frauenthal GROUP

ANNUAL REPORT 2010
Strength through diversity

Five-year summary

5-YEAR-SUMMARY	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006
Summary income statement (EUR m)					
Revenue	**539.4**	454.5	645.4	592.0	489.6
EBITDA	**34.3**	-6.0	42.8	42.3	33.4
EBITDA, underlying [1]	**32.8**	-0.1	42.8	40.9	33.4
ROS (EBITDA / revenue)	**6.4**	**-1.3 %**	**6.6 %**	**7.2 %**	**6.8 %**
ROS (EBITDA/revenue), adjusted [1]	**6.1**	0.0 %	6.6 %	6.9 %	6.9 %
Earnings before interest and tax (EBIT)	**21.7**	-25.2	22.7	27.8	21.4
EBIT, underlying [1]	**20.2**	-19.4	22.7	26.4	21.4
Earnings before tax (EBT)	**18.1**	-29.6	17.1	23.2	17.6
Profit/loss after tax	**17.4**	-29.4	11.5	18.6	14.1
Operating profit before working capital changes	**29.2**	-7.3	32.7	31.9	27.3
Summary statement of financial position (EUR m)					
Non-current assets (IFRS)	**136.1**	136.3	150.8	144.8	128.7
Current assets (IFRS)	**154.8**	118.5	174.3	169.4	153.3
Total assets	**290.9**	254.7	325.2	314.2	282.0
Borrowings	**201.4**	182.7	223.1	220.2	203.3
Equity	**89.5**	72.1	102.1	94.0	78.7
Equity ratio (%)	**30.8%**	**28.3 %**	**31.4 %**	**29.9 %**	**27.9 %**
Investment (additions to non-current assets)	**9.3**	12.1	27.1	18,8	17.1
as % of revenue	**1.7**	2.7 %	4.2 %	3.2 %	3.5 %
Average head count [2] [3]	**2.548**	2.442	3.327	3.032	2.738
Per employee ratios (EUR '000)					
Revenue	**211.7**	186.1	194.0	195.3	178.8
EBIT	**8.5**	-10.3	6.8	9.2	7.8
Operating profit before working capital changes	**11.5**	-2.8	9.8	10.5	10.0
Shares in issue [4]	**9,434,990**	9,434,990	9,434,990	9,434,990	9,434,990
Own shares [4]	**-282,456**	-261,390	-261,390	-261,390	-261,390
Shares in circulation [4]	**9,152,534**	9,173,600	9,173,600	9,173,600	9,173,600
Per share ratios (EUR) [4]					
EBITDA	**3,8**	-0.7	4.7	4.6	3.6
EBIT	**2.4**	-2.7	2.5	3.0	2.3
Profit/loss after tax	**1.9**	-3.2	1.3	2.0	1.5
Operating profit before working capital changes	**3.2**	-0.7	3.5	3.5	3.0
Equity	**9.8**	7.6	11.1	10.2	8.6
Share price					
Year end	**10.90**	7.49	6.58	22.89	23.00
High	**10.90**	8.50	22.88	25.60	31.50
Low	**6.59**	4,25	5.00	20.25	16.01
Dividend and bonus	**0.3**[5]	0.0[5]	0.0	0.2	0.2

1) 2007: Adjustment for reversal of EUR 1.4m in negative goodwill arising on consolidation of acquisitions, recognised as income. **2)** 2009: Adjustment of EUR 6m for deconsolidation of Styria Federn GmbH, Düsseldorf and A.D. Fabrika Opruga Styria Gibnjara Kraljevo, Serbia due to the disposal of these companies. **3)** 2010: Adjustment for EUR 1.5m in write-ups of non-current assets. **4)** From 1 Jan. 2006: including average number of employees of the SHT Haustechnik Group. **5)** Including average number of agency workers. **6)** 21 June 2006: Ten-to-one share split. **7)** Distribution proposed to the Annual General Meeting.

CONSOLIDATION AND SOLID EARNINGS PERFORMANCE

Following root-and-branch restructuring in the midst of the 2009 economic and financial crisis, the Automotive Components Division is once again turning a profit. Both of our other divisions posted record earnings. Thanks to the recovery in the commercial vehicles market, the Frauenthal Group recorded steady growth in all three segments and some of the strongest results in its history, with net profits reaching EUR 17.4 m. Due to the diversified nature of our operations, the Group's risk spreading strategy proved its worth during the past year of consolidation. All three divisions have succeeded in laying the foundations for sustained profitable growth.

REVENUE IN AUTOMOTIVE COMPONENTS UP 48%

The tentative recovery in the European commercial vehicles sector, combined with the normalisation of inventories of unsold trucks, resulted in a significant increase in production in the Automotive Components Division. Commercial vehicle registrations within the EU went up by a moderate 8 %. At the beginning of 2010 the light vehicles segment was the principal driver of growth, and although the key heavy vehicles market only saw significant growth from June, sales were particularly lively in the third and fourth quarter. This had a decisive impact on the Division's revenue and earnings performance. Automotive Components also felt the full effects of the raft of restructuring and cost-cutting initiatives implemented the year before. As a consequence, earnings before interest and tax (EBIT) stood at EUR 3.9 m – a year-on-year improvement of EUR 41.2 m.

SUFFICIENT LIQUIDITY DESPITE STRONG GROWTH

In spite of the 19 % climb in Group revenue, net bank borrowings declined by EUR 2.2 m. Healthy operating profit of EUR 29.2 m before working capital changes compensated for the jump in working capital resulting from the growth in sales. Consolidation was our overriding objective in 2010, and consequently investment dropped sharply to EUR 9.3 m. The Group also struck new agreements with several banks and at year-end unused credit lines amounted to EUR 94.3 m.

AUTOMOTIVE COMPONENTS DIVISION IN GOOD SHAPE

Automotive Components made significant progress in consolidating and expanding customer relationships during the year. Multi-year supply contracts were concluded or extended for around 75 % of output. The Division also capitalised on the cross-selling opportunities presented by its extensive product portfolio, and also acquired new orders for additional components from existing customers. The headway made on enhancing lightweight products, which will go into producing new vehicle classes that comply with the Euro 6 emission standard from 2013, will also open up a series of major growth opportunities. The Division's production network is geared towards meeting these new requirements, and the process of consolidating the network continued with the relocation of tubular stabiliser bar manufacturing to the stabiliser plant in Douai, France.

"THANKS TO THE COMMITMENT OF OUR EMPLOYEES IN 2010, WE WERE ABLE TO CREATE THE BASE FOR A SUCCESSFUL FUTURE OF THE FRAUENTHAL GROUP."

MARTIN SAILER AND
HANS-PETER MOSER,
MEMBERS OF THE EXECUTIVE BOARD

WHOLESALE PLUMBING SUPPLIES RECORDS STEADY GROWTH AND EXPANDS NETWORK

The Wholesale Plumbing Supplies Division (SHT) again defied a stagnant market to post respectable growth of 3.5 %. This was once more primarily due to robust private renovation demand. In contrast, sales slumped in the fiercely competitive contract business. The integrated services, logistics and sales centre in Innsbruck became fully operation in mid-2010 and has already helped to boost SHT's market share in western Austria, although it is still heavily underrepresented in the region. Rising volumes and specific measures aimed at improving logistics service quality were reflected in a moderate increase in costs of EUR 8.6 m. Nevertheless, EBIT jumped to EUR 8.1 m – its highest level in the Division's history. This was almost entirely due to a hike in output, and gross margins virtually unchanged year on year owing to fierce and unrelenting price competition.

HIGH LIGHTS 2010

JUMP IN EARNINGS AT INDUSTRIAL HONEYCOMBS

The Industrial Honeycombs Division posted disproportionately strong growth as the rebound in the commercial vehicles market took hold. Revenue from catalysts for diesel motors jumped by 174 %, resulting in significantly improved EBIT of EUR 10.9 m. Full capacity utilisation served to boost revenue by 13 % to EUR 79.4 m. Demand for power station catalysts also remained buoyant, and new projects in Europe and replacement orders from the USA were particularly encouraging. The Chinese business again played a significant part in the Division's growth, accounting for 35 % of the total. However, order intake from China slipped sharply owing to persistent uncertainty surrounding further amendments in the country's environmental legislation. The Industrial Honeycombs Division's plate catalyst plant started operations at the beginning of the year. At first the new product will be installed by one customer for testing purposes. The long lead times involved in the project meant that the initial orders for the plate catalysts were only placed towards the end of last year.

EQUITY POSITION CONSOLIDATED

All four divisions made solid contributions to the annual profit of EUR 17.4 m. The decision taken in 2009 to withhold dividend payments in an effort to shore up the Group's equity position resulted in a growth in equity to EUR 17.4 m. This offset nearly 60 % of the loss recorded that year. Owing to a restrictive investment strategy and tight working capital policies, total assets rose by a mere 14 %. Consequently, the equity ratio went up by 2.5 percentage points to 30.8 %.

Content

STRENGTH THROUGH DIVERSITY

What does our three business divisions have in common?
Does diversity and the focus on core abilities contradict each other?
How do we manage to create a fundament for dynamic growth?
Kann man einen Markteinbruch von 60 % noch beherrschen?

Answers to these questions besides lots of other information you will find in our annual report from the year of consolidation, 2010.

TASK

Franz Haring, 47, testing and loading a plate catalyst element. The plate catalyst is a type of SRC catalyst recently introduced by Frauenthal to meet the demands of Asian customers and parts of the US market.

PRODUCT

This new product has given us access to the 25 % of the market for which honeycomb designs are technically unsuitable. The plate catalyst is still in the market launch phase, and is currently undergoing customer trials.

Statement by the Chairman of the Supervisory Board

A comparison of the 2010 financial statements with those for the previous year shows what a rollercoaster ride Frauenthal has been through. The pleasure it gives us to report on such positive trends should not blind us to the continuing uncertainties clouding the global economic outlook. After the events of 2008–2009, the order of the day was consolidation and risk minimisation across all divisions, whilst maintaining opportunities for expansion.

The results for 2010 show that the major reductions in capacity in the Automotive Components Division in 2009 were wise, painful as they were. Demand is still about 45 % below 2008 levels. The steps we took have optimised our production capacity and sharpened our competitiveness, whilst underpinning long-term stability.

In 2010 we completely recast our strategies for all three divisions. We involved a broad cross-section of the workforce in this process. Executing the new strategies will create highly promising opportunities for profitable growth for each division and the Group as a whole. Building on this platform, we gave the green light to some major investments before the year was out.

Despite (and thanks to) all the restructuring actions, some of which were very harsh, Frauenthal has emerged from the 2008–2009 financial and economic crisis structurally stronger than before.

In the post-crisis era, flexibility and prudence remain indispensable if we are to bolster the business against the impact of any setbacks on financial markets on the real economy. Such alternative scenarios are also part of our strategy, and can be reacted to at short notice if necessary.

Altogether, today the Frauenthal Group is a highly attractive investment for its shareholders and bondholders. Among the strengths of the investment story are:

- Good growth prospects thanks to positive trends in all divisions, and hence the Group as a whole;
- Sound, detailed strategies for all parts of the Group;
- Market leadership in the three divisions, coupled with an effective holding structure;
- Increased stability thanks to the countercyclical sectors in which our divisions operate, and the resultant risk diversification;
- Proven ability to overcome crises;
- Strong cash flow and a sound balance sheet;
- Stable ownership and a management with a strong track record.

These positives, together with the stock market recovery, led to a 46 % surge in our share price in 2010, compared to an upturn of only 16 % in the ATX – particularly heartening in light of the setbacks of 2009.

In the hope of further positive developments and constructive cooperation, I would like to thank our customers, suppliers, employees and my fellow shareholders for their contributions, commitment and loyalty. I also hope that our annual report will make interesting reading.

Vienna, 15 March 2011

Hannes Winkler, Chairman of the Supervisory Board

Senior leadership team (SLT)

The senior leadership team (SLT) consists of the top management of the Frauenthal Group and the Chairman of the Supervisory Board, Hannes Winkler.

The SLT deals with central issues relating to the Group's strategy and business development, under the leadership of the Frauenthal Holding Executive Board.

The SLT's work centres on exchanging information, providing mutual support, harmonising approaches to Group-wide issues, and advising Group management. The "one company" spirit is strengthened by working together, exploiting synergies and reinforcing the common management culture.

Held several times a year, the SLT meetings are devoted to:

- Discussion of the strategic alignment of each division;
- Identification of major synergies between the divisions;
- Determination of HR policies and tools;
- Information exchanges on Group-wide issues.

Nurturing a corporate culture that develops employees' capabilities, and makes the most of their strengths and potential is a major concern for the SLT, as is making Frauenthal an attractive employer with good succession planning, so as to prepare the ground for future growth.

"To my mind, a close-knit management team and a corporate culture defined by mutual trust and respect are crucial to consistent success. The Frauenthal SLT gives us an opportunity to focus on sustainable growth, through targeted HR and talent development, and structured succession planning, at Group level. We join forces and learn from one another, and this is increasingly enabling us to replace reactive behaviour by a proactive approach."

Hans-Peter Moser,
Chairman of the Frauenthal Holding AG Executive Board

Hans-Peter Moser, member of the board of Frauenthal Holding AG, chairman of the Executive Board of SHT Haustechnik AG and responsible for the division Automotive Components | **Josef Unterwieser,** Senior Vice President and Chief Executive Officer Automotive Components Group | **Bernd Allmer,** Vice President Human Resources & Change Management | **Hannes Winkler,** Chairman of the Supervisory Board | **Chaohong Zhu,** Chief Executive Officer of Porzellanfabrik GmbH since 1 January 2011 | **Magnus Baarman,** President and Chief Executive Officer Automotive Components Group | **Karl Führer,** Chief Executive Officer of Porzellanfabrik GmbH | **Wolfgang Knezek,** member of the Executive Board of SHT Haustechnik AG | **Beatrix Pollak,** member of the Executive Board of SHT Haustechnik AG | **Martin Sailer,** member of the board of Frauenthal Holding AG and responsible for the division Industrial Honeycombs.

TASK

Andre Peschke, 38, seen here immersing an air reservoir to check it for leaks, works at Linnemann-Schnetzer Elterlein (Automotive Components Division).

PRODUCT

With welded bracket air reservoirs, a mounting bracket, welded to the reservoir, is screwed to the chassis instead of using restraining straps or wires. This avoids friction at the mounting points.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Interview with the Executive Board

Martin Sailer

Hans-Peter Moser

„WE HAVE LAID THE GROUNDWORK FOR PROFITABLE GROWTH."

Interview with Frauenthal Holding AG Executive Board members Hans-Peter Moser and Martin Sailer.

The Executive Board set out to make 2010 a year of "consolidation". The Frauenthal Group is now about to unveil one of the best sets of results in its history. Did you expect such a rapid turnaround?

Moser: We knew we had laid the groundwork for a return to the black in 2009, and these efforts began bearing fruit in 2010. However, to be honest, market developments in the Automotive Components Division were a pleasant surprise – particularly from the third quarter on. Our customers have evidently reached the conclusion that the recovery is here to stay, and have began filling up the sales pipelines with new vehicles again. But we shouldn't forget that sales in this division are still 45 % below the peak reached in 2008.

I am particularly pleased that all three divisions are performing so well, and are making similar earnings contributions. The Frauenthal Group has three independent businesses of equal importance. The fact that the Wholesale Plumbing Supplies (SHT) and Industrial Honeycombs divisions posted further growth after their strong showing in 2009 was crucial to the good Group results.

At this point I'd like to express my admiration for our management team and all of our people for the immense effort they have put in. They once again faced huge challenges in 2010. In Automotive Components they had to handle a number of production relocations at the same time as ramping up output and undergoing customer audits. SHT recorded increased sales volume in a flat market, in the teeth of aggressive price competition, while Porzellanfabrik Frauenthal worked at full capacity and supplied 174 % more diesel catalysts. At the same time all three divisions worked hard on developing long-term growth strategies. The fact that we were able to deliver such good performance in 2010 and build a platform for future success has a lot to do with the usual close cooperation between the supervisory board, management, employees and works councillors.

„The fact that we were able to deliver such good performance in 2010 and build a platform for future success has a lot to do with the usual close cooperation between the supervisory board, management, employees and works councillors."

Volume in the Automotive Components Division is still down by almost half on 2008. Have the restructuring programmes worked? How do you see the future?

Sailer: EBIT of EUR 3.9 m in the Automotive Components Division represents a year-on-year improvement of EUR 41.2 m. About 68 % of this is accounted for by cost reductions, and 32 % by increased volume. Rightsizing the production network has had two effects. In the first place we have cut fixed costs by EUR 28 m, and this has greatly reduced break-even revenue. In the second, we've optimised site capacity utilisation by relocating production, and this means that our products are now manufactured where it is most profitable to do so. The planned selective capacity expansions will follow this principle. A typical example was the moving the trapezoidal springs from Slovenia to our Romanian plant. Since we now have fewer factories the ones that remain must be turned into larger units if we are to keep pace with expected market growth. The main focus of capacity expansion is on our Styria Arcuri works in Sibiu, Romania and the highly automated plant in Châtenois, France.

European commercial vehicle registrations are up by 8 %. Does that mean that the crisis is over?

Moser: Certainly not. In 2010 the European market for heavy commercial vehicles was still 45 % below 2008 levels. There was an almost complete collapse in exports to Eastern Europe, and particularly to Russia, in 2009, and they're only picking up again very hesitantly. Even if the dreaded "double dip" doesn't come, we expect the commercial vehicle market to remain very volatile for the foreseeable future, and this makes forecasting virtually impossible. Our revamped production network has given us increased flexibility, so we can react quickly to market swings in either direction. The key issue is achieving sustainable improvements in profitability. Since we can't influence market size, there are only two levers for this – innovative products that enhance customer benefits, and steady productivity gains.

„The key issue is achieving sustainable improvements in profitability."

You cited improved customer relationships as one of your targets. Are Frauenthal's customers satisfied?

Moser: In Automotive Components we have succeeded in deepening the relationships with all of our key accounts. That's shown in the extention of existing long-term supply contracts and the large number of inquiries we have been receiving, some of which led to orders in 2010. For instance, our Polish U-bolt factory posted record sales last year because an air link customer began sourcing this product from us, too. That's just one example of the vast scope for cross-selling due to our wide product range. The Automotive Components Division's decision to rebrand itself as a single business instead of marketing under the names of the various plants is crucial to exploiting this potential to the full.

"Single business instead of marketing under the names of various plants"

We've put a big effort into integrating the division, strengthening the group identity, expanding the key account management function, developing a group-wide strategy and – most important of all – demonstrating our prowess in product development. The development of a lightweight front axle spring, which has already been cleared for production, is a case in point. We're working with eight customers on the development of lightweight suspension components that deliver improved performance. The strict requirements that the Euro 6 standard, due to come into force in 2013, will impose on new generations of vehicles are a unique opportunity for us to demonstrate our technological expertise. We want our customers to associate the Frauenthal Automotive Components Group (FAC) with stability, reliable quality and logistics, innovation and cost efficiency. We made big strides in this direction in 2010.

You say innovation and continuous improvement will be central to your group's long-term success. How can Frauenthal become more innovative?

Sailer: Innovation can relate to a product or service, a process or a market. On the product development side, we have a good framework in place in the Industrial Honeycombs Division, and outstanding people who are continuously improving the catalyst designs, materials and production processes. We need to keep on expanding these structures. In Automotive Components we created the right kind of organisation at the start of 2009 by relocating the R&D capacity to centres of expertise based at the factories. This has borne fruit relatively quickly, in the shape of the development of a high tension front axle spring and an improved tubular stabiliser.

We're also seeing the first results of our continuous improvement and lean engineering initiatives, which have been rolled out across the entire Group. By definition, these are not expected to deliver spectacular one-off successes, but are intended to have an impact by generating a large number of small improvements. Meanwhile, at SHT we invested in an innovative order picking system and a highly successful online sales and service platform a while ago. In a complex service business like this, a large number of internal and customer facing processes must constantly be adjusted to market conditions and customer requirements, and continuous improvement can also be applied to improving profitability.

The basic mechanisms of continuous improvement and fostering innovation are independent of business models, and have a lot to do with employee involvement, internal communications and training. Some information and research findings can be exchanged between the divisions. However we have also created a central resource at the holding company to promote innovation and continuous improvement at Group level.

The Wholesale Plumbing Supplies Division (SHT) posted record results despite again being up against poor market conditions. What was behind this success?

Moser: At SHT, commissioning of the Innsbruck site marked a major advance towards a nationwide sales and service network. SHT is the uncontested market leader, and our excellent logistics, comprehensive product range and competitive prices are big points in our favour. Growth of 3.5 % in a market that was flat in real terms meant we gained additional market shares. Naturally the new location in Tyrol, where we were previously very underrepresented, was a help.

The strong EBIT performance of EUR 8.1m represented an increase of EUR 2 m on 2009. This was despite the early onset of winter which cost us a lot of volume. Unfortunately, we were unable to realise our objective of countering the downward pressure on prices by offering top-class service, so growth came entirely from winning market shares – particularly in the private renovation and heating segments. Our gross margin is edging up at present. Under today's testing conditions in the contract business, price wars are a reality we have to live with. Nevertheless, we're aiming for profitable growth, so we don't try to win orders at all costs. SHT is very well set up for the future. The heavy investment in outlets, logistics, systems and staff development since 2005 is paying off. Now the issues are further optimisation and fine-tuning with regard to the product range and logistics processes.

„SHT is the uncontested market leader, and our excellent logistics, comprehensive product range and competitive prices are big points in our favour."

The building market is now into its third year of decline, and there is no sign of any real growth in new construction in 2011. Won't this trend catch up with SHT sooner or later?

Moser: Since the start of the economic crisis the plumbing and heating supplies market has been shored up by demand from households that are investing in renovation and environmentally friendly heating and sanitary systems. This segment grew again in 2010 while commercial housebuilding shrank. We're forecasting that the nominal growth of the overall market will be no faster than the rate of inflation in 2011, so in other words it will go sideways in real terms. The promised public sector projects have not revived the building market, and in view of the concerns about the budget gap we don't see a stimulus from state spending anywhere down the line, either. But the situation in the commercial housebuilding market should start to brighten

„SHT is very well set up for the future."

in 2012, and we're confident that we can consolidate our position even if the market does stay flat.

The Industrial Honeycombs Division made a strong earnings contribution and is continuing to grow fast. What are the factors behind this success?

Sailer: In 2010 this business, too, did particularly well out of the recovery of the commercial vehicle market. Sales of catalysts for diesel engines were up by 174 %, while the power station catalysts also traded well on the whole. Even heat exchangers – which took a pounding from the crisis – staged a comeback. Revenue and earnings growth of 13 % and 70 %, respectively, and full capacity utilisation were down to the good product mix – including a much higher proportion of diesel catalysts than in 2009. We also had some help from the US dollar exchange rate, and benefited from our investment in insourcing. These factors accounted for the disproportionate EUR 9.2 m improvement in earnings on a EUR 4.5 m revenue gain.

Porzellanfabrik Frauenthal has customers all over the world. How is the Chinese market progressing?

Sailer: We have a global footprint, and thanks to the quality of our products and the engineering skills of our workforce we have an excellent reputation throughout the world. Demand for new equipment and replacement parts for existing systems was very strong in Europe and the USA. Orders from China were also satisfactory, and accounted for 35 % of total stationary SCR catalyst sales. However there is a question mark over the short-term trend in this emerging market. The Chinese power station operators are still unable to put up electricity prices to compensate for investments in SCR plants. The future of the Chinese business hangs on the new five-year plan. If this lays down mandatory NOx limits that force operators to use SCR catalysts, our prospects will be excellent. Our industry is not alone in facing an uncertain trading environment in China. But come what may, sooner or later the Chinese will have to invest heavily in environmental technology.

> "Sooner or later the Chinese will have to invest heavily in environmental technology."

Your diversification strategy showed its worth again in 2010. But is Frauenthal more than the sum of three successful divisions?

Moser: In the same way as we are branding the Frauenthal Automotive Group as "one company", we want to leverage synergies across divisional boundaries, and manage and develop the group according to the same set of principles. The key to the continued success of the divisions and to the integration of the Frauenthal Group as a whole is our human resources management function. The cornerstones of our human resources policies are executive development schemes, training programmes at all levels of the organisation, and performance related pay systems. We give all our people every opportunity to take on responsibility, and aim to fill as many top positions as possible by internal recruitment.

Our Group-wide HR programme, parts of which have already been running for several years, plays a significant part in creating a positive Group identity, and will be further expanded. Our continuous improvement initiative should also be seen as a staff development policy that involves production workers in decision making and motivates them to take on more responsibility. Given the ambitious growth targets of all three divisions, Frauenthal's reputation as a top-class employer is immensely important. We want to be a magnet for talented people.

> "The key to the continued success of the divisions is our human resources management function."

2010 was a highly successful year for Frauenthal. Is it back to "business as usual" now?

Moser: Not at all. We may have met our objective of emerging from the crisis stronger than before, but the tasks ahead are no less challenging. In Automotive Components we need to set about global expansion in the right way. The European manufacturers want a slice of the fast growing Russian and Asian commercial vehicle markets, and for that they need global suppliers. Truck exports from Western Europe are set to decline, and we will have to jump on the bandwagon if we want to hold on to our market shares.

Russia is the prime target, because of the massive forecast demand for western-style trucks. We're looking closely at a number of approaches to helping our customers to continue their push into this highly promising market.

Sailer: Industrial Honeycombs is confronting a number of major challenges. One of our top priorities will be improving capacity utilisation at the plate catalyst plant that started up early last year. We've already won some orders, but full capacity utilisation is not yet assured. The second big test is to consolidate our position on the European diesel catalyst market, with the Euro 6 emission standard just around the corner. But the most important goal of all is to break into the new growth markets that are being created by the global spread of environmental legislation. This is mainly about selling catalysts to the commercial vehicle industries of South America, China and – further out – India. For example, an emission standard on a par with Euro 5 is due to come into force in Brazil in 2012. Catalysts for marine engines are a particularly exciting opportunity. We're already active in this market, but it will only really come into its own when there's an international standard for ship emissions. This could be the case in a few years' time, so there are big growth opportunities ahead for our division.

"But the most important goal of all is to break into the new growth markets that are being created by the global spread of environmental legislation."

The backbone of the Frauenthal Group's borrowing is the bond. That is due in June 2012. How does the board plan to finance the growth strategy?

Sailer: A long-term bond is the right form of finance for our growth projects. We intend to go to the capital market if the demand for corporate bonds remains strong as a result of low interest rates.

Moser: The Frauenthal Group stands for responsible business practices, predictability and solidity. We want manageable growth. That means avoiding experiments, and implementing soundly financed projects with a good risk-reward ratio wherever we have sufficient management resources to see them through.

Thank you for talking to me.

PRODUCT

SHT now operates six logistics centres, seven sales outlets, 40 pick-up stores and 12 up-market Bäderparadies bathroom showrooms. A new integrated service, logistics and sales centre opened in Innsbruck in July.

TASK

Serfettin Boynuince, 43, works in the batching department at the pick-up store at Perchtoldsdorf. At every distribution centre, customers have the option of collecting urgently needed materials. These orders are given priority by staff, and are processed within minutes.

TASK

Marcel Kreuzig, 24, works at the Linnemann-Schnetzer factory in Saxony (Automotive Components Division) as a welder and air reservoir assembler. Here, he is checking air reservoirs after the welding joints have been fettled.

PRODUCT

Our German plants produce steel and aluminium air reservoirs for the European commercial vehicle market. The reservoirs are used in braking and suspension systems. These components are highly safety critical, and must therefore meet exacting reliability standards.

Corporate Governance Report

CORPORATE GOVERNANCE POLICY

Frauenthal Holding's corporate governance policies are based on Austrian law (in particular the Austrian Companies Act and Capital Market Act); the articles of association; the rules and procedures for the company's managing bodies; and the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex, ÖCGK).

The Code is constantly being developed in order to increase transparency for all stakeholders – in line with a longstanding goal of the Frauenthal Group.

The Executive Board liaises with the Supervisory Board on Group strategy, and reports to it regularly on implementation and the current condition of the Company, including the risk situation. The rules and procedures of the Supervisory Board, audit committee and Executive Board flesh out the legal framework that defines the responsibilities and functioning of the Company's governing bodies.

FRAUENTHAL HOLDING AG'S COMMITMENT

Frauenthal Holding AG was one of the first companies to commit to implementation of the voluntary Austrian Code of Corporate Governance. On 27 March 2003 the Company undertook to adhere to these rules, which go beyond its legal obligations, wherever possible.
In 2010, the Executive Board and Supervisory Board maintained its focus on conforming as closely as possible to all rules of the Code, and on maintaining and enhancing the company's high internal standards. As a result there is little need to clarify deviations from the Code.

AUSTRIAN CODE OF CORPORATE GOVERNANCE

Frauenthal Holding AG has been listed on the Vienna Stock Exchange since 10 June 1991. The Austrian Code of Corporate Governance is generally recognised on this market. The version of the Code applicable during the year under review (January 2010) is posted at www.corporate-governance.at, and in the Investor Relations/Corporate Governance section of the Frauenthal website (www.frauenthal.at). Frauenthal complies with all of the legal requirements set out in the Code's 33 L-Rules. The Code also contains 45 C-Rules (comply or explain) which require explanations of any deviations. In accordance with R-Rule 62 (recommendation), Frauenthal regularly has its compliance with the Code externally evaluated. Our compliance with the Code of Corporate Governance was last evaluated by our auditors, BDO Austria GmbH, at the start of 2011. The evaluation report certifies our adherence to the Code and the correctness of this Corporate Governance Report.

SIGNIFICANT EVENTS IN 2010

The most important events with regard to corporate governance in 2010 were the resignation of Ernst Lemberger as Chairman of the Supervisory Board of Frauenthal Holding AG, effective 26 March 2010, and the election of Hannes Winkler as the new Chairman. The Supervisory Board now comprises Hannes Winkler (Chairman), Dietmar Kubis (Deputy Chairman), Oskar Grünwald, and Johannes Strohmayer, who was elected to the board by the Annual General Meeting of 2 June 2010. The Works Council delegated August Enzian as its new Supervisory Board member, while Karl Pollak was recalled because he went into retirement. The other employee representative is Klement-Michael Marchl.

DEVIATIONS

C-Rule 31: Frauenthal Holding AG does not view the publication of Executive Board remuneration as useful or appropriate in terms of data protection and the individual Management Board members' right to privacy.
The amended Code which came into effect on 1 January 2010 has been applied. The amended version includes adjustments for legislative amendments and also provides for recommendations for remuneration. As no new contracts were agreed with Executive Board members in 2010, the new rules (27-30) were not applicable.

COMPOSITION OF THE EXECUTIVE BOARD

C-Rule 16: The Executive Board of Frauenthal Holding AG is made up of Hans-Peter Moser and Martin Sailer, who hold equal rights as members of the Executive Board. As the Executive Board has only two members there is no need for a chairperson. Hans-Peter Moser and Martin Sailer bear joint overall executive responsibility. The Executive Board members have not been appointed to the supervisory boards of any other companies.

Name (Year of Birth)	First appointed	End of current term of office
Hans Peter Moser (1966)	April 2006	December 2011
Martin Sailer (1962)	September 2008	June 2013

Mag. Hans-Peter Moser joined the Frauenthal Holding AG Executive Board in 2006 and his term of office runs until December 2011.
Hans-Peter Moser was born in 1966, and is married with three children. He studied Business Administration at the Vienna University of Economics and Business from 1984–1990, and qualified as a chartered accountant in 1996. After working as a trainee accountant at the practice of Prof. Egger from 1991–1995, he headed the finance and accounts department at Novoferm GmbH from 1995–1999. He then moved to Tchibo/Eduscho GmbH where he was commercial director from 1999–2002. Hans-Peter Moser joined the Frauenthal Holding AG Executive Board in April 2006, and is responsible for the Wholesale Plumbing Supplies (SHT) and Automotive Components divisions. Within the holding company, he is responsible for the secretariat, human resources, administration, legal affairs, communications and business development. He is also the chairman of the SHT Haustechnik AG Executive Board. Mr Moser does not hold any comparable positions outside the Group.

Dr. Martin Sailer was appointed to the Frauenthal Holding AG Executive Board in September 2008, and his term of office expires in June 2013.

Martin Sailer was born in 1962, and is married with two children. He studied Business Administration from 1980–1984, and held research assistant positions for several years at the Universities of Graz and St. Gallen. He has a total of 20 years' experience in the financial departments of various international companies. After a spell with the corporate controlling department at Daimler-Benz AG, from 1989-1992, he was Head of Finance at a major car importer from 1993-1998, and was Vice President Finance at the Ventana Group (today FVV Frauenthal Vermögensverwaltungs GmbH, Vienna) between 1998 and 2000. Before joining Frauenthal Holding he was finance director at the Pfizer pharmaceutical group in Austria and Germany with responsibility for financial control, reporting, finance, tax, internal auditing and business development (2001–2008). Since September 2008 he has headed the finance department of Frauenthal Holding, incorporating finance, controlling, internal and external reporting, treasury and internal audit, and investor relations. In addition, he is responsible for the catalyst business and other ceramic honeycombs (Industrial

Our Supervisory Board

Hannes Winkler
Chairman

Dietmar Kubis
Deputy-Chairperson

Oskar Grünwald
Member

Honeycombs Division). He is also a member of the SHT Haustechnik AG executive board. Martin Sailer does not hold any comparable positions outside of the Group.

COMPENSATION AND TRANSPARENCY OF EXECUTIVE BOARD REMUNERATION

C-Rule 31: In 2010, Executive Board remuneration totalled EUR 934,000 (2009: EUR 656,000). Frauenthal Holding AG does not view the publication of Executive Board remuneration as useful or appropriate in terms of data protection and the individual Executive Board members' right to privacy.

C-Rules 27/30: The remuneration committee of the Supervisory Board is responsible for determining the pay arrangements of the Executive Board. The Board's remuneration consists of a fixed salary and a variable component, capped at 100 % of the fixed component, geared to personal performance. The variable component is determined according to agreed qualitative and quantitative targets; the qualitative and the quantitative elements must represent equal shares of the variable component. The quantitative targets relate to value growth and liquidity while the qualitative targets concern pre-agreed objectives for given divisions or for the Group as a whole. Regular pension contributions are made to a pension fund for Board members. Members have no contractual entitlements to termination benefits on leaving office.

No new contracts were agreed with Executive Board members in 2010, meaning that rule 27/30 as amended applied on the reporting date.

DIRECTORS AND OFFICERS (D&O) INSURANCE COVER

Frauenthal Holding AG has taken out directors and officers (D&O) insurance cover for the Executive Board, chief executives of Group companies and the Supervisory Board and bears the cost of EUR 31,000 (2009: EUR 31,000).

SUPERVISORY BOARD COMMITTEES

C-Rule 39: The Frauenthal Holding AG Supervisory Board consists of four members elected by the Annual General Meeting and two members delegated by the central works council. The Chairman of the Supervisory Board of Frauenthal Holding AG, Ernst Lemberger, tendered his resignation with effect from 26 March 2010. Hannes Winkler was elected as the new Chairman. The Supervisory Board now comprises Hannes Winkler (Chairman), Dietmar Kubis (Deputy Chairman), Oskar Grünwald and Johannes Strohmayer, who was elected to the board by the Annual General Meeting of 2 June 2010. The Work Council delegated August Enzian as its new Supervisory Board member, while Karl Pollak was recalled due to retirement. The other employee representative is Klement-Michael Marchl.

Johannes Strohmayer
Member

Klement Michael Marchl
Employee representative

August Enzian
Employee representative

Employee codetermination on supervisory boards is an aspect of the Austrian corporate governance system which is required by law. The Supervisory Board has set up three committees to help it to perform its work efficiently. Besides the audit committee, which is required by law, a strategy committee and a personnel committee were established by the Supervisory Board meeting held on 4 May 2006 (C-Rule 43). The Code only prescribes the formation of the latter two committees for boards with more than six members.

MEMBERS OF THE AUDIT COMMITTEE

Name (year of birth)	Functions
Oskar Grünwald (1937)	chairman
Dietmar Kubis (1957)	member
August Enzian (1961)	employee representative

- The **audit committee** is composed of the Chairman Oskar Grünwald, Dietmar Kubis, and the employee representative August Enzian (replacing Karl Pollak). The committee is mainly responsible for overseeing the audit of the individual annual financial statements and preparations for their adoption, the audits of the consolidated financial statements, the dividend recommendation, the individual and Group operating reviews, and the Corporate Governance Report. Oversight of the Group's accounting processes, and the effectiveness of the internal control, internal audit and risk management systems are high priorities of the committee. A further important responsibility of the audit committee is preparing the Supervisory Board's recommendation for the selection of the auditors, and monitoring the independence of the auditors of the individual and consolidated financial statements, particularly with regard to the provision of any additional services.

MEMBERS OF THE STRATEGY COMMITTEE

Name (year of birth)	Functions
Hannes Winkler (1955)	chairman
Johannes Strohmayer (1950)	member
Klement-Michael Marchl (1960)	employee representative

- The **strategy committee** comprises Hannes Winkler as Chairman (replacing Ernst Lemberger), Johannes Strohmayer and Klement-Michael Marchl (employee representative). The committee deals with the Group's strategic alignment, and is consulted by the Executive Board on all strategic decisions.

MEMBERS OF THE PERSONNEL COMMITTEE

Name (year of birth)	Functions
Hannes Winkler (1955)	chairman
Dietmar Kubis (1957)	member
Klement-Michael Marchl (1960)	employee representative

- The membership of the **personnel committee** consists of the chairman Hannes Winkler, Dietmar Kubis and Klement-Michael Marchl (employee representative). This committee concludes Executive Board employment contracts, and determines the compensation of Executive Board members. It also sets the targets for the performance related components and monitors their attainment.

ACTIVITIES OF THE SUPERVISORY BOARD DURING THE YEAR UNDER REVIEW

C-Rule 36: As in the previous year, the Supervisory Board met frequently in 2010. During the year there were six Board meetings and two audit committee meetings. During its deliberations, the Board dealt in depth with the strategic alignment of Frauenthal Holding AG during the economic crisis, and with Executive Board matters. The issues focused on are described in greater detail in the report of the Supervisory Board. Particularly noteworthy was the audit committee's thorough examination of the Frauenthal Group's risk management and internal controlling systems, and the internal audit function.

All committee members were present at all the committee meetings held in 2010. Average attendance of the Supervisory Board meetings held in 2010 was 100 %. No member attended less than 50 % of the meetings.

INDEPENDENCE OF THE SUPERVISORY BOARD

C-Rule 53: The criteria for the independence of Supervisory Board members conform to the guidelines set out in Annex 1 to the Austrian Corporate Governance Code, and have therefore not been separately posted on the Group's website. A Supervisory Board member may declare himself/herself to be independent if he/she has no business or personal relationships with the Company or its Executive Board which constitute a material conflict of interests and might therefore influence the member's behaviour.
Three-quarters of the Supervisory Board are independent members (Dietmar Kubis, Oskar Grünwald and Johannes Strohmayer) who have no business or personal relationships with the Company or its Executive Board.

C-Rule 54: Where a company has a free float of more than 20 %, the Supervisory Board members elected by the Annual General Meeting or delegated by shareholders under the articles of association must include at least one independent member, as described within C-Rule 53, who does not own a stake in the company of more than 10 % or represent the interests of such a shareholder. The free float comprises 24.11 % of the shares in Frauenthal Holding AG. As three members are independent as set out in C-Rule 53, this rule is complied with.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board held six meetings in 2010, and was regularly informed of the course of the company's business by means of monthly reports.

The audit committee met twice in the course of the year under review.

As well as monitoring the company's day-to-day business activities, in 2010 the Supervisory Board focused primarily on strategic development planning for the Frauenthal Group and its divisions.

The Supervisory Board of Frauenthal Holding AG discharged the duties incumbent on it by virtue of the law and the articles of association, and satisfied itself that the Company's business was being properly conducted. The annual financial statements of Frauenthal Holding AG for the year ended 31 December 2010 presented in accordance with IFRS, the consolidated financial statements of the Group for the year ended 31 December 2010, and the operating reviews for the 2010 financial year were audited by BDO Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, and were given an unqualified audit certificate. The audit revealed no grounds for objection.

The Supervisory Board's review of the individual annual financial statements, the consolidated financial statements for the year ended 31 December 2010, and the operating reviews for the 2010 financial year revealed no grounds for objection. The report of the auditors, BDO Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, was submitted to the Supervisory Board. The Board has expressed its agreement with the annual financial statements of Frauenthal Holding AG and consolidated financial statements for the year ended 31 December 2010, and the operating reviews for the 2010 financial year, and has approved the annual financial statements of Frauenthal Holding AG for the year ended 31 December 2010. The annual financial statements are thereby adopted under section 96(4) Aktiengesetz (Austrian Companies Act).

COMPENSATION FOR SUPERVISORY BOARD MEMBERS

C-Rule 58: In 2010, the Supervisory Board members and their compensation were as follows:

Name (year of birth)	First appointed	End of current term of office	Independence in the meaning of C-Rule 53	C-Rule 54	Compensation in 2010
Ernst Lemberger (1951) chairman till 26.03.2010	12.12.1989	Resigned on 26.03.2010	no	no	Waived
Dietmar Kubis (1957)[1] deputy chairperson	10.02.1999	2013	yes	yes	14.000 €
Hannes Winkler (1955) chairman from 26.03.2010	22.05.1997	2012	no	no	Waived
Oskar Grünwald (1937) member	21.05.1999	2011	yes	yes	14.000 €
Johannes Strohmayer (1950) member	02.06.2010	2011	yes	yes	8.000 €

Supervisory Board members delegated by the central works council:

Name (year of birth)	First delegation	Recall
Karl Pollak (1951) chairman	27.11.2006	recalled on 27.09.2010
Klement-Michael Marchl (1960) member	27.11.2006	
August Enzian (1961) member	27.09.2010	

[1] Dietmar Kubis is the only Board member who performs a similar function with another Austrian or foreign listed company. He serves on the supervisory board of German company Nexus AG.

C-Rule 51: In accordance with the resolution of the 21st Annual General Meeting of 2 June 2010, Supervisory Board Members receive an attendance fee of EUR 2,000 for each Board meeting they attend. The fee is also payable for attendance at meetings of Supervisory Board committees, when these do not take place on the same day as meetings of the full Supervisory Board. In addition, the company compensates members' travel expenses incurred in relation to attendance at meetings of the Supervisory Board and Supervisory Board committees. In 2010, as in previous years, the Chairman Hannes Winkler and his predecessor Ernst Lemberger waived their compensation. The compensation paid to Supervisory Board members is set out in the C-Rule 58 table. No stock option plans are granted to Supervisory Board members.

ADDITIONAL CORPORATE GOVERNANCE MECHANISMS

The Company's risk management system focuses on strategic risks and opportunities. It permits systematic Group-wide identification, assessment and management of risks, on the basis of the Company's risk policies and its strategic and operating objectives. The effectiveness of the risk management system is externally evaluated by the auditors pursuant to Rule 83 of the Austrian Code of Corporate

Governance, and monitored by the audit committee, which also monitors the effectiveness of the internal controlling system. The latter is designed to safeguard the effectiveness and economic efficiency of the Company's business activities, the integrity and reliability of its financial reporting, and compliance with the relevant laws and regulations.

C-Rule 21: Frauenthal Holding AG has implemented company-wide compliance guidelines to prevent insider trading. Wolfgang Knezek is the company's Compliance Officer. He reports to the board of directors of the Frauenthal Holding AG.

RELATED PARTY TRANSACTIONS

FT-Holding GmbH, Chemnitz continues to hold a 72.9 % interest in Frauenthal Holding AG. Hannes Winkler and Ernst Lemberger each own 50 % of FT-Holding GmbH. Frauenthal Vermögensverwaltung GmbH (FVV), Vienna (formerly Ventana Beteiligungsgesellschaft m.b.H., Vienna) draws up the consolidated financial statements for the largest group of companies to which the Frauenthal Group belongs.

Related party transactions between Frauenthal Group companies and entities controlled by Hannes Winkler and Ernst Lemberger, involving rental and other services, amounted to EUR 3,425,000 in 2010 (2009: EUR 3,355,000). The services exclusively concern Executive Board members' remuneration charged-on to Frauenthal.

With effect from 30 June 2010, the entire holding of FVV in Validus Immobilien Holding GmbH was transferred to a company wholly owned by Hannes Winkler, by way of a demerger. Validus Immobilien Holding GmbH and all of its subsidiaries are thus controlled by Hannes Winkler.

Validus Immobilien Holding GmbH charged EUR 2,785,000 in rent (2009: EUR 2,550,000) for office, commercial and storage space used by SHT Haustechnik AG, and the new premises at Rooseveltplatz 10, 1090 Vienna, where all the central departments of Frauenthal Holding AG, as well as the top management of the Automotive Components Division are located. Additional rentals, as compared to 2009, largely relate to property developed for SHT Haustechnik AG in Innsbruck. The rental cost is in line with normal market rates and was subjected to an arms-length comparison which was confirmed by an independent valuation report.

The expenses in respect of services rendered by Hans-Peter Moser and Martin Sailer were again charged by FVV. They amounted to EUR 632,000 (2009: EUR 656,000). This figure only includes Martin Sailer's remuneration for three months, as his salary has been paid directly by Frauenthal Holding AG since 25 March 2010.

Other costs amounting to EUR 29,000 (2009: EUR 158,000) were also charged to Frauenthal Holding AG by FVV, Vienna, in 2010. These costs included rent for the first three and a half months of 2010, for office space at the previous location, at Prinz-Eugen-Strasse 30, 1040 Vienna.

Frauenthal Group companies, for their part, charged FVV subsidiaries EUR 21,000 (2009: EUR 9,000) for IT and other services.

Dietmar Kubis, Deputy Chairman of the Supervisory Board, received a payment of EUR 4,000 (including expenses) for consultancy services rendered to the Automotive Components Division.

Share price performance

Erika Hochrieser, Investor Relations

INTERNATIONAL STOCK MARKET ENVIRONMENT

After significant stock market gains towards the end of 2009, the positive trend continued into 2010. From mid-January onwards, however, unfavourable economic data led to growing uncertainty. At the beginning of February the financial problems of Greece and other EU countries became ever more pressing, resulting in falling prices in the capital markets. From the middle of February prices rebounded on the back of news of the more encouraging macroeconomic situation. Prices peaked in the second half of April, with stock market indexes around the world reaching their highest levels of the year to date.

Within a few weeks these gains had vanished again, as the credit ratings of several European countries' tumbled and investors became increasingly risk-averse. An extensive EU aid package of refinancing for government bonds succeeded in slowing stock market declines, but by the end of June negative trends had still not reversed.

Sustained prices rallies did not set in until the start of third quarter 2010. The revival was particularly marked in the USA. Over the course of the third quarter the Dow Jones Industrial (DJI) climbed 10.4 %. Good quarterly results from the corporate sector meant that investors were not unduly influenced by the deteriorating economic climate. In the third and fourth quarters the majority of European stock markets also picked up, and in particular those in the core export-orientated EU countries.

ATX SHOWS MODERATE IMPROVEMENT

In 2010 the Vienna Stock Exchange's ATX showed a tendency to rise, although the increase was more moderate than elsewhere. It started 2010 at just over 2,500, but the rally that then began was repeatedly hampered by the numerous eurozone problems.

The financial crisis in Greece saw the ATX drop below 2,400, the euro crisis in the spring pushed it down to a low of less than 2,300 in June, and July saw a similar reversal. This marked the turning point, and from then on the ATX trended upwards, in line with other share indexes.

The ATX rose from a comparatively low 2,400 in September 2010 to over 2,900 in December. At the end of November there was a brief reversal, as the Ireland problem came to dominate media attention and there were worries that the euro might be facing a new crisis. These fears were quickly dispelled and the upwards trend continued.

The ATX posted an increase for 2010 as a whole, although the growth was less marked than for the DAX or the Dow Jones. A possible explanation could be that sentiment on the Vienna Stock Exchange was influenced by the involvement of Austrian businesses in Eastern and Southeastern Europe, with all those attendant uncertainties. Economic developments in Austria and in Europe generally are good, as reflected in the higher eurozone inflation rate.

The ATX has successfully left the economic crisis behind it. The 1,500 trough at the height of the crisis is history, but the market still has much ground to make up before it regains its pre-crisis record levels of more than 4,500.

With moderate volumes and lower quoted prices, the Vienna Stock Exchange ended the last session in 2010 at 2,905. For 2010 the ATX shows a year-on-year gain of 16.4 %, bracketing Austria's lead index with its European peers.

FRAUENTHAL STOCK UP AGAIN

Frauenthal stock closed 2009 at EUR 7.49, for an annual increase of 13.8 %. In the first two months of 2010 the price weakened slightly, in line with the ATX, Vienna's lead index. In the middle of April the share price showed the first significant gains in 2010, reflecting the positive outlook for its business in 2010. The first quarter report showed growth in line with budget in all three Divisions. A recovery in the Automotive Components Division, continued rapid growth in the Industrial Honeycombs Division and slightly higher revenue in the Wholesale Plumbing Supplies Division resulted in a consolidated net profit, following the extreme difficulties of 2009.

The positive trend in the share price continued to weaken up to the end of June, with the year's low of EUR 6.59 being reached on 15 June 2010. The fall mirrored the general downwards trend in stock market confidence in the face of Greece's financial difficulties.

After this low, and again in line with the general trend, Frauenthal's stock began a period of continuous appreciation. Until mid-September the increase in price lagged the ATX, but its performance in the following month even outstripped the index. After another small setback, Frauenthal stock in the last few months of the year rose in step with the ATX to reach a high of EUR 10.90 for the year at the end of 2010.

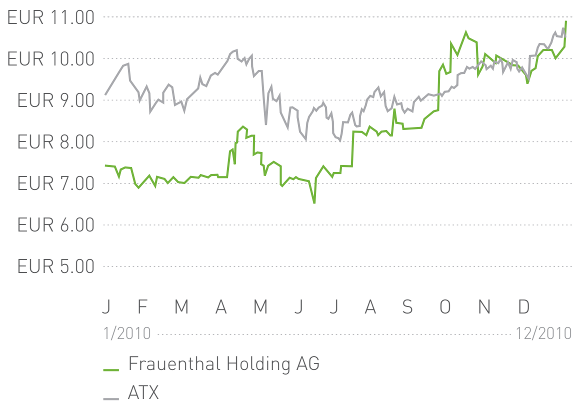
REVENUE AND MARKET CAPITALISATION

The total value of the Group at 31 December 2010 as reflected in its market capitalisation was EUR 82.1m. Its market value a year earlier was EUR 56.4m. The average daily trading volume was 7,889 shares (2009: 4,369 shares).

PROPOSED DIVIDEND

In the Annual General Meeting on 1 June 2011 the payment of a dividend of EUR 0.10 per share for financial 2010 together with a special dividend of EUR 0.20 per share will be recommended. For the financial year 2009 no dividend was distributed, in order to conserve equity capital.

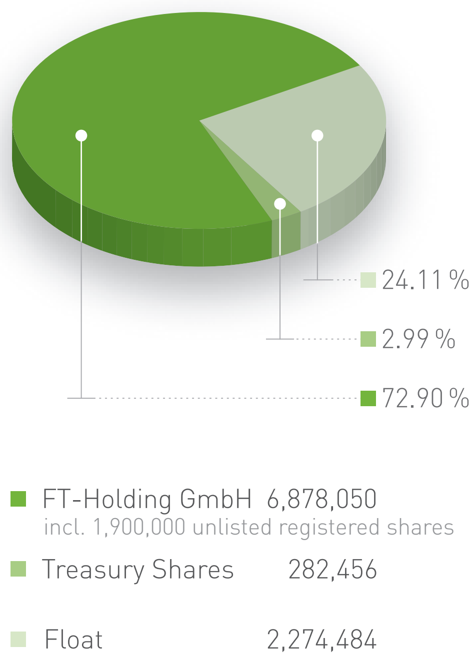
SHARE PRICE



INVESTOR RELATIONS

Frauenthal Holding AG's investor relations activities focus on providing investors and analysts with consistent and comprehensive information. These activities were further expanded with our switch to the prime market. In 2003, when still listed on the standard auction market, Frauenthal became one of the first companies to commit to the Austrian Code of Corporate Governance and the principles of transparency and non-discriminatory treatment of shareholders that it enshrines.

In 2010 our website was further extended and modernised to provide a user-friendly platform giving quick and easy access to information. The site now contains even more information on our Divisions and their products and strategies. People with the drive to get things done who want to join our team can search the Jobs / Career section for current openings and can apply directly to the human resources manager. The start page always features the latest information on the Group. Detailed information on the share, current financial reports, documentation for annual general meetings, press releases and stock exchange announcements can be found under Investor Relations. The online content also includes an interactive chart on the Frauenthal share, a fact sheet and an online version of the Annual Report. We also offer a free e-mail service to keep investors, analysts and interested persons updated on all new developments on a regular basis.



MINOR CHANGES TO SHAREHOLDING STRUCTURE

Frauenthal shares have been traded on the Vienna Stock Exchange since 10 June 1991. On 23 July 2007 we switched to the prime market in order to raise the Company's profile and attract increased investor interest. By then Frauenthal had already met the strict publicity and transparency requirements for admission to continuous trading for some time. Frauenthal Holding AG has a share capital of EUR 9,434,990, divided into 7,534,990 no par bearer shares and 1,900,000 unlisted registered shares. Every share corresponds to an equal portion of the Company's share capital.

Due to formal requirements arising from promotion to the prime market in 2007, the 1,900,000 unlisted bearer shares owned by FT Holding were converted into registered shares, which remain unlisted.

FT-Holding GmbH, Chemnitz continues to hold a 72.9 % interest in Frauenthal Holding AG. Hannes Winkler and Ernst Lemberger each own 50 % of FT-Holding GmbH.

In 2010 Frauenthal Holding AG's shareholder structure underwent minor changes as a result of the purchase of treasury shares through a share repurchase program. On 16 June 2010 the Executive Board resolved to exercise the power conferred by the 21st Annual General Meeting to repurchase shares. A total of up to 10 % of the Company's share capital may be repurchased. The repurchase program was launched on 22 June 2010 and broken off on 3 September. Any resumption of the share repurchase scheme before 3 December 2010 will be announced in accordance with section 6 Veröffentlichungsverordnung (Publication Order). A total of 21,066 shares had been repurchased by 30 September. The number of treasury shares rose from 261,390 to 282,456, representing 2.99 % of the Company's capital. The free float amounted to 2,274,484 shares or 24.11 % of the capital.

KEY SHARE RATIOS

	2010	2009	
Shares in issue	9,434,990	9,434,990	0
Treasury shares	282,456	261,390	21,066
Shares in circulation	9,152,534	9,173,600	-21,066
Per share ratios (EUR)			
EBITDA	3.8	-0.7	4.4
EBIT	2.4	-2.7	5.1
Profit/loss after tax	1.9	-3.2	5.1
Operating profit before working capital changes	3.2	-0.7	3.9
Equity	9.8	7.6	2.2
Share price			
Year end	10.9	7.49	3.41
High	10.9	8.50	2.4
Low	6.59	4.25	2.34
Dividend and bonus	0.3 [1]	0.0	0.3

[1] Distribution proposed to the Annual General Meeting

SHAREHOLDER INFORMATION

Investor Relations Officer: Mag. Erika Hochrieser

Investors' hotline: +43 (1) 505 42 06

E-Mail: e.hochrieser@frauenthal.at

Internet: www.frauenthal.at

Vienna Stock Exchange: Prime Market

Symbol: FKA

ISIN: AT 0000762406 (shares)

Bloomberg-Code: FKA AV

Reuters-Code: FKAV.V1

Market capitalisation: MEUR 82.1 (31.12.2010)

Vienna Stock Exchange: Listing on the Vienna Stock Exchange official market

Symbol: FKA

ISIN: AT 0000492749 (bonds)

STRENGTH THROUGH DIVERSITY

TASK

Zekeriya Demir, 45, placing dried catalyst elements on an iron frame, ready for calcination. The frame is laid on a tunnel kiln trolley, after which the calcination process takes place.

PRODUCT

Frauenthal catalysts are used for the selective catalytic reduction (SCR) process which breaks the NOx in exhaust gas down into nitrogen and water vapour – both natural components of the atmosphere. This helps to reduce low-level ozone and acid rain.

STRENGTH THROUGH DIVERSITY

A history of success

The Frauenthal Group goes back to a porcelain factory in Frauental an der Lassnitz, Styria, Austria.

1921 Ludwig Neumann founds Erste Österreichische Porzellanfabrik. In the 1950s the company begins focusing on manufacturing hard porcelain high voltage insulators; these become its core business.

1974 The company is sold to the Swedish EUROC Group, ushering in a period of new developments and product lines.

1985 Frauenthal starts manufacturing SCR catalysts. Later, casting filters and heat storage media are added to the honeycomb ceramics product range.

1990 A buy-out by the Swedish management results in the takeover of Frauenthal Keramik AG and the formation of the Ceram Group, which grows to become the world's second-largest porcelain insulator manufacturer.

1991 Frauenthal Keramik AG is listed on the Vienna Stock Exchange following an IPO.

1996 The Frauenthal Keramik AG Group merges with Tridelta Technische Keramik GmbH to form the Ceram Holding Group, domiciled in Jena, Germany. The merged company is the European market leader in porcelain insulators for high and ultra-high voltage applications.

1998 Ventana acquires 75.1 % of the Ceram Group.

2001 The insulator business is sold to an American investment firm, The Riverside Company. Porzellanfabrik Frauenthal GmbH, and its catalyst and non-catalytic honeycomb businesses remain with Frauenthal Keramik AG.

2002 Frauenthal is reorganised as a holding company for industrial investments named Frauenthal Holding AG. The acquisition of the Styria Federn Group (revenue approx. EUR 91m) from Ventana Beteiligungsgesellschaft m.b.H. increases the Frauenthal Group's revenue to EUR 120m. Truck components become the Group's largest line of business.

2003 Frauenthal Holding acquires a Finnish spring factory in Billnäs from Imatra Steel. The new subsidiary – Styria Jouset Oy – with revenues of approximately EUR 13m and some 90 employees strengthens Styria Federn's market position due to its closeness to Scandinavian truck manufacturers and the fact that it has the only factory in the area producing tubular stabilisers.

2004 The acquisition of the German Linnemann-Schnetzer Group – the European market leader in steel braking system air reservoirs – marks a major expansion of the Frauenthal Group. Linnemann-Schnetzer and the Styria Federn Group now form Frauenthal Holding's Automotive Components Division with a total revenue of some EUR 170m.

2005 During the summer Frauenthal Holding floats the first bond in its history, successfully placing a EUR 70 million issue. In July the Group acquires from ThyssenKrupp Automotive's the European commercial vehicle spring business by purchasing two sping production plants, the Styria Impormol and the Styria Arcuri. The next acquisition follows in September, with the takeover of Austria's leading plumbing supplies wholesaler SHT Haustechnik Beteiligungs Aktiengesellschaft from Leithanien Investment Group S.A.

2006 Frauenthal announces the planned closure of the loss-making spring factory in Billnäs, Finland. In April the Supervisory Board approves the construction of a new factory building in Frauental to manufacture diesel catalysts, due to the strong growth potential of this product category. Hans-Peter Moser is appointed to the Frauenthal Holding AG Executive Board. Members' remits are changed over to divisional responsibilities. In May the Annual General Meeting resolves a ten-to-one share split. The Group's share price reaches an all-time high and subsequently holds in a range of EUR 22–24.

2007 The start of the year sees the closure of the Linnemann-Schnetzer air reservoir factory in Hungary. In late May Frauenthal subsidiary SHT Haustechnik acquires Röhrich, a central heating supplies wholesaler. During the summer Frauenthal Automotive Components GmbH completes the purchase of leading U-bolt manufacturer Pol-Necks, based in Toruń, Poland, from Necks Invest. Frauenthal shares begin trading on the Vienna Stock Exchange prime market on 23 July. The year ends with yet another acquisition – the A.D. Fabrika Opruga Styria Gibnjara Kraljevo spring factory in Serbia.

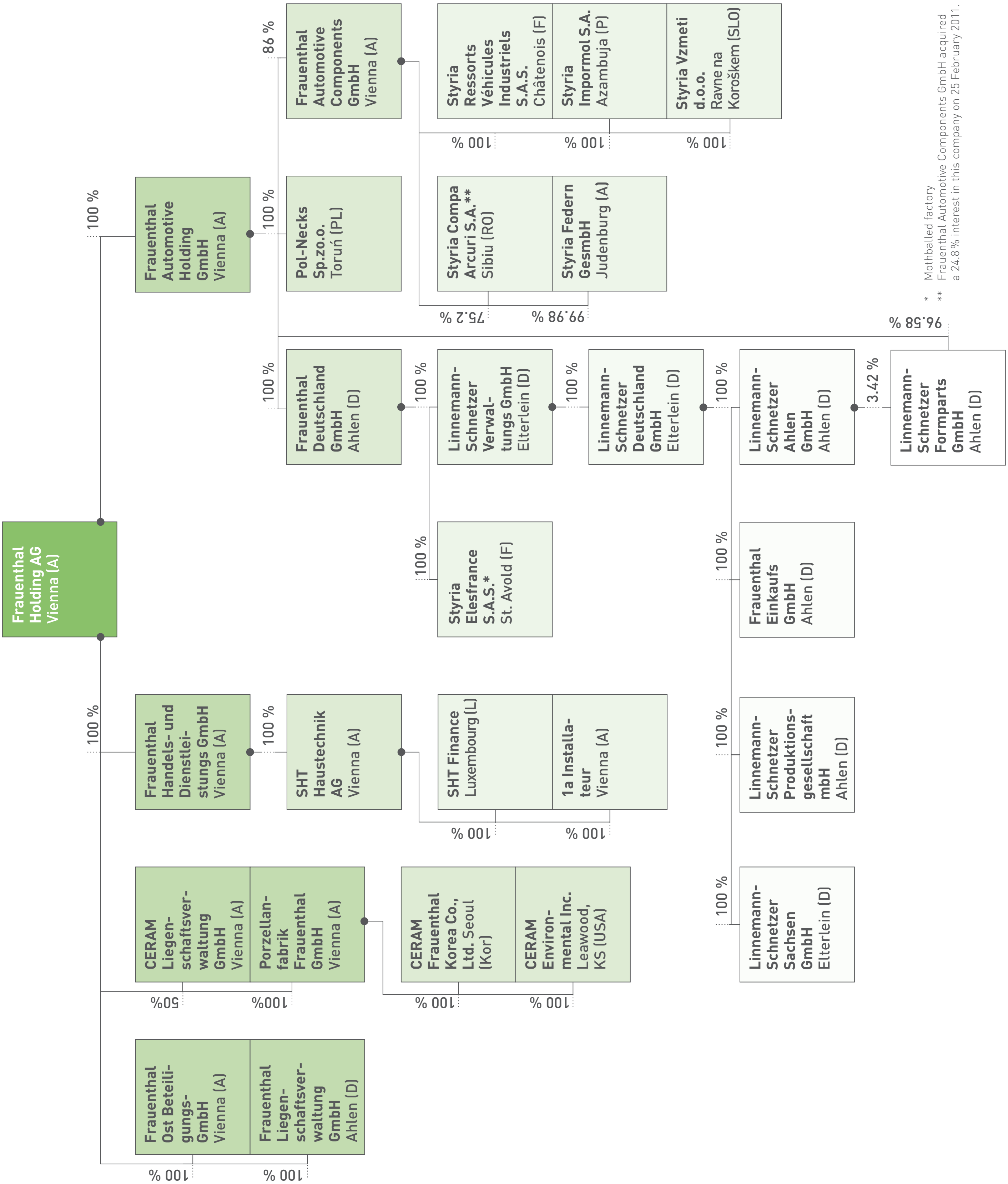
2008 SHT builds market share as it opens three ISC outlets and a Bäderparadies showroom, and the new Y-LOG order picking system enters into service. In March 2008 Executive Board Chairman Winfried Braumann leaves the company. In September Martin Sailer is named as Deputy Member of the Executive Board with responsibility for finance. Michael Ostermann leaves the company at year end. His management responsibilities are transferred to Hans-Peter Moser and Martin Sailer, who now heads up Automotive Components and Industrial Honeycombs, respectively. The financial crisis triggers a sharp decline in orders for truck components in the fourth quarter. Despite this, Automotive Components posts 11 % revenue growth for the year.

2009 Automotive Components feels the full force of the worst economic crisis since the Second World War. The truck component business has to contend with a 63 % decline in revenue (from a record level in 2008). However, SHT and Industrial Honeycombs both perform strongly, delivering 4 % and 47 % revenue growth, respectively. The need to reduce capacity in the automotive component business results in the disposal of Düsseldorf-based Styria Federn GmbH and its Serbian subsidiary Styria Gibnjara Kraljevo, and the closure of the plant in Ravne, Slovenia (Styria Vzmeti) and the Styria Elesfrance air reservoir and stabiliser factory in St. Avold, France. Relocating some production lines and dispensing with unneeded management layers enables Automotive Components to adjust its structure to a significantly smaller truck component market. Head count in the Automotive Components Division falls by 1,200.

2010 Following extensive restructuring during the crisis in 2009, the Automotive Components Division returns to the black. Wholesale Plumbing Supplies and Industrial Honeycombs post record results. No distribution is made to shareholders for the 2009 financial year in a move to strengthen liquidity and capital. As a result equity advances to EUR 17.4 m, offsetting nearly 60 % of the loss from 2009. A restrictive investments policy and cautious working capital management sees total assets rise by just 14 %. The equity ratio advances by 2.5 percentage points to 30.8 %. The Frauenthal Group reports some of the best results in its history as truck markets recover and all three Divisions record steady growth for a net profit of EUR 17.4 m.

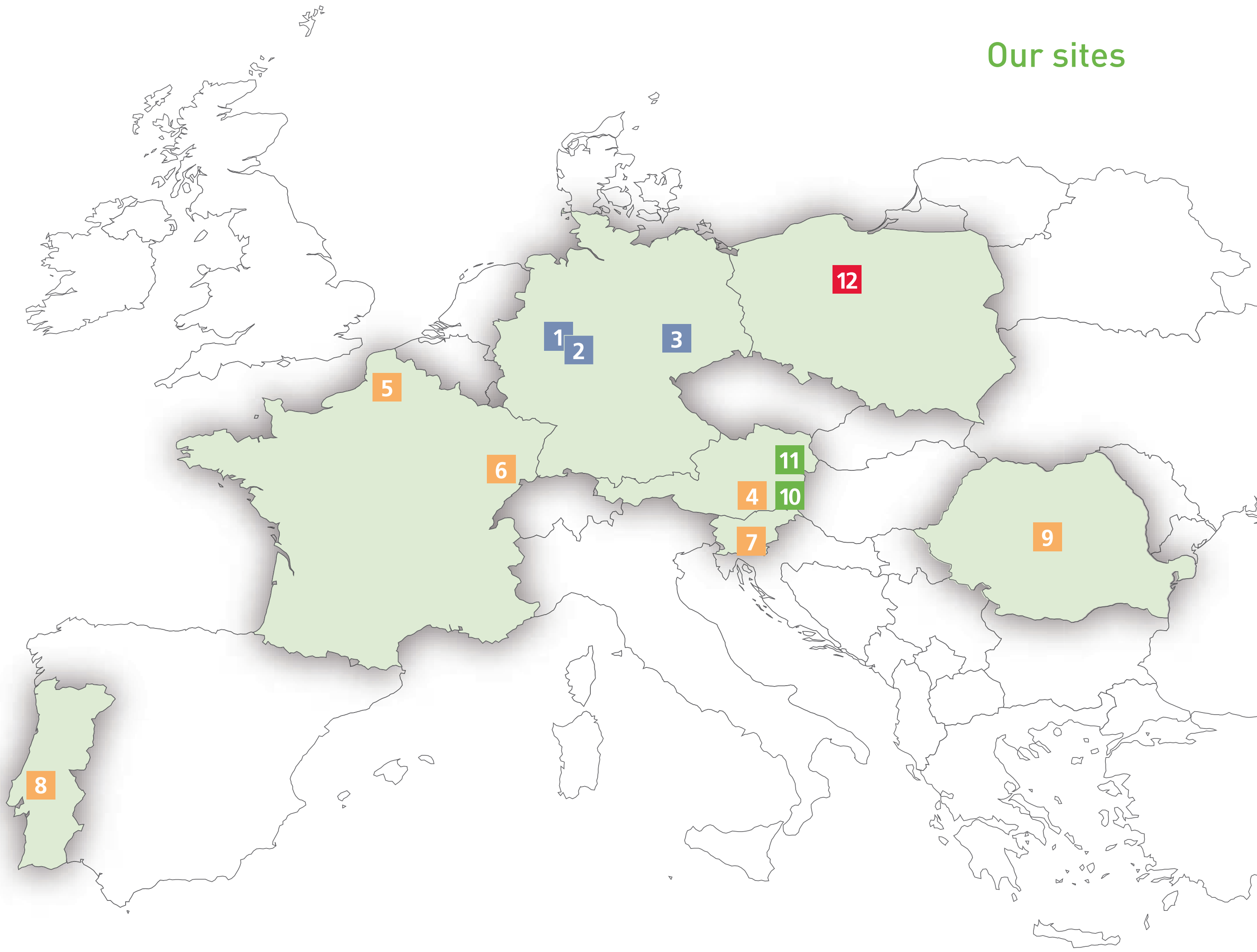
Our structure

status as of 31. December 2010



* Mothballed factory
** Frauenthal Automotive Components GmbH acquired a 24.8 % interest in this company on 25 February 2011.

Our sites



1 Linnemann-Schnetzer Ahlen GmbH
Ahlen (D)

2 Linnemann-Schnetzer Formparts GmbH
Ahlen (D)

3 Linnemann-Schnetzer Deutschland GmbH
Elterlein (D)

4 Styria Federn Ges.m.b.H.
Judenburg (A)

5 Styria Ressorts Véhicules Industriels S.A.S.
Douai (F)

6 Styria Ressorts Véhicules Industriels S.A.S.
Châtenois (F)

7 Styria Vzmeti d.o.o.
Ravne na Koroškem (SLO)

8 Styria Impormol S.A.
Azambuja (P)

9 Styria Compa Arcuri S.A.
Sibiu (RO)

10 Porzellanfabrik Frauenthal GmbH
Frauental (A)

11 Frauenthal Holding AG and SHT Haustechnik AG
Vienna (A)

12 Pol-Necks Sp.zo.o.
Toruń (PL)

Business development policies

Frauenthal consisting of the three business divisions:

- Industrial Honeycombs Division: Environmental technology, including ceramic catalysts for power stations, industrial power plants and diesel motors (Porzellanfabrik Frauenthal)
- Automotive Components Division: Supplies components for suspension and braking systems (steel springs, stabilisers, air reservoirs), primarily to the European commercial vehicles industry, et al.;
- Wholesale Plumbing Supplies Division (SHT Group)

The Frauenthal Group's appeal is founded on stability, reliability and transparency.

Frauenthal Holding is not a private equity investor. Businesses are only acquired and developed if they hold out the prospect of long-term value growth. We aim to generate a return on capital that exceeds that of similar companies. We invest in areas which promise rapid growth and attractive returns on investment. Consequently, our priority is investing in quality and productivity, as opposed to quantity.

The Frauenthal Group pursues a strategy of sustainable and profitable growth across all of its businesses, based primarily on product and process innovation, and greenfield investments. Acquisitions should provide a good strategic fit, contributing to the extension of our customer relationships, product portfolio, market coverage and core competencies.

We are a market leader in all areas of our business – that leadership is based not on price, but on high-quality products and services, an attractive product portfolio, innovation and long-term partnerships with our customers. We want to capitalise on global market opportunities and the shift towards environmentally friendly technologies.

Production and logistics processes are constantly being refined, with the aim of achieving continuous improvements in productivity. This is vital to safeguarding our international competitiveness, since the majority of our sites are located in high-cost markets. Efficient company structures serve to sharpen our competitive edge.

Frauenthal Holding AG has a lean organisational structure and performs typical holding company functions. Group company chief executives are responsible for operations, and meeting the budget targets set for them.

Management development and human resources initiatives are run by the central holding company. The principles behind our human resources policy are aimed at supporting and developing employees over the long term, so that they have the best possible opportunities for further training and taking on more responsibility.

The Group's finances are managed centrally by Frauenthal Holding. The financing strategy is based on a solid equity ratio and secured long-term borrowing. Long-term stability is more important to us than short-term optimisation.

The Group's investor relations and communications policies are designed to supply the equity and bond markets with comprehensive, transparent and up-to-date information.

Innovation – a key success factor

Karl Führer

„In the Frauenthal Group, pioneer work in the field of production innovation was done by the Porzellanfabrik Frauenthal due to the development of the diesel catalysts."

Karl Führer, managing director of the Porzellanfabrik Frauenthal, organises the exchange of experience the Group of innovation managers.

To the Frauenthal Group, innovation is chiefly a matter of continuously improving product quality, production processes and our product and service range, as opposed to complex research into basic technologies. The majority of the Group's products are technically mature and already well established on the market.

Product innovation involves improving material properties, optimising production processes, developing new product designs and researching new applications for existing products. Innovation in manufacturing processes may comprise improvements such as redesigning factory layouts, optimising production flows, investing in plant that improves quality and productivity, fine-tuning production processes, and standardising and stabilising individual manufacturing steps. Pre assembling various components, which reduces customer expense when it comes to product mounting, is just one example of product design innovation. Our process innovation initiatives are aimed at reducing our customers' logistics costs. This can take the form of pallets delivered directly to an assembly line, or presorting various components in line with the customer's production schedules. We also work to strengthen customer relationships by introducing new services that address customer needs, are difficult to replicate and as a result generate a competitive advantage. We also aim to be innovative in our internal processes, as a means of driving progress in terms of cost and quality benefits.

Innovations can only be considered successful once they have been implemented. The holding company provided centralised supported, and each of the divisions shared their expertise in innovation management.

Automotive Components: weight reduction is central

The most important objective in product innovation at Automotive Components is reducing the weight of chassis components, which in turn helps to reduce fuel consumption and increase load capacity. Extending the service life of chassis components to match the vehicle lifespan is another major priority. This results in lower total costs over the useful life of the vehicle. The Euro 6 emission standard which comes into force in 2013 is an important consideration, as the new emission limits can only be met if there are further reductions in fuel consumption and weight. All of our customers are aggressively pursuing weight reduction targets for the new Euro 6 vehicle ranges. Thanks to products such as high-tension springs for front axles and tubular stabiliser bars, the Automotive Components Division can offer weight reductions of up to 30kg. The use of more highly tensioned springs for front axles allows for a reduction in the number of spring leafs. Tubular stabiliser bars are more costly to produce than

TASK

Ingeborg Paschek, 52, checking and packing fired filter bodies (casting filters).

PRODUCT

The Porzellanfabrik Frauenthal factory (Industrial Honeycombs Division) makes casting filters, as well as power station and diesel catalysts, and heat sinks. Casting filters are used in foundries to produce high-quality light alloy, iron and spheroidal castings.

solid stabilisers, but up to 15kg lighter. Improving materials is the key to achieving higher tension levels and further weight reductions, and Frauenthal is working closely with universities and other scientific institutions to achieve this. The Group will be investing in a materials research laboratory in 2011.

The Continuous Improvement Lean-initiative, introduced at all sites in 2009, involved workshops, the appointment of local persons in charge and countless individual improvements. The initiative is a step towards creating a learning organisation, and is also aimed at cutting costs and raising capacity by reducing lead times.

Wholesale Plumbing Supplies: focus on logistics optimisation and customer service

Over the past few years SHT has invested in a state-of-the-art, highly automated order picking system. This high-performance system has brought about continuous improvements in the transparency of all logistics processes. The aim is to produce a comprehensive electronic record of all movements in goods, from procurement to customer delivery and any returns. This also includes track and trace systems where items are scanned at all stages of the goods flow. The impact of this been a further reduction in the Division's extremely low error rates and waste levels, and increased efficiency across the logistics process.

The development of new planning tools for bathroom design is another SHT innovation. Using state-of-the-art communications technology, customers can easily plan their new bathroom with the help of attractive models. Improved data exchange between the customer and SHT's service points represents a further benefit for the client.

Industrial Honeycombs: improved catalyst performance at constant volumes

Porzellanfabrik Frauenthal has recorded some notable successes in developing higher-performance catalysts for diesel engines that comply with the Euro 6 emissions standard. Greater cell density and thinner cell walls have enabled an increase in the active catalytic surface. However, the increase in size and weight translates into a proportionately larger improvement in the nitrogen oxide reduction rate. Together with the mechanical and thermal stability of the catalyst, this is a critical success factor.

The Industrial Honeycombs Division is currently the only part of the Frauenthal Group which carries out basic materials research. One important focus is research into new material mixtures – a key strategic factor, given the increasing prices of some raw materials and the threat of temporary raw material shortages.

Group-wide support for innovation management

Innovation does not happen by chance: it is fostered by the corporate culture. The basic requirements for innovation include tailored incentive schemes, effective and transparent internal communications, investments in technological infrastructure, external partnerships, training programmes, appropriate financial and human resources, and management support for innovation. The Frauenthal Group also has access to a wealth of expertise and experience in each of its divisions. An innovation manager has been appointed at holding company level, with responsibility for smoothing knowledge transfer across the Group and ensuring that the prerequisites for innovation are in place in each division.

Together with the divisional innovation and Continuous Improvement managers, the Group innovation manager will also take steps aimed at maintaining our focus on this key success factor – innovation should always take precedence over day-to-day objectives.

Automotive Components

With revenue growth of 49 % and EBIT at a respectable EUR 3.9 m, the consolidation of the Automotive Components Division (FAC) has been a success. How is the Division placed now?

Baarman[1]: We set ourselves three targets for 2010. The first and most important was to return to the black – something that we have achieved with flying colours thanks to the twin effects of a moderate recovery of the market and the resounding success of the radical cost-reduction program. Secondly: consolidating and building on customer relationships in light of upcoming procurement decisions relating to new generations of vehicles. And thirdly, intensifying development of our products and reasserting our technological leadership. We achieved all of these targets. In addition, the industrial concept developed in 2009 has also proved its worth. This blueprint calls for fewer, but larger production facilities and increased flexibility across the board. We now feel we are well prepared for a future that will continue to be shaped by market uncertainty.

„We set ourselves three targets for 2010 which were achieved"

New commercial vehicle registrations advanced by a slender 8 % in Europe. Which way will the market go?

Baarman: In 2010 we saw an upswing in production as inventories began to return to normal, while commercial vehicle demand only took off in the latter part of the year. The effects of the economic recovery were first felt by hauliers who began to make up for the investment backlog, and this upturn led to capacity bottlenecks for some freight forwarders. We believe that the transport industry's experience of the economic crisis has made it more cautious and expect the market to become even more volatile as a result. The performance of export markets and Russia in particular will play a vital role in the fortunes of European production facilities. But here too we expect the recovery to continue, albeit at a slow pace. Unfortunately it is becoming increasingly difficult to forecast market demand even in the short term. Customer orders are coming in at ever shorter notice, meaning that we have to ensure that we can respond to demand with a maximum of flexibility.

Restructuring activities have slashed capacity by 25-30 %. Is FAC prepared for a scenario in which the market picks up and returns to pre-crisis levels?

Unterwieser[2]: Our production strategy centres on creating larger units with more competitive costs. We trimmed capacity at the spring factories in 2009 by disposing of the plants in Düsseldorf, Germany and Kraljevo, Serbia, and mothballing the works in Ravne, Slovenia. A selective expansion programme in 2011 and 2012 will take us back to the same spring capacity as before the crisis, but concentrated at much stronger units. This will mean that we are well placed to respond to expected demand growth, and can assure our customers of security of supply.
To have enough capacity in 2011 and support expansion programmes at other factories, we reactivated part of the Styria Vzmeti plant in Ravne at the start of this year. Relocation of tubular stabiliser bar production from the discontinued St. Avold operation to our French Douai site – which previously only made solid stabilisers – has turned the latter into the Group's centre of expertise for all stabilisers.

„Our production strategy centres on creating larger units with more competitive costs."

The Châtenois site – our centre of steel spring expertise – will be home to the Group's new materials laboratory. This will speed up development of new materials in cooperation with the steelmakers. Our customers will benefit from our improved R&D facilities, which will help us meet their wish for weight reductions and longer-lived products.

1) President and Chief Executive Officer of the Automotive Components Group
2) Senior Vice President and Chief Executive Officer of the Automotive Components Group


Magnus Baarman, Hans-Peter Moser, Josef Unterwieser

FAC has developed a new strategy – what sets it apart from previous objectives?

Moser*[3]*: We have moved on from the idea of a one-dimensional strategy, and have instead developed responses to a number of different market scenarios. Today we are constantly looking at ways of ensuring our success, no matter which scenario we actually face. Put simply, our new strategy places the emphasis on quality before quantity. We have to safeguard the long-term competitiveness of our Western European facilities in the face of fierce competition from Turkey, Tunisia and India. This means always offering the most innovative suspension components, identifying shifts in customers' requirements at the earliest possible stage through our development partnerships, and developing new solutions before our competitors. This is the only way to sustain profitable growth in high-wage countries.

Baarman: The strategy development process itself was also a first. Never before had so many employees from so many different locations and areas of expertise been invited to actively participate in strategy development. Everyone involved worked in teams to answer questions about market developments, competitors' activities, our standing among customers and suppliers, as well as our core competences. Ultimately, 12 strategic aims were drawn up, and nine initiatives derived directly from them. Allow me to outline two examples – "I would like to turn the Frauenthal Automotive Components Group into a learning organisation." The aim is to create an organisation that is in a state of permanent development – rather than one that resorts to one-off, large-scale restructuring. The successful introduction of the Continuous Improvement initiative marks an important step towards achieving this goal. The second point is the creation of a self-assured corporate identity. I am sure that our One Company approach can only serve to strengthen our standing with customers. Customers should never be in any doubt that the FAC Group is the most reliable partner in the industry thanks to its broad-based product portfolio, its research and development expertise and the uncompromisingly high technical and logistical standards – no matter which site is behind the product.

„I would like to turn the Frauenthal Automotive Components Group into a learning organisation."

3) Member of the Frauenthal Holding AG Executive Board responsible for the Automotive Components Division

TASK

Bernd Eichelberger, 49, Lothar Bartl, 56, Kersten May, 47 and Ronald Uloth, 55, work on the final assembly of air reservoirs. The reservoirs undergo a final quality control check at this stage.

PRODUCT

Our German plants produce steel and aluminium air reservoirs for the European commercial vehicle market. The reservoirs are used in braking and suspension systems. These components are highly safety critical, and must therefore meet exacting reliability standards.

Wholesale Plumbing Supplies Division (SHT Group)

Demand on the wholesale plumbing supplies market was subdued in 2010. How did SHT manage to post growth of 3.5 % in such a difficult environment?
Moser[1]: SHT is extremely well placed – the extensive service and sales network, broad product range, high-quality logistics services and the innovative mySHT online portal give us a competitive edge – and help us to gain market share. The main problem facing the market is the drop in contract business over the past three years. Public sector orders have dried up and commercial construction is not expected to pick up again until 2012. And as the market contracts, some of our competitors are doing whatever it takes to generate sales. On the whole we are not interested in confronting those companies head-on. We are increasingly focusing on the renovation business – especially the private segment which expanded sharply last year. The heating business helped to shore up demand, recording growth of more than 3 % last year, which reflects strong public awareness of environmental issues.

SHT is streets ahead of the competition on the Austrian market. How will you continue to generate additional growth?
Pollak[2]: Our new Innsbruck site is helping us to gain ground in western Austria. In the east of country, the priority is defending our dominant position. We have already stretched our service and sales network to the limits. So now our focus will shift to adapting our services to individual customer requirements. Our market research shows that different customers have different service needs, so our guiding principle should be "tailor made", not "one size fits all". We will also be adding new functions to the mySHT tool. There is also room for improvement in telephone sales, and our aim is to be there for our customers whenever they need us. Our wide-ranging product portfolio is constantly generating growth opportunities, including adjustable residential ventilation and alternative energy sources. A well established own-brand range is the perfect complement to the branded products we offer.

„...‚tailor-made'‚not ‚one size fits all'"

High-performance logistics is a decisive competitive factor, and an area where SHT has already invested heavily. Is there still room for further improvement?
Knezek[3]: Our logistics performance indicators are now at exceptional levels. Error rates are down to less than 0.25 % and the early-morning delivery service we offer in some areas is unrivalled. But advances in modern technology mean that there is always scope for improvements. We want to set the industry benchmark in terms of availability, reliability and efficiency at all stages of the logistics process.

How will customer needs change and how can SHT extend its market leadership in the long run?
Pollak: We are witnessing lots of changes in the alternative energy and energy efficiency segments. We believe that building regulations will promote the use of solar cells and photovoltaic arrays, and other measures aimed at cutting energy consumption. Styria is a pioneer in this regard. We are responding by broadening our product range even further and giving customers the benefit of our expertise and first-rate service. The plumbing product portfolio is expanding all the time, but there is a danger that customers will find the range of different products overwhelming. In addition to the excellent service provided in our Bäderparadies showrooms, we will also be trying to give the customers more support when it comes to purchase decisions by integrating additional functions into the mySHT platform.

„We are responding by broadening our product range even further and giving customers the benefit of our expertise and first-rate service."

Does SHT see any potential for growth outside the Austrian market?
Moser: We are well placed to branch out into neighbouring countries, but to do that we will have to acquire established sales and distribution structures. We are looking in detail at all options for acquisitions, but the financial conditions have to be just right.

1) Chairman of the Executive Board of SHT Haustechnik AG and member of the Frauenthal AG Executive Board
2) Member of the Executive Board of SHT Haustechnik AG
3) Member of the Executive Board of SHT Haustechnik AG


Wolfgang Knezek, Beatrix Pollak, Hans-Peter Moser

- SHT Haustechnik AG is Austria's leading sanitary, heating and plumbing supplies wholesaler. The company was incorporated into the Frauenthal Group in 2005. In 2010 SHT had an average headcount of 682 in Austria and recorded revenue of EUR 271 m – a full 3.5 % above the industry average.

- SHT now operates six logistics centres, seven sales outlets, 40 pick-up stores and 12 up-market Bäderparadies bathroom showrooms. A new integrated service, logistics and sales centre opened in Innsbruck in July.

- 1a-Installateur Marketingberatungsges.m.b.H, a wholly owned subsidiary of SHT, offers sales support for around 200 member firms under the 1a-Installateure (A1 Plumbers) umbrella brand name, which is well known throughout Austria. It also coordinates advertising campaigns, trade fairs appearances and training seminars.

- SHT distributes the leading sanitary, heating and plumbing equipment brands in Austria, as well as its own Prisma (sanitary) and SaniMeister (plumbing) brands. The exclusive "elements" range (wall-mounted products exclusively made for SHT by manufacturers of branded goods) is now well established on the market following its launch in 2008.

- Successful proprietary brands are important for SHT as they provide the opportunity to differentiate the group from the competition in terms of its products and its services. SHT's suppliers include well-known branded manufacturers. It gives preference to suppliers with production facilities in Austria, whose support allows it to offer outstanding value for money.

Industrial Honeycombs

In 2010 Porzellanfabrik Frauenthal again enjoyed healthy growth and improved its earnings by 70 %. What are the factors contributing to this success?

Führer[1]: In 2010 we had a very satisfactory year. Earnings rose more sharply than revenue mainly because of the 174 % growth in sales of diesel catalysts. The power station catalyst business was also excellent in all regions. We have won large orders for new projects both in Europe and in the USA. In addition to which, replacement business already constitutes around 50 % of the power station catalyst business. This is very satisfactory, because it makes us less dependent on volatile new project business. Heat exchangers also began to recover from the effects of the crisis. We are starting the new business year with an outstanding order book for power station catalysts and excellent market prospects for Euro 5 diesel catalysts.

China is a market with great potential – how do you see the situation developing?

Führer: In 2010 roughly 35 % of our power station business was with China, which is satisfactory. We did however register a significant decline in new orders from China in the second half of 2010. This is the result of Chinese energy policies, which still do not make the use of SCR catalysts mandatory. It may be that the new five-year plan will throw some light on future developments. For the foreseeable future electricity consumption in China will grow by some 10 % annually, and the additional requirements will largely

„For the foreseeable future electricity consumption in China will grow by some 10 % annually"

be supplied by coal-fired power stations. Sooner or later China will have to invest seriously in air quality. We shall be stepping up our involvement in this difficult but potentially most important market of the future.

Mr Zhu, you joined Porzellanfabrik Frauenthal's Executive Board as of 1 January 2011. What are the goals you have set yourself?

Zhu[2]: I should like to help Porzellanfabrik Frauenthal realise its growth potential. As a German citizen born in China, I am familiar with the market environment in Asia, and in particular in China, and I understand the difficulties European businesses experience in breaking into these markets and capturing the potential. I intend to put my many years of experience in the automobile industry to good use and continue to expand the sales network for industrial honeycombs. Our products are technically very sophisticated, and in China that is the best entrée to the market.

Environmental legislation is on the advance around the world. Where are the growth opportunities for Frauenthal?

Sailer[3]: There are growth opportunities in the markets for both stationary and mobile honeycombs, and both in our traditional markets and in new ones. The Euro 5 standard is being introduced in Brazil for commercial vehicles in 2012. In the USA we have excellent market opportunities for our large-volume catalysts in the offroad segment, i.e., construction and agricultural machinery. For ships, we can expect a worldwide emission standard in a few years' time. This application of SCR technology

„We are one of only two manufacturers worldwide to offer all types of stationary and mobile catalysts."

is very similar to its use in small power stations, and our extensive engineering know-how means that we are especially well placed to supply the market. Our revenue in this area in 2010 was already EUR 700t. But the immediate growth potential is for a product that is a new one for us, the plate catalyst. As we expected, getting the initial orders was not easy, even though customers' endurance tests confirmed the technical excellence of the product. But now we have landed our first major orders. This type of catalyst is best suited to power stations fired with high-ash coal. We are one of only two manufacturers worldwide to offer all types of stationary and mobile catalysts.

With all these market opportunities, where are you going to put the emphasis?

Führer: We must first consolidate our existing market

1) Managing Director of Porzellanfabrik Frauenthal GmbH
2) Managing Director of Porzellanfabrik Frauenthal GmbH since 1.1.2011
3) Member of the Frauenthal Holding AG Executive Board responsible for the Industrial Honeycombs Division

Chaohong Zhu, Karl Führer, Martin Sailer

positions. This is particularly crucial for the commercial vehicle business in Europe, where we have technically excellent products that comply with the soon to be introduced Euro 6 emission standard. There are alternative product technologies, however, and there is a definite tendency for customers to prefer complete systems suppliers, from whom they can buy complete exhaust treatment modules including oxidation catalysts and particulate filters. We can only meet these requirements in partnership with other manufacturers. One of our main focuses is on our positioning with respect to the procurement decisions of commercial vehicle manufacturers, which will be taken in 2011.

In 2010 Porzellanfabrik Frauenthal generated the largest contribution to the earnings of Frauenthal Group. How important is this Division to the Group?

Sailer: The success of industrial honeycombs means that Frauenthal Group can rely on three independent, equally important businesses. The importance of this Division, however, is its potential for dynamic growth. Our growth strategy includes the further expansion of capacity at the Frauenthal site in Styria and a significant build-up of management resources at all levels, including executive management, development, and sales and services. There are however at the moment no plans for another production facility.

Since 2010 plate catalysts were produced in Frauental which opened up new market potential.

OPERATING REVIEW

TASK

Markus Hochmeister, 22, and Volkan Öztürk, 25, using the automated order picking system, which has two stations. Goods are placed in store on one side, and picked on the other, to be prepared for delivery.

PRODUCT

The cutting edge Y-LOG order picking system has been introduced at the SHT Perchtoldsdorf site. The system means that 6,400 shelf positions are housed in a confined area, and three times as many items as before can now be batched.

OPERATING REVIEW

PRODUCT

Parabolic springs owe their name to the parabolic shape of the individual leaves, created by rolling out steel blanks. Cutting the number of leaves, and using more highly stressed designs reduces the amount of steel used, and thus in turn the weight of the spring and the overall vehicle. Less leaves also means increased driving comfort.

TASK

Jean-Luc Thomas, 50, using a magnetic crane to lift parabolic springs from the conveyor belt into a furnace, where the next production process takes place, at the Styria Ressorts plant in France.

OPERATING REVIEW FRAUENTHAL HOLDING AG

Business performance

All three divisions performed well or very well during the year under review. Thanks to the restructuring programmes and resultant cost reductions, and a 48 % jump in revenue, the Automotive Components Division posted solid earnings. The Wholesale Plumbing Supplies (SHT) and Industrial Honeycombs divisions both recorded revenue and earnings growth. In what we flagged as a "year of consolidation" from the outset, the Frauenthal Group returned EBIT of EUR 21.7m, reversing a large part of the setback suffered in 2009. The equity ratio climbed from 28.3 % to 30.8 %. The gradual recovery of the European commercial vehicle sector, combined with the normalisation of inventories of unsold trucks, buoyed output in the Automotive Components Division. Commercial vehicle registrations in the EU rose by a moderate 8 %. The Wholesale Plumbing Supplies Division again defied a stagnant market to deliver a sound 3.5 % growth performance. The Industrial Honeycombs Division made the most of the rebound in the commercial vehicle market. Revenue from catalysts for diesel motors surged by 174 %, resulting in EBIT of EUR 10.9m – by far the best result in its history. Our philosophy of spreading risk, through a diversified group structure, again showed its worth. All three divisions succeeded in laying the foundations for steady and profitable growth.

Trading environment

From the second quarter of 2010 onwards, the world economy gradually pulled out of the 2009 recession. The EU marked up growth of 1.8 %, with 1.7 % forecast for 2011. This was not enough to make up the ground lost in the 2009 downturn, when the European economy shrank by 4.2 %. The pace of expansion was faster in the USA, where estimated growth of 2.7 % in 2010 more than offset the 2.6 % contraction in 2009. The European pacemaker was Germany, where growth rates of 3.5 % and 2.2 % were projected for 2010 and 2011, respectively. An unusual feature of the current economic climate is the fact that the CEE economies are not expected to significantly outperform those of Western Europe. The Chinese and Indian economies both expanded by about 10 % in 2010.

Industrial production – an important factor for the commercial vehicle sector – was up by 7 % in the EU in 2010. Employment revived in 2010, and the recession did not lead to a surge in unemployment as feared.

Economic stabilisation policies (bank bail-outs and stimulus programmes) have prevented a collapse and restored a measure of confidence in the financial system, but led to budget crises in many countries. This will be the main destabilising factor in 2011 and beyond, as government spending cuts and tax increases are likely to hit growth. While the overall investment climate is positive, there is a high risk of setbacks, as investment confidence is still weak in many industries. The transport sector, and hence the commercial vehicle industry, are among these sensitive areas of the economy.

Nevertheless, the recovery in many key industries gained traction more rapidly than expected.

Short-term interest rates reached a low in the second quarter, with the one-month Euribor at about 0.4 %. In the course of the year this benchmark rate climbed to around 0.8 % as a result of the European Central Bank's monetary policy. Most financial analysts regard further increases as unlikely, at least in the first half of 2011. Long-term interest rates firmed moderately in the second half of 2010. The five-year swap rate advanced from a low of 1.9 % to about 2.3 %. The risk of a further rise in 2011 is seen as greater than with short-term rates.

The recent strengthening of the US Dollar exchange rate should have a positive effect on the European export sector.

Despite the economic upturn the uncertainties involved in business planning are greater than in the pre-crisis period. Because of the heavy public deficits there is a constant danger of upheavals on financial markets that could affect the real economy. Due to the diversification of our business activities potential economic reverses in some countries do not pose a major threat. However, the growing volatility of market expectations – especially in the commercial vehicle sector – calls for increased flexibility, and more rapid responses to swings in demand. This was one of the objectives of the restructuring of the Automotive Components Division's production network.

European demand for heavy goods vehicles in 2010 varied widely from region to region. Sales were up by 21.4 % in Germany – the largest EU market and the main growth driver. Demand jumped by 5 % in the United Kingdom, but only edged up in Italy and Spain. Registrations were up by 8.4 % across the EU as a whole, lifted by the pick-up in freight volumes – particularly in the long-haul segment, which is closely linked with industrial output. Rising haulage rates have also helped strengthen the finances of the hard-hit transport sector. Low interest rates and manufacturers' discounts were a further incentive to invest. The improvement was not felt until the end of the second quarter, but has steadily accelerated since then. As it likely that there is still an investment backlog, moderate growth in European demand for new vehicles is likely to continue in 2011.

The overall EU commercial vehicle market expanded by 8 %, with the light vehicles segment (up by 8.7 %) driving growth.

Production and revenue in the Automotive Components Division tracked the normalisation of inventories of unsold vehicles in the first half of 2010. Following dramatic inventory run-downs in 2009 European manufacturers started to replenish their stocks as they geared up for recovery. It was only towards the end of the second quarter that production and demand came back into balance. Vehicle exports bounced back by well over 50 %, following the almost complete collapse of deliveries to CEE and Russia in 2009.

The Industrial Honeycombs Division put in another strong performance in 2010, doing particularly well from the recovery of the commercial vehicle market. Revenue from diesel catalyst sales soared by 174 %, playing a key role in the significant improvement in divisional earnings. The power station catalyst business is driven by environmental regulation and energy demand. Replacement parts, which already account for about 20 % of sales in this product group – the division's main line of business – are growing in importance. Revenue grew by 13 % to EUR 79.4m, and capacity was fully utilised. Demand for power station catalysts was consistently strong, with new projects in Europe and replacement orders from the USA especially buoyant. Chinese business again made a major revenue contribution, accounting for 35 % of the total. However, order intake from China slipped sharply owing to persistent uncertainty about future environmental legislation. The plate catalyst plant was commissioned at the start of the year. The first step for this technology, which is new the division's range, was a trial installation at a client's facility. The usual long project lead times meant that the first contracts for the product were not won until near the end of the year.

The main factors that influence the performance of our Wholesale Plumbing Supplies Division (SHT) are construction activity in Austria, and the willingness of private households to invest in renovation, and renewing plumbing and heating systems. In 2010 the division once more overcame a flat market, to register respectable growth of 3.5 %. This again chiefly reflected robust private renovation demand, while sales slumped in the fiercely competitive contract business fell sharply as commercial building shrank for the third year in a row. There were no signs of an upswing in public sector orders. The integrated service, logistics and sales centre opened in Innsbruck in mid-2010 has boosted SHT's market share in western Austria, where it is still underrepresented. The improvement in the division's results was almost exclusively attributable to volume growth, and with no let-up in fierce price competition gross margins were unchanged from 2009.

Changes in liquidity

Despite the 18.7 % growth in revenue liquidity needs were no higher at year end. Net borrowings including the bond were down by EUR 2.2m at the end of reporting period. The strong operating profit before working capital changes of EUR 29.2m compensated for the increase in working capital caused by higher output. As consolidation was our overriding objective in the year under review investment dropped sharply to EUR 9.3m. No dividend was paid in 2010. We continued to widen our banking relationships and found new financiers abroad. At year end unused credit lines totalled EUR 94.3m. Finance costs decreased because of low interest rates.

TASK

Monika Burian, 46, sorting filter bodies after firing. Once she has packed the products the delivery pallets go to the dispatch department.

PRODUCT

The Porzellanfabrik Frauenthal factory (Industrial Honeycombs Division) makes casting filters, as well as power station and diesel catalysts, and heat sinks. Casting filters are used in foundries to produce high-quality light alloy, iron and spheroidal castings.

Management's analysis of results

During the year under review all three divisions performed well or very well, and the Group returned revenue of EUR 539.4m, EBIT of EUR 21.7m and a profit for the year of EUR 17.4m. These figures reflect the recovery in the commercial vehicle market, and wide-ranging restructuring and cost reduction programmes in the Automotive Components Division, as well as record results from the other two divisions – Wholesale Plumbing Supplies and Industrial Honeycombs. Almost 60 % of the loss for 2009 was made good by last year's profit.

REVENUE

IFRS consolidated revenue for 2010 was 18.7 % up year on year at EUR 539.4m. This gain was largely due to the impact of the recovery in the commercial vehicle market on the performance of the Automotive Components Division. The largest absolute revenue contribution came from the Wholesale Plumbing Supplies Division, at EUR 270.6m.

EUR '000	2010	2009	Change
Revenue by business segments			
Industrial Honeycombs	78,724	64,988	13,736
Automotive Components	190,000	128,022	61,978
Wholesale Plumbing Supplies	270,639	261,397	9,242
Other	22	80	-58
Frauenthal Group	**539,385**	**454,487**	**84,898**

The pick-up in the European commercial vehicle sector, combined with the normalisation of inventories of unsold trucks, led to a significant increase in the output of the Automotive Components Division. Total commercial vehicle registrations in the EU rose by a moderate 8 %. During the year the road haulage industry began catching up with an investment backlog that was already causing some capacity bottlenecks. These factors brought year-on-year revenue growth of 48.5 % in the Automotive Components Division. Divisional revenues from external customers were EUR 190m – up by EUR 62m from 2009.

The Wholesale Plumbing Supplies Division again overcame a flat market to register a sound 3.5 % growth performance. Revenue climbed by EUR 9.2m year on year to EUR 270.6m, and accounted for almost half of the Group total. All of the division's sales were in Austria. The extensive service and sales network, broad product range, high-quality logistics services and innovative mySHT online portal gave Wholesale Plumbing Supplies a competitive edge, and helped it to gain market shares. The main problem dogging the plumbing supplies market is the drop in contract business over the past three years. Since public sector orders are few and far between, and commercial construction is not forecast to pick up again until 2012, the Wholesale Plumbing Supplies Division is mainly concentrating on winning renovation business – especially from private clients. This segment again grew rapidly last year. The heating business also helped to boost sales, with revenue rising by over 3 %, reflecting strong public awareness of environmental issues.

Power station business was robust across all the regions served by the Industrial Honeycombs Division. The division won large orders to supply equipment for new projects both in Europe and the USA. In 2010 Chinese sales accounted for about 35 % of all power station business. US revenue edged down. Divisional revenues from external customers totalled EUR 78.7m – a 21.1 % year-on-year increase.

EUR '000	2010	2009	Change
Revenue by geographical markets			
Austria	288,562	272,316	16,246
Germany	91,177	57,302	33,875
France	23,130	18,671	4,459
Sweden	30,880	15,532	15,348
Belguim	13,921	10,407	3,514
Other EU	37,744	26,389	11,355
Other Europe	9,863	5,075	4,788
Americas	15,966	18,595	-2,629
Asia	27,904	29,670	-1,766
Other	238	530	-292
Frauenthal Group	**539,385**	**454,487**	**84,898**

Replacement parts sales were also encouraging, and already make up about half of the division's power station business. The revenue contribution from diesel catalyst sales soared by 174 % to EUR 14m. The positive trend in this segment was due to the particularly rapid rebound in sales of the truck models that the division supplies with diesel catalysts. SCR catalysts for marine engines – for which a global emission standard is likely to be introduced in a few years – generated EUR 0.7m in revenue.

EARNINGS

At EUR 34.3m, Group EBITDA represented an improvement of EUR 40.3m on the comparative figure. The largest earnings contribution came from the Industrial Honeycombs Division. Following radical restructuring during the 2009 crisis, the Automotive Components Division returned to profit. Both of our other divisions posted record earnings. Thanks to the revival of the commercial vehicle market, the Frauenthal Group recorded solid earnings growth across all three divisions, and the profit for the year of EUR 17.4m was one of the best results in its history.

EUR '000	2009	Organic growth	Impairment losses	2010
Profits				
Revenue	454,487	84,898	0	539,385
EBITDA	**-5,975**	**40,297**	**0**	**34,322**
EBIT	-25,220	47,002	-77	21,705
Net finance costs	-4,354	736	0	-3,618
Profit before tax	-29,574	47,738	-77	18,087
Profit after tax	-29,409	46,858	-77	17,373

Consolidated EBIT improved by EUR 46.9m year on year, turning positive by EUR 21.7m. The Automotive Components Division contributed EUR 3.9m, the Wholesale Plumbing Supplies Division EUR 8.1m and the Industrial Honeycombs Division EUR 10.9m of Group EBIT. Industrial Honeycombs returned record earnings as a result of rising diesel catalyst demand due to the resurgent commercial vehicle market. Cost reductions and higher revenue drove earnings growth in Automotive Components. The improvement was also partly due to the fact that earnings for the comparative period were depressed by impairment losses. During the year under review there were EUR 1.5m in gains on the revaluation of non-current assets in the Automotive Components Division, which are reported under "Other operating income".

EUR '000	2010	2009	Change
EBITDA by business segments			
Industrial Honeycombs	13,724	9,007	4,718
Automotive Components	9,909	-24,521	34,431
Wholesale Plumbing Supplies	11,752	9,822	1,930
Other	-1,063	-283	-780
Frauenthal Group	**34,322**	**-5,975**	**40,297**
as % of revenue	6.36 %	-1.31 %	7.68 %

ASSETS AND FINANCES

The total assets of the Frauenthal Group grew from EUR 254.7m in 2009 to EUR 290.9m. This increase mainly stemmed from a EUR 22.1m rise in trade receivables caused by the growth in our business, and a EUR 10.2m gain in inventories. Trade receivables jumped by EUR 12.5m in Automotive Components and by EUR 5m in Industrial Honeycombs. The use of an ABS facitliy in connection with sales to a major truck manufacturer added EUR 13.9m to receivables (2009: EUR 8m). Inventories grew by EUR 4.5m in Automotive Components, driven by output growth. The seasonal nature of the Wholesale Plumbing Supplies Division's business resulted in an increase in inventories of EUR 2.9m. In Industrial Honeycombs Division's business was responsible for EUR 2.7m of the rise in inventories.

EUR '000	2009	organic growth	2010
Non-current assets	136,269	-174	136,095
Inventories	61,863	10,189	72,052
Other current assets	56,617	26,144	82,761
Total assets	**254,749**	**36,159**	**290,908**
Equity	72,063	17,439	89,502
Long-term borrowings	104,605	4,770	109,375
Short-term borrowings	78,081	13,950	92,031
Total equity and liabilities	**254,749**	**36,159**	**290,908**

The increase in working capital was financed by a EUR 12.7m rise in trade payables to EUR 49.8m. Despite 18.7 % Group revenue growth there were no additional liquidity needs as at year end. Net borrowings were down by EUR 2.2m at the end of reporting period. The growth in long-term borrowings is chiefly attributable to deferred tax liabilities and provisions for termination benefits.

The Frauenthal Group's equity grew by EUR 17.4m to EUR 89.5m as a result of the profit for the year. In order to strengthen the equity base no dividend was paid in 2010, and in consequence the equity ratio rose to 30.8 % from 28.3 % in 2009.

ASSETS	2010 EUR '000	2009 EUR '000	EQUITY AND LIABILITIES	2010 EUR '000	2009 EUR '000
Non-current assets	136,095	136,269	Equity	89,502	72,063
Inventories	72,052	61,863	Long-term borrowings	109,375	104,605
Other current assets	82,761	56,617	Short-term borrowings	92,031	78,081
	290,908	**254,749**		**290,908**	**254,749**

ASSETS	2010 in %	2009 in %	EQUITY AND LIABILITIES	2010 in %	2009 in %
Non-current assets	47 %	53 %	Equity	31 %	28 %
Inventories	25 %	24 %	Long-term borrowings	37 %	41 %
Other current assets	28 %	22 %	Short-term borrowings	32 %	31 %
	100 %	**100 %**		**100 %**	**100 %**

INVESTMENT AND ACQUISITIONS

As our main priority in 2010 was consolidation, investment was at the historically low level of EUR 9.3m. In the Automotive Components Division capital expenditure was kept to an absolute minimum, at EUR 2.6m. We invested EUR 2.6m in increased vertical integration at the Frauental site (Industrial Honeycombs Division), and EUR 3.9m in the construction of new sales outlets and bathroom showrooms for the Wholesale Plumbing Supplies Division.

Intangible assets declined from EUR 40.6m to EUR 39.1m, largely as a result of amortisation and impairments. In the Wholesale Plumbing Supplies Division impairment tests resulted in EUR 0.1m in writedowns of brand rights. Property, plant and equipment edged down from EUR 74.6m to EUR 74.3m. This chiefly reflected EUR 10.7m in depreciation. There were also EUR 1.5m in revaluations in the Automotive Components Division. Of these, EUR 1.1m related to the Linnemann-Schnetzer Ahlen site in Germany, and EUR 0.4m to the Styria Vzmeti d.o.o location in Slovenia. Impairments were recognised in respect of the machinery at these factories in connection with restructuring in 2009. Due to the decision to restructure operations at these plants machinery that was not expected to be put to profitable use elsewhere in the division was written down. The revaluations in 2010 reflected improved market conditions. Investments in financial assets partly concerned the purchase of securities in the Wholesale Plumbing Supplies Division to fund pension obligations. During the year under review these were reduced by amortisation and some disposals.

EUR '000	Intangible assets	Property, plant and equipment	Financial assets	Total non-current assets
Change in non-current assets				
31 Dec. 2009	**40,608**	**74,637**	**2,133**	**117,378**
Investment	458	8,856	42	9,356
Depreciation, amortisation and impairment	-1,920	-10,696	-27	-12,643
whereof impairment	-77	0	0	-77
Disposals	0	-146	-264	-410
Currency translation and other	4	140	0	144
Revaluation gains	0	1,500	0	1,500
31 Dec. 2010	**39,149**	**74,291**	**1,884**	**115,324**

CASH FLOW

Operating profit before working capital changes improved by EUR 36.5m, to turn positive by EUR 29.2m, due to the EUR 17.4m profit for the year. The higher trade receivables and the change in inventories raised net cash from operating activities to EUR 11.3m – an improvement of EUR 1.5m.

Statement of cash flows	2010	2009
	EUR '000	EUR '000
Operating profit before working capital changes	**29,247**	**-7,288**
Net cash from operating activities	11,336	9,861
Net cash used in investing activities	-8,924	-13,274
Free cash flow	**2,412**	**-3,413**
Net cash used in financing activities	-1,263	-10,624
Change in cash and cash equivalents	1,149	-14,037
Cash and cash equivalents at end of period	3,037	1,888

Net cash used in investing activities decreased by EUR 4.4m to EUR 8.9m, reflecting the policy of restricting investment in order to conserve liquidity.Investments in intangible assets, property, plant and equipment, and financial assets totalled EUR 9.3m – EUR 2.8m less than in 2009. Cash and cash equivalents at year end, as presented in the statement of cash flows, include pledged bank deposit amounting to EUR 0.4m.

SHAREHOLDER VALUE

Growing the value of the Frauenthal Group is one of management's prime objectives. Economic value added (EVA) and return on capital employed (ROCE) are the key measures used as levers of performance at Group level.

EUR '000	2010	2009
Value measures		
Revenue	539,385	454,487
EBITA	**21,705**	**-24,919**
Taxes at average effective rate	-5,426	0
NOPAT	**16,279**	**-24,919**
Capital employed	189,854	173,867
WACC in %	7.08 %	6.08 %
Cost of capital	13,442	10,571
ROCE in %	**8.57 %**	**-14.33 %**
EVA	**2.837**	**-35.490**
EVA per share in EUR	**0.3**	**-3.9**

Due to the return to profit in 2010 all of the key performance indicators improved. EBITA was up by EUR 46.6m. The tax due on the Company's earnings at the 25 % average effective rate is EUR 5.4m, yielding a net operating profit after tax (NOPAT) of EUR 16.3m. This indicator is related to capital employed throughout the Group, and the ROCE thus calculated shows the extent to which Frauenthal is meeting investors' expectations in terms of returns. The weighted average cost of capital (WACC) was adjusted to the changes in the Group's financing and in financial markets, and was 7.08 % in 2010.

The other key indicator, economic value added (EVA), turned positive by EUR 2.8m (2009: -35.5m). EVA is the difference between NOPAT and ROCE, and is a measure of profitability. These improvements reflected the good performance of all Frauenthal's business operations, which led to a significantly higher return on investment.

Disclosures in accordance with section 243a UGB (Austrian Business Code)

The Company's share capital is divided into 7,534,990 (2009: 7,534,990) bearer shares of no par value and 1,900,000 (2009: 1,900,000) registered shares of no par value. All but the 1,900,000 registered shares are admitted to listing on the official market of the Vienna Stock Exchange. There are no other classes of shares.

The Executive Board of Frauenthal Holding AG is not aware of any restrictions on voting rights or share transfers.

FT-Holding GmbH, Chemnitz continues to hold a 72.9 % interest in Frauenthal Holding AG. Hannes Winkler and Ernst Lemberger each own 50 % of FT-Holding GmbH. Frauenthal Vermögensverwaltung GmbH (FVV), Vienna (formerly Ventana Beteiligungsgesellschaft m.b.H., Vienna) draws up the consolidated financial statements for the largest group of companies to which the Frauenthal Group belongs.

There are no classes of shareholders with special control rights.

There are no employee shareholder program.

There are no rights to appoint or dismiss members of the executive and supervisory boards or amend the articles of association other than those conferred by the law.

By resolution of the 18th Annual General Meeting held on 3 May 2007, the Executive Board is empowered, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 2,681,634.00 by issuing, in one or more tranches, up to 2,681,634 voting bearer or registered shares of no par value, against contributions in cash or in kind.

Important supply and procurement contracts concluded by the Group contain change of control clauses. Detailed disclosures regarding these agreements would cause significant damage to the Group, and are therefore not required.

The Company has not entered into any agreements with members of its executive or supervisory Boards or employees to compensate them in the event of the acceptance of a public takeover bid.

PRODUCT

SHT Haustechnik AG has six distribution centres in Austria, giving it nationwide coverage. Since it is not possible for each branch to stock all of the products, some items needed by customers are delivered overnight from other centres. The complete order is delivered to the customer the following day.

TASK

Dejan Stojanovic, 39, an order picker at the SHT Perchtoldsdorf branch (Wholesale Plumbing Supplies Division), is responsible for prompt delivery of orders to plumbers.

Risk report

In order to comply with Rule 69 of the Austrian Code of Corporate Governance and to make further improvements in this area, we began developing a formalised, uniform Group-wide risk management system in 2007. The purpose of this project was to identify risks at an early stage and counter them by taking appropriate action to minimise deviations from our targets.

In 2010 we again upgraded our risk management mechanisms (in particular, the internal control system), and established metrics and early warning indicators for the main risks involved. Breaching of these thresholds triggers predefined reporting duties or risk control actions.

During the year, risks were investigated for their probability and potential impact as a basis for managing them. The main types of risk exposures identified in 2010 were:

- Market risk;
- Competition risk;
- Customer risk;
- Liquidity risk.
- Supply risk; and
- Compliance risk.

Presentation on these risk categories and related risk control activities are given to the audit committee, and they are constantly monitored by the Executive Board. All the necessary policy changes are submitted to the audit committee on a quarterly basis, in the form of detailed internal control system reports. These update the risk matrix in the light of newly identified risks, and the reassessment or removal of risks where appropriate.

The Group is also confronted with environmental, operational and financial risks (e.g. foreign currency risk).

Automotive Components Division

CUSTOMER RISK

In the automotive component (springs, U-bolts, air reservoirs and diesel catalysts) business it is customary to make one or multi-year blanket agreements that define the products, and establish the terms and conditions, but do not lay down binding supply quantities over the entire contract term. Whether a component supplier can win or extend such contracts depends on its competitiveness. This is primarily a matter of price, but also depends on the supplier's ability to deliver the products required, the reliability of its logistics and quality standards, and its ability to collaborate with the customer on new developments.

The key performance indicator reporting system introduced at the start of 2010 tracks parameters such as delivery reliability, product quality and customer satisfaction. The factories report these to management on a monthly basis together with detailed comments. In the event targets are missed by a wide margin early action can be taken.

In 2010 Automotive Components obtained TS 16949 certification. This standard is aimed at enhancing system and process quality, and customer satisfaction.

The customer risks to which the Frauenthal Group is exposed also include credit and default risks. Truck manufacturers are mostly very large, multinational corporations. Their creditworthiness was eroded by the 2009 economic crisis, which hit the automotive sector particularly hard, but improved markedly in 2010.

Close monitoring of all payment delays is the cornerstone of our centralised receivables management system. The Executive Board is notified of significant irregularities on a monthly basis, and action is taken at all relevant levels of the organisation to ensure that every delinquent invoice is tracked by the field sales force.

In addition, we began watching our key accounts' credit default swap (CDS) spreads in 2009. The main risk measure is the premium (the CDS spread), which depends on the market's assessment of the creditworthiness of the reference entity. This indicator improved considerably as compared to 2009.

There were no major defaults during the year under review, and we expect this risk to remain relatively insignificant in future.

Due to the recovery in the commercial vehicle market we do not expect our customers to restructure their European production capacity, and regard related defaults as unlikely. However changes in companies' legal structures (e.g. mergers between some competitors) could lead to changes in the purchasing practices of major customers in future.

Due to the long development lead times of truck model ranges, steel springs, and steel and aluminium pressure vessels are not exposed to short-term technological substitution risks. In the long term, however, such risks could arise from the development of new suspension, axle and braking systems, or the use of plastics or other alternative materials. There are no definite threats of this sort in sight at present.

To maintain Frauenthal's reputation as a reliable development partner, action was taken to improve communication between the field sales force and development staff. All the information obtained by sales representatives on customers' expectations now feeds into product development.

We are extending our market shares by stepping up our product development effort and maintaining our strong focus on quality. Nevertheless, the possibility that we will lose part of some customers' business to our competitors cannot be ruled out as automotive customers are unwilling to become dependent on individual suppliers.

MARKET RISK

Economic trends in Europe are the main determinant of demand for the truck components produced by the Styria and Linnemann-Schnetzer groups. The key export markets for European commercial vehicles are the Near and Middle East, and Russia; some exports also go to South America. Political risks (warfare, embargos, coups, etc.) could affect exports to these regions. Due to the large market shares of both groups and the framework contracts with truck manufacturers, swings in the demand for trucks in these markets have an immediate impact on our sales, and there is little that can be done in the short term to counteract the effects. Like other capital goods markets, the market for trucks is cyclical, and apart from general economic influences it also reflects the demand for transport services and movements in interest rates on investment loans.

In 2010 the improved market situation, and the action taken to scale back capacity in the previous year, led to satisfactory capacity utilisation at our plants. The management teams at the various production sites report on capacity utilisation there on a monthly basis.

In the event of future sharp increases in demand, short-term capacity bottlenecks could arise. Although the organisation has reserve capacity, delivery delays cannot be excluded under such circumstances.

In exceptional cases quality defects can lead to material fractures or braking system leakages during on-road use of truck components. Comprehensive quality control and plant monitoring minimise the probability of such damage, and potential claims for damages are covered by our insurance. We regard our insurance cover as adequate, but in extreme cases it could nevertheless be insufficient.

ENVIRONMENTAL RISK

Frauenthal Group companies comply with all environmental licensing conditions, legislation, orders and notices. Our employees receive comprehensive health, safety and environment information and training.

At some of our works there is soil contamination by industrial waste containing oil, dating back to the 1930s, 1940s and 1950s. However all of our sites meet the licensing conditions imposed by the authorities responsible for them.

Soil rehabilitation will have to be carried out at one site — Styria Ressorts Véhicules Industriels, Châtenois, France — due to official licensing conditions. Technical reports and rehabilitation plans are currently being drawn up, and a provision has been recognised for the cost of the work.

OPERATIONAL RISK

The production of braking system air reservoirs involves forming, welding and surface treatment processes. Spring and U-bolt production involves hot rolling, bending and tempering, and gives rise to significant fire hazards. All of these processes are associated with production outage and safety risks.

These risks are minimised by work and process instructions, training programmes, continuous maintenance and testing, and insurance cover. In the case of spring and pressure vessel production it is also possible to relocate operations to other sites.

SUPPLY RISK

The availability of steel and other input materials is safeguarded by long-term supplier relationships in the case of the spring and U-bolt businesses, and by long-term supply contracts in that of the air reservoir business. However shortages of raw materials, and sharp increases in the prices of steel and other production materials would give rise to supply risks. In most cases agreements with customers enable steel price increases to be passed on, but only for part of the year.

Materials procurement is centrally managed by Frauenthal Einkaufs GmbH, permitting ongoing market monitoring and regular negotiations with suppliers.

Energy prices also have a significant influence on overall production costs, and thus on Group earnings. Energy shortages — particularly of natural gas, which is an important energy source at our factories — could arise, as many of our plants are in countries which are heavily dependent on gas supplies from Russia.

Wholesale Plumbing Supplies Division (SHT Group)

CUSTOMER RISK

SHT's wholesale business involves a large number of customers in the plumbing trade. Consumers are not directly supplied. The key success factors are procurement prices, and terms and conditions, efficient warehousing and delivery logistics, and the quality and financing of customer receivables. Where competition between wholesalers gives rise to fierce battles for market shares this may lead to price erosion. However other, stabilising aspects of the customer relationship (product availability, delivery reliability, finance, technical advice, etc.) mean that the price of the products is not the sole determinant of customers' decisions, and that the risks associated with price competition can be countered by such aspects of service quality.

Most of SHT's customers are tradesmen, and the default risks are those characteristic of the plumbing trade, which is predominantly one of small businesses.

SHT has an efficient receivables management system in place to mitigate this risk. Customer creditworthiness and credit limits are kept under constant observation so as to identify insolvency risks at an early stage. Regular meetings are now held between the central receivables management unit, and the sales and marketing organisation in the interests of closer communication, and this enables any payment delays to be vigorously pursued. Default risk is also mitigated by taking out credit insurance. During the year under review bad debts were a mere 0.4 % of revenue.

Since most of SHT's customers are small businesses the default risk is widely diversified. Large projects and the related risks play a relatively minor role in SHT's business, but there are instances of them.

As at the end of the reporting period overdue payments were equal to 3.6 % of payables – the same level as in 2009.

MARKET RISK

Economic conditions in Austria — and in particular, personal consumption, and the construction and renovation cycle — have a significant influence on the wholesale plumbing supplies business (SHT).

Because of this the sales and marketing organisation constantly monitors short and long-term construction activity trends, and reports to the Executive Board on a weekly basis. The Frauenthal Supervisory Board receives monthly reports on market developments. Staff are in frequent touch with customers and manufacturers to adjust supply requirements, and the information gained feeds into the reporting.

OPERATIONAL RISK

Procurement terms and conditions have a major influence on the profitability of the wholesale plumbing supplies business. Some suppliers have large market shares in Austria, and would thus be hard to replace if they were unwilling to extend their supply agreements at terms acceptable to SHT.

Talks on purchasing prices are a top management responsibility. SHT's high market shares put it in a strong negotiating position.

Industrial Honeycombs Division

CUSTOMER RISK

Power station catalysts are a project based business, and success depends on contract acquisition skills, prices and product quality, as well as technical references. The clients are plant engineering companies and power station operators. In the case of export contracts we take the usual precautions in terms of payment guarantees, on the basis of credit ratings. Due to the size of some projects a misjudgement of a business partner's creditworthiness could have serious implications for the Group as a whole. The prepayments and delivery milestones customary for large projects help to mitigate this risk. The receivables are largely covered by normal payment agreements (prepayments and letters of credit).

To reduce default risk, payment delays are monitored by weekly meetings between top management, and the finance and product management departments.

The Group is active in overseas markets (China, South Korea and the USA) — mainly in connection with its power station catalyst and heat sink businesses. The contracts in question are subject to the political, legal, tax and business risks specific to the countries concerned.

Top management monitors country risk on an ongoing basis. Where necessary, information is immediately disseminated around the organisation.

MARKET RISK

Power station catalyst sales are primarily driven by environmental regulations governing generation at thermal power stations and other large combustion plants. Demand is fuelled by the introduction of stricter limit values for NOx emissions which can only be complied with by installing selective catalytic reduction (SCR) catalysts. Once retrofitting of existing thermal power stations has been completed the demand is confined to equipment for new stations. Demand for replacement parts is playing an increasingly important role.

As regards diesel catalyst sales, the key factor is not overall truck demand but demand for Euro 5 compliant vehicles. This standard normally requires SCR catalysts; whether the latter are mandatory depends on the environmental legislation in force.

There are technical substitution risks in that the coming Euro 6 compliant vehicle generation which will start being introduced in 2013 may also use alternative technologies, meaning that 2013 will be a watershed year for the Industrial Honeycombs Division's position in this market segment. Since the technological developments that will result from Euro 6 are not entirely predictable, the division's business prospects with regard to the production of diesel catalysts for the European market are subject to considerable uncertainties.

There are no technical substitution risks in the power station catalyst segment. The division is highly competitive due to its acknowledged quality leadership. There are only a few direct competitors throughout the world. However a sustained fall in the US dollar exchange rate would weaken Frauenthal's price competitiveness against its main American competitor.

OPERATIONAL RISK

Ceramic honeycombs are manufactured by an extrusion process, followed by drying, calcination and firing. All of these processes are associated with production outage and safety risks.
As in other Group operations, these risks are minimised by work and process instructions, training programmes, continuous maintenance and testing, and insurance cover.

Power station catalysts are specially produced for the generating station and combustion equipment concerned. Design or production defects could result in claims from clients, to the extent that the catalyst manufacturer is liable.

Contracts may be prematurely terminated, or may run into difficulties.

SUPPLY RISK

The raw and intermediate materials used in the production of catalysts and ceramic honeycombs are sourced from longstanding suppliers, and wherever possible availability is assured by one-year contracts. Some of these materials may be affected by tight supply and speculation, and thus here, too, supply and cost risks can arise. This applies, for example, to rare earths and the alloying metals tungsten and vanadium.

At present there are no shortages of key input materials in sight, but the aforementioned materials are regarded as potentially critical, and shortages and price rises are possible. We are pressing ahead with research into alternative materials in order to minimise our supply and price risk exposures. Potential alternative suppliers are assessed at regular intervals.

There is a risk that margins will be eroded in the event of tungsten price increases that cannot be passed on to customers due to competitive pressures.

As with the Automotive Components Division, production costs in the Industrial Honeycombs Division are significantly influenced by energy costs. Here, too, supply shortages and price rises would have a negative impact on Group earnings.

IMPAIRMENT TESTS

The Frauenthal Group's assets are subjected to routine impairment tests in accordance with IAS 36.

The valuations of the various Group companies are based on earnings forecasts for the coming five years. The approved budget for 2011 and conservative estimates for subsequent years, partly derived from authoritative market studies, were used for last year's calculations. The current carrying amounts were compared to the valuations, and impairment recognised where necessary. A discount rate (WACC) of 7.08 % was applied.

Impairment reviews encompass property, plant and equipment, goodwill, capitalised development costs, brands and rights to supply customers, as well as deferred tax assets.

In 2010 the impairment review resulted in the recognition of EUR 1.5m in income from revaluation gains.

FINANCIAL RISK

The Group's operations give rise to financial risks (including currency, liquidity and interest rate risks) which could have a significant impact on its assets, finances and earnings.

In order to ensure that our liquidity needs are met we maintain adequate overdraft facilities, mainly with Austrian banks. Additional credit facilities were arranged in 2010. In all, nine banks have granted credit lines totalling EUR 192m to Frauenthal Holding AG and its subsidiaries. At year end 2010 the Group had EUR 94m in open credit lines.

The liquidity requirements implied by projected business performance can be met from cash flows, existing overdraft facilities and other potential sources of finance. The Group's liquidity needs are managed by the treasury function at the holding company, and are closely monitored.

The main currency risks attach to the Industrial Honeycombs Division, which does a large amount of its business in the US dollar area. Only a relatively minor part of this risk is internally hedged by the procurement of raw and intermediate materials priced in dollars. Currency hedges are used for some medium and long-term contracts, on a case by case basis. Because of this our US dollar business is not exposed to any material currency risks. Financial derivatives are only employed to hedge existing contracts, and their use is subject to appropriate internal rules and controls.

The influence of volatile currencies (the Romanian leu and the Polish zloty) on costs is limited due to the invoicing of the main inputs in euro. We therefore refrain from hedging these currency risks, but they are kept under constant observation, and could be hedged if necessary.

The interest rate risk to which our current capital structure exposes us is minimised by the fact that the EUR 70m bond issue floated in June 2005 meets most of the Group's financing needs. The bond has a fixed rate of interest of $3^{7/8}$ % and a maturity of seven years. There will be significant refinancing requirements when it matures in June 2012.

Preparations to refinance this debt by a possible new issue are under way, and we are watching the capital market closely.

Most of the rest of the Group's borrowing is at variable rates of interest. Of this EUR 12.4m is assured by long-term and EUR 14m by short-term loan agreements. Our treasury function keeps a close watch on interest rate trends and the related risk. If necessary, interest rate hedges can be employed. The Executive Board reports to the Supervisory Board on the opportunities for interest rate hedging on a quarterly basis.

In the period after the bond falls due interest rate movements could influence the Group's assets, finances and earnings. A rapid rise in money market rates would have a significant impact on earnings.

Additional information on the analysis of the sensitivity of earnings to currency and interest rate changes is contained in the notes, under "Financial instruments".

TAX RISKS

At the time of reporting a tax inspection was in progress at a Group company, Linnemann-Schnetzer Deutschland GmbH, located in Elterlein, Germany. This company is entitled to considerable tax loss carryforwards which resulted in a reduction of EUR 6m in its tax burden for the period covered by the inspection. In addition, deferred tax assets of about EUR 8.5m are carried in the consolidated statement of financial position as a result of recognition of part of these carryforwards. In their preliminary findings, the inspectors take the view that the carryforwards cannot be claimed. The Executive Board takes the view that the arguments advanced for this unsound. This assessment is supported by thorough analyses by acknowledged experts. Since the initial inspection was still under way, no appeal had yet been lodged, and there no final assessment notice had been received at the time of reporting, it was not possible to provide for this impending risk. In the opinion of the Executive Board the probability of these carryforwards' being rejected at appeal is considerably less than 50 %. However, in the event that the tax authorities' arguments were upheld this could result in protracted court appeal proceedings.

COMPLIANCE RISKS

As a listed company, Frauenthal Holding AG is obliged to comply with a large body of corporate governance rules, and stock exchange and securities legislation. New rules are frequently added to the Austrian Code of Corporate Governance. The Company attaches great importance to compliance with all legal requirements, in order to avoid violations that could result in significant damage to its reputation and legal sanctions. During the year under review we continued to develop our compliance processes, and reinforced the in-house human resources assigned to these tasks. The audit committee of the Supervisory Board regularly assesses potential compliance risks, and discusses action to improve compliance in the Group.

ACCOUNTING

The recording of operational processes follows precise rules in the Frauenthal Group.

Accounting processes at Group companies are the responsibility of their local finance managers. The latter send the monthly results to the Group Finance Department, which has five staff members, using Cognos consolidation software. Following detailed analysis and discussions with the finance managers at the subsidiaries, monthly reports on the consolidated results are sent to the Executive and Supervisory boards, and the entire management team. The managements of the operating subsidiaries provide extensive comments on their units' business performance.

A Group-wide accounting manual and regular training courses for finance managers help to standardise bookkeeping methods and maintain compliance with the current International Financial Reporting Standards.

At the Group companies in the Automotive Components and Industrial Honeycombs divisions the departments concerned check invoices for formal correctness. Release for payment is by the chief executives or finance managers concerned. Authorisations to sign at subsidiary level are also subject to graduated limits.

At SHT (Wholesale Plumbing Supplies Division) and its branches there are group-wide signature regulations that establish clear remits. Authorisations to pay individual invoices are escalated according to the sums involved. For example, it is mandatory for two executive board members to sign off payments of material amounts.

The bookkeeping processes for recording transactions are electronic. User authorisations are centrally managed by the IT department responsible, and are frequently reviewed. Local IT departments are responsible for data backup. Different types of back-up are performed daily, weekly and monthly according to precise schedules. Documents are kept in secure archives, in accordance with the legal minimum retention periods.

All of our operating units book transactions on an ongoing basis. Payments are made at weekly intervals.

Group companies have comprehensive organisational regulations which ensure that all transactions subject to accounting requirements are included in the annual financial statements. At Group companies with fully integrated ERP systems internal vouchers are automatically issued whenever goods are ordered, and then run through a routine release process. At the end of the month all the finance departments perform checks to ascertain whether any invoices are missing. In order to obtain an accurate picture of the financial position for a given period outstanding invoices are accrued as necessary. Prior to the end of the reporting period confirmations of outstanding invoices are obtained from the main suppliers.
To ensure that the necessary provisions are made, the current course of business is examined in detail at monthly Executive Board meetings. The monthly reporting is the basis for these discussions. The introduction of the "four-eye principle" in the Group's management structures will make it easier to keep track of impending liabilities in future.

Due to the frequent communication between the central finance department and the finance officers at the subsidiaries it is possible to monitor deviations from target closely.

The monthly reports include detailed analyses of budget shortfalls, statement of financial position items and cash flows in the various segments and companies. An extensive indicator system supports internal benchmarking comparisons over more extended periods. Conspicuous disparities are subjected to detailed analysis. Close attention is paid to customer relationships, productivity and workforce structure, permitting early identification of potential problems. Where necessary the Executive Board initiates internal audits.

In order to forestall potential liquidity shortages, the cash holdings of all companies that participate in cash pooling arrangements are constantly monitored. Reports on liquidity are sent to the Executive Board at weekly, and those to the Supervisory Board and its audit committee at monthly intervals. The figures are verified by the monthly comparisons of cash flows and bank statements.

Everyone responsible for managing risk in the Frauenthal Group has a clearly defined role; all ultimately report to the Executive Board.

REPORT ON THE COMPANY'S FINANCIAL CONDITION

Our 2011 budget forecasts are based on further organic growth across all three divisions, resulting in an increase in working capital. In the Automotive Components Division, after two years of sharply reduced capital expenditure, investment in expanding capacity at three sites, and in productivity and quality improvements, is planned. Investment in additional capacity in the Industrial Honeycombs Division is also envisaged, due to the positive market outlook. Positive cash flows from operating activities are anticipated in all divisions. Existing short-term bank credit lines will be sufficient to meet financing needs despite seasonal fluctuations in Group liquidity. The planned investments in 2011 will probably give rise to liquidity needs, and there are sufficient borrowing facilities in place. No events likely to result in a major drain on liquidity are foreseen. However faster-than-expected growth could give rise to additional cash requirements – especially in the Automotive Components Division. The Group also has access to sufficient finance to cope with this eventuality provided that the banks meet their commitments. The Frauenthal Group's credit rating has improved as a result of the profit for 2010. There is thus no reason to suppose that the banks will reduce their lending promises, since management's forecasts for 2011 and subsequent years are based on realistic assumptions and point to sound Group financial performance. The main source of external finance is the EUR 70m bond which is due on 30 June 2012. We are watching the capital market closely, and are carefully assessing the option of a new bond issue ahead of the maturity of the existing credit, given favourable market conditions. Preparations for an issue are under way.

Litigation

In May 2009 a minority shareholder brought an action to contest resolutions of the Annual General Meeting of 14 May 2009. The disputed resolutions concern the discharge of two members of the Supervisory Board, and a special audit in connection with the repayment of profit sharing certificates. The plaintiff is contesting the resolutions on the grounds that the majority shareholder, FT Holding GmbH, should have been excluded from voting on the agenda items in question. The action was upheld by the courts of first and second instance. In December 2010 Frauenthal Holding AG filed an appeal against the verdict of the Vienna provincial court of appeal in the Supreme Court. The case was still pending at the time of reporting. The amount at issue is EUR 100,000.

Innovation report

To the Frauenthal Group, innovation is chiefly a matter of continuously improving product quality, production processes and our product and service range, as opposed to extensive research into basic technologies. The majority of the Group's products are technically mature and already well established on the market.

Product innovation involves improving material properties, optimising production processes, and developing new product designs and applications for existing products. Innovation in manufacturing processes may comprise improvements such as redesigning factory layouts, optimising production flows, investing in plant that improves quality and productivity, fine-tuning production processes, and standardising and stabilising individual manufacturing steps. Pre-assembling various components, so as to cut the cost of product mounting for customers, is an example of product design innovation. Process innovation can mean delivering pallets straight to an assembly line, with parts presorted to match the customer's production schedule, thus reducing its logistics costs. We also work to strengthen customer relationships by introducing new services that address genuine customer needs, are difficult to replicate and as a result give us a competitive edge. We also aim to be innovative in our internal processes, as a means of driving progress in terms of cost and quality benefits. All of the Group's divisions implemented innovations during the year under review. The holding company provided centralised support, and each of the divisions shared their expertise and experience of innovation management.

AUTOMOTIVE COMPONENTS AIMING FOR WEIGHT REDUCTIONS

The key objective of product innovation in the Automotive Components Division is lightening chassis components, which in turn helps reduce fuel consumption and increase load capacity. Extending the service life of chassis components to match the vehicle lifespan is another major priority. This results in lower total costs over the useful life of the vehicle. The Euro 6 emission standard which comes into force in 2013 is an important consideration, as the new emission limits can only be met if there are further fuel savings – and this in turn requires weight reductions.

All of our customers are aggressively pursuing weight reduction targets for their new Euro 6 vehicle ranges. Thanks to products such as high-tension springs for front axles and tubular stabiliser bars, the Automotive Components Division can offer weight reductions of up to 110 kg. The use of more highly tensioned springs for front axles permits a reduction in the number of spring leafs. Tubular stabiliser bars are more costly to produce than solid stabilisers, but up to 45 kg lighter. Improved materials are the key to higher tension levels and further weight reductions, and Frauenthal is working closely with universities and other scientific institutions to achieve this. We will be investing in a materials research laboratory in 2011.

WHOLESALE PLUMBING SUPPLIES (SHT) FOCUSING ON LOGISTICS AND CUSTOMER SERVICE

SHT recently invested in a state-of-the-art, highly automated order picking system for its small parts warehouse. This powerful technology has given us a springboard for continuous improvement in the transparency of all our logistics processes. The aim is seamless electronic recording of all goods movements, from goods receipt through to delivery to the customer and any returns. This also includes track and trace systems, where items are scanned at all stages of the goods flow. This has further reduced the division's extremely low error rates and losses, and increased efficiency across the logistics process.

INDUSTRIAL HONEYCOMBS WORKING FOR IMPROVED CATALYST PERFORMANCE AT CONSTANT VOLUMES

Porzellanfabrik Frauenthal has made some significant breakthroughs in developing higher-performance catalysts for diesel engines that comply with the Euro 6 emission standard. Greater cell density and thinner cell walls make it possible to boost the active catalytic surface. This means that volume and weight increase less than the nitrogen oxide (NOx) reduction rate. Together with the mechanical and thermal stability of the catalyst, this is a key success factor.

The Industrial Honeycombs Division is currently the only part of the Frauenthal Group which carries out basic materials research. One important focus is research into new ceramic compositions – a key strategic factor, given the rising prices of some raw materials and the threat of temporary shortages.

Sustainability and corporate social responsibility

Acting responsibly and conducting our business in a sustainable manner are just as important to the Frauenthal Group as the profit principle. Besides the common values shared by all of us working for the Group, many areas of our activities call for particular care in our treatment of people and resources. Frauenthal sees success as more than a matter of positive short-term financial results, but of sustainable business development, based on a responsible approach to employees, customers, society and the environment. This is achieved by management decisions which take the big picture into account, and by actively involving many of our people in a wide range of decisions affecting the Group's divisions.

Increased production efficiency is directly linked to our business and environmental aims. Best practice and lean management make a considerable contribution to this, and support our efforts to conserve natural resources. We attach particular importance to reducing energy consumption and rejects in our production processes. In all divisions, the development of the product mix is also driven by environmental concerns. For example, the Industrial Honeycombs Division has long helped reduce greenhouse gas emissions by manufacturing diesel and power station catalysts. Our R&D effort in the Automotive Components Division is leading the way in developing ever lighter and longer lasting leaf springs. Weight reduction and a longer useful life – preventing the frequent replacement of components – play a part in the production of more environmentally friendly commercial vehicles. Last but not least, the Wholesale Plumbing Supplies Division focuses on renewable energy technologies such as photovoltaics, heat pumps and thermal solar collectors in its energy consultancy activities and sales of renovation products.

The development of sustainable technologies and systematic improvements along the value chain depend on our people's expertise and experience. For this reason, training and personality development have are a top priority at Frauenthal, as shown by our wide-ranging training programme. This includes specific not only occupational training and lean management courses, but is also promoting the adoption of English as the Group language. In addition, safety at work is a central concern, and we also attach importance to ergonomics and preventive medicine.

Regular the shop floor inspections and lean management workshops offer good opportunities to identify and implement potential improvements.

"I have seized the opportunities offered to me, accepted challenges, and always tried to grow by shouldering new responsibilities and learning as I went along. Good team spirit, SHT's progress, and staff development are the things that are closest to my heart."
Beatrix Pollak, member of the SHT Executive Board

"On our own, we are just words, together we are a poem. Managers should remember that what they are thinking will be the atmosphere they create."
Karin Many, Head of Human Resources Management

Human resources (HR)

Die HR development is crucial to the continued growth of the Group. Timely identification and development of employees with high leadership potential is one of the main priorities of our HR strategy. The aim is to fill management positions by internal promotion wherever possible. We strive to offer development opportunities to an unusually high proportion of the workforce. When filling vacancies, preference is given to women with the necessary qualifications. As a company committed to sustainable business practices, Frauenthal Holding addresses social responsibility issues such as equal opportunities. One-quarter of the executive board members of the Austrian public companies in the Frauenthal Group are female. We also strive to appoint women to supervisory board positions where opportunities arise.

Proven tools are used to identify potential at executive and management trainee level. When recruiting management staff internally, we take particular care to align the development objectives set for them, and the opportunities they are offered as closely as possible with the Group's business requirements.

The Frauenthal Leadership and Learning Programme, in its third year in 2010, makes a significant contribution to this, and constitutes an important mechanism for drawing the Group closer together. This 18-month staff development programme has already given some 50 executives practical leadership and management skills which can be directly applied to their day-to-day work.

The Frauenthal High Potential Programme made a successful debut in 2010, supporting the development of our top experts. The programme gives pride of place to enhancing employees' technical expertise and the professional project management skills through training courses and internal projects. We will continue to work on creating expert and project management career paths that offer clear development prospects for our people.

High levels of job satisfaction, dedication and loyalty on the part of our employees are vital to the successful development of the Group. In 2010 we began tracking indicators of these aspects of HR performance, using internationally accepted processes. The emphasis is on increasing employee involvement and taking action to enhance job satisfaction. The strategic human resources initiatives are managed by the holding company, which is also responsible for the implementation of Group-wide standards and activities.

"From starting out in internal control to a position as a CEO – a career like that is only possible in a growing business that is committed to developing its high potentials and gives them something to aim for. It's fun being part of the Frauenthal Group."
Matthias Thalheim, CEO of Frauenthal's Polish subsidiary Pol-Necks since October 2010.

"In January 2011 the number of people I am responsible for rose from 24 to 54. It takes hard work and commitment, but I feel I can certainly hold my own as a woman in a management position."
Manuela Werfer, SHT Showroom Manager

Environmental protection

The Frauenthal Group takes environmental protection very seriously. Group companies comply with environmental licensing conditions, statutory regulations, orders and notices. Our employees receive comprehensive health, safety and environment information and training. Environmental policy developments are crucial to all of our businesses. The worldwide trend towards stricter NOx emission regulations, both for stationary plant (thermal power stations, waste incinerators, etc.) and for diesel engines (commercial vehicles, ships, agricultural and construction machinery) is creating excellent long-term growth prospects for the SCR catalyst business. The use of SCR catalysts also makes it possible to optimise engine management, thereby cutting fuel consumption by several percentage points.
Compliance with the stricter limits established by the Euro 6 standard for commercial vehicles will require a reduction in fuel consumption as well as NOx emissions. Steadily lowering the weight of springs and stabilisers, and developing lighter chassis designs is one of the key strategic goals of the Automotive Components Division. We have already succeeded in almost halving the weight of a truck's front springs, from some 100 kg to around 60 kg, over the past decade.

Increased public awareness of the importance of environmental protection and conservation of scarce resources, such as energy and water, has also brought about changes in our wholesale sanitary and heating supplies product ranges, as well as our product focus. We now offer an extensive photovoltaic product range. The use of this cutting-edge technology in Austria is still lagging behind Germany and some other countries. Thanks to our focus on service and quality, and our extensive distribution network, we are well placed to contribute to its spread.

Events after the end of the reporting period

On 25. 02. 2011 Frauenthal Automotive Components GmbH acquired a 24 % interest in Styria Arcuri SA, Sibiu, Romania. The price was approx. EUR 1.1m. As a result of this transaction Frauenthal Automotive GmbH is now the sole owner of Styria Arcuri SA.

Outlook

The economic trend in the second half of 2010 and the forecasts for 2011 point to a continuation of last year's moderate growth in the strongly cyclical commercial vehicle sector. This is confirmed by our key customers' annual plans. We expect the Automotive Components Division to enjoy demand growth of roughly 20 % in 2011. This outlook is underpinned by opportunities to win additional orders from existing customers, some of which would enter into effect in 2011. A key factor in gaining market shares is product development, in which we made major strides in 2010. In particular, the development of lighter leaf springs and stabilisers is of great interest to our customers, as vehicle weight reduction is becoming increasingly important. As the market leader, however, Automotive Components Division is naturally exposed to the risk that customers will award large contracts to rivals in order to keep suppliers competing hard for every order. Various major follow-up contracts and contracts for new vehicle lines are still at the negotiation stage, and the outcomes of these talks cannot be predicted. A large order for air reservoirs will probably mostly go to a competitor. If this expectation turns out to be correct the workforce at the plant concerned will have to be downsized, and provision has been made for this in the annual financial statements. Growth expectations are based on the general assumption that there will not be a recession ("double dip"). Such a turn of events would have serious negative effects on the order books of the Automotive Components Division's, due to the sensitivity of the commercial vehicle industry to economic conditions. Thanks to the further increases in capacity utilisation being seen at our plants, we expect this business to post improved results as compared to 2010. The greater flexibility of our production network (use of agency staff and relocation of production) should enable us to adjust to moderate fluctuations in revenue. Most of our investment in 2011 is likely to be channelled into the expansion of the Styria Arcuri plant in Romania and the Styria Ressorts factory in France. The reserve capacity at the Styria Vzmeti site in Slovenia, mothballed in 2009, will at least temporarily be put into service again in order to cater to growing demand. Investment spending at other sites will largely be devoted to raising quality and productivity. Capital expenditure in Automotive Components was pared back to an absolute minimum in 2009 and 2010.

In the power station catalyst business (Industrial Honeycombs Division), we expect the current high order backlog to continue with only minor fluctuations, and honeycomb production capacity to be well utilised. There are encouraging project pipelines in Europe, the USA and Korea. Enquiries from China declined sharply in 2010, as power station operators there are still attempting to obtain electricity price increases to compensate them for investing in SCR plants. China's new five-year plan may shed some light on future developments. We expect orders to continue to come in from China in 2011, but at a significantly lower level than in 2009. The global market situation will be strongly affected by aggressive bidding by some competitors, which we expect to bring prices down.

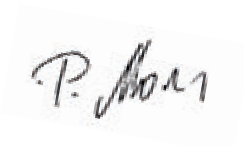
An issue that calls for ever closer attention is raw material price trends. Production of one of our heat exchanger components (which forms only a small part of revenue) has had to be suspended due to the explosion in the price of cerium (a rare earth). The price of tungsten, an important raw material for the Industrial Honeycombs Division, is still climbing. While acute supply shortages are not anticipated, rising prices are still a problem, as they cannot always be passed on to customers and therefore squeeze margins. We see revenue from diesel catalysts increasing, with volume growing in line with the commercial vehicle market. The first contracts for our new plate catalysts, launched in 2010, were concluded last year and will be fulfilled in 2011. Expanding production capacity and increasing management resources will be high priorities. As part of the growth strategy mapped out in 2010, the Industrial Honeycombs division aims to create the conditions to profit fully from the expected medium and long-term growth of the market for NOx catalysts.
In the Wholesale Plumbing Supplies Division, the opening of the Innsbruck outlet marked a major step forward in the roll-out of a nationwide sales and service network. Given the current poor conditions in the construction sector, we expect the price war in the contract business to continue. The prognosis for the market as a whole in 2011 is for growth at the rate of inflation. The promised public sector projects have not revived the building market, and no change is expected in 2011. However the situation in the commercial building market should start to brighten in 2012. The division has realistic prospects of moderate growth in a flat market in 2011, due to its strong market position and high service standards. The focus for 2011 will be on fine tuning the product range, logistics processes and pricing.

For Automotive Components, 2010 was a year of consolidation and accelerated product development. For the other two divisions, the focus was on continued growth – above all in earnings. We attained these objectives. 2011 will be a year of preparation for further rapid growth. One of the keys to this will be sound long-term financing. We are weighing the option of floating a new bond issue before the current EUR 70m issue matures on 30 June 2012 carefully, so as to be ready to move if the situation on the capital market is favourable. Numerous growth opportunities have been identified by the Automotive Components and Industrial Honeycombs divisions. Investment will therefore rise sharply in 2011 and beyond, and this and the anticipated growth in volume will increase the need for finance. As part of our growth strategy, we will again be on the look-out for potential acquisitions that are a good strategic fit for existing businesses. However, growth by acquisition is not our main priority at present.

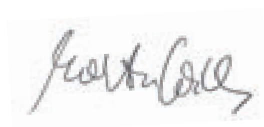
In 2010, orders and growth returned to pre-crisis levels. Almost 60 % of the ground lost in 2009 was made up in 2010. In all business divisions, we laid the groundwork for further progress in 2011 and thereafter.

Vienna, 15 March 2011

Frauenthal Holding AG



Hans-Peter Moser
Member of the Executive Board



Martin Sailer
Member of the Executive Board

CONSOLIDATED FINANCIAL STATEMENTS

TASK

Thomas Jauner, 23, at work in the geometric measurement department, which is part of the diesel catalyst production operation. A trained cook, Thomas joined Porzellanfabrik Frauenthal six months ago. His father has been with the firm for 12 years.

PRODUCT

SCR diesel catalysts enable commercial vehicles to comply with the current Euro 5 NOx emission limits. In contrast to competing products which are coated, Frauenthal diesel catalysts are composed of homogeneous catalytic material.

CONSOLIDATED FINANCIAL STATEMENTS

The following section is an extract from the consolidated financial statements.

Consolidated income statement

Note	EUR '000	2010	2009
9,27	Revenue	539,385	454,487
	Changes in inventories of finished goods and work in progress	2,837	-5,892
16	Work performed by the entity and capitalised	9	33
28	Other operating income	10,333	8,426
29	Raw material and consumables used	-353,178	-302,290
30	Staff costs	-107,487	-101,797
16,31	Depreciation and amortisation expense, and impairment	-12,617	-19,245
32	Other operating expenses	-57,577	-58,942
	Profit from operations	**21,705**	**-25,220**
	Share of profit of associates	28	8
	Interest income	243	277
33	Interest expense	-3,942	-4,689
	Other finance income	53	50
	Net finance costs	**-3,618**	**-4,354**
	Profit before tax	**18,087**	**-29,574**
34	Income tax expense	-958	-321
34	Change in deferred tax	244	486
	Profit after tax	**17,373**	**-29,409**
	Attributable to non-controlling interests	182	-2,925
	Attributable to owners of the parent (consolidated profit/loss for the year)	**17,191**	**-26,484**
35	**Earnings per share (basic/diluted)**	**1.87**	**-2.89**

Consolidated statement of comprehensive income

Note	EUR '000	2010	2009
9,27	**Profit after tax**	**17,373**	**-29,409**
	Gains and losses on currency translation	250	-363
16	Gains and losses on changes in non-controlling interests	0	8
18	Gains and losses on cash flow hedges	0	-479
19	Shares purchased	-156	0
16	Losses/gains on fair value measurement of available-for-sale assets	-28	65
	Deferred taxes on measurement gains and losses recognised directly in equity	0	120
	Income tax	0	0
	Other comprehensive income	**66**	**-649**
	Total comprehensive income	**17,439**	**-30,058**
	Attributable to non-controlling interests	172	-3,056
	Attributable to owners of the parent	**17,267**	**-27,002**

Consolidated balance sheet

Note	EUR '000	31 Dec. 2010	31 Dec. 2009
	Assets		
	Non-current assets		
3,10,16	Intangible assets	39,149	40,608
10,16	Property, plant and equipment	74,291	74,637
10,16	Investments in associates	726	698
10,16	Other financial assets	1,158	1,435
12,17	Deferred tax assets	20,771	18,891
		136,095	**136,269**
	Current assets		
11,18	Inventories	72,052	61,863
11,18	Trade receivables	67,511	45,364
11,18	Other assets	11,834	8,986
18	Current financial assets	0	0
11,18,41	Cash and cash equivalents	3,416	2,267
		154,813	**118,480**
	Total Assets	**290,908**	**254,749**

Note	EUR '000	31 Dec. 2010	31 Dec. 2009
	Equity and Liabilities		
19	**Equity**		
19	Share capital	9,435	9,435
19	Capital reserves	21,093	21,093
7,19	Retained earnings	40,924	67,408
	Translation reserves	-1,901	-2,161
	Other reserves	37	65
19	Own shares	-552	-396
19	Non-controlling interests	3,275	3,103
	Profit/loss for the year	17,191	-26,484
		89,502	**72,063**
13,20,22	**NON-CURRENT LIABILITIES**		
22	Bond	70,000	70,000
13,22,37	Bank borrowings	12,369	11,069
13,22	Other liabilities	3,709	2,858
13,20	Provisions for termination benefits	9,826	8,500
13,20	Provisions for pensions	6,390	6,379
13,20,34	Provisions for deferred tax	2,463	816
13,20	Other long-term provisions	4,078	4,983
		109,375	**104,605**
13,21,22	**CURRENT LIABILITIES**		
22	Bond	1,375	1,375
13,22,37	Bank borrowings	14,043	16,386
13,22	Trade payables	49,775	37,053
13,22	Liabilities to Group companies	68	10
13,22	Other liabilities	24,327	22,170
13,21	Tax provisions	528	171
13,21	Other short-term provisions	1,915	916
		92,031	**78,081**
	Total Equity and Liabilities	**290,908**	**254,749**

Statement of Cash flows

Note	EUR '000	2010	2009
	Profit for the year before non-controlling interests	17,373	-29,409
	Effectiveness of cash flow hedges	0	-479
	Deconsolidation expense	0	5,865
	Interest income and expense	3,646	4,360
	Share of results of associates	-28	-8
	Depreciation and amortisation of non-current assets	12,617	19,245
	Write-ups of non-current assets	-1,500	0
	Gains on disposal of non current assets	-35	-104
	Losses on disposal of non-current assets	17	346
	Change in deferred tax assets	-1,880	1,323
	Change in long-term provisions	2,620	-4,285
	Interest paid	-3,879	-4,469
	Interest received	296	327
36, 37	**Operating profit before working capital changes**	**29,247**	**-7,288**
	Change in inventories	-10,189	14,275
	Change in trade receivables	-22,148	13,263
	Change in other receivables	-2,848	3,581
	Change in short-term provisions	1,356	-951
	Change in trade payables	13,979	-11,098
	Change in liabilities to Group companies	58	-164
	Change in other liabilities	1,776	-1,806
	Translation related changes	105	49
38	**Net cash from operating activities**	**11,336**	**9,861**
	Investments in non-current assets	-9,328	-12,112
	Proceeds from sale of non-current assets	429	412
	Proceeds from investment grants	-25	-1,155
	Proceeds from repayment of loans	0	31
	Changes arising on changes in the scope of consolidation	0	-450
39	**Net cash used in investing activities**	**-8,924**	**-13,274**
	Dividends paid	0	0
	Redemption of participation certificates	0	0
	Change in borrowings	-1,263	-10,624
40	**Net cash used in financing activities**	**-1,263**	**-10,624**
	Change in cash and cash equivalents	**1,149**	**-14,037**
	Cash and cash equivalents at beginning of period	1,888	15,925
41	Cash and cash equivalents at end of period	3,037	1,888

Statement of changes in equity

Note	EUR '000	Share capital	Capital reserve	Retained earnings	Translation reserve	Cash flow hedge reserve	Fair value reserve	Treasury share	Equity attributable to owners of the parent	Non-controlling interests	Total equity
19	**Balance at 1 Jan. 2009**	**9,435**	**21,093**	**67,408**	**-1,937**	**359**	**0**	**-396**	**95,962**	**6,159**	**102,121**
	Total comprehensive income for 2009			-26,484	-224	-359	65		-27,002	-3,056	-30,058
	Balance at 31 Dec. 2009/1 Jan. 2010	**9,435**	**21,093**	**40,924**	**-2,161**	**0**	**65**	**-396**	**68,960**	**3,103**	**72,063**
	Total comprehensive income for 2010			17,191	260		-28	-156	17,267	172	17,439
	Balance at 31 Dec. 2010	**9,435**	**21,093**	**58,115**	**-1,901**	**0**	**37**	**-552**	**86,227**	**3,275**	**89,502**

Non-current asset movement schedule 2010

CHANGES IN COSTS

EUR'000	Cost at 1 Jan. 2010	Exchange differences	Additions	Disposals	Reclassifications	Cost at 31 Dec. 2010	Accumulated depreciation, amortisation and impairment at 1 Jan. 2010	Accumulated depreciation, amortisation and impairment at 31 Dec. 2010	Carrying value at 31 Dec. 2010	Carrying value at 01 Jan. 2010	Carrying value at 01 Jan. 2009
Intangible assets											
Concessions, patents and similar rights and licences	30,462	4	458	144	3	30,783	12,488	14,038	16,745	17,974	18,667
Goodwill	25,310					25,310	3,457	3,457	21,853	21,853	22,154
Development costs	1,662	0		12		1,650	882	1,099	551	780	1,217
	57,434	**4**	**458**	**156**	**3**	**57,743**	**16,827**	**18,594**	**39,149**	**40,607**	**42,038**
Property, plant and equipment											
Land and buildings	55,156	115	825	26	2,490	58,560	21,936	26,039	32,521	33,220	34,634
plant and equipment	118,028	99	1,893	81	291	120,230	90,452	92,439	27,791	27,576	33,796
Other plant and equipment, fixtures and fittings	38,763	11	4,338	1,173	90	42,029	27,450	29,500	12,529	11,313	11,332
Prepayments made and assets under construction	2,529	-2	1,800	1	-2,874	1,452	1	2	1.450	2,528	7,039
	214,476	**223**	**8,856**	**1,281**	**-3**	**222,271**	**139,839**	**147,980**	**74,291**	**74,637**	**86,801**
	271,910	**227**	**9,314**	**1,437**	**0**	**280,014**	**156,666**	**166,574**	**113,440**	**115,244**	**128,839**

CHANGES IN CARRYING VALUES

EUR '000	Carrying value at 1 Jan. 2010	Exchange differences	Additions	Disposals	Reclassifica-tions	Depreciation during the year	Amortisation during the year	Amortisation and depreciation	Impairment	Carrying value at 31 Dec. 2010
Intangible assets										
Concessions, patents and similar rights and licences	17,974	0	458		4	0	1,691	1,614	77	16,745
Goodwill	21,853	0	0	0	0	0	0	0		21,853
Development costs	780	0	0		0	0	229	229		551
	40,607	**0**	**458**	**0**	**4**	**0**	**1,920**	**1,843**	**77**	**39,149**
Property, plant and equipment										
Land and buildings	33,220	103	825	21	173	0	1,779	1,779		32,521
Plant and equipment	27,576	34	1,893	4	2,608	1,500	5,816	5,816		27,791
Other plant and equipment, fixtures and fittings	11,313	9	4,338	120	90	0	3,101	3,101	0	12,529
Prepayments made and assets under construction	2,528	-2	1,800	1	-2,875	0	0	0	0	1,450
	74,637	**144**	**8,856**	**146**	**-4**	**1,500**	**10,696**	**10,696**	**0**	**74,291**
	115,244	**144**	**9,314**	**146**	**0**	**1,500**	**12,616**	**12,539**	**77**	**113,440**

Non-current asset movement schedule 2009

CHANGES IN COSTS

EUR '000	Cost at 01 Jan 2009	Change in scope of consolidation	Exchange differences	Additions	Disposals	Reclassifications	Cost at 31 Dec. 2009	Accumulated depreciation, amortisation and impairment at 01 Jan. 2009	Accumulated depreciation, amortisation and impairment at 31 Dec. 2009	Carrying value at 31 Dec. 2009	Carrying value at 01 Jan.2009	Carrying value at 01 Jan.2008
Intangible assets												
Concessions, patents and rights and licences	29,780	-334	-5	886	134	269	30,462	11,113	12,488	17,974	18,667	18,709
Goodwill	25,669	0	0	0	359		25,310	3,515	3,457	21,853	22,154	23,768
Development costs	1,706	-42	0	0	2		1,662	489	882	780	1,217	1,454
Prepayments												775
	57,155	**-376**	**-5**	**886**	**495**	**269**	**57,434**	**15,117**	**16,827**	**40,607**	**42,038**	**44,706**
Property, plant and equipment												
Land and buildings	60,960	-9,539	-65	3,354	5	451	55,156	26,326	21,936	33,220	34,634	30,725
Plant and equipment	129,466	-16,799	-337	3,187	753	3,264	118,028	95,670	90,452	27,576	33,796	32,727
Other plant and equipment, fixtures and fittings	38,575	-1,370	-137	4,084	2,779	390	38,763	27,243	27,450	11,313	11,332	8,622
Prepayments made and assets under construction	7,199	-801	-17	550	28	-4,374	2,529	160	1	2,528	7,039	3,368
	236,200	**-28,509**	**-556**	**11,175**	**3,565**	**-269**	**214,476**	**149,399**	**139,839**	**74,637**	**86,801**	**75,442**
	293,355	**-28,885**	**-561**	**12,061**	**4,060**	**0**	**271,910**	**164,516**	**156,666**	**115,244**	**128,839**	**120,148**

CHANGES IN CARRYING VALUES

EUR'000	Carrying value 01 Jan. 2009	Change in scope of consolidation	Exchange differences	Additions	Disposials	Reclassifica-tions	Depreciation and amortisation during the year	Amortisation and depreciation	Impairment	Carrying value at 31 Dec. 2009
Intangible assets										
Concessions, patents and rights and licences	18,667	-26	-5	886	15	269	1,802	1,651	151	17,974
Goodwill	22,154	0	0	0	0	0	301	0	301	21,853
Development costs	1,217	-42	0	0	3	0	392	0	392	780
	42,038	**-68**	**-5**	**886**	**18**	**269**	**2,495**	**1,651**	**844**	**40,607**
Property, plant and equipment										
Land and buildings	34,634	-1,995	-45	3,354	3	451	3,176	1,604	1,572	33,220
Plant and equipment	33,796	-2,320	-125	3,187	215	3,368	10,115	7,212	2,903	27,576
Other plant and equipment fixtures and fittings	11,332	-511	-29	4,084	390	286	3,459	3,459	0	11,313
Prepayments made and assets under construction	7,039	-640	-19	550	28	-4,374	0	0	0	2,528
	86,801	**-5,466**	**-218**	**11,175**	**636**	**-269**	**16,750**	**12,275**	**4,475**	**74,637**
	128,839	**-5,534**	**-223**	**12,061**	**654**	**0**	**19,245**	**13,926**	**5,319**	**115,244**

Segmental analysis

EUR '000	Industrial Honeycombs 2010	Industrial Honeycombs 2009	Automotive Components 2010	Automotive Components 2009	Wholesale Plumbing Supplies 2010	Wholesale Plumbing Supplies 2009	Holding companies and others 2010	Holding companies and others 2009	Intragroup eliminations 2010	Intragroup eliminations 2009	Frauenthal-Group 2010	Frauenthal-Group 2009
Strategic business segments												
Revenues from external customers	78,724	64,988	190,000	128,022	270,639	261,397	22	80	0	0	539,385	454,487
Intersegment revenues	687	5,257	1,226	714	0	0	2,368	2,539	-4,281	-8,510	0	0
Total revenues	79,411	70,245	191,226	128,736	270,639	261,397	2,390	2,619	-4,281	-8,510	539,385	454,487
EBITDA	13,724	9,007	9,909	-24,521	11,752	9,822	-1,056	537	-7	-820	34,322	-5,975
Deconsolidation expenses	0	0		5,865	0	0	0	0	0	0	0	5,865
Adjusted EBITDA	13,724	9,007	9,909	-18,656	11,752	9,822	-1,056	537	-7	-820	34,322	-110
Depreciation, amortisation and impairment	2,829	2,599	5,988	12,789	3,646	3,719	154	138	0	0	12,617	19,245
whereof impairment		230		4,986	77	103	0	0	0	0	77	5,319
Adjusted EBIT	10,895	6,408	3,921	-31,445	8,106	6,103	-1,210	399	-7	-820	21,705	-19,355
Income from equity investments	0	0	0	0	0	0	28	8	0	0	28	8
Equity investments	0	0	0	0	0	0	726	698	0	0	726	698
Borrowings	28,788	18,848	64,899	59,963	40,969	42,848	141,606	137,066	-74,856	-76,039	201,406	182,686
Capital employed	22,998	16,786	69,998	67,020	79,872	74,471	169,122	161,006	-152,136	-145,416	189,854	173,867
Assets	45,697	31,142	170,118	160,936	98,815	97,418	217,181	193,293	-240,903	-228,040	290,908	254,749
Investment	2,611	5,484	2,589	1,048	3,880	5,487	283	93	-36	0	9,327	12,112
Employees	292	265	1,563	1,470	682	698	11	9	0	0	2,548	2,442

	Industrial Honeycombs		Automotive Components		Wholesale Plumbing Supplies		Holding companies and others		Frauenthal-Goup	
EUR '000	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenue by geographical markets (final customers)										
Austria	12,273	1,724	9,769	13,698	266,498	256,872	22	22	288,562	272,316
Germany	11,025	7,630	76,550	45,794	3,602	3,820	0	58	91,177	57,302
France	483	499	22,647	18,172	0	0	0	0	23,130	18,671
Sweden	20	7	30,860	15,525	0	0	0	0	30,880	15,532
Belgium	313	15	13,608	10,392	0	0	0	0	13,921	10,407
Other EU	10,682	6,215	26,523	19,469	539	705	0	0	37,744	26,389
Rest of Europe	273	242	9,590	4,833	0	0	0	0	9,863	5,075
Americas	15,908	18,539	58	56	0	0	0	0	15,966	18,595
Asia	27,747	29,662	157	8	0	0	0	0	27,904	29,670
Other	0	455	238	75	0	0	0	0	238	530
Total	**78,724**	**64,988**	**190,000**	**128,022**	**270,639**	**261,397**	**22**	**80**	**539,385**	**454,487**

	Revenue		Assets		Investments and acquisitions		Average no. of employees	
EUR '000	2010	2009	2010	2009	2010	2009	2010	2009
Geographical markets by sites/domiciles								
Austria	417,920	355,879	327,356	285,610	8,716	11,116	1,138	1,092
Germany	99,184	76,250	92,688	80,134	1,712	952	432	375
France	56,534	38,237	25,010	21,480	472	-385	274	284
Rest of the world	83,182	63,584	49,302	48,898	628	997	704	691
Consolidation	-117,435	-79,463	-203,448	-181,373	-2,201	-572	0	0
Frauenthal Group	**539,385**	**454,487**	**290,908**	**254,749**	**9,327**	**12,108**	**2,548**	**2,442**

Notes

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010 AND THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

A. GENERAL

Frauenthal Holding AG is registered in the Vienna register of companies under number 83990 s. The Company's registered address is: Frauenthal Holding AG, Rooseveltplatz 10, 1090 Vienna, Austria.

Frauenthal Holding AG is the holding company of the Frauenthal Group – a diversified, listed Austrian group with three divisions. Group operations include the truck component business (Automotive Components Division) comprising the Styria Group — Europe's leading manufacturer of leaf springs and stabilisers for heavy vehicles and trailers — and the Linnemann-Schnetzer Group which is the European market leader in steel and aluminium air reservoirs, as well as Pol-Necks, a U-bolt manufacturer. They also include an interest in Porzellanfabrik Frauenthal GmbH (Industrial Honeycombs Division), which manufactures and distributes ceramic catalysts for the reduction of NOx in flue gas emissions from power stations and industrial plants, heat exchangers and foundry filters, as well as diesel catalysts for trucks. Frauenthal Holding's third line of business is the SHT Haustechnik Group (Wholesale Plumbing Supplies Division), which is Austria's leading plumbing supplies wholesaler.

These consolidated financial statements have been prepared in accordance with internationally accepted accounting standards, under the exemption granted by section 245a UGB (Austrian Business Code). The consolidated annual financial statements of Frauenthal Holding AG (hereafter "the Frauenthal Holding Group" and "the consolidated financial statements") as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The presentation of the consolidated financial statements takes account of all amendments to existing IAS, new IFRS, and IFRIC and SIC interpretations effective as at 31 December 2010 and applicable in the European Union. The following new or amended IFRS and IFRIC interpretations became effective in 2010:

	New standards effective for the first time	Applicable from
New interpretations [1]		
IFRIC 12	Service Concession Arrangements	29 Mar. 2009
IFRIC 15	Agreements for the Construction of Real Estate	01 Jan. 2010
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01 Jul. 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	01 Nov. 2009
IFRIC 18	Transfer of Assets from Customers	01 Nov. 2009
Revised standards and interpretationen [1]		
IAS 39	Financial Instruments: Recognition and Measurement (Eligible Hedged Items)	01 Jul. 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards IFRS (revised in 2008)	01 Jan. 2010
IFRS 3	Business Combinations (revised in 2008)	01 Jul. 2009
IAS 27	Consolidated and Separate Financial Statements (amendments)	01 Jul. 2009
IFRS 2	Share-based Payment (Group Cash-settled Share-based Payment Transactions))	01 Jan. 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards (Additional Exemptions for First-time Adopters)	01 Jan. 2010
Improvements	Improvements to IFRS made by the 2007-2009 annual improvement projects	No common effective date

[1] The standards and interpretations are applicable from the annual periods beginning on or after the effective dates stated in EU Official Journal.

IFRIC 12 Service Concession Arrangements

IFRIC 12 was published on 30 November 2006 and adopted by the EU on 25 March 2009. The deadline for mandatory first-time adoption was moved by the EU endorsement of reporting periods, which was changed from annual periods beginning on or after 1 January 2008 to years beginning on or after 29 March 2009. Early application is permitted. The interpretation concerns the accounting treatment of service agreements, which are arrangements whereby a government or other body grants contracts for the supply of public services – such as the construction of roads, airports or energy distribution infrastructure – to private operators. While control of the assets remains with the public sector the operator is contractually obliged to build, operate and maintain the infrastructure. IFRIC 12 deals with the question as to how the rights and duties arising from such contractual agreements are to be accounted for. IFRIC 12 is not relevant to the Frauenthal Group as it does not provide public services under contract to national or regional governments, or local authorities.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 was published on 3 July 2008, and adopted by the EU on 22 July 2009. It is applicable to annual periods beginning on or after 1 January 2010. IFRIC 15 harmonises accounting practice in all jurisdictions with regard to the recognition of revenue from the sale of housing units (apartments or houses) by the developer before construction is completed. The interpretation provides guidelines for determining whether an agreement for the construction of real estate falls within the scope of IAS 11 Construction Contracts or IAS 18 Revenue. This affects the timing of recognition. IFRIC 15 is not relevant to the Frauenthal Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was published on 3 July 2008 and adopted by the EU on 4 June 2009. It is applicable to annual periods beginning on or after 1 January 2009. The interpretation refers to IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement, and deals with the treatment of hedges of net investments in foreign operations. It addresses two main issues. Firstly, it states that a foreign exchange difference may only be designated as a hedged risk if the functional currency of the foreign operation differs from that of the parent. The presentation currency of the consolidated financial statements of the parent does not give rise to a risk exposure. Secondly, a hedging instrument used to hedge a net investment in a foreign operation may be held by any entity within the group. If the investment is disposed of the amount reclassified from equity to profit or loss in respect of the hedging instrument is the amount required by IAS 39, whereas IAS 21 is applicable to the underlying transaction. IFRIC 16 is not relevant to the Frauenthal Group.

■ IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 was published on 27 November 2008, and was adopted by the EU on 26 November 2009. It is applicable to annual periods beginning on or after 1 November 2009; early application is permitted. IFRIC 17 deals with issues including how an entity should measure non-cash assets distributed to its owners as a dividend. The liability to pay a dividend must be recognised if the declaration of the dividend is approved by the relevant authority, and is no longer at the discretion of the entity. The liability must be measured at the fair value of the assets to be distributed, and the difference between the carrying amount of the assets distributed and that of the dividend payable must be recognised in profit or loss. Additional disclosures in the notes to the accounts are required if the assets to be distributed correspond to the definition of a discontinued operation (IFRS 5). As there have been no distributions of non-cash assets to the owners, IFRIC 17 is not relevant to the Frauenthal Group.

■ IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was published on 29 January 2009, and was adopted by the EU on 27 November 2009. It is applicable to annual periods beginning on or after 1 November 2009; early application is permitted under some circumstances. IFRIC 18 contains additional guidance on accounting for transfers of assets from customers. In the opinion of the IASB this is of particular relevance to utilities. The interpretation clarifies the IFRS treatment of agreements under which an entity receives items of property, plant and equipment from customers that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. It also deals with situations in which an entity receives cash from customers for the acquisition or construction of such items of property, plant and equipment. The issues addressed by the interpretation are: when the definition of an asset is met; how to measure such an asset on initial recognition; how to identify the separately identifiable services provided in exchange for the transferred asset; when to recognise revenue; and how the entity should account for a transfer of cash from a customer. IFRIC 18 is not relevant to the Frauenthal Group.

■ Amendment to IAS 39 Eligible Hedged Items

This amendment to IAS 39 was published on 31 July 2008, and is applicable to annual periods beginning on or after 1 July 2009. It was adopted by the EU on 15 September 2009. The main purpose of the amendment is to provide additional guidelines for the designation of hedges, as there were inconsistencies in practice, particularly with regard to the treatment of a one-sided risk and the treatment of inflation in a hedging transaction. This amendment to IAS 39 is not relevant to the Frauenthal Group.

■ IFRS 1 First Time Adoption of IFRS (revised in 2008)

The IASB published a revised version of IFRS 1 First Time Adoption of IFRS on 27 November 2008, and this was adopted by the EU on 25 November 2009. This version replaced the current IFRS 1, and is applicable to companies adopting IFRS for the first time on 1 January 2010 and thereafter. The changes only concern the formal structure of IFRS 1, and there are no substantive amendments. The general and specific rules contained in the standard have been separated from each other, as the many amendments made to accommodate new or amended IFRSs had made the previous IFRS 1 (rev. 2003) increasingly complex and unwieldy. The main body of the standard now contains the general rules such as its scope, and recognition and measurement, while the specific rules on exemptions from some IFRSs are set out in the various annexes. The aim of the new structure is to make the standard clearer and easier to apply. Early application is permitted. As the Frauenthal Group already reports in accordance with IFRS, the revised version of IFRS 1 is not applicable.

IFRS 3 Business Combinations (revised in 2008) and amendments to IAS 27 Consolidated and Separate Financial Statements

The revision of IFRS 3 was carried out in conjunction with an amendment to IAS 27, as part of the second phase of the Business Combinations project. The revision of IFRS 3 and amendments to IAS 27 were published on 10 January 2008 and adopted by the EU on 3 June 2009. They are applicable to annual periods beginning on or after 1 July 2009. The changes to the standards extend the scope of application to business combinations between entities or businesses under common control and combinations in which no consideration is transferred. Combinations between entities or businesses under common control are excepted. The costs to issue debt or equity securities in connection with an acquisition must be recognised in accordance with IAS 32 and IAS 39. All other acquisition related costs must be recognised as expense. In addition, the option of applying the full goodwill method is introduced. This means that an acquirer may recognise the full goodwill of an acquiree and not merely its own interest, which increases the reported value of non-controlling interests in acquired, remeasured net assets. In the case of a staged acquisition, goodwill determination and remeasurement of the net assets only take place at the time of the change of control. All the subsequent transactions between the parent and the non-controlling interests are treated exclusively as equity transactions.

Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 clarifying the treatment of cash-settled share-based payment transactions published on 18 June 2009 applies to annual periods beginning on or after 1 January 2010. Retrospective application is required and early application is permitted. EU adoption took place on 23 March 2010. The reason for the amendment was the need to clarify how a subsidiary of a group should account for certain share based payment transactions in its own statements in situations where the entity receives goods or services from employees or suppliers but the parent or another group company must pay the latter. The amendment specifies that a company that receives goods or services under a share-based payment agreement must account for them irrespective of which group entity is responsible for settling the obligation, or whether settlement is to be in equity or in cash. In particular, the amendment makes it clear that the term "group" in IFRS 2 is synonymous with that in IAS 27 Consolidated and Separate Financial Statements (the parent and all its subsidiaries). IFRIC 8 and 11 were withdrawn as the interpretations were incorporated in the amendment to IFRS 2. The amendments to IFRS 2 are not relevant to the Frauenthal Group.

Amendments to IFRS 1: Additional Exemptions for First-time Adopters

These amendments to IFRS 1 were published on 23 July 2009, and apply retrospectively to certain situations. They were adopted by the EU on 23 June 2009, and apply to annual periods beginning on or after 1 January 2010. Their purpose is to ensure that the transition process does not subject companies accounting in accordance with IFRS for the first time to unnecessary costs or workload.

- Entities applying the full cost method are exempted from the retrospective application of IFRS to oil and gas assets; and
- Entities are exempted from reassessing the determination as to whether existing arrangements contain leases, as required by IFRIC 4, if application of the previous GAAP would have led to the same determination.

The exposure draft of these amendments also proposed an exemption for entities with operations subject to rate regulation. However these proposals were ultimately included in a separate project on rate regulated activities. As the Frauenthal Group already reports in accordance with IFRS the amendments are not relevant to it.

Improvements to IFRS made by the 2007–2009 annual improvements projects

On 16 April 2009 the IASB published amendments to ten standards and two IFRIC interpretations drawn up in the course of the 2007–2009 annual improvements project cycle, and these were adopted by the EU on 23 March 2010. Most of the amendments will be effective for annual periods beginning on or after 1 January 2010. Earlier application is possible. In order to ease the burden of adjusting accounting policies, the 2007–2009 annual improvements include summaries of the amendments contained in the Proposed Amendments to IFRS exposure drafts published in October 2007, August 2008 and January 2009. Reconsideration of two IAS 39 issues raised in the August 2008 exposure draft was postponed. The amendments are not relevant to the Frauenthal Group.

Standards and interpretations not yet applied or applicable

Application of the following new, amended or revised standards and interpretations is not mandatory until subsequent reporting periods. The Frauenthal Group has decided not to make use of any elective rights to adopt standards and interpretations early where these will not become effective until subsequent reporting periods.

	New and amended standards and interpretations already endorsed by the EU	Applicable from
New interpretation [1]		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01 Jul. 2010
Revised and amended standards [1]		
IAS 32	Financial Instruments: Presentation (Classification of Rights Issues)	01 Feb. 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)	01 Jul. 2010
IAS 24	Related Party Disclosures (revised in 2009)	01 Jan. 2011
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Prepayments of a Minimum Funding Requirement)	01 Jan. 2011
Improvements	Improvements to IFRS made by the 2008-2010 annual improvement projects	No common effective date

	New and amended standards and interpretations not yet endorsed by the EU	Expected to be applicable from
New interpretation [1]		
IFRS 9	Financial Instruments	01 Jan. 2013
Revised and amended standards and interpretations [1]		
IFRS 7	Financial Instruments Disclosures (Improving Disclosures about Financial Instruments)	01 Jul. 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards (Removal of Fixed Dates for First-time Adopters)	01 Jul. 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards (Severe Hyperinflation)	01 Jul. 2011
IAS 12	Income Taxes (deferred Tax: Recovery of Underlying Assets)	01 Jan. 2012

[1] The standards and interpretations are applicable from the annual periods beginning on or after the effective dates stated in EU Official Journal.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19, published on 26 November 2009, provides guidance on the application of IFRS where an entity extinguishes all or part of a financial liability by issuing shares or other equity instruments (debt for equity swap). The interpretation specifies that: a) the issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 IAS 39; b) such equity instruments are to be measured at fair value (or if the fair value of the equity instruments cannot be reliably measured, at the fair value of the extinguished liability); and c) the difference between the carrying amount of the financial liability extinguished and the initial carrying amount of the equity instruments issued is to be recognised in profit or loss. The interpretation is effective in annual periods beginning on or after 1 July 2010, but earlier application is permitted. The EU adopted the interpretation in July 2010. It is not relevant to the Frauenthal Group.

Amendments to IAS 32: Classification of Rights Issues

These amendments to IAS 32 were published on 8 October 2009, and adopted by the EU on 23 December 2009. They are effective for annual periods beginning on or after 1 February 2010. They relate to the accounting treatment of rights, options and warrants denominated in a foreign currency, issued to acquire a fixed number of an entity's own equity instruments. While it would have been necessary to classify such instruments as derivative liabilities under the previous rules, rights issued to existing shareholders for a fixed amount on the basis of the number of shares they already own must now be classified as equity instruments, irrespective of the currency of the exercise price. These amendments are not relevant to the Frauenthal Group.

Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

An amendment to IFRS 1, granting a limited exemption from the comparative IFRS 7 disclosures for first-time adopters introduced by an amendment to IFRS 7 (Improving Disclosures about Financial Instruments) in March 2009, was published on 28 January 2010. The amendment grants the same transitional exemptions to first-time adopters as those conferred by the amendments to IFRS 7 to entities already applying IFRS. The amendment became effective on 1 July 2010. Earlier applicable is permitted. This amendment is not relevant to the Frauenthal Group.

IAS 24 Related Party Disclosures (revised in 2009)

The IASB published a revised version of IAS 24 on 4 November 2009. The amendments relax the disclosure requirements for entities under state control or significant state influence. Whereas previously it was necessary to disclose information on all transactions with other companies controlled or significantly influenced by the same government, now only the amount of detail necessary for users of the financial statements to understand transactions is required. There is an exemption for the disclosure of transactions where the information could only be provided at prohibitive cost or would not be helpful for users. In addition, the definition of a related party has been made clearer. The revised version will be effective for annual periods beginning on or after 1 January 2011, but earlier application is permitted. The revised standard was adopted by the EU in July 2010. The amendments are not relevant to the Frauenthal Group.

Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement

The amendments to IFRIC 14 published on 15 November 2009 concern cases in which an entity is subject to minimum funding requirements and makes prepayments to fulfil them. The amendments permit recognition of the economic benefits available from such prepayments as assets. The amendments will be effective for annual periods beginning on or after 1 January 2011, but earlier application is permitted. The EU adopted the amendments in July 2010. They are not relevant to the Frauenthal Group.

The following new and amended standards and interpretations were published prior to the end of the reporting period, but will not become effective until subsequent reporting periods, as they have not yet been adopted by the EU.

The Frauenthal Group does not anticipate that application of the standards and interpretations in question will have any material effects on its assets, finances and earnings.

IFRS 9 Financial Instruments

This standard, published on 12 November 2009, represents the first phase of a project aimed at replacing IAS 39. IFRS 9 deals with the classification and measurement of financial assets. The former "loans and receivables", "held to maturity", "available for sale" and "at fair value through profit or loss" categories are to be replaced by new "fair value" and "at amortised cost" asset classes. Classification of a financial asset as "at amortised cost" is on the basis of the entity's business model and the characteristics of the financial instrument in question. Non-fulfilment of the relevant conditions leads to recognition at fair value through profit or loss. In exceptional cases some equity instruments may be measured at fair value but not through profit or loss. However any subsequent changes in fair value must then be irrevocably presented in other comprehensive income, and can no longer be recognised in profit or loss. The IASB issued a new version of IFRS 9 on 28 October, having added requirements for the classification and measurement of financial liabilities, and decided to carry forward the requirements in IAS 39 for the derecognition of financial assets and financial liabilities. IFRS 9 does not change the basic accounting model for financial liabilities under IAS 39. There are still two measurement categories: fair value through profit or loss and amortised cost. Financial liabilities held for trading are measured at fair value through profit or loss (FVTPL), and all other financial liabilities are measured at amortised cost unless the entity voluntarily designates them as FVTPL ("fair value option") at initial recognition. The amendments are likely to become effective for annual periods beginning on or after 1 January 2013. Early application was permitted from 2009 onwards, subject to endorsement by the EU, but this is still pending.

Improvements to IFRS made by the 2008–2010 annual improvements projects

On 6 May 2010 the IASB published amendments to six standards (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27 and IAS 34) and one interpretation (IFRIC 13), made as part of the 2008–2010 annual improvements project cycle. The amendments reflect issues that were addressed by the draft of proposed amendments to IFRSs published in August 2009. The publication also includes an amendment to IFRS 1 applicable to entities with operations subject to rate regulation. This was included in the Rate-regulated Activities exposure draft, published in July 2009. Unless otherwise specified, the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. Adoption by the EU is still pending.

Amendments to IFRS 7: Improving Disclosures about Financial Instruments

The IASB published these amendments on 7 October 2010. They concern improvements to disclosures regarding transfers of financial assets. The amendments are likely to become effective for annual periods beginning on or after 1 July 2011. Adoption by the EU is still pending.

Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

On 20 December 2010 the IASB published two minor amendments to IFRS 1. The first replaces references to a fixed date for first-time adopters, 1 January 2004, by "the date of transition to IFRSs". The second provides guidance on how to resume presenting IFRS financial statements for entities that have been unable to comply with IFRS for some time because their functional currencies were subject to severe hyperinflation. Both amendments will become effective on 1 July 2011. Early application is permitted. Adoption by the EU is still pending.

Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets

On 20 December 2010 the IASB published amendments to IAS 12 based on proposals in an exposure draft issued in September 2010. The amendments provide a practical solution to the problem of assessing whether recovery of the carrying value of an asset will be through use or through sale by introducing a presumption that recovery will normally be through sale. As a result of the amendments, SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate in IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. The amendments are likely to become effective for annual periods beginning on or after 1 January 2012. Adoption by the EU is still pending.

The other accounting and measurement policies, and approaches to calculation and presentation applied to the consolidated financial statements are unchanged from the previous year. Unless otherwise stated all amounts are rounded to the nearest thousand euro (EUR '000).

A glossary, including abbreviations of Group companies' names used in these notes, is appended hereto.

B. CONSOLIDATION AND ACCOUNTING POLICIES

Consolidation principles

[1] Scope of consolidation

The scope of consolidation was determined in accordance with paragraph 12 IAS 27. There have been two changes in the scope of consolidation since 31 December 2009. Linnemann-Schnetzer Formparts GmbH was formed in Ahlen, Germany in January 2010. CERAM Catalysts GmbH, a sales company, was merged with Linnemann-Schnetzer Deutschland GmbH. The consolidated statements thus comprise the results of the parent, Frauenthal Holding AG, and 26 subsidiaries which are under the common control of Frauenthal Holding AG, and in which the latter or one of its subsidiaries holds a majority of the voting rights. The number of companies included in consolidation was unchanged from the previous year.
The number of consolidated subsidiaries changed as follows in the course of 2010:

	Austria	Abroad	Total
Consolidated at 31 December 2009	8	18	26
Disposals	0	0	0
Formations	0	1	1
Mergers	0	-1	-1
Consolidated at 31 December 2010	**8**	**18**	**26**

Linnemann-Schnetzer Formparts GmbH was formed on 7 January 2010, and was registered in Ahlen, Germany on 26 February 2010. The objects of the company's business are the processing and working of metals and metallic raw materials, and the production of metallic objects (automotive components).
CERAM Catalysts GmbH and Linnemann-Schnetzer Deutschland GmbH were merged with retrospective effect from 1 January 2010, in order to exploit potential synergies.
In 2009 the changes in the scope of consolidation were as follows:

	Austria	Abroud	Total
Consolidated at 31 December 2008	9	18	27
Disposals	0	-2	-2
Formations	0	2	2
Mergers	-1	0	-1
Consolidated at 31 December 2009	**8**	**18**	**26**

In response to the collapse in demand in the Automotive Components Division, the Company disposed of its majority interests in Styria Federn GmbH, Düsseldorf and the latter's subsidiary A.D. Fabrika Opruga Styria Gibnjara Kraljevo, Serbia on 8 May 2009, for a price of EUR 1.

The year saw the formation of new subsidiaries of Linnemann-Schnetzer Deutschland GmbH, namely, Linnemann-Schnetzer Ahlen GmbH, registered in Ahlen on 30 September 2009, and Linnemann-Schnetzer Sachsen GmbH, registered in Elterlein on 15 September 2009.

Both companies are wholly owned subsidiaries of Linnemann-Schnetzer Deutschland GmbH, and engage in the processing and working of metals and metallic raw materials, and the production of metallic objects (automotive components).

In order to exploit potential synergies and generate significant cost savings, Ceram Catalysts GmbH was demerged from the Automotive Components Group and merged with Porzellanfabrik Frauenthal GmbH (Industrial Honeycombs Division) with retrospective effect from 1 January 2009.

The following companies are fully consolidated:

End of reporting period 31 Dec.	Domicile	Holding	
		Direct	Indirect
Porzellanfabrik Frauenthal GmbH	Vienna, Austria		100,00%
Ceram Enviromental, Inc.	Kansas, USA	100,00%	
Ceram Frauenthal Korea Co. Ltd.	Seoul, Korea	100,00%	
Frauenthal Ost Beteiligungs-GmbH	Vienna, Austria		100,00%
Frauenthal Handels- und Dienstleistungs-GmbH	Vienna, Austria		100,00%
SHT Haustechnik AG	Perchtoldsdorf, Austria	100,00%	
1a Installateur-Marketingberatung für Gas-, Sanitär- und Heizungsinstallateure GmbH	Vienna, Austria	100,00%	
SHT Finance GmbH	Luxembourg, Luxembourg	100,00%	
Frauenthal Liegenschaftsverwaltungsgesellschaft mbH	Ahlen, Germany		100,00%
Frauenthal Automotive Holding GmbH	Vienna, Austria		100,00%
Frauenthal Deutschland GmbH	Ahlen, Germany	100,00%	
Pol-Necks Sp.zo.o.	Torun, Poland	100,00%	
Frauenthal Automotive Components GmbH	Vienna, Austria	86,00%	
Styria Vzmeti d.o.o.	Ravne na Koroskem, Slovenia	86,00%	
Styria Ressorts Véhicules Industriels S.A.S.	Châtenois, France	86,00%	
Styria Federn GesmbH	Judenburg, Austria	86,00%	
Styria Impormol S.A.	Azambuja, Portugal	86,00%	
Styria Arcuri S.A.	Sibiu, Romania	64,67%	
Linnemann-Schnetzer Verwaltung GmbH	Elterlein, Germany	100,00%	
Linnemann-Schnetzer Deutschland GmbH	Elterlein, Germany	100,00%	
Linnemann-Schnetzer Produktionsgesellschaft mbH	Ahlen, Germany	100,00%	
Linnemann-Schnetzer Formparts GmbH	Ahlen, Germany	100,00%	
Frauenthal Einkaufs GmbH	Ahlen, Germany	100,00%	
Linnemann-Schnetzer Ahlen GmbH	Ahlen, Germany	100,00%	
Linnemann-Schnetzer Sachsen GmbH	Elterlein, Germany	100,00%	
Styria Elesfrance S.A.S	St.Avold, France	100,00%	

The following subsidiary was formed in 2010. Linnemann-Schnetzer Ahlen GmbH holds an interest of 3.42 %, and Frauenthal Automotive Holding GmbH one of 96.58 % in the company.

End of reporting period 31 Dec.	Domicile	Holding	
		Direct	Indirect
Linnemann-Schnetzer Formparts GmbH	Ahlen, Germany	100,00%	

In August 2010 CERAM Catalysts GmbH was merged with Linnemann-Schnetzer Deutschland GmbH, with retrospective effect from 1 January 2010.

End of reporting period 31 Dec.	Domicile	Holding	
		Direct	Indirect
Ceram Catalysts GmbH	Ahlen, Germany	100,00%	

As in the previous year, associates are accounted for by applying the equity method.

End of reporting period 31 Dec.	Domicile	Holding	
		Direct	Indirect
Ceram Liegenschaftsverwaltung GmbH	Vienna, Austria		50,00%

Draeger Consult GmbH, Siegburg, Germany (50 % interest) has not been included in consolidation because it was inactive during the period under review. The company's influence on the Group's assets, finances and earnings is immaterial.

[2] Effects of changes in the scope of consolidation

The formation of Linnemann-Schnetzer Ahlen GmbH and the merger of CERAM Catalysts GmbH with Linnemann-Schnetzer Deutschland GmbH left the total number of consolidated companies unchanged.

[3] Consolidation of investments in subsidiaries

Investments in subsidiaries are consolidated at fair value.
The purchase method was used to consolidate new subsidiaries. This involves allocating the cost of the acquisition to the identifiable assets and liabilities (including contingent liabilities) of the acquiree.
The excess of the acquisition cost over the fair value of the net assets is reported as goodwill.
Under IFRS 3 goodwill acquired may not be amortised, and must instead be tested for its future economic benefits at the least at the end of each reporting period. Any excess of the amount over the anticipated future benefits is recognised as an impairment loss in profit or loss.
Pursuant to IFRS 3, goodwill arising on acquisitions made before 31 December 2005 is tested for its future economic benefits at the end of each reporting period in the same way as with new acquisitions.

[4] Elimination of intragroup balances

When eliminating intragroup balances, intragroup loans, trade receivables, other receivables, prepayments and deferred assets are offset against the corresponding liabilities or provisions.

[5] Elimination of intragroup profits or losses

Where material, intragroup profits or losses are eliminated. Intragroup sales of plant and equipment to a value of EUR 1,590,000 took place in 2010 (2009: EUR 572,000). The resultant book profit of EUR 299,000 (2009: EUR 8,000) was eliminated.

[6] Elimination of intragroup income and expenses

When eliminating intragroup income and expenses, income from intragroup transactions (internal revenues) is offset against the expenses attributable to it. Here, too, the principle of materiality is applied.

[7] Currency translation

Where the annual financial statements of subsidiaries are presented in foreign currencies they are translated into euro in accordance with the functional currency principle (IAS 21 The Effects of Changes in Foreign Exchange Rates) using the modified closing rate method.

Since the subsidiaries carry on their business independently in financial, economic and organisational terms, the functional currency is their local currency. Income and expenses in statements presented in foreign currencies are translated at the average rate for the year, and assets and liabilities at the mean rate ruling at the end of the reporting period.

Exchange differences arising on translation of equity are offset against the other reserves. Exchange differences resulting from the application of differing exchange rates in the income statement are likewise reported under the "Other reserves and currency translation balancing item", and are not recognised in profit or loss.

In the separate financial statements of Frauenthal Holding AG and its subsidiaries, foreign currency receivables and payables are measured at the exchange rate prevailing at the date of the transaction. Exchange gains and losses arising at the end of the reporting period are recognised in profit or loss.

Movements in the euro exchange rates of the main currencies on which translation was based were as follows:

EUR 1	Closing rate		Average rate	
	31 Dec. 2010	31 Dec. 2009	2010	2009
Poland (PLN)	**3.9750**	4.1045	**4.0049**	3.5278
Republic of Korea (KRW)	**1,499.0600**	1,666.9700	**1,529.728**	1,770.0442
Romania (RON)	**4.2620**	4.2363	**4.2169**	4.2391
USA (USD)	**1.3362**	1.4406	**1.3207**	1.3943

Accounting and measurement policies

The annual financial statements of all consolidated companies are presented using uniform accounting policies as required by IAS 27. Immaterial variations in the separate financial statements of foreign subsidiaries and associates are disregarded. All the consolidated Group companies submitted audited financial statements drawn up to 31 December 2010.

[8] General

Assets are normally recognised at cost less depreciation or amortisation, and receivables and liabilities at amortised cost. An impairment loss is recognised whenever there are indications of impairment.
The carrying amounts of intangible assets, and property, plant and equipment are compared with the recoverable amount, and an impairment loss recognised where necessary.

[9] Revenue recognition

Revenue from the sale of products is recorded when title and the risk of ownership is transferred to the customer, provided that a price has been agreed or can be determined, and its payment is probable. Revenue is stated net of discounts and customer bonuses. Revenue accruing to Porzellanfabrik Frauenthal GmbH, Vienna from long-term construction contracts is realised in accordance with the percentage of completion (PoC) method, in conformity with IAS 11. Interest is calculated using the effective interest method, in accordance with IAS 39.

[10] Non-current assets

Acquired and internally generated **intangible assets** are recognised in accordance with IAS 38 if it is probable that use of the assets will be associated with future economic benefits and their cost can be reliably determined.

They are recognised at cost, and are amortised over between three and ten years if their useful lives are determinable.

	in years
Intangible assets with finite useful lives	3 to 10

Intangible assets with indefinite useful lives and goodwill recognised on consolidation are not amortised. Pursuant to paragraph 108 of IAS 38, the carrying values are tested for impairment at least annually, and impairment is recognised wherever there is an indication that the economic benefits expected to arise from the assets have declined. Most of the non-amortised intangible assets are goodwill and acquired trademarks whose useful lives cannot be determined at present.

Development costs incurred by Porzellanfabrik Frauenthal GmbH (diesel catalysts for trucks) are recognised as internally generated intangible assets in accordance with IAS 38. Recognition is at production cost provided that there are clearly allocatable costs, that completion of the assets is technically feasible and that there is a market for them. There must also be a sufficient probability that the development activities will generate future cash inflows. All the development projects in progress are being carried out with the intention of completing them. The capitalised production costs comprise the costs directly and indirectly attributable to the development process. Capitalised development costs are amortised over the anticipated product life cycle from the commencement of production. Sufficient technical and financial resources are available to complete the development projects.

All property, plant and equipment is used for operational purposes, and is measured at cost less depreciation over the useful lives of the assets. Depreciation is according to the straight-line method. Low value non-current assets with costs per item of up to EUR 400 that are immediately written off in the local accounts for tax reasons are likewise written off in the consolidated accounts in the year of addition and reported as disposals on grounds of immateriality.

Uniform rates of depreciation throughout the Group are based on the following useful lives:

	in years
Buildings	10 to 50
Plant and equipment	5 to 20
Other plant and equipment, fixtures and fittings	3 to 10

Reductions in value are recognised as impairment losses. If the reason for impairment ceases to apply it is reversed up to the cost of the asset, net of depreciation.

The cost of self-constructed assets includes all costs directly attributable to the production process and reasonable production overheads. Since 2009 borrowing costs have only been capitalised if they are attributable to qualifying non-current assets. **Borrowing costs** are recognised as part of the purchase or conversion costs.

Leased assets are reported as non-current assets. In accordance with IAS 17, property, plant and equipment acquired under finance leases is recognised at fair value at the time of addition or, if lower, the present value of the lease payments.

Where it is not reasonably certain that ownership will pass to the Group, depreciation is on a straight-line basis over the shorter of the lease term or the useful life. The commitments arising from future lease instalments are stated under "Other liabilities". Finance leases are leases under which substantially all the risks and rewards incidental to ownership are transferred to the Group.

Investment grants are not recognised as liabilities under Group accounting regulations (netting). A grant is deducted when determining the carrying amount of the asset concerned, and is recognised over the life of the depreciable asset by way of a reduced depreciation charge. For further details readers are referred to Note 16.

Associates are accounted for using the equity method.

The non-current financial assets are classified as available-for-sale financial assets as defined by IAS 39, and measured at fair value. Measurement is based on the current exchange rates associated with the investment fund units in question.

[11] Current assets

Inventories of raw material and consumables used are measured at the lower of cost or net realisable value at the end of the reporting period. Inventory use and levels are measured according to the moving average, or in isolated cases, the first-in, first-out (FIFO) method.

Work in progress and finished goods are measured at the lower of costs of conversion or net realisable value at the end of the reporting period. The costs of conversion comprise the directly attributable costs (materials and wages), and proportionate material and production overheads. General administrative expenses, voluntary employee benefit and occupational pension expenses, and interest on borrowings are not included in the measurement of conversion costs.

As in 2009, all borrowing costs were expensed.

Inventory risks other than those arising from the length of storage or reduced realisable value are recognised by impairment.

Long-term construction projects in the Industrial Honeycombs Division are measured in accordance with the PoC method, in conformity with IAS 11. Contract revenue and stage of completion are determined on the basis of fixed price contracts. The percentage of completion is measured by the ratio of the contract costs incurred up to the end of the reporting period to the total contract costs estimated at the end of the reporting period. Expenses arising from operating leases are expensed as incurred.

Other current assets are carried at the lower of the nominal amount or purchase cost, net of any impairment losses. In the event of impairment they are stated at the lower comparative amount. At the end of the reporting period there were USD 1,000,000 (2009: USD 2,000,000) in outstanding dollar denominated options and USD 1,000,000 (2009: USD 1,000,000) in dollar denominated currency futures contracts, for which a total liability of EUR 50,000 was recognised. Additional information on the derivative financial instruments employed is given in Note 43 Financial Instruments.

[12] Deferred tax

Pursuant to IAS 12 deferred tax is recognised for all temporary differences between the carrying values of assets and liabilities, and their value for tax purposes. A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit (before tax) nor taxable profit (tax loss).

In addition, future relief due to tax loss carryforwards is accounted for by recognition of a deferred tax asset in accordance with paragraph 34 IAS 12 if it is probable that future taxable profit will be available against which the carryforwards can be utilised. To the extent that it is no longer probable that this will be the case the carrying amount of the deferred tax asset is reduced. Deferred tax assets and liabilities are offset where the conditions of paragraph 74 IAS 12 are met.

[13] Provisions, liabilities and hedges

The provisions for employee benefits required by IAS 19 relate to pension, termination benefit and jubilee benefit obligations.

The pension provisions were calculated using the projected unit credit method. Under this, the benefit obligation is the actuarial present value of the entitlements at the end of the reporting period, adjusted for future salary and pension increases. Country mortality and invalidity tables were used for the actuarial calculation. The imputed retirement ages were likewise based on the relevant legislative provisions in the countries concerned. An annual discount rate of 4.5 % (2009: 5.1 %), and average annual salary and pension increases of 2.0 % (2009: 2.0 %) were applied. All actuarial gains and losses are recognised in profit or loss for the financial year in which they arise.

The **provisions for termination** and **jubilee benefits** were calculated using the projected unit credit method, under which the expected benefit obligation is attributed to the periods of service of the employee up to the attainment of maximum entitlement. Future annual salary increases of 3.0 % (2009: 3.0 %) were assumed. As with the calculation of the pension provision, the discount rate applied was 4.5 % (2009: 5.1 %). At the end of the reporting period the provisions were sufficient to fund the entire defined benefit obligation. All actuarial gains and losses are recognised in profit or loss in the financial year in which they arise. The other provisions are recognised for all identifiable risks and contingent liabilities where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount can be made.

Provisions are only recognised if there is a present obligation arising from a past event, an outflow of resources is probable and a reliable estimate of the amount can be made. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are recognised at the present value of the expenditure expected to be required to settle the obligation. Liabilities are shown at amortised cost.

If a hedge of a planned transaction subsequently results in the recognition of a financial asset or liability, then IAS 39 requires that the associated gains or losses that were recognised directly in equity up to this point be reclassified into profit or loss in the period or periods during which the asset acquired or liability assumed affects profit or loss. If the transaction subsequently results in the recognition of a non-financial asset or liability, then the amounts recognised directly in equity are offset against the initial valuation of the asset or liability, meaning that to all intents and purposes there is no effect on profit or loss.

[14] Currency translation

Foreign currency receivables and payables are measured at the exchange rate ruling at the date of the transaction concerned.

[15] Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that may affect amounts recognised for assets and liabilities, contingent liabilities at the end of the reporting period, and income and expense during the reporting period. Actual outcomes may differ from these estimates.

The Executive Board has made estimates in applying the Company's accounting policies. The Executive Board has also made key assumptions concerning the future, and identified key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, namely:

- Employee benefit plans: The valuation of pension plans, and termination and jubilee benefit obligations is based on a method that uses parameters such as the expected discount rate, salary and pension increases, and staff turnover. If the relevant parameters diverge significantly from expectations this may have a material impact on the provisions in question, and thus in turn on the Company's net pension expense. A discount rate of 4.5 % was applied to the calculation of the pension provisions. The corridor for future salary and pension increases is between zero and 2 %. A discount rate of 4.5 % was applied to the calculation of the termination benefit provisions. Staff turnover rates were estimated for all Group companies. The future increases in salaries and pensions were assumed to average 3 %; here, too, staff turnover at all Group companies was assumed. See Note 20 Long-term provisions for additional information on employee benefit plans.

- Deferred tax: When making judgments about the recoverability of deferred tax, the Executive Board assesses the likelihood that it will be possible to recover all deferred tax assets.

- The ultimate recoverability of deferred tax assets depends on whether taxable profit is made in periods during which the temporary differences are deductible. If the Company does not generate sufficient taxable profit, then deferred tax assets cannot be utilised as tax loss carryforwards.

- Impairment testing of goodwill, other intangible assets, and property, plant and equipment is normally based on the projected discounted net cash inflows from continuing use of the assets and their disposal at the end of their useful lives. Factors such as lower revenue and resultant lower net cash inflows or changes in the discount rates applied may lead to impairments. Valuations of cash-generating units are based on estimated cash inflows, which are discounted at a rate of 7.08 % (2009: 8 %) for the cost of capital (WACC) after tax. The value of goodwill is yielded by the approved budget figures for 2011, and conservative estimates for subsequent years, partly based on authoritative market studies, and the projected cash flows over a period of five years, derived from those estimates. The current carrying amounts were compared to the valuations so calculated (the recoverable amount is the higher of the value in use or net fair value [fair value less costs to sell]), and impairment recognised where necessary. The impairments recognised for the period under review reflect the restructuring actions described in the previous year's annual report — which led to the closure of some cash generating units in 2010 and will result in further shutdowns in 2011 — as well as conservative assumptions as to future market developments which make it questionable whether the use of some assets will continue to generate cash inflows.

- The budget figures used to calculate net present value are based on the assumption of a moderate recovery in the commercial vehicle market over the first two to three years of the projections. No goodwill impairment losses were recognised in 2010. Details of goodwill impairment in 2009 are given in Note 16 Non-current assets.

- In 2010 the carrying amounts of non-current assets (machinery at Automotive Components Division facilities) were increased by EUR 1,500,000 (2009: nil) in the course of impairment tests, as a result of the improvement in market conditions. Some of this machinery was written down in 2009 due to planned restructuring. Due to the decision to restructure the division's production facilities, impairments were recognised in respect of machinery unlikely to be usable to generate revenue. The write-ups during the reporting period are recognised in the income statement, under the "Other operating income" item. The impairments of machinery recognised in 2009 were shown in the non-current asset movement schedule.

Other assumptions and estimates largely relate to:

- Construction contracts: Contract receivables and related revenue are recognised in accordance with the PoC method. The construction contracts entered into by the Company are specifically negotiated fixed price contracts.

  The percentage of completion is determined using the cost-to-cost method. Reliable estimates of the total cost of the contracts, the selling prices and the actual costs incurred are available on a monthly basis. The estimated contract profits are recognised in proportion to the revenue realised. Under the cost-to-cost method revenue and contract profits are recognised according to the ratio of the actual production costs incurred to the estimated overall costs. Changes in the estimates of total contract costs, and any resultant losses are recognised immediately in as expenses. Expected losses arising on the measurement of contracts not yet billed are immediately recognised as expenses.

- Expected losses are recognised as expenses if it is probable that total contract costs will exceed total contract revenue. Provisions are made for possible warranty claims by customers in accordance with the percentage of completion. The PoC receivables in the Group are disclosed in Note 18 Current assets, and the PoC revenue in Note 27 Revenue.

- Determination of the useful lives of property, plant and equipment: Property, plant and equipment is measured at cost less straight-line depreciation and impairment. The depreciation periods are based on the expected useful lives of the assets. Property, plant and equipment is depreciated in the year of addition, on a pro rata basis. The residual values, useful lives and depreciation methods applied to assets are reviewed at the end of each reporting period, as a minimum. If expectations are at variance with the previous estimates the changes required are accounted for as changes in estimates, in accordance with IAS 8. The cost of self-constructed assets includes the costs directly attributable to the production process, and proportionate material and production overheads, as well as administrative overheads related to production or the provision of services. The cost of an asset includes the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimated cost of dismantling and removing the item, and restoring the site on which it is located. If an item of property, plant and equipment is composed of different parts with varying useful lives, then the significant parts are depreciated according to their individual useful lives. Maintenance and repair costs are expensed as incurred. Borrowing costs are not capitalised. See Note 10 Non-current assets for the disclosures regarding useful lives.

- Accounting for provisions: "Other" provisions are recognised when there are legal or constructive obligations as a result of past transactions or events, and these are likely to lead to outflows of resources that can be reliably estimated. Such provisions are made in the amounts likely to be required to settle the obligations, taking all identifiable risks into account, and are not netted against reimbursements. The amounts required to settle obligations are calculated according to the best estimates. Provisions are discounted where the effect of the time value of money is material. Changes in estimates of the amount or timing of payments or changes in the discount rate applied to the measurement of provisions for dismantling, removal or restoration and similar obligations are recognised in accordance with the changes in the carrying value of the corresponding assets.

In the event that a reversal of a provision exceeds the carrying value of the corresponding asset the difference is recognised as income. Provisions are recognised for the cost of external legal advice in connection with impending losses arising from outstanding transactions.

C.NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[16] Non-current assets

Movements in the various consolidated non-current asset items, and the details of depreciation and amortisation for the year are shown in the non-current asset movement schedule. The effects on non-current assets of changes in the scope of consolidation, and of differences between the translation of foreign subsidiaries' assets at the exchange rates ruling at the beginning and end of the year, are shown separately.

Intangible assets

The capitalised development costs relate entirely to the diesel catalyst manufacturing operation in the Industrial Honeycombs Division.

Development costs EUR '000	31 Dec. 2009	Additions	Disposals	Amortisation	31 Dec. 2010
Frauenthal Group	780	0	0	-229	551

In 2010 there was no income from the capitalisation of development costs (2009: nil). This item is taken to the "Work performed by the entity and capitalised" income statement item. Amortisation of development costs, amounting to EUR 229,000 (2009: EUR 392,000) is stated as "Depreciation, amortisation and impairment".
The comparative figures for 2009 were as follows:

Development costs EUR '000	31 Dec. 2008	Additions	Disposals	Amortisation	31 Dec. 2009
Frauenthal Group	1,217	0	-45	-392	780

Research and development costs totalling EUR 2,241,000 (2009: EUR 1,278,000) were recognised as expenses. They largely arose in the Industrial Honeycombs Division, which spent EUR 1,591,000 (2009: EUR 1,278,000) and the Automotive Components Division, which was responsible for EUR 650,000 (2009: nil) of the expenditure.

EUR '000	2010	2009
Research and development costs	2,241	1,278

The value of goodwill is yielded by the approved budget figures for 2011, and conservative estimates for subsequent years, partly based on authoritative market studies, and the projected cash flows derived from these estimates over a period of five years. The current carrying amounts were compared to the valuations so calculated (the recoverable amount being the higher of value in use or net realisable value).

Goodwill is tested for impairment at least once a year. No impairment was recognised in 2010. The breakdown of goodwill at 31 December 2010 was as follows:

Goodwill in EUR ,000	31 Dec. 2009	Additions	Disposals	Amortisation	31 Dec. 2010
Styria Group	11,547	0	0	0	11,547
Linnemann-Schnetzer Group	0	0	0	0	0
Pol-Necks Sp.zo.o.	2,000	0	0	0	2,000
SHT Haustechnik Group	8,307	0	0	0	8,307
Frauenthal Group	21,854	0	0	0	21,854

In 2009 goodwill impairment of EUR 59,000 and of EUR 242,000 was recognised in the Styria Group and the Linnemann-Schnetzer Group, respectively, due to declining orders in the Automotive Components Division. The impairment is entirely attributable to the Automotive Components Division.

Goodwill in EUR ,000	31 Dec. 2008	Additions	Disposals	Amortisation	31 Dec. 2009
Styria Group	11,606	0	0	-59	11,547
Linnemann-Schnetzer Group	242	0	0	-242	0
Pol-Necks Sp.zo.o.	2,000	0	0	0	2,000
SHT Haustechnik Group	8,307	0	0	0	8,307
Frauenthal Group	22,154	0	0	-301	21,854

The impairments recognised in 2009 reflected the restructuring actions which led to the closure of some cash generating units, as well as conservative assumptions as to future market developments which made it questionable whether the use of some non-current assets would continue to generate cash inflows. Each cash-generating unit relates to one product line. Goodwill impairment was disclosed under the "Depreciation, amortisation and impairment" income statement item. The earnings forecasts were reassessed in the light of the changed market situation encountered by the Automotive Components Division.

The brands and rights to supply customers, licences and software capitalised by the various sub-groups are another important intangible asset category. The breakdown of these assets is as follows:

Brands and rights to supply customers, licences and software	31 Dec. 2009	Additions	Disposals	Reclassi-fications	Amortisation	31 Dec. 2010
Frauenthal Group	17,974	458	0	4	-1,691	16,745

Impairments of EUR 77,000 (2009: EUR 103,000) were recognised in respect of brands and rights to supply customers with indefinite useful lives, which make up part of the statement of financial position item shown in the table. These brand rights relate to internally generated brands that form part of the product range, and which the Group does not currently intend to change or retire. The rights to supply customers are of unlimited duration and can only be ended by termination of contract. Impairment is recognised as soon as any of these rights are terminated. The impairment losses are reported under the "Depreciation, amortisation and impairment" item in the income statement. They relate entirely to the Wholesale Plumbing Supplies Division. The carrying value of these brands and rights at the end of the reporting period was EUR 14,201,000 (31 Dec. 2009: 14,278,000).

In 2009 the breakdown of "Brands and rights to supply customers, licences and software" was as follows:

Brands and rights to supply customers, licences and software	31 Dec. 2008	Additions	Disposals	Reclassi-fications	Amortisation	31 Dec. 2009
Frauenthal Group	18,667	886	-46	269	-1,802	17,974

The brands and rights to supply customers were measured according to their value in use. The carrying value was originally calculated using the discounted cash flow (DCF) method. The main influence on the cash flow forecast used to value the brand and customer supply rights is the revenue generated by the product or customer segment projected by the annual budget. The discount rate is 8.67 % (2009: 8.67 %), and the forecasting period is usually five years (2009: five years). Due to the long contractual terms, an exception is made in the case of the rights to supply customers, and a period of 20 years (2009: 20 years) is applied. The parameters applied are based on experience and are reviewed on an annual basis.

Property, plant and equipment
Land in the "Land and buildings" item amounts to EUR 5,269,000 (31 Dec. 2009: EUR 5,246,000). Additions to property, plant and equipment in 2010 totalled EUR 8,856,000 (2009: EUR 15,191,000). Of this amount the Wholesale Plumbing Supplies Division accounted for EUR 3,500,000 (2009: EUR 4,907,000), the Automotive Components Division EUR 2,540,000 (2009: 4,996,000) and the Industrial Honeycombs Division EUR 2,569,000 (2009: EUR 5,196,000).

Where substantially all of the risks and rewards incidental to ownership lie with the Frauenthal Group it states leased assets at the lower of fair value or the present value of the future lease payments. The assets held under finance leases carried in the statement of financial position relate largely to land and buildings used by Porzellanfabrik Frauenthal GmbH under a long-term lease, and to a lesser degree to plant at the Styria Federn Judenburg site. The Group has entered into no other material finance lease contracts.

The Porzellanfabrik Frauenthal GmbH factory is on land owned by the lessor, Ceram Liegenschaftsverwaltungs GmbH (CLV). The terms of the agreements are such that Porzellanfabrik Frauenthal GmbH is the beneficial owner of the parts of the building used by it. Because of this the discounted lease payments for the building are capitalised. The carrying value of the building was EUR 541,000 at the end of the reporting period (2009: EUR 594,000).

Porzellanfabrik Frauenthal GmbH can use the land and buildings leased to it by Ceram Liegenschaftsverwaltungs GmbH for an indefinite period.

The plant at the Styria Federn Judenburg factory is a computer-controlled parabolic spring rolling machine, which is stated as a non-current asset with a carrying value of EUR 41,000 (31 Dec. 2009: EUR 83,000). The machine was purchased by Styria Federn Judenburg at year end 2009 for a residual value of EUR 11,000.

Low-value assets with individual purchase costs of up to EUR 400.00 per item are fully written off in the year of addition and reported as disposals, due to immateriality. They are disclosed under the relevant items as intangible assets or property, plant and equipment.

In 2009 the Styrian business promotion agency SFG gave a commitment to pay an investment grant in connection with the expansion of power station catalyst output at the Frauental site. There were no new investment projects at this location that received government grants in 2010.

A large truck manufacturer made a EUR 300,000 (2009: EUR 570,000) contribution to the cost of installing a special production line at the Châtenois plant in France. Investment grants are normally accounted for by netting.

The Styria Federn GesmbH plant in Judenburg received investment grants totalling EUR 215,000 (2009: EUR 174,000). Property, plant and equipment to a value of EUR 66,000 was acquired, and the remaining EUR 149,000 was reported as a liability in the statement of financial position. During the reporting period the Styria Impormol S.A. factory in Portugal received no investment grants (2009: EUR 1,659,000).

As at the end of the reporting period, property, plant and equipment to a value of EUR 2,923,000 (2009: EUR 5,078,000) was pledged as collateral for bank borrowings by Pol-Necks Sp.zo.o.

Financial assets

The 50 % interest in Ceram Liegenschaftsverwaltungs GmbH, Vienna, which is accounted for by the equity method, was amortised at EUR 28,000 (2009: EUR 8,000). The carrying value of the investment was EUR 726,000 at the end of the reporting period (31 Dec. 2009: EUR 698,000). Ceram Liegenschaftsverwaltungs GmbH, Vienna has no contingent liabilities. The company's aggregated key financial indicators are as follows:

EUR '000	2010	2009
Non-current assets	2,452	2,500
Current assets	786	586
Borrowings	734	619
Revenue	4,842	4,879
Profit / loss	73	17
Profit after tax	67	13

The non-current financial assets reported in the statement of financial position relate to investment fund units owned by SHT Haustechnik AG. In 2010 the company purchased securities to a value of EUR 14,000 (2009: EUR 51,000) to fund pension benefit obligations. The assets in question are units in a bond fund which mainly invests in euro-denominated government bonds. They are available for sale, and are carried at fair value, which corresponds to the acquisition cost at the time of valuation, as they were purchased shortly before the end of the reporting period. A EUR 28,000 write-down (2009: write-up of EUR 65,000) of the financial assets held by SHT Haustechnik AG was recognised by a deduction from the fair value reserve. Financial assets to a value of EUR 264,000 (2009: none) were disposed of at the carrying amounts and hence had no effect on the income statement. The revaluation reserve recognised in coming periods will be reversed if the financial assets held by SHT Haustechnik AG are disposed of, and the realised gains or losses recognised in profit or loss. As at the end of the reporting period no liabilities were collateralised by financial assets.

Frauenthal classifies all financial assets that do not form part of another category as available for sale. Only the aforementioned securities held by SHT Haustechnik AG fall within this category.

[17] Deferred tax

Deferred tax assets in an amount of EUR 20,771,000 (31 Dec. 2009: EUR 18,891,000) and deferred tax liabilities totalling EUR 2,463,000 (31 Dec. 2009: EUR 816,000) are carried in the consolidated statement of financial position.

In calculating deferred tax, a tax rate of 25 % is applied to the Austrian companies. The composition of deferred tax is as follows:

EUR '000	2010	2009
Analysis of deferred tax		
Changes in statement of financial position items	**-2,704**	**-2,134**
Development costs	-115	-240
Other non-current assets	-3,398	-2,733
Other current assets	-983	-974
Provisions for termination benefits	2,009	1,959
Provisions for pensions	99	351
Provisions for jubilee benefits	135	282
Other provisions	-465	-770
Other liabilities	14	-9
Capitalised tax loss carryforwards	**20,131**	**19,486**
Linnemann-Schnetzer Deutschland GmbH, Elterlein site	8,500	8,500
Frauenthal Holding AG	5,602	3,449
SHT Haustechnik AG	539	2,139
Frauenthal Handels- und Dienstleistungs GmbH	3,853	3,304
Styria Arcuri S.A., Sibiu	440	406
Styria Impormol	175	254
Styria Ressorts	1,022	1,434
Capitalised deferred tax loss carryforwards arising from impairments of investments	**881**	**723**
Styria Federn GesmbH, Judenburg	360	480
Frauenthal Holding AG	521	244
Deferred tax at 31 Dec.	**18,308**	**18,075**
Whereof deferred tax assets	20,771	18,891
deferred tax liabilities	-2,463	-816

There are three tax groups in the Frauenthal Group. The two Austrian groups use the stand-alone method of determining tax contributions, while the German group has a profit pooling agreement.

At the end of the reporting period EUR 23,741,000 (31 Dec. 2009: EUR 24,329,000) in tax loss carryforwards were available to Frauenthal Holding AG. However, deferred tax assets were only recognised for tax loss carryforwards that can be utilised within a period of five years. In 2010 a total of EUR 5,602,000 (2009: EUR 3,449,000) in deferred tax assets were recognised in respect of EUR 22,409,000 (2009: EUR 13,794,000) in tax loss carryforwards. The local tax rates are applied to Styria Arcuri S.A., Sibiu, Styria Impormol S.A., Azambuja, Styria Ressorts Véhicules Industriels S.A.S., Châtenois les Forges and Linnemann-Schnetzer Deutschland GmbH, Elterlein.

Deferred tax assets were recognised for the tax loss carryforwards of Linnemann-Schnetzer Deutschland GmbH to the extent to which it is probable that the temporary differences will reverse within five years and that taxable profit will be available against which they can be utilised. Of a total of EUR 69,088,000 (31 Dec. 2009: EUR 72,067,000) in tax loss carryforwards available to Linnemann-Schnetzer Deutschland GmbH, use was made of EUR 28,833,000 (31 Dec. 2009: EUR 28,833,000) to recognise EUR 8,500,000 (31 Dec. 2009: EUR 8,500,000) in deferred tax assets. A tax inspection at Linnemann-Schnetzer Deutschland GmbH, initiated in 2009, was still in progress at the time of preparation of the consolidated financial statements.

At the end of the reporting period the Wholesale Plumbing Supplies Division had EUR 2,157,000 (31 Dec. 2009: EUR 8,556,000) in tax loss carryforwards, for which deferred tax assets of EUR 539,000 (31 Dec. 2009: EUR 2,139,000) were recognised. Deferred tax assets arising from tax loss carryforwards available to Frauenthal Handels- und Dienstleistungs GmbH increased from EUR 3,304,000 at 31 Dec. 2009 to EUR 3,853,000 at the end of the reporting period.

Deferred tax assets recognised for tax loss carryforwards in respect of Styria Arcuri S.A. rose from EUR 406,000 to EUR 440,000.

As at the end of the reporting period tax loss carryforwards of EUR 661,000 (31 Dec. 2009: EUR 960,000) were available to Styria Impormol S.A. and carryforwards of EUR 3,066,000 (31 Dec. 2009: EUR 4,302,000) were available to Styria Ressorts Véhicules Industriels S.A.S. Deferred tax assets of EUR 175,000 (31 Dec. 2009: EUR 254,000) and EUR 1,022,000 (31 Dec. 2009: EUR 1,434,000) were recognised for Styria Impormol S.A. and Styria Ressorts Véhicules Industriels S.A.S., respectively. The tax loss carryforwards available to the Austrian, French and German companies can be utilised for an indefinite period. In Portugal there is a time limit of six years.

Holdings in subsidiaries have given rise to deferred tax loss carryforwards due to impairments to investments, which can be spread over seven years under Austrian tax law. At 31 December 2010 the carrying values were as follows:

Frauenthal Holding AG	**EUR 2,048,000**	(31 Dec. 2009:	EUR	974,000)
Styria Federn GesmbH, Judenburg	**EUR 1,439,000**	(31 Dec. 2009:	EUR	1,919,000)

Deferred tax loss carryforwards amounting to EUR 881,000 (31 Dec. 2009: EUR 723,000) arising from impairments to investments were recognised at the end of the reporting period.

Deferred tax assets and liabilities are offset due to fulfilment of the conditions set by paragraph 74 IAS 12. A detailed presentation of the evolution of deferred tax and tax income is set out in Note 34.

Deferred tax

Frauenthal Deutschland GmbH	**EUR**	**888,000**	(31 Dec. 2009:	EUR	948, 000)
Styria Elesfrance S.A.S	**EUR**	**1,506,000**	(31 Dec. 2009:	EUR	1, 215, 000)
Frauenthal Holding AG		-	(31 Dec. 2009:	EUR	2, 242, 000)
Linnemann-Schnetzer Ahlen GmbH	**EUR**	**326,000**	(31 Dec. 2009:	EUR	211,000)
Linnemann-Schnetzer Formparts GmbH	**EUR**	**552,000**	(31 Dec. 2009:	EUR	-)
Linnemann-Schnetzer Deutschland GmbH	**EUR**	**10,189,000**	(31 Dec. 2009:	EUR	12, 970, 000)
Styria Vzmeti d.o.o.	**EUR**	**1,459,000**	(31 Dec. 2009:	EUR	1, 221, 000)

[18] Current assets

Inventories

Raw material and consumables used, work in progress, finished goods and merchandise, and prepayments are reported as inventories. Measurement is at the lower of cost of purchase or conversion, and write-downs are made for obsolete inventories or valuations in excess of net realisable value. The inventories reported are made up as follows:

EUR '000	2010	2009
Raw materials and consumables used	17,861	12,733
Work in progress	8,110	5,092
Finished goods and merchandise	46,016	43,671
Prepayments	64	367
Inventories	72,052	61,863

Inventories rose by EUR 10,189,000 owing to increased output volume across all divisions. The Automotive Components Division accounted for almost half of the additions, at EUR 4,537,000. There were inventory builds of EUR 2,909,000 and EUR 2,743,000 in the Wholesale Plumbing Supplies and Industrial Honeycombs divisions, respectively.

The following table shows the inventory write-downs:

EUR '000	2010	2009
Provisions for inventory write-downs at 1 January	4,658	5,392
Change in scope of consolidation	0	-1,071
Exchange differences	-10	15
Allocations (expenses for impairment provisions)	561	1,914
Utilisation	-599	-824
Reversals	-407	-768
Provisions for inventory write-downs at 31 December	4,203	4,658
Carrying value of written-down inventories at 31 December 2010	40,172	35,449

Of the total inventory write-downs at the end of the reporting period some EUR 1,525,000 (2009: EUR 1,801,000) relate to raw materials and consumables used, EUR 29,000 (2009: EUR 38,000) to work in progress, and EUR 2,650,000 (2009: EUR 2,819,000) to finished goods and merchandise.

The allocations include EUR 332,000 (2009: EUR 985,000) in inventory write-downs and EUR 428,000 (2009: EUR 824,000) in utilisation of provisions for impairments in the Automotive Components Division. The Industrial Honeycombs Division was responsible for EUR 175,000 (2009: EUR 172,000) of the allocations and EUR 171,000 (2009: EUR 105,000) of the utilisation of provisions. The Wholesale Plumbing Supplies Division accounted for EUR 54,000 (2009: nil) of the allocations. Some EUR 407,000 (2009: EUR 380,000) of the reversals of provisions related to the Automotive Components Division.

The carrying value of impaired inventories was EUR 40,172,000 as at 31 December 2010 (2009: EUR 35,449,000). Of this, EUR 35,938,000 (2009: EUR 29,196,000) related to finished goods in the Wholesale Plumbing Supplies Division, and EUR 4,234,000 (2009: EUR 4,380,000) to inventories in the Automotive Components Division.

Receivables and other assets

All the receivables are short term and have maturities of less than one year. The breakdown of receivables is as follows:

EUR '000	2010	2009
Trade receivables (net)	67,511	45,364
Other assets	11,834	8,985
Receivables	79,345	54,349

Total net trade receivables rose by EUR 22,147,000. Trade receivables jumped by EUR 12,460,000 in the Automotive Components Division, and by EUR 9,857,000 in the Industrial Honeycombs Division. There was a small decrease in the Wholesale Plumbing Supplies Division.

Trade receivables include EUR 7,985,000 (2009: EUR 3,118,000) in contract receivables in the Industrial Honeycombs Division.

The use of an asset-backed securities (ABS) facility in connection with sales to a major truck manufacturer added EUR 13,880,000 (2009: EUR 8,003,000) to receivables. The receivables were sold to Nordea Bank.

The rest of the "Sundry other assets" largely relate to receivables from Austrian tax authorities, prepayments and deferred assets. "Sundry other assets" were as follows:

EUR '000	2010	2009
Tax receivables	5,097	3,495
Prepayments and accrued income	703	932
Sundry other assets	6,035	4,558
Sundry other assets	11,834	8,985

The EUR 6,035,000 in "Sundry other assets" are largely attributable to the Wholesale Plumbing Supplies Division, and relate to creditors' debit balances, deposits and retentions, prepayments, insurance, support payments to suppliers, and receivables from employees.
PoC receivables in the Industrial Honeycombs Division were as follows:

EUR '000	2010	2009
Contract costs	9,674	10,412
Profits	1,766	1,709
Prepayments	-3,455	-9,003
PoC receivables	7,985	3,118

The maturities of the trade receivables were as follows:

EUR '000	Trade receivables (gross)	Trade receivables (net)	thereof neither impaired nor overdue at end of reporting period	thereof not impaired at balance sheet date and overdue in			
				less than 60 days	between 61 and 180 days	between 181 and 360 days	more than 360 days
at 31 Dec. 2010	69,094	67,511	44,181	3,537	892	819	0
at 31 Dec. 2009	47,209	45,364	40,840	2,659	1,030	910	1

Where trade receivables were neither impaired nor in arrears, as at the end of the reporting period there were no indications that the debtors would default.

Long-term receivables are appropriately discounted. Provisions for impairments of trade receivables evolved as follows:

EUR '000	2010	2009
Provisions for impairment losses at 1 January	**1,845**	**3,409**
Change in scope of consolidation	0	-128
Exchange differences	1	-6
Allocations (expenses for impairment provisions)	276	463
Utilisation	-385	-1,431
Reversals	-155	-462
Provisions for impairment losses at 31 December	**1,582**	**1,845**
Carrying value of impaired receivables at 31 December 2010	**2,045**	**2,737**

The "Allocations" item, amounting to EUR 276,000, shows the net change in impaired receivables. The Wholesale Plumbing Supplies Division accounted for EUR 209,000 of this amount, and the Automotive Components and Industrial Honeycombs divisions were each responsible for about half of the remaining EUR 67,000. As the impairment losses are relatively minor, an analysis by individual customers is dispensed with. Receivables that have been written down and are already overdue are shown in the above table. Of the utilised provisions, EUR 208,000 are attributable to the Industrial Honeycombs Division and EUR 148,000 to the Wholesale Plumbing Supplies Division, while only a small proportion relate to the Automotive Components Division. The EUR 155,000 in reversals includes receivables already completely written off where the impairments were reversed because payments were received.

Impairments are carried in a separate account and are not directly deducted from receivables.

The specific provisions for impairment losses relate to receivables where it is unlikely that all the contractually agreed interest and principal will be recoverable on maturity. Specific provisions for impairment losses are calculated on the basis of the difference between the amount outstanding, including pro rata accumulated interest, costs and other subsidiary claims, and the present value of estimated future cash flows, taking the securities provided into account. Receivables that have not been individually assessed for impairment but are collectively subject to an incurred but as yet unidentified loss are subjected to collective assessment. Such assessments are carried out in the light of experience.

At the end of each reporting period the carrying values of financial assets that are not recognised at fair value through profit or loss are assessed for objective evidence of impairment (e.g. significant financial difficulties on the part of the debtor, a high probability that the debtor will enter bankruptcy, the disappearance of an active market for the financial asset in question, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicate that the cost of the investment in the equity instrument may not be recovered).

All of the impaired receivables, which have a carrying value of EUR 2,045,000 derive from the Automotive Components Division. The substantial difference from the previous year's total of EUR 2,736,000 is entirely attributable to reduced impairments in the Wholesale Plumbing Supplies Division.

At the end of the reporting period EUR 3,572,000 (2009: EUR 1,770,000) in receivables in the Automotive Components Division were overdue, but impairment losses had not yet been recognised.

[19] Equity

Changes in equity are presented in the statement of changes in equity on page 83.

Registered share capital at the end of the reporting period was EUR 9,434,990.00 (2009: EUR 9,434,990.00), and was fully paid up. The share capital is divided into 7,534,990 bearer shares of no par value and 1,900,000 unlisted registered shares. Every share corresponds to an equal portion of the Company's share capital. There were no material changes in voting rights in 2010. Each no par share corresponds to EUR 1.00 of the share capital.

By resolution of the 18th Annual General Meeting held on 3 May 2007 the Executive Board is empowered, subject to the approval of the Supervisory Board, to increase the Company's share capital by up to EUR 2,681,634.00, not later than 30 June 2012, by issuance, in one or more tranches, of up to 2,681,634 voting bearer or registered shares of no par value, against contributions in cash or in kind.

Capital reserves

The capital reserves include EUR 21,093,000 in appropriated capital reserves in the meaning of the Austrian Companies Act (2009: EUR 21,093,000).

Retained earnings

Retained earnings comprise the reserves accumulated from undistributed profits and the statutory reserves.

Other reserves/fair value reserve

A EUR 28,000 write-down of financial assets held by SHT Haustechnik AG was recognised in the fair value reserve. "Other reserves" were EUR 65,000 in 2009, but fell to EUR 37,000 as at the end of the reporting period due to this write-down. Upon disposal of the assets the reserve will be reversed, and the realised gains or losses recognised in profit or loss.

Translation reserves

These reserves are made up of the differences arising from currency translation on consolidation.

Own shares

On 16 June 2010 the Executive Board resolved to exercise the authorisation given by the 21st Annual General Meeting to repurchase shares. A total of up to 10 % of the Company's share capital may be repurchased. The share repurchase programme was launched on 22 June 2010, was suspended on 3 September and was not resumed prior to the end of the reporting period.

A total of 21,066 shares had been repurchased by 30 September. The number of treasury shares rose from 261,390 to 282,456, representing 2.99 % of the Company's capital. The free float amounted to 2,274,484 shares or 24.11 % of the capital.

Own shares	Number of shares	Share capital EUR	% of share capital
at 31 Dec. 2010	**282,456**	**282,456.00**	**2.99**
at 31 Dec. 2009	261,390	261,390.00	2.77

Non-controlling interests

This item relates to EUR 3,275,000 in non-controlling interests in the Styria Group (31 Dec. 2009: EUR 3,103,000).

[20] Long-term provisions

The pension provisions were calculated using the projected unit credit method. An annual discount rate of 4.5 % (2009: 5.1 %), and average annual salary and pension increases of 2.0 % were applied.

The provisions for termination and jubilee benefits were also calculated using the projected unit credit method. Future annual salary increases of 3.0 % were assumed. As with the calculation of the pension provision, the discount rate applied was 4.5 % (2009: 5.1 %).

Staff turnover rates were estimated for all Group companies.

Movements in the long-term provisions in 2010 were as follows:

EUR ´000	1 Jan. 2010	Change	Allocations	Utilisation	Reversals	Interest effects	Exchange diff.	Reclassification	31 Dec. 2010
Provisions for termination benefits	8,500	0	594	-328	-4	467	0	597	**9,826**
Provisions for pensions	6,379	0	334	0	-52	269	0	0	**6,930**
Other long-term provisions	4,983	0	855	-328	-981	146	0	-597	**4,078**
Long-term provisions	**19,862**	**0**	**1,783**	**-656**	**-1,037**	**882**	**0**	**0**	**20,834**

The comparative figures for 2009 are shown below.

EUR ´000	1 Jan. 2009	Change	Allocations	Utilisation	Reversals	Interest effects	Exchange diff.	31 Dec. 2009
Provisions for termination benefits	9,685	-71	548	-678	-1,394	416	-6	**8,500**
Provisions for pensions	9,746	-2,603	94	-493	-675	310	0	**6,379**
Other long-term provisions	9,170	-3,644	656	-658	-632	136	-45	**4,983**
Long-term provisions	**28,601**	**-6,318**	**1,298**	**-1,829**	**-2,701**	**862**	**-51**	**19,862**

The provisions for pensions, and termination and jubilee benefits (reported under "Other long-term provisions") relate to the provisions for employee benefit obligation recognised in accordance with IAS 19. The timing of the benefits provided for cannot be reliably estimated.

The carrying amounts of the provisions for termination benefits and pensions correspond to the respective defined benefit obligations (DBO) at the end of the reporting period. Changes in the provisions for termination benefits and pensions at a discount rate of 4.5 % were as follows:

EUR	Pension	Termination
DBO 31 Dec. 2009	6,378,589	8.500,306
Reclassifications	0	758,887
Service cost	73,809	521,627
Interest cost	273,986	466,995
Payments	-491,461	-244,596
Actuarial gains (-) / losses (+)	695,504	322,523
DBO 31 Dec. 2010	**6,930,427**	**10,325,742**

Due to a change in the treatment of the employee benefit provisions at the French subsidiary, this company's provisions are included in the DBO for the first time. The position as at 1 January 2010 is shown by the "Reclassifications" item. Income and expenses arising from adjustments to provisions are recognised in the income statement, under the "Staff costs" item. Projected movements in the provisions for termination benefits and pensions in 2011 are as follows:

EUR	Pension	Termination
DBO 31 Dec. 2010	6,930,427	10,325,742
Service cost	87,876	551,782
Interest cost	301,975	458,000
Payments	-439,745	-297,475
Projected DBO at 31 Dec. 2011	**6,880,533**	**11,038,049**

Movements in DBO were as follows:

DBO in EUR '000	31 Dec. 2006	31 Dec. 2007	31 Dec. 2008	31 Dec. 2009	**31 Dec. 2010**
Provisions for pensions	11,022	10,524	9,746	6,379	**6,930**
Provisions for termination benefits	9,130	9,627	9,685	8,500	**10,326**

The table below shows the evolution of "Other long-term provisions".

EUR'000	1 Jan. 2010	Change	Allocations	Utilisation	Reversals	Interest effects	Exchange diff.	Reclassifica-tions	**31 Dec. 2010**
Other employee benefit provisions	3,987	0	396	-154	-788	146	0	-597	**2,990**
Demolition and disposal costs	0	0	0	0	0	0	0	0	**0**
Other provisions	996	0	459	-174	-193	0	0	0	**1,088**
Other long-term provisions	**4,983**	**0**	**855**	**-328**	**-981**	**146**	**0**	**-597**	**4,078**

The "Other long-term employee benefit provisions" are provisions for jubilee benefits, final termination gratuities and part-time retirement benefits. The jubilee benefits accounted for EUR 2,646,000 (2009: EUR 3,030,000) of this amount as at the end of the reporting period. The allocation to the provision for jubilee benefits amounted to EUR 303,000 (2009: EUR 57,000). The provision for termination gratuities amounted to EUR 34,000 (2009: EUR 731,000) as at the end of the reporting period.

No provision was made for demolition and disposal costs in 2010.

"Other provisions" include provisions for risks that could arise from warranty claims, contractual guarantees or product liability in respect of delivered goods. A provision of EUR 241,000 was recognised for decontamination work at the Châtenois site in France. A sensitivity analysis of the employee benefit provisions reveals that if the calculations for pension, termination and jubilee benefits, and part-time retirement obligations were discounted at a rate of 5.1 % instead of the 4.5 % applied in 2010, the Frauenthal Group's employee benefit obligation would decrease by EUR 1,330,000. The analysis is as follows:

EUR '000	Scenario	2010	Difference
	5.1 %	4.5 %	
Provisions for pensions	6,444	6,930	-487
Provisions for termination benefits	9,121	9,826	-705
Provisions for jubilee benefits	2,510	2,642	-133
Provisions for part-time retirement obligation	629	635	-6
Total provisions	**18,703**	**20,033**	**-1,330**

If the calculations were discounted at the rate of 5.5 % instead of 4.5 %, the Group's benefit obligation would be reduced by EUR 2,134,000. The analysis of the changes is as follows:

EUR '000	Scenario	2010	Difference
	5.5 %	4.5 %	
Provisions for pensions	6,152	6,930	-779
Provisions for termination benefits	8,695	9,826	-1,131
Provisions for jubilee benefits	2,428	2,642	-215
Provisions for part-time retirement obligation	625	635	-10
Total provisions	**17,900**	**20,033**	**-2,134**

[21] Short-term provisions

Changes in the short-term provisions in 2010 were as follows:

EUR '000	1 Jan. 2010	Change	Allocations	Utilisation	Reversals	Exchange diff.	31 Dec. 2010
Tax provisions	171	0	461	-104	0	0	**528**
Other provisions	916	0	1,543	-360	-189	6	**1,916**
Short-term provisions	**1,087**	**0**	**2,004**	**-464**	**-189**	**6**	**2,444**

Movements in "Other provisions" were as follows:

EUR '000	1 Jan. 2010	Change	Allocations	Utilisation	Reversals	Exchange diff.	31 Dec. 2010
Impending losses	514	0	0	-199	0	0	**315**
Waste disposal costs	166	0	0	-100	-66	0	**0**
Provision for damages	93	0	200	0	-78	0	**215**
Other employee benefit provisions	56	0	64	-61	0	6	**65**
Closure and restructuring	45	0	1,245	0	-45	0	**1,245**
Legal and consultancy costs	42	0	34	0	0	0	**76**
Other provisions	0	0	0		0	0	**0**
Other short-term provisions	**916**	**0**	**1,543**	**-360**	**-189**	**6**	**1,916**

The provisions for contingent losses recognised during the reporting period related to anticipated losses on products sold where fixed prices agreed with customers exceeded the manufacturing costs. The "Closure and restructuring" item relates to Linnemann-Schnetzer Ahlen GmbH, Germany, for which restructuring provisions were recognised. These provisions were made on the basis of a discounted cash flow calculation, applying a discount rate of 5 % to the future cash inflows and outflows.

The "Other short-term provisions" are recognised for all other identifiable risks arising from past events resulting in present obligations (legal or constructive) where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate of the amount can be made.

[22] Liabilities

An analysis of liabilities as at the end of the reporting period by maturities and collaterals is shown below.

		Maturity			
Liabilities at 31 Dec. 2010 in EUR '000	Total amount	Up to 1 year	1–5 years	Over 5 years	Collateralised
Bond	71,375	1,375	70,000	0	
Bank borrowings (including leasing)	26,412	14,043	12,093	277	612
Prepayments received	5,547	3,591	1,956	0	
Trade payables	46,184	46,184	0	0	
Liabilities to Group companies	68	68	0	0	
Note payable	0	0	0	0	
Other liabilities	26,080	24,327	1,753	0	
Total liabilities	**175,665**	**89,586**	**85,802**	**277**	**612**

long-term borrowings include EUR 612,000 secured by collateral (31 Dec. 2009: EUR 5,457,000). The collateral pledged for liabilities includes EUR 379,000 (2009: EUR 379,000) in bank balances pledged by Porzellanfabrik Frauenthal as security for liabilities. This relates to a passbook which was pledged to Ceram Liegenschaftsverwaltungs GmbH under the shareholder agreement concluded in connection with the demerger and disposal of the insulator business in 2001. It is highly unlikely that recourse will be made to the collateral. As at the end of the reporting period the Pol-Necks subsidiary in Poland had EUR 233,000 (2009: EUR 500,000) in outstanding borrowings which were secured by collateral. There is collateral to a total value of EUR 2,924,000 (2009: EUR 5,078,000), which consists of inventories, land, and other assets pledged by this company. Of this, EUR 122,000 (2009: EUR 500,000) relates to inventories, EUR 416,000 (2009: EUR 1,100,000) to land, EUR 294,000 (2009: EUR 1,000,000) to investment loads and EUR 2,092,000 (2009: EUR 2,500,000) to the production plant, which has insurance cover.

The bank borrowings include EUR 570,000 (2009: EUR 611,000) in finance lease liabilities, of which EUR 277,000 (2009: EUR 269,000) have maturities of over five years, and EUR 212,000 (2009: EUR 263,000) maturities of between one and five years, while EUR 81,000 (2009: EUR 79,000) are current.

"Other liabilities" were up by EUR 1,751,000 year on year as at the end of the reporting period. The main reason for the increase was higher tax liabilities. The table below shows the changes as compared to the comparative period.

EUR '000	2010	2009	Change
Employee liabilities	**14,373**	14,301	72
Tax liabilities	**6,035**	4,340	1,695
Liabilities in respect of investment grants	**1,807**	1,832	-25
Suppliers' credit balances	**504**	1,100	-596
Accruals	**219**	592	-373
Prepayments	**0**	412	-412
Warranty liabilities and damages	**255**	360	-105
Introduction fund	**467**	0	467
Sundry other liabilities	**2,420**	1,392	1,028
Other liabilities	**26,080**	**24,329**	**1,751**

Apart from payroll and employee benefit expense for December 2010, "Employee liabilities" mainly relate to accruals for unused leave. Two companies had liabilities arising from investment grants at the end of the reporting period. The Portuguese subsidiary Styria Impormol had liabilities of EUR 1,659,000 (2009: EUR 1,659,000) and Styria Federn GesmbH, Judenburg liabilities of EUR 149,000 (2009: EUR 174,000) in respect of investment grants. As in the previous year, the suppliers' credit balances are almost completely attributable to the Wholesale Plumbing Supplies Division.

The comparative amounts as at 31 December 2009 were as follows:

Liabilities at 31 Dec. 2009 in EUR '000	Total amount	Maturity			Collateralised
		Up to 1 year	1–5 years	1–5 years	
Bond	71,375	1,375	70,000	0	0
Bank borrowings (including leasing)	27,455	16,386	10,820	249	5,457
Prepayments received	2,569	1,871	698	0	0
Trade payables	35,182	35,182	0	0	0
Liabilities to Group companies	10	10	0	0	0
Note payable	0	0	0	0	0
Other liabilities	24,329	22,169	2,160	0	0
Total liabilities	**160,920**	**76,993**	**83,678**	**249**	**5,457**

Frauenthal Holding AG launched a EUR 70,000,000 bond issue on 29 June 2005. The coupon is 3.875 %. The bond is due on 29 June 2012, and redemption will be at face value. The annual coupon date is 29 June. The bond is listed on the Vienna Stock Exchange.

[23] Contingent liabilities

As at 31 December 2010 the Frauenthal Group had EUR 1,145,000 (2009: nil) in contingent liabilities. As at the end of the reporting period a bank guarantee, amounting to EUR 241,000 given by Styria Federn GesmbH, Judenburg in respect of an investment grant from the Styrian business promotion agency SFG was outstanding. The company is obliged to retain the employees concerned for three years after completion of the project. The probability of recourse to the guarantee is very low. Styria Federn Impormol has contingent liabilities of EUR 904,000 to Transgas Industria, EDP Elektrizität und IAPMEI in „und"? respect of investment projects. The contingent liabilities to IAPMEI, amounting to EUR 692,000, will continue to exist until the projects in question have been completed.
All other risks are recognised by provisions or "Other liabilities".

[24] Contingent assets

As in the previous year, there were no contingent assets as at the end of the reporting period.

[25] Rental and lease commitments

Commitments arising from the use of property, plant and equipment under rental or lease contracts, not shown in the consolidated statement of financial position are as follows:

EUR '000	2010	2009
Next year, limited term	**1,250**	1,260
Next year, indefinite term	**5,975**	5,776
Next five years, limited term	**3,766**	4,339
Next five years, indefinite term	**32,027**	30,560
Over five years, limited term	**2**	135
Over five years, indefinite term	**6,720**	6,551

These commitments in the main relate to the rental obligations of the Wholesale Plumbing Supplies Division.

[26] Other financial obligations

As at the end of the reporting period Frauenthal Holding AG and its subsidiaries were involved in no material litigation for which provisions had not been recognised. Apart from the aforementioned rental and lease commitments there are no long-term contractual obligations other than those arising from normal business operations, nor are there any environmental licensing conditions which could lead to material off balance sheet financial obligations for the Group.

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement is presented using the nature of expense method.

[27] Revenue

Most of the Group's revenue was again generated in EU member states in 2010, as the largest revenue contribution comes from the Wholesale Plumbing Supplies Division, and this makes all its sales in Austria.

EUR '000	2010	2009	Change
Revenue by regions			
Austria	288,562	272,316	16,246
Other EU	196,851	128,301	68,550
USA	15,966	18,595	-2,629
Rest of the world	38,006	35,275	2,731
Revenue	**539,385**	**454,487**	**84,898**

The revenue is derived from the sale of goods. Some EUR 53,332,000 of the revenue (2009: EUR 56,921,000) is accounted for by construction contracts and was measured using the PoC method in accordance with IAS 11.

[28] Other operating income

"Other operating income" rose by EUR 1,907,000 year on year. The following amounts are reported as "Other operating income":

EUR '000	2010	2009	Change
Other operating income			
Gains on reversals of provisions	382	439	-57
Realised exchange gains	617	677	-60
Unrealised exchange gains	-14	64	-78
Insurance recoveries	595	556	39
Reversals of investment grants	25	147	-122
Gains on disposals and write-ups of non-current assets	1,535	104	1,431
Sundry other income	7,192	6,439	753
Other operating income	**10,333**	**8,426**	**1,907**

The gains on disposal and revaluation of non-current assets include EUR 1,500,000 in write-ups of machinery in the Automotive Components Division.

"Sundry other operating income" increased by EUR 753,000.

EUR '000	2010	2009	Change
Sundry other income			
Bonuses and grants received	4,042	3,108	934
Gains on reversals of provisions	127	709	-582
Income from charging-on of expenses	283	751	-468
Income from rentals and property service charges	274	247	27
Income from insurance payments	102	113	-11
Income relating to prior years	593	101	492
Reversals of impairment losses	0	52	-52
Sundry other income	1,771	1,358	413
Sundry other income	**7,192**	**6,439**	**753**

The largest contribution to the "Income from rentals and property service charges" item, at EUR 116,000, came from the Wholesale Plumbing Supplies Division. "Bonuses and grants received" include grants from the Styrian business promotion agency SFG for supported projects, suppliers' contributions to costs, and grants for apprentices and staff training. Services, refunds, income arising from complaints, and insurance recoveries are stated under "Sundry other operating income".

[29] Raw material and consumables used

"Raw material and consumables used" comprises the following amounts:

EUR '000	2010	2009	Change
Cost of materials	328,711	284,869	43,842
Cost of consumables used	24,467	17,422	7,045
Total	**353,178**	**302,291**	**50,888**

Three-quarters of the increase in the cost of materials is attributable to the Automotive Components Division, and reflects the recovery in its output.

[30] Staff costs

In 2010 the average Group head count was 2,548 (2009: 2,442). Apart from permanent employees the Group head count includes an annual average of 123 (2009: 8) agency staff.

EUR '000	2010	2009	Change
Non-salaried staff	1,536	1,398	138
Salaried staff	1,012	1,044	-32
Total	**2,548**	**2,442**	**106**

The Automotive Components Division accounted for the majority of the employees, with a head count of 1,563 (2009: 1,470). The workforce grew because of the upturn in the commercial vehicle market. There were only minor changes in the head counts of the Austrian divisions – Wholesale Plumbing Supplies and Industrial Honeycombs. The Wholesale Plumbing Supplies Division employed 682 (2009: 698), and the Industrial Honeycombs Division 292 (2009: 265) people.

As at the end of the reporting period the Frauenthal Group employed 2,578 (2009: 2,365) people.

The table below shows the composition of staff costs.

EUR '000	2010	2009	Change
Wages	63,128	57,610	5,518
Salaries	17,783	17,242	541
Termination benefit expense	2,489	4,756	-2,267
Retirement benefit expense	588	-467	1,055
Expenses for social security contributions, and other pay-related levies and compulsory contributions	22,256	21,697	559
Other employee benefit expense	1,244	959	285
Staff costs	**107,487**	**101,797**	**5,690**

The following payments were made to or on behalf of the Executive Board and other senior executives in key positions:

EUR '000	2010	2009	Change
Pension payments to former senior employees	249	251	-2
Number of senior executives	85	69	16
Salaries	8,561	6,331	2,230
Pension payments	68	47	21
Termination and retirement benefits	72	172	-100
Employee benefit fund	50	296	-246
Termination and retirement benefits of other employees	2,936	4,070	-1,134

Salaries rose in step with the increase in the number of senior executives by 16 to 85 in 2010. The difference is entirely attributable to the Automotive Components Division.

Of the EUR 3,076,000 (2009: EUR 4,289,000) in expenses for pension payments, and termination and retirement benefits for senior executives and other employees of the Group, EUR 2,936,000 (2009: EUR 4,070,000) relate to other employees, and the remaining EUR 140,000 (2009: EUR 219,000) to senior executives. The change in the "Termination and retirement benefits" and "Employee benefits" items is almost wholly attributable to the Automotive Components Division.

Executive Board members, former chief executives of Group companies and other senior executives accounted for EUR 72,000 (2009: EUR 172,000) of the expenses for termination and retirement benefits, and other employees for EUR 2,936,000 (2008: EUR 4,070,000). Current Executive Board members' remuneration is reported under "Other expenses" and not under "Staff costs".

As in the previous year, there are no defined benefit pension commitments made by the Frauenthal Holding Group or its subsidiaries to serving members of the Executive Board, chief executive officers of Group companies or other senior executives. Regular contributions are made to a pension fund for members of the Executive Board.

Austrian Group companies made EUR 515,000 (2009: EUR 223,000) in contributions to defined contribution plans under the BMVG (Company Pension Fund Act) and individual employment contracts.

[31] Depreciation and amortisation expense, and impairment

An analysis of annual depreciation and amortisation expense, and impairment by individual items is shown in the non-current asset movement schedule.

[32] Other operating expenses

The breakdown of "Other operating expenses" as at the end of the reporting period is as follows:

EUR '000	2010	2009	Change
Taxes other than income taxes	832	653	179
Property service charges	624	1,714	-1,089
Other distribution costs	7,512	7,928	-416
Rental expenses	7,631	7,713	-82
Freight costs	7,670	6,363	1,308
Administrative expenses	4,649	4,935	-287
Legal and consultancy expenses	2,952	4,462	-1,510
Third-party repairs	3,702	4,194	-493
Agency staff	2,636	2,480	156
Travel costs	2,325	2,447	-122
Insurance expenses	2,097	1,962	135
Staff recruitment	1,221	1,175	46
Impairment losses	1,268	1,151	117
Third-party services	4,943	1,147	3,797
Exchange losses	625	800	-176
Waste disposal costs	742	564	178
Bank charges	695	484	211
Losses on disposal of non-current assets	16	346	-329
Damages claims	284	311	-27
Lease expenses	225	237	-12
Deconsolidation expense	0	5,865	-5,865
Other expenses	4,928	2,010	2,918
Other operating expenses	**57,577**	**58,942**	**-1,365**

Due to the cost savings in the Automotive Components Division, "Other operating expenses" fell by EUR 6,156,000 despite the rise in output. Higher production in the Industrial Honeycombs Division led to a total increase of EUR 1,044,000 in expenses, and they were up by EUR 3,569,000 in the Wholesale Plumbing Supplies Division. The "Administrative expenses" item includes R&D expenses, which were EUR 2,241,000 – a year-on-year increase of EUR 963,000. The Wholesale Plumbing Supplies Division was responsible for most of the growth in "Third-party services".

"Sundry other operating expenses" include EUR 1,375,000 (2009: EUR 266,000) in restructuring costs and EUR 934,000 (2009: EUR -609,000) in currency differences. Third-party services and amounts charged-on are also reported under this item.

The following auditing expenses were recognised in 2010:

EUR	2010	2009
Year-end-audit	60,000	60,000
Other certification services	171,120	158,500
Tax consultancy services	130,736	233,656
Other services	0	21,477
Total	**361,856**	**473,634**

[33] Interest and similar expenses

All borrowing costs attributable to qualifying assets were capitalised in 2010. In the previous year all borrowing costs were recognised as expenses regardless of how the borrowings were applied.

[34] Income tax expense

Taxes on income

The rate of taxation applicable to the parent company, Frauenthal Holding AG is 25 %. The "Income tax expense" item amounting to EUR 714,000 (2009: EUR 165,000) includes EUR 958,000 (2009: EUR 321,000) in current tax expense.

Change in deferred tax

The EUR 244,000 net change in deferred tax assets and liabilities is reported as tax expense (2009: EUR 486,000).

EUR '000	2010	2009
Change in deferred tax		
Deferred tax at 1. Jan	**18,075**	**17,524**
whereof deferred tax assets	18,891	19,977
deferred tax liabilities	-816	-2,453
Changes in consolidation	**0**	**-23**
whereof deferred tax assets	0	-23
deferred tax liabilities	0	0
Changes in statement of financial position items	**-559**	**92**
Development costs	125	63
Other non-current assets	-635	1,916
Other current assets	-3	-391
Provisions for termination benefits	49	-205
Provisions for pensions	-252	-185
Provisions for jubilee benefits	-147	-20
Other provisions	305	-1,055
Other liabilities	-1	-31
Tax loss carryforwards and deferred tax loss carryforwards	**765**	**450**
Changes due to profit for the period for tax purposes	-215	3,821
Changes in capitalisation of tax loss carryforwards	980	-3,371
Changes in deferred tax	**244**	**486**
whereof increase/decrease in deferred tax assets	1,880	-1,063
increase/reversal of deferred tax liabilities	-1,647	1,517
exchange differences	11	32
Changes in equity	**0**	**120**
Exchange differences	**-11**	**-32**
Deferred tax at 31 Dec.	**18,308**	**18,075**
Whereof deferred tax assets	20,771	18,891
deferred tax liabilities	-2,463	-816

Readers are referred to Note 17 for the analysis of deferred tax. The change in deferred tax was as follows:

EUR '000	1-12/2010	1-12/2009
Reconciliation of legally applicable to effective tax rate		
Profit before tax	**18,087**	**-29,509**
Income tax expense at rate of 25 %	**4,522**	**-7,377**
Tax effects		
Tax expense from previous periods	-204	-197
Utilisation of non-capitalised tax loss carryforwards	59	0
Increase in non-capitalised tax loss carryforwards	1,079	-6,260
Initial recognition of tax loss carryforwards	4,404	160
Permanent tax differences and other	929	-1,139
Differences in tax rates applicable to subsidiaries	-301	224
Changes in tax rates applied to measurement of deferred tax	0	0
Total tax effects	**3,808**	**-7,212**
Taxes on income	**714**	**-165**
Tax expense as shown in income statement	-958	-321
Change in deferred tax	244	486
Total tax expense as shown in income statement	**-714**	**165**
Effective tax rate	4 %	1 %

[35] Earnings per share

Basic and diluted earnings per share for the 2010 financial year are identical. On the basis of the consolidated net profit for the period after non-controlling interests of EUR 17,191,000 (2009: -26,484,000) and an average of 9,169,075 shares (2009: 9,173,600), earnings per share were EUR 1.87 (2009: EUR -2.89).

	2010	2009
Shares		
Number of shares issued	9,434,990	9,434,990
Own shares	-282,456	-261,390
Shares in issue	9,152,534	9,173,600

The Executive Board is recommending payment of a dividend of EUR 0.30 per share (2009: no dividend).

E. STATEMENT OF CASH FLOWS

The statement of cash flows is presented according to the indirect method. The cash flows are classified by operating, investing and financing activities. The balance of the net cash flows shows the change in cash and cash equivalents between the beginning and end of the financial year.

[36] Operating profit before working capital changes

Operating profit before working capital changes is the profit/loss after tax, adjusted for non-cash expenses and income, and the change in long-term provisions, as well as proceeds from the sale of non-current assets.

Interest income does not include any cash inflows arising from impaired financial assets.

[37] Non-cash transactions

Paragraph 43 IAS 7 requires the exclusion of non-cash transactions from the statement of cash flows, and material non-cash transactions were accordingly eliminated.

[38] Cash flows from operating activities

The operating profit before working capital changes is adjusted for the change in cash tied up in working capital to yield the cash flows from operating activities. The exchange differences are shown under cash flows from operating activities.

[39] Cash flows from investing activities

Cash flows from investing activities include investment in intangible assets, and property, plant and equipment. Proceeds from sale of non-current assets include those from the sale of both intangible assets, and property, plant and equipment.

[40] Cash flows from financing activities

This part of the statement groups all cash inflows and outflows relating to equity and borrowings. Pursuant to paragraph 17 IAS 7 the change in holdings of treasury shares is shown under cash flows from financing activities. Interest paid and received, and tax are reported under "Operating profit before working capital changes". Dividends paid are shown under cash flows from financing activities.

[41] Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cheques and bank balances.

The reconciliation of cash and cash equivalents at the end of the financial year as shown in the statement of cash flows with the related item in the statement of financial position is as follows:

EUR '000	31 Dec. 2010	31 Dec. 2009
Cash and cash equivalents	3,416	2,267
Pledged deposits at banks	-379	-379
	3,037	**1,888**

The unrestricted cash and cash equivalents available to the Company at the end of the reporting period amounted to EUR 3,037,000 (2009: EUR 1,888,000).

F. SUPPLEMENTARY INFORMATION

[42] Segmental analysis

The Frauenthal Group's primary segments are the Automotive Components, Wholesale Plumbing Supplies and Industrial Honeycombs divisions. The classification is on the basis of the differences between the products and services produced and distributed by the various segments.

The Automotive Components Division supplies components to manufacturers of commercial vehicles and trailer axles. The product range comprises leaf springs, links, stabilisers and air reservoirs for braking systems, as well as U-bolts. The division has production sites in Austria, France, Germany, Poland, Portugal, Romania and Slovenia.

The Wholesale Plumbing Supplies Division distributes leading sanitary, heating and other plumbing brands, as well as its own Prisma and SaniMeister brands in Austria.

The core business of the Industrial Honeycombs Division is the production and distribution of SCR catalysts for flue gas purification, and of non-catalytic honeycomb products. In 2009 the production and distribution of SCR diesel catalysts was transferred to the Industrial Honeycombs Division. The production location is in Frauental, Austria. Sales companies in Kansas, USA and Seoul, South Korea, and a representative office in Beijing, China are responsible for distribution on the American and Asian markets.

Intersegment revenues chiefly concern management services by and overhead contributions to the holding companies; these are charged according to fixed hourly rates or on a cost-plus basis.

Detailed segmental reporting disclosures are shown in a separate summary table. In the "Revenues by geographical areas (final customers)" table, revenues are allocated according to the locations to which the invoices were issued. The revenue disclosures in this table are in accordance with paragraph 32 IFRS 8.

[43] Financial instruments

The Frauenthal Group holds underlying financial instruments including financial assets such as securities, trade receivables (underlying transactions), bank balances, short and long-term borrowings, and trade payables. The holdings of underlying financial instruments are disclosed in the consolidated statement of financial position.

Objectives of capital management

The Group's capital management policies are aimed at safeguarding its ability to continue as a going concern and maintaining a sufficient equity ratio for the industries in which it operates, i.e. about 30 % (on the basis of the IFRS consolidated financial statements). Frauenthal aims for high growth, and this is reflected in its corporate strategy. Our dividend policy is primarily designed to ensure that sufficient resources are available to fund growth.

Net gearing – the ratio of risk exposure (net debt) to capital – fell from 134.74 % to 105.44 % in 2010, due to the turnaround of the Automotive Components Division, and the increased profits of the other two divisions. Net interest bearing debt is the balance of interest bearing assets and liabilities. Total equity is accounting equity plus minority interests.

EUR ´000	2006 IFRS	2007 IFRS	2008 IFRS	2009 IFRS	2010 IFRS
Interest bearing liabilities	88,623	99,828	109,413	98,830	97,787
Cash and cash equivalents	-10,615	-10,218	-16,302	-2,267	-3,416
Net debt	78,007	89,610	93,111	96,563	94,371
Gearing ratio in %	**99.17%**	**95.33%**	**91.18%**	**134.74%**	**105.44%**

Financial risk

In 2010 the Industrial Honeycombs Division used derivative financial instruments to hedge against US dollar exchange rate risk. Downside price risk exposure is principally associated with EUR/USD exchange rate volatility. As Porzellanfabrik Frauenthal invoices a large part of its exports in USD, movements in this currency have a significant influence on results. However, attempts are made to minimise exchange risk and make it predictable over extended periods with the assistance of a wide variety of hedging instruments.

As at the end of the reporting period there were USD 1,000,000 (2009: USD 2,000,000) in outstanding dollar denominated options and USD 1,000,000 (2009: USD 1,000,000) in dollar denominated currency futures contracts, for which a negative fair value of EUR 50,000 was recognised. Generally accepted option price models are used to measure fair value. Frauenthal ceased paying for raw materials in Japanese yen in 2009, and all such contracts have since been denominated in euro. As a result, it was not necessary to hedge against yen exchange rate risk during the reporting period.

	USD ´000		EUR ´000	
	2010	2009	Fair value at 31 Dec. 2010	Fair value at 31 Dec. 2009
Options	1,000	2,000	-12	-37
Currency futures transaction	1,000	1,000	-38	-3

The sole purpose of the above USD derivative transactions was to hedge against exchange rate risk. The transactions are measured at fair value. Fluctuations in the value of the hedging instruments are offset by movements in the value of the underlying transactions being hedged.

Liquidity risk

The cash flow structure of the operating segments and the overdraft facilities available to them are such that their liquidity risk exposure is relatively low. The liquidity needs of the Group's ongoing operations can be met from cash flow, and are managed by the holding company's treasury function.

There are also adequate facilities to ensure that the Group's liquidity requirements will be met; these are mainly with Austrian banks.

In all, nine banks have granted credit lines totalling EUR 192m (2009: EUR 185m) to Frauenthal Holding AG and its subsidiaries. As at the end of the reporting period the Group had EUR 94m (2009: EUR 89m) in open credit lines, assuming that the banks fulfil their commitments. Of the utilised credit lines EUR 12.4m (2009: EUR 10.5m) is assured by long-term and EUR 14.0m (2009: 16.3m) by short-term loan agreements. During the period under review all payment obligations (interest and principal) arising from loans were serviced punctually.

There are also adequate reserves of liquidity to fall back on, as the Group has the option of packaging receivables in asset backed securities (ABS) in order to maintain liquidity. As at the end of the reporting period EUR 13,880,000 in receivables

(2009: EUR 8,003,000) had been sold to Nordea Bank. As in the previous year, the interest rate is the three-month Euribor rate plus 115 basis points. There is no significant risk as the transaction involves guaranteed payments by Nordea Bank for the invoices on the due dates. Daily monitoring means that there is ongoing information on the status of the receivables.

The budgets of the Automotive Components, Wholesale Plumbing Supplies and Industrial Honeycombs divisions are based on the assumption that they will generate positive cash flows from operating activities. Since no major investments are planned, Group liquidity is expected to be largely unchanged over the year as a whole, though seasonal fluctuations are anticipated. No events likely to result in a major drain on liquidity are foreseen.

Default and credit risk

In all the divisions, the default and credit risk associated with receivables and the risk of default by counterparties is managed by regular credit checks, active credit management and credit insurance. Specific provisions are recognised up to the maximum default risk associated with receivables. As at the end of the reporting period the maximum default risk at Group level was EUR 5,248,000. Note 18 contains a summary table of impaired receivables.

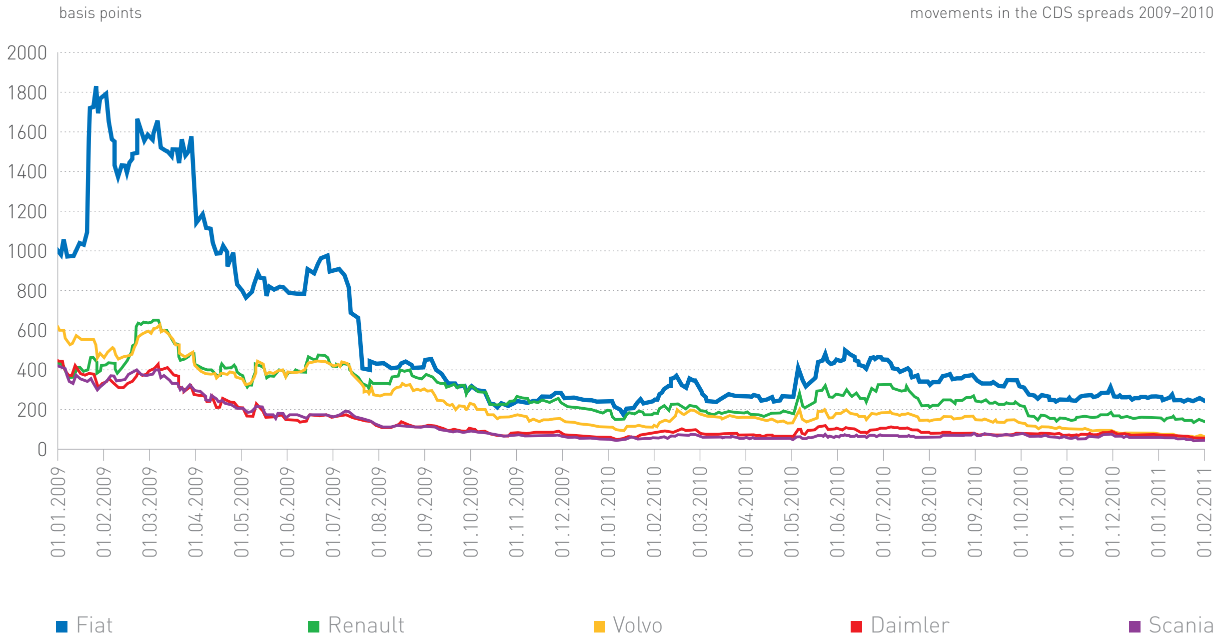
In the automotive component industry it is customary to conclude one- or multi-year contracts that define the products, and establish the terms and conditions, but do not lay down binding supply quantities over the entire contract term. Whether a component supplier can win or extend such contracts depends on its competitiveness. This is primarily a matter of price, but also depends on the supplier's ability to deliver the products required, the reliability of its logistics and quality standards, and its ability to collaborate with the customer on new developments. Because of this, product quality, timeliness and customer satisfaction are constantly monitored to enable management to react quickly to significant under-performance.

The customer risks to which the Frauenthal Group is exposed also include credit and default risks. Truck manufacturers are mostly very large, multinational corporations, but their creditworthiness was eroded by the economic crisis, as it hit the automotive sector particularly hard.

Because of this the Group's debtor management system was reinforced and centralised in 2009. The starting point for this was close observation of all payment delays. The Executive Board is notified of significant irregularities on a monthly basis, and action is taken at all levels of the organisation involved to ensure that every delinquent invoice is tracked by the field sales force.

The credit default swap (CDS) spreads of the Group's key accounts were again monitored on a monthly basis during the reporting period. Credit default swaps are financial instruments that make it possible to buy and sell default risks. The premium (the CDS spread) reflects the market's assessment of the creditworthiness of the reference entity.

This indicator deteriorated markedly as a result of the financial crisis. However, a major improvement began in August 2009, and the spread remained largely stable from late 2009 up to mid-February 2011. The chart below shows the movements in the CDS spreads of some major customers between 1 January 2009 and 16 February 2011.



Despite the collapse of demand for commercial vehicles in 2009 there were no major defaults, and we expect this risk to remain relatively insignificant in future.

The business of the Wholesale Plumbing Supplies Division involves a large number of customers in the plumbing trade. The division has ongoing business relationships with over 3,500 Austrian plumbers, and the default risks are typical of a trade in which small businesses predominate.

The key success factors for the division are procurement prices, and terms and conditions, efficient warehousing and delivery logistics, and the quality and financing of customer receivables. Where competition between wholesalers gives rise to fierce battles for market shares, this may lead to price erosion. However, other, stabilising aspects of the customer relationship (delivery reliability, finance, technical advice, etc.) mean that the price of the products is not the sole determinant of customers' decisions, and that the risks associated with price competition can be countered by such means of cementing customer loyalty.

The business model of the Industrial Honeycombs Division is project-based, and success depends on contract acquisition skills, prices and product quality, as well as technical references. The clients for power station catalysts are plant engineering companies and power station operators. In the case of export contracts we take the usual precautions in terms of payment guarantees, on the basis of credit ratings. Due to the size of some projects a misjudgement of a business partner's creditworthiness could have serious implications for the Group as a whole. The prepayments and delivery milestones customary for large projects help to mitigate this risk. The receivables are largely covered by normal payment agreements (prepayments and letters of credit), and this helps reduce default and credit risk.

Reference is made to the section of the operating review entitled "Customer risk" for further information on default and credit risk.

Default safeguards

Misjudgments regarding the creditworthiness of business partners could have a significant negative impact on the Group. We therefore monitor our entire counterparty risk exposure and customer portfolio in terms of default probabilities, calculated by international rating agencies. If the creditworthiness assessment or rating do not meet our expectations, i.e. an investment grade rating is not given, transactions are only concluded on the basis of adequate securities (e.g. prepayments, bank guarantees or letters of comfort). These counterparty requirements also help minimise default risk, which is further reduced by netting agreements. In addition, we react by watching deliveries still more closely. In the case of our largest customers, factoring is used to guard against default risk.

The default safeguards employed by the Wholesale Plumbing Supplies Division play a particularly important role. In 2003 the division introduced specialised receivables monitoring and management software, which supports early identification and assessment of existing risks, and correct responses to them. Default and credit risk is countered by regular creditworthiness and credit limit checks, active credit management and credit insurance. There is seldom significant risk exposure from major projects as most of SHT Haustechnik AG's customers are small tradesmen. This risk management system is an integral component of the overall planning, control and reporting process. Due to the large number of customers there is no significant risk concentration. Reliable and secure information technology is also an important consideration for the Wholesale Plumbing Supplies Division. The division addresses this issue by using state-of-the-art technology – particularly for data backup and firewalls – as well as a highly available computer centre, redundant data lines and catastrophe planning.

Foreign exchange risk

The introduction of the euro significantly reduced the Frauenthal Group's exposure to foreign exchange risk. The Group's main customers and production facilities are located within the Eurozone, and its ongoing operations therefore expose it to little foreign exchange risk. The main currency risks attach to the Industrial Honeycombs Division, which does a large amount of business in the US dollar area. Because of this currency hedges are used for some medium and long-term contracts, on a case by case basis.

As at the end of the reporting period USD exchange rate risk was as follows:

USD '000	Fair value at 31 Dec. 2010	Fair value at 31 Dec. 2009
USD exposure	1,477	1,079

The exchange rate of the US dollar to the euro at that point was 1.3362 or 7.2470 % higher than at year-end 2009.

Exchange rate volatility is the main reason for Frauenthal's price risk exposures. As the Company invoices a large part of its exports in USD, movements in this currency have a significant influence on results.

The relevant exchange rates affect the payment flows generated by receivables and payables denominated in foreign currencies. However, attempts are made to minimise exchange risk and make it predictable over extended periods by using a wide variety of hedging instruments. As a result of these hedges the Group was not exposed to any significant currency risks as at the end of the reporting period.

The currency sensitivity analyses that support this assessment are based on the following assumptions.

The main underlying financial instruments involved (cash and cash equivalents, interest-bearing financial assets and finance lease liabilities) are denominated in the functional currency, and exchange rate movements thus have no effect on earnings or equity.

As a large part of Porzellanfabrik Frauenthal's exports are invoiced in US dollars, 94 % (2009: 90 %) of the dollar-denominated receipts were hedged, such that only 6 % (2009: 10 %) were exposed to foreign exchange risk. The sensitivity analysis relates to the hedged receipts, amounting to USD 21.8m (2009: USD 34m). If Porzellanfabrik Frauenthal had not hedged the dollar-denominated receipts, finance costs would have been EUR 300,000 higher (2009: EUR 1.5m lower). If it had failed to hedge the receipts and the euro had been devalued/revalued by 10 % against the dollar during the reporting period, finance costs would have been EUR 1.4m (2009: EUR 3.8m) lower/higher than was actually the case. Equity would, in turn, have been EUR 1.4m (2009: EUR 3.8m) higher or lower.

The influence of volatile currencies (the Romanian leu and Polish zloty) on costs at the production sites in the countries concerned is very limited due to the invoicing of the main input, steel, in euro. Most of the customer invoices are also in euro and hence present no currency risk. We therefore refrain from hedging these currency risks, but they are kept under constant observation, and could be hedged if necessary.

The sensitivity analyses for the volatile currencies yield the following results.

The exchange rate of the Romanian leu to the euro at the end of the reporting period was 4.262. This represented a devaluation of 0.6 % compared to year-end 2009. If the average exchange rate of the Romanian currency had represented a revaluation/devaluation against the euro of 10 %, this would not have had a significant impact on earnings. Equity would have been EUR 558,000 higher or EUR 457,000 lower, respectively.

The exchange rate of the Polish zloty at the end of the reporting period was 3.975. This represented a revaluation of 3.16 % compared to year-end 2009. If the average exchange rate of the Polish currency to the euro had been 10 % higher or lower at the end of the reporting period, earnings would have been EUR 52,000 higher, or EUR 42,000 lower, respectively. Equity would have been EUR 818,000 higher or EUR 669,000 lower as a result.

Raw material price risk

There is no significant material price risk in the Automotive Components Division as the availability of steel is assured by long-term supplier relationships and supply contracts. There are agreements with customers which would enable steel price increases to be passed on to them in the event of shortages of materials, and sharp increases in the prices of steel and other inputs. In the Industrial Honeycombs Division, raw and intermediate materials for the production of catalysts and ceramic honeycombs are sourced from longstanding suppliers, and wherever possible availability is assured by one-year contracts. Hedges cannot be used against increases in the prices of vanadium and tungsten as the quantities involved are too small.

Interest rate risk

The risk from interest rate movements to the Group's financial assets and liabilities is currently regarded as low in comparison to its exchange, default and credit risk exposures, as its financing is mainly based on the bond, which is not due until 2012. The EUR 70m bond issue has a fixed interest rate of 3.875 % and a duration of seven years. There will be significant refinancing requirements when it matures in June 2012. In the period after the bond falls due, interest rate movements could influence the Group's assets, finances and earnings. A rapid rise in money market rates would have a significant impact on earnings. Because of this, preparations for possible early refinancing by way of a new bond issue began in autumn 2010, and a close watch is currently being kept on the capital market.

Most of the rest of the Group's borrowing is at variable rates of interest. Of this, 12.4m (2009: EUR 15.5m) is long term and EUR 14.0m (2009: EUR 11m) is short term. The corporate treasury function keeps a close watch on interest rate trends and the related risk. If necessary, interest rate hedges can be employed. During the reporting period the average rate of interest on the Group's interest bearing borrowings was 2.60 % (2009: 3.07 %).

The Group subjects its interest rate risk to sensitivity analyses in accordance with IFRS 7. These reveal the effects of changes in market interest rates on interest payments, income and expense, other income statement items and equity. The interest rate sensitivity analyses are based on the following assumptions.

Changes in the market interest rates of fixed-rate underlying financial instruments only affect the Group's results when these instruments are remeasured to fair value. Fixed interest financial instruments measured at amortised cost are not exposed to interest rate risk.

Changes in market interest rates affect net interest income from variable rate underlying financial instruments and are therefore included in the calculation of profit sensitivity.

If the market interest rate of variable rate financial liabilities at the end of the reporting period had been 200 basis points higher/lower, then profit would have been approx. EUR 176,000 lower/higher. If the rate had been 500 basis points higher/lower at the end of the reporting period, this would have led to a profit EUR 302,000 lower/higher than the actual result. Equity would have been EUR 302,000 lower/higher.

A discount rate of 4.5 % is applied to the provisions for employee benefits. If the level of market interest rates had been 60 basis points higher at the end of the reporting period (5.1 % discount rate as in 2009), then equity would have been EUR 1.3m higher.

Fair values

The fair values of the derivative financial instruments held, and their measurement categories and carrying values are shown in the table below. The fair values of the underlying financial instruments are effectively identical to the carrying values due to the daily or short-term maturities.

Assets	EUR ´000	Measurement category	Carrying value at 31 Dec. 2010	Fair value at 31 Dec. 2010	Carrying value at 31 Dec. 2009	Fair value at 31 Dec. 2009
Financial assets		AFS	1,158	1,158	1,435	1,435
Financial assets in a hedging relationship		n.a.	0	0	0	0
Currency futures transaction		HFT	0	0	0	0
Trade receivables		LAR	67,511	67,511	45,364	45,364
Other assets		LAR	11,834	11,834	4,558	4,558
Cash and cash equivalents		n.a.	3,416	3,416	2,267	2,267
Aggegated by measurement categories						
Available for sale		AFS	1,158		1,435	
Loans and receivables		LAR	79,345		49,922	
Held for trading		HFT	0		0	

Liabilities	EUR ´000	Measurement category	Carrying value at 31 Dec. 2010	Fair value at 31 Dec. 2010	Carrying value at 31 Dec. 2009	Fair value at 31 Dec. 2009
Non-current liabilities						
Bond		FLAC	70,000	69,685	70,000	66,500
Bank borrowings		FLAC	12,369	12,369	11,069	11,069
Current liabilities						
Bond		FLAC	1,375	1,375	1,375	1,375
Bank borrowings		FLAC	14,043	14,043	16,386	16,386
Trade payables		FLAC	49,775	49,775	37,053	37,053
Other liabilities		FLAC	24,395	24,395	22,180	22,180
Currency futures transaction		HFT	50	50	40	40
Aggegated by measurement categories						
Financial liabilities measured at amortised cost		FLAC	157,914		141,677	
Held for trading		HFT	50		40	

	EUR ´000	Net result in 2010	Net result in 2009
Net results by measurement categories			
Available for sale	AFS	0	0
Held for trading	HFT	-50	-40
Loans and receivables	LAR	-1,582	-1,845
Current and non-current liabilities	FLAC	-3,942	-4,689

The net results by measurement categories include the negative fair values of the dollar-denominated currency futures contracts and options held by the Industrial Honeycombs Division, which are shown under the "Held for trading" item. The "Loans and receivables" item relates to the impaired receivables. Details of the latter are given in Note 18. The "Current and non-current liabilities" concern interest expense in 2010.

	EUR ´000	Measurement category	Carrying value at 31 Dec. 2010
Level 1: market approach	Financial assets	AFS	1,158
	Currency futures transaction	HFT	-50

The long-term bank borrowings are normally recognised at the amounts due, as the current interest rates for liabilities with like maturities correspond to the average rate of interest on these liabilities. The price of the Vienna-listed bond was unchanged at EUR 99.55 from 27 August 2010 until the end of the reporting period (31 Dec. 2009: EUR 95). The bond was not remeasured at the end of the reporting period. The short-term bank borrowings are shown at amortised cost in the consolidated statement of financial position. The table below shows the contractually agreed (undiscounted) interest and principal payments due on the underlying financial liabilities. The Frauenthal Group has derivative financial liabilities of EUR 50,000 (2009: EUR 40,000).

		Financial flows, 2011		Financial flows, 2012	
EUR ´000	Carrying value at 31 Dec.2009	Interest	Principal	Interest	Principal
Underlying financial liabilities	**97,787**	**4,059**	**3,186**	**3,908**	**72,951**
Bonds	71,375	2,713	0	2,713	70,000
Bank borrowings	25,842	1,346	3,108	1,195	2,875
whereof long-term borrowings (long-term portion)	10,251	231	0	215	2,875
long-term borrowings (current portion)	2,850	55	2,850	0	0
loans and overdrafts	12,702	1,059	220	980	0
deferred payments	38	0	38	0	0
Finance lease liabilities	570	1	78	0	76

	Financial flows, 2013-2015		Financial flows, 2016 ff.	
EUR ´000	Interest	Principal	Interest	Principal
Underlying financial liabilities	**3,106**	**7.576**	**1.033**	**216**
Bonds	0	0	0	0
Bank borrowings	3,106	7,376	980	0
whereof long-term borrowings (long-term portion)	166	7,376	0	0
long-term borrowings (current portion)	0	0	0	0
loans and overdrafts	2,940	0	980	0
deferred payments	0	0	0	0
Finance lease liabilities	0	200	53	216

"Loans and overdrafts" include overdraft facilities for which no principal is shown because they are used as rolling loans. This item also includes an export loan to Styria Federn GesmbH, Judenburg. Here, too, no principal is shown as the loan is extended each year provided that the ratio of exports to production is sufficient, and repayment is not planned.

All the instruments held on 31 December 2010 for which payments had been contractually agreed as at that date are included in the above disclosures. Budgeted new liabilities are excluded. Amounts in foreign currencies were translated at the rates ruling at the end of the reporting period. Borrowings repayable at any time are always shown in the column with the shortest maturities.

[44] Governing bodies

During the reporting period the Supervisory Board consisted of four members elected by the Annual General Meeting and two members delegated by the central works council. The elected members were:

Hannes Winkler, Chairman since 26 March 2010
Dietmar Kubis, Deputy Chairman
Oskar Grünwald
Johannes Strohmayer, member since 2 June 2010

The previous Chairman of the Supervisory Board, Ernst Lemberger, resigned from the Board with effect from 26 March 2010, and Hannes Winkler was elected in his place.

The following members were delegated by the works council:

Klement-Michael Marchl
August Enzian, since 27 September 2010

Supervisory Board member **Karl Pollak** resigned from the works council on 27 September 2010 due to retirement.

In 2010 the Supervisory Board received EUR 36,000 (2009: EUR 40,000) in compensation. Ernst Lemberger and Hannes Winkler waived their entitlements.

The membership of the Executive Board was as follows:

Hans-Peter Moser
Martin Sailer

The total remuneration of the Executive Board was EUR 934,000 (2009: EUR 656,000); this is reported under "Staff costs" and "Other operating expenses". Frauenthal Vermögensverwaltung GmbH, Vienna charged on EUR 632,000 of members' salaries and payroll-related expenses to Frauenthal Holding AG.

The compensation of the Executive Board consists of a fixed salary and a variable component, representing up to 100 % of total remuneration, geared to the personal performance of each Board member. Regular pension contributions are made to a pension fund for Board members. Members have no contractual entitlements to termination benefits on leaving office. Frauenthal Holding AG has taken out directors and officers (D&O) insurance cover for the Executive Board, chief executives of Group companies and the Supervisory Board, and bears the cost of EUR 31,000 (2009: EUR 31,000).

[45] Related party disclosures

FT-Holding GmbH, Chemnitz continued to hold a 72.9 % interest in Frauenthal Holding AG. Hannes Winkler and Ernst Lemberger each own 50 % of FT-Holding GmbH. Frauenthal Vermögensverwaltung GmbH (FVV), Vienna (formerly Ventana Beteiligungsgesellschaft m.b.H., Vienna) draws up the consolidated financial statements for the largest group of companies to which the Frauenthal Group belongs.

Related party transactions between Frauenthal Group companies and entities controlled by Hannes Winkler and Ernst Lemberger, involving rental and other services, amounted to EUR 3,425,000 in 2010 (2009: EUR 3,355,000).

With effect from 30 June 2010, the entire holding of FVV in Validus Immobilien Holding GmbH was transferred to a company wholly owned by Hannes Winkler, by way of a demerger. Validus Immobilien Holding GmbH and all of its subsidiaries are thus controlled by Hannes Winkler.

Validus Immobilien Holding GmbH charged EUR 2,785,000 in rent (2009: EUR 2,550,000) for office, commercial and storage space used by SHT Haustechnik AG, and the new premises at Rooseveltplatz 10, 1090 Vienna, where all the central departments of Frauenthal Holding AG, as well as the top management of the Automotive Components Division are located. Additional rentals, as compared to 2009, largely relate to the property developed for SHT Haustechnik AG in Innsbruck. The rental cost is in line with normal market rates and was subjected to an arms-length comparison which was confirmed by an independent valuation report.

The expenses in respect of services rendered by Hans-Peter Moser and Martin Sailer were again charged by FVV. They amounted to EUR 632,000 (2009: EUR 656,000). This figure only includes Martin Sailer's remuneration for three months, as his salary has been paid directly by Frauenthal Holding AG since 25 March 2010.

Other costs amounting to EUR 29,000 (2009: EUR 158,000) were charged to Frauenthal Holding AG by FVV, Vienna, in 2010. These costs included rent for the first three and a half months of 2010, for office space at the previous location, at Prinz-Eugen-Strasse 30, 1040 Vienna.

Frauenthal Group companies, for their part, charged FVV subsidiaries EUR 21,000 (2009: EUR 9,000) for IT and other services.

Dietmar Kubis, Deputy Chairman of the Supervisory Board, received a payment of EUR 4,000 (including expenses) for consultancy services rendered to the Automotive Components Division.

[46] Events after the end of the reporting period

Frauenthal Automotive Components GmbH acquired a 24 % interest in Styria Arcuri S.A., Sibiu, Romania from a non-controlling shareholder on 25 February 2011. The price was about EUR 1.1m. As a result of this transaction Styria Arcuri S.A. is now wholly owned by Frauenthal Automotive GmbH.

G. DECLARATION OF THE EXECUTIVE BOARD UNDER SECTION 82(4) AUSTRIAN STOCK EXCHANGE ACT

The Executive Board hereby declares that to the best of its knowledge the annual financial statements of the Frauenthal Group drawn up in accordance with International Financial Reporting Standards (IFRS) to the maximum extent possible give a true and fair view of the assets, finances and earnings of the companies included in consolidation. The operating review likewise as far as possible gives a true and fair view of the assets, finances and earnings of the Frauenthal Group, and provides information on the course of business, and the potential impact of existing and future risks on the Group's business activities.

Vienna, 15 March 2011

Frauenthal Holding AG

Hans-Peter Moser
Member of the Executive Board

Martin Sailer
Member of the Executive Board

Auditors' report

We have audited the consolidated annual financial statements of

Frauenthal Holding AG, Vienna

for the year ended 31 December 2010. These statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and the notes to the accounts.

Responsibility of the Company's legal representatives for the consolidated annual financial statements and the Group's accounting

The Group's legal representatives are responsible for the Group's accounting and for the preparation of consolidated annual financial statements which, to the maximum extent possible, present a true and fair view of the Group's assets, finances and earnings in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU and the regulations applicable in Austria. This responsibility includes: designing, implementing and maintaining an internal control system, to the extent that this is relevant to the preparation of consolidated annual financial statements and to the presentation of a true and fair view of the Group's assets, finances and earnings, such that those statements are free from material misstatement whether due to fraud or error; selecting and applying appropriate accounting and measurement methods; and making estimates which are reasonable in the circumstances.

Auditors' responsibilities, and description of the nature and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated annual financial statements based on our audit. We conducted our audit in accordance with Austrian statutory requirements and the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These principles require that we comply with the relevant codes of professional conduct, and plan and perform the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement.
An audit involves the performance of audit procedures to obtain evidence about the amounts and other disclosures in the consolidated annual financial statements. The selection of these procedures is at the due discretion of the auditors, taking into account their assessment of the risk of material misstatement due to fraud or error. In making this risk assessment, the auditors consider the internal control system, to the extent relevant to the preparation of the consolidated financial statements and the presentation of a true and fair view of the Group's assets, finances and earnings, in order to arrive at audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes assessing the reasonableness of the accounting methods applied and of significant estimates made by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated annual financial statements.
We believe that the audit evidence obtained is sufficient and appropriate to provide a sound basis for our audit opinion.

Opinion

Our audit gave rise to no objections. Based on the results of our audit, in our opinion the consolidated financial statements to the maximum possible extent conform to the legal regulations, and present a true and fair view of the Group's assets and finances as at 31 December 2010, as well as its earnings and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU and the regulations applicable in Austria.

Opinion on the Group operating review

The legal regulations require us to audit the Group operating review to determine whether it is consistent with the consolidated annual financial statements and whether the other disclosures made in the operating review do not present a false view of the Group's position. The auditor's report must also contain a statement as to whether the Group operating review is consistent with the consolidated financial statements and whether the disclosures made in accordance with section 243a UGB (Austrian Commercial Code) are correct.

In our opinion the operating review is consistent with the consolidated financial statements. The disclosures under section 243a UGB are correct.

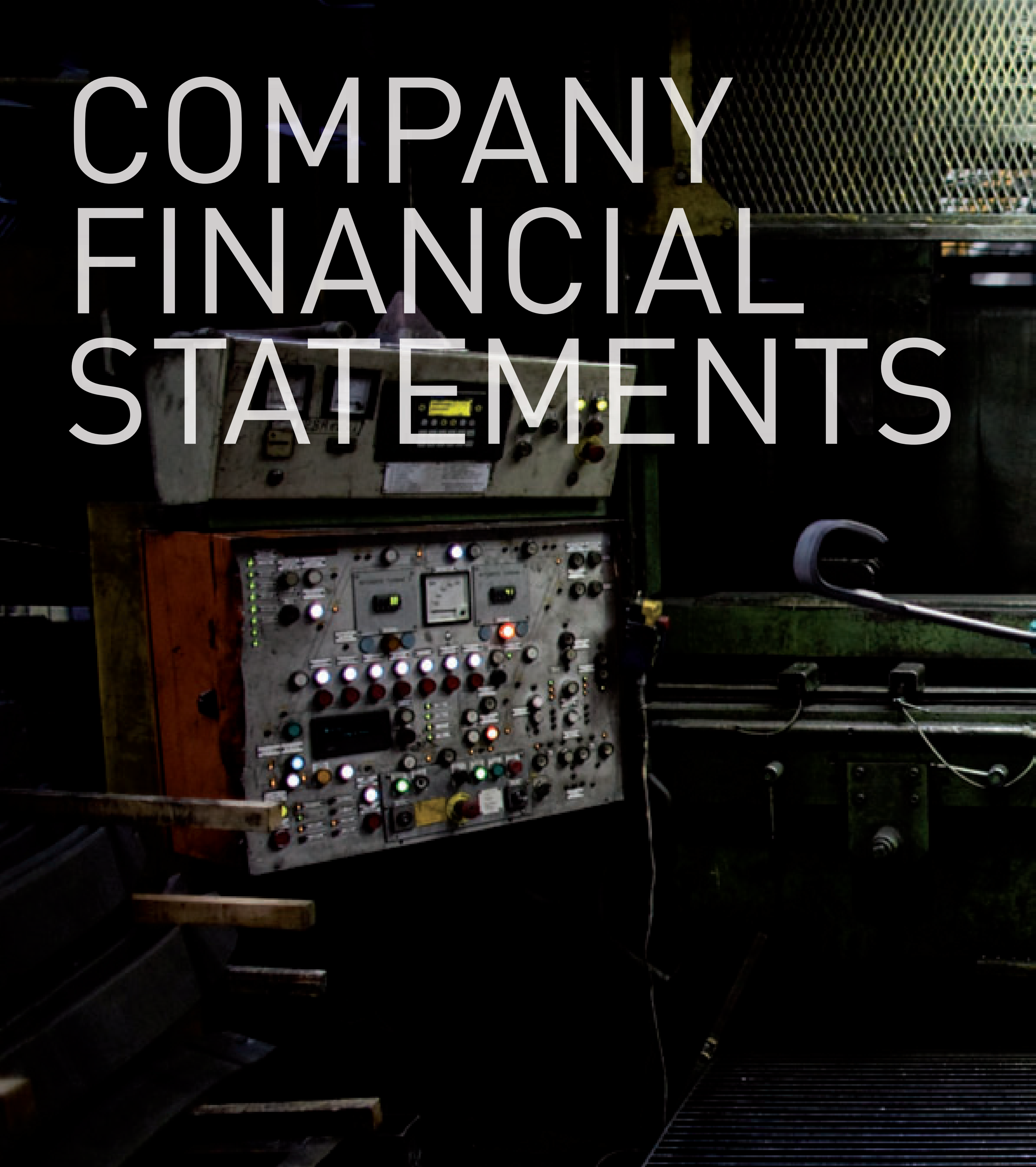
Vienna, 15 March 2011

BDO Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

m.p.	m.p.
Andreas Thürridl	Berndt Zinnöcker
Auditor	Auditor

The published auditor's certificate relates to the complete consolidated annual financial statements and operating review, and not to the information extracted therefrom published in the Annual Report.

COMPANY FINANCIAL STATEMENTS



TASK

Abdelhaq El Hamraoui, 34, loads and unloads parabolic springs for pre-stressed shot peening. This process must be carried out manually.

PRODUCT

Styria has played a key role in technical progress in parabolic springs. There is a trend towards highly stressed and single-leaf springs. A lower number of leaves, and designs that withstand greater stress mean that less material is used than with trapezoidal springs, considerably reducing the weight of the spring and the overall vehicle.

COMPANY FINANCIAL STATEMENTS

Balance sheet

EUR	31 Dec. 2010	31 Dec. 2009
Assets		
Non-current assets		
Intangible assets	1,774	17,656
Property, plant and equipment	304,456	109,948
Financial assets	102,904,372	102,904,372
	103,210,602	**103,031,976**
Current assets		
Receivables		
Receivables from Group companies	24,377,515	10,744,606
Receivables from associates	6,600	8,521
Other receivables and assets	260,183	237,900
Own shares	552,379	395,874
Cash and cash equivalents	33,408	28,077
	25,230,085	**11,414,978**
Prepayments and deferred assets	87,506	71,422
Total assets	**128,528,193**	**114,518,376**

EUR	31 Dec. 2009	31 Dec. 2008
Equity and liabilities		
Equity		
Share capital	9,434,990	9,434,990
Capital reserves	21,259,241	21,259,241
Retained earnings	21,252,378	10,595,875
Profit for the year	4,763,025	1,388,667
	56,709,634	**42,678,773**
Provisions		
Other provisions	211,150	160,612
	211,150	**160,612**
Liabilities		
Bond	71,374,829	71,374,829
Bank borrowings	0	5,015
Trade payables	90,611	64,765
Payables to Group companies	30,453	0
Other liabilities	111,516	234,382
	71,607,409	**71,678,991**
Total Equity and liabilities	**128,528,193**	**114,518,376**

TASK

Kamel Navarro, 31, aligning parabolic springs for prestress blasting, using laser centring. He works at our Styria Ressorts plant in France.

PRODUCT

Parabolic springs are made up of individual leaves, produced by rolling out blanks. Cutting the number of leaves, and using more highly stressed designs reduces the amount of steel used, and thus in turn the weight of the spring and the overall vehicle. Less leaves also means increased driving comfort and safety.

Frauenthal Holding AG individual financial statements

The annual financial statements of Frauenthal Holding AG, prepared in accordance with Austrian accounting regulations, were given an unqualified audit certificate by BDO Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna and have been submitted to the register of companies at the Vienna commercial court, together with the related documents, under register number FN 83990s. These statements can be requested free of charge from Frauenthal Holding AG, Rooseveltplatz 10, 1090 Vienna, and will be available for inspection at the Annual General Meeting.

Dividend recommendation

The net profit of Frauenthal Holding AG for 2010 was EUR 4,763,024.71.

The Executive Board is recommending payment of a dividend of EUR 0.10 and a bonus of EUR 0.20 per share to the Annual General Meeting.

Subject to the approval of the Annual General Meeting a dividend and bonus totalling EUR 0.30 will be distributed to the holder of each share with dividend entitlement in issue at the end of the reporting period, and the remaining amount will be carried forward to new account. Except where exempt under section 94 EStG (Austrian Income Tax Act), dividends are subject to investment income withholding tax of 25 %.

Dividends may be collected from Bank Austria AG, a member of the UniCredit Group, from 8 June 2011 on presentation of Gewinnschein (dividend coupon) No. 18.

Vienna, March 2011

The Executive Board

Income statement

in EUR	2010	2009
Revenue	**1,946,260**	**2,087,000**
Other operating income	313,812	1,004,061
Gains on reversal of provisions	11,358	0
Staff costs	-1,123,714	-640,514
Depreciation and amortisation	-75,588	-63,944
Other operating expenses	-2,081,813	-1,934,393
Profit from operations	**-1,009,685**	**452,210**
Income from Group companies	15,085,761	3.672,486
Other interest and similar income	161,571	385,568
Interest and similar expenses	-2,742,853	-3,188,316
Net finance income	**12,504,479**	**869,738**
Profit before tax	**11,494,794**	**1,321,948**
Income tax expense	2,536,066	1,448,072
Profit after tax	**14,030,860**	**2,770,020**
Allocation to retained earnings	-10,656,503	-2,700,000
Net profit from ordinary activities	**3,374,357**	**70,020**
Profit brought forward	1,388,668	1,318,647
Net profit for the period	**4.763.025**	**1.388.667**

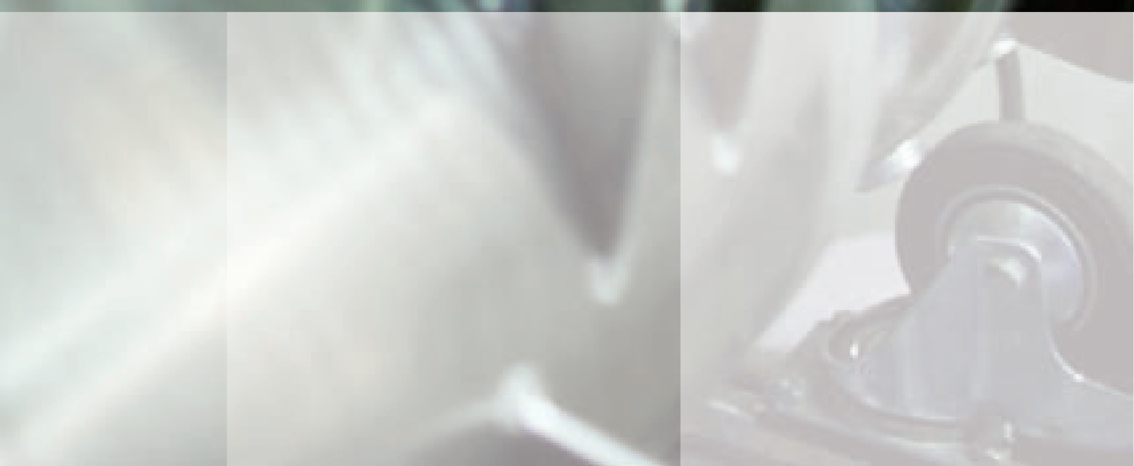
GLOSSARY

TASK

Katrin Gross, 45, is a top air reservoir welder. She is pictured here hand-welding a mounting on to an air reservoir module. Katrin is the only woman on the shop floor at the Linnemann-Schnetzer Ahlen site (Automotive Components Division).

PRODUCT

With welded bracket air reservoirs, a mounting bracket, welded to the reservoir, is screwed to the chassis instead of using restraining straps or wires. This avoids friction at the mounting points.



GLOSSARY

Abbreviations

ABS	Asset backed securities
AFS	Available for sale
BMVG	Betriebliches Mitarbeitervorsorgegesetz (Employee Benefits Act)
CDS	Credit default swap
CLV	Ceram Liegenschaftsverwaltungs GmbH
CO_2	Carbon dioxide
D&O	Directors' and officers' (insurance)
DCF method	Discounted cash flow method
DBO	Defined benefit obligation
EBITDA	**Earnings before interest, tax, depreciation and amortisation** = gross cash flow
EBIT	**Earnings before interest and tax**
EBITA	**Earnings before interest, tax and amortisation**
ERP	Enterprise resource planning (software)
EU	European Union
EUR	Euro
EUR ,000	Thousand euro
ERP	Enterprise resource planning (software)
EU	European Union
EUR	Euro
EUR m	Million euro
EVA	**Economic value added** Difference between the return on capital employed and the cost of capital
FIFO	First in, first out
FLAG	Financial liabilities measured at amortised cost
GDP	Gross domestic product
GHG	Greenhouse gas
HFT	Held for trading
HR	Human resources
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISC	Installateurservicecenter (plumbers' service centre)
IT	Information technology
kg	Kilogram
km	Kilometre
KRW	Won (currency of the Republic of Korea)
LAR	Loans and receivables
NOPAT	**Net operating profit after tax**
NOx	Nitrogen oxide
OEM	Original equipment manufacturer

p.a.	Per annum
POA	Profit on ordinary activities
PoC	Percentage of completion
POFA	Porzellanfabrik Frauenthal
PLN	Polish zloty
Reg. no.	Registration number
ROCE	**Return on capital employed** ROCE = NOPAT / CE
RON	New Romanian leu
RSD	Serbian dinar
SCR	Selective catalytic reduction
SHT	SHT Haustechnik AG
SIC	Standing Interpretations Committee
SHT	SHT Haustechnik AG
SIC	Standing Interpretations Committee
JPY ,000	Thousand Japanese yen
USD ,000	Thousand US dollars
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USA	United States of America
USD	US dollar
WACC	**Weighted average cost of capital** The average market cost of the Group's equity and borrowings, which was put at 6.69 % in 2008, fell to 6.08 % in 2009, and climbed to 7.08 % in 2010.

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Impressum

FINANCIAL CALENDER 2011

15.02.2011	Preleminary annual results 2010
31.03.2011	Annual report 2010
02.05.2011	First-quarter interim report 2011
22.05.2011	Record day
01.06.2011	Annual General Meeting
06.06.2011	Result of the vote of the Annual General Meeting
07.06.2011	Ex-Day
08.06.2011	Dividend-Payment
08.06.2011	Second-quarter interim report
24.11.2011	Third-quarter interim report

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Vienna Stock Exchange: Prime Market

Symbol: FKA

ISIN: AT 0000762406 (shares)

Bloomberg-code: FKA AV

Reuters-code: FKAV.V1

Market capitalisation: MEUR 82.1 (31.12.2010)

Vienna Stock Exchange: Listing on the Vienna Stock Exchange official market

Symbol: FKA

ISIN: AT 0000492749 (bonds)

In addition to detailed information on Group companies, our website offers downloads of quarterly reports, AGM documents, press releases, stock exchange announcements, product photographs, and the latest annual report in German and English.

Cover Image: Franz Reiterer (55), works at Porzellanfabrik Frauenthal GmbH (Industrial Honeycombs Division)

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Note:
Editorial changes (including the colour scheme and lay-out) have been made to this report in the interests of readability. The original can be viewed at the Company's headquarters. There is also a user-friendly online version of the report on the Frauenthal Group website, at www.frauenthal.at (Investor Relations / Reports). The editorial deadline for the Annual Report 2010 was 31 March 2011