frauenthal GROUP

REPORT ON THE THIRD QUARTER OF 2011

Strength through diversity

Summary

	1 – 9 / 2011	1 – 9 / 2010	Deviation in%	1 – 12 / 2010
Summary income statement (EUR m)				
Revenue	442.8	395.9	11.8%	539.4
EBITDA	28.4	24.1	18.0%	34.3
ROS (EBITDA / revenue)	**6.4%**	**6.1%**	**5.5%**	**6.4%**
Earnings before interest and tax (EBIT)	18.6	14.7	26.5%	21.7
Earnings before tax (EBT)	14.1	11.9	18.6%	18.1
Profit/loss after tax	11.0	9.3	17.7%	17.4
Operating profit before working capital changes	23.8	20.5	15.8%	29.2
Summary statement of financial position (EUR m)				
Non-current assets	137.4	131.4	4,6%	136.1
Current assets	238.8	173.8	37.4%	154.8
Total assets	376,2	305.2	23.2%	290.9
Borrowings	278.4	223.8	24.4%	201.4
Equity	97.8	81.4	20.1%	89.5
Equity ratio in %	**26.0%**	**26.7%**	**-0.7%**	**30.8%**
Investment (additions to non-current assets)	13.4	5.9	128.0%	9.3
as % of revenue	3.0%	1.5%	1.5%	1.7%
Average head count	**2,735**	**2,513**	**8.8%**	**2,548**
Per employee ratios (EUR ‘000)				
Revenue	161.9	157.5	2.8%	211.7
EBIT	6.8	5.8	16.2%	8.5
Operating profit before working capital changes	8.7	8.2	6.4%	11.5
Shares in issue	9,434,990	9,434,990	-	9,434,990
Own shares	-282,456	-282,456	-	-282,456
Shares in circulation	9,152,534	9,152,534	-	9,152,534
Per share ratios (EUR)				
EBITDA	3.1	2.6	18.0%	3.8
EBIT	2.0	1.6	26.5%	2.4
Profit/loss after tax	1.2	1.0	17.7%	1.9
Operating profit before working capital changes	2.6	2.2	15.8%	3.2
Equity	10.7	8.9	20.1%	9.8
Share price				
Year end	9.00	9.65	-6.7%	10.90
High	13.35	9.89	35.0%	10.90
Low	8.68	6.59	31.7%	6.59
Dividend and bonus [1]				0.3

1) Distribution proposed to the Annual General Meeting

Content

Operating review for the third quarter of 2011

DEAR SHAREHOLDER,

The effects of the current economic headwinds have yet to show up in Frauenthal's trading performance. The highlights of the first three quarters of 2011 were:

- Revenue 11.8% higher at EUR 442.8 million (m);
- Earnings before interest and tax (EBIT) up by 26.5% to EUR 18.6m;
- Revenue and earnings growth in the Automotive Components and Wholesale Plumbing Supplies divisions despite a subdued trading environment;
- Industrial Honeycombs Division behind last year's record profit despite full capacity working;
- Wisdom of the early bond issue demonstrated by subsequent turbulence on financial markets: EUR 100m issue of a five-year bond, aimed at maintaining liquidity and funding growth, fully taken up;
- No signs of direct effects of financial market instability on Frauenthal Group's operations;
- Group well prepared to weather potential impacts on the real economy thanks to assured liquidity position, a well-versed management team and lean structures;

Key Group developments and decisions

All three divisions have opportunities to grow by gaining market shares through innovative developments, extended product portfolios and entry into new markets. To make the most of these openings, we are pressing ahead with action to bolster management resources across all divisions.

- The SHT Group (Wholesale Plumbing Supplies Division) executive board was strengthened by the appointment of Manfred Prinz as CFO/CIO. Hans-Peter Moser will continue to support the SHT Group in his capacity as a member of the SHT Haustechnik AG supervisory board.
- The decision to build up an independent sales organisation in China, reinforce the product and technological development functions, and invest in refining the large diesel catalyst technology marked major milestones in the implementation of the Industrial Honeycombs Division's growth strategy.

The special audit of transactions with the indirect majority shareholder in Frauenthal Holding AG (rentals and repayment of the cost of participation certificates) pursuant to a resolution of the 2009 Annual General Meeting is still in progress.

Good **corporate governance** and **compliance** are central concerns for Group management. In 2003 Frauenthal Holding AG became one of the first companies to undertake to implement the voluntary Austrian Code of Corporate Governance. We also see the maintenance of high ethical standards in our business dealings as crucial to sustainable business policies. Our compliance with legal requirements and quality standards is evaluated by our customers, which include all the major European commercial vehicle manufacturers. Management also believes that a credible commitment to ethical corporate behaviour is vital to remaining an attractive employer. During the third quarter, two additional measures were taken towards these ends.

- On the insider trading compliance front, an e-learning tool that provides an easy-to-understand guide to the relevant provisions of the Stock Exchange Act for all managers and staff in inside areas was introduced throughout the Group.
- In addition, the Group-wide code of conduct was distilled into a single document, published and communicated to all managers.

A **tax inspection** took place at our Linnemann-Schnetzer

Deutschland GmbH subsidiary, located in Elterlein, Germany. This company is entitled to considerable tax loss carryforwards, which reduced its tax burden by about EUR 6m during the tax audit period. Deferred tax assets of EUR 8.5m, arising from the capitalisation of part of these tax loss carryforwards, are carried on the Group balance sheet. The inspection led to the disallowance of the tax loss carryforwards, and the related assessment notices were issued in September 2011. The appeal against the decision is pending. The Executive Board and its expert advisers do not accept the tax authorities' arguments for disallowing the deductions. A number of carefully researched independent expert reports conclude that, in the light of the facts of the case, the legal position, the prevalent legal opinion and the relevant precedents, the tax loss carryforwards are likely be reinstated on appeal in the financial courts. Because of this no accounting provision has been made for the risk of a back tax payment. Neither is there a need to write down the deferred tax assets of EUR 8.5m. However, there is a danger of protracted court appeal proceedings, and associated litigation risk. This assessment will be reviewed on a quarterly basis in light of the legal proceedings and any new information received, and accounting action taken if necessary.

Recent divisional developments and interim results

- The **Automotive Components Division** grew revenue by EUR 43.6m (31.8%), roughly in line with the overall demand trend in the medium and heavy truck segments. As experience shows that only very short-term forecasts are reliable, we are watching all the market indicators closely. At the time of writing there were no clear signs of a drop in demand, but some manufacturers are downgrading their – hitherto optimistic – outlooks for European sales.

- Revenue in the **Industrial Honeycombs Division** dipped by EUR 2.1m or 3.5% despite full capacity utilisation, owing to downward pressure on prices in both the diesel and the power station catalyst businesses. Demand for diesel catalysts jumped by 90%, but power station catalyst orders from Asia slumped, with Chinese order bookings particularly hard hit. European and US power station catalyst demand is growing, and marketing of the plate catalysts launched in the first quarter has met with a very encouraging response in Europe. Order backlog remains at a very high level. Sharp increases in the prices of important materials such as tungsten, and competitors' aggressive pricing policies are squeezing margins in the power station catalyst business.

- The **Wholesale Plumbing Supplies Division (SHT)** registered 2.1% growth in a stagnant overall market. Thanks to its focus on the private renovation market, its increased presence in western Austria, and its decision to push innovative products (heating and photovoltaic systems), the division's exposure to the fiercely contested contract business is limited.

- The strong performances posted by two of the three divisions brought an **11.8% gain in Group revenue**. Due to sales growth and reduced reliance on ABS finance, liquidity needs returned to a typical seasonal level of EUR 31.1m, but available credit lines were more than sufficient. Following the EUR 100m bond issue, the Frauenthal Group will have surplus liquidity until full redemption of the old bond in June 2012. Most of the EUR 8.4m devoted to investment over the first three quarters was channelled to the Automotive Components Division.

MARKET DEVELOPMENTS AND FINANCIAL PERFORMANCE IN DETAIL

Group year-on-year revenue growth of EUR 46.9m or 11.8% was powered by an upturn of EUR 43.6m or 31.8% in the revenue contribution of the Automotive Components Division. Revenue in the Wholesale Plumbing Supplies Division also advanced, by EUR 4.3m or 2.1%, despite a strong comparative period. Revenue in the Industrial Honeycombs Division slipped by EUR 2.1m or 3.5% in spite of full capacity working, mainly reflecting a changed product and project mix, as well as heavier downward pressure on prices in both the diesel and the power station catalyst businesses. Group EBIT was up EUR 3.9m or 26.5% at EUR 18.6m, on the back of the positive trading performance delivered by the Automotive Components Division (EUR +5.9m). Reve-

Martin Köck (39), production worker, Automotive Components Division

nue growth in the Wholesale Plumbing Supplies Division translated into a EUR 1.3m lift to earnings, thanks to improved margins. The Industrial Honeycombs Division suffered a EUR 3.1m or 38% drop in EBIT as compared to last year's outstanding result, despite working at the limits of its capacity. Operating finance costs were almost unchanged year on year. The EUR 1.7m increase in finance costs was entirely attributable to the costs associated with the EUR 100m bond issue (settlement date 20 May 2011). The issuing expenses comprise the transaction costs and negative interest arbitrage. The latter stems from the fact that the returns on investing the surplus liquidity up to the maturity of the bond due in June 2012 will be lower than the interest on the bond issued in May 2011. The income tax burden rose by EUR 0.6m due to the increased profit returned by the Automotive Components Division. The Group interim profit after tax for the first three quarters climbed by EUR 1.7m to EUR 11m.

Output growth in the **Automotive Components Division** was mainly driven by higher new registrations of commercial vehicles in the EU and the recovery in exports to third countries. Overall EU commercial vehicle demand was up by 11% in the first nine months of 2011, buoyed by a 44% surge in the heavy vehicle market segment. However, growth rates are now steadily slowing due to stronger comparatives. For example, the increase in heavy truck sales was only 24% in the third quarter (July–September). The EU market was still about 31% smaller than in the first three quarters of 2008 – the record year to date. The wide range of products and applications offered by the **Industrial Honeycombs Division** remained a source of strength, but the volatility of the division's project engineering business also made itself felt. While volume contracted due to the steep decline in Chinese sales, diesel catalyst demand soared by 90%. The initial response to the new plate catalyst product line was satisfactory. Sales of non-catalytic honeycombs (heat sinks and casting filters) were up by 39%, lifted by the recovering US and Korean export markets. Capacity at the division's Frauental site is fully utilised despite the divergent trends in the sales of the various product lines. A number of separate influences that are beyond management's direct control are behind the decrease in divisional earnings, namely: mounting material prices; changes in the product mix; the weaker US dollar; and downward pressure on prices in the diesel catalyst business. All of these factors were considerably more favourable in 2010, and this explains the relatively sharp drop in earnings. The **Wholesale Plumbing Supplies Division** is recording revenue growth across all its regional markets. The division's policy of appealing to the private customer segment by delivering top-class logistics and services for end users (showrooms, website, etc.), and extending the range to include innovative new energy-saving products has shown itself to be a recipe for success. The strong growth in private renovation business witnessed in recent years has not been replicated in the period under review. Meanwhile the fiercely contested contract business market segment (including large contracts) is increasing as a proportion of overall sales. In this environment SHT faces strong headwinds in its efforts to achieve a sustainable improvement in margins. This makes its success in returning a EUR 1.3m (23.3%) increase in EBIT on 2.1% revenue growth all the more impressive.

TRADING ENVIRONMENT

Automotive Components

Viewed as a whole, the commercial vehicle market is steadily recovering, with only minor deviations from the trend growth rate, but there are wide regional variations. The figures for the first three quarters show that Germany and the UK are still out in front, with growth somewhat below average in France and Italy, and Spain lagging well behind. In the medium and heavy truck segment (above 3.5 tonnes) France is the pacemaker, with sales up by 46%, while Germany, Spain and the UK have all registered growth rates of over 25%, and Italy is the back marker at 7%. Growth in the heavy commercial vehicle segment (above 16t) ran at 44% in the EU over the first three quarters. Most of our customers expect the overall market for all vehicle weight classes to expand by about 20% in 2011 as a whole. However, current economic uncertainties present downside risks for the highly cyclical commercial vehicle industry, and some manufacturers have downgraded their – previously upbeat – market forecasts for 2011 as a result. This does not yield any conclusions about the overall production trend in Europe, as there can be shifts in manufacturers' market shares, and there are no reliable fore-

casts for exports to non-EU countries. All in all, though, the outlook has certainly clouded. The division would be able to absorb a moderate downturn in demand by making relatively painless adjustments to capacity. In contrast to the crisis in 2009 there are no signs of an overhang of unsold new or used vehicles at our customers, and retail demand does not appear to be slackening either. But as long as the economic outlook remains uncertain, demand growth is likely to be muted at best.

Industrial Honeycombs

Although demand for power station catalysts in Europe and the USA is on the increase, there is intensifying downward pressure on prices due to competitors' unused capacity. Order intake from China is well down. The targets of the new five-year plan, which sets NOx limits for power stations in densely populated areas that will make SCR catalysts a must, are a positive development, as are signs that demands from Chinese power generators for price increases to help pay for the introduction of the technology may be met. However, the details and timing of the implementation of the framework legislation are still unclear. The division is stepping up its market development activities in China with a view to widening its customer base. Order books in the power station catalyst business remain at a very high level, with Europe accounting for over 50%, the USA one-third and Asia around 15% of revenue. Because of the inflationary pressures on the procurement side – particularly the 32% rise in the price of tungsten since the start of the year – and the relatively weak dollar there has been no let-up in the squeeze on margins in the power station catalyst business. Full capacity utilisation in the division is the result of the 90% leap in diesel catalyst sales. Sales of high-volume catalysts for construction plant are on the increase. Thanks to the recovery in the US automotive and timber industries, revenue from non-catalytic honeycombs jumped by 39%. The introduction of the Euro 6 emission standard for heavy commercial vehicles in Europe (in 2013), and of the Euro 5 standard in Brazil (in 2012) will create new opportunities as the technologies developed by the division to comply with these standards have some clear advantages over competing products. We are working hard to expand the division's capacity, and enhance its technological expertise by recruiting additional product management and development staff. Sales of Euro 5 compliant equipment are locked in by contracts that will run until the expiry of the existing emission standard.

Wholesale Plumbing Supplies (SHT)

Construction output is expected to rise by 0.5–1% in real terms in 2011 after several years of marked declines. The growth momentum is coming from commercial building construction and renovation. These segments suffered particularly severe declines in activity during the downturn. Home building is still in the doldrums, and government spending cuts mean that public sector contracts are also providing no stimulus. The private renovation segment is continuing to grow, but has lost steam now that pull-forward effects related to government subsidies have worn off. In the past, when private investors have been unsettled by financial market instability they have tended to invest in property, including renovation. Divisional revenue growth was in line with the market trend, despite the fact that SHT has ceased to supply some customers due to the fact that the products concerned generated very weak profits. In the west of the country, where a sales and logistics centre was opened in Innsbruck in July 2010, revenue growth was about 45%. Heating products have performed particularly well. The policy of pushing energy-efficient HVAC systems and photovoltaic panels looks promising in view of escalating energy prices and increasing eco-awareness among consumers. Expert customer advice is vital for these product lines, and is provided by the division's nationwide sales network. The division is very well placed to meet this need because of the expansion of its service network and a major staff training drive. Its exclusive own brands are well received, and play a key role as differentiators.

HIGHLIGHTS OF DIVISIONAL TRADING PERFORMANCE

Automotive Components

The 31.8% revenue growth marked up by the Automotive Components Division in the first three quarters was largely propelled by a 44% surge in demand for heavy trucks. There were especially strong performances from the Polish Pol-Necks factory, where new orders for U-bolts contributed to volume growth; the Austrian Styria Federn plant in Judenburg, which benefited from a pick-up in demand for links for air-sprung trailer axles; and the Romanian Styria Arcuri works, which worked flat-out and made good progress on raising productivity. A major investment programme has been launched to exploit the attractive opportunities to expand capacity at the latter site. At the formed parts and welded assemblies business (Linnemann-Schnetzer Formparts GmbH, Ahlen), which has so far failed to reach the critical scale for an automotive component supplier, the situation is improving due to a number of new orders. In spite of this, it remains to be seen whether the minimum volume required for profitability can be attained. Since its products are not of strategic importance to the division, under current conditions there is no business case for persisting with this operation in the longer term. We are working to arrive at a solution for this part of the Ahlen factory, where some 70 staff are employed. We are looking at a number of options that would take account of the interests of the customers and employees concerned. The air reservoir plant in Ahlen, which was hit by the loss of part of a key contract in the first quarter of 2011, has been winning new customers. Nevertheless, capacity has had to be adjusted to reduced demand. The restructuring programme mounted in 2009 has increased the flexibility of the division's production capacity, enabling it to adapt much better to short-term swings in demand than before the crisis. The Styria Vzmeti plant in Ravne, Slovenia provides reserve capacity. Trapezoidal springs are made there, but can also be produced at other factories if the order situation so requires. Output at Styria Vzmeti was trimmed further in the third quarter. Total divisional head count at the end of the reporting period was 137 up on year end 2010, and 164 higher year on year, at 1,700. Most of the additional labour needs are being met by hiring agency staff. The Automotive Components Division continued to implement the growth strategy drawn up last year, and invested at a number of locations. Over the first three quarters a total of EUR 8.4m was spent on improving product quality and expanding capacity. One of the division's expansion goals is breaking into the Russian market. Several West European OEMs already have a presence in Russia, in the form of production subsidiaries or joint ventures with Russian commercial vehicle manufacturers. This is expected to be a particularly fast-growing market in the next few years. Vehicles hitherto made in Western Europe for export to Russia may in future largely be locally manufactured. The Automotive Components Division is evaluating definite options for setting up production operations in Russia, but it is too early to predict the outcome of these talks. EBITDA of EUR 12.5m and EBIT of EUR 7.7m for the first three quarters – gains of EUR 6.3m and EUR 5.9m, respectively – show that the division's business policies are working. However, with revenue still EUR 100.8m and EBIT EUR 14m behind the all-time highs of 2008, it is still too early to declare an end to the crisis in the commercial vehicle sector.

Industrial Honeycombs

The big increase in diesel catalyst sales volume was insufficient to offset the impact on earnings of the downward pressure on prices in the power station and diesel catalyst businesses, climbing material prices and the relatively low USD exchange rate. EBIT of EUR 5.1m was EUR 3.1m behind the record result returned in the comparative period. This figure is after provisions for price adjustments in the diesel catalyst business. Revenue of EUR 57.8m was down by EUR 2.1m or 3.5% year on year. Further steps are being taken to execute the growth strategy by expanding capacity and increasing vertical integration at the Frauental site in order to enhance profitability. A EUR 7m investment programme with these objectives was initiated during the reporting period. Some EUR 2.6m of this amount was spent during the first nine months of the year. Marketing to win engineering contracts for the installation of plate catalysts has been going well. In view of the challenge presented by breaking into this new market, the orders secured and those for which Frauenthal is in contention are satisfactory. The non-catalytic honeycomb business has posted a strong recovery, and revenue was up by 39%, with most of the growth coming from the US and Korean markets. The special features of the Industrial Honeycombs Division's products and its development capabilities are creating opportunities to enter the Euro 6 market, starting with low-volume applications. Key procurement decisions by some large OEMs regarding high-volume catalysts have shown that major players capable of delivering entire exhaust emission control systems are being given preference during early-stage market development. The Industrial Honeycombs Division is positioned as a component manufacturer. However, it is expected that as the technologies used in complex Euro 6 systems become more mature, the special characteristics of the division's products will give it a realistic chance of success in the high-volume market at a later stage in the Euro 6 development cycle. New opportunities are emerging in Brazil where the Euro 5 standard is being introduced in 2012, and the market is dominated by European commercial vehicle manufacturers.

Wholesale Plumbing Supplies (SHT)

The 2.1% revenue gain over the first three quarters is in line with the overall market trend. Sales of in-wall plumbing supplies and heating products have grown considerably faster than those of sanitary ware. The improvement in the plumbing supplies segment reflects the gradual pick-up in building starts, which are forecast to record moderate growth this year, after three years of steep declines. The division's positioning, with its focus on private renovation business, and serving small and medium-sized plumbing firms, limits its dependence on large-scale contract business, which is subject to particularly harsh price competition. The goal of improving the gross margin was met during the reporting period, and this was the main driver of earnings growth. Divergent trends in the various market segments resulted in an increase in the revenue contribution of contract business, making it more difficult to widen the margin. The risks with regard to trade receivables have receded this year, and bad debts are at low levels. A EUR 4.3m rise in revenue and a higher gross margin boosted EBIT by EUR 1.3m to EUR 6.7m. The available short-term indicators such as market forecasts, visitor traffic at the showrooms and on the mySHT website, and revenue growth in western Austria all point to continued modest growth.

LIQUIDITY AND INVESTMENT

Total assets climbed by EUR 85.3m or 29.3% as compared to year end 2010, to stand at EUR 376.2m, reflecting the liquidity injected by the EUR 100m bond issue in May 2011 and higher working capital due to volume growth. Holdings of cash and cash equivalents were responsible for EUR 38.6m of the increase. This is because it was only possible to use EUR 63m of the issue proceeds for early redemption of the old bond and repayment of overdrafts. The Group generated EUR 23.8m in cash flow before working capital changes over the first three quarters. Growth in the Automotive Components Division, coupled with the normal seasonal pattern in SHT's business and climbing capital expenditure, swelled liquidity needs by EUR 31.1m as compared to year end 2010. Increased liquidity requirements arose from a EUR 39.1m rise in working capital, as well as EUR 13.1m in investment. Liquidity needs as at 30 September were EUR 10.3m up year on year. The Group has EUR 120m in unused credit lines – sufficient to prevent any shortages of finance in the event of faster-than-expected growth.

FRAUENTHAL GROUP'S FINANCING STRATEGY VINDICATED BY MARKET TRENDS

In the opinion of many analysts borrowing conditions worsened in the third quarter because of the fears haunting global financial markets. The tone of the corporate bond market is currently significantly less favourable than it was at the start of the year. Frauenthal's decision to go for a EUR 100m bond issue in the second quarter, thereby obtaining liquidity to refinance the bond due in June 2012 (outstanding amount at 31 October 2011: EUR 27.3m) and fund growth projects, has been justified by the subsequent course of events.

OUTLOOK

In the **Automotive Components Division**, we see a current unmistakable decline in call-offs as advance warning of a coming crisis in the real economy. However, we expect the downturn to be considerably less severe than in 2009. In the first place, our customers are ordering on a short-term basis, according to their actual needs, and in the second, market turbulence appears to be confined to Europe. Some 30% of our output in volume terms goes overseas. Moreover, we have learned to cope with cyclical ups and downs. We have a streamlined production network, a highly professional management team and an innovative product portfolio that differentiates us from the competition. In consequence, the main focus of our investment spending in the near term still will be on enhancing Frauenthal's technological capabilities and expanding production capacity. Product development breakthroughs are creating real opportu-

nities for us to gain market shares when new contracts are awarded. The upcoming Euro 6 vehicle generation should hold out particularly good prospects for us.

In the **Industrial Honeycombs Division**, full honeycomb production capacity utilisation appears to be locked in until the second quarter of 2012. Revenue from plate catalyst sales has been soaring since the third quarter due to a strong project pipeline. We expect continued robust demand for diesel catalysts, but the extremely short order lead times that are the rule in this segment make reliable forecasts impossible. We do not foresee any more large orders from China in the near future, but good order intake from other geographical markets should prevent this from denting overall divisional earnings. We do not foresee any further material price rises. In combination with a modest rebound in the USD exchange rate, this should somewhat relax the squeeze on margins. The downward pressure on diesel catalyst prices is hitting earnings. Overall divisional earnings should hold up well, though they will be well below last year's excellent result. During the coming quarters, investment will focus on capacity expansions and product development – especially in the diesel catalyst business. The sales organisation in Asia will be built out to drive the development of these large emerging markets for the division's products.

We expect the **Wholesale Plumbing Supplies Division (SHT)** to record moderate full-year revenue growth whilst holding on to its market shares and improving its profitability. Despite the anticipated pick-up in contract business we see the price wars in this market segment continuing. We are working to extend our lead in terms of service quality.

Two of the Frauenthal Group's three divisions are growing, and posted increased revenue and earnings in the first three quarters of this year.

Due to the seasonal variations in the Group's businesses, it is not possible to extrapolate full-year performance from the results for the latest quarter.

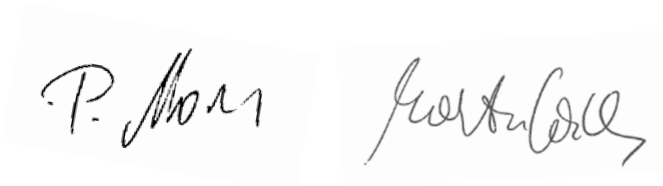
All three divisions have opportunities to grow organically – by gaining market shares, and entering new product and geographical markets – as well as by acquisition. We are also examining the possibility of breaking into new markets by forming strategic partnerships, and are assessing whether this can be done without courting excessive risks and makes sense in terms of growing shareholder value. All of the divisions formulated growth strategies last year, and are making good progress towards implementing them. Our staff and management development programmes are central to the Group's overall business development strategy, and are making a major contribution to its success.

Following the successful bond issue, the Frauenthal Group is well placed to exploit the market opportunities open to it.

Vienna, 16 November 2011

Frauenthal Holding AG

The Executive Board



Hans-Peter Moser	Martin Sailer
Member of the Executive Board	Member of the Executive Board

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.

Notes to the interim report on the third quarter

The quarterly report of Frauenthal Holding AG (Frauenthal Group) for the third quarter ended 30 September 2011 was drawn up in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This report has neither been audited nor has it been reviewed by an independent auditor.

CONSOLIDATION AND ACCOUNTING POLICIES

The scope of consolidation was determined in accordance with paragraph 12 IAS 27. The number of companies included in consolidation has changed by one since 31 December 2010. Linnemann-Schnetzer Produktionsgesellschaft mbH, Ahlen, Germany has been merged with its parent company Linnemann-Schnetzer Deutschland GmbH, Elterlein, Germany. The consolidated statements thus comprise the results of the parent, Frauenthal Holding AG, and 25 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 accounting policies used to prepare the financial statements for the year ended 31 December 2010 were applied without change to the third quarter of 2011. The main differences between these policies and the provisions of the UGB (Austrian Business Code) lie in the use of the percentage of completion (PoC) method to value long-term construction contracts, in the treatment of deferred tax and goodwill amortisation, and in the calculation of employee benefit obligations.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Revenue

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

The Frauenthal Group returned cumulative consolidated IFRS revenue of EUR 442.8m for the first three quarters of 2011 – up by EUR 46.9m or 11.8% year on year. The Automotive Components and Wholesale Plumbing Supplies divisions contributed to this satisfactory performance. In the Industrial Honeycombs Division, demand for diesel catalysts grew, but Asian order intake fell sharply in the power station catalyst business.

The Automotive Components Division posted a year-on-year increase in revenue of EUR 43.6m, driven by the recovery of the European commercial vehicle market and catch-up investment by road haulage companies. The division's cumulative revenue was up by 31.8%, from EUR 137.2m to EUR 180.8m. The commercial vehicle market is steadily recovering, with only minor deviations from the trend growth rate, but wide regional variations.

The EUR 2.1m (3.5%) decline in the Industrial Honeycombs Division's revenue, from EUR 59.9m to EUR 57.8m, despite full capacity working, was caused by strong downward pressure on prices in both the diesel and the power station catalyst segments. Exposure to the volatile market for new equipment was reduced by demand for replacements of spent catalysts, which already make up about one-quarter of all revenue in the power station catalyst business. The recently launched plate catalyst product line is now beginning to mark up satisfactory sales figures. Europe accounted for about half the division's sales, the USA one-third and Asia some 15% over the first nine months.

Despite operating in a flat overall market, the Wholesale Plumbing Supplies Division recorded revenue growth of EUR 4.3m or 2.1%, reflecting the bright start made by the new sales and service centre in Innsbruck, efficient logistics and good customer service, as well as the introduction of innovative new products. Cumulative divisional revenue climbed from EUR 200.6m to EUR 204.9m. The expanded service and sales network, broad product range, high logistics service standards and groundbreaking mySHT online portal continued to give Wholesale Plumbing Supplies a competitive edge.

The Frauenthal Group generated 94% of its revenue in the EU, 4% in the USA and 2% in the rest of the world.

Earnings

At EUR 28.4m, Group EBITDA for the third quarter of 2011 was EUR 4.3m or 18% up year on year. The Automotive Components Division contributed almost half of the total. However, competitors' aggressive pricing policies and significant increases in the prices of key materials are weighing on margins, especially in the power station catalyst business.

In the Automotive Components Division EBITDA soared by 102.4% to EUR 12.5m (Q1–Q3 2010: EUR 6.2m) due to revenue growth and a slimmer cost base. The Industrial Honeycombs Division's EBITDA contribution shrank by 27.3% to EUR 7.5m. Divisional EBITDA was EUR 2.8m lower, with earnings mainly depressed by higher material prices in the power station catalyst business. The Wholesale Plumbing Supplies Division registered earnings growth of EUR 0.9m or 11.3% to EUR 9.2m in the face of fierce price competition.

Group EBIT improved by EUR 3.9m or 26.5% year on year, to EUR 18.6m (Q1–Q3 EUR 14.7m). Automotive Components contributed EUR 7.7m of the total (up by EUR 5.9m), Industrial Honeycombs EUR 5.1m (down by EUR 3.1m), and Wholesale Plumbing Supplies EUR 6.7m (up by EUR 1.3m).

The profit attributable to owners of the parent was EUR 10,970,000 (Q1–Q3 2010: EUR 9,322,000). On the basis of the interim profit attributable to owners of the parent of EUR 10,585,000 (Q1–Q3 2010: EUR 9,459,000) and an average of 9,152,534 shares in issue (Q1–Q3 2010: 9,173,600 shares), both basic and diluted earnings per share were EUR 1.16 (Q1–Q3 2010: EUR 1.03).

The "Gains and losses on currency translation" and "Gains and losses on changes in non-controlling interests" items in the consolidated statement of comprehensive income include EUR 0.8m related to the acquisition of an interest of about 24% in Styria Arcuri S.A., Sibiu, Romania from a minority shareholder. This minority interest was acquired by Frauenthal Automotive Components GmbH on 25 February 2011 for about EUR 1.1m. During the second quarter Frauenthal Automotive Components GmbH sold a 1% stake in Styria Arcuri S.A. to Frauenthal Automotive Holding GmbH.

Revenue and earnings in all divisions are subject to seasonal swings, meaning that extrapolations from third-quarter results do not yield reliable forecasts for the year as a whole.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Frauenthal Group's total assets grew by EUR 29.3% in the course of the year, to stand at EUR 376.2m (31 December 2010: EUR 290.9m). The increase largely reflects the EUR 100m bond issue floated in May 2011.

The proceeds were used to redeem EUR 38m of the 2005 bond (due in June 2012). A further EUR 5m buyback took place in October 2011, leaving EUR 27m of the old bond outstanding. After the issue some EUR 46m of the proceeds were invested with a number of banks. In September EUR 10m of these investments were liquidated due to risk considerations, reducing the total to EUR 36m. The rest of the proceeds were devoted to reducing overdrafts, so as to use the surplus liquidity generated by the new bond efficiently. The cash investments are reflected in the "Cash and cash equivalents" item, and are the main reason for the growth in total assets, together with increased inventories and receivables. As at 30 September 2011 non-current assets were EUR 137.4m – only marginally higher than at year end 2010 (up by 1.0%). Current assets leapt by EUR 84.0m or 54.2% to EUR 238.8m.

Inventories mounted by a total of EUR 20.1m; EUR 10.1m of the change related to the Wholesale Plumbing Supplies Division, and was due to seasonal factors. Inventories held by the Automotive Components Division also rose, to reach EUR 6.2m, lifted by higher sales, and there was a EUR 3.9m inventory build in the Industrial Honeycombs Division.

Sales growth also pushed up receivables, which climbed by a total of EUR 25.2m compared to year end 2010. There were hefty increases in receivables in the Automotive Components and Wholesale Plumbing Supplies divisions. The EUR 11.7m jump in receivables in the Automotive Components Division is partly accounted for by a EUR 5.9m decrease in the use of ABS finance for sales to a large truck manufacturer. ABS finance was down from EUR 13.9m at year end 2010 to EUR 8.0 as at 30 September 2011. Receivables were up by EUR 12.6m in the Wholesale Plumbing Supplies Division, and by EUR 0.9m in the Industrial Honeycombs Division.

Intangible assets include goodwill of EUR 1.8m arising on the acquisition of an interest in Styria Arcuri S.A. from a non-controlling shareholder.

Equity was up by EUR 8.3m to EUR 97.8m (31 December 2010: EUR 89.5m). The gain in total assets led to a drop in the equity ratio from 30.8% at year end 2010 to 26.0% as at 30 September 2011.

The EUR 39.1m increase in working capital, EUR 13.1m in investment and the EUR 2.7m dividend payment (EUR 0.30 per share) in June were financed by the operating profit before working capital changes of EUR 23.8m, higher short-term bank borrowings and the May bond issue.

The "Bond" item was mainly responsible for the rise in long-term borrowings. During the comparative period this item comprised the EUR 70m issue in 2005. As at 30 September 2011 it also included the net proceeds of the new EUR 100m issue. Due to its maturity, the old bond (due in June 2012) was transferred from the non-current to the current liabilities ("Bond"). Only the residual amount of EUR 31.8m was reclassified, as EUR 38.2m had been redeemed by the end of September. Short-term bank borrowings were up by EUR 8.5m due to the need to finance increased working capital requirements.

NOTES TO THE STATEMENT OF CASH FLOWS

Operating profit before working capital changes rose to EUR 23.8m – a gain of EUR 3.2m year on year.

Changes in trade receivables and trade payables resulted in net cash used in operating activities of EUR 15.3m (Q1–Q3 2010: EUR 13.3m).

Net cash used in investing activities was EUR 13.1m (Q1–Q3 2010: EUR 5.7m). This increase mainly reflected heavier recurring investment by the Automotive Components Division, at EUR 8.4m; cash inflows from investment grants were EUR 0.1m. The Industrial Honeycombs Division invested EUR 2.6m in expanding capacity, and the Wholesale Plumbing Supplies Division EUR 2.3m in improving its logistics systems, and in enhancing its end-user services. For additional information on Frauenthal's investment policies see the Liquidity and investment section of the operating review.

As the cash flow statement shows, cash and cash equivalents as at the end of the third quarter included EUR 0.4m in pledged bank deposits.

EMPLOYEES

In the first three quarters of 2011 the Frauenthal Group employed an average of 2,735 people (Q1–Q3 2010: 2,513). The Automotive Components Division accounted for the majority of the workforce, with a head count of 1,700 (Q1–Q3 2010: 1,536). The division's head count grew by 164 because of the recovery in the commercial vehicle market. Employment in the Industrial Honeycombs Division increased by 37 as compared to the like period in 2010, raising the average to 325 (Q1–Q3 2010: 288). The Wholesale Plumbing Supplies Division employed an average of 697 people over the first nine months of 2011 (Q1–Q3 2010: 681).

SHARE PRICE PERFORMANCE

Frauenthal has been listed on the Vienna Stock Exchange prime market since 23 July 2007. The Company's share price ended 2010 on EUR 10.90 – a gain of almost 46% on the year. While the ATX lost 3.2% in the first half of this year Frauenthal bucked the trend in the second quarter, hitting a high of EUR 13.35 on 17 May. The price then lost ground during the stock market turmoil touched off by fears about the banking sector, reaching a low of EUR 8.68 on 10 August, before posting a modest rally to stand at EUR 9 at the close on 30 September 2011. Frauenthal held up better than most of the other shares quoted on the Vienna Stock Exchange over the first nine months of the year. Market capitalisation as at 30 September 2011 was EUR 84.9m (30 December 2010: EUR 102.8m); this included 1,900,000 unlisted registered shares

For more information on our share price performance and ownership structure, visit our website at www.frauenthal.at.

COMPOSITION OF THE EXECUTIVE BOARD

As at 30 September 2011 the Executive Board consisted of Hans-Peter Moser, who is in overall charge of the Automotive Components and Wholesale Plumbing Supplies divisions, and Martin Sailer who heads up the corporate finance function and the Industrial Honeycombs Division.

COMPOSITION OF THE EXECUTIVE BOARD

The Executive Board hereby declares that to the best of its knowledge the interim report of the Frauenthal Group for the third quarter of 2011, prepared in accordance with International Financial Reporting Standards (IFRS), as far as possible gives 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, 16 November 2011

Frauenthal Holding AG

The Executive Board

Hans-Peter Moser
Member of the
Executive Board

Martin Sailer
Member of the
Executive Board

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.

Martin Fötsch (23), production worker, Industrial Honeycombs Division

Abridged financial statements

CONSOLIDATED INCOME STATEMENT

EUR '000	1-9 / 2011	1-9 / 2010
Revenue	**442,760**	**395,913**
Changes in inventories of finished goods and work in progress	5,605	2,490
Work performed by the entity and capitalised	62	0
Other operating income	5,744	5,404
Raw material and consumables used	-297,964	-259,599
Staff costs	-87,253	-79,337
Depreciation and amortisation expense, and impairment	-9,852	-9,412
Other operating expenses	-40,531	-40,776
Profit from operations	**18,571**	**14,683**
Interest income	535	133
Interest expense	-5,019	-2,942
Net finance costs	**-4,484**	**-2,809**
Profit before tax	**14,087**	**11,874**
Income tax expense	-945	-611
Change in deferred tax	-2,172	-1,941
Profit after tax	**10,970**	**9,322**
Attributable to non-controlling interests	385	-137
Attributable to owners of the parent (consolidated profit/loss for the year)	**10,585**	**9,459**
Earnings per share (basic/diluted)	1.16	1.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR '000	1-9 / 2011	1-9 / 2010
Profit after tax	**10,970**	**9,322**
Gains and losses on currency translation	-722	206
Gains and losses on changes in non-controlling interests	770	0
Shares purchased	0	-157
Other comprehensive income	48	49
Total comprehensive income	**11,018**	**9,371**
Attributable to non-controlling interests	1,139	-148
Attributable to owners of the parent	**9,879**	**9,519**

STATEMENT OF FINANCIAL POSITION

EUR '000	30 Sep. 2011	31 Dec. 2010
Assets		
Non-current assets		
Intangible assets	40,533	39,149
Property, plant and equipment	75,811	74,291
Investments in associates	726	726
Other financial assets	1,158	1,158
Deferred tax assets	19,165	20,771
	137,393	**136,095**
Current assets		
Inventories	92,131	72,052
Trade receivables	93,356	67,511
Other assets	11,225	11,834
Cash and cash equivalents	42,061	3,416
	238,773	**154,813**
Total assets	**376,166**	**290,908**

EUR '000	30 Sep. 2011	31 Dec. 2010
Equity and liabilities		
Equity		
Share capital	9,435	9,435
Capital reserves	21,093	21,093
Retained earnings	55,369	40,924
Translation reserves	-2,607	-1,901
Other reserves	37	37
Own shares	-552	-552
Non-controlling interests	4,414	3,275
Profit/loss for the year	10,585	17,191
	97,774	**89,502**
Non-current liabilities		
Bond	99,189	70,000
Bank borrowings	12,010	12,369
Other liabilities	1,954	3,709
Provisions for termination benefits	9,949	9,826
Provisions for pension	7,032	6,930
Provisions for deferred tax	3,007	2,463
Other long-term provisions	4,202	4,078
	137,343	**109,375**
Current liabilities		
Bond	33,851	1,375
Bank borrowings	22,507	14,043
Trade payables	55,535	49,775
Liabilities to Group companies	100	68
Other liabilities	25,715	24,327
Tax provisions	220	528
Other short-term provisions	3,121	1,915
	141,049	**92,031**
Total Equity and Liabilities	**376,166**	**290,908**

Statement of cash flows

EUR '000	1-9 / 2011	1-9 / 2010
Profit for the year before non-controlling interests	10,970	9,322
Interest income and expense	4,485	2,809
Depreciation and amortisation of non-current assets	9,852	9,413
Gains on disposal of non-current assets	-371	-13
Loss on disposal of non-current assets	36	4
Change in deferred tax assets	1,607	1,443
Change in long-term provisions	892	890
Interest paid	-3,932	-3,463
Interest received	235	133
Operating profit before working capital changes	**23,774**	**20,538**
Change in inventories	-20,079	-18,473
Change in trade receivables	-25,845	-36,201
Change in other receivables	662	1,279
Change in short-term provisions	898	-19
Change in trade payables	4,181	15,864
Change in liabilities to Group companies	32	53
Change in other liabilities	1,329	3,622
Translation related changes	-259	75
Net cash from operating activities	**-15,307**	**-13,262**
Investments in non-current assets	-13,388	-5,873
Proceeds from sale of non-current assets	504	34
Proceeds from investment grants	-116	135
Proceeds from repayment of loans	-55	0
Net cash used in investing activities	**-13,055**	**-5,704**
Dividends paid	-2,746	0
Change in non-controlling interests	770	0
Change in borrowings	68,983	20,918
Net cash used in financing activities	**67,007**	**20,918**
Change in cash and cash equivalents	**38,645**	**1,952**
Cash and cash equivalents at beginning of period	3,037	1,888
Cash and cash equivalents at end of period	41,682	3,840

Statement of changes in equity

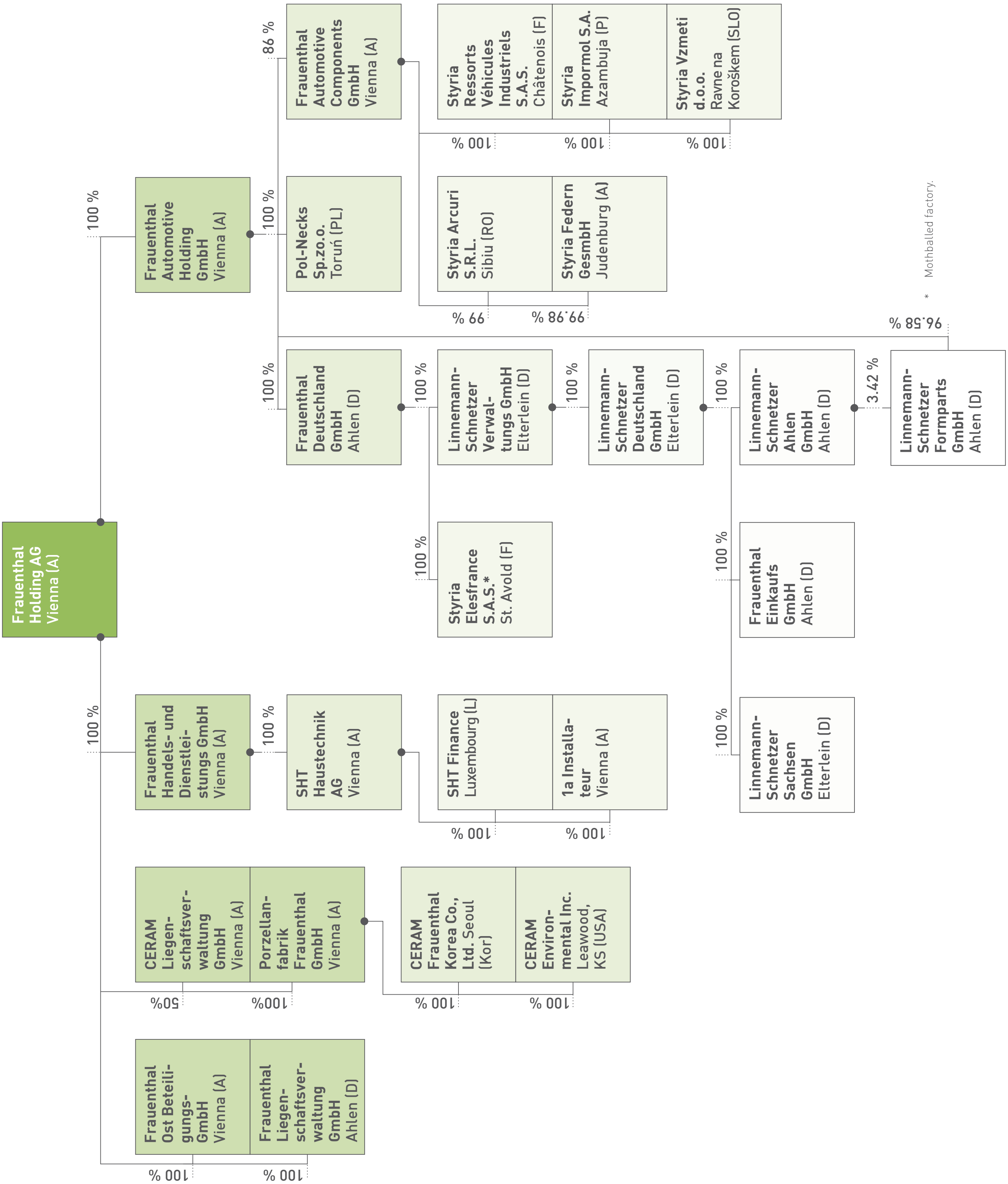
EUR ´000	Share capital	Capital reserve	Retained earnings	Translation reserve	Fair value reserve	Treasury shares	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at 1 Jan. 2010	**9,435**	**21,093**	**40,924**	**-2,161**	**65**	**-396**	**68,960**	**3,103**	**72,063**
Total comprehensive income for 2010			17,191	260	-28	-156	17,267	172	17,439
Balance at 31 Dec. 2010 / 1 Jan. 2011	**9,435**	**21,093**	**58,115**	**-1,901**	**37**	**-552**	**86,227**	**3,275**	**89,502**
Dividends paid			-2,746				-2,746		-2,746
Total comprehensive income for 1-9/2011			10,585	-706	0	0	9,879	1,139	11,018
Balance at 30 Sep.2011	**9,435**	**21,093**	**65,954**	**-2,607**	**37**	**-552**	**93,360**	**4,414**	**97,774**

Segment analysis

	Industrial Honeycombs		Automotive Components		Wholesale Plumbing Supplies		Holding companies and others		Intragroup eliminations		Frauenthal-Group	
EUR ´000	1 - 9 / 2011	1 - 9 / 2010	1 - 9 / 2011	1 - 9 / 2010	1 - 9 / 2011	1 - 9 / 2010	1 - 9 / 2011	1 - 9 / 2010	1 - 9 / 2011	1 - 9 / 2010	1 - 9 / 2011	1 - 9 / 2010
Strategic business segments												
Revenue from external customers	57,750	59,169	180,108	136,117	204,883	200,599	19	28	0	0	442,760	395,913
Intersegment revenues	0	687	714	1,093	0	0	1,988	1,755	-2,702	-3,535	0	0
Total revenues	57,750	59,856	180,822	137,210	204,883	200,599	2,007	1,783	-2,702	-3,535	442,760	395,913
EBITDA	7,498	10,311	12,538	6,195	9,165	8,238	-777	-642	0	-7	28,424	24,095
EBIT	5,085	8,198	7,680	1,776	6,748	5,472	-942	-756	0	-7	18,571	14,683
Employees	325	288	1,700	1,536	697	681	13	8	0	0	2,735	2,513

Our structure

Status as of 30.09.2011



* Mothballed factory.

Imprint

FINANCIAL CALENDER 2012

29.03.2012	Annual report 2011
21.05.2012	First-quarter interim report 2012
27.05.2012	Record day
06.06.2012	Annual General Meeting
11.06.2012	Result of the vote of the Annual General Meeting
12.06.2012	Ex-Day
15.06.2012	Dividend-Payment
21.08.2012	Second-quarter interim report 2012
21.11.2012	Third-quarter interim report 2012

SHAREHOLDER INFORMATION

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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 85 incl. 1,900,000 Stück unlisted registered shares (as at 30 September 2011)

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

Symbol: FKA

ISIN: AT 0000492749 (bonds 2005)

Symbol: FKA

ISIN: AT000A0PG75 (bonds 2011)

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Cover image: Manfred Held (32), production worker, Industrial Honeycombs Division
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Printed by: Grasl Druck & Neue Medien GmbH

Note: Editorial changes have been made to this report in the interests of readability (including the colour scheme and layout).
The original can be inspected at the Company's headquarters. Editorial deadline for the interim report on the third quarter of 2011: 16 November 2011

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