010	2011
Germany	411,443	421,433
Western Europe	101,083	95,082
Eastern Europe	247,935	262,026
Other Markets	31,189	32,018
Corporate Services	0	0
Consolidation *	-23,829	-30,424
Group	**767,821**	**780,135**

* Consolidation represents 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 the accounting policies of the IFRS consolidated financial statements on which it is based. Intersegment consolidation was performed. Segment reporting was prepared based on the separate financial statements prepared in accordance with IFRS, 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 prior-year values have been restated in the respective business segments in relation to the accounting policies outlined in section 4.

6.2 COST OF MATERIALS

Cost of materials breaks down as follows:

In T €	2010	2011
Costs of raw materials, supplies and purchased merchandise	582,140	592,486
Costs of purchased services	1,087	2,714
Total	**583,227**	**595,200**

The cost of materials includes write-downs in profit or loss of € 2,277 thousand (previous year: € 1,401 thousand).

6.3 STAFF COSTS

Staff costs break down as follows:

In T €	2010	2011
Wages and salaries	74,394	76,038
Social security contributions and pension costs	14,326	15,396
Total	**88,720**	**91,434**

In the Group, staff costs increased by a total of € 2.7 million or 3.1 %. While staff costs declined in Western Europe due to restructuring activities, they rose in other areas.

Employees

	2010	2011
Germany	1,023	1,070
Abroad	1,911	1,868
Total	**2,934**	**2,938**

The company employed 2,938 people in the Group in the reporting year (previous year: 2,934). There number of trainees in the Group included in this figure was 82 as against 87 in the previous year. This also includes 113 employees (previous year: 136) in discontinued aluminium operations in Italy.

6.4 OTHER OPERATING INCOME

In T €	2010	2011
Income from reversal of provisions	1,170	887
Income from reversal of impairments	1,862	2,708
Income from disposal of fixed assets	169	430
Other operating income	14,473	11,712
Total	**17,674**	**15,737**

Significant items in other operating income included exchange rate gains of € 6,082 thousand (previous year: € 6,349 thousand), goods reimbursements from previous years of € 977 thousand (previous year: € 360 thousand) and income from non-cash benefits passed on of € 1,341 thousand (previous year: € 1,259 thousand).

6.5 OTHER OPERATING EXPENSES

In T €	2010	2011
Administrative expenses	15,702	15,561
Selling expenses	25,528	25,826
Other operating expenses	31,576	35,673
Expenses relating to other periods	8,381	14,905
Total	**81,187**	**91,965**

The change in prior-period expenses essentially results from extraordinary effects due to write-downs in current assets and non-recurring expenses due to the withdrawal from different markets.

Significant items in other operating expenses included exchange rate losses of € 8,664 thousand (previous year: € 4,783 thousand), rent and incidental rental costs of € 11,865 thousand (previous year: € 11,981 thousand), rental/leasing costs of € 4,162 thousand (previous year: € 4,028 thousand) and maintenance of € 2,860 thousand (previous year: € 3,698 thousand).

6.6 DEPRECIATION AND AMORTISATION EXPENSE

In T €	2010	2011
Amortisation of goodwill/intangible assets	5,392	11,003
Depreciation on property, plant and equipment	4,423	3,870
Total	**9,815**	**14,873**

Depreciation and amortisation expense does not include write-downs on discontinued operations in Italy of € 9,512 thousand (previous year: € 6,280 thousand). These are reported under discontinued operations.

Goodwill impairment related to the following companies:

In T €	2010	2011
VBH Italia Holding S.p.A., Italy *)	5,991	8,567
VBH Hody, Belgium	1,791	2,869
VBH Malum S.L., Spain	0	2,300
VBH Singapore Pte. Ltd., Singapore	0	1,173
VBH Kapi A.S., Turkey	0	1,084
VBH Middle East FZCO, United Arab Emirates	0	726
VBH Hellas S.A., Greece	0	651
Galro (Ireland) Ltd., Ireland	1,456	470
VBH Construction Hardware Co. Ltd., China	800	0
Siecom EOOD, Bulgaria	110	0
Total	**10,148**	**17,840**

*) Included in EBT discontinued operations.

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.

Net finance costs break down as follows:

In T €	**2010**	**2011**
Interest and similar income	489	361
Interest and similar expenses	-8,117	-8,899
Interest result	**-7,628**	**-8,538**
Depreciation on financial assets and securities	9	1,316
Total	**-7,637**	**-9,854**

Net finance costs deteriorated from € -7,637 thousand in the previous year to € -9,854 thousand. Interest expenses rose by € 782 thousand on account of greater utilisation of the credit line abroad. There was no change in the VBH Group's rating as against the previous year. Interest expenses from pension obligations in the amount of € 659 thousand (previous year: € 640 thousand) were reported in net finance costs. In 2011, write-downs of € 1,316 thousand were recognised on the carrying amounts of investments in affiliated companies not previously included in consolidation for materiality reasons. These relate to companies in India, Vietnam, Serbia and Cyprus.

6.8 CURRENT TAXES

Income taxes

In T €	2010	2011
Current taxes	**6,163**	**4,194**
Germany	1,435	20
Abroad	4,728	4,174
Deferred taxes	**-344**	**-373**
Germany	230	27
Abroad	-574	-400
Total	**5,819**	**3,821**

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 23.8 % (previous year: 19.9 %), 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 from expected to reported tax expense for the year under review is shown below.

Tax reconciliation

In T €	2010	2011
Earnings before taxes (EBT)	4,542	-7,454
Calculated income tax rate in %	19.9%	23.8%
Expected tax expense / income	902	-1,770
Tax-exempt income / losses	-180	-520
Tax additions and deductions	-435	5,048
Special items on impairments	1,730	1,964
Impact of not used losses carried forward	2.747	-921
Tax payments/refunds in previous years and expenses for external audits	122	21
Income taxes and deferred taxes	4,885	3,821
Tax rate in %	107.5%	-

The calculatory income tax rate was 23.8 % in the 2011 financial year (previous year: 19.9 %). It was not possible to calculate a tax rate for the financial year as the negative earnings before taxes of € 7,454 thousand were essentially reduced by income taxes of € 3,821 thousand on account of tax additions and deduction and the non-recurring effects of impairment losses. The tax rate in 2010 of 107.5 % was essentially influenced by extraordinary effects.

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 statement of financial position items are shown below.

Deferred taxes for temporary differences and tax loss carried forward

	2010		2011	
In T €	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Deferred taxes for temporary differences				
Assets	131	2,931	268	2,294
Long-term current assets	37	117	50	0
Short-term current assets	1,782	1,123	1,510	833
others	993	55	13	0
Long-term provisions	210	30	194	47
Short-term provisions	51	0	146	0
Long-term liabilities	1,160	103	1,156	0
Short-term liabilities	590	52	212	23
Total	**4,954**	**4,411**	**3,549**	**3,197**
Tax losses carried forward	6,787	0	5,223	0
Carrying amount	**11,741**	**4,411**	**8,772**	**3,197**

In the current financial year, the German companies recognised deferred taxes on trade tax loss carryforwards of € 18,788 thousand (previous year: € 19,654 thousand) and on corporation tax loss carryforwards of € 12,884 thousand (previous year: € 12,648 thousand). 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 € 13,688 thousand (previous year: € 14,324 thousand) and from trade tax in the amount of € 22,069 thousand (previous year: € 21,629 thousand). In Germany there is no limit for carrying forward losses. In certain countries, minimum tax rules affect the usability of loss carryforwards. Foreign companies recognised deferred tax assets on loss carryforwards of a total € 472 thousand (previous year: € 1,942 thousand). The unused tax losses at foreign subsidiaries amount to € 9,403 thousand (previous year: € 4,588 thousand). € 9,020 thousand of this amount (previous year: € 4,285 thousand) can be carried forward without restriction.

6.10 NON-CONTROLLING INTERESTS

The losses attributable to non-controlling interests amounted to € 1,212 thousand (previous year: earnings € 481 thousand). These primarily consist of the non-controlling interests in companies subsidiaries in Spain, Poland, Russia, Turkey, Ukraine, China, Italy and Kazakhstan.

6.11 EARNINGS PER SHARE

in T €	2010	2011
Net result after minorities	-1,711	-24,472
Total number of shares	45,879,408	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	4,167	0
Weighted average shares from convertible bond and options diluted	40,000	40,000
Weighted average of shares outstanding	45,873,575	45,879,408
Weighted average of shares outstanding diluted	45,873,575	45,879,408
Earnings per share in €	**-0.04**	**-0.53**
Earnings per share (diluted) in €	**-0.04**	**-0.53**

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

There is also authorised capital of 20 million shares (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 €	2010	2011
EBT	14,909	-7,454
Special items	-1,456	9,869
Depreciation goodwill and intangible assets	4,157	9,274
EBT adjusted	**17,610**	**11,689**
Income tax adjusted	-5,819	-3,821
Discontinued operations	-10,320	-14,409
EAT adjusted	**1,471**	**-6,541**
Minority shares	-481	1,212
EAT adjusted after minorities	**990**	**-5,329**
Weighted average of issued shares	45,873,575	45,879,408
EPS adjusted	**0.02**	**-0.12**

7. Notes to the statement of cash flows

Cash and cash equivalents in the statement of cash flows exclusively comprise the cash and cash equivalents recognised in the statement of financial position. The statement of cash flows details the Group's cash flows, broken down into cash inflows and outflows from operating, investing and financing activities. The change in the scope of consolidation affects the presentation of the figures.

Cash-Flow discontinued operations

in T €	2010	2011
Cash flow from operating activity	-3,511	-89
Cash flow from investing activity	201	25
Cash flow from financing activity	3,330	628
Total Cashflow	**20**	**564**

8. Consolidated segment reporting

Segments by region

	Germany		Western Europe**		Eastern Europe	
In T €	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**
External revenue	394,189	402,848	94,560	86,794	247,322	261,325
Internal revenue	17,254	18,585	6,523	8,288	613	701
Total revenue	**411,443**	**421,433**	**101,083**	**95,082**	**247,935**	**262,026**
EBITDA	**15,736**	**15,135**	**-377**	**-1,537**	**19,332**	**18,458**
Depreciation, amortisation and write-downs	1,495	1,234	989	3,135	1,759	1,837
Profit or loss from operating activities (EBIT)	**14,241**	**13,901**	**-1,366**	**-4,672**	**17,573**	**16,621**
Result from participations	177	70	0	0	0	0
Interest income	267	100	39	37	111	139
Interest expense	937	809	849	1,067	239	301
Depreciation on financial assets	0	0	0	0	0	0
Financial result	-493	-639	-810	-1,030	-128	-162
Earnings before taxes (EBT)	**13,748**	**13,262**	**-2,176**	**-5,702**	**17,445**	**16,459**
Segment assets	102,976	112,313	52,062	46,361	98,658	91,977
Segment liabilities	112,857	113,062	35,991	33,134	35,848	34,663
Number of Employees	990	1,029	319	294	1,218	1,219
Adjustments	**-41**	**-140**	**1,879**	**1,607**	**1,598**	**1,837**
EBITDA adjusted	**15,736**	**15,135**	**-377**	**63**	**19,332**	**18,458**
EBIT adjusted	**14,241**	**13,901**	**-1,366**	**-772**	**17,573**	**16,621**

* Consolidation represents intersegmentary Group sales.

** Without aluminium operation Italy.

Other markets		Corporate Services		Consolidation*		Group	
2010	2011	2010	2011	2010	2011	2010	2011
30,673	27,329	0	0	0	0	766,744	778,296
516	4,689	0	0	-23,829	-30,424	1,077	1,839
31,189	**32,018**	**0**	**0**	**-23,829**	**-30,424**	**767,821**	**780,135**
-3	**-2,368**	**-3,617**	**-13,858**	**1,290**	**1,144**	**32,361**	**16,974**
266	268	830	681	4,476	7,718	9,815	14,873
-269	**-2,636**	**-4,447**	**-14,539**	**-3,186**	**-6,574**	**22,546**	**2,101**
0	0	22,951	1,717	-23,128	-1,787	0	0
2	6	2,039	1,417	-1,969	-1,338	489	361
1,451	1,828	6,606	6,223	-1,956	-1,329	8,126	8,899
0	0	0	1,017	0	0	0	1,017
-1,449	-1,822	18,384	-4,106	-23,141	-1,796	-7,637	-9,555
-1,718	**-4,458**	**13,937**	**-18,645**	**-26,327**	**-8,370**	**14,909**	**-7,454**
33,284	30,761	216,557	173,712	-149,485	-162,074	354,052	293,050
36,872	36,480	89,951	100,336	-84,545	-118,788	226,974	198,887
238	242	33	41	0	0	2,798	2,825
1,278	**3,345**	**0**	**0**	**0**	**0**	**4,714**	**6,649**
-3	**435**	**-3,617**	**-9,409**	**2,746**	**1,144**	**30,905**	**25,826**
-269	**-369**	**-4,447**	**-10,090**	**-485**	**934**	**25,247**	**20,225**

9. Other disclosures

9.1 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

Fair value of financial instrument per IAS 39

				Fair value		
In T €		Carrying value 31 December 2010	Amortised cost	Directly in equity	In profit or loss	Fair value 31 December 2010
Assets						
Interests in affiliated companies	AfS	1,949	1,949			1,949
Stocks	AfS	6	6			6
Trade receivables *)	LaR	104,369	104,369			104,369
Receivables 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
Trade payables **)	FLAC	47,510	47,510			47,510
Other liabilities ***)	FLAC	26,936	26,936			26,936

*) thereof in balance sheet position other long-term assets € 1.095 thousand
**) thereof in balance sheet position other long-term assets € 34 thousand
***) included are advances received of € 593 thousand

Fair value of financial instrument per IAS 39

In T €		Carrying value 31 December 2011	Amortised cost	Fair value Directly in equity	Fair value In profit or loss	Fair value 31 December 2011
Assets						
Interests in affiliated companies	AfS	450	450			450
Stocks	AfS	6	6			6
Trade receivables *)	LaR	76,383	76,383			76,383
Receivables affiliated companies	LaR	2,838	2,838			2,838
Other assets	LaR	24,391	24,391			24,391
Cash and cash equivalents	LaR	17,328	17,328			17,328
Liabilities						
Derivates with hedging relationship	n.a.	2,285		2,285		2,285
Liabilities to banks	FLAC	106,378	106,378	791		107,169
thereof liabilities from finance leases	FLAC	1,312	1,312			1,312
Trade payables **)	FLAC	36,464	36,464			36,464
Other liabilities ***)	FLAC	25,886	25,886			25,886

*) thereof in balance sheet position other long-term assets € 14 thousand
**) thereof in balance sheet position other long-term assets € 21 thousand
***) included are advances received of € 805 thousand

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 €	2010	2011
Available for Sale Financial Asset	1,955	456
Loans and receivables	144,480	120,940
Financial Liabilities Measured at Amortised Cost	199,481	168,728
Derivate with hedging relationship	2,166	2,285

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

The fair values of other non-current 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 amounts due to banks and other financial liabilities are reported at nominal value.

Interest from financial instruments is reported under net interest income; dividends are reported under other net finance costs (net income from equity investments). VBH recognises the remaining components of net earnings in other net finance costs.

This does not include write-downs on trade receivables attributable to the loans and receivables measurement category. These are reported under other operating expenses and in discontinued operations.

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

Also included are interest expenses and interest income from interest rate derivatives. Cash flow hedges are shown as an interest rate hedge for interest rate risks arising from financial liabilities. Net interest income also includes expenses for bank loans extended.

Net income from financial instruments

In T €	2010	2011
Available for Sale	0	0
Loans and receivables	-9,408	-25,182
Financial Liabilities Measured at Amortised Costs	-8,906	-9,344

The net result for the loans and receivables category includes allowances on trade receivables of € 11,318 thousand (previous year: € 5,956 thousand), on receivables affiliated companies € 15,764 thousand (previous year: € 5,598 thousand) and on other assets of € 135 thousand (previous year: € 222 thousand). An amount of € 13,606 thousand in the allowances on receivables affiliated companies belongs to the discontinued operations (previous year: € 5,127 thousand). Financial liabilities measured at amortised cost essentially include interest expenses.

9.2 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 credit ratings 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.

9.2.1 CAPITAL MANAGEMENT

The aim of capital management is to hedge the risks mentioned above to the extent necessary, thus limiting any negative effects in the Group's income statement and statement of financial position. 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.

9.2.2 MARKET RISK

Market risk from financial instruments primarily consists of currency and interest rate risk. It is monitored by way of sensitivity analysis (see 9.2.4 onwards).

9.2.3 LIQUIDITY RISK

Central liquidity planning is based on Group financing. To ensure the liquidity and financial flexibility of the VBH Group, the Group has fixed credit lines in the amount of approximately € 140 million (previous year: € 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 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 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**

Liquidity risk

In T €	2011 Carrying value	2011 Total	Remaining term < 1 year	Remaining term >1 year < 5 years	Remaining term > 5 years
Financial liabilities	**106,378**	**124,541**	**31,656**	**89,242**	**3,643**
- of which liabilities to banks	106,378	124,541	31,656	89,242	3,643
Trade payables	**36,464**	**36,464**	**36,443**	**21**	
Other liabilities	**27,366**	**27,366**	**25,472**	**1,894**	
- of which derivative financial instruments	2,285	2,305	1,058	1,247	
Tax liabilities	**624**	**624**	**624**		
Advances received	**805**	**805**	**805**		
Financial liabilities	**171,637**	**189,800**	**95,000**	**91,157**	**3,643**

9.2.4 FOREIGN CURRENCY RISK

As a global 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 can be hedged with derivatives as necessary. The offsetting effects of the hedged item and currency hedging are recognised in profit or loss and thus reflected on the income statement.

Translation risk results from the fact that many VBH companies are located outside the euro zone, while the VBH Holding AG consolidated financial statements are prepared in euro. The statements of financial position and income statements of subsidiaries outside the euro zone therefore have to be translated into euro in the consolidated financial statements. The translation-related effects of changes in foreign exchange rates are reported under equity in the VBH consolidated financial statements. As 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 end of the reporting period.

Sensitivity analysis of foreign currency risks

	2010 Foreign currency		2011 Foreign currency	
In T €	**10 % increase**	**10 % decrease**	**10 % increase**	**10 % decrease**
Change in net profit				
EUR / RUB	1,518	-1,380	741	-673
EUR / TRY	261	-237	227	-206
EUR / CNY	167	-152	131	-119
EUR / SGD	355	-323	90	-81
EUR / HRK	96	-87	89	-81
EUR / GBP	140	-128	87	-79
EUR/RON	81	-74	73	-67
EUR/LVL	66	-60	69	-63
EUR/MXN	76	-69	67	-61
EUR/RSD	58	-53	60	-54
Total	**2,819**	**-2,562**	**1,633**	**-1,485**

9.2.5 INTEREST RATE RISK

In T €	2010	2011
Fixed-rate financial debts	11,355	7,804
Variable-rate financial debts	113,680	98,574
Total	**125,035**	**106,378**

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

9.2.6 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 July 2011, VBH Holding AG concluded another interest rate swap for € 30 million. The aim of this was to lock the interest rate for the minimum utilisation of German credit facilities arising over the year.

In the 2011 financial year, interest rate risks resulted from floating-rate financing liabilities 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 end of the reporting period is determined by discounting future cash flows applying yield curves at the end of the reporting period, factoring in credit risks associated with the contracts. The following sensitivity analysis shows what effect a fluctuation of one percentage point of 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 end of the reporting period.

Sensitivity analysis of interest rates risks

	2010		2011	
	Market interest rate		Market interest rate	
In T €	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease
Variable rate instruments				
Change in net profit	-1,137	1,137	-986	986
Interest rate swaps				
Change in net profit	909	-892	1,548	-1,494
Overall impact	**-228**	**245**	**562**	**-508**

Hedge Accounting

In T €	2010	2011
Total volume of interest rate swaps	70,000	70,000
Fair value	-2,166	-2,285
Expiration	30.12.2011/ 01.06.2012	01.06.2012/ 30.06.2016

In the 2011 financial year, liability interest derivatives of € 2,285 thousand (previous year: € 2,166 thousand) were reported in other liabilities and recognised in the Group's reserves in the amount of € 1,599 thousand (previous year: € 1,516 thousand). The derivatives were 100 % effective.

In accordance with 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
Interest in affiliated companies	0	450	0
Stocks	6	0	0
Cash and cash equivalents	17,328	0	0
Derivatives with hedging relationship	0	2,285	0

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

9.2.7 DEFAULT RISK

Owing to its business activities with third parties in various sectors, VBH Group is exposed to a global risk of default. 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 in the statement of financial position. 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. Write-downs are recognised for default risks identified sufficiently in advance. See 5.5 “Receivables and other assets” for information on the carrying amount of receivables past due or impaired, the due date of which has been renegotiated.

10. Other financial liabilities and contingent liabilities

As at the end of the reporting period, there were other financial liabilities, 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. There were no other financial obligations to affiliates in the 2011 financial year. Total future payments arising from non-cancellable contracts are classified by due date as follows:

Obligations from rental contracts

In T €	2010	2011
Maturity within 1 year	10,009	7,841
Maturity in 2-5 years	16,616	12,082
Maturity after 5 years	1,674	878
Total	**28,299**	**20,801**

Obligations from leasing contracts

In T €	2010	2011
Maturity within 1 year	2,827	3,185
Maturity in 2-5 years	1,715	2,559
Maturity after 5 years	0	0
Total	**4,542**	**5,744**

Contingent liabilities are shown in the amount utilised or correspond to the nominal value of the liabilities.

Obligations from contingent liabilities

In T €	2010	2011
Liabilities from the issue and transfer of bills of exchange	454	439
Liabilities from guarantees, bills of exchange and cheque guarantees	493	406
Liabilities from warranties	199	622
thereof in favour off affiliated companies	142	565
Contingency from providing collateral for external liabilities	0	0
Total	**1,146**	**1,467**

Real estate liens

In T €	2010	2011
Real estate liens	29.190	29.190
Total	**29.190**	**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, non-current and current assets were assigned as collateral to secure local credit agreements. Total assets used as collateral amounted to € 15.5 million (previous year: € 18.4 million). No unrelated parties have placed collateral with VBH. The total carrying amount of companies pledged is € 24,569 thousand (previous year: € 55,422 thousand).

11. Litigation and claims for damages

If individual legal disputes or claims for damages give rise to circumstances within the Group requiring recognition, these are covered adequately by provisions recognised in the separate 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.

12. Related party disclosures

The members of the Executive Board and the Supervisory Board, their immediate relatives and subsidiaries that are not fully consolidated are considered related parties in accordance with 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 Chairman of the Supervisory Board, which acted in an advisory capacity 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 € 135 thousand for the 2011 financial year (previous year: € 54 thousand). In addition to issues relating to company law, the increase in the payments to the law firm is primarily as a result of the support provided in concluding the syndicated financing. The Deputy 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. Remuneration in the past financial year totalled € 127 thousand (previous year: € 127 thousand). In addition, the Deputy Chairman of the Supervisory Board received an ongoing pension from the German companies totalling € 91 thousand (previous year: € 90 thousand). The Executive Board did not perform any transactions.

Receivables from affiliated companies amounted to € 2,838 thousand (previous year: € 3,133 thousand) as at the end of the reporting period; there were no liabilities to related parties in either financial year. Liabilities to other related parties amounted to € 7 thousand as at the end of the reporting period (previous year: € 25 thousand).

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 €	**2010**	**2011**
Carrying values at 31 December		
Loans	626	946
Receivables	2,507	1,892
Transactions in the financial year		
Goods purchased	3,790	152
Other expenses	118	95
Sales revenue	1,261	1,448
Interest income	49	58
Other operating income	66	41

The receivables affiliated companies contain allowances of € 21,361 thousand (previous year: € 5,598 thousand). In 2011 allowances on receivables affiliated companies were included in the expenses with an amount of € 15,764 thousand (previous year: € 5,597 thousand). Thereof an amount of € 13,606 thousand belongs to discontinued operations (previous year: € 5,127 thousand).

13. Significant events after the end of the reporting period

Mr. Ulrich Lindner joined the Executive Board of VBH Holding AG from 1 February 2012. He is responsible for the areas of Marketing and International Sales.

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

14. Auditors' fees

The following fees were incurred for auditors within the meaning of section 318 HGB (including affiliated companies within the meaning of section 271(2) HGB) in the 2011 financial year:

Expenses for remuneration of auditors

In T €	2010	2011
Audit of financial statements	378	427
Other attestation and valuation services	25	27
Tax consultancy	25	13
Other services	27	78
Total	**455**	**545**

15. Remuneration of executive bodies

Please see the remuneration report in the corporate governance report for information on the remuneration of executive bodies in accordance with section 314 HGB.

Remuneration of executive bodies

	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**

	2011			
In T €	Fixed	Variable	Non-cash benefits	Total
Executive Board*	636	130	97	863
Supervisory Board	163	0	0	163
Total	**799**	**130**	**97**	**1,026**

(*) pro rata

Options and shares held by executive bodies

	31.12.2010		31.12.2011	
Individual shares	Optionen	Aktien	Optionen	Aktien
Executive Board	0	459,684	0	459,684
Supervisory Board	0	1,605,272	0	1,495,525
Total	**0**	**2,064,956**	**0**	**1,955,209**

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 € 436 thousand in the past financial year (previous year: € 466 thousand). Defined benefit obligations for all IFRS pension commitments to former Executive Board members, managers and their surviving dependants totalled € 5,694 thousand as at the end of the reporting period (previous year: € 5,710 thousand). Defined benefit obligations for all IFRS pension commitments amounted to € 905 thousand for Mr. Hribar (previous year: € 827 thousand) and € 55 thousand for Mr. Bangerter (previous year: € 0 thousand). Additions in the reporting year totalled € 133 thousand (previous year: € 284 thousand).

16. Declaration of compliance with the German Corporate Governance Code

The Executive Board and the Supervisory Board of the company issued the declaration of compliance required under section 161 AktG on 29 March 2012 and made it available to the shareholders. The 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

17. Shareholdings of VBH Holding AG, Stuttgart, as at 31 December 2011

Disclosures of shareholdings can be found 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, Ditzingen, Germany, and VBH Germany GmbH, Korntal-Münchingen, Germany, have exercised their right of exemption under section 264(3) HGB.

18. Executive bodies of the company

Executive Board

Dipl.-Ing. ETH Rainer Hribar, Tägerwilen, Switzerland
Other supervisory board mandates:
Leicom AG, Winterthur, Switzerland, – member –
Within Group:
VBH Estonia AS, Tallinn, Estland (board of directors)
VBH-TBM UAB, Vilnius, Litauen (board of directors)
VBH Middle East FZCO, Dubai, U.A.E. (board of directors)
VBH Hellas S.A., Thessaloniki, Greece (board of directors)
VBH Italia Holding S.p.A., 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. Kfm. Frieder Bangerter, Leinfelden-Echterdingen

lic. oec (HSG) Ulrich Lindner, MBA, Waldenburg (from 1 February 2012)

Supervisory Board

Prof. Rainer Kirchdörfer, lawyer, Korntal-Münchingen – Chairman –
Other supervisory board mandates:
Bauerfeind AG, Zeulenroda, – Chairman –
Berner SE, Künzelsau, – member –
Cronbank AG, Dreieich, – member –
Heiler Software AG, Stuttgart, – Deputy Chairman –
Kohl Medical AG, Perl, – Deputy Chairman –
MHK Group AG, Dreieich, – Chairman –

Andreas Schill, businessman, Stuttgart – Deputy Chairman –
No other mandates

Stephan M. Heck, businessman, Mannheim
No other mandates

Dipl.-Kfm. Matthias Linnenkugel, auditor, tax advisor, Hamburg
No other mandates

Klaus Meichner, business economist, Donaustauf, - employee representative
No other mandates

Martin Morlok, commercial employee, Trochtelfingen - employee representative
No other mandates

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

19. Approval of the consolidated financial statements in accordance with IAS 10.17

The Executive Board will present these consolidated financial statements to the Supervisory Board on 29 March 2012 for its approval and then release them for publication.

Proposal for the appropriation of profits
The Executive Board will recommend to the Supervisory Board the submission of the following proposal on the appropriation of profits to the vote at the Annual General Meeting on 21 June 2012.

The HGB annual financial statements of VBH Holding AG report net income for the year of € 0.00 (previous year: € 5,779,215.49). The Executive Board and the Supervisory Board will propose to the Annual General Meeting that no dividend is distributed.

Korntal-Münchingen, 29 March 2012

VBH HOLDING AKTIENGESELLSCHAFT
– The Executive Board –

Rainer Hribar Frieder Bangerter Ulrich Lindner

Declaration of the Executive Board
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Korntal-Münchingen, 29 March 2012

VBH HOLDING AKTIENGESELLSCHAFT

– The Executive Board –

20. Auditor's report

We have audited the consolidated financial statements prepared by VBH Holding Aktiengesellschaft, Korntal-Münchingen, comprising the statement of financial position, income statement, statement of total comprehensive income, statement of changes in equity, statement of cash flows and notes on the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and Group management report in accordance with IFRS as adopted by the EU, and with the additional requirements of German commercial law pursuant to section 315a(1) HGB 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 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 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, 29 March 2012

Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dr. Bömelburg	Leupold
Wirtschaftsprüfer	Wirtschaftsprüfer

VBH Holding AG

Balance sheet, income statement

Notes on VBH Holding AG
While the consolidated financial statements prepared in accordance with IFRS, the annual financial statements of VBH Holding AG are prepared in accordance with the German Commercial Code (HGB). In some areas, the accounting policies 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 2011 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 €	31.12.2010	31.12.2011
A. FIXED ASSETS		
Intangible assets	**753**	**508**
EDP Software	719	474
Advances paid	34	34
Tangible Assets	**740**	**636**
Real estate, leasehold rights and buildings including construction on non-owned real estate	556	534
Other fixed assets, operational and business equipment	184	102
Financial Assets	**151,062**	**129,207**
Interests in affiliated companies	76,062	54,207
Loans to affiliated companies	75,000	75,000
Total fixed assets	**152,555**	**130,351**
B. CURRENT ASSETS		
Accounts receivables and other assets	**60,256**	**29,310**
Accounts receivables affiliated companies	56,544	25,778
Other assets	3,712	3,532
Cheques, cash on hand, credit balances at banks	**707**	**422**
Total current assets	**60,963**	**29,732**
C. ACCRUALS AND DEFERRALS	**304**	**898**
Total assets	**213,822**	**160,981**

Equity and Liabilities

In T €	31.12.2010	31.12.2011
A. EQUITY		
Subscribed capital	**45,879**	**45,879**
Capital reserves	**41,906**	**18,812**
Revenue reserves	**38,214**	**1,407**
Legal reserves	1,407	1,407
Other group reserves	36,807	0
Profit retained	**5,779**	**0**
Total equity	**131,778**	**66,098**
B. Accrued liabilities		
Provisions for pensions and similar obligations	5,799	6,026
Provisions for taxation	1,136	751
Other provisions	1,346	9,545
Total accrued liabilities	**8,281**	**16,322**
C. LIABILITIES		
Financial liabilities	66,315	69,247
Liabilities from supplies and services	327	336
Liabilities affiliatied companies	3,621	7,429
Other liabilities - of which taxes 1,157 T € (prev.year.: 2,271 T €)	3,500	1,549
Total liabilities	**73,763**	**78,561**
Total equity and liabilities	**213,822**	**160,981**

INCOME STATEMENT OF VBH HOLDING AG

Profit and Loss Account

In T €	2010	2011
Sales revenue	**5,082**	**4,420**
Other operating income of which for currency translation 45 T € (prev.year.: 528 T €)	1,834	1,638
Total operating profit	**6,916**	**6,058**
Personnel Expenditure of which for pensions 123 T € (prev.year.: 268 T €)	-4,855	-5,329
Depreciation of intangible and tangible assets	-547	-449
Depreciation of current assets as far as exceeding the usual depreciations	0	-17,791
Other operational expenditure of which for currency translation 182 T € (prev.year.: 165 T €)	-6,193	-14,069
Dividends from associated companies of which from affiliated companies 1,717 T € (prev.year.: 22,951 T €)	22,951	1,717
Income from profit transfer agreement	3,910	4,667
Other interest and similar income of which from affiliated companies 1,321 T € (prev.year: 1,745 T €) of which discounting 88 T € (prev.year: 293 T €)	2,039	1,417
Depreciation of financial assets	-18,948	-12,908
Interest and similar expenditure of which affiliated companies 27 T € (prev.year: 26 T €) of which discounting 310 T € (prev.year: 372 T €)	-6,221	-5,794
EBT of ordinary activities	**-948**	**-42,481**
Extraordinary results	-1,147	-24,397
Taxes on income and earnings and other taxes	2,458	3,950
EAT earning after taxes	**363**	**-62,928**
Profit carried forward from previous year	5,416	3,026
Withdrawal from capital reserve	0	23,095
Withdrawal from other earnings reserves	0	36,807
Net income for the year	**5,779**	**0**

Further information

Glossary

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

Adjusted earnings
Adjusted earnings is a business performance indicator that excludes non-recurring effects from the annual result of a company.

Borrowings
Total assets minus equity.

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

Deferred taxes
Tax assets and/or liabilities reported in the statement of financial position to offset the difference between the tax liabilities actually assessed and the commercial tax expense based on IFRS financial reporting. The basis for determining deferred taxes is the difference between the value of the assets and liabilities reported in the IFRS statement of financial position and in the local tax accounts.

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

Discontinued operations
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. These are separate major lines of business or a geographical area of operations, or a part of major or geographical areas of operations or companies to be sold as part of an overall plan or geographical areas of operations or companies acquired solely to be resold.

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

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and 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 non-controlling interests.

Equity ratio

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

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.

Goodwill

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

Hedge accounting

Accounting treatment of hedge transactions.

IFRIC (International Financial Reporting Interpretations Committee – previously SIC)

Specific interpretations of 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

A write-down recognised 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.

Margin

A margin is the ratio of an indicator to sales revenue.

Net debt

Financial liabilities less cash and cash equivalents.

Plan assets

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

Statement of cash flows

Presentation of an organisation's cash position over the course of a financial year, reflecting the effects of the origin of funds and of allocating resources.

Temporary differences

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

Return on equity (ROE)

Net income in relation to equity.

Financial calendar

Interim Report Q1 2012
14 May 2012

Annual General Meeting
21 June 2012

Interim Report Q2 2012
14 August 2012

Interim Report Q3 2012
14 November 2012

Contacts

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Securities code no.	760070
ISIN code:	DE0007600702

Disclaimer

This report contains forward-looking statements. Such forward-looking 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 forward-looking statements. 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, the achievement of any anticipated synergy effects and legal and political decisions. VBH Holding AG is not required to publish corrections of such forward-looking statements in order to reflect events or conditions that occur after publication of this report.

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