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Annual Report

VBH Holding Aktiengesellschaft

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Simply everything. Everything simple.

Key Figures

Sales and Earnings		2009	2010	2011	2012*	2013
Sales	in € m	755.1	767.8	780.1	746.6	692.4
EBITDA	in € m	23.2	32.4	17.3	3.7	16.7
EBITDA margin	%	3.1	4.2	2.2	0.5	2.4
EBIT	in € m	17.2	22.5	2.4	-4.6	11.9
EBIT margin	%	2.3	2.9	0.3	-0.6	1.7
EBT	in € m	9.9	14.9	-7.5	-14.5	3.2
EAT	in € m	7.3	-1.2	-25.7	-17.6	-6.7
Net result after minorities	in € m	5.6	-1.7	-24.5	-17.3	-6.9

Key Figures		2009	2010	2011	2012*	2013
Cash flow from operating activity	in € m	33.6	4.8	28.6	18.4	15.2
Cash flow from investing activity	in € m	-9.3	-3.7	-6.0	-8.4	-4.9
Free Cash Flow	in € m	24.4	1.2	22.7	10.0	10.3
Cash flow from financing activity	in € m	-23.5	-3.2	-19.1	-12.5	-0.9
Total investments	in € m	11.8	4.6	7.5	7.1	6.9
Working Capital	in € m	166.9	183.8	152.3	126.1	118.8
Capital employed	in € m	257.9	239.5	183.5	158.5	144.4
ROCE	%	6.7	9.4	1.3	-2.9	8.2
ROCE adjusted			10.5	11.0	11.5	
Net debt	in € m	103.6	112.4	89.1	84.4	81.5
Gearing	%	79.7	88.4	94.2	113.9	129.5
Return on equity (ROE)	%	4.6	-1.4	-27.7	-25.0	-12.0
Number of employees		2,968	2,798	2,825	2,763	2,522

Share data		2009	2010	2011	2012*	2013
Earnings per share	in €	0.12	-0.04	-0.53	-0.38	-0.15
Dividend per share	in €	0.05	0.06	0.00	0.00	0.00
Equity per share	in €	2.83	2.77	2.06	1.62	1.37
Book value per share	in €	2.65	2.59	1.92	1.51	1.26
Share price at year end	in €	4.00	4.26	3.79	2.35	2.58
Shares outstanding	in Tsd.	45,869	45,879	45,879	45,879	45,879
Market capitalization at year end	in € m	183.5	195.4	173.9	107.8	118.4

Balance Sheet		2009	2010	2011	2012*	2013
Long-term assets	in € m	99.0	89.1	64.4	64.8	58.6
Short-term assets	in € m	251.0	265.0	228.0	186.2	182.5
Equity	in € m	130.0	127.1	94.5	74.1	62.9
Book value of equity without minorities	in € m	121.4	118.8	88.3	69.3	57.8
Long-term liabilities	in € m	89.0	33.6	97.6	113.2	39.6
Short-term liabilities	in € m	131.0	193.4	100.3	68.5	138.6
Balance sheet total	in € m	350.0	354.1	292.4	255.8	241.1

* The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1.

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In individual cases, the rounding of figures can result in the values in this report not exactly adding up to the totals shown, and in percentages not exactly matching the values shown.

Letter to the shareholders

Dear Shareholders,

As forecast in this same letter a year ago, high growth momentum on the global markets was not to be expected in 2013.
The initially euphoric general economic growth forecasts were constantly adjusted downwards worldwide, each time with a comment that we were experiencing “a small dip” in the current quarter but that the upturn would materialise in the next quarter. It was no big surprise that this upturn did not materialise; in Germany there was ultimately slight growth of 0.4 % in gross domestic product, a very positive figure in comparison to many other EU countries. Only the stock exchanges managed to break away from the real economy, but it is well known that there were other reasons for this.

Since last autumn, optimistic forecasts have been issued again for the general economic situation in 2014. The Executive Board continues to view these forecasts with cautious optimism and has used them as a basis for its own planning to a limited extent only.

In light of the difficult general economic situation, we had undertaken to make ourselves more effective and resilient by completing the adjustment of the international portfolio that was begun in 2012. The systematic implementation is bearing fruit and the successful restructuring in Belgium and Turkey has stemmed severe cash outflows. With the exception of Turkey, our international companies all fulfilled expectations and achieved pleasing results again overall. Our companies in Eastern Europe in particular performed well in challenging markets. Based on our extremely strong market position and the high level of service provided by VBH companies, we are reasonably confident for 2014, too.

The number of windows produced in Germany decreased by around 5 % in 2013. However, sales at many of our customers are stable, since fortunately there was an increase in features for window elements; this was attributable, for example, to triple glazing, construction-depth profiles, large elements and a boom in sliding elements. This explains the very positive sentiment in the door and window industry despite the decline in unit numbers.
By contrast, VBH fell considerably short of its targets in Germany. While in the metal construction segment our subsidiary esco continued to generate excellent results, VBH Deutschland GmbH struggled not so much with the market conditions as with the consequences of a far-reaching and difficult IT system changeover. As a result, in 2013 we were hardly able to focus on the market, although we still had very attractive solutions on offer for it – for example, we still performed convincingly in the first quarter, which was difficult due to weather conditions. However, operations were severely impaired starting from the time of the IT system changeover. The problem areas have since been remedied, but process optimisation is still ongoing. We are working at high speed to deal with the remaining areas of friction, to change old processes where necessary, to incorporate new experience and to move ahead with training programmes so that we can return to our old level of performance on a broad basis.
We put our customers’ loyalty to a difficult test in many areas in 2013. However, strong personal relationships in all areas helped us keep the “shrinkage effects” within limits. Completely restoring confidence in us will no doubt remain a challenge, but we are improving week by week and our customers’ doors are not closed.

Despite the problems at VBH Deutschland GmbH, at Group level we succeeded in returning to the black in terms of consolidated earnings before taxes (EBT) after two years with losses.

Economic performance

In 2013, VBH generated consolidated sales of € 692.4 million, 7.3 % below the previous year's figure of € 746.6 million. By contrast, consolidated operating earnings before taxes increased by € 17.7 million from € -14.5 million to € 3.2 million.
Like the global economy, the course of business differed in the individual VBH regions. Overall, business performance was modest in all segments:

- In addition to slight market declines, the development of the Germany segment – the most important segment for the VBH Group – was impacted in 2013 by teething problems with the introduction of a new ERP system at VBH Deutschland GmbH and associated sales declines at this company. Sales revenues at VBH Deutschland GmbH were down year-on-year. By contrast, esco Metallbausysteme GmbH generated excellent results and performed better than planned.
- Sales in the Eastern Europe segment, which was still dominated by the weak economic environment, were slightly below the previous year’s level in 2013. The positive development in the Baltic states also continued in 2013. Central Eastern Europe matched the previous year’s level of sales. By contrast, the companies in the Balkan states recorded a decline in sales of 7 % overall. VBH’s most important international market, Russia, also posted declines in comparison to the previous year. In 2013, this segment posted a 4 % decrease in sales compared to the previous year.

- EBT in the Western Europe segment increased significantly to € 1.5 million in comparison to the 2012 financial year (€ -10.3 million), which was heavily impacted by non-recurring effects. In Belgium, the restructuring was successfully finished. The UK in-creased its earnings. In Ireland, Italy and Spain, losses were reduced. In Austria, an extraordinary effect on earnings at esco Metallbausysteme Austria GmbH made a positive contribution to this segment's earnings.
- EBT in the Others Markets segment remained negative in 2013, but was improved to a significant extent in comparison to the previous year. Initial effects from the extensive restructuring of the Turkish subsidiary contributed to this, although this company still had a negative impact on the segment's earnings. The Mexican growth company performed well again over the course of 2013, further increasing its sales and earnings. The controlled expansion in Latin America is also proceeding according to optimistic expectations.

Strategic positioning

We 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 maintenance of our international presence in a way that will protect our profits. This may include both expansion and also giving up national markets that do not fit VBH's business model or are persistently unprofitable; Our international positioning offers our suppliers a global sales platform and our customers a comprehensive and internationally coordinated range of products and services. VBH therefore also takes account of the relevant partners' interests when deciding to enter and withdraw from markets.
- Expansion of our proprietary brands greenteQ and systeQ to a share of consolidated sales of more than 10 %; the proprietary brands are profitable growth drivers; With more than 3,000 items, they now account for 9 % of sales in Germany. The share is already considerably higher in some of the international subsidiaries, most notably in Southeast Europe, and now significantly exceeds the 10 % mark. Besides this, we do not focus on marketing individual items or products. Instead, we offer our customers multi-topic system solutions, for example in the following areas:
  - professional window fitting
  - accessible and fully sealed threshold solutions for doors
  - property-specific escape door solutions with the support of configurators
  - "comfort and safety", a promising future area.
- The aim is to combine expert knowledge and use this to develop new ideas, products and practical services. We want to drive innovation and see ourselves as an interface between industry, processors and architects.
- Expansion of our service portfolio in an international environment. To this end, the service products that have already been successful in Germany are rolled out internationally, allowing our customers worldwide to benefit quickly and expediently from the latest innovations in the IT and communications sector.

Outlook for 2014

General conditions in Germany will remain favourable overall in 2014, too. New construction activity is increasing further and has a supportive effect, although this is relevant to us only to a limited extent, since while the number of new houses and apartments is rising, the number of windows installed per residential unit is decreasing as a result of high-density construction.

However, our customers will experience growing price competition, as considerable excess capacity has been built up in recent years and foreign window producers are increasingly entering the promising German market. Conversely, the economic crisis has made it more difficult for German window makers to export to neighbouring countries.

All in all, owing to the very low unemployment rate, the associated high level of consumer spending and the continued attractive incentives for substantial renovation activity, we anticipate at least a sideways trend on the market.

There will once again be little growth impetus on our international markets in 2014, which will instead be characterised by further slight declines in Russia and particularly in Ukraine and broad stability at a good level elsewhere in Eastern Europe. In Western Europe, the market is bottoming out. We are observing initial positive signs of growth in the UK and Ireland. In the Balkans and in Southern Europe, market expectations remain modest. Thanks to the successful restructuring of our Turkish company, we should return to growth here in 2014. The markets and our companies in Central and South America are continuing to develop at a low level but nonetheless positively.

The global markets will not provide us with growth this year. We therefore do not anticipate any leap in sales, but we do expect the positive trend in earnings to continue as a result of our strong marketing, the expansion of our proprietary brands greenteQ and systeQ and the effects of the efficiency programme.

The year 2014 will bring further challenges and will remain challenging. However, after the completed portfolio adjustment, the restructuring in Turkey and Belgium and the conclusion of the IT system changeover in Germany, we will be able to largely shift our focus from internal matters back to the market, customers and competitors. We are working to return to our old, customary strength.

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

Korntal-Münchingen, March 2014

Rainer Hribar
Chairman of the Executive Board

Jürgen Kassel
Member of the Executive Board

Ulrich Lindner
Member of the Executive Board

Report of the Supervisory Board

Dear Shareholders,

General information

The Supervisory Board of VBH Holding AG performed the tasks for which it is responsible according to law and the Articles of Association of the company with great care in the 2013 financial year, extensively reviewing the business transactions of the company and the Group. In accordance with corporation law requirements, the Supervisory Board monitored the management of VBH Holding AG and acted in an advisory capacity to the Executive Board.

For VBH, the year 2013 was characterised primarily by two contrasting events. On the one hand, the adjustment of the equity investment portfolio was successfully completed. On the other hand, the introduction of a new ERP system at VBH Deutschland GmbH was accompanied by considerable teething problems, which entailed a decline in sales and gross operating profit.

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 AG and the Group. The reports by the Executive Board chiefly concerned business policy, fundamental financial and investment policy issues, and the profitability and risk situation of VBH Holding AG and the Group.

Prof. Rainer Kirchdörfer

Reports were also submitted regularly to the Supervisory Board about the business, including a comparison with the previous year and with planned figures, as well as the liquidity and financial position of the company, including current credit lines, their utilisation and the available liquidity, providing both actual and forecast figures.

Based on the reports and information provided by the Executive Board, the Supervisory Board 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.

Main issues addressed at Supervisory Board meetings

Six Supervisory Board meetings were held in the 2013 financial year. The object of each meeting was the discussion of the VBH Group's current business performance in comparison with planning, 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 related primarily to the following topics:

The Supervisory Board meeting on 7 February 2013 particularly focused on the strategic consolidation of the foreign subsidiaries and the efficiency enhancement programme developed for VBH Deutschland GmbH. In particular, the measures for the logistics and procurement sub-projects were discussed, as well as the organisational structure of VBH Deutschland.

Following corresponding preparations by the Audit Committee, the Supervisory Board's accounts meeting on 22 March 2013 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 2012 financial year. In addition to its own examination in preparation for the Supervisory Board accounts meeting, the Supervisory Board asked the auditors present a number of questions and discussed these at length with them. The agenda for the Annual General Meeting on 22 May 2013 was discussed. In addition, the Supervisory Board approved its report for the 2012 financial year and the declaration of compliance with the German Corporate Governance Code by the Executive Board and the Supervisory Board. The meeting also dealt with the progress in the efficiency enhancement programme, the introduction of the ERP system at VBH Deutschland GmbH and the concept for management and controlling by the regional directors.

At its meeting on 16 May 2013, the Supervisory Board once again dealt with the introduction of the ERP system at VBH Deutschland GmbH and the efficiency enhancement programme. With regard to reporting on the efficiency enhancement programme, the discussions focused on the procurement sub-project.

At its meeting on 16 May 2013, the Supervisory Board dealt in detail with the problems involved in the ERP changeover. It also discussed the efficiency enhancement programme, with a focus on the procurement sub-project.

In the first part of its meeting on 22 May 2013, the Supervisory Board discussed primarily the course of the upcoming Annual General Meeting of VBH Holding AG, as well as further developments in the ERP system. In the second part of the meeting after the Annual General Meeting, the newly elected Supervisory Board was constituted, elected its Chairman and Deputy Chairman and appointed the members of the committees.

On 12 September 2013, the meeting focussed on the Executive Board's reports on the progress in solving the problems in relation to the ERP system and the efficiency enhancement programme and on the report by Internal Auditing department. The development of individual foreign subsidiaries was also discussed.

The meeting on 11 December 2013 focussed on the report on the sales and earnings figures as at October 2013 and the budget for the VBH Group submitted by the Executive Board for the period from 2014 to 2016. The Supervisory Board discussed the budget and the opportunities and risks contained therein in detail with the Executive Board. Other topics that were reported included the introduction of SEPA, the current status of the ERP system and changes in the scope of consolidation.

Committees

The Audit Committee, which is formed within the Supervisory Board, met on 27 February, 22 March, 27 June and 5 November in the year under review. At the meetings on 27 February and 22 March 2013, the annual and consolidated financial statements for 2012 were discussed in depth with the auditors. The Audit Committees meetings also focussed on the reports by the Internal Auditing department, the risk management system and the Rules of Procedure. The interim reports were discussed by telephone before their publication with the Chairman of the Audit Committee, in accordance with the recommendations of the German Corporate Governance Code.

The Human Resources Committee met once in the year under review, on 5 November 2013. The Strategy, Marketing and Sales Committee did not meet in the 2013 financial year, since the key areas in this respect were discussed at the Supervisory Board meetings.

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 pages 37-39 of this annual report. It is part of the corporate governance declaration. There were no indications of conflicts of interest on the part of Executive Board or Supervisory Board members in the 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 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 2013

The Annual General Meeting on 22 May 2013 appointed Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, as the auditor for the 2013 financial year. Following preparation by the Audit Committee and a corresponding resolution of the Supervisory Board, the auditor was notified in writing of its auditing engagement. 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 2013, 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 21 March 2014, 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 2013 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 2013 financial year produced by the Executive Board. The annual financial statements were thus adopted. The Supervisory Board also approved the corporate governance declaration.

Executive bodies of the company

Chief Financial Officer Frieder Bangerter left the Executive Board of VBH Holding AG as at the end of 31 December 2013. His role as CFO was comprehensively assumed by Jürgen Kassel from 1 February 2013.

The term of office of the shareholder representative members – Stefan Huber, Prof. Rainer Kirchdörfer, Matthias Linnenkugel and Gerhard Walter Sommerer – ended at the end of the Annual General Meeting of VBH Holding AG on 22 May 2013. At the Annual General Meeting on 22 May 2013, Stefan Huber, Prof. Rainer Kirchdörfer, Thorsten W. Albrecht and Gerhard Walter Sommerer were elected to the Supervisory Board for the period up until the end of the Annual General Meeting that resolves on the approval of their actions for the 2017 financial year.

Prof. Kirchdörfer was elected as Chairman of the Supervisory Board on 22 May 2013 and Mr Sommerer was elected as Chairman of the Audit Committee on 5 November 2013.

The Supervisory Board would like to thank all the staff and the members of the VBH Holding AG and its subsidiaries as well as the members of the Supervisory Board for their dedication and their commitment in the past financial year.

Korntal-Münchingen, March 2014

Prof. Rainer Kirchdörfer
Chairman of the Supervisory Board

The Executive Board

Rainer Hribar

Rainer Hribar, born in 1957, is the Chairman of the Executive Board of VBH Holding AG, Korntal-Münchingen, in charge of Strategy, Sales and Marketing as well as Logistics and Category Management.

After studying electrical engineering at ETH Zurich, Mr Hribar first worked in management roles at various different companies before moving to VBH Holding AG, Korntal-Münchingen, as the Director of Exports in February 1996 and taking 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).

Ulrich Lindner

Ulrich Lindner, born in 1963, has been a member of the Executive Board of VBH Holding AG, Korntal-Münchingen, since 2012. Prior to ending his operational work on the Executive Board on 21 May 2013, he was responsible for Sales for the Western and Southern Europe and Central and South America regions as well as for Marketing

Jürgen Kassel

Jürgen Kassel, born in 1954, has been a member of the Executive Board of VBH Holding AG, Korntal-Münchingen, since 1 February 2013. As Chief Financial Officer (CFO), Mr Kassel is responsible for Controlling, Accounting, Finance, Investor Relations, Internal Auditing and Taxes, HR, IT and Legal.

After completing an apprenticeship as an industrial clerk and studying Business at Munich University, Mr Kassel worked at Siemens in Germany and abroad, before taking on the role of CFO at UZIN UTZ AG in Ulm from 1981 to 2001. He took this company onto the stock exchange in 1997.

From 2001 to 2007, Mr Herr Kassel was Chief Financial Officer for VBH Holding AG and managed the successful restructuring of VBH as executive together with Mr Hribar.

In 2008, he became CFO of the Singen/Berlin-based Zehnacker Group, and was significantly involved in the sale of this company to the international Paris-based Sodexo Group.

From 2009 to the end of 2012, he was CFO of the Vitanas Group, Berlin. Mr Kassel also held an equity interest in this company in accordance with company law.

VBH shares

Stock market environment

The German stock market performed very positively in 2013. The DAX rose by around 25 % over the course of the year and closed at 9,552 index points, making 2013 one of its ten most successful years. An even stronger performance was posted by the MDAX with an increase of around 39 % and the SDAX with around 29 %. These index increases are in line with the US stock market, which grew by roughly 26 % measured according to the Dow Jones. The lack of alternative investments due to low interest rates and the clear successes in rescuing the euro created positive sentiment on the markets. The recovery on key export markets also provided a boost to the German economy.

Although the overall development of the German stock market over the course of the year seems very positive, there were a few setbacks, particularly in the first half of 2013. Political news led to a slight negative impact here, but overall this was outweighed by positive influences during the year.

For 2014, the strong performance is expected to be followed by a slight decline towards the middle of the year, but the situation should have calmed again by the end of the year.

Master data on VBH shares

WKN	760070
ISIN	DE0007600702
Symbol	VBH
Share capital	45.879.408 Euro
Number of shares	45.879.408 individual shares
Deutsche Boerse Segment	Prime Standard
Included in indices	DAXsector All Construction (Performance)
Designated Sponsor	equinet Bank AG

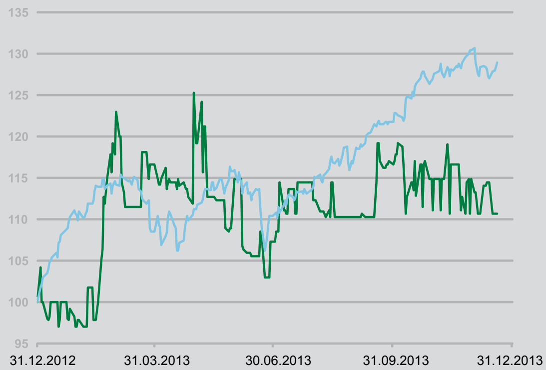
Performance of VBH shares

In the past financial year, VBH Holding AG shares posted a successful performance with an increase of 9.8 %, but were unable to benefit from the general, even better price performance of the main indices. The average trading volume was 4,948 shares per trading day.

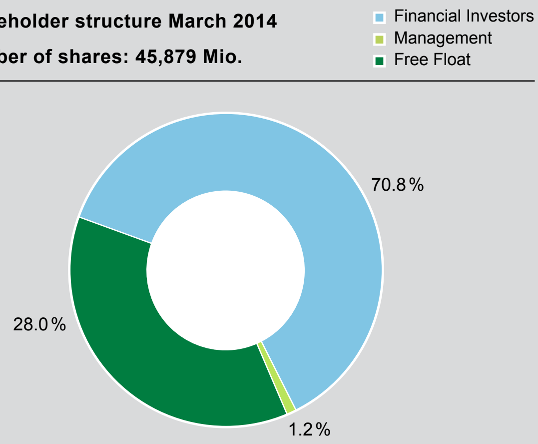
The free float of VBH shares amounted to 29.2 % and did not change in the year under review.

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 %. There were no changes in the shareholder structure with interests of over 10 % in the 2013 financial year.

Share price performance VBH share and SDAX
Stock performance indexed, 31.12.2012 = 100



Shareholder structure March 2014
Number of shares: 45,879 Mio.



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 in the 2013 financial year in addition to regular quarterly, six-month and annual reporting. In November 2013, VBH held an analysts' conference at the Equity Forum in Frankfurt. The Executive Board was available for talks with various investors 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.

The Annual General Meeting on 22 May 2013 was utilised by the majority of the shareholders to hear extensive information on the performance of business directly from the VBH Holding AG Executive Board. 85.2% (previous year: 73.3%) 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 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

Following the company's return to profitability, the main focus of the Executive Board is on repaying financial liabilities. In addition to the stabilisation of German business after a difficult software introduction in 2013, further optimisation of current assets and ongoing cost reduction programmes should also contribute to achieving this goal. The Executive Board will therefore recommend to the Supervisory Board to put forward to the Annual General Meeting a profit appropriation proposal which does not include a dividend for the 2013 financial year. This repeated waiver of a dividend payment does not signify a fundamental departure from our ongoing dividend policy, which allows shareholders to participate in VBH's success. However, the primary goal of the Executive Board is still to continue to scale back net debt in order to subsequently retain a long-term distribution rate of at least 35% - 40% of earnings per share.

greenteQ

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Group management report

OF VBH HOLDING AG

1. Basic information on the Group

Business model of the VBH Group

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 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 25,000 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 brand greenteQ, which is now a fixed component of its range policy with over 3,000 items, and with which VBH is setting more and more innovative standards. By covering key cross-product areas, such as threshold systems and professional window fitting, VBH is increasingly becoming the sector's system provider. Examples of VBH's innovation include the multi-function “SENSO” window catch available since 2013, which has an integrated air conditioning and alarm function, and the hidden automatic “GO!TA12” door system, which was developed with the automotive sector. The aim is to combine expert knowledge and use this to develop new ideas, products and practical services.

In addition to VBH’s core business model, the subsidiary esco Metallbausysteme GmbH (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. Nearly 4,000 different items are now available under the systeQ label. Thanks to the development of special mounting constructions for façades for large properties, esco offers its customers bespoke individual system solutions. 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 more than 30 national markets worldwide and enjoys a leading position particularly in Germany and Eastern Europe. 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. Most of the Asian companies which previously belonged to the Other Markets segment were sold or discontinued as part of the strategic portfolio adjustment in 2012. However, the Latin America region is being developed further. The companies there have already assumed leading positions in the regional markets.

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

Objectives and strategies

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 more than 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 2013, the strategic adjustment of the country portfolio introduced in 2011 was largely completed. We achieved our aim of strengthening VBH as a Group and focusing on the core competences of VBH in its traditional product and service areas even more strongly in the remaining markets. Expansion took place solely in Latin America, where VBH's area of operations was extended to Argentina in 2009 and business was developed further in Mexico, Argentina and Chile in 2013.

The proprietary brands greenteQ (VBH) and systeQ (esco) are now an anchor point of the product 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 more than 3,000 items, greenteQ products now account for roughly 9 % of total sales at VBH Deutschland GmbH. In Germany, almost 50 % of customers order greenteQ products. The “greendoor” brand is also performing well with its 279 items. 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. Considerable successes are also being generated at product level and VBH has established itself as a centre of excellence. In addition to the established threshold system, the “SENSO” window handle available since 2013 is generating new impulses, thanks to its integrated air conditioning and alarm functions. VBH intends to continue pushing its proprietary brand systematically in 2014 and to accelerate the market penetration of greenteQ products on international markets. 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. With regard to higher production evidence requirements in line with the Construction Products Regulation, new attractive offers are expected from VBH in the near future. Even tool manufacturers now use the CE platform. 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 complicated 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 smart phones, 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, smartphone or the traditional approach by phone or in consultation with a member of our local sales team.

In summary, at VBH, we have repeatedly shown that we are successfully positioned in our core markets. There is no dealer in our sector that compares with us in size or in international reach. In 2014, we shall continue to work systematically within the framework of our strategic policies and we will not fail to live up to the confidence of our partners.

2. Economic report

2.1 OVERALL ECONOMIC AND SECTOR-SPECIFIC CONDITIONS

OVERALL ECONOMIC ENVIRONMENT

The global economy again grew somewhat more slowly in 2013 than in the previous year. The latest forecast by the International Monetary Fund (IMF) indicates that global gross domestic product (GDP) increased by 2.9 % in 2013. According to this forecast, the euro zone did not yet fully recover from the euro crisis and the debt crisis and therefore posted a decline of 0.4 %, as in the previous year. By contrast, the up-and-coming markets in emerging and developing countries recorded further growth, although this was somewhat lower than in 2012 at 4.5 %. Leading indicators point to a slight increase in global production in the future. In industrialised countries, the employment and real estate markets are expected to improve, which would then have a positive impact on domestic demand. Overall, global production is therefore expected to accelerate from 2.2 % in 2013 to 3.0 % in 2014.

GERMANY

The growth trend in the German economy was very changeable in 2013. After GDP stagnated quarter-on-quarter at the beginning of the year, catch-up effects could be observed in the second quarter (+0.7 %) and were also reflected in a year-on-year comparison (+0.9 %). The pace of growth slowed from the third quarter on (+0.3 %), but still led to a 0.4 % year-on-year increase in GDP on average in 2013. Continued growth is anticipated in 2014, with the Deutsches Institut für Wirtschaftsforschung (DIW – German Institute for Economic Research) forecasting a rise of 1.6 %.

Estimates by the Zentralverband des deutschen Baugewerbes (ZDB – Central Association for the German Construction Industry) indicate that the construction industry developed positively overall in 2013. According to the ZDB, there was a positive situation in residential construction, the sector relevant to VBH. Residential construction sales rose by 3.5 %, benefiting significantly from favourable interest rates in the euro zone. The number of new residential units completed increased from 177,000 in 2012 to approximately 200,000 in 2013. For 2014, the ZDB forecasts the completion of 225,000 residential units.

The ZDB expects the main construction trades to develop positively in 2014 and anticipates that growth in sales will improve again in comparison to 2013. This growth will be driven primarily by residential construction, with sales in this sectors expected to grow by 5.0 % in 2014.

Positive impetus is also expected from the increase in support measures in 2014. According to the ZDB, federal subsidies to KfW for housing modernisation programmes, mainly in relation to energy modernisation, were approved in a total amount of € 1.5 billion in 2013. The German construction industry associations campaigned strongly for the increase in subsidies and therefore hope for further positive impetus in 2014.

According to a sector study, some 13.1 million window units were marketed in the German window market in 2013, up 0.9 % on the previous year’s level. This low growth is attributable mainly to the unfavourable weather in the first quarter. A significant increase of 5.7 % to approximately 13.9 million window units is anticipated in 2014.

According to a study by Heinze GmbH, the modernisation volume in 2013 amounted to 8.1 million window units, representing year-on-year growth of 0.1 %. As a result of an increase in new construction activities, the share of windows sold in new construction climbed by 2.4 % to 5.0 million window units. Higher growth in both segments is forecast for 2014. The projections indicate that renovations will increase by 4.1 % to around 8.5 million window units, while new construction will post strong growth of 8.4 % to around 5.4 million window units. In residential construction, growth of 1.8 % is forecast for 2013 and 6.1 % for 2014. This corresponds to an increase in residential construction from 8.5 million window units to 9.0 million. After low growth in 2012, non-residential construction is expected to have contracted by 0.7 % in 2013, reaching a volume of 4.6 million window units. A renewed recovery is anticipated in 2014. The volume in non-residential construction is expected to reach 4.8 million window units, equivalent to year-on-year growth of 5.0 %.

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 are expected to account for 58 % of the total market still in 2014, as they have done since 2012. According to a sector study, the other types of materials will also break down as follows as in previous years: wooden windows 15 %, wood and metal windows 9 % and metal windows 18 %. As in previous years, the renovation and energy modernisation segment is the most important segment in the window market. 61.1 % of all windows produced are installed in this segment. The growth rate in this segment is lower than average at 4.1 %.

As in the previous year, the development of the exterior door market in Germany in 2013 was largely similar to that of the window market. Industry experts state that 1.3 million exterior doors were sold, corresponding to a 1.1 % increase as against 2012. Growth of 5.7 % is forecast for 2014, which would bring the volume of exterior doors to 1.4 million.

As in the window market, modernisation is the most important sales market for exterior doors. In the modernisation segment, the exterior door market stagnated in 2013 with very low growth of 0.2 %, equivalent to a volume of 0.92 million exterior doors. In 2014, experts anticipate growth of 4.3 % to 0.96 million exterior doors.

The types of material for exterior doors are virtually unchanged from 2012 to 2014, with PVC accounting for 32.6 %, metal for 32.5 %, wood for 25.5 % and other materials for 9.4 %.

WESTERN EUROPE

The recession in the euro zone seems to have been left behind during the first half of 2013. After a year and a half of declining economic performance, production increased by 0.3 % in the first six months of the year. While the economy in some countries recorded comparatively high growth, the decline in Italy and Spain slowed considerably. The British economy overcame its stagnation. The economic recovery was partly due to a significant rise in exports. Concerns about the future of the monetary union are also diminishing somewhat, with the effect that after more than two years private households and companies are increasingly deciding to make investments again.

The Western European construction industry did not develop in line with the overall economic development, but rather continued its decline in 2013. According to ING Bank, the Dutch construction industry reached its lowest point in 2013 with a 4 % decrease, and a slight rise is expected again in 2014. The Belgian and British construction sectors also posted declines of around 2 %. The construction sector association does not expect production in Belgium to increase again until 2014. In the opinion of the trade association in the UK, the sector could return to growth here, too, in 2014. The crises in the Irish and Italian construction industry were not overcome in 2013. In Ireland, the EU expects the decline in construction investments to be over by the end of 2014. In Spain, the downturn in the construction industry continued with diminishing intensity in 2013.

Low levels of construction activity continued to exert a negative impact on the window and door market in 2013. All of the Western and Southern European window and door markets relevant to VBH shrunk again. The market volume in Spain once again posted a double-digit decline, while the declines in the other markets in this segment slowed to a single-digit percentage rate.

EASTERN EUROPE

As in Western Europe, there are initial signs of an economic upturn in Eastern Europe, according to the economic forecast by ifo (ifo Institute – Leibniz Institute for Economic Research at the University of Munich). After just a few months in recession, Poland has returned to growth. Polish exports already rose by 6 % in the first six months of 2013. But Poland is not the only country where a recovery can be observed. Hungary and the Czech Republic also posted slight growth in 2013. According to a survey, sentiment among investors is improving throughout the whole Central Eastern European region. Despite all of the positive trends, the upturn in the region is fragile. The national economies in Eastern Europe, which are characterised mostly by high unemployment and low purchasing power of the population, are dependent to a large extent on demand from the West. If this demand diminishes, most of the national governments will not be able compensate for the resulting gap with public-sector investments. In Russia, economic growth slowed in 2013 according to Germany Trade & Invest (GTAI).

The majority of Eastern European countries were also unable to break free of the negative trend in the construction industry that predominated in Western Europe, and are therefore lagging behind the positive overall economic development. For example, construction output in Poland fell by 18 %. Industry experts also expect a decline of around 5 % in the Czech Republic, where the statistical office recorded a decrease of as much as 11 % in the first quarter of 2013. In 2014, industry representatives still anticipate a slight decline. Construction activity in Russia fell by 1.9 % during the first half of the year. In Hungary, a positive trend can be seen with growth of around 2 %. The Croatian construction industry also showed initial signs of recovery in 2013 after a downward trend lasting several years. This positive development is likely to continue in 2014 as a result of the first municipal projects with the new EU structural funds.

In line with the low level of construction activity, many of the window and door markets in Eastern Europe that are relevant to VBH shrank in 2013. In the opinion of the Executive Board, the Russian, Polish, Czech and Ukrainian markets in particular remained very subdued. The Baltic states posted slight growth. In the Balkans, the markets recorded at least a stabilising trend, with the exception of Slovenia.

OTHER MARKETS

In the Other Markets segment, Turkey and the Latin American region – particularly Mexico – were relevant in 2013. With economic growth of an expected 3.5 % in 2013, Turkey fell short of its growth target after a second weaker year. The huge boom of the past decade seems to have come to an end or at least been interrupted. Following mass anti-government protests, Turkey is slipping further into a political crisis. The Turkish economy is also at risk, since it is highly dependent on foreign investments and international investors are observing the developments in Turkey with increasing concern and have already withdrawn investments to a significant extent.

In October 2013, the International Monetary Fund (IMF) lowered its forecast for anticipated economic growth in Latin America to 2.7 % for 2013. However, the IMF anticipates a slight improvement again in 2014 and expects Latin America to generate economic growth of 3.1 %. The Mexican economy grew by 1.3 % in 2013; growth of 3.0 % is forecast for 2014.

Despite continued high property prices and considerable support from the state in the form of public-sector contracts, the Turkish construction industry is flagging. According to data from the Turkish Statistical Institute (Turkstat), there has been a continuous downward trend in companies' expectations since March 2013. In contrast to the economic slowdown in Turkey itself, international business of Turkish construction companies is experiencing a boom.

The construction industry in Mexico was negatively impacted in 2013 by restructuring of the residential construction policy and a change of government. The sector recorded a decline of 4.5 % in the first three quarters. However, public-sector investments were resumed around the middle of the year. In addition, a number of tenders that were originally planned for 2014 were brought forward to 2013 to provide a boost to the sector. The construction industry can therefore be expected to grow substantially again in 2014 due to the continued high demand for housing. The niche market of high-quality windows and doors in Latin America is continuing to post strong growth.

In Turkey, the window and door market declined by around 5 %, due primarily to a sharp drop in exports to the Arab region and North Africa.

2.2 EARNINGS, FINANCIAL POSITION AND NET ASSETS

2.2.1 SALES AND EARNINGS

Consolidated sales decreased by 7.3 % from € 746.6 million to € 692.4 million. In addition to the exit from various markets, particularly in the Other Markets segment, as part of the portfolio adjustments in 2012, this decline was also attributable to teething problems with the introduction of a new ERP system. The individual segments developed as follows:

Regions of VBH

In T €	2012	2013	Changes in %
Germany	421,054	390,192	-7.3
Western Europe	82,475	73,566	-10.8
Eastern Europe	253,511	243,455	-4.0
Other markets	22,824	12,142	-46.8
Consolidation	-33,285	-26,926	19.1
Group	**746,579**	**692,429**	**-7.3**

With a 54 % share of sales in 2012 and 2013, the Germany segment is the strongest segment in the Group. After the first quarter developed in line with the forecasts, sales losses were recorded at the largest German company from the second quarter on due to the difficult IT system changeover. Sales revenues in the Germany segment fell by 7.3 % year-on-year.

In the Western Europe segment, there was a further decline in sales revenue of 10.8 %, due mainly to the continued difficult economic conditions.

The sales performance in Eastern Europe was dominated by the large markets in Poland, Russia and the Czech Republic. Chiefly due to the decline on the Russian market, sales in this segment fell by 4.0 %.

Since the completion of the portfolio adjustments, the Other Markets segment consists of the companies in Turkey and Mexico and a purchasing company in China. The sales decline of 46.8 % is attributable mainly to the decrease in the number of companies in this segment.

The income statement for the Group as a whole is as follows:

Profit and Loss

In T €	2012	2013
Sales	**746,579**	**692,429**
Gross operating profit	**172,222**	**159,354**
Personnel expenses	94,504	82,989
Other operating income	16,674	15,973
Other operating expenses	90,674	75,640
EBITDA	**3,718**	**16,698**
Depreciation / Amortization	8,365	4,821
EBIT	**-4,647**	**11,877**
Financial result	**-9,825**	**-8,629**
EBT	**-14,472**	**3,248**
Current taxes	3,533	4,321
Deferred taxes	-413	5,617
EAT	**-17,592**	**-6,690**

The Group's absolute gross operating profit decreased, due primarily to the decline in sales revenues. The gross profit margin fell from 23.1 % in the previous year to 23.0 % in the current financial year. Staff costs decreased by € 11.5 million or 12.2 % from € 94.5 million to € 83.0 million, due mainly to the headcount reductions involved in the portfolio adjustments. Other operating expenses and income were € 14.3 million lower than in the previous year, chiefly as a result of cost-cutting measures and the discontinuation of the expenses for the previous year's portfolio adjustments. Depreciation and amortisation fell from € 8.4 million to € 4.8 million, due mainly to the discontinuation of impairment of goodwill and customer relationships (previous year: € 3.4 million).
As forecast in the previous year, growth in operating profits was achieved, although the EBIT margin of 1.7 % fell short of the anticipated level of 3 %. This was due in particular to the introduction of an ERP system at a German company, the effects of which weakened the basis for negotiation with customers in some cases.

Net finance costs improved from € -9.8 million in the previous year to € -8.6 million in the 2013 financial year. In the previous year, this item included amortisation of equity interests in the amount of € 1.8 million. EBT increased by € 17.7 million from € -14.5 million to € 3.2 million. Positives earnings before taxes were thus generated again after two years with losses. Deferred tax expenses of € 5.6 million were recognised in the financial year (previous year: deferred tax income of € 0.4 million).

Earnings before taxes on a par with the adjusted earnings for the 2012 financial year of approximately € 10 million had originally been expected for 2013. In an ad hoc disclosure on 16 October 2013, the Executive Board adjusted this earnings forecast to EBT of between € 5 million and € 6 million. This adjustment was required mainly as a result of the consequences of an IT system introduction at a German company and the associated teething problems and increased costs, as well as write-downs and currency effects at the subsidiary in Turkey. On 14 February 2014, VBH published another ad hoc disclosure adjusting the EBT forecast to € 3 million to € 3.5 million due to declines in earnings at VBH Deutschland GmbH as a result of teething problems with the software introduction.
The Group fell slightly short of its sales forecast of around € 700 million, generating sales of € 692 million. Although sales in the Germany segment were lower than expected due to the difficulties with the IT system changeover, this development was partly offset by positive deviations from planning, particularly in the Eastern Europe segment.

2.2.2 FINANCIAL POSITION AND NET ASSETS

Financial position

Total investments in the VBH Group amounted to € 7.1 million after € 9.5 million in the previous year (the figure for the previous year included investments in financial assets in the amount of € 1.8 million). € 5.1 million (previous year: € 5.2 million) was attributable to intangible assets and € 2.0 million to property, plant and equipment (previous year: € 2.5 million). Intangible assets are mainly acquisition costs relating to the introduction of a new ERP system in Germany.

Capex and depreciation

In € m	2012	2013
Capex (Investments in property, plant and equipment and intangible assets not including goodwill)	7.7	7.1
Depreciation on assets	7.1	4.8
Capex vs. depreciation ratio	1.1	1.5

Consolidated cash flow statement

The Group's cash flow continued to develop positively as a result of the improved consolidated earnings and a further reduction in inventories and receivables and thereby working capital of € 3.9 million. Working capital declined by € 17.9 million year-on-year. Operating cash flow amounted to € 15.2 million in the financial year, down from € 18.5 million in the previous year.

Cash flow from investing activities decreased from € -8.5 million to € -4.9 million, mainly because of investments in software products that were mostly made in the previous year. Free cash flow (total net cash inflows and outflows from operating and investing activities) remained almost constant at € 10.3 million (previous year: € 10.0 million). Cash flow from financing activities fell from € -12.5 million in the previous year to € -0.9 million. As at the end of the reporting period, cash and cash equivalents were € 9.5 million higher than at the start of the year at € 23.8 million.

Consolidated cash flow statement

In € m	2012	2013
Cash flow from operating activity	18.5	15.2
Cash flow from investing activity	-8.5	-4.9
Free Cash Flow	10.0	10.3
Cash flow from financing activity	-12.5	-0.9
Changes in cash and cash equivalents due to exchange rates and scope of consolidation	-0.5	0.1
Cash and cash equivalents at the beginning of the period	17.3	14.3
Cash and cash equivalents at the end of the period	14.3	23.8

Net assets

The Group's total assets were impacted mainly by a decrease in current assets. Total assets amount to € 241.1 million, having fallen by € 14.7 million from € 255.8 million. It should be noted here that previous year has been adjusted in accordance with IAS 8. This particularly affects pension provisions and deferred tax assets. Details and explanations regarding this can be found in note 2.1 to the consolidated financial statements.

Assets

In T €	31.12.2012	31.12.2013
Long-term assets		
Intangibles assets	25,111	28,407
Property, plant and equipment	25,693	23,350
Financial assets	447	446
Tax receivables	1,394	1,045
Other long-term assets	1,597	1,517
Deffered tax assets	10,536	3,821
Total	**64,778**	**58,586**
Short-term assets		
Inventories	91,360	83,674
Trade receivables	59,702	57,701
Trade receivables affiliated companies	1,686	1,214
Tax receivables	968	697
Other assets	18,170	15,397
Cash and cash equivalents	14,329	23,826
Total	**186,215**	**182,509**
Assets held for sale	4,792	0
Total assets	**255,785**	**241,095**

Within assets, non-current assets decreased from € 64.8 million to € 58.6 million in 2013. The € 3.3 million rise in intangible assets, attributable primarily to investments in new software in Germany, was largely offset by the decline in property, plant and equipment (€ 2.3 million) due to depreciation. Deferred tax assets fell by € 6.7 million from € 10.5 million to € 3.8 million. This was due mainly to the derecognition of deferred tax assets on loss carryforwards that could be used in the future in the German tax group.

Overall, current assets decreased from € 186.2 million to € 182.5 million. This change reflected a € 7.7 million decrease in inventories as a result of the reporting-date-related and market-driven reduction in inventories and improved inventory management, a € 2.0 million decline in trade receivables due to the sales decline, a € 0.5 million decrease in receivables from Group companies, and a sum of € 2.8 million in relation to other assets. As at the reporting date 31 December 2013, cash and cash equivalents increased by € 9.5 million from € 14.3 million to € 23.8 million due to loan drawdowns.

In the previous year, assets available for sale related primarily to the inventories of esco Metallbausysteme Austria GmbH which were reported here due to the sale of this subsidiary's activities as part of an asset deal in the first quarter of 2013.

Equity and Liabilities

In T €	31.12.2012	31.12.2013
Equity	**74,078**	**62,945**
Long-term liabilities		
Pension provisions	16,147	16,703
Other long-term provisions	3,641	2,191
Long-term financial liabilties	86,521	15,127
Other long-term liabilities	4,327	2,976
Deffered tax liabilities	2,551	2,577
Total	**113,187**	**39,574**
Short-term liabilities		
Short-term provisions	8,395	4,983
Short term financial liabilties	12,239	90,188
Advances received	1,519	1,190
Trade payables	26,665	23,748
Trade payables affiliated companies	0	55
Other short-term liabilities	19,471	18,271
Tax liabilities	231	141
Total	**68,520**	**138,576**
Total equity and liabilities	**255,785**	**241,095**

Primarily as a result of the net loss, equity decreased from € 74.1 million to € 62.9 million. The equity ratio in the Group decreased from 29.0 % in the previous year to 26.1 % in 2013, primarily reflecting the lower consolidated earnings due to derecognition of deferred taxes and foreign exchange losses.

Non-current liabilities declined from € 113.2 million to € 39.6 million. Financial liabilities, which fell by € 71.4 million, had a significant impact here. The main financing of the VBH Group is generated by a syndicated loan which is now classified as short-term (previous year: medium-term) based on the ongoing contract negotiations. For this reason, current financial liabilities increased by € 78.0 million. Overall, interest-bearing liabilities climbed by € 6.5 million from € 98.8 million to € 105.3 million. The Group's lines of credits granted by merchant banks (€ 130 million; previous year: € 125 million) provided VBH with adequate credit in the current financial year to pursue its operating activities and make necessary investments. The existing syndicated loan agreement, which was extended in August 2011 until 30 June 2016, required a substantial adjustment as a result of the change to the Group's structure, which was agreed with the syndicate banks in December 2012. The agreement is currently being revised again. For details, please refer to the information on financing risk in section 4.1 of this Group management report. The Group's net debt decreased from € 84.4 million to € 81.5 million. Gearing (net debt/equity) amounts to 129.5 % after 113.9 % in the previous year.

Trade payables declined by € 2.9 million compared to the previous year, while other current liabilities declined by € 1.2 million. Net working capital (defined as inventories plus trade receivables less trade payables) declined to the present figure of € 118.8 million after € 126.1 million in the previous year.

2.2.3 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 54.2 % (previous year: 54.0 %) of total Group sales, while Western Europe accounts for 10.2 % (previous year: 10.6 %), Eastern Europe for 33.9 % (previous year: 32.5 %) and Other Markets 1.7 % (previous year: 2.9 %).

Germany

The Germany segment comprises the two companies VBH Deutschland GmbH and esco Metallbausysteme GmbH (esco), which handle the customer groups of wood and PVC window manufacturers and metal workers.
The sales performance in the Germany segment fell short of our expectations in the 2013 financial year. After only slight sales declines in the first quarter owing to the long winter, lower market expectations and the effects of the introduction of a new ERP system at VBH Deutschland GmbH had a greater impact in the following quarters. Overall, the high level of sales from the previous year was not maintained and the segment closed with sales of € 390 million, down 7.3 % year-on-year and € 20 million behind the expectations. Success was achieved in the market penetration of greenteQ and systeQ products, and innovative products and useful construction solutions were also placed with customers. After the previous year had seen cost increases in the wake of the expansion phase of previous years, which were not offset by the initiation of cost-cutting measures until the middle of the year, the results of the first efficiency enhancement programme could be seen throughout the whole of 2013. However, the decline in earnings due to lower sales could not be offset by cost savings.
Despite a decrease in sales, esco produced an encouraging increase in earnings. However, there was still a decline in operating segment earnings.
EBIT in this segment deteriorated by € 8.0 million from € 13.0 million in the previous year to € 5.0 million. An increase in EBIT had been forecast but was not achieved due to the difficulties mentioned above. As a result, the EBIT margin also decreased to 1.3 % (previous year: 3.1 %).

The average number of employees decreased by 70.

Germany

In T €	2012	2013
Total sales	421,054	390,192
EBITDA	14,189	7,101
EBIT	12,965	4,956
Number of employees	1,048	978

Abroad

After the portfolio adjustment was largely completed in the previous year, VBH focussed on strengthening its position in existing markets.
In Western Europe, the restructuring of the Belgian companies was completed in 2013. In Eastern Europe, the focus was on handling the high-volume markets in Russia, Central Eastern Europe and the Baltic states. The Other Markets segment now only consists of the operating companies in Turkey and Mexico and the purchasing company in China.

Western Europe

In the Western Europe segment, consisting of the markets of the UK, Ireland, Italy, Belgium, Spain, the Netherlands and Austria, sales declined from € 82.5 million to € 73.6 million overall due to market-related and structural factors. This further decline in sales of around 10.8 % is the result of the difficult economic environment in the majority of Western and Southern European countries. This particularly impacted the companies in Italy and Spain. In Belgium, a defined core business was transferred to a single Belgian entity. The UK benefited from stable conditions in the construction industry and reported growth in earnings. At other companies, the previous year’s losses were reduced further.

EBIT of the Western European companies increased from € -9.5 million in the previous year to € 2.2 million. The loss-making situation in the previous year was influenced by factors including extraordinary effects from the portfolio adjustment and restructuring (€ -6.5 million). In addition, an effect from the sale of the main assets of the Austrian subsidiary of € 1.1 million contributed to the improvement in earnings in 2013.

On average, there were 39 employees fewer than in the previous year.

Western Europe

In T €	2012	2013
Total sales	**82,475**	**73,566**
EBITDA	**-8,375**	**2,645**
EBIT	**-9,511**	**2,162**
Number of employees	**270**	**231**

Eastern Europe

The Eastern Europe segment consists of Central Eastern Europe, the CIS countries and Southeast Europe. Sales in this segment, the most important international segment for VBH, declined in 2013 due to the predominantly weak general economic situation. The Baltic states were for the most part unaffected by these conditions, allowing the company in Lithuania in particular to post a significant increase in sales and earnings. The companies in Estonia, the Czech Republic, Bulgaria, Kosovo and Kazakhstan also recorded a positive performance. Russia, VBH's biggest market, posted a decline of around 10 % but is still producing above-average results for the Group. There was a similar situation at the Polish companies.

The average number of employees decreased by 50.

Eastern Europe

In T €	2012	2013
Total sales	**253,511**	**243,455**
EBITDA	**17,411**	**14,252**
EBIT	**15,661**	**12,632**
Number of employees	**1,216**	**1,166**

Other Markets

Since the completion of the extensive portfolio measures, the Other Markets segment consists of VBH's activities in Turkey, Mexico and China (purchasing company).

As expected, there was a year-on-year decline in sales from € 22.8 million to € 12.1 million (down 46.8 %). EBIT amounted to € -1.3 million after € -2.3 million in the previous year. The company in Mexico recorded the strongest performance with growth in EBIT of over 40 %. In Turkey, the loss due to the completed restructuring was reduced significantly. Owing to the numerous measures implemented in the previous year, the comparative figures are informative only to a limited extent and must be considered in the light of the portfolio adjustment.

The average number of employees decreased by 93 to 91 employees.

Other Markets

In T €	2012	2013
Total sales	22,824	12,142
EBITDA	-2,068	-1,231
EBIT	-2,327	-1,314
Number of employees	184	91

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. At VBH Holding AG, further costs in addition to operating costs for the parent company arose, mainly in the previous year, due to the implementation of the strategic consolidation concept as well as expenses for the sale and liquidation of affected companies.

EBIT decreased from € -20.9 million in the previous year to € -5.5 million. In the previous year, impairment losses and expenses for the closure or liquidation of several companies had been incurred as part of the portfolio adjustment, but these were incurred only to an insignificant extent in the year under review.

The average number of employees increased by 11 to 56 employees, who primarily support the management and central functions in VBH Holding AG for the Group subsidiaries.

Corporate Services

In T €	2012	2013
Total sales	0	0
EBITDA	-20,296	-5,099
EBIT	-20,867	-5,535
Number of employees	45	56

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 impairment of goodwill and purchase price allocations, which are not allocated to the segments for internal controlling purposes. Deconsolidation effects are also reported in this segment.

3. SUPPLEMENTARY REPORT

As a result of the changed earnings forecast for the 2013 financial year, which was confirmed in the fourth quarter, it became apparent that the financial covenants agreed in the syndicated loan might be breached. For this reason, a standstill agreement was concluded with the financing banking syndicate. This agreement was last amended on 14 February 2014, with the effect that the syndicate suspends its extraordinary termination rights until 31 July 2014 on this basis. An amendment to the loan agreement is to be drawn up by this date.

On 14 February 2014, the Executive Board announced in an ad hoc disclosure that, according to the provisional status of the preparation and auditing of the consolidated financial statements, positive earnings before taxes would be generated again for the first time in the 2013 financial year after two years with losses, but that these earnings would be lower than previously forecast (€ 5 million to € 6 million) at around € 3 million to € 3.5 million.

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

4. OPPORTUNITIES AND RISK REPORT AND FORECAST

4.1 OPPORTUNITIES AND RISK REPORT

Worldwide business activities naturally entail a number of risks and opportunities. In order to achieve VBH's goals, potential opportunities and risks are analysed responsibly on a continuous basis. VBH defines risks as events which may have negative internal or external effects that could jeopardise the qualitative and quantitative company goals. As a group operating in many countries, VBH is exposed to a range of different risks that impact the business and, in extreme cases, could affect the existence of the Company. Risks that can be monitored comprehensively can be accepted as long as they are outweighed by the corresponding opportunities. There is a particular potential for danger with risks that are unrecognised and therefore not controlled or managed.

A risk management system is in place in order to enable early identification of risks and to analyse their causes as well as to assess and prevent or at least minimise risks. This includes a system for early identification of risks threatening the existence of the Company in accordance with section 91(2) AktG. The risk management system regulates the identification, assessment, analysis, documentation and reporting of risks, and is an integral component of the management system. It makes a material contribution to allowing the Company to pursue its strategic and operational goals successfully and profitably.

The VBH risk management system is based on two key pillars:
- 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.
- 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, there are opportunities for the Group as a whole from transferring the competitive advantages enjoyed by individual Group companies to other companies where there is still scope for increasing the competitive advantages in comparison to their competitors. This relates mainly 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.
As a result of the adjustment of the investment portfolio implemented over the past years, VBH can now concentrate on its core markets. In the German companies, concepts and organisational structures are monitored for efficiency and are revised and adjusted where necessary. Work to successively standardise IT structures and processes within the Group has already begun. This will allow common hardware and software resources to be established and managed centrally across the Group by VBH Holding AG. This will significantly increase transparency within the Group and thus also manageability of the individual Group companies and will support the creation of cost-efficient working procedures. Further optimisation in current assets can be achieved by means of the reciprocal exchange of information and goods between the Group companies. In addition, centrally accessible data provides further opportunities for synergies from bundling the sales mix and procurement.
Further improvement in the Western and Southern European economies in particular could offer further opportunities. After several crisis years followed by a slight bottoming out, sales and gross operating profit could increase sustainably, thereby supporting risk-bearing capacity.

Risk management system

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

Risks were identified at all VBH companies every six months during the financial year and the information was aggregated from country to Group level according to a standard process. This approach means that the persons responsible at all levels are involved in the risk management process.
This 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 and liabilities structure and risks of current business operations on the other hand. These risks are then measured using risk scores and EBT@risk. After analysing the findings obtained at country level, these are aggregated at Group level. In addition to the material recording and presentation of risks, particular emphasis is placed on open dialogue with all requisite decision-makers, so that appropriate countermeasures can be instigated without delay for all recorded risks in consultation with the Executive Board. This central role is performed by VBH's Risk Controlling Committee, which consists of the relevant Group controllers and regional managers, the Group Risk Manager and the Chief Financial Officer and reports to the Audit Committee in regular meetings.
In this committee, countermeasures are developed and instigated together with the relevant managers and are subsequently followed up by the Group Risk Manager and the regional managers. 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. 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.

Regular reporting system of the Group companies

The regular reporting system of the Group companies 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 continuous basis. The aim is to ensure an effective, intensive and rapid early warning system for all markets, allowing 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. In addition, the Group companies report data for monthly internal reporting and quarterly external reporting using standardised templates approved by Controlling.

Internal Auditing

The aim of Internal Auditing is to ensure compliance in VBH-specific 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. Information from the risk management system is taken into account appropriately in this process.

Compliance management system

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 complies with ethical principles. Directives and codes have been stipulated to this end and communicated within the VBH Group. These chiefly include the code of conduct, numerous compliance directives and rules of procedure, compliance with which is mandatory for all subsidiaries. These rules of procedure govern the structure of internal relations for the representative bodies of the subsidiaries. The code of conduct is published on the company’s website and is thus publicly accessible.

However, compliance must amount to more than listing rules of this kind and passing them on to employees. Rather, its aim should be to firmly establish 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 is informed of the status of the compliance management system in regular meetings so that the Compliance Officer can continuously refine it and adjust it to the constantly changing requirements in consultation with the Executive Board.

The Supervisory Board also receives reports on the current status 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.

MARKET RISKS

Economic conditions as a significant risk

The individual companies within the VBH Group are dependent on the economic performance of individual regions and sectors. As a result, the VBH business model is subject to a global, general economic risk, although the effects of cyclical and economic fluctuations are mitigated by the Group’s presence in 29 countries. In addition to structural factors, such fluctuations may also be caused by political factors. The effects of the current political situation on the economic performance of our companies in Ukraine and the CIS countries are difficult to estimate due to the current crisis situation in Crimea. In 2013, VBH generated 34 % of its sales in the Eastern Europe segment.
In 2013, VBH generated 54 % of its sales in Germany and 10 % in Western Europe. The occurrence of difficulties throughout Europe such as the European debt and financial crisis may therefore have a significant negative impact on VBH’s sales and earnings position.
The VBH Group counters the risk of a sales downturn by regularly analysing and adjusting the structure of its sales mix, orienting its product programme to the requirements of the customer structure and making cost adjustments at individual companies. This is aided by the Group's service range which supplements the product range with additional services, such as the vbh24 service platform, CE-fix designation, and the introduction of high-profitability products with substantial margins under the greenteQ and systeQ brand names.
Further diversification is achieved because the Group companies are in different phases of corporate development. The portfolio includes newly founded and young companies which experience dynamic growth which is largely unaffected by economic fluctuations, as well as long established companies, which tend to follow the general economic cycle in their development. In recent years, it has become clear that there is also a downside to globalisation, such as the debt and financial crisis, in which hardly any regions or sectors were able to avoid the downturn due to the strong interconnection of the global economy. All segments are affected by this risk.

Dependence on a limited number of important suppliers

Although the individual regional markets differ in terms of their stage of development and the available suppliers and manufacturers, the number of suppliers and manufacturers in individual areas remains limited. Therefore, the lack of a wide range of alternatives results in dependence in individual markets on large suppliers and manufacturers, meaning that discontinuing a business relationship may have a significant impact on VBH’s sales and results of operations. However, VBH has reduced this dependence by introducing and expanding its proprietary brands greenteQ and systeQ, since the manufacturers of individual propriety brand products can be substituted at short notice. As a result of VBH’s market position, many medium-sized suppliers are reliant on the sales and marketing channels of the Group subsidiaries, meaning that there is often mutual dependency with suppliers in regional markets.

Risk of maintaining inventories

For VBH as a trading company, rapid delivery to customers is essential, making it necessary to maintain inventories with an appropriate stock level so as to be able to respond to customers’ needs within the shortest possible time. This results in risks from technical changes to and price trends for the product range. VBH meets this risk with continuous monitoring of warehouse stock. Inventories are analysed to ensure the range is adequate and up-to-date, enabling the Group to be pro-active in finding options for utilisation of stock within and outside the Group as a whole.

FINANCIAL RISKS

Financing risk

VBH Holding AG and its German subsidiaries receive their main financing from five banks via a syndicated credit line with a total volume of € 100 million. This agreement has a credit period lasting until 30 June 2016.

The obligations under the syndicated loan stipulate that VBH must comply with specific financial covenants as at the end of the respective quarters, as well as other requirements. For example, a maximum level is set for the ratio of net financial debt to net assets (asset coverage), as well as minimum levels for the ratio of EBITDA to net interest expense (interest coverage) and the ratio of equity to total assets (equity ratio). In certain circumstances, as a result of the other risks described above, it may not be possible for VBH to comply with these financial covenants for the entire duration of the loan. The lenders have extraordinary termination rights in the event that VBH breach these conditions. They also have an extraordinary termination right in the event of a change of control. If the extraordinary termination right is exercised, the loans drawn down under the syndicated credit line would be due for repayment immediately. As this syndicated credit line constitutes the Group's main source of financing, it is a substantial factor in the continued existence of the Group. To ensure the continuation of the syndicated financing, strict controlling of operating activities and improved liquidity management are performed throughout the Group.

On 16 October 2013, the Executive Board published an ad hoc disclosure announcing a change in the earnings forecast for the 2013 financial year. After the Executive Board previously expected the Group to generate earnings before taxes (EBT) on a level with the adjusted earnings in the 2012 financial year of around € 10 million, this forecast was adjusted to positive EBT of between € 5 million and € 6 million after two years with losses.

In connection with this changed earnings forecast, it became apparent that the financial covenants agreed in the syndicated agreement might be breached. As part of standstill agreements, the banking syndicate agreed in the fourth quarter of 2013 to suspend its rights to call in the loan and the obligation to comply with individual financial covenants. The existing standstill agreement was replaced by a new version on 14 February 2014 and the standstill period was extended until 31 July 2014. The Executive Board had aimed for an extension in this form so as to take account of the information from the changed business development in 2013 in the syndicated agreement. This amendment agreement will include adjusted loan conditions on the basis of the revised planning for subsequent years.

The Executive Board expects that the requirements for successfully concluding the amendment agreement are either already met or will be met and that the syndicated loan will therefore be continued. These requirements relate mainly to revising the submitted Group planning to include additional specific measures for sustainably increasing earnings. It is necessary to conclude the amendment agreement for the syndicated loan so as to ensure the continued existence of VBH.

In order for the syndicated financing to be continued, the VBH Group must ensure that negative deviations from the corporate planning submitted to the banks that would lead to the planned loan utilisation being exceeded are prevented as far as possible. To counter such negative deviations, strict controlling of operating activities and improved liquidity management are performed in the whole Group.

Foreign currency risk

VBH Group operates global and hence in various different currency zones. This results in both transaction-related and translation-related foreign currency risks.

Transaction risk arises both from Group financing and from the purchase and sale of goods and services not invoiced in the local currency of the respective VBH company. This is the case particularly in the Eastern Europe and Other Markets segments. This transaction risk is limited to some extent by purchasing products in the currency in which they are later sold.
Existing foreign currency risks are analysed by the Treasury department and can be limited by using financial derivatives.

By contrast, translation risk results from the fact that many VBH Group companies are based outside the euro zone, while VBH Holding AG consolidated financial statements are prepared in euro. This means that the statements of financial position and income statements of these subsidiaries have to be translated into euro in the course of consolidation. VBH Holding AG intends to continue holding these equity interests in the long term and therefore elects not to directly hedge net asset items.

Interest rate risk

As the syndicated credit line constitutes the Group's main source of financing and the loan tranches provided under this credit line bear interest at a floating rate, VBH is exposed to the risk of fluctuating market interest rates, which could impact net interest. Sensitivity analyses are conducted to quantify interest rate risks. To limit negative effects, interest rate derivatives as used as an element of the interest hedging strategy. During the financial year, a large portion of the consolidated loan was hedged against fluctuating market interest rates using interest rate derivatives in the amount of € 73 million.
The financing costs for the syndicated loan are also affected by VBH Holding AG's credit rating. On 30 April 2013, VBH Holding AG was given a new rating of BB with stable outlook by Euler Hermes Rating Deutschland GmbH. This rating has not been changed since. As a result of the market risks described, a downgrading of the credit rating might occur in certain circumstances. For VBH, this would be associated with a rise in the loan margin and consequently an increase in financing costs.

Default risk

Owing to its business activities with third parties in various sectors, the VBH Group is exposed to a default risk resulting from the possibility of non-performance on the part of a contract counterparty. To minimise default risk at the companies concerned, a comprehensive credit control system has been implemented. In this context, 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. VBH sets individual customer credit limits and also seeks to work with credit insurers in order to protect itself at least partially from defaults.

OTHER RISKS

Staff risks

The success of VBH is dependent on the members of the Executive Board, qualified managers and employees in key positions, the loss of whom could result in a significant negative impact on the market position and outlook. Important skills may be lost or become accessible to competitors, as there is no guarantee that VBH will be able to retain these managers and key employees and recruit new employees with the appropriate qualifications. VBH therefore takes active steps to obtain the commitment of its current qualified managers and important employees through performance-related remuneration systems.

Legal risks

As a result of its international focus, the VBH Group operates in a large number of national and transnational jurisdictions, which means that it must observe a wide range of laws and regulations. VBH avoids the risk of changes in these laws by systematically monitoring the respective legal environments and consulting internal and external legal advisers at an early stage where necessary. All contracts of material significance are subject to a legal review.

Despite taking precautions in order to observe rules and regulations, VBH Holding AG and its subsidiaries may become plaintiffs or defendants in legal disputes in Germany and abroad. For example, the legal action involving VBH Hellas AE brought about in 2010 regarding embezzlement by the local management is still pending. In the wake of this, a Greek auditing firm was also sued, which in turn filed a counterclaim. Owing to the legal proceedings initiated by VBH, tax risks could arise in Greece.

In Turkey, enforcement proceedings were initiated against the local company VBH Kapi ve Pencere, against which an appeal has been filed, because VBH believes the proceedings were initiated fraudulently. A complaint has been filed against those involved.

In a few cases, VBH Holding AG issued non-binding letters of intent, known as a soft letter of comfort, for its subsidiaries. Uncertainties could arise with regard to the legal assessment. In Italy, a local bank is claiming payment entitlements from a soft letter of comfort from VBH Holding AG. As a precaution, VBH Holding AG in Germany has filed an action for a declaratory judgment of non-existence of an obligation to pay.

IT risks

Companies are becoming increasingly dependent on the availability and reliability of IT systems and the networking of individual company units. To limit the risks this entails, extensive preventive steps have been taken, such as installing firewall systems and virus protection, setting up a back-up computer system and holding data protection training sessions for employees. The implementation of largely standardised IT structures within the Group should enable future work to be carried out more effectively and efficiently. In this regard, VBH aims to centralise all of the subsidiaries' IT systems at the parent company in order to benefit from the security of professionally administered IT centres.
Despite careful preparation, changeovers to new ERP systems may lead to delays or hold-ups in processes. Furthermore, the changeover processes may have a negative impact on customer loyalty. In the case of VBH Deutschland GmbH, this situation arose on a one-off basis in spring 2013, leading to an intensified focus on winning back customers.

Risks from acquisitions, sales, restructuring and closures

The acquisition of or investments in companies and their integration into the Group always entails risks that could jeopardise the long-term success of the company. To prevent this, business, legal and tax-based due diligence reviews and are carried out at the time of acquisition and afterwards.

The portfolio adjustments within the existing country portfolio of the Group companies that were already implemented in the previous year have largely been completed. The programme of measures included selling or closing certain subsidiaries as well as restructuring others. Since these measures were associated with risks for VBH, they were continuously monitored by the corporate development department and by external consultants. In the process of liquidation of individual subsidiaries, it is not possible to rule out the existence of residual risks from their closure.

Tax risks connected with future utilisation of tax loss carry forwards and interest carry forwards due to changes in the Company's shareholder structure

In accordance with section 8c of the Körperschaftsteuergesetz (KtSG - German Corporation Tax Act), non-utilised tax loss carryforwards and interest carryforwards and recurrent losses can no longer be used proportionally if 25 % to 50 % of shares in a company are transferred to a third-party purchaser within five years. If more than 50 % of the shares are transferred to another person within this period, the availability of the carryforwards is generally entirely lost.

Tax risks associated with earlier assessment periods

Assessment periods which have not yet been audited may give rise to additional tax expenses at the German and international subsidiaries. The last tax audit for the German companies included the tax assessment periods up to and including 2007. Currently, routine tax audits for the assessment periods 2008 to 2010 are being carried out in the German subsidiaries.

Statement on the overall risk situation

In the past financial year, the Executive Board considers that VBH's risk situation has stabilised further, particularly due to the completion of the withdrawal from unprofitable and risky markets and the focus on significant core markets. However, compared with the 2012 financial year, the following individual risks have increased:

- Financing risk from the syndicated loan agreement currently being revised
- Changeable economic situation in Eastern Europe
- Effects of the current crisis in Crimea on the Eastern Europe segment

Group-wide risk management contributes significantly to ensuring that these overall risks are transparent and managed within the Group. Apart from the pending conclusion of the amendment agreement for the syndicated loan and the associated continuation of the financing, as described under financing risk, there are currently no risks which individually or collectively jeopardise the continued existence of the company.

4.2 FORECAST

Anticipated developments on global markets will only help the VBH Group to a limited extent in achieving its targets in 2014. This means that VBH will have to plan conservatively, manage flexibly and use its extensive range of innovative services to increase market share. Detailed analysis has shown that the individual segments are influenced by different factors.

In 2014, experts expect the global economy to grow by approximately 3.2 %. This is a slight improvement compared with the previous year (2.4 %). While emerging and developing countries continued to post strong growth, industrialised countries emerged from a crisis that had lasted years and thus represent the basis for a sustainable development. Residential construction also benefited from continued low interest rates and subsidies for energy modernisations. Nonetheless, it remains to be seen whether unexpected factors will curb the forecast growth. If the rising trend continues, a further increase is expected in the subsequent years 2015 and 2016.

In Germany, experts from the Institut für Wirtschaftsforschung (ifo) are assuming that the economic turnaround has probably been completed. In view of this improvement in the economic outlook, gross domestic product (GDP) is expected to grow by 1.6 % year-on-year in 2014 and by as much as roughly 2.0 % in 2015. Sales in the construction industry are also expected to grow by 3.5 % in 2014. According to a study by the four leading industry associations, further growth in the window market is expected in 2014. The professional association of window and façade manufacturers forecasts a 5.7 % increase in sales volumes on the German window and exterior door market in comparison to 2013.
Overall, the Germany segment will also be the segment generating the highest sales for VBH in 2014 (around 60 % of total sales). After overcoming the problems in relation to the introduction of a new ERP system, we expect sales and earnings in this segment to be at the previous year's level.

In Central and Eastern European countries, initial signs of an economic recovery are now anticipated. Countries with stronger links to the euro zone, such as the Czech Republic and Poland, are expected to perform better. By contrast, the IMF has lowered its growth forecast for Russia by one percentage point to 2.0 %. In Turkey, the World Bank is forecasting growth of around 4.5 % in 2014, which would represent a recovery in comparison to 2013.
In light of the high level of uncertainty with regard to further developments in Ukraine and in Turkey, no forecast can be issued for the CIS and Southeast Europe markets. The exchange rate development is still risky, meaning that at present it is not yet possible to predict its effects on the companies' results. A steady level of sales is expected in Central Eastern Europe.

After the general parameters for the Western European economy improved already in 2013, the ifo economic forecast anticipates that the economy will continue to develop moderately in almost all parts of the region in 2014, albeit to very different degrees. The driving force here will be foreign trade. However, variation between the individual member states will remain at a very high level. The UK, Ireland and Spain in particular are expected to be able to take advantage of their price competitiveness. In Italy, by contrast, there is still no sign of an improvement.
At the Western European VBH companies that were not profitable in 2013, a significant improvement in earnings is planned by means of more wide-reaching cost reductions and sales increases. The restructuring in Belgium was successfully completed in 2013 and the earnings situation is therefore expected to stabilise in 2014.

In Latin America, IMF experts expect a slight year-on-year increase in growth to approximately 3.1 % in 2014. The momentum already anticipated for 2013 is expected to materialise in 2014, which will benefit the countries relevant to VBH: Chile is expected to grow by 4.4 % in 2014, Argentina by 3.5 % and Mexico by 1.2 %.
The small Latin American subsidiaries are thus expected to generate significant growth potential still in 2014.

Overall, the Executive Board expects the development of sales and earnings before taxes to remain constant in 2014 in comparison to 2013.

2014 financial year

In the first two months of the current year, sales and earnings of the VBH Group were at the previous year's level and therefore considerably higher than expected. The international companies in particular are exceeding their targets. In Germany, customer sales that were lost during the IT changeover in 2013 are being successfully regained. In various international markets, it will be necessary to mitigate the effects of economic and political uncertainties in the Group. VBH intends to take advantage of the opportunity to establish itself further as a dealer and a service provider and generate competitive advantages through economies of scale. There is still a particular emphasis on increasing efficiency and on stringent cost and receivables management.

5. 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 289a (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, most recently on 13 May 2013. 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 on 21 March 2014, 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 22 March 2013. For the period from 23 March to 10 June 2013, the declaration below pertains to the version of the Code dated 15 May 2012, which was published in the electronic Federal Gazette on 15 June 2012. For the period from 11 June 2013 onwards, the declaration below pertains to the version of the Code dated 13 May 2013, which was published in the electronic Federal Gazette on 10 June 2013.
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 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 4.2.2.
In determining Executive Board remuneration, the Supervisory Board takes account of how it relates to the remuneration of the senior management and of the staff. Developments over time are also taken into account overall in this context. However, no fixed criteria for differentiation are defined in advance. In the opinion of the Supervisory Board, Executive Board remuneration can be agreed appropriately without defining fixed differentiation criteria, as the legal criteria of the appropriateness of responsibilities and performance, the company's situation and customary levels of remuneration represent the decisive criteria.

Code 4.2.3.
The Supervisory Board has not defined a target level of provision for the existing retirement benefit obligations for the members of the Executive Board. In the opinion of the Supervisory Board, the necessary flexibility to achieve appropriate results for the company depending on the situation is maintained even if no target level of provision is defined. In future, the Supervisory Board will use the previously agreed retirement benefit obligations as a basis.

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 4.2.5.
The additional information on the structure of the remuneration report for financial years beginning after 31 December 2013 that was added in the amendment of the German Corporate Governance Code dated 13 May 2013 is not broken down into benefits granted and allocations. The Executive Board has not proposed to the Annual General Meeting that it adopt a resolution to deviate from the individualised disclosure of Executive Board remuneration, and does not intend to do so in the future either. Rather, an extensive and detailed remuneration report is prepared. The Supervisory Board considers the resulting transparency with regard to the remuneration of the individual Executive Board members to be sufficient and appropriate. Additional information will not achieve any increase in transparency.

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.

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 non-expiring 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 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 the German One-Third Employee Participation Act, 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 the German One-Third Employee Participation Act. 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. Based on his previous professional activity and as an independent tax consultant, the Chairman of the Audit Committee currently in office, Mr Gerhard Sommerer, has extensive experience 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, 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 found in the Supervisory Board report, 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 Rules of Procedure of the Supervisory Board, dated 20 January 2010, reflect 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 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, risk management and compliance 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 responsibilities of the Executive Board are as follows:

- Rainer Hribar (Chairman of the Board): Strategy, Sales and Marketing and Logistics and Category Management
- Jürgen Kassel (CFO): Controlling, Accounting, Finance, Investor Relations, Auditing and Taxes, HR (each from 1 April 2013), IT and Legal (each from 1 January 2014)
- Frieder Bangerter (Executive Board member until 31 December 2013): Controlling, Accounting, Finance, Investor Relations, Auditing and Taxes, HR (each until 31 March 2013), IT and Legal (each until 31 December 2013)
- Ulrich Lindner (revocably released from duties since 21 May 2013): prior to his release from duties, Sales for the Western and Southern Europe and Central and South America regions, Marketing

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 (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 and updates this on the company website.

Accounting, auditing and risk management

The consolidated financial statements of VBH Holding AG are prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs); the Group management report, the annual financial statements and the 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 Group management report (opportunities and risk report) in 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 13 May 2013.

The Executive Board and Supervisory Board of VBH Holding AG have reviewed the revised recommendations in detail and last updated the declaration of compliance in March 2014 and published this on the company website. The declaration of compliance was reviewed in the Supervisory Board meeting on 21 March 2014. Any deviations from the recommendations of the German Corporate Governance Code as amended on 13 May 2013 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 (www.vbh-holding.com).

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

In accordance with the WpHG, VBH Holding AG publishes directors' dealings disclosures in accordance with section 15a WpHG, i.e. disclosures of securities transactions in VBH 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 also published on the company's website (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.

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. The code of conduct is published on the company's website. 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 middle of 2012, the audit function of the VBH Group has been supplemented with an internal auditor. The auditor is supported by independent auditors and their international networks, particularly with regard to the audit of international companies. In cooperation with the analysts from the risk management system and the Executive Board, all Group subsidiaries are reviewed systematically in order to highlight weaknesses early and introduce solutions. The risk manager supports the work of Internal Auditing.
The risk management system is developed annually, including in 2013. The risks of individual companies are analysed and presented uniformly to communicate a comprehensive status for the individual company and its impact on the Group. 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 Chief Executive Officer directs business operations for the areas of Strategy, Sales, Marketing, Logistics and Category Management. The Chief Financial Officer is responsible for Controlling and Accounting, Finance, Investor Relations, Internal Auditing and Taxes, HR, IT and Legal. The regional directors 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 has issued rules of procedure for the Executive Board outlining actions/transactions conducted by the latter requiring Supervisory Board approval. The Supervisory Board has also established 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 pages 7-9 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 six times in 2013.

The Supervisory Board of VBH Holding AG has established the following three committees: the Audit Committee, the Human Resources 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 2012. The Human Resources Committee met once in the year under review. The Strategy, Marketing and Sales Committee did not meet in 2013, since the areas covered by the committee were discussed in the ordinary Supervisory Board meetings.

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 rules, 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.

6. 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 - German 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.

The shares are listed in the Prime Standard and are traded on the regulated market.

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.

General information on the management structure

VBH Holding AG maintains a divided management and supervisory structure in its governance bodies, the Executive and Supervisory Boards. The Annual General Meeting is the third executive body of the company.

Equity interests above 10 %

As at 31 December 2013, 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, as 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) WpHG that his voting rights in VBH Holding AG, Korntal-Münchingen, Germany, had fallen below the 25 % reporting 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, Germany, notified the company on 17 June 2009 in accordance with section 21(1) WpHG that its share in the voting rights of VBH Holding AG, Korntal-Münchingen, Germany, had exceeded the 10 %, 15 %, 20 % and 25 % thresholds on 15 June 2009 and amounted to 25.1 % (11,493,689 voting rights) on this date.

Mr Viktor Trenev, Russia, notified the company on 8 October 2012 in accordance with section 21(1) WpHG that his share in the voting rights of VBH Holding Aktiengesellschaft, Korntal-Münchingen, Germany, had exceeded the 25 % threshold on 4 October 2012 and amounted to 25.5 % (11,700,445 voting rights) on this date. 25.5 % of the voting rights (11,700,445 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 8 October 2012 in accordance with section 21(1) WpHG that its share in the voting rights of VBH Holding Aktiengesellschaft, Korntal-Münchingen, Germany, had exceeded the 25 % threshold on 4 October 2012 and amounted to 25.5 % (11,700,445 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 of 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 five-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 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.

Until May 2013, the share capital of the company was also 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 served to cover exercised option rights issued by an Annual General Meeting authorisation from 24 May 2004 (share option plan) until 24 May 2009.

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.

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 Übernahmerichtlinie-Umsetzungsgesetz (ÜbernRLUG - German 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.

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

Legal background

The Bilanzrechtsmodernisierungsgesetz (BilMoG - German Accounting Law Reform Act) enacted 29 May 2009 amended sections 289 and 315 HGB and sections 120 and 175 AktG. Pursuant to this 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.

Subject of the report

According to the legal justification of the reform act, 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) and a corresponding separation of functions is ensured.
- The IT systems used for accounting are protected against unauthorised access.
- The financial systems used run primarily 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 the audit of the consolidated financial statements.
- The dual control principle is applied to all accounting-related processes without exception if the size of the individual company permits.
- 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. In addition, they are involved in the process of risk management.

- 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 checks 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 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.

8. 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 (VortsAG - 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.

Because of the loss-making situation in the Group in the past financial year, as in the previous year the variable remuneration results solely from the discretionary variable bonus geared to long-term strategy and personal performance targets. As in 2012, a performance-related variable bonus was not applied in the past financial year either. In 2012 Mr Hribar had independently waived his discretionary bonus due to the company's loss-making situation. Executive Board agreements do not contain any explicit severance commitments in the event of premature termination of employment. Members of the Executive Board do not receive loans from the company.

Executive Board remuneration broke down as follows:

Executive Board remuneration

	2012			
in T €	**Fix**	**Variable**	**Non-cash benefits**	**Total**
Rainer Hribar	336	0	80	416
Frieder Bangerter	300	30	17	347
Ulrich Lindner (from 01.02.2012)	275	55	20	350
Total	**911**	**85**	**117**	**1,113**

	2013			
in T €	**Fix**	**Variable**	**Non-cash benefits**	**Total**
Rainer Hribar	376	30	90	496
Jürgen Kassel (from 01.02.2013)	275	30	10	315
Frieder Bangerter	300	0	16	316
Ulrich Lindner (until 21.05.2013 operational)	300	0	13	313
Total	**1,251**	**60**	**129**	**1,440**

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 does not have any options outstanding from earlier option programmes. As at 31 December 2013, Mr Hribar held 459,684 shares and Mr Kassel held 82,891 shares. Supervisory Board members held a total of 10,000 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 or 63.

Former Executive Board members and their surviving dependants received total benefits of € 383 thousand in the past financial year (previous year: € 440 thousand). Defined benefit obligations (DBO) under IFRS for all pension commitments to former Executive Board members, managers and their surviving dependants totalled € 6.0 million in the 2013 financial year (previous year: € 7.0 million). Defined benefit obligations for all IFRS pension commitments amounted to € 1,521 thousand for Mr Hribar (previous year: € 1,246 thousand), € 727 thousand for Mr Kassel (previous year: € 598 thousand), € 224 thousand for Mr Bangerter (previous year: 182 T €) and € 181 thousand for Mr Lindner (previous year: € 87 thousand). Additions in the reporting year totalled € 540 thousand (previous year: € 555 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 € 5,000 for each chairmanship of a Supervisory Board committee, and by an additional € 2,500 for each deputy 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 2012 and 2013 to the Supervisory Board. As a result, the Supervisory Board will lose their variable remuneration for both financial years. Supervisory Board members' remuneration for the 2013 financial year amounts to € 148 thousand (previous year: € 160 thousand).

Supervisory Board remuneration

in T €	2012 Fix Basis remuneration	2012 Fix Committee remuneration	2012 Total
Prof. Rainer Kirchdörfer	24	15	39
Andreas Schill (until 26.09.2012)	14	11	25
Matthias Linnenkugel	13	15	28
Martin Morlok	12	5	17
Klaus Meichner	12	13	25
Stephan M. Heck (until 30.09.2012)	9	8	17
Gerhard Sommerer (from 01.10.2012)	3	3	6
Stefan Huber (from 01.10.2012)	3	1	4
Total	**90**	**70**	**160**

in T €	2013 Fix Basis remuneration	2013 Fix Committee remuneration	2013 Total
Prof. Rainer Kirchdörfer	24	13	37
Matthias Linnenkugel (until 22.05.2013)	8	6	14
Martin Morlok	12	5	17
Klaus Meichner	12	11	23
Gerhard Sommerer	16	9	25
Stefan Huber	12	5	17
Thorsten W. Albrecht (from 22.05.2013)	8	7	15
Total	**92**	**56**	**148**

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 € 37 thousand for the financial year 2013 (previous year: € 97 thousand). In addition to issues relating to company law, payments to the law firm resulted primarily from the ongoing support provided in relation to syndicated financing.

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

9. EMPLOYEES

In the past financial year, the VBH Group employed on average a total of 2,522 people compared to 2,763 in the previous year. As a result, VBH employs 241 fewer people than in the previous year. The human resources measures already initiated in 2012 as a result of the portfolio adjustments and an efficiency enhancement programme did not become fully effective until 2013, since they were carried out during the course of the financial year.

Abroad, the number of people employed decreased by 182 from 1,670 in the previous year to 1,488.

The change in the total number of employees breaks down across the segments as follows:

Average number of employees abroad

	2012	2013	Change
Germany	1,048	978	-70
Western Europe	270	231	-39
Eastern Europe	1,216	1,166	-50
Other Markets	184	91	-93
Corporate Services	45	56	11
Total	**2,763**	**2,522**	**-241**

VBH places particular emphasis on vocational training. In 2013, there were 84 trainees completing apprenticeships at VBH (previous year: 81 trainees). In additional to vocational training, VBH offers training opportunities in many areas.

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.


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Consolidated financial statements

OF VBH HOLDING AKTIENGESELLSCHAFT AS AT 31 DECEMBER 2013

Consolidated balance sheet

Assets

In T €	Notes	01.01.2012 *	31.12.2012 *	31.12.2013
Long-term assets				
Intangibles assets	5.1	24,416	25,111	28,407
Property, plant and equipment	5.2	27,375	25,693	23,350
Financial assets	5.3	456	447	446
Tax receivables	5.7	1,748	1,394	1,045
Other long-term assets	5.5	1,585	1,597	1,517
Deffered tax assets	5.8	9,552	10,536	3,821
Total		**65,132**	**64,778**	**58,586**
Short-term assets				
Inventories	5.4	109,523	91,360	83,674
Trade receivables	5.5	76,369	59,702	57,701
Trade receivables affiliated companies	5.5	2,838	1,686	1,214
Tax receivables	5.7	1,174	968	697
Other assets	5.5	20,791	18,170	15,397
Cash and cash equivalents	5.6	17,328	14,329	23,826
Total		**228,023**	**186,215**	**182,509**
Assets held for sale	5.9	0	4,792	0
Total assets		**293,155**	**255,785**	**241,095**

* The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1.

Equity and Liabilities

In T €	Notes	01.01.2012 *	31.12.2012 *	31.12.2013
Equity				
Subscribed capital	5.10	45,879	45,879	45,879
Capital reserve	5.10	18,812	10,624	9,553
Revenue reserve	5.10	24,545	12,757	2,410
Equity attributable to shareholders of VBH Holding AG		**89,236**	**69,260**	**57,842**
Minority interests	5.10	6,151	4,818	5,103
Total		**95,387**	**74,078**	**62,945**
Long-term liabilities				
Pension provisions	5.13	12,975	16,147	16,703
Other long-term provisions	5.14	3,221	3,641	2,191
Long-term financial liabilties	5.11	76,037	86,521	15,127
Other long-term liabilities	5.11	1,915	4,327	2,976
Deffered tax liabilities	5.15	3,312	2,551	2,577
Total		**97,460**	**113,187**	**39,574**
Short-term liabilities				
Short-term provisions	5.14	6,623	8,395	4,983
Short term financial liabilties	5.11	30,341	12,239	90,188
Advances received	5.11	805	1,519	1,190
Trade payables	5.11	36,443	26,665	23,748
Trade payables affiliated companies	5.11	0	0	55
Other short-term liabilities	5.11	25,472	19,471	18,271
Tax liabilities	5.12	624	231	141
Total		**100,308**	**68,520**	**138,576**
Total equity and liabilities		**293,155**	**255,785**	**241,095**

* The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1.

CONSOLIDATED INCOME STATEMENT

In T €	Notes	2012	2013
Sales	6.1	**746,579**	**692,429**
Total operating profit		**746,579**	**692,429**
Costs of raw materials, supplies and purchased merchandise	6.2	574,357	533,075
Gross operating profit		**172,222**	**159,354**
Personnel expenses	6.3	94,504	82,989
Other operating income	6.4	16,674	15,973
Other operating expenses	6.5	90,674	75,640
EBITDA		**3,718**	**16,698**
Depreciation / Amortization	6.6	8,365	4,821
EBIT		**-4,647**	**11,877**
Other interest and similar income		338	208
Interest and similar expenses		8,355	8,837
Depreciation on financial assets and securities		1,808	0
Financial result	6.7	**-9,825**	**-8,629**
EBT		**-14,472**	**3,248**
Current taxes	6.8	3,533	4,321
Deferred taxes	6.9	-413	5,617
EAT		**-17,592**	**-6,690**
Minorities	6.10	-250	223
Net result after Minorities		**-17,342**	**-6,913**
EPS in €	6.11	**-0.38**	**-0.15**

TOTAL COMPREHENSIVE INCOME FOR THE PERIOD OF VBH GROUP

In T €	2012 *	2013
Earnings after taxes (EAT)	**-17,592**	**-6,690**
thereof attributable to shareholders of VBH AG	-17,342	-6,913
thereof attributable to minorities	-250	223
Non reclassifiable gains/losses	**-2,068**	**-158**
Actuarial gains/losses from pension provisions	-2,068	-158
thereof deferred taxes	886	68
Reclassifiable gains/losses	**842**	**-3,233**
Changes in IAS 39 Hedge Accounting	-1,292	152
thereof deferred taxes	554	-1,239
Currency differences	2,134	-3,385
Total changes of value in equity	**-1,226**	**-3,233**
thereof attributable to shareholders of VBH AG	-1,277	-3,025
thereof attributable to minorities	51	-208
Total comprehensive income for the period	**-18,817**	**-9,923**
thereof attributable to shareholders of VBH AG	-18,618	-9,938
thereof attributable to minorities	-199	15

* The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1.

CONSOLIDATED CASH FLOW STATEMENT

In T €		2012	2013
	EBT	**-14,472**	**3,248**
+	Depreciation on tangible assets	10,173	4,821
+/-	Increase/decrease in long-term provisions	637	-1,119
+/-	Other non-cash income/expense	242	-403
-	Taxes paid	-4,249	-3,302
+/-	Interest paid / received	8,161	8,629
=	**Cash earnings**	**493**	**11,874**
-/+	Increase/decrease in inventories	13,037	8,592
-/+	Increase/decrease in trade receivables	17,718	1,697
+/-	Increase/decrease in short-term provisions	2,594	-2,539
+/-	Increase/decrease in liabilities	-15,449	-3,877
=	**Total changes in working capital**	**17,900**	**3,873**
-/+	Profit/loss from the disposal of non-current assets	57	-590
=	**Cash flow from operating activity**	**18,450**	**15,157**
-	Cash outflows for investments in intangible assets	-4,777	-4,517
-	Cash outflows for investments in tangible assets	-2,305	-2,422
-	Cash outflows for investments in financial assets	-1,800	-19
+	Cash inflows from disposal of intangible assets	4	21
+	Cash inflows from disposal of tangible assets	441	1,548
-/+	Payments for acquisition and disposal of consolidated companies	-235	300
+	Interest received	223	187
=	**Cash flow from investing activity**	**-8,450**	**-4,903**
=	**Free Cash Flow**	**10,000**	**10,255**
-/+	Cash outflows for repayment of loans	-5,038	6,554
-	Interest paid	-6,968	-6,927
-	Dividends paid	-504	-494
=	**Cash flow from financing activity**	**-12,510**	**-866**
=	**cash and cash equivalents**	**-2,510**	**9,389**
+	Changes in cash and cash equivalents due to exchange rates and scope of consolidation	-489	109
+	Cash and cash equivalents at the beginning of the period	17,328	14,329
=	**Cash and cash equivalents at the end of the period**	**14,329**	**23,826**

STATEMENT OF CHANGES IN GROUP EQUITY

Statement of changes in group equity

In T €	Capital stock	Capital reserve	Revenue reserve	Thereof Reserve currency translation
Balance at 01 January 2012 reported	**45,879**	**18,812**	**23,654**	**-8,102**
Adjustments according to IAS 8			891	
Balance at 01 January 2012 adjusted*	**45,879**	**18,812**	**24,545**	**-8,102**
Changes to the consolidated Group			566	685
Acquisition / Disposal of minority interests			-1,263	-13
Effects of currency translation according to IAS 29			-639	
Total comprehensive income	**0**	**0**	**-1,277**	**2,083**
Payout				
Changes in retained reserves and other changes		-8,188	-9,153	
Other changes			-24	
Balance at 31 December 2012 adjusted*	**45,879**	**10,624**	**12,757**	**-5,347**
Balance at 01 January 2013 reported	**45,879**	**10,624**	**13,934**	**-5,347**
Adjustments according to IAS 8			-1,177	
Balance at 01 January 2013 adjusted*	**45,879**	**10,624**	**12,757**	**-5,347**
Changes to the consolidated Group			-490	-187
Acquisition / Disposal of minority interests			-952	-6
Effects of currency translation according to IAS 29			-42	-42
Total comprehensive income	**0**	**0**	**-3,025**	**-3,177**
Payout				
Changes in retained reserves and other changes		-1,071	-5,890	
Other changes			52	
Balance at 31 December 2013	**45,879**	**9,553**	**2,410**	**-8,759**

* The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1.

Thereof Cashflow-hedge reserve	Thereof actuarial gains / losses reserve	Net profit	Equity attributable to shareholders of VBH AG	Minority interests	Treasury shares	Group equity
-1,599	**0**	**0**	**88,345**	**6,151**	**0**	**94,496**
	158		891			891
-1,599	**158**	**0**	**89,236**	**6,151**	**0**	**95,387**
		0	**566**	-49		**517**
			-1,263	-414		**-1,677**
			-639			**-639**
-1,292	**-2,068**	**-17,341**	**-18,618**	**-199**	**0**	**-18,817**
		0	**0**	-675		**-675**
		17,341	**0**	0		**0**
			-24	4		**-20**
-2,891	**-1,910**	**0**	**69,260**	**4,818**	**0**	**74,078**
-2,891	**0**	**0**	**70,437**	**4,818**	**0**	**75,255**
	-1,910		**-1,177**			**-1,177**
-2,891	**-1,910**	**0**	**69,260**	**4,818**	**0**	**74,078**
		0	**-490**	-61		**-551**
			-952	937		**-15**
			-42			**-42**
152	**-158**	**-6,913**	**-9,938**	**15**	**0**	**-9,923**
		0	**0**	-650		**-650**
		6,913	**-48**	48		**0**
			52	-5		**47**
-2,739	**-2,068**	**0**	**57,842**	**5,103**	**0**	**62,945**

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 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 2013 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 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 in the consolidated financial statements 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.

Owing to the comprehensive streamlining of the portfolio and the accompanying negative effects on earnings in the 2012 financial year, the comparability of figures in the 2013 consolidated financial statements with those of the previous year is limited.

2. IASB accounting provisions

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 2013:

First-time adoption in the current financial year

Standard	Amendment/new regulation
IFRS 13	Harmonisation of fair value measurement
IAS 1 amendments	Modified presentation of statement of comprehensive income
IAS 19 amendment	Adjustment of accounting for employee benefits
IFRS 1	Severe hyperinflation and removal of fixed dates for first-time adopters
IFRS 7	Offsetting financial assets and financial liabilities
IAS 12	Deferred taxes: Recovery of underlying assets
IFRIC 20	Stripping costs in the production phase of a surface mine
Improvements to IFRS (2009 - 2011)	Amendments to standards IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34

These standards and amendments to standards have the effects on the consolidated financial statements of VBH described below.

There are deviations from the accounting policies and the presentation applied in the IFRS consolidated financial statements for the period ended 31 December 2012 as a result of the amended standards IAS 1 on the presentation of financial statements and IAS 19 on accounting for employee benefits, which are effective from 1 January 2013. The new standard IFRS 13 did not result in any material changes or adjustments.

The amended standard IAS 1 results in a modified presentation of the statement of comprehensive income. Following the amendment of this standard, the items of other comprehensive income must be presented separately. A distinction is made here between items that are never reclassified to the income statement (non-reclassifiable) and items that are reclassified to the income statement under certain circumstances (reclassifiable). In addition, the corresponding tax effects must be allocated to these two groups. VBH has restated its statement of comprehensive income accordingly.

Accounting for employee benefits was also adjusted as a result of the amendments to IAS 19. There are significant effects on pension provisions from the discontinuation of the corridor method for actuarial gains and losses, which are now to be reported under other comprehensive income when they arise. In this context, an additional column was included in the statement of changes in equity in the area of retained earnings for “thereof” items for actuarial gains and losses.

The amended IAS 19 is applied retroactively and in accordance with IAS 8. Accordingly, the adjusted items of the statements of financial position as at 1 January 2012 and 31 December 2012 and the total comprehensive income of 2012 are stated below. Lines have been added to the statement of changes in equity to show the adjustments to the opening balances as at 1 January 2012 and as at 1 January 2013.

In addition to the changes in accounting policies and presentation, deferred taxes relating to pension provisions based on deviations between the tax accounts and the commercial accounts in accordance with HGB, which had not been previously recognised, were recognised in the first quarter. This correction was also presented retroactively as at 1 January 2012 in accordance with IAS 8. Deferred tax assets totalling € 733 thousand are recognised retroactively as at 1 January 2012.

The retroactive adjustments to the statement of financial position were as follows:

Assets

In T €	Amount reported 01.01.2012	Adjustment	Amount adjusted 01.01.2012
Long-term assets	64,352	780	65,132
Deffered tax assets	8,772	780	9,552
Total assets	292,375	**780**	**293,155**

Equity and Liabilities

In T €	Amount reported 01.01.2012	Adjustment	Amount adjusted 01.01.2012
Equity	94,496	891	95,387
Revenue reserve	23,654	733	24,387
Accumulated comprehensive income*		158	158
Equity attributable to shareholders of VBH AG	88,345	891	89,236
Non-current liabilities	**97,571**	**-111**	**97,460**
Pension provisions	13,201	-226	12,975
Deferred tax liabilities	3,197	115	3,312
Total equity and liabilities	292,375	**780**	**293,155**

Assets

In T €	Amount reported 31.12.2012	Adjustment	Amount adjusted 31.12.2012
Long-term assets	63,375	1,403	64,778
Deffered tax assets	9,133	1,403	10,536
Total assets	254,382	**1,403**	**255,785**

Equity and Liabilities

In T €	Amount reported 31.12.2012	Adjustment	Amount adjusted 31.12.2012
Equity	75,255	-1,177	74,078
Revenue reserve	13,934	733	14,667
Accumulated comprehensive income*		-1,910	-1,910
Equity attributable to shareholders of VBH AG	70,437	-1,177	69,260
Non-current liabilities	**110,607**	**2,580**	**113,187**
Pension provisions	13,418	2,729	16,147
Deferred tax liabilities	2,700	-149	2,551
Total equity and liabilities	254,382	**1,403**	**255,785**

* Accumulated other comprehensive income includes the adjustments to actuarial gains and losses from pension provisions.

The following changes were subsequently made to the 2012 statement of comprehensive income on account of the amendment of IAS 19:

Statement of comprehensive income of VBH Holding AG

In T €	Amount reported 2012	Adjustment	Amount adjusted 2012
Earnings after taxes (EAT)	**-17,592**	**0**	**-17,592**
thereof attributable to shareholders of VBH AG	-17,342	0	-17,342
thereof attributable to minorities	-250	0	-250
Non reclassifiable gains/losses	**0**	**-2,068**	**-2,068**
Actuarial gains/losses from pension provisions	0	-2,068	-2,068
thereof deferred taxes	0	886	886
Reclassifiable gains/losses	**842**	**0**	**842**
Changes in IAS 39 Hedge Accounting	-1,292	0	-1,292
thereof deferred taxes	554	0	554
Currency differences	2,134	0	2,134
Total changes of value in equity	**842**	**-2,068**	**-1,226**
thereof attributable to shareholders of VBH AG	791	-2,068	-1,277
thereof attributable to minorities	51	0	51
Total comprehensive income for the period	**-16,749**	**-2,068**	**-18,817**
thereof attributable to shareholders of VBH AG	-16,550	-2,068	-18,618
thereof attributable to minorities	-199	0	-199

In the previous year, miscellaneous non-current assets and other assets include tax receivables from corporation tax credit of VBH Holding AG. These were retroactively reclassified to non-current and current tax receivables (1 January 2012: € 1,748 thousand and € 281 thousand; 31 December 2012: € 1,394 thousand and € 348 thousand).

2.2 PUBLISHED STANDARDS NOT YET EFFECTIVE

New or amended standards and interpretations already endorsed by the EU that apply to financial years beginning after 31 December 2013 are outlined below.

Amendments to IFRS endorsed in EU law for financial statements beginning on or after 1 January 2014

Standard	Titel	Mandatory application for financial years beginning from
IFRS 10	Consolidated Financial Statements	01.01.2014
IFRS 11	Joint Arrangements	01.01.2014
IFRS 12	Disclosure of Interests in Other Entities	01.01.2014
IAS 27	Separate Financial Statements	01.01.2014
IAS 28	Investments in Associates and Joint Ventures	01.01.2014
IAS 32	Offsetting Financial Assets and Financial Liabilities	01.01.2014
IAS 39	Novation of derivates and continuation hedge accounting	01.01.2014

All listed standards are not applied by VBH Holding AG until the date of mandatory first-time adoption. According to the analyses performed, they have no material effect on accounting for the 2014 financial year.

The following standards becoming effective in the coming year have not yet been endorsed in applicable EU law:

Standards not yet endorsed in applicable EU law

Standard	Titel	Mandatory application for financial years beginning from
IFRS 9	Financial instruments	01.01.2018

The first-time adoption of the changes or amendments to the standards not yet endorsed in EU law is not expected to have any or any notable effect on the consolidated financial statements of VBH Holding AG.

3. Principles of consolidation and scope 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. This is usually the case when the share of voting rights is 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 remeasured 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 companies already included in consolidation, 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.

SCOPE OF CONSOLIDATION

Overview of equity interests as at 31 December 2013 in accordance with section 313 (2) HGB (German Commercial Code)

Fully consolidated companies	Registered office location	Country	Percentage equity held in %	Status as at 31.12.2013*
Germany				
esco Metallbausysteme GmbH	Ditzingen	Germany	100,0%	a
VBH Deutschland GmbH	Korntal-Münchingen	Germany	100,0%	a
Abroad				
Western Europe				
VBH Belgium NV	Beringen	Belgium	100,0%	a
VBH Hody Belgium S.A.	Marche en Famenne	Belgium	100,0%	i
VBH (GB) Limited	Gillingham	United Kingdom	100,0%	a
Galro (Ireland) Limited	Dublin	Irland	100,0%	a
VBH Italia S.r.l.	Bozen	Italy	50,0%	a
VBH Nederland B.V.	Oosterhout	Netherlands	100,0%	a
VBH Malum, S.L.	Barcelona	Spain	68,4%	a
esco Metallbausysteme Austria GmbH (indirect via esco Metallbausysteme GmbH)	Eugendorf	Austria	100,0%	a
Eastern Europe				
VBH Dems d.o.o.	Sarajevo	Bosnia and Herzegovina	100,0%	a
VBH Bulgaria OOD	Sofia	Bulgaria	93,0%	a
VBH Estonia AS	Rae vald	Estonia	100,0%	a
TOO VBH	Almaty	Kazakhstan	55,0%	a
VBH-Kosovo L.L.C.	Fushe Kosove	Kosovo	80,0%	a
VBH Okovi d.o.o.	Zagreb	Croatia	100,0%	a
SIA VBH Latvia	Riga	Latvia	100,0%	a
UAB VBH-TBM	Vilnius	Lithuania	70,0%	a
VBH-OFIR S.R.L. (Kischinau (indirect via VBH LLC))	Kischinau	Moldawia	80,0%	a
VBH Montenegro d.o.o.	Podgorica	Montenegro	100,0%	a
esco-Polska Sp.z.o.o. (indirect via esco Metallbausysteme GmbH)	Warschau	Poland	89,8%	a
VBH Polska Sp.z.o.o.	Warschau	Poland	93,3%	a
SC VBH Romcom SRL	Targu Mures	Romania	100,0%	a
VBH Rekta ZAO (indirect via VBH OOO (St. Petersburg) and VBH SIB OOO)	St. Petersburg	Russia	100,0%	a
VBH SIB OOO	Omsk	Russia	100,0%	a
VBH OOO	St. Petersburg	Russia	100,0%	a
VBH Trgovina d.o.o.	Skofja Loka	Slovenia	100,0%	a
VBH, Vereinigter Baubeschlag-Handel, s.r.o.	Prag	Czech Republic	100,0%	a
VBH LLC	Browary	Ukraine	51,0%	a
VBH Budapest Kft	Budapest	Hungary	100,0%	a
VBH BEL IP	Minsk	Belarus	100,0%	a

Fully consolidated companies	Registered office location	Country	Percentage equity held in %	Status as at 31.12.2013*
Abroad				
Other Markets				
Guangzhou VBH Construction Hardware Trading Co. Ltd.	Guangzhou	China	100,0%	a
Beijing VBH Construction Hardware Co., Ltd.	Peking	China	100,0%	i
VBH MEXICO S.A. de C.V.	Puebla	Mexico	70,0%	a
VBH Kapi ve Pencere Sistemleri San. Ve Tic. A.S.	Bagcilar/Istanbul	Turkey	98,36%	a
Segment Corporate Services				
Gedalia Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Mainz	Germany	100,0%	a

Unconsolidated companies	Registered office location	Country	Percentage equity held in %	Status as at 31.12.2013*
Abroad				
Western Europe				
VBH Hellas S.A.	Thessaloniki	Greece	100,0%	i
C.D.A. S.r.l. (indirect via VBH Italia Holding S.p.A.)	Bologna	Italy	100,0%	i
VBH Italia Holding S.p.A.	Bologna	Italy	100,0%	i
C.D.A. Cagliari S.r.l. (indirect via VBH Italia Holding S.p.A.)	Cagliari	Italy	10,0%	i
VBH S.r.l. (indirect via VBH Italia Holding S.p.A.)	Fogliano Redipuglia	Italy	100,0%	i
VBH Holding Americas S.L.	Barcelona	Spain	100,0%	i
Eastern Europe				
VBH Siecom EOOD	Plovdiv	Bulgaria	100,0%	i
Lokman OÜ (indirect via VBH Estonia AS)	Tallinn	Estonia	100,0%	i
UAB VBH Vilnius	Vilnius	Lithuania	100,0%	i
OOO esco RUS (indirect via esco Metallbausysteme GmbH)	Moskau	Russia	99,0%	i
VBH Slovakia s.r.o. (indirect via VBH Polska Sp.z.o.o.)	Bratislava	Slovakia	100,0%	i
VBH Ofir DP (Dnepropetrowsk (indirect via VBH LLC))	Dnepropetrowsk	Ukraine	100,0%	i
VBH Ofir DP (Kharkow (indirect via VBH LLC))	Kharkow	Ukraine	100,0%	i
VBH Ofir DP (Lwow (indirect via VBH LLC))	Lwow	Ukraine	100,0%	i
VBH Ofir DP (Makeewka (indirect via VBH LLC))	Makeewka	Ukraine	100,0%	i
VBH Ofir DP (Simferopol (indirect via VBH LLC))	Simferopol	Ukraine	100,0%	i
VBH-OFIR DP (Vinnitsa (indirect via VBH LLC))	Vinnitsa	Ukraine	100,0%	i
VBH (Cyprus) LTD	Limassol	Cyprus	100,0%	i
Other Markets				
Steelpro S.R.L.	Buenos Aires	Argentina	96,0%	a
VBH Chile SpA	Santiago de Chile	Chile	100,0%	a
Shanghai VBH Construction Hardware Co. Ltd.	Shanghai	China	65,0%	a
VBH Holding India Pvt. Ltd.	New Delhi	India	100,0%	i
VBH Malaysia SDN. BDH.	Petaling Jaya	Malaysia	100,0%	i

Unconsolidated companies	Registered office location	Country	Percentage equity held in %	Status as at 31.12.2013*
V.B.H. Trading L.L.C. (indirect via VBH Middle East FZCO)	Dubai	United Arab Emirates	100,0%	i
VBH Middle East FZCO	Dubai	United Arab Emirates	100,0%	i

*) **a** for active company, **i** for inactive company

The share of capital for all companies (except VBH Italia S.r.l.) is equal to the share of voting rights.

VBH Italia S.r.l., in which VBH Holding AG holds 50 % of shares, is included in consolidation on account of the passive nature of the other shareholders, which provides VBH with a de facto majority and therefore control over the company.

Number of consolidated companies of the VBH Group

Fully consolidated companies	Domestic	Abroad	Total
January 01, 2012	**3**	**52**	**55**
Additions	0	0	0
Disposal	0	-3	-3
Other changes	0	-1	-1
December 31, 2012	**3**	**48**	**51**
Additions	0	0	0
Disposal	0	-9	-9
Other changes	0	-6	-6
December 31, 2013	**3**	**33**	**36**

Other changes relate to mergers of companies.

Changes in the scope of consolidation

Additions to the scope of consolidation

No companies were included in consolidation for the first time in the 2013 financial year.

The non-controlling interest of 40 % in VBH Galro, Ireland, was transferred to VBH Holding AG free of charge in January 2013. VBH Holding AG is thus the sole shareholder of this subsidiary.

A capital increase was performed at VBH Kapi ve Pencere Sistemleri San. ve Tic. A.S., Istanbul (Turkey), in March 2013. As the minority shareholders did not participate in this capital increase, the share held by VBH Holding AG increased from 90.74 % to 98.36 %.

In August 2013, VBH Holding AG acquired 5 % of the shares in VBH Latvia, Latvia, for a purchase price of € 15 thousand, and therefore now holds all shares in the company.

Disposals from the scope of consolidation

As at 28 March 2013, VBH ZP, Belarus, which was held indirectly via VBH Polska Sp.z.o.o., Poland, was deleted from the commercial register. The deconsolidation effect amounted to € -261 thousand and essentially resulted from the currency translation reserve. VBH Polska Sp.z.o.o. held all shares in the company.

Effective 31 March 2013, the Ferro-Wic operations of esco Metallbausysteme Austria GmbH, Austria, and esco Metallbausysteme GmbH, Germany, were sold as part of an asset deal. The purchase price was € 6.2 million and chiefly related to inventories, intangible assets and property, plant and equipment. The asset deal generated income of € 1.7 million, which is mainly included in other operating income. This income is partly offset by expenses for settlement totalling € 0.8 million. The assets affected by the asset deal were reported under assets held for sale as at 31 December 2012. The company in Austria has thus sold its main assets and largely discontinued operations.

In late February 2013, a purchase agreement subject to a condition precedent for the 65 % interest in VBH Shanghai was concluded with the joint venture partner. The company was deconsolidated as at 1 April 2013 due to a loss of control with an effect on earnings of € -255 thousand.

The following companies were also deconsolidated:

Company	Country	Share	Date of disposal	Effect in € thousand
VBH Malaysia SDN. BDH.	Malaysia	100 %	30.06.2013	-90
VBH Middle East FZCO	V.A.E.	100 %	30.06.2013	135
VBH Trading L.L.C. (Middle East subgroup)	V.A.E.	100 %	30.06.2013	-
VBH Hellas S.A.	Griechenland	100 %	30.09.2013	-5
VBH Siecom EOOD	Bulgarien	100 %	30.09.2013	-54
UAB VBH Vilnius	Litauen	100 %	30.09.2013	-21

The companies had already been discontinued and were removed from the scope of consolidation due to materiality. The deconsolidation effects resulted largely from the reserve for currency translation. In total, the Group derecognised current assets of € 365 thousand and current liabilities of € 129 thousand as a result of the deconsolidation.

The main assets of the Belgian company VBH Hody Belgium S.A. were transferred to VBH Belgium NV as at 1 July 2013 as part of an asset deal. VBH Hody Belgium S.A. discontinued operations with this transaction.

In July, 1.5 % of the shares in TOO VBH, Kazakhstan, were transferred to a minority shareholder, with the result that VBH Holding AG's shareholding now amounts to 55.0 %.

VBH Holding AG sold 4 % of its shares in Steelpro S.r.l., Argentina, to a minority shareholder and now holds 96 % of the shares. This transaction was entered in the commercial register on 15 July 2013.

LG Fasteners Ltd., UK, in which VBH (GB) Ltd. held all shares, was deleted from the commercial register as at 26 November 2013. The deconsolidation effect amounted to € -16 thousand. LG Fasteners Ltd. had already transferred its operations to VBH (GB) Ltd. in 2008.

Other changes in the scope of consolidation

Six Ukrainian companies, that VBH Holding AG held indirectly through VBH LLC, Ukraine, were merged with VBH LLC, Ukraine. The mergers had no effect on profit or loss at Group level. The following companies were merged with VBH LLC:

Company	Date of merger
VBH Ofir DP (Kharkow)	01.09.2013
VBH-OFIR DP (Vinnitsa)	01.11.2013
VBH Ofir DP (Makeewka)	01.11.2013
VBH Ofir DP (Simferopol)	01.12.2013
VBH Ofir DP (Dnepropetrowsk)	01.12.2013
VBH Ofir DP (Lwow)	30.12.2013

UNCONSOLIDATED COMPANIES

The 25 % interest in VBH Kaukasus, Georgia, was sold to the majority shareholder for € 1 in February 2013.

The companies VBH Service S.r.l., Italy, VBH Australia PTY. Ltd., Australia, VBH VIETNAM CO. LTD, Vietnam, and VBH Ofir DP (Odessa), Ukraine, were deleted from the commercial register in the financial year.

As a result of the merger of the six Ukrainian sub-subsidiaries with the subsidiary VBH LLC, Ukraine, the empty shell companies were deconsolidated and are in liquidation.

V.B.H. Trading L.L.C., UAE, which was indirectly held through VBH Middle East FZCO, UAE, was deleted on 26 February 2014.

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.

Borrowing costs are recognised in the statement of financial position in accordance with IAS 23.

In accordance with IFRS 5, 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.

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 for the change in purchasing power resulting from inflation. In 2013, as in the two previous years, this affected the subsidiaries 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 2013 measured against the consumer price index was 16.5 % in Belarus (previous year: 21.8 %).

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

Currency translation

Country	Currency unit	Mid-market rate per € on balance sheet date		Weighted average rate per € for the year under review	
		31.12.2012	31.12.2013	2012	2013
Bulgaria	BGN	1.9559	1.9558	1.9559	1.9558
China	CNY	8.2117	8.3491	8.1125	8.1925
United Kingdom	GBP	0.8154	0.8337	0.8122	0.8496
Kazakhstan	KZT	198.2064	212.4628	190.9874	202.4511
Croatia	HRK	7.5616	7.6265	7.5089	7.5767
Latvia	LVL	0.6982	0.7028	0.6976	0.7019
Lithuania	LTL	3.4524	3.4528	3.4525	3.4528
Mexico	MXN	17.1986	18.0350	17.0003	17.0437
Poland	PLN	4.0929	4.1543	4.1825	4.2166
Romania	RON	4.4392	4.4710	4.4793	4.4175
Russia	RUB	40.1982	45.3246	40.1821	42.7782
Czech Republic	CZK	25.1169	27.4270	25.2322	25.9070
Turkey	TRY	2.3557	2.9605	2.3174	2.5565
Ukraine	UAH	10.6387	11.3424	10.3845	10.8347
Hungary	HUF	292.8406	297.0400	287.7428	297.7802
United Arab Emirates	AED	4.8420	5.0210	4.7410	4.9078
Belarus	BYR	11,280.02	13,084.50	10,755.92	11,812.79

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 usually written down over a useful life of three years, ERP software systems are written down over a maximum period of eight 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 2012	Currency-adjustments	Additions	Disposals
VBH Deutschland GmbH	22,942	0	0	0
esco Metallbausysteme GmbH, Germany	8,701	0	0	0
VBH Hody Belgium S.A.	4,784	0	0	0
VBH Malum, S.L., Spain	4,544	0	0	0
VBH Netherlands B.V.	3,935	0	0	0
esco Metallbausysteme Austria GmbH	3,790	0	0	0
Galro (Ireland) Ltd.	1,926	0	0	0
VBH Belgium NV	1,700	0	0	0
VBH (GB) Ltd., Great Britain	1,404	0	0	0
VBH Estonia AS	888	0	0	0
VBH Singapore Pte. Ltd.	4,179	181	0	-4,360
Beijing VBH Constr.Hardware Co. Ltd, China	1,465	-11	0	0
VBH Kapi A.S., Turkey	1,084	40	0	0
Other Goodwill	4,274	-18	0	0
Total	**65,615**	**192**	**0**	**-4,360**

In T €	Acquisition costs Balance at 01 January 2013	Currency-adjustments	Additions	Disposals
VBH Deutschland GmbH	22,942	0	0	0
esco Metallbausysteme GmbH, Deutschland	8,701	0	0	0
VBH Hody Belgium S.A.	4,784	0	0	0
VBH Malum, S.L., Spain	4,544	0	0	0
VBH Netherlands B.V.	3,935	0	0	0
esco Metallbausysteme Austria GmbH	3,790	0	0	0
Galro (Ireland) Ltd.	1,926	0	0	0
VBH Belgium NV	1,700	0	0	0
VBH (GB) Ltd., Great Britain	1,404	0	0	0
VBH Estonia AS	888	0	0	0
Beijing VBH Constr.Hardware Co. Ltd, China	1,454	-24	0	0
VBH Kapi A.S., Turkey	1,124	-230	0	0
Other Goodwill	4,256	13	0	-2,019
Total	**61,447**	**-241**	**0**	**-2,019**

	Depreciation					Bookvalue	
Balance at 31 December 2012	Balance at 01 January 2012	Currency-adjustments	Additions	Disposals	Balance at 31 December 2012	Balance at 01 January 2012	Balance at 31 December 2012
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
4,784	4,784	0	0	0	4,784	0	0
4,544	3,536	0	520	0	4,056	1,008	488
3,935	1,309	0	0	0	1,309	2,626	2,626
3,790	3,790	0	0	0	3,790	0	0
1,926	1,926	0	0	0	1,926	0	0
1,700	1,550	0	0	0	1,550	150	150
1,404	749	0	0	0	749	655	655
888	237	0	0	0	237	651	651
0	4,179	181	0	-4,360	0	0	0
1,454	1,465	-11	0	0	1,453	0	0
1,124	1,084	40	0	0	1,123	0	0
4,256	2,533	-20	804	0	3,316	1,740	940
61,447	**48,020**	**189**	**1,324**	**-4,360**	**45,173**	**17,595**	**16,274**

	Depreciation					Bookvalue	
Balance at 31 December 2013	Balance at 01 January 2013	Currency-adjustments	Additions	Disposals	Balance at 31 December 2013	Balance at 01 January 2013	Balance at 31 December 2013
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
4,784	4,784	0	0	0	4,784	0	0
4,544	4,056	0	0	0	4,056	488	488
3,935	1,309	0	0	0	1,309	2,626	2,626
3,790	3,790	0	0	0	3,790	0	0
1,926	1,926	0	0	0	1,926	0	0
1,700	1,550	0	0	0	1,550	150	150
1,404	749	0	0	0	749	655	655
888	237	0	0	0	237	651	651
1,430	1,453	-24	0	0	1,430	0	0
894	1,123	-230	0	0	894	0	0
2,250	3,316	15	0	-2,019	1,312	940	938
59,187	**45,173**	**-239**	**0**	**-2,019**	**42,915**	**16,274**	**16,272**

In the previous year, other goodwill included impairment on the goodwill of the companies VBH Italia S.r.l. (€ 394 thousand), VBH Shanghai (€ 360 thousand) and VBH Vilnius, Lithuania (€ 50 thousand).
The disposals under other goodwill in the current financial year essentially relate to the goodwill of the companies VBH Hellas (€ 752 thousand), VBH Middle East (€ 747 thousand) and VBH Shanghai (€ 361 thousand). These had already been completely devaluated in previous years.

An impairment test must be carried out annually and as required if there are indications that a cash-generating unit may be impaired.

The recoverable amount is usually calculated using the discounted cash flow method (DCF). DCF calculations are based on forecasts that in turn are based on financial planning approved by the Executive Board, normally for a period of five years. 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. The impairment tests performed did not result in any write-downs on goodwill in the 2013 financial year (previous year: € 1,324 thousand). The goodwill impairment on the individual companies in the previous year was 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. The growth factor used to calculate perpetual maturity is 1.0 % (previous year: 1.0 %).

The discount rates for the individual companies are shown in the table below:

Discount rates before tax

	2012	2013
VBH Deutschland GmbH	9.09 %	9.35 %
esco Metallbausysteme GmbH, Germany	9.87 %	10.62 %
VBH Malum S.L., Spain	9.13 %	9.84 %
VBH Netherlands B.V.	9.33 %	9.99 %
VBH Belgium NV	10.53 %	9.51 %
VBH (GB) Ltd., Great Britain	9.23 %	9.86 %
VBH Estonia AS	9.16 %	9.83 %
VBH Italia S.r.l.	8.94 %	-

Regardless of the current and expected economic situation, sensitivity analyses were performed for cash-generating units to which goodwill was allocated. The effect of a reduction in future cash flows by 10 % was analysed, as was an increase in key discount rate parameters by one percentage point. These sensitivity analyses revealed that if one of these assumptions were to change, this would result in impairment of approximately € 0.5 million (previous year: € 0.5 million).

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 to 15
Business equipment	3 to 13
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 or loss. If the trade date and the fulfilment date (i.e. date of delivery) are different, VBH chooses the trade 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 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, these 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. If this is the 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. 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

Accounting for employee benefits was also adjusted as a result of the amendments to IAS 19. There are significant effects on the recognition of pension provisions from the discontinuation of the corridor method for actuarial gains and losses, which are now to be reported under other comprehensive income as soon as they arise. Please see note 2.1 for information on the changes to IAS 19 and their effects on the consolidated financial statements.

The pension provisions relate to the German companies. 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 (actuarial gains and losses) between planned pension obligations and the defined benefit obligation are recognised in other comprehensive income. The pension provisions recognised in the consolidated statement of financial position are equal to the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of the plan assets.
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 was entered into for employees hired after 29 February 1996. There are also individual commitments.

4.13 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 net assets, financial position and results of operations 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 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 2012	**16,092**	**65,615**	**2,379**	**84,086**
Currency translation differences	111	192	0	302
Change in scope of consolidation	-147	-4,360	0	-4,507
Additions	217	0	4,979	5,196
Reclassifications	27	0	-22	5
Disposals	229	0	0	229
Balance at 31 Dezember 2012 / 01 Januar 2013	**16,071**	**61,447**	**7,336**	**84,854**
Currency translation differences	-207	-241	-48	-496
Change in scope of consolidation	-869	-2,019	0	-2,888
Additions	4,930	0	144	5,074
Reclassifications	7,441	0	-7,432	9
Disposals	1,134	0	0	1,134
Balance at 31 Dezember 2013	**26,232**	**59,187**	**0**	**85,419**
Depreciation and impairment losses/reversals				
Balance at 01 Januar 2012	**11,651**	**48,020**	**0**	**59,670**
Currency translation differences	90	189	0	279
Change in scope of consolidation	-138	-4,360	0	-4,498
Depreciation/amortisation	3,054	1,324	0	4,378
Reclassifications	0	0	0	0
Disposals	87	0	0	87
Balance at 31 Dezember 2012 / 01 Januar 2013	**14,570**	**45,173**	**0**	**59,743**
Currency translation differences	-175	-239	0	-414
Change in scope of consolidation	-869	-2,019	0	-2,888
Depreciation/amortisation	1,576	0	0	1,576
Reclassifications	0	0	0	0
Disposals	1,005	0	0	1,005
Balance at 31 Dezember 2013	**14,097**	**42,915**	**0**	**57,012**
Carrying amount at 31 December 2012	**1,501**	**16,274**	**7,336**	**25,111**
Carrying amount at 31 December 2013	**12,135**	**16,272**	**0**	**28,407**

Additions to industrial property and similar rights include own work capitalised in connection with the introduction of new ERP systems in Germany, Russia and Spain in the amount of € 916 thousand. This was recognised in the income statement under staff costs (€ 576 thousand) and other operating income (€ 340 thousand). Amortisation on industrial property and similar rights essentially related to customer relationships in the previous year (€ 2,150 thousand); in the financial year this figure includes € 955 thousand for the newly introduced ERP system in Germany.

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 2012	**36,784**	**36,650**	**1,660**	**75,094**
Currency translation differences	215	463	54	732
Change in scope of consolidation	-100	-370	0	-470
Additions	216	2,217	44	2,477
Reclassifications	1,179	251	-1,436	-5
Disposals	48	5,289	4	5,341
Balance at 31 Dezember 2012 / 01 Januar 2013	**38,247**	**33,922**	**318**	**72,487**
Currency translation differences	-291	-861	-33	-1,185
Change in scope of consolidation	-399	-725	0	-1,124
Additions	82	1,896	87	2,065
Reclassifications	0	42	-51	-9
Disposals	696	5,018	0	5,714
Balance at 31 Dezember 2013	**36,943**	**29,256**	**321**	**66,520**
Depreciation and impairment losses/reversals				
Balance at 01 Januar 2012	**19,516**	**28,203**	**0**	**47,719**
Currency translation differences	80	276	0	356
Change in scope of consolidation	-63	-287	0	-350
Depreciation/amortisation	974	3,013	0	3,987
Reclassifications	0	0	0	0
Disposals	42	4,876	0	4,918
Balance at 31 Dezember 2012 / 01 Januar 2013	**20,465**	**26,329**	**0**	**46,794**
Currency translation differences	-54	-631	0	-685
Change in scope of consolidation	-399	-693	0	-1,092
Depreciation/amortisation	881	2,364	0	3,245
Reclassifications	0	0	0	0
Disposals	159	4,933	0	5,092
Balance at 31 Dezember 2013	**20,734**	**22,436**	**0**	**43,170**
Carrying amount at 31 December 2012	**17,782**	**7,592**	**318**	**25,693**
Carrying amount at 31 December 2013	**16,209**	**6,820**	**321**	**23,350**

The reduction in land and buildings was essentially caused by the sale of land with buildings on it in Germany (€ 618 thousand).

5.3 NON-CURRENT FINANCIAL ASSETS

In T €	Interests in affiliated companies	Interests in associated companies	Payments on account/ securities	Total
Acquisition costs				
Balance at 01 January 2012	**1,774**	**3**	**6**	**1,783**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	0	0	0
Additions	1,800	0	0	1,800
Reclassifications	0	0	0	0
Disposals	3,118	0	0	3,118
Balance at 31 December 2012 / 01 January 2013	**457**	**3**	**6**	**465**
Currency translation differences	2	0	0	2
Change in scope of consolidation	0	0	0	0
Additions	4	0	0	4
Reclassifications	0	0	0	0
Disposals	2	3	6	11
Balance at 31 December 2013	**461**	**0**	**0**	**461**
Depreciation and impairment losses/reversals				
Balance at 01 January 2012	**1,324**	**3**	**0**	**1,327**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	0	0	0
Depreciation/amortisation	1,808	0	0	1,808
Reclassifications	0	0	0	0
Disposals	3,118	0	0	3,118
Balance at 31 December 2012 / 01 January 2013	**15**	**3**	**0**	**18**
Currency translation differences	0	0	0	0
Change in scope of consolidation	0	0	0	0
Depreciation/amortisation	0	0	0	0
Reclassifications	0	0	0	0
Disposals	0	3	0	3
Balance at 31 December 2013	**15**	**0**	**0**	**15**
Carrying amount at 31 December 2012	**442**	**0**	**6**	**447**
Carrying amount at 31 December 2013	**446**	**0**	**0**	**446**

The disposal in interests in affiliated companies resulted from the deletion of an indirect subsidiary from the commercial register. In the previous year there were securities at a subsidiary that were sold in 2013.

5.4 INVENTORIES

In T €	2012	2013
Raw materials and supplies	608	88
Finished goods and goods for resale	88,124	82,710
Payments on account	2,628	876
Total	**91,360**	**83,674**

All the inventories recognised as at 31 December 2013 (€ 83,674 thousand; previous year: € 91,360 thousand) were carried at their net realisable value. As at the end of the reporting period, impairment losses of € 9,055 thousand (previous year: € 10,692 thousand) were recognised on inventories. The decline is essentially due to the effects of portfolio streamlining.

5.5 RECEIVABLES AND OTHER ASSETS

	2012			2013		
In T €	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	59,702	90	59,792	57,701	85	57,786
Receivables affiliated companies	1,686	0	1,686	1,214	0	1,214
Other assets	18,170	1,507	19,677	15,397	1,432	16,829
Total	**79,558**	**1,597**	**81,155**	**74,312**	**1,517**	**75,829**

Other assets include € 10,710 thousand in receivables and creditors with debit balances (previous year: € 13,271 thousand) and € 1,032 thousand in receivables from tax authorities (previous year: € 2,337 thousand).
Please see note 5.7 in the notes to the consolidated financial statements for details of reclassifications in the previous year.

Aging schedule of trade receivables

In T €	2012	2013
Trade receivables	**59,792**	**57,786**
Not impaired and not yet due	20,690	21,851
Not impaired and past-due	5,780	7,259
30 to 60 days	3,032	3,523
60 to 120 days	1,344	1,155
> 120 days	1,404	2,581

Valuation allowance for trade receivables

In T €	2012	2013
Balance as at 01 January	**16,387**	**16,618**
Change in scope of consolidation	-853	-3,733
Currency changes	249	-567
Allocations (impairment losses)	6,052	3,346
Utilisation	2,250	1,922
Withdrawals (gains on impairment reversals)	2,967	2,542
Balance as of 31 December	**16,618**	**11,200**

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.

In T €	2012	2013
Credit balances with banks	13,622	23,541
Cash in hand and cheques	707	285
Total	**14,329**	**23,826**

The rise in cash and cash equivalents is essentially due to a loan being drawn down as at 31 December 2013.

5.7 TAX RECEIVABLES

Income taxes

	2012			2013		
In T €	Current	Non-current	Total	Current	Non-current	Total
Tax receivables	968	1,394	2,362	697	1,045	1,742

The corporation tax credit of VBH Holding AG, which was reported under miscellaneous non-current assets (€ 1,394 thousand) and other assets (€ 348 thousand) in the previous year, was retroactively reclassified to current and non-current tax receivables. In 2013, € 1,045 of the corporation tax credit was reported under non-current tax receivables and € 348 thousand under current tax receivables.

5.8 DEFERRED TAX ASSETS

Deferred tax assets

	2012			2013		
In T €	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets	0	10,536	10,536	0	3,821	3,821

Please see note 6.9 for further information.
In the previous year there were deferred tax assets of € 1,239 thousand that were recognised outside profit or loss for interest swaps in hedge accounting. There were no deferred tax assets on the swap as at 31 December 2013.

5.9 ASSETS HELD FOR SALE

Assets held for sale in the previous year included property, plant and equipment (€ 60 thousand) and inventory assets (€ 4,732 thousand) of esco Metallbausysteme Austria GmbH, which was sold as part of an asset deal in January 2013 effective 31 March 2013. No assets were reported under this item as at 31 December 2013.

5.10 EQUITY

Issued capital

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

As in the previous year, there were no changes in the structure of issued capital in 2013.

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, in addition to 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 Executive Board (with the approval of the Supervisory Board) and the Supervisory Board were authorised to issue up to 600,000 pre-emption rights for up to 600,000 no-par-value ordinary shares with voting rights in VBH Holding AG (voting shares) until 24 May 2009 subject to defined provisions. This contingent capital increase was intended to serve options granted on the basis of Annual General Meeting authorisation (share option plan).

40,000 share options were still outstanding as at 31 December 2012. The last time it would have been possible to exercise these options in line with their terms would have been after the Annual General Meeting in May 2013. However, the share price of € 5.82 at this time made it unlikely that the options would be exercised. The options expired in full after the Annual General Meeting.
In the 2013 financial year, as in the previous year, options were not granted, exercised or returned. There were no staff costs under the stock option plan in 2013, as in the previous year.

Capital reserves

As in the previous year, there were no changes in capital reserves due to options being exercised in 2013.

€ 1,071 thousand (previous year: € 8,188 thousand) was withdrawn from the capital reserves in the financial year. Capital reserves amounted to € 9,553 thousand as at the end of the reporting period (previous year: € 10,624 thousand).

Retained earnings

In T €	2012	2013
Legal reserves	1,407	1,407
Other reserves	21,498	14,569
Cash flow hedge reserve	-2,891	-2,739
Currency translation adjustments	-5,347	-8,759
Reserve for actuarial gains and losses	-1,910	-2,068
Total	**12,757**	**2,410**

5.11 LIABILITIES

In T €	2012 Current	2012 Non-current	2012 Total	2013 Current	2013 Non-current	2013 Total
Liabilities to banks and third parties	12,239	86,521	98,760	90,188	15,127	105,315
Financial liabilities	**12,239**	**86,521**	**98,760**	**90,188**	**15,127**	**105,315**
Trade payables	26,665	15	26,680	23,748	13	23,761
Trade payables affiliated companies	0	0	0	55	46	101
Advances received	1,519	0	1,519	1,190	0	1,190
Other liabilities	19,471	4,312	23,783	18,271	2,917	21,188
Trade payables and other liabilities	**47,655**	**4,327**	**51,982**	**43,264**	**2,976**	**46,240**
Total	**59,894**	**90,848**	**150,742**	**133,452**	**18,103**	**151,555**

Significant items under other current liabilities included deferred liabilities of € 6,480 thousand (previous year: € 7,914 thousand), tax liabilities of € 4,909 thousand (previous year: € 5,527 thousand) and amounts due to customers of € 3,812 thousand (previous year: € 974 thousand).

In the current financial year, non-current other liabilities essentially included interest rate swaps of € 2,740 thousand (previous year: € 4,131 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 banks. This was prolonged until 30 June 2016 by way of an amendment dated 28 August 2011. In the second half of 2012, an amendment to the syndicated agreement was last negotiated and signed on 19 December 2012. In this context, shares in subsidiaries were pledged, sales receivables were generally assigned and security agreements for inventories were transferred. Group loans were also transferred. Interest is variable and linked to the external rating of the Group as a whole.
As a result of the ad hoc disclosure published by the Executive Board on 16 October 2013, which detailed the amended earnings forecast for 2013 as a whole, there are indications that financial covenants agreed in the syndicated agreement will be breached. On 16 October 2013, the banking syndicate therefore agreed to suspend its rights to call in the loan until 31 December 2013 as part of a standstill agreement. This standstill agreement was last extended until 31 July 2014 on 14 February 2014. In light of this, the financial liabilities from the syndicated loans have been reclassified to current liabilities. The liabilities from the syndicated financing were classified as non-current in the previous year.

The Group’s credit facilities granted by commercial banks and the syndicated loan provided VBH with adequate credit in the current financial year to continue developing its operating activities and performing necessary investments. The liquidity plan was largely complied with.

In addition to the current financing, the non-current financial liabilities also include equal loans from three major shareholders. The shareholder loans received amounted to € 9,000 thousand as at the end of the reporting period (previous year: € 4,500 thousand).

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 payables is almost equivalent to their fair value.

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

In T €	2012	2013
Maturity within 1 year	261	254
Maturity in 1-5 years	533	492
Maturity after 5 years	1,484	1,372
Nominal value	**2,277**	**2,118**

There are significant finance leases in the Group for warehouse and office buildings used by VBH in Germany. The leased assets are recognised in property, plant and equipment at a carrying amount of € 2,743 thousand (previous year: € 2,682 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 € 1,134 thousand (previous year: € 1,183 thousand) for buildings. Lease instalments totalled € 410 thousand (previous year: € 448 thousand), including interest payments of € 115 thousand (previous year: € 126 thousand). The conversion date for the main 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 2013 financial year.

	2012			2013		
In T €	Current	Non-current	Total	Current	Non-current	Total
Income tax liabilities	231	0	231	141	0	141

5.13 PENSION PROVISIONS

The actuarial report of Towers Watson GmbH, Reutlingen, Germany, of January 2014 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 the 2005 G Heubeck mortality tables and, in respect of the calculatory pensionable age, the Federal Ministry of Finance circular dated 5 May 2010. A matched-term market interest rate (forecast duration: 15 years) for senior, fixed-rate industrial bonds is used for the discounting of future payment obligations. The actual duration is 14 years.

Actuarial assumptions

	2012	2013
Discount rate	3.7 %	3.5 %
Expected return on plan assets	3.7 %	3.5 %
Expected salary increase rate	2.0 %	2.0 %
Expected income from reimbursements	0.0 %	0.0 %
Expected pension increase rate	1.0 %	1.0 %
Contribution assessment in statutory pension insurance	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.

Profit and loss effects of defined benefit plans

In T €	2012	2013
Ongoing service cost	226	421
Interest cost	684	604
Expected return on plan assets	-23	-18
Total	**887**	**1.007**

Present value of liabilities from defined benefit plans

In T €	2012	2013
Balance as at 01 January	**13,435**	**16,637**
Service cost	226	421
Interest cost	684	604
Actuarial gains and losses	2,948	224
Benefits paid	-656	-663
Balance as at 31 December	**16,637**	**17,223**

Development of plan assets

In T €	2012	2013
Balance as at 01 January	**460**	**490**
Employer and employee contributions	13	13
Actual benefit payments	0	0
Actuarial gains/losses	-6	-1
Expected return on plan assets	23	18
Balance as at 31 December	**490**	**520**

Plan assets consist of insurance policies.
The actuarial gains and losses consist of changes in financial assumptions in the amount of € 487 thousand (previous year: € 2,800 thousand) and experience adjustments of € -263 thousand (previous year: € 148 thousand).

Net value of pension provisions

In T €	2012	2013
Present value of benefit liabilities	-16,637	-17,223
Plan assets	490	520
Pension provisions to 31.12.	**-16,147**	**-16,703**

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

Allocations to pension provisions

In T €	2014	2015
Expense in subsequent years	419	434

The following maturity profile of pension payments is forecast based on the actual duration:

In T €	2014	2015 - 2018	2019 - 2063
Benefit payments	656	3,116	29,628

Development of pension obligations given changes in calculation parameters

The main actuarial assumptions for calculating the pension provision are the discounting factor, the forecast salary trend and anticipated pension adjustments. The sensitivities shown below as scenario analyses indicate how the defined benefit obligation would have been affected by possible changes in the corresponding assumptions.

Presumptions	Effect on pension provisions
100 point increase of discount rate	-12.1 %
100 point decrease of discount rate	14.9 %
50 point increase of salary increase rate	0.3 %
50 point decrease of salary increase rate	-0,3 %
25 point increase of pension increase rate	2.7 %
25 point decrease of pension increase rate	-2.6 %

5.14 PROVISIONS

In T €	Taxes	Product liability	Other	Total
Balance at 01 January 2012	**1,143**	**1,564**	**7,137**	**9,844**
Change in scope of consolidation	0	13	239	251
Currency changes	12	1	41	54
Allocations	308	410	6,631	7,350
Impact on interest	0	0	3	3
Utilisation	669	133	2,976	3,778
Reversals	347	419	419	1,186
Balance at 31 December 2012	**447**	**1,410**	**10,179**	**12,036**
thereof long-term	447	288	7,660	8,395
thereof short-term	0	1,122	2,519	3,641
Balance at 01 January 2013	**447**	**1,410**	**10,179**	**12,036**
Change in scope of consolidation	-150	0	-612	-762
Currency changes	-2	0	-37	-39
Allocations	508	912	3,497	4,917
Impact on interest	0	19	0	19
Utilisation	442	4	6,116	6,562
Reversals	24	62	2,349	2,435
Balance at 31 December 2013	**337**	**2,275**	**4,562**	**7,174**
thereof long-term	0	1,972	220	2,191
thereof short-term	337	303	4,343	4,983

The main items in other provisions are provisions for legal matters of € 838 thousand and provisions for termination benefits and redundancy plans of € 764 thousand. In the previous year the main items in other provisions were provisions for onerous contracts for rent obligations of € 2,531 thousand and restructuring provisions of € 2,417 thousand, which were utilised or reversed in 2013. In particular, provisions reversed in the financial year include those that were recognised in the previous year in connection with a subsidiary in Belgium (€ 1,576 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

	2012			2013		
In T €	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Deferred tax liabilities	0	2,551	2,551	0	2,577	2,577

6. Notes to the consolidated income statement

6.1 SALES REVENUE/SEGMENTS

The organisational structure of VBH is comprised of four primary operating segments and one non-operating segment. They form the basis for the primary segment reporting format and reflect the internal management structure of the Group. As the Group does not operate different business segments, such a breakdown is not necessary.

The operating segments are Germany, Western Europe, Eastern Europe and Other Markets; the non-operating segment is Corporate Services.

Sales revenues by segment were as follows:

In T €	2012	2013
Germany	421,054	390,192
Western Europe	82,475	73,566
Eastern Europe	253,511	243,455
Other Markets	22,752	12,142
Corporate Services	0	0
Consolidation *	-33,214	-26,926
Group	**746,579**	**692,429**

* 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 reportable segments in accordance with 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.

6.2 COST OF MATERIALS

Cost of materials breaks down as follows:

In T €	2012	2013
Costs of raw materials, supplies and purchased merchandise	573,331	531,493
Costs of purchased services	1,026	1,582
Total	**574,357**	**533,075**

The cost of materials includes write-downs in profit or loss of € 2,159 thousand (previous year: € 1,928 thousand). The cost of materials declined as a result of sales. By contrast, the gross profit margin is virtually unchanged year-on-year at 23.0 % (23.1 %).

6.3 STAFF COSTS

Staff costs break down as follows:

In T €	2012	2013
Wages and salaries	78,971	68,869
Social security contributions and pension costs	15,533	14,120
Total	**94,504**	**82,989**

In the Group, staff costs decreased by a total of € 11.5 million or 12.2 %. The decline is essentially due to the headcount reduction in the Group and personnel activities.

Staff costs of € 576 thousand were capitalised as own work in the 2013 financial year in connection with the changeover in IT systems in Germany, Russia and Spain.

Employees

	2012	2013
Germany	1,093	1,034
Abroad	1,670	1,488
Total	**2,763**	**2,522**

The company employed an average of 2,522 people in the Group in the reporting year (previous year: 2,763). The number of trainees in the Group included in this figure was 84 as against 81 in the previous year.

6.4 OTHER OPERATING INCOME

In T €	2012	2013
Income from reversal of impairments	3,747	2,785
Income from reversal of provisions	1,243	3,122
Income from disposal of fixed assets	181	689
Other operating income	11,503	9,377
Total	**16,674**	**15,973**

Significant items in miscellaneous operating income include exchange rate gains of € 2,108 thousand (previous year: € 4,451 thousand), income from non-cash benefits passed on of € 1,311 thousand (previous year: € 1,416 thousand) and goods reimbursements from previous years of € 127 thousand (previous year: € 659 thousand).

6.5 OTHER OPERATING EXPENSES

In T €	2012	2013
Administrative expenses	18,263	15,617
Selling expenses	25,534	24,035
Expenses relating to other periods	12,591	5,814
Other operating expenses	34,286	30,174
Total	**90,674**	**75,640**

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

Significant items in miscellaneous operating expenses include rent and incidental rental costs of € 10,752 thousand (previous year: € 12,861 thousand), exchange rate losses of € 4,126 thousand (previous year: € 4,887 thousand), rental/leasing costs of € 4,057 thousand (previous year: € 4,232 thousand), maintenance of € 2,759 thousand (previous year: € 2,343 thousand) and costs for operating supplies of € 2,557 thousand (previous year: € 2,986 thousand).

6.6 DEPRECIATION AND AMORTISATION EXPENSE

In T €	2012	2013
Amortisation of goodwill/intangible assets	4,378	1,576
Depreciation on property, plant and equipment	3,987	3,245
Total	**8,365**	**4,821**

In the previous year, the amortisation on intangible assets included impairment losses on customer relationships of the subsidiaries in Belgium and Bulgaria amounting to € 2,150 thousand.

Further information on the amortisation of goodwill and intangible assets can be found in sections 4.2 and 5.1. For further information on depreciation on property, plant and equipment, please refer to section 5.2.

6.7 NET FINANCE COSTS

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 €	2012	2013
Interest and similar income	338	208
Interest and similar expenses	-8,355	-8,837
Interest result	**-8,017**	**-8,629**
Depreciation on financial assets and securities	1,808	0
Total	**-9,825**	**-8,629**

Net finance costs declined from € 9,825 thousand in the previous year to € 8,629 thousand. Interest expenses climbed by € 482 thousand essentially as a result of higher average utilisation of credit facilities over the year and a higher average interest rate. The VBH Group's rating was set at BB with a stable outlook on 10 December 2012. This assessment was reiterated on 30 April 2013. No change has been published since then.
Interest expenses from pension obligations of € 604 thousand (previous year: € 684 thousand) were reported in net finance costs. In 2012, write-downs of € 1,808 thousand were recognised on the carrying amount of the affiliated company in India, which was not included in consolidation at this time for materiality reasons.

6.8 INCOME TAXES

Income taxes

In T €	2012	2013
Current taxes	**3,533**	**4,321**
Germany	211	534
Abroad	3,322	3,787
Deferred taxes	**-413**	**5,617**
Germany	55	5,472
Abroad	-468	145
Total	**3,120**	**9,938**

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 26.1 % (previous year: 23.6 %), 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 €	2012	2013
Earnings before taxes (EBT)	-14,472	3,248
Calculated income tax rate in %	23.6%	26.1%
Expected tax expense / income	-3,413	847
Tax-exempt income / losses	-1,305	-234
Tax additions and deductions	5,328	2,531
Special items on impairments	287	0
Use of not capitalized losses carried forward	-1,046	-298
Not capitalized deffered tax on loss for the year	5,264	1,588
Tax payments/refunds for previous years and expenses for external audits	-43	383
Tax rate differences	-2,317	-1,186
Changes in valuation allowances for deferred tax assets	0	6,064
Other effects	365	243
Income taxes and deferred taxes	3,120	9,938
Tax rate in %	-	306.0%

The calculatory income tax rate was 26.1 % in the 2013 financial year (previous year: 23.6 %). The tax rate for the financial year was 306.0 % and was substantially affected by extraordinary effects. It was not possible to calculate a tax rate for the previous year as the earnings before taxes of € -14,472 thousand were essentially reduced by income taxes of € 3,120 thousand on account of tax additions and deductions and non-capitalised tax loss carryforwards.

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 forwards

	2012		2013	
In T €	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Deferred taxes for temporary differences				
Fixed assets	494	1,643	24	1,809
Long-term current assets	55	0	67	3
Short-term current assets	1,001	819	1,097	563
Long-term provisions	1,594	0	1,682	2
Short-term provisions	144	0	42	-
Long-term liabilities	1,703	0	573	-
Short-term liabilities	100	89	280	200
Total	**5,091**	**2,551**	**3,765**	**2,577**
Tax losses carried forward	5,445	0	56	-
Carrying amount	**10,536**	**2,551**	**3,821**	**2,577**

On the basis of the tax planning for the next five years, no deferred tax assets were recognised on loss carryforwards for the German tax group as at 31 December 2013. Deferred tax assets of € 5,336 thousand were recognised on the loss carryforwards of the German companies in the previous year. € 20,737 thousand of this relates to trade tax loss carryforwards and € 14,832 thousand to corporation tax loss carryforwards. An average tax rate of 30 % was applied.

The remaining tax losses in Germany, which can be carried forward in full, result from corporation tax in the amount of € 28,051 thousand (previous year: € 10,554 thousand) and from trade tax in the amount of € 37,131 thousand (previous year: € 16,395 thousand).

In Germany there is no limit for carrying forward losses. In certain countries, the usability of loss carryforwards is limited. Foreign companies recognised deferred tax assets on loss carryforwards totalling € 55 thousand (previous year: € 109 thousand). The unused tax losses at foreign subsidiaries amount to € 15,770 thousand (previous year: € 8,095 thousand). € 8,108 thousand of this amount (previous year: € 8,095 thousand) can be carried forward without restriction.

6.10 NON-CONTROLLING INTERESTS

The amount of consolidated earnings attributable to non-controlling interests was € 223 thousand (previous year: € -250 thousand). These primarily consist of the non-controlling interests in companies in Spain, Poland, Ukraine, Italy, Mexico and Kazakhstan.

6.11 EARNINGS PER SHARE

in T €	2012	2013
Net result after minorities	-17,342	-6,913
Total number of shares	45,879,408	45,879,408
Weighted average of shares	45,879,408	45,879,408
Earnings per share in €	**-0,38**	**-0,15**

Earnings per share are calculated by taking into account the weighted average number of shares outstanding. There have been no more outstanding stock options since May 2013 (previous year: 40,000). The last time it would have been possible to exercise these options in line with their terms would have been after the Annual General Meeting in May 2013 and they have since expired.

6.12 ADJUSTED EARNINGS

Adjusted earnings were reporting in the previous year on account of numerous extraordinary factors. These extraordinary factors chiefly result from restructuring activities implemented or planned, impairment losses and the result of divestments. 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. The calculation of adjusted earnings for the previous year of 2012 is shown below. This has not been shown for 2013 as there were only a few precisely tangible extraordinary effects on the consolidated financial statements, which are explained in detail under the respective positions.

Adjusted earnings

in T €	2012
EBT	**-14,472**
Special items	14,435
Extraordinary depreciation	3,642
Depreciation on financial assets	1,808
Effect in operating result of closed subsidiaries (changes in share portfolio) and disposal of subsidiaries	5,179
EBT adjusted	**10,592**
Current taxes	3,533
Deferred taxes	-966
Adjusted EAT	**8,025**

7. Notes to the consolidated 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.

Other non-cash expenses and income essentially include interest on pension provisions and foreign withholding tax.

8. Consolidated segment report

Segments by region

	Germany		Western Europe		Eastern Europe	
In T €	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
External sales	397,463	368,607	77,195	72,002	252,916	243,418
Internal sales	23,591	21,585	5,280	1,564	595	37
Total sales	**421,054**	**390,192**	**82,475**	**73,566**	**253,511**	**243,455**
EBITDA	**14,189**	**7,101**	**-8,375**	**2,645**	**17,411**	**14,252**
Depreciation, amortisation and write-downs	1,224	2,145	1,136	483	1,750	1,620
EBIT	**12,965**	**4,956**	**-9,511**	**2,162**	**15,661**	**12,632**
Result from participations	107	0	0	0	193	0
Interest income	157	86	77	92	129	106
Interest expense	764	551	882	741	398	480
Depreciation on financial assets	0	0	0	0	5	0
Financial result	-500	-465	-805	-649	-81	-374
Earnings before taxes (EBT)	**12,465**	**4,491**	**-10,316**	**1,513**	**15,580**	**12,258**
Segment assets**	101,286	96,993	37,564	28,236	88,168	82,067
Segment liabilities**	97,342	93,303	36,603	27,735	24,949	23,992
Number of Employees	1,048	978	270	231	1,216	1,166
Allowances	**135**	**603**	**3,463**	**980**	**1,177**	**520**

* Consolidation represents intersegmentary Group sales.

** The previous year has been adjusted in accordance with IAS 8. Information on this can be found in the notes to the consolidated financial statements under 2.1

Other markets		Corporate Services		Consolidation*		Group	
2012	2013	2012	2013	2012	2013	2012	2013
17,766	8,259	0	0	0	0	745,340	692,286
5,058	3,883	0	0	-33,285	-26,926	1,239	143
22,824	**12,142**	**0**	**0**	**-33,285**	**-26,926**	**746,579**	**692,429**
-2,068	**-1,231**	**-20,296**	**-5,099**	**2,857**	**-970**	**3,718**	**16,698**
259	83	571	436	3,425	54	8,365	4,821
-2,327	**-1,314**	**-20,867**	**-5,535**	**-568**	**-1,024**	**-4,647**	**11,877**
0	0	11,514	6,735	-11,814	-6,735	0	0
25	13	1,282	986	-1,332	-1,075	338	208
1,473	421	6,175	7,724	-1,337	-1,080	8,355	8,837
0	0	1,803	0	0	0	1,808	0
-1,448	-408	4,818	-3	-11,809	-6,730	-9,825	-8,629
-3,775	**-1,722**	**-16,049**	**-5,538**	**-12,377**	**-7,754**	**-14,472**	**3,248**
16,373	9,119	181,650	186,924	-169,257	-162,244	255,785	241,095
22,207	10,485	104,982	112,780	-104,375	-90,145	181,707	178,150
184	91	45	56	0	0	2,763	2,522
1,651	**15**	**0**	**0**	**0**	**0**	**6,426**	**2,118**

9. Other disclosures

9.1 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

Fair value of financial instruments in accordance with IAS 39

In T €	Valuation Category per IAS 39	Carrying value 31.12.2012	Fair Value 31.12.2012	Carrying value 31.12.2013	Fair Value 31.12.2013
Assets					
Interests in affiliated companies	AfS	442	-	446	-
Stocks	AfS	6	-	-	-
Trade receivables *)	LaR	59,792	59,792	57,786	57,786
Receivables affiliated companies	LaR	1,686	1,686	1,214	1,214
Other assets	LaR	19,677	19,677	16,829	16,829
Cash and cash equivalents	LaR	14,329	14,329	23,826	23,826
Liabilities					
Financial liabilities	FLAC	98,760	98,760	105,315	105,315
thereof liabilities from finance leases	n.a.	1,542	1,542	1,383	1,383
Trade payables **)	FLAC	26,680	26,680	23,761	23,761
Trade payables affiliated companies ***)	FLAC	0	0	101	101
Other liabilities ****)	FLAC	25,302	25,302	22,378	22,378
thereof derivates with hedging relationship (Fair value)	n.a.	4,131	4,131	2,741	2,741

*) thereof in balance sheet position other long-term assets € 85 thousand (previous year: € 90 thousand)
**) thereof in balance sheet position other long-term liabilities € 13 thousand (previous year: € 15 thousand)
***) thereof in balance sheet position other long-term liabilities € 46 thousand (previous year: € 0 thousand)
****) included are advances received of € 1.190 thousand (Vorjahr: 1.519 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 applicable

Carrying values of financial instruments by valuation category per IAS 39

in T €	2012	2013
Available for Sale Financial Asset	448	446
Loans and receivables	95,484	99,655
Financial Liabilities Measured at Amortised Cost	150,742	151,555
Derivates with hedging relationship	4,131	2,741
Liabilities from finance lease	1,542	1,383

Interests in affiliated companies and securities relate to interests in unlisted corporations. These are carried at amortised cost as their fair value cannot be reliably determined.

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.

The fair values of other non-current receivables are their carrying amounts taking into account the cash flows associated with the assets and the respective current interest rate parameters, which reflect market and partner-related conditions and expectations.

In accordance with IFRS 13, financial instruments recognised at fair value must be assigned to 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). The fair value of derivatives with a hedging relationship was measured according to level 2. There were no transfers between level 1 and level 2 during the reporting period.

The fair values of amounts due to banks and other financial liabilities are reported at nominal value less any premiums.

Net income from financial instruments

In T €	**2012**	**2013**
Available for Sale	1,808	0
Loans and receivables	-4,931	-5,181
Financial Liabilities Measured at Amortised Costs	-8,355	-8,837

In the previous year the net result for the available for sale category included impairment on the carrying amounts of investments in non-consolidated companies. The net result for the loans and receivables category includes allowances on trade receivables of € 3,346 thousand (previous year: € 5,638 thousand), on receivables from affiliated companies of € 4,851 thousand (previous year: € 2,383 thousand) and on other assets of € 54 thousand (previous year: € 21 thousand). Financial liabilities measured at amortised cost essentially include interest expenses.

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 receivables and other assets attributable to the loans and receivables measurement category. This are reported under other operating expenses.

Exchange losses and gains on financial assets classified as loans and receivables chiefly result from intragroup forwarding of loans and deliveries and are 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.

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 counterparties.
Financial risks are managed within the Group in accordance with the policies established by management. These cover 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 analyses (see 9.2.3 and 9.2.4).

9.2.3 LIQUIDITY RISK

Central liquidity planning is based on Group planning. To ensure the liquidity and financial flexibility of the VBH Group, the Group has fixed credit lines in the amount of approximately € 130 million (previous year: € 125 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 €	2012 Carrying value	2012 Total	Remaining term < 1 year	Remaining term > 1 year < 5 years	Remaining term > 5 years
Financial liabilities	**98,760**	**122,090**	**18,375**	**101,425**	**2,289**
Trade payables	**26,665**	**26,665**	**26,665**		
Other liabilities	**23,798**	**23,798**	**19,471**	**4,327**	
- of which derivative financial instruments	4,131	4,131	1,324	2,807	
Tax liabilities	**231**	**231**	**231**		
Advances received	**1,519**	**1,519**	**1,519**		
Financial liabilities	**150,973**	**174,303**	**66,261**	**105,752**	**2,289**

Liquidity risk

In T €	2013 Carrying value	2013 Total	Remaining term < 1 year	Remaining term > 1 year < 5 years	Remaining term > 5 years
Financial liabilities*	**105,315**	**111,139**	**94,227**	**15,748**	**1,164**
Trade payables	**23,761**	**23,761**	**23,748**	**13**	
Trade payables affiliated companies	**101**	**101**	**55**	**46**	
Other liabilities	**21,188**	**21,188**	**18,271**	**2,917**	
- of which derivative financial instruments	2,741	2,741		2,741	
Tax liabilities	**141**	**141**	**141**		
Advances received	**1,190**	**1,190**	**1,190**		
Financial liabilities	**151,696**	**157,520**	**137,632**	**18,724**	**1,164**

* The syndicated loan matures on 30 June 2016. As it has been reported as a current financial liability (see note 5.11), a term until 31 July 2014 was assumed for the calculation of liquidity risk.

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 by Treasury and can be hedged with financial derivatives as necessary. The offsetting effects of the hedged item and currency hedging are recognised in profit or loss and thus shown in 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 preparing the consolidated financial statements. The translation-related effects of this and 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 effects on equity/net profit of a +/-10% fluctuation in the respective foreign currency as against the euro. The analysis is based on the respective volume as at the end of the reporting period.

Sensitivity analysis of foreign currency risks

	2012		2013	
	Foreign currency		Foreign currency	
In T €	**10% increase**	**10% decrease**	**10% increase**	**10% decrease**
Change in net profit				
EUR / RUB	413	-375	157	-192
EUR / ARS	55	-50	55	-68
EUR / TRY	791	-719	48	-59
EUR / CLP	0	0	42	-51
EUR / RON	42	-38	30	-37
EUR / MXN	69	-63	27	-33
EUR / KZT	53	-48	20	-25
EUR / UAH	26	-23	15	-18
EUR / BYR	13	-12	8	-9
EUR / BGN	0	0	6	-7
Total	**1,462**	**-1,328**	**408**	**-499**

9.2.5 INTEREST RATE RISKS

Interest rate risk refers to the risk of a negative impact on consolidated earnings of fluctuations in market interest rates. VBH is exposed to interest rate risks arising from liabilities, primarily in connection with financial liabilities. Fixed and floating rate financial liabilities must be assessed differently.

In T €	2012	2013
Fixed-rate financial debts	5,670	6,031
Variable-rate financial debts	93,090	99,284
Total	**98,760**	**105,315**

Interest rate swaps were concluded in the previous year to hedge interest rate risks. In an interest rate swap, the floating or fixed interest rate on which a nominal amount is based is exchanged for a fixed or floating interest rate for the entire term. Such agreements allow the Group to mitigate the risk of changing interest rates on the fair value of fixed rate debt instruments issued or cash flow risks posed by floating rate debt instruments issued.

In March 2012, four interest rate swaps were concluded for € 43 million with a term from 30 June 2012 to 30 June 2016. VBH Holding AG had also already concluded an interest rate swap for € 30 million with a term from 30 December 2011 to 30 June 2016 in July 2011.

In the 2013 financial year, interest rate risks resulted from floating rate financing liabilities and the market values of these two financial derivatives (interest rate swaps). The fair value of the interest rate swaps is calculated by discounting future cash flows using the yield curves as at the end of the reporting period. The table below shows the effects on equity/net profit of a +/-1 percentage point fluctuation in the respective market interest rate. The analysis is based on the respective volume as at the end of the reporting period.

Sensitivity analysis of interest rates risks

	2012		2013	
	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 interest rate instruments				
Change in net profit	-931	931	-993	993
Interest rate swaps				
Change in net profit	2,576	-2,555	1,856	-1,812
Overall impact	**1,645**	**-1,624**	**863**	**-819**

9.2.6 HEDGE ACCOUNTING

The interest rate swaps are all cash flow hedges.

Hedge accounting

In T €	2012	2013
Total volume of interest rate swaps	73,000	73,000
Fair value	-4,131	-2,741
Expiration	30.06.2016	30.06.2016

In the 2013 financial year, interest derivatives of € -2,741 thousand (previous year: € -4,131 thousand) were reported under other liabilities and recognised in the Group’s reserves in the amount of € 2,739 thousand (previous year: € 2,892 thousand). The derivatives were 100 % effective. As it is expected that the term of the syndicated loan agreement will not be altered in the renegotiation of the terms, it is assumed that the hedge will continue to be effective.

9.2.7 DEFAULT RISK

The VBH Group is exposed to a global risk of default on account of its business activities with third parties. This risk represents the possibility of non-performance on the part of a contract counterparty. The maximum default risk is reflected by 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. In addition, default risk is limited with credit insurance. 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 2013 financial year. Total future payments arising from non-cancellable contracts are classified by due date as follows:

Obligations from rental contracts

In T €	2012	2013
Maturity within 1 year	11,775	9,845
Maturity in 2-5 years	10,188	10,944
Maturity after 5 years	726	1,237
Total	**22,689**	**22,026**

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

Obligations from contingent liabilities

In T €	2012	2013
Liabilities from the issue and transfer of bills of exchange	35	0
Liabilities from guarantees, bills of exchange and cheque guarantees	354	13
Liabilities from warranties	57	57
thereof in favour off affiliated companies	0	0
Contigency from providing collateral for external liabilities	0	0
Total	**446**	**70**

The utilisation of these obligations is not currently expected.

Real estate liens

In T €	2012	2013
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. Collateralised assets amounted to € 8.8 million (previous year: € 10.6 million). No third parties have placed collateral with VBH. The total carrying amount of companies pledged is € 24,569 thousand (previous year: € 24,569 thousand).

The utilisation of these obligations is not currently expected.

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 and therefore in the consolidated financial statements as well.

The lawsuit filed in 2010 by VBH Hellas AE alleging embezzlement by local management is still pending. In the wake of this, a Greek auditing firm was also sued, which in turn filed a counterclaim. Tax risks could arise in Greece as a result of the legal proceedings initiated by VBH.

A local bank in Italy is claiming payment entitlements from a soft letter of comfort from VBH Holding AG. As a precaution, VBH Holding AG in Germany has filed an action for a declaratory judgment of non-existence of an obligation to pay.

In Turkey, enforcement proceedings were initiated in 2013 against the local company VBH Kapi ve Pencere, against which an appeal has been filed, because VBH believes the proceedings were initiated fraudulently. Charges have been brought against those involved.

12. Related party disclosures

The members of the Executive Board and the Supervisory Board, their immediate relatives and subsidiaries that are not fully conso-lidated are considered related parties in accordance with IAS 24 "Related Party Disclosures". In accordance with IFRS, it is also assumed that shareholders that hold more than 20 % of the shares in a company exercise significant influence over this company and are therefore also related parties. 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 € 37 thousand for the 2013 financial year (previous year: € 97 thousand). In addition to issues relating to company law, payments to the law firm primarily resulted from the ongoing support provided for syndicated financing. The liabilities from this amounted to € 10 thousand as at the end of the reporting period (previous year: € 15 thousand). The Executive Board did not perform any transactions.

Receivables from affiliated companies amounted to € 1,214 thousand (previous year: € 1,686 thousand) as at the end of the reporting period; there were trade payables to related parties in the amount of € 101 thousand (previous year: € 0 thousand).

The trade receivables from affiliated companies primarily result from sales of goods by consolidated subsidiaries to foreign unconsolidated companies. The products/services sold concern passed on outsourcing and services.

Unconsolidated companies

In T €	2012	2013
Carrying values at 31 December		
Loans	197	0
Receivables	1,489	1,214
Liabilities	0	101
Transactions in the financial year		
Goods purchased	225	1
Other expenses	156	27
Sales revenue	1,239	143
Interest income	67	38
Other operating income	46	1

The receivables from affiliated companies include write-downs of € 5,087 thousand (previous year: € 2,011 thousand). In the 2013 financial year, allowances on receivables from affiliated companies of € 4,851 thousand (previous year: € 2,383 thousand) were expensed.

As a result of their shareholdings of more than 20 % each, VBH Holding AG's three major shareholders have significant influence over VBH Holding AG and constitute related parties of VBH Holding AG in accordance with IFRS. The major shareholders and the companies they control sold goods to VBH Holding AG subsidiaries amounting to € 86,552 thousand (previous year: € 82,490 thousand) at standard market conditions in the financial year. A net amount of € 3,537 thousand (previous year: € 1,834 thousand) was outstanding as at 31 December 2013. On 5 December 2013, the major shareholders again granted VBH Holding AG loans of € 4.5 million after previously granting loans of € 4.5 million on 30 September 2012. The interest on the loan is in line with market rates and with the terms of the lending banks. The total interest expense resulting from this amounted to € 239 thousand in the 2013 financial year (previous year: € 54 thousand), € 76 thousand of which was outstanding as at 31 December 2013 (previous year: € 54 thousand). As a minority shareholder of a subsidiary of VBH Holding AG, one major shareholder was paid dividends from this subsidiary amounting to € 43 thousand in 2013 (previous year: € 39 thousand).

13. Significant events after the end of the reporting period

Given the amended earnings forecast for the 2013 financial year, which was corroborated in the fourth quarter, there were indications that financial covenants agreed in the syndicated agreement will be breached, hence a standstill agreement was concluded with the syndicate of financing banks. This was last amended on 14 February 2014, which means that the syndicate has suspended its special rights of termination until 31 July 2014. Work on an agreement to amend the loan agreement must be completed by this time.

On 14 February 2014 the Executive Board announced in an ad hoc disclosure that, according to the provisional status of work on the consolidated financial statements and their audit, positive pre-tax earnings would be generated again in the 2013 financial year for the first time after two years of losses. However, at around € 3 to € 3.5 million, this would be less than previously forecast (€ 5 to € 6 million).

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 2013 and previous financial year:

Expenses for auditors' fees

In T €	2012	2013
Audit of financial statements	562	519
Other attestation and valuation services	12	6
Tax consultancy	33	73
Other services	167	48
Total	**774**	**646**

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

	2012			
In T €	Fix	Variable	Non-cash benefits	Total
Executive Board*	911	85	117	1,113
Supervisory Board*	160	0	0	160
Total	**1,071**	**85**	**117**	**1,273**

	2013			
In T €	Fix	Variable	Non-cash benefits	Total
Executive Board*	1,251	60	129	1,440
Supervisory Board*	148	0	0	148
Total	**1,399**	**60**	**129**	**1,588**

* pro rata

Shares held by executive bodies

Individual shares	31.12.2012	31.12.2013
Executive Board	459,684	542,575
Supervisory Board	10,000	10,000
Total	**469,684**	**552,575**

Executive Board and Supervisory Board held no options in 2012 and 2013.

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 or 63.

Former Executive Board members and their surviving dependants received total benefits of € 383 thousand in the past financial year (previous year: € 440 thousand). Defined benefit obligations (DBO) under IFRS for all pension commitments to former Executive Board members, managers and their surviving dependants totalled € 6.0 million in the 2013 financial year (previous year: € 7.0 million). Defined benefit obligations for all IFRS pension commitments amounted to € 1,521 thousand for Mr. Hribar (previous year: € 1,246 thousand), € 727 thousand for Mr. Kassel (previous year: € 598 thousand), € 224 thousand for Mr. Bangerter (previous year: € 182 thousand) and € 181 thousand for Mr. Lindner (previous year: € 87 thousand). Additions in the reporting year totalled € 540 thousand (previous year: € 555 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 at the end of March 2014 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-holding.com).

17. Shareholdings of VBH Holding AG, Stuttgart, as at 31 December 2013

The companies included in the consolidated financial statements, VBH Deutschland GmbH, Korntal-Münchingen, Germany, and esco Metallbausysteme GmbH, Ditzingen, 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 mandates:
Supervisory board mandates:
Leicom AG, Winterthur, Switzerland, – member –
Within Group:
VBH Estonia AS, Tallinn, Estonia (board of directors)
VBH-TBM UAB, Vilnius, Lithuania (board of directors)
VBH Middle East FZCO, Dubai, U.A.E. (board of directors)
VBH Hellas S.A., 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)
VBH Holding India Privat Ltd., Delhi, India (board of directors)
Guangzhou VBH Construction Hardware Trading Co. Ltd., Guangzhou, China (board of directors)

Herr Jürgen Kassel, businessman, Waiblingen, Germany (since 1 February 2013)
Other mandates:
Mandates in voluntary advisory boards:
BEGO Bremer Goldschlägerei Wilh. Herbst GmbH & Co. KG, Bremen, Germany – member –
Karl Fischer GmbH & Co. OHG, Weilheim-Teck, Germany – member –

Ulrich Lindner, lic. oec (HSG), MBA, Waldenburg, Germany (revocably dismissed since 21 May 2013)
Other mandates:
Mandates in voluntary advisory boards:
seca GmbH & Co. KG, Hamburg, Germany – member –
Within Group:
VBH (GB) Ltd., Gillingham, UK (board of directors)
VBH Holding India Privat Ltd., Delhi, India (board of directors)
VBH Nederland B.V., Oosterhout, Netherlands (board of directors)

Dipl.-Kfm. Frieder Bangerter, Leinfelden-Echterdingen, Germany (until 31 December 2013)
Other mandates:
Within Group:
Bejing VBH Construction Hardware Co. Ltd., Bejing, China (board of directors)

Supervisory Board

Prof. Rainer Kirchdörfer, lawyer, Korntal-Münchingen, Germany – chairman –
Other mandates:
Bauerfeind AG, Zeulenroda, Germany – chairman –
Berner SE, Künzelsau, Germany – member –
Conrad Electronic SE, Hirschau, Germany – deputy chairman –
Cronbank AG, Dreieich, Germany – member –
Deutsche Vermögensberatung Aktiengesellschaft DVAG, Marburg, Germany – member –
Kaolin AD, Senovo, Bulgaria – member –
MHK Group AG, Dreieich, Germany – Vorsitzender –
In addition to the above required mandates, Prof. Kirchdörfer also holds mandates in the following voluntary advisory boards:
AKG Pietzker KG, Hofgeismar, Germany – deputy chairman –
Albert Handtmann Holding GmbH & Co. KG, Biberach, Germany – deputy chairman –
Alfred Talke Spedition GmbH & Co. KG, Hürth, Germany – member –
Conrad Electronic Regensburg GmbH & Co. KG, Hirschau, Germany – deputy chairman –
IHT Industrie- und Handels Treuhand GmbH, Dreieich, Germany – member –
MHM Holding GmbH, Kirchheim-Heimstetten, Germany – member –
Quarzwerke GmbH, Frechen, Germany – member –
Reinhard Wolf GmbH & Co. KG, Schwandorf, Germany – member –

Gerhard Sommerer, degree in business IT, Wildberg, Germany – deputy chairman (since 22 May 2013)
No other mandates

Thorsten W. Albrecht, lawyer, Hamburg, Germany (sine 22 May 2013)
Other mandates:
ALBIS PLASTIC GmbH, Hamburg, Germany – chairman –
HAVO Neuenhauser Gruppe Holding AG, Neuenhaus, Germany – member –

Stefan Huber, lic.oec HSG, Baar/Switzerland
Other mandates:
CEDES Holding AG, Landquart, Switzerland – member of the administrative board –
ESPROS Holding AG, Sargans, Switzerland – member of the administrative board –

Klaus Meichner, business economist, Donaustauf, Germany – employee representative
No other mandates

Martin Morlok, commercial employee, Trochtelfingen, Germany – employee representative
No other mandates

Dipl.-Kfm. Matthias Linnenkugel, auditor, tax advisor, Hamburg, Germany (until 22 May 2013)
No other mandates

There were six Supervisory Board meetings in the reporting year.

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

The Executive Board presented these consolidated financial statements to the Supervisory Board on 21 March 2014 for its approval and then released them for publication.

Proposal for the appropriation of profits

The Executive Board will recommend to the Supervisory Board to put the following proposal on the appropriation of profits to the vote at the Annual General Meeting.

The HGB annual financial statements of VBH Holding AG report net income for the year of € 0.00 (previous year: € 0.00). The Executive Board and the Supervisory Board have proposed to the Annual General Meeting not to distribute a dividend.

Korntal-Münchingen, 21 March 2014

VBH HOLDING AKTIENGESELLSCHAFT
– The Executive Board –

Rainer Hribar   Jürgen Kassel   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, 21 March 2014

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 to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2013. 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 Executive Board of the company. 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.

Without qualifying this opinion, we refer to the comments by the Executive Board of VBH Holding AG in the management report. It is stated there under "Financing risk" that the standstill agreement in place was replaced by a new version on 14 February 2014 and the standstill period was extended until 31 July 2014. The Executive Board of VBH Holding AG aimed to effect the prolongation in this form in order to be able to take knowledge of business performance in 2013 into account in the intended amendment of the loan agreement. This amendment agreement will include adjusted loan terms based on the revised planning for subsequent years. The Executive Board is assuming that the preconditions for a successful conclusion of the amendment agreement are in place or will be met, and that the syndicated loan will therefore continue. The preconditions required for this essentially relate to the revision of the Group planning submitted, which will contain further specific measures to increase income in the long term. The conclusion of an agreement amending the loan agreement is necessary to ensure the continued existence of VBH.

Nuremberg, 21 March 2014

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Ketterer	Leupold
Wirtschaftsprüfer	Wirtschaftsprüfer


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VBH Holding Aktiengesellschaft

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 as at 31 December 2013 and the VBH Holding AG management report were audited by Roedl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, which examined the company's accounting and issued an unqualified opinion. A publication copy of the financial statements is available on the internet at www.vbh-holding.com. Data from the VBH Holding AG balance sheet and income statement are provided below.

BALANCE SHEET OF VBH HOLDING AG

Assets

In T €	31.12.2012	31.12.2013
A. FIXED ASSETS		
Intangible assets	**310**	**210**
EDP Software	279	210
Advances paid	31	0
Tangible Assets	**590**	**67**
Real estate, leasehold rights and buildings including construction on non-owned real estate	520	5
Other fixed assets, operational and business equipment	70	62
Financial Assets	**130,803**	**130,722**
Interests in affiliated companies	70,803	70,722
Loans to affiliated companies	60,000	60,000
Total	**131,703**	**130,999**
B. CURRENT ASSETS		
Accounts receivables and other assets	**23,067**	**14,382**
Accounts receivables affiliated companies	19,726	10,989
Other assets	3,341	3,393
Interests in affiliated companies	**0**	**700**
Cheques, cash on hand, credit balances at banks	**51**	**11,185**
Total	**23,118**	**26,267**
C. ACCRUALS AND DEFERRALS	**1,407**	**575**
Total assets	**156,228**	**157,841**

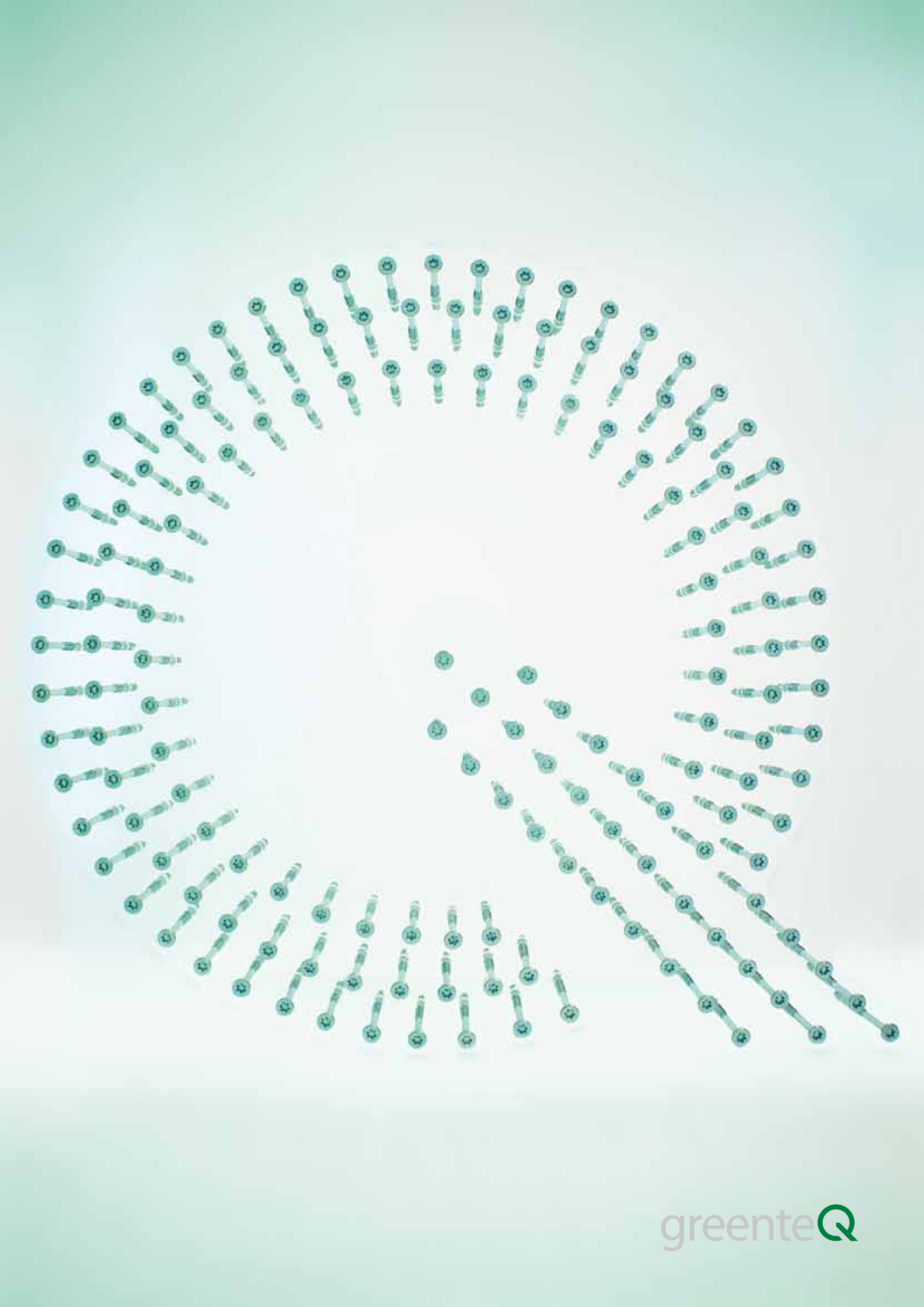
Equity and Liabilities

In T €	31.12.2012	31.12.2013
A. EQUITY		
Subscribed capital	**45,879**	**45,879**
Capital reserves	**10,624**	**9,553**
Revenue reserves	**1,407**	**1,407**
Legal reserves	1,407	1,407
Total	**57,910**	**56,839**
B. Accrued liabilities		
Provisions for pensions and similar obligations	6,506	6,612
Provisions for taxation	143	252
Other provisions	6,496	2,706
Total	**13,145**	**9,570**
C. LIABILITIES		
Financial liabilities	76,525	80,000
Liabilities from supplies and services	947	776
Liabilities affiliated companies	577	1,247
Other liabilities - of which taxes 657 T € (prev.year: 1,157 T €)	7,124	9,409
Total	**85,173**	**91,432**
Total equity and liabilities	**156,228**	**157,841**

INCOME STATEMENT OF VBH HOLDING AG

Profit and Loss Account

In T €	2012	2013
Sales revenue	**4,948**	**5,418**
Other operating income of which for currency translation 0 T € (prev. year: 162 T €)	23,022	6,028
Total operating profit	**27,970**	**11,446**
Personnel Expenditure of which for pensions 319 T € (prev. year: 428 T €)	-5,992	-6,452
Depreciation of intangible and tangible assets	-338	-204
Depreciation of current assets as far as exceeding the usual depreciations	-6,884	-820
Other operational expenditure of which for currency translation 4 T € (prev. year: 53 T €)	-8,972	-6,871
Dividends from associated companies of which from affiliated companies 6,735 T € (prev.year: 11,514 T €)	11,514	6,735
Income from profit transfer agreement	2,663	4,467
Other interest and similar income of which from affiliated companies 971 T € (prev. year: 1,220 T €)	1,282	986
Depreciation of financial assets	-225	0
Expenditure for transfer of losses	0	-1,934
Interest and similar expenditure of which affiliated companies 88 T € (prev. year: 68 T €) / of which discounting 452 T € (prev. year: 467 T €)	-5,844	-7,638
EBT of ordinary activities	**15,174**	**-285**
Extraordinary results	-25,987	-2,046
Taxes on income and earnings and other taxes	2,625	1,260
EAT earning after taxes	**-8,188**	**-1,071**
Withdrawal from capital reserve	8,188	1,071
Net profit for the year	**0**	**0**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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 less 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.

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 in addition to equity attributable to non-controlling interests.

Equity ratio
Equity in relation to total assets. The higher the figure, 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

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

Goodwill

Positive difference between a company's purchase price and its net assets (assets less 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 International Accounting Standards)

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

Return on equity (ROE)

Net income in relation to equity.

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.

Financial calendar

Interim report Q1 2014:	14 May 2014
Annual General Meeting:	28 May 2014
Interim report Q2 2014:	14 August 2014
Interim report Q3 2014:	14 November 2014

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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.