# NO TRICKS, NO SECRETS: FRoSTA TASTES BETTER, EVEN BEAN COUNTERS AGREE.

## ANNUAL REPORT 2016


FRoSTA AG

# KEY FIGURES FOR THE FRoSTA GROUP

Key figures for the FRoSTA Group

| | | 2015 | 2016 |
|---|---|---|---|
| Employees (average) | amount | 1,631 | 1,665 |
| Revenue | mEUR | 440 | 466 |
| EBITDA<br>in % of revenue | mEUR | 38.3<br>8.7 % | 43.8<br>9.4 % |
| Consolidated profit/loss | mEUR | 18.2 | 21.6 |
| Capital expenditure | mEUR | 14.1 | 26 |
| Dividend per share | EUR | 1.36 | 1.50 |

# FINANCIAL CALENDAR

Financial calendar

| Event | Date |
|---|---|
| **Presentation of Annual Results**<br>Bremerhaven | Thursday,<br>23 March 2017 |
| **Annual General Meeting**<br>Bremerhaven Civic Centre<br>Wilhelm-Kaisen-Platz<br>27576 Bremerhaven | Friday,<br>23 June 2017 |
| **Half-yearly financial report 2017** | Monday,<br>31 July 2017 |

mEUR = millions of euros kEUR = thousands of euros

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# LETTER TO OUR SHAREHOLDERS

Dear shareholders,

Our business continued to develop positively in 2016. Compared to the overall food market in Germany, which grew by 2 % (source: IRi), sales of our products were up by 5.9 %. Our FRoSTA brand once again recorded particularly strong growth, with an increase of 20.7 % across all countries. The issues that we have been committed to for many years are convincing more and more people:

- Natural ingredients, 100 % free from additives such as flavour enhancers, colouring agents, emulsifiers, stabilisers and flavourings (since January 2003)
- Declaration of the country of origin on the back of all packaging (since September 2015)
- Environmental protection with clear annual targets for reducing energy consumption and $CO_2$ emissions
- Social responsibility: we donate 2 % of our dividend amount to charitable initiatives near our plant locations and in the countries where we source our ingredients (since 2015)
- Transparent production for everyone to see with a 50-metre long glass window at our main production plant in Bremerhaven's Fischereihafen district (since March 2015)

This year, we are publishing our first sustainability report. This gives us an opportunity to present the sometimes highly complex issues in an informative and even entertaining way – why not check it out?

For a while now, we have been observing a growing interest in vegan nutrition. We are responding to this trend by extending our vegan FRoSTA range from May 2017. Our new "Chili con Quinoa" brings the flavour of Tex-Mex cuisine to your table. The selected ingredients don't just taste good – they also provide all the nutrients you need without any animal ingredients. And by the way, we deliberately do not use meat substitutes often typically found in vegan dishes.

Our personnel expenses rose at a slightly higher rate than revenue by 6.2 %. By contrast, the number of employees increased by only 2.1 %, to 1,665. For their collective contribution to the positive operating result,

FROM LEFT TO RIGHT

**HINNERK EHLERS**
Vice President Marketing,
Sales and Human Resources

**JÜRGEN MARGGRAF**
Vice President Operations

**MAIK BUSSE**
Vice President Finance
and Controlling

**FELIX AHLERS**
Chairman of the Executive Board

our employees benefited from significantly higher bonus payments. An increasing number of employees are also becoming shareholders: 405 buyers (5 % more than in the previous year) took advantage of the opportunity to purchase FRoSTA shares at particularly favourable conditions in 2016. Another positive factor was the continued low fluctuation rate of only 2 %.

Our operating profit also followed the trend in sales revenues and increased to EUR 31.1m, with a similarly improved relative margin. This positive result was achieved through strict cost control and a stronger focus on countries and business segments with more attractive price levels.

The increase in earnings is of fundamental importance to enable us to continue to invest in state-of-the-art technology and advertising in the future. In 2016, we raised our capital investments by EUR 11.9m and our advertising expenditure by EUR 0.7m, while managing to keep the equity ratio almost stable at 53.7 %.

2017 also got off to a positive start, with sales revenues in the first two months up by almost 8 %. We are therefore confident that these investments will pay off.

We would like to take this opportunity to congratulate all FRoSTA AG employees on their excellent work in 2016.

And we would like to thank you, our shareholders, for the confidence you have placed in us. We hope you will continue to do so in future.

Yours,

Felix Ahlers | Hinnerk Ehlers | Maik Busse | Jürgen Marggraf

# OUR MISSION: EXCELLENCE FOR OUR CUSTOMERS

Our mission is to develop and produce excellent frozen fish, ready meals, vegetables, herbs and fruit. In doing so, we are guided by the following values:


We aim for **innovation** in all areas of our organisation.

Our goal is to improve the **quality** of our products and services at every level.

Through our **entrepreneurship** we strive for opportunities in the interest of our customers.

Trusting oder trust-based **cooperation** with our customers and throughout the whole organisation is very important to us.

**Simplicity** in our processes and clear priorities improve our efficiency.

# ABOUT FRoSTA AG

More than 1,600 people work for FRoSTA AG in eight countries. We produce at three plants in Germany and one in Poland.

The FRoSTA brand is a successful provider of frozen fish, vegetables and meals in Germany, Poland, Austria, Italy and Eastern Europe. The FRoSTA "Purity Command" is our way of promising that we will never add any colours, flavourings, flavour enhancers, stabilisers or emulsifiers to any of our branded products. FRoSTA products are available from supermarkets and include a range of vegetables, fish, fruit and herbs as well as classic dishes such as nasi goreng and paella. In April 2013, FRoSTA was the first frozen food brand to publish on the Internet the countries of origin of each batch of our ingredients. Since autumn 2015, we have included this information on all of our product packaging as well.

**1,665** EMPLOYEES IN **8** COUNTRIES.

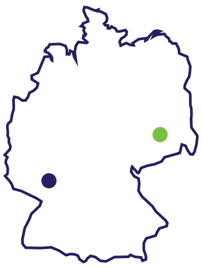
FRoSTA AG is also a specialist production partner in the development and production of high-quality customer brands for the European retail and wholesale sectors.

CLICK HERE FOR MORE INFORMATION.


Production Sales

# OUR BUSINESS

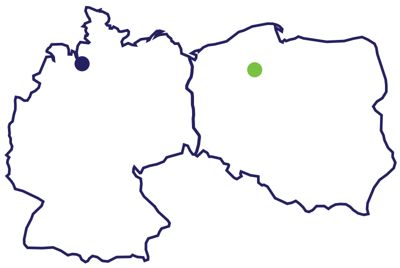
## FROZEN PRODUCTS AND PRODUCTION



VEGETABLES

FRUIT

HERBS



FISH

MEALS

### VEGETABLES, FRUIT AND HERBS FROM OUR OWN AND PARTNER FARMS

Bobenheim-Roxheim, Germany
Lommatzsch, Germany

### FISH AND MEALS

Bremerhaven, Germany
Bydgoszcz, Poland

## BUSINESS LINES

### BRAND BUSINESS

FRoSTA brand with Purity Command

tiko brand – Fish and meals

Elbtal brand – Vegetables

### PRIVATE LABEL BUSINESS

FRoSTA AG

copack®

Production partner according to customer requirements

### NON-RETAIL BUSINESS

FRoSTA FOOD SERVICE

# MANAGEMENT BODIES

## SUPERVISORY BOARD

**Dirk Ahlers**
Hamburg
Businessman
Chairman

**Oswald Barckhahn**
Amsterdam/Netherlands
Businessman
Vice Chairman

**Jürgen Schimmelpfennig**
Bremerhaven
Machine Fitter

## EXECUTIVE BOARD

**Felix Ahlers**
Hamburg
Chairman

**Maik Busse**
(as of 1 July 2016)
Bremerhaven

**Hinnerk Ehlers**
Hamburg

**Jürgen Marggraf**
Bremerhaven
Vice Chairman

# HI THERE, WE'RE NEW!

## NEW FRoSTA PRODUCTS IN 2016

The 23 new products that we launched in 2016 are of course also subject to the strict FRoSTA Purity Command. Our products have been consistently free from all additives and flavourings since 2003. Since 2016, we have also included the country of origin of all ingredients on our packaging.


### FISH FOR THE FRYING PAN OR OVEN

Caught on the high seas and frozen immediately, these MSC-certified Alaska pollack fillets meet all the requirements set out by our company founder, Dirk Ahlers, for good fish.

→ THREE VARIETIES OF FISH



### VEGGIE BURGERS

In our opinion, these vegetable burgers taste much better than meat burgers. If you read the section on climate protection in our sustainability report, you will see why our colleague Urban Buschmann has another reason to be happy about our veggie burgers.

→ THREE VARIETIES OF VEGGIE BURGERS

### VEGETABLES – PURE AND SIMPLE

Your own garden is probably the only other place you will find fresher peas. When it comes to these delicate vegetables, the race against time starts immediately once they are harvested and only stops when they reach your plate. Or the deep freeze section at –18 degrees, where our peas manage to be within two hours. They've been handled like this for over 40 years by the way!

→ FIVE VARIETIES OF VEGETABLES – PURE AND SIMPLE


## BUTTERED VEGETABLES

Like all the new products that we launched in 2016, our new buttered vegetables come in a cardboard box rather than a plastic bag. In the last two years, we have focused our attention on environmentally friendly packaging and have made excellent progress in this area.

→ BUTTERED VEGETABLES

## CREAMED VEGETABLES

One of the greatest challenges that we faced when implementing our Purity Command was the omission of modified starches. Our solution was to return to high-quality fats like butter and cream and to rediscover a traditional cooking technique – the roux. The result is beautifully creamy sauces for our new creamed vegetables!

→ FOUR VARIETIES OF CREAMED VEGETABLES



## SPINACH

Like our peas, speed is of the essence when it comes to our spinach: its valuable nutrients start to diminish as soon as it is harvested. We also manage to transport our spinach from the field to the freezer within two hours!

→ THREE VARIETIES OF SPINACH


## CHICKEN WITH SAUCE

All that is missing from our four new chicken dishes is your favourite side dish. A little self-catering is also good for a change!

→ FOUR VARIETIES OF CHICKEN

# CONSOLIDATED MANAGEMENT REPORT

# CONSOLIDATED MANAGEMENT REPORT FOR THE COMPANY AND THE GROUP OF FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

## BUSINESS ENVIRONMENT AND GENERAL CONDITIONS

### BUSINESS STRUCTURE

**AT FRoSTA, OUR SUCCESSFUL BUSINESS STRUCTURE WAS RETAINED IN 2016.**

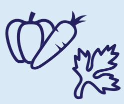
#### 3 OPERATING SEGMENTS

1. FRoSTA – OUR BRAND
2. NON-RETAIL BUSINESS INCLUDING FOODSERVICE & HOME DELIVERY
3. COPACK – OUR PRIVATE LABEL BUSINESS

#### 9 SALES OFFICES

HAMBURG
BREMERHAVEN
BYDGOSZCZ
PARIS
ROME
PRAGUE
BUCHAREST
BUDAPEST
MOSCOW

#### 4 PLANTS



VEGETABLES AND HERBS FROM OUR OWN CULTIVATION IN LOMMATZSCH AND BOBENHEIM-ROXHEIM

FISH AND READY MEALS IN BREMERHAVEN AND BYDGOSZCZ/ POLAND

### EMPLOYEES

It is our 1,665 employees who time and again make our success possible. We are FRoSTA!

The number of employees rose by 2.1 % on an annual average.

| Employees | 2015 | 2016 |
|---|---|---|
| **FRoSTA head office** | **210** | **210** |
| Administration | 131 | 127 |
| Sales | 79 | 83 |
| **FRoSTA production facilities** | **1,421** | **1,455** |
| Bydgoszcz | 591 | 603 |
| Bremerhaven | 539 | 549 |
| Lommatzsch | 160 | 162 |
| Bobenheim-Roxheim | 131 | 141 |
| **Group total** | **1,631** | **1,665** |

Proportion of women: we promote equality!

| | |
|---|---|
| First-level management | 27 % |
| Second-level management | 34 % |
| Total FRoSTA | 39 % |

We develop our specialists of tomorrow. In the 2016 financial year, we employed 30 apprentices at FRoSTA. With a sickness rate of 5.1 % and a very low fluctuation rate of 2.0 % at our German locations, we once again showed encouraging employment parameters.

Total personnel expenses increased by 6.2 % to a level of EUR 68.3m. While the remuneration of the Executive Board fell slightly, employees and management participated in the positive financial results.

In 2016, we again offered our employees the opportunity to share in the ownership of FRoSTA AG by purchasing employee shares at a reduced price. The value of shares purchased amounted to EUR 855,671.00 (2015: EUR 755,376.00). A total of

405 buyers took part in the campaign (2015: 387). We are very pleased with our employees' involvement in this scheme and with the trust demonstrated. We hope that even more employees will become FRoSTA shareholders in future.

We would like to warmly thank all of our employees and the Works Council for their high level of commitment and enthusiastic dedication during the past year.

## PROCUREMENT

Global procurement markets were highly influenced by currency fluctuations between the euro and the US dollar as well as extremely volatile energy costs (oil and gas prices) in the 2016 financial year. The aim for 2016 was to compensate for these macroeconomic factors and achieve attractive purchasing prices. In some cases, poor harvest yields in certain vegetable commodities in Europe caused price increases because of lower availability.

## PRODUCTION

Due to extremely strong demand in European markets, we were able to increase production volumes by more than 3 % compared to 2015. As a result, capacity utilisation was extremely good at all production facilities. All of FRoSTA AG's production facilities are certified in accordance with ISO 50001 (energy management). FRoSTA AG was able to maintain its energy use per tonne of finished products (measured in $CO_2$ equivalents) at a good level.

## CAPITAL EXPENDITURE

Capital expenditures totalled EUR 26m for the 2016 financial year, EUR 10m of which flowed into capacity expansion projects with EUR 16m being earmarked for replacement investments as well as investments targeting more energy-efficient production at all locations. The capacity expansion relates to a new production line for ready meals in Bremerhaven and the start of the production expansion for fish products in Bydgoszcz, Poland.

## R&D REPORT

Product development again contributed to the Company's sustainable success. In 2016, many new product concepts were developed. One highly successful example is the new FRoSTA fish range including products for the oven (Backofen Fisch) and the frying pan (Pfannen Fisch).

## ORGANISATION, ADMINISTRATION AND COMPANY STRUCTURE

The proven organisation structure was maintained. With the departure of Dr Hinrichs from the Executive Board, his executive duties were redistributed. Chairman of FRoSTA AG's Executive Board is Felix Ahlers. As Vice Chairman, Jürgen Marggraf is responsible for the COPACK and Operations segments. Hinnerk Ehlers is in charge of Marketing and Sales for the brand, Foodservice and Home Delivery as well as HR. Effective from 1 July 2016, Maik Busse took over Finance and Controlling.

The Supervisory Board of FRoSTA AG is chaired by Dirk Ahlers. Oswald Barckhahn is Vice Chairman of the Supervisory Board and Jürgen Schimmelpfennig is the elected workers' representative. The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board has transferred the completion, amendment and termination of employment contracts to the Finance and Personnel Committee.

On the recommendation of its Finance and Personnel Committee, FRoSTA AG's Supervisory Board determines the amount and structure of the Executive Board members' remuneration. Dirk Ahlers and Oswald Barckhahn are members of this committee.

The members of the Executive Board receive remuneration made up of the following components:
- a fixed basic annual salary
- a variable remuneration for the purchase of FRoSTA shares
- a variable remuneration based on consolidated profit before tax
- a long-term bonus based on the three-year average return on investment (ROI) of FRoSTA AG (not a ratio generally used in the Company; applies only to some members of the Executive Board)

The members of the Supervisory Board receive remuneration made up of the following components:
- a fixed basic annual salary paid once a year
- a bonus related to the proposed dividend payment which is also paid once a year

# RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

## MACROECONOMIC ENVIRONMENT

In 2016, the German economy grew by 1.9 % and the economies of the EU countries by 1.8 %. Inflation in the euro zone increased slightly year-on-year to 1.1 %, with energy prices rising faster than average at 2.5 % (Source: Eurostat).

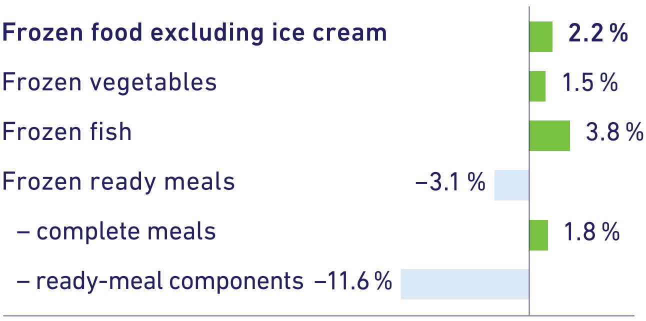
The German food retail segment posted growth of 2.0 % in the 2016 financial year, which was accounted for by volume growth with 1.0 % and by price increases also with 1.0 %. While large self-service department stores grew at a below-average pace with only 0.3 %, full-range food retailers benefited most from the positive underlying consumer mood and gained 2.7 % on 2015. The discounters also achieved growth of 1.9 %, mainly thanks to listings of branded products (Source: IRi 2016).

2016 was marked especially in the last few weeks of the year by the euro's sharp decline against the dollar. The average exchange rate dropped from USD 1.11 to USD 1.05 at year's end.

## DEVELOPMENT OF THE FROZEN FOOD MARKET

In 2016, frozen food sales in the German food retail segment, including hard discounters (Aldi/Lidl/Norma) increased by 2.2 % to EUR 6.2 billion. The FRoSTA brand made an above-average contribution to this development in all category segments.

Performance – 2016 vs. 2015



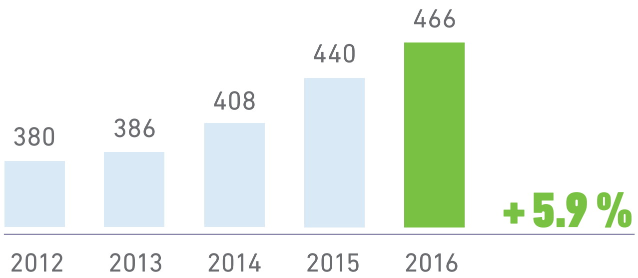

## FRoSTA BRAND GROWS BY 25.7 %

With strong growth of 25.7 %, the FRoSTA brand continued to successfully establish itself in this field. The strongest growth was recorded in the sales of complete ready meals (up by 18.8 %), vegetables (+35.8 %) and fish products (as much as 46.0 %) (Source: IRi 2016).

## BUSINESS DEVELOPMENT

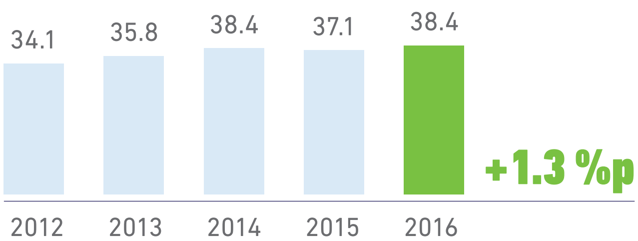
In 2016, we managed to increase FRoSTA Group revenue by 5.9 % to EUR 466m. The main driver of this positive development was the continued focus on the FRoSTA brand with growth of 21 % and on the Foodservice business, which posted an increase of 19 % over 2015. Revenue performance was also positive in the Home Delivery and private label business. The development projected in the previous year's forecast thus occurred both in the consolidated and in the separate financial statements.

Group revenue (in mEUR)




Despite the negative purchasing currency effects, the sales increases for the FRoSTA brand and in the Foodservice segment with innovative products contributed to an improvement of the gross profit margin from 37.1 % to 38.4 %. The gross profit margin is calculated on the basis of Group earnings by subtracting other operating income and the cost of materials (cost of goods sold) from total revenue and dividing by total revenue.

Gross profit margin (in %)

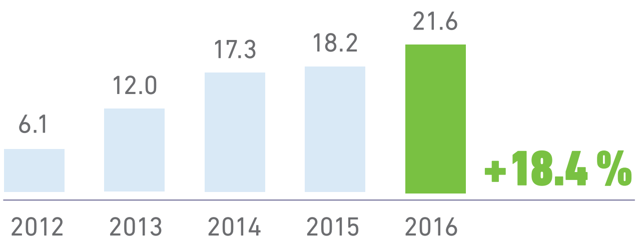



To create additional production capacities, extra shifts were introduced in the plants with corresponding subsequent costs.

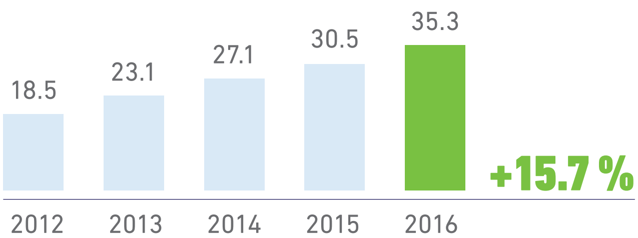
Expenditure on brand-building activities increased by EUR 0.7m.

The consolidated profit/loss totalled EUR 21.6m in the 2016 reporting period, up by EUR 3.4m on 2015, and was used to finance the increase in working capital necessary to support further business growth.

**Consolidated profit/loss (in mEUR)**




**Cash flow before change in working capital (in mEUR)**




With these results, the Company managed to exceed the forecast made for the financial year 2016.

The equity shown in the consolidated balance sheet of FRoSTA AG can be broken down as follows, in each case as at 31 December:

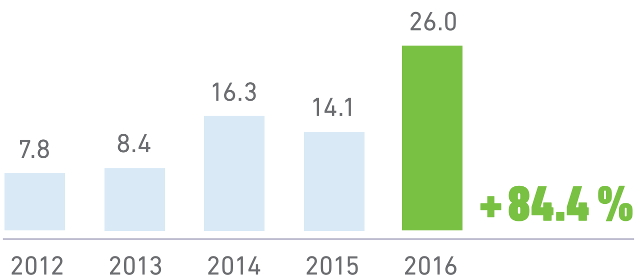
**EQUITY (in mEUR)**

| | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Subscribed capital | 17.4 | 17.4 |
| + Capital reserves | 12.8 | 12.8 |
| + Retained earnings | 86.3 | 93.9 |
| + Net result | 18.2 | 21,6 |
| **Equity** | **134.7** | **145.7** |
| **Total assets** | **244.7** | **271.6** |
| **Equity ratio** | **55.1 %** | **53.7 %** |

The equity ratio at the balance sheet date was impacted by the increase in working capital and capital expenditures for new production capacities that will not ensure an additional creation of value until the subsequent year, but nevertheless remained at a high level.

Capital expenditures amounting to EUR 26.0m significantly exceeded the 2015 figure of EUR 14.1m and were completely financed from the “cash flow before change in working capital” amounting to EUR 35.3m. Thus in the 2016 financial year, the Group was able to fulfil its payment obligations at all times.

**Capital expenditure (in mEUR)**

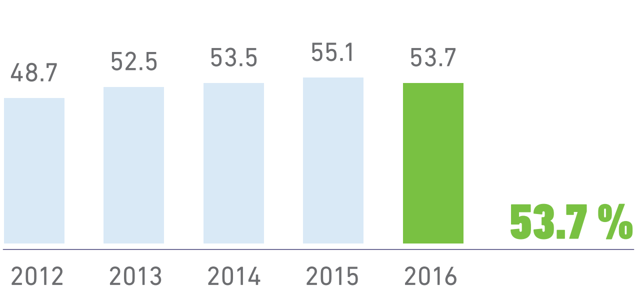



The balance sheet total of EUR 272m in 2016 significantly exceeded the previous year’s level of EUR 245m. This included an increase of EUR 13m in fixed assets due to the investments in capacity expansion. Inventories at the balance sheet date were EUR 8.2m higher than in the previous year. This was due to higher demand as well as to holding safety stocks as a result of the poor harvest for our vegetable and herb products. Trade receivables increased in line with growth by EUR 3.4m. At the end of 2016, cash amounted to EUR 14.9m, slightly above the previous year’s level of EUR 14.4m.

The rise in the balance sheet total was funded by the increase in equity of EUR 11m and current and non-current provisions and liabilities. Liabilities to banks were reduced from EUR 33m to EUR 28m after bank loans came to maturity and were repaid and the financing of an investment with EUR 10m was compensated through a reduction in receivables financing within the scope of the ABS programme.

The equity ratio of FRoSTA AG thus remained at a high level of 54 %, allowing the Company to retain its financial independence in the future.

**Equity ratio (in %)**



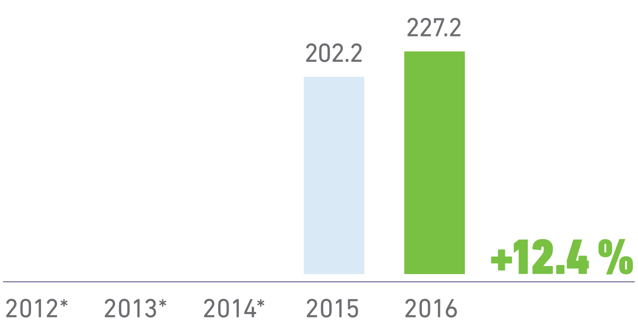

Overall, the financial position of the FRoSTA Group developed positively in 2016. The revenue, gross profit margin and total profit/loss projections made in the 2015 management report were surpassed, leading to the higher than projected operating profit.

## SEGMENT REPORTING

### PERFORMANCE OF THE FRoSTA OPERATING SEGMENT

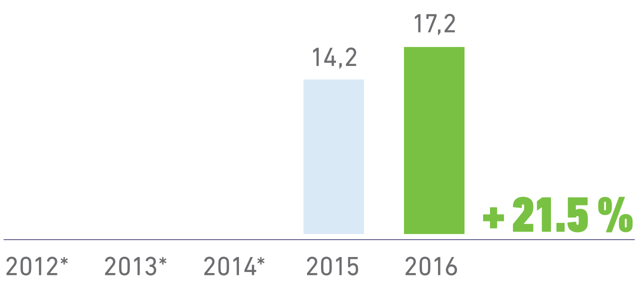
The FRoSTA operating segment (brand business in Germany, Austria, Poland, Hungary, Czech Republic, Romania, Russia and Italy, some parts of the private label business as well as the Foodservice and Home Delivery service in Europe) enjoyed a positive development in almost all sales areas. Various sales and marketing activities resulted in improved consumer demand and increasing turnover of 12.4 % compared to 2015.

**Revenue FRoSTA operating segment (in mEUR)**




*new allocation from 2015

**Profit/loss FRoSTA operating segment (in mEUR)**




*new allocation from 2015

In the core German market, the FRoSTA brand increased consumer revenue in 2016 by as much as 25.7 % (source: IRi 2016).

FRoSTA extended its market leadership in stir-fry meals with growth of 18.8 %. Among the 15 top-selling products in this segment, FRoSTA was represented with eight products, while its main brand competitor suffered two-digit losses despite numerous new listings (source: IRi 2016).

Sales revenues for FRoSTA vegetable mixes grew by 35.8 %. This growth was driven by the continued focus on the core business with an expansion of distribution and excellent results for traditional vegetable varieties (source: IRi 2016).

In the fish segment, FRoSTA – still at a low level – saw a 46 % rise in growth year-on-year (source: IRi 2016).

The FRoSTA brand also succeeded in further consolidating its position in the Eastern European markets and in Italy with double-digit growth.

Due to the high quality of the range, the Foodservice (catering) segment also saw a rise in revenue of 19.4 %. Even in the challenging Home Delivery segment, the Company generated growth of 5.9 %.

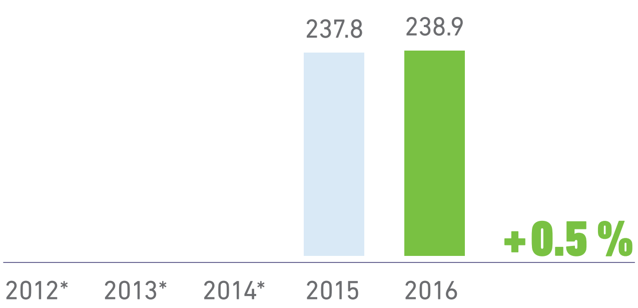
Expenditure for advertising and brand-building activities was extended; nevertheless the FRoSTA operating segment increasingly benefited from the attained critical mass and improved its profitability. This releases resources that will allow the Company to further invest in brand development in the future.

## PERFORMANCE OF THE COPACK OPERATING SEGMENT

The COPACK operating segment comprises the private label business sales channels with food retailers in Germany, France and Western Europe as well as industrial customers.

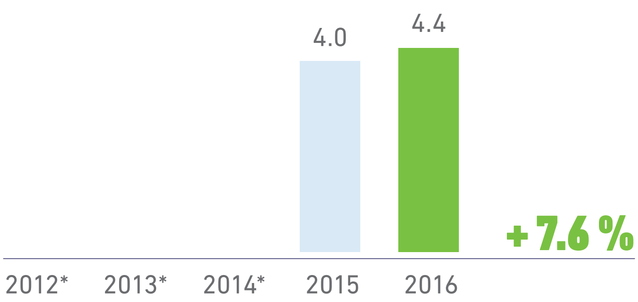
A major contribution to sales revenue growth came from the expansion of distribution in France.

**Revenue COPACK operating segment (in mEUR)**




*new allocation from 2015

**Profit/loss COPACK operating segment (in mEUR)**




*new allocation from 2015

In the fish and vegetables product groups, however, further growth was also achieved in the other markets.

One major challenge in the COPACK operating segment resulted from the current insolvency of competitors.

Increasingly scant production resources made it repeatedly necessary to optimise the portfolio in an effort to satisfy the additional customer demand thus generated.

Increased volume, a favourable product mix and further efficiency-enhancing measures had a positive impact. These are an important contribution towards future investments in additional capacities and necessary working capital.

The anticipated rise in the price of raw materials here will necessitate further price increases and cost cuts in the future.

## INDIVIDUAL FINANCIAL STATEMENTS OF FROSTA AG

The individual and consolidated financial statements of FRoSTA AG are identical with regard to changes in most balance sheet and income statement items. Any material differences between the financial statements are caused by consolidation of the Polish subsidiary and the differences in financial reporting standards.

Unlike the consolidated financial statements governed by international IFRS rules, the individual financial statements for FRoSTA AG are prepared in accordance with the provisions of the German Commercial Code (HGB).

Revenue of FRoSTA AG in 2016 was up by 6.5 % on the previous year. This was mainly due to the good revenue performance of the FRoSTA brand in Germany and Eastern Europe and sales in France, Italy and the Foodservice business. The increase in revenue had a correspondingly positive effect on our earnings. However, currency effects and the difficult harvest situation negatively impacted the cost of materials. Personnel expenses were adjusted in line with existing agreements. The line item other expenses item reflects increased expenditure for advertising as well as restructuring expenses for the relocation of a production line.

The individual financial statements show a profit after tax of EUR 15.5m in accordance with the accounting principles of the German Commercial Code. The previous year's figure was EUR 13.3m.

The detailed differences between the net income for the year according to German Commercial Code and the consolidated profit for the year according to IFRSs are illustrated below:

**Reconciliation of 2016 financial statements**

| | kEUR |
|---|---|
| **Net income for the year of FRoSTA AG for 2016 (HGB)** | **15,451** |
| Adjustments to IFRSs: | |
| Depreciation and amortisation | –2,242 |
| Pallet expenditure | 984 |
| Deferred taxes | 507 |
| Disposal of shares in Bio-Frost Westhof GmbH | –307 |
| Other | –128 |
| **Profit for the year of FRoSTA AG for 2016 (IFRSs)** | **14,265** |
| Total annual profit/loss of subsidiaries included in the consolidated financial statements | 7,354 |
| Effects of the consolidating entries recorded to profit or loss | –51 |
| **Profit for the year of the FRoSTA Group for 2016** | **21,568** |

The higher depreciation/amortisation figures in the IFRS financial statements result from the fact that fixed assets measured in accordance with IFRSs have a higher carrying amount than in the HGB financial statements, and from different depreciation/amortisation rules and useful lives.

The individual financial statements according to generally accepted accounting standards in Germany remain the basis for determining the dividend amount.

The Executive Board will propose to the Annual General Meeting to distribute a dividend of EUR 1.50 per share from net retained profits and allocate the remainder to reserves. Based on 6,812,598 shares, less 10,468 treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), this results in a total dividend amount of EUR 10.2m.

As a result, 24 % of the FRoSTA Group's profit before tax of EUR 31.1m will be distributed as a dividend and 39 % paid as taxes, with 37 % being retained by the Company.

**Appropriation of profits 2016**

| | mEUR | Percentage |
|---|---|---|
| Current company taxes | 9.5 | 30 % |
| Capital gains tax including solidarity surcharge on dividends | 2.7 | 9 % |
| **Total taxes** | **12.2** | **39 %** |
| **Net dividend** | **7.5** | **24 %** |
| **Retained by the Company** | **11.4** | **37 %** |
| **Consolidated profit before tax** | **31.1** | **100 %** |

For all other statements made in the management report, the separate and consolidated financial statements correspond, with the exception of the special characteristics typical of a group. Relating to the disclosures pursuant to Section 289 (4) HGB – where relevant – please refer to the disclosures in the Notes.

Overall, the financial position of the FRoSTA Group developed positively in 2016. The revenue, gross profit margin and total profit/loss projections made in the 2015 management report were surpassed, leading to the higher than projected operating profit.

## THE FRoSTA SHARE

| Key data of the FRoSTA share | |
|---|---|
| Market segment | Entry Standard of Frankfurt Stock Exchange |
| German SIN (WKN) | 606900 |
| ISIN | DE0006069008 |
| Nominal share value | EUR 2.56 |

The FRoSTA share saw the following development in 2016: in December 2015, the share price was at EUR 40.20 and in December 2016 it was at EUR 58.80.

The dividend yield is 2.6 %. Since February 2011, the FRoSTA share has been traded in the Entry Standard of the Frankfurt Stock Exchange.

**Key figures for the FRoSTA share**

| | 2015 | 2016 |
|---|---|---|
| Share capital (mEUR) | 17.4 | 17.4 |
| Number of shares (in thousand) | 6,813 | 6,813 |
| Equity acc. to consolidated balance sheet (mEUR) | 134.7 | 145.7 |
| Equity per share (EUR) | 19.77 | 21.39 |
| Share price at year-end (EUR) | 40.20 | 58.80 |
| Year high (EUR) | 42.69 | 65.25 |
| Year low (EUR) | 26.21 | 39.40 |
| Trading volume in shares | 731,892 | 516,782 |
| P/E ratio (price at year-end/profit for the year) | 15.11 | 18.55 |
| Dividend payout per share (EUR) | 1.36 | 1.50 |
| Dividend yield (dividend/price at year-end) | 3.4 % | 2.6 % |
| Consolidated profit for the year (mEUR) | 18.2 | 21.6 |
| Profit for the year per share (EUR) | 2.67 | 3.17 |
| Cash flow before change in working capital (mEUR) | 30.5 | 35.3 |
| Cash flow before change in working capital per share (EUR) | 4.48 | 5.18 |

# RISK MANAGEMENT SYSTEM/ INTERNAL CONTROL SYSTEM

The risks described affect all segments of the Group.

The main features of the internal control and risk management process relevant for the Group's financial reporting system are presented as follows: FRoSTA has set up an internal control and monitoring system to be enforced by the Group's Financial Control, Accounting, Debtor Management and Human Resources departments.

Process-integrated and independent monitoring procedures make up the main components of the control system. Besides manual measures such as the dual-control principle, automatic controls integrated into our SAP-ERP system with its BO analysis tool are also a material component of measures integrated into processes. The strict separation of administrative, executive, accounting and approval functions reduces the likelihood of fraudulent actions.

The most important internal control variable at FRoSTA AG alongside "contribution margin II" (contribution margin I less selling expenses and marketing costs) and "operating profit/loss" is "return on investment".

Our process-independent monitoring programme includes the internal audits of our quality management officers, internal auditing projects and indeed the Supervisory Board.

The compliance and reliability of our corporate accounting is guaranteed by adherence to the work instructions and internal accounting manual, which apply to all relevant Group companies. These regulations also stipulate the material and formal requirements concerning the preparation of the financial statements. Despite the large number of regulations, there is still a possibility of risk, for example as a result of extraordinary or complex transactions.

All our managerial staff are actively involved in our risk management system. The system ensures that warning signals are given at an early stage, even in times of crisis.

Market-related business risks are naturally borne by the Company itself. These include risks from the development of new products. The Company generally tries as far as possible to transfer any risks not stemming from the Company's core areas of activity, such as currency, liability and property damage risks, to third parties.

The risk management system at FRoSTA AG is the subject of a continuous improvement process. Each year, a management workshop is held to review and assess all of the Company's risks and opportunities.

# REPORT ON RISKS AND OPPORTUNITIES

## PROCUREMENT MARKET

The production of frozen food involves the use of a wide range of raw materials, the procurement of which can be subject to considerable fluctuation. By cooperating with strategic suppliers we smooth out these fluctuations and avoid dependencies. Due to different geographical locations, our own vegetable production is also largely secured against the effects of inclement local weather conditions that can lead to poor harvests. Despite all this, considerable changes in the prices of raw materials are still possible and, if we are to remain competitive, we cannot always pass these on directly to the customers. This situation presents risks and opportunities. However, price agreements with customers with a term of more than six months increase our risk/opportunity as we are not normally in a position to secure raw material cover for such a long period. As far as possible, we therefore try to avoid contractual or delivery agreements with our customers which go beyond this period. However, competition sometimes makes this impossible.

The quality of the raw materials is monitored by audits at our suppliers' facilities and by checking goods as they arrive at our plants. Quality checks, however, cannot guarantee the absolute safety of raw materials since the thresholds for contamination are becoming ever lower and the checks are only carried out on a random basis.

## CURRENCY SITUATION

FRoSTA purchases most of its raw materials from international markets. Most of these goods are invoiced in US dollars. We make use of the usual options and futures trading instruments available on the market to hedge exchange rate fluctuations. The way these currency hedging instruments are dealt with is precisely stipulated by a set of procedural regulations, and financial controlling instruments are employed to ensure that these are adhered to. In general, a deterioration of the EUR/USD exchange rate results in higher prices for goods purchased – and vice versa. The hedging of exchange rate risks can only compensate to a limited extent for a continually rising US dollar. Opportunities may derive from falling US dollar exchange rates.

As part of the risk management process, procurement market and currency risks as the risks with the highest exposure rate for FRoSTA are monitored most closely.

### SALES MARKET

The increasing concentration of trade is leading to risks arising from the potential loss of bulk contracts. Our broad customer structure is based on private label and customer brands, as well as supplying home delivery services, caterers and industrial customers, all of which protects us against excessive fluctuations in individual market segments. Our contracts with our customers normally include items and prices but do not guarantee fixed volumes, which means that FRoSTA carries the risk of reduced purchases by the consumer.

The risk of losing outstanding receivables is limited by credit risk insurances with the usual deductibles, a strict reminder system and internal credit limits.

The frozen food market is subject to constant change. Our competitors might respond to product trends more quickly or gain technological leads. In close cooperation with our Product Development department, we conduct intensive research to identify market trends. This enables us to produce innovative product concepts to respond to changes or even to initiate changes ourselves within the market.

Besides market growth in Germany and Western Europe, there are special opportunities for FRoSTA AG particularly in Eastern Europe. Combined with FRoSTA's strong market position, the low per-capita consumption in these countries offers good potential for growth.

### FINANCING

Our financing is dependent on loans. By exercising alternative forms of financing such as selling receivables through asset-backed securities, but also by maintaining an adequate equity base, we aim to reduce our dependence on borrowing and to meet increasingly strict requirements from the capital market. In doing so, we are exposed to interest rate risk on the capital market. By using long-term loans and interest-rate hedging, we can limit the interest rate risk.

### LEGAL RISKS

There are no legal risks.

## REPORT ON POST-BALANCE SHEET DATE EVENTS

There have been no events after the reporting date which would have any bearing on the financial year under review.

## BRANCH OFFICE REPORT

FRoSTA AG has the following branch offices:

- F. Schottke, Bremerhaven, Germany
- Elbtal Tiefkühlkost, Lommatzsch, Germany
- Rheintal Tiefkühlkost, Bobenheim-Roxheim, Germany

## FORECAST

We expect the frozen food market in Europe to enjoy slightly moderate growth. We also expect the catering business (Foodservice) to grow slightly. We are aiming to increase the contribution margins slightly compared to 2016 to enable us to invest in advertising, necessary working capital and innovative state-of-the-art technology in the future. We are therefore targeting a slight overall improvement in results from ordinary operating activities, so as to continue to guarantee our independence through a stable equity ratio in 2017.

We want to achieve this through strict cost control and increasingly with innovations in the FRoSTA brand and Foodservice segments. This will require additional price increases and cost cuts.

In the first two months of 2017, we saw an increase in revenue of 7.8 % compared to the previous year.

We believe we have the personnel and organisational capability necessary to continue to develop FRoSTA AG positively. In this endeavour, we will be supported by our long-standing good relations with our customers, suppliers and banks as well as by our dedicated workforce.

Bremerhaven, March 2017

The Executive Board

# ANNUAL FINANCIAL STATEMENTS OF THE FRoSTA GROUP



# CONSOLIDATED BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH IFRSS – ASSETS

**Consolidated balance sheet of FRoSTA AG as at 31 December 2016 (in kEUR)**

| | | Note | 2015 | 2016 | Change |
|---|---|---|---|---|---|
| **A.** | **Non-current assets** | | | | |
| I. | Intangible assets | 6, 8, 23 | 1,149 | 1,298 | 13.0 % |
| II. | Property, plant and equipment | 7, 8, 24 | 73,357 | 86,350 | 17.7 % |
| III. | Financial assets | 9, 25 | 120 | 125 | 4.2 % |
| IV. | Investments accounted for using the equity method | 9, 25 | 307 | 0 | –100.0 % |
| V. | Deferred taxes | 16, 46 | 1,553 | 1,948 | 25.4 % |
| | | | **76,486** | **89,721** | 17.3 % |
| **B.** | **Current assets** | | | | |
| I. | Inventories | 10, 26 | 69,384 | 77,612 | 11.9 % |
| II. | Receivables and other assets | 11 | | | |
| | 1. Trade receivables | 27 | 79,221 | 82,584 | 4.2 % |
| | 2. Receivables from affiliated companies | | 3 | 0 | –100.0 % |
| | 3. Other assets | | | | |
| | Financial assets | 28 | 4,412 | 6,335 | 43.6 % |
| | Miscellaneous other assets | 28 | 290 | 245 | –15.5 % |
| | 4. Tax receivables | | 441 | 165 | –62.6 % |
| III. | Cash and cash equivalents | 48 | 14,439 | 14,903 | 3.2 % |
| | | | **168,190** | **181,844** | 8.1 % |
| **Balance sheet total** | | | **244,676** | **271,565** | **11.0 %** |

# CONSOLIDATED BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH IFRSS – EQUITY AND LIABILITIES

**Consolidated balance sheet of FRoSTA AG as at 31 December 2016 (in kEUR)**

| | Note | 2015 | 2016 | Change |
|---|---|---|---|---|
| **A. Equity** | **29** | | | |
| I. Subscribed capital | 30 | | | |
| Nominal amount | | 17,440 | 17,440 | 0.0 % |
| Treasury shares | | –16 | –27 | –68.8 % |
| | | **17,424** | **17,413** | –0.1 % |
| II. Capital reserves | 31 | 12,815 | 12,815 | 0.0 % |
| III. Retained earnings | 32 | 79,914 | 83,676 | 4.7 % |
| IV. Other reserves | 33 | –958 | –1,896 | –97.9 % |
| V. Equity earned by the Group (without retained earnings) | 32 | 25,505 | 33,724 | 32.2 % |
| | | **134,700** | **145,732** | 8.2 % |
| **B. Non-current liabilities** | | | | |
| I. Provisions for pensions | 35 | 892 | 960 | 7.6 % |
| II. Other non-current provisions | 36 | 2,302 | 2,377 | 3.3 % |
| III. Liabilities to banks | 37 | 12,368 | 17,715 | 43.2 % |
| IV. Deferred tax liabilities | 46 | 2,906 | 2,649 | –8.8 % |
| | | **18,468** | **23,701** | 28.3 % |
| **C. Current liabilities** | | | | |
| I. Current provisions | 35 | 0 | 1,688 | n.a. |
| II. Liabilities to banks | 37 | 20,871 | 9,904 | –52.5 % |
| III. Trade payables | 37 | 46,380 | 62,148 | 34.0 % |
| IV. Other current liabilities | 37, 38 | | | |
| Financial liabilities | 38 | 6,248 | 8,610 | 37.8 % |
| Other liabilities | 38 | 15,776 | 17,077 | 8.2 % |
| V. Tax liabilities | | 2,233 | 2,705 | 21.1 % |
| | | **91,508** | **102,132** | 11.6 % |
| **Balance sheet total** | | **244,676** | **271,565** | 11.0 % |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF FRoSTA AG IN ACCORDANCE WITH IFRSS

## FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

**Consolidated statement of profit or loss and other comprehensive income of FRoSTA AG (in kEUR)**

| | | Note | 2015 | 2016 | Effect on profit/loss |
|---|---|---|---|---|---|
| 1. | Revenue | 39 | 439,950 | 466,059 | 5.9 % |
| 2. | Reduction/increase in inventories of finished goods and work in progress | | –1,286 | 1,871 | > 100.0 % |
| 3. | Other own work capitalised | | 120 | 79 | –34.2 % |
| 4. | Other operating income | 40 | 11,151 | 9,834 | –11.8 % |
| 5. | Total operating revenue | | **449,935** | **477,843** | **6.2 %** |
| 6. | Cost of materials | | | | |
| | a) Cost of raw materials, consumables and supplies | | –266,584 | –280,100 | –5.1 % |
| | b) Cost of purchased services | 41 | –9,175 | –9,106 | 0.8 % |
| | | | **–275,759** | **–289,206** | **–4.9 %** |
| 7. | Personnel expenses | | | | |
| | a) Wages and salaries | | –54,825 | –58,201 | –6.2 % |
| | b) Social security, post-employment and other employee benefit costs – of which post-employment benefits: kEUR 9 (2015: kEUR 10) | | –9,511 | –10,124 | –6.4 % |
| | | | **–64,336** | **–68,325** | **–6.2 %** |
| 8. | Depreciation and amortisation of intangible assets and fixed assets including property, plant and equipment | 42 | –12,178 | –12,236 | –0.5 % |
| 9. | Other operating expenses | 43 | –71,562 | –76,467 | –6.9 % |
| 10. | **Operating profit (EBIT)** | | **26,100** | **31,609** | **21.1 %** |
| 11. | Income from equity investments | | 160 | 82 | –48.8 % |
| 12. | Other interest and similar income | 44 | 319 | 195 | –38.9 % |
| 13. | Write-downs of financial assets on securities classified as current assets | | –301 | 0 | 100.0 % |
| 14. | Interest and similar expenses – of which financial expenses: kEUR 728 (2015: kEUR 937) | 44 | –949 | –748 | 21.2 % |
| 15. | **Net finance costs/income** | | **–771** | **–471** | **38.9 %** |
| 16. | **Profit/loss from ordinary operating activities** | | **25,329** | **31,138** | **22.9 %** |
| 17. | Current taxes on income | 45 | –7,244 | –10,243 | –41.4 % |
| 18. | Deferred taxes | 46 | 125 | 673 | > 100.0 % |
| 19. | **Consolidated profit for the year** | | **18,210** | **21,568** | **18.4 %** |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF FRoSTA AG IN ACCORDANCE WITH IFRSS

## FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2016

**Consolidated statement of profit or loss and other comprehensive income (in kEUR)**

| | | | 2015 | 2016 | Effect on profit/loss |
|---|---|---|---|---|---|
| **1.** | **Consolidated profit for the year** | | **18,210** | **21,568** | **18.4 %** |
| 2. | Other comprehensive income | | | | |
| | a) | Items that will not be reclassified to profit or loss | | | |
| | | Actuarial gains and losses<br>– Income taxes relating to these gains/losses kEUR 13 (2015: kEUR 9) | –28 | –41 | –46.4 % |
| | b) | Items that have been or may subsequently be reclassified to profit or loss | | | |
| | | Gains and losses on the translation of annual financial statements of foreign subsidiaries | 32 | –897 | > 100.0 % |
| **3.** | **Comprehensive income** | | **18,214** | **20,630** | **13.3 %** |
| | Allocation of comprehensive income to shareholders of the parent | | 18,214 | 20,630 | 13.3 % |
| | Non-controlling interests | | 0 | 0 | |
| | | | **18,214** | **20,630** | **13.3 %** |

# CONSOLIDATED STATEMENT OF CASH FLOWS OF FRoSTA AG

| Consolidated statement of cash flows of FRoSTA AG (in kEUR) | | |
|---|---|---|
| | 2015 | 2016 |
| Consolidated profit before tax | 25,329 | 31,138 |
| Amortisation and depreciation of fixed assets | 12,178 | 12,236 |
| Interest income | –319 | –195 |
| Interest expense | 949 | 748 |
| Increase in non-current provisions | 177 | 143 |
| Gains/losses on disposal of fixed assets | –62 | –16 |
| Other non-cash income and expenses | 597 | 1,630 |
| Interest paid | –925 | –690 |
| Interest received | 17 | 26 |
| Income taxes paid | –7,417 | –9,807 |
| Income taxes received | 15 | 43 |
| **Cash flow before change in working capital** | **30,539** | **35,256** |
| Decrease/increase in current provisions | –147 | 1,688 |
| Increase in inventories, trade receivables and other assets not attributable to investing or financing activities | –9,905 | –13,297 |
| Decrease/increase in trade payables and other liabilities not attributable to investing or financing activities | –2,896 | 17,597 |
| **Cash flow from operating activities** | **17,591** | **41,244** |
| Proceeds from disposal of fixed assets | 221 | 87 |
| Proceeds from grants | – | 850 |
| Capital expenditure on property, plant and equipment | –13,383 | –25,471 |
| Capital expenditure on intangible assets | –414 | –500 |
| Capital expenditure on non-current financial assets | –210 | –5 |
| **Cash flow from investing activities** | **–13,786** | **–25,039** |
| Payments to acquire treasury shares | –2,137 | –2,690 |
| Proceeds from disposal of treasury shares | 2,189 | 2,326 |
| Dividends to shareholders | –9,247 | –9,234 |
| Proceeds from obtaining bank loans | 875 | 10,000 |
| Payments to repay bank loans | –6,162 | –6,525 |
| Increase/decrease in bank overdrafts | 9,046 | –9,471 |
| **Cash flow from financing activities** | **–5,436** | **–15,594** |
| Effect of translation differences on cash and cash equivalents | –1,631 | 611 |
| Net change in cash and cash equivalents | 9 | –147 |
| Cash and cash equivalents at beginning of period | 16,061 | 14,439 |
| **Cash and cash equivalents at end of period** | **14,439** | **14,903** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF FRoSTA AG

Consolidated statement of changes in equity of FRoSTA AG (in kEUR)

| | | | | Other retained earnings | | | |
|---|---|---|---|---|---|---|---|
| | Subscribed capital | Capital reserves | Retained earnings | Actuarial gains/ losses | Adjustment item from foreign currency translation | Equity earned by the Group (without retained earnings) | Equity |
| **as at 1 January 2015** | **17,407** | **12,815** | **77,331** | **–24** | **–938** | **19,090** | **125,681** |
| Dividends paid | | | | | | –9,247 | –9,247 |
| Acquisition of treasury shares | –154 | | –1,983 | | | | –2,137 |
| Employee share programme | 171 | | 2,018 | | | | 2,189 |
| Appropriation to retained earnings | | | 2,548 | | | –2,548 | 0 |
| Other comprehensive income | | | | –28 | 32 | 18,210 | 18,214 |
| **as at 31 December 2015** | **17,424** | **12,815** | **79,914** | **–52** | **–906** | **25,505** | **134,700** |
| | | | | | | | |
| **as at 1 January 2016** | **17,424** | **12,815** | **79,914** | **–52** | **–906** | **25,505** | **134,700** |
| Dividends paid | | | | | | –9,234 | –9,234 |
| Acquisition of treasury shares | –131 | | –2,559 | | | | –2,690 |
| Employee share programme | 120 | | 2,206 | | | | 2,326 |
| Appropriation to retained earnings | | | 4,115 | | | –4,115 | 0 |
| Other comprehensive income | | | | –41 | –897 | 21,568 | 20,630 |
| **as at 31 December 2016** | **17,413** | **12,815** | **83,676** | **–93** | **–1,803** | **33,724** | **145,732** |

# CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG 2016

**Consolidated statement of changes in fixed assets of FRoSTA AG 2016 (in kEUR)**

| | Purchase and production costs | | | | | |
|---|---|---|---|---|---|---|
| | as at 01/01/2016 | Currency translation differences | Additions | Disposals | Transfers | as at 31/12/2016 |
| **I. Intangible assets** | | | | | | |
| Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets | 14,877 | –5 | 500 | 0 | 152 | 15,524 |
| | **14,877** | **–5** | **500** | **0** | **152** | **15,524** |
| **II. Property, plant and equipment** | | | | | | |
| 1. Land, land rights and buildings | 80,844 | –322 | 2,911 | 58 | 118 | 83,493 |
| 2. Plant and machinery | 153,075 | –585 | 11,913 | 2,915 | 1,617 | 163,105 |
| 3. Other operating and office equipment | 48,084 | –40 | 4,527 | 1,181 | 281 | 51,671 |
| 4. Prepayments and assets under construction | 3,021 | –36 | 6,120 | 0 | –2,168 | 6,937 |
| | **285,024** | **–983** | **25,471** | **4,154** | **–152** | **305,206** |
| **III. Non-current financial assets** | | | | | | |
| 1. Financial assets | 531 | 0 | 5 | 0 | 0 | 536 |
| 2. Investments accounted for using the equity method | 1,882 | 0 | 0 | 1,882 | 0 | 0 |
| | **2,413** | **0** | **5** | **1,882** | **0** | **536** |
| | **302,314** | **–988** | **25,976** | **6,036** | **0** | **321,266** |

| Accumulated depreciation, amortisation and impairment | | | | | Net carrying amount | |
|---|---|---|---|---|---|---|
| as at 01/01/2016 | Currency translation differences | Additions | Disposals | as at 31/12/2016 | as at 31/12/2015 | as at 31/12/2016 |
| | | | | | | |
| 13,728 | −3 | 501 | 0 | 14,226 | 1,149 | 1,298 |
| **13,728** | **−3** | **501** | **0** | **14,226** | **1,149** | **1,298** |
| | | | | | | |
| 52,392 | −100 | 2,269 | 41 | 54,520 | 28,452 | 28,973 |
| 120,178 | −371 | 6,745 | 2,852 | 123,700 | 32,897 | 39,405 |
| 39,097 | −23 | 2,721 | 1,159 | 40,636 | 8,987 | 11,035 |
| 0 | 0 | 0 | 0 | 0 | 3,021 | 6,937 |
| **211,667** | **−494** | **11,735** | **4,052** | **218,856** | **73,357** | **86,350** |
| | | | | | | |
| 411 | 0 | 0 | 0 | 411 | 120 | 125 |
| 1,575 | 0 | 0 | 1,575 | 0 | 307 | 0 |
| **1,986** | **0** | **0** | **1,575** | **411** | **427** | **125** |
| **227,381** | **−497** | **12,236** | **5,627** | **233,493** | **74,933** | **87,773** |

# CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG 2015

**Consolidated statement of changes in fixed assets of FRoSTA AG 2015 (in kEUR)**

| | Purchase and production costs | | | | | |
|---|---|---|---|---|---|---|
| | as at 01/01/2015 | Currency translation differences | Additions | Disposals | Transfers | as at 31/12/2015 |
| **I. Intangible assets** | | | | | | |
| Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets | 14,397 | 1 | 414 | 27 | 92 | 14,877 |
| | **14,397** | **1** | **414** | **27** | **92** | **14,877** |
| **II. Property, plant and equipment** | | | | | | |
| 1. Land, land rights and buildings | 79,066 | 31 | 1,634 | 76 | 189 | 80,844 |
| 2. Plant and machinery | 147,913 | 57 | 5,616 | 1,159 | 648 | 153,075 |
| 3. Other operating and office equipment | 45,700 | 6 | 3,152 | 900 | 126 | 48,084 |
| 4. Prepayments and assets under construction | 1,095 | 0 | 2,981 | 0 | –1,055 | 3,021 |
| | **273,774** | **94** | **13,383** | **2,135** | **–92** | **285,024** |
| **III. Non-current financial assets** | | | | | | |
| 1. Financial assets | 381 | 0 | 210 | 60 | 0 | 531 |
| 2. Investments accounted for using the equity method | 1,793 | 0 | 89 | 0 | 0 | 1,882 |
| | **2,174** | **0** | **299** | **60** | **0** | **2,413** |
| | **290,345** | **95** | **14,096** | **2,222** | **0** | **302,314** |

| Accumulated depreciation, amortisation and impairment | | | | | | Net carrying amount | |
|---|---|---|---|---|---|---|---|
| as at 01/01/2015 | Currency translation differences | Additions | Disposals | Transfers | as at 31/12/2015 | as at 31/12/2014 | as at 31/12/2015 |
| | | | | | | | |
| 13,245 | 0 | 510 | 27 | 0 | 13,728 | 1,152 | 1,149 |
| **13,245** | **0** | **510** | **27** | **0** | **13,728** | **1,152** | **1,149** |
| | | | | | | | |
| 50,080 | 9 | 2,305 | 2 | 0 | 52,392 | 28,986 | 28,452 |
| 114,517 | 33 | 6,665 | 1,037 | 0 | 120,178 | 33,396 | 32,897 |
| 37,269 | 2 | 2,698 | 872 | 0 | 39,097 | 8,431 | 8,987 |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,095 | 3,021 |
| **201,866** | **44** | **11,668** | **1,911** | **0** | **211,667** | **71,908** | **73,357** |
| | | | | | | | |
| 110 | 0 | 301 | 0 | 0 | 411 | 271 | 120 |
| 1,575 | 0 | 0 | 0 | 0 | 1,575 | 218 | 307 |
| **1,685** | **0** | **301** | **0** | **0** | **1,986** | **489** | **427** |
| **216,796** | **44** | **12,479** | **1,938** | **0** | **227,381** | **73,549** | **74,933** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

## FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

REGISTERED IN THE COMMERCIAL REGISTER OF THE DISTRICT COURT OF BREMEN, REGISTER NO.: HRB 1100 BHV

FRoSTA Aktiengesellschaft (hereinafter referred to as FRoSTA AG), is a public limited company under German law and is listed in the Entry Standard of the Frankfurt Stock Exchange. FRoSTA AG and its subsidiaries develop, produce and market frozen food products in Germany and Europe. The products are sold under their FRoSTA, Elbtal and TIKO own brand labels and as private labels. The Group's registered seat is in 27572 Bremerhaven, Germany, Am Lunedeich 116. FRoSTA AG's Executive Board released the consolidated financial statements on 9 March 2017 for presentation to the Supervisory Board. It is the task of the Supervisory Board to examine the consolidated financial statements and to state whether it approves them.

## (1) ACCOUNTING POLICIES AND PRINCIPLES

FRoSTA AG's consolidated financial statements as at 31 December 2016 have been prepared in compliance with the International Accounting Standards Board's (IASB) financial reporting standards – the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) – as applicable within the European Union.

In doing so, all IASs or IFRSs to be applied as at 31 December 2016 and the appropriate interpretations provided by the Standing Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC) were complied with. The requirements of the above-mentioned regulations were fulfilled, so that FRoSTA AG's consolidated financial statements convey an appropriate picture of the net assets, financial position and results of operations as well as the cash flows within the 2016 financial year.

The conditions laid down in Section 315a of the German Commercial Code (HGB) on the exemption from preparing consolidated financial statements according to German accounting standards have been fulfilled. To put the statements on an equal footing with the consolidated financial statements drawn up according to HGB regulations, all legal obligations on disclosure and notes above and beyond the IASB regulations, in particular preparing a management report, have been fulfilled.

The financial statements have been prepared under the assumption that FRoSTA AG will continue as a going concern. Corresponding figures for comparison to 2015 are provided for all line items.

The consolidated income statement is presented using the total cost (nature of expense) format.

Comparisons are made based on the reference date of 31 December 2015. The consolidated financial statements are prepared in euros. Unless stated otherwise, all amounts are shown in thousands of euros (kEUR).

# CONSOLIDATION

(2)
## CONSOLIDATION PRINCIPLES

All significant German and foreign subsidiaries over whose financial and business policies FRoSTA AG has direct or indirect powers of control are included in FRoSTA AG's consolidated financial statements. These entities' statements are drawn up according to uniform accounting principles.

The subsidiaries are accounted for using the acquisition method in accordance with IFRS 3. Under the acquisition method, the carrying amount of the equity investment is offset against the proportion of the subsidiary's equity to be consolidated at the time when the shares were purchased (acquisition method). In doing so, equity must be determined according to the revaluation method. As a matter of principle, IFRS 3 must be adopted retrospectively for all business combinations that occurred before the date of initial application (31 December 2005).

For all business combinations that occurred before the transition date (1 January 2004). FRoSTA AG takes advantage of the following exemptions under IFRS 1:

- IFRS 3 will not be applied retrospectively for business combinations that occurred before the transition date (1 January 2004).

- This means that the consolidation method previously applied may be retained.

Expenses and income as well as accounts receivable and payable between consolidated companies are eliminated. Interim profits and losses from intercompany transactions are eliminated through profit or loss.

(3)
## GROUP REPORTING ENTITY

| Fully consolidated subsidiaries | | | |
|---|---|---|---|
| Name of entity | Registered seat of entity | Percentage of capital held in 2015 in % | Percentage of capital held in 2016 in % |
| COPACK Tiefkühlkost-Produktions GmbH | Bremerhaven | 100.00 | 100.00 |
| Elbtal Tiefkühlkost Vertriebs GmbH | Lommatzsch | 100.00 | 100.00 |
| Feldgemüse GmbH Lommatzsch | Lommatzsch | 100.00 | 100.00 |
| COPACK France S.a.r.l. (formerly FRoSTA France S.a.r.l.) | Boulogne-Billancourt/ France | 100.00 | 100.00 |
| FRoSTA Tiefkühlkost GmbH | Bremerhaven | 100.00 | 100.00 |
| FRoSTA Foodservice GmbH | Bremerhaven | 100.00 | 100.00 |
| FRoSTA Italia s.r.l. | Rome/Italy | 100.00 | 100.00 |
| FRoSTA CR s.r.o. | Prague/Czech Republic | 100.00 | 100.00 |
| FRoSTA Sp. z o.o. | Bydgoszcz/Poland | 100.00 | 100.00 |
| Bio-Freeze GmbH | Bremerhaven | 100.00 | 100.00 |
| Tiko Vertriebsgesellschaft mbH | Bremerhaven | 100.00 | 100.00 |

Effective 1 October 2016, FRoSTA AG sold the shares held in BIO-FROST Westhof GmbH, Wöhrden, in the financial year 2016. This transaction resulted in proceeds of EUR 849,999.00, which were recognised in other operating income. The impact from this transaction on the Group's net assets, financial position and results of operations at 31 December 2016 is not material. In the previous year, this equity investment was recorded using the equity method.

The consolidated financial statements for the financial year do not include the following entities whose impact on the Group's net assets, financial position and results of operations is not material:

| Companies not included in the consolidated financial statements | | | |
|---|---|---|---|
| Name of entity | Registered seat of entity | Percentage of capital held in 2015 in % | Percentage of capital held in 2016 in % |
| FRoSTA Romania S.R.L. | Bucharest/Romania | 100.00 | 100.00 |
| NORDSTERN America Inc. | Seattle/USA | 100.00 | 100.00 |
| OOO FRoSTA | Moscow/Russia | 100.00 | 100.00 |
| FRoSTA Hungary Kft. | Esztergom/Hungary | 100.00 | 100.00 |
| COPACK Sp. z o.o. | Bydgoszcz/Poland | 100.00 | 100.00 |
| Columbus Spedition GmbH | Bremerhaven | 33.33 | 33.33 |

## (4) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

The consolidated financial statements are prepared in euros, the functional and reporting currency of the Group. Each entity within the Group determines its own functional currency. Items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially translated to the functional currency at the applicable spot exchange rate on the date the transaction occurred. The assets and liabilities of foreign operations are subsequently translated to euros at the applicable exchange rate on the balance sheet date. Income and expenses are translated at average monthly exchange rates, because due to minor exchange rate fluctuations in the given period, this is an accurate reflection of the exchange rates on the day the transactions occurred. The exchange rate differences that occur from translation are recorded as an adjustment item from currency translation.

The following exchange rates were taken into account when preparing the consolidated financial statements and the consolidated income statement (equivalent value for EUR 1):

| Development of the exchange rates of the most important currencies | | | | |
|---|---|---|---|---|
| | Average rate | | Closing rate | |
| | 2015 | 2016 | 2015 | 2016 |
| Polish Zloty | 4.2226 | 4.3745 | 4.2660 | 4.4140 |
| Czech Koruna | 27.022 | 27.020 | 27.022 | 27.020 |

# ACCOUNTING POLICIES AND MEASUREMENT METHODS

## (5) RECOGNITION OF INCOME AND EXPENSES

Only product sales resulting from ordinary operating activities are disclosed as revenue. FRoSTA recognises revenue for product sales when the goods are handed over to the freight forwarder or, alternatively, upon proof that the delivery has been carried out and the risk has been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured.

Operating expenses are recognised in profit or loss when the service in question is rendered or the expenses incurred.

Interest is recognised as an expense or as income at the time it is incurred.

Dividends are recognised at the time they are paid out.

## (6) INTANGIBLE ASSETS

Externally acquired intangible assets are carried at cost.

Intangible assets that have a determinable useful life are amortised on a straight-line basis over their expected useful lives as follows, starting from the date on which they are made available:

| Amortisation period of intangible assets | |
|---|---|
| | Useful life |
| Software | 4 |
| Licences | 4 |

## (7) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are carried at their purchase or production cost and depreciated on a straight-line basis according to their probable useful life. Costs of self-constructed items of property, plant and equipment include all direct costs and all overheads that are incurred as a result of the production process.

Investment grants and investment subsidies are recognised if there is reasonable assurance that these grants will actually be received and the requirements attached to them will be fulfilled. They result in a reduction of purchase or production costs. Expense-related grants and subsidies are recognised as income in the financial year in which the related costs were incurred that they are intended to compensate. Borrowing costs are capitalised as part of the costs of purchase or production in line with IAS 23. Costs incurred for repairs of items of property, plant and equipment are always expensed. They are only capitalised if the costs result in an enhancement or significant improvement of the asset. The assets to be capitalised are subject to separate analyses for the purposes of measuring depreciation expense if significant cost components have different economic lives.

Finance lease assets, where substantially all risks and benefits associated with an asset are transferred to the Group, are carried less accumulated depreciation and an appropriate liability at the lower of the fair value of the asset or the present value of the rent or lease payments.

The assets are depreciated using the straight-line method over their useful lives.

Gains or losses from the disposal of fixed assets are shown in other operating income or expenses. Depreciation is carried out uniformly throughout the Group over the following useful lives:

| Depreciation period of property, plant and equipment | |
|---|---|
| | Useful life |
| Buildings | 25–40 |
| Other constructions | 12–15 |
| Plant and machinery | 7–15 |
| IT equipment | 3 – 7 |
| Other operating and office equipment | 5–13 |

## (8) IMPAIRMENT LOSSES ON INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND FINANCIAL ASSETS

At each balance sheet date, FRoSTA AG examines the carrying amounts of non-current assets to assess the need to recognise impairment losses as soon as events occur or circumstances change implying that permanent impairment has occurred ("impairment testing"). An impairment loss is recognised when the expected proceeds from a sale (recoverable amount) is lower than the asset's respective carrying amount. The recoverable amount is the higher of the realisable value and the value in use of the asset. The net realisable value corresponds to the amount obtainable from the sale of the asset in an arm's length transaction. The value in use is determined on the basis of the expected future cash flow from the use of the asset based on the discounted cash flow method.

If it is not possible to determine the recoverable amount for individual assets, the cash flow for the next higher group of assets for which this type of cash flow can be established, is determined. At FRoSTA AG these are the production lines. The cash flow forecast of these cash-generating units is based on the detailed financial budget for the next year and the three-years financial planning strategy. The growth rates assumed do not exceed the average growth rates for the industry in which the respective cash-generating unit is active. The discount rate is based on a weighted average calculation of capital costs taking into account the borrowing capital/equity structure and stands at 8.35 % before taxes. If the reasons for impairment no longer apply, the impairment loss is reversed, with such reversal not exceeding amortised cost.

## (9) FINANCIAL ASSETS AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Available-for-sale financial assets are recognised at the balance sheet date at fair value or, if this cannot be established, at amortised cost.

Financial assets accounted for under the equity method are recognised at the written-down investment carrying amount. This carrying amount is determined as follows:

(1) Purchase cost of the investee

(2) +/– investor's share of the undistributed profit/loss of the investee

(3) – distributions received from the investee

(4) = written-down investment carrying amount (equity value)

## INVENTORIES (10)

Inventories are measured at acquisition or production cost. Purchase costs of raw materials and consumables as well as merchandise are determined using the weighted average cost formula and result from the purchasing prices plus incidental costs. Apart from direct material, machine and labour costs, production cost includes material and production overheads directly attributable to the production process, including appropriate depreciation of manufacturing assets assuming normal capacity utilisation. Borrowing costs are not included in the measurement of inventories, but are recognised as an expense in the period in which they are incurred.

Write-downs for inventory risks are undertaken to an appropriate and adequate extent. If necessary, inventories are measured at the lower net realisable value. The net realisable value is the estimated selling price achievable in the course of ordinary business less the estimated manufacturing and selling costs.

Should the reasons that have led to an impairment of the inventories no longer apply, an appropriate reversal of the impairment loss is recognised.

## RECEIVABLES AND OTHER ASSETS (11)

Trade receivables and other assets are initially measured and carried at fair value plus transaction costs and subsequently at amortised cost. The fair value (transaction price) is calculated based on quoted prices in active markets for identical assets (Level 1). The sales market is used as the active market for assets. If not covered by insurance, counterparty credit risks are taken into account by recognising adequate valuation allowances.

(12)

## CASH AND CASH EQUIVALENTS

The cash holdings and credit balances at banks are recognised at their nominal value.

(13)

## PROVISIONS FOR PENSIONS

Provisions for pension obligations are determined in accordance with IAS 19 using the projected unit credit method, taking into account future payment and pension adjustments. Pension obligations are measured based on expert pension reports. The present value of the defined benefit obligations is determined by discounting the estimated future payments of the current benefits. The interest rate is based here on prime fixed-interest corporate bonds of a comparable term on the reporting date. The currency and maturity of the bonds should be in the same currency and have the same term as the vested pension claims.

Service costs are recognised under personnel expenses. The interest included in the pension expenses is recognised under interest expense. The actuarial gains and losses are recognised in other reserves. A pension fund does not exist.

(14)

## OTHER PROVISIONS

Other provisions take into account all clear legal and actual obligations a corporation has towards third parties, where settlement is likely and the level of settlement can be reliably estimated. The provisions are recognised in accordance with IAS 37 with the expected settlement amount.

Jubilee benefits and partial retirement obligations are part of the long-term employee benefits. Provisions for jubilee benefits are measured in accordance with IAS 19 using the projected unit credit method. Each year the present value of the rights obtained on the reporting date must be recognised as a provision. Provisions for partial retirement benefits must also be made at their present value. Existing plan assets are to be set off against provisions for partial retirement, with the plan assets to be measured at fair value.

Non-current provisions are measured on the basis of their settlement amount, discounted to the balance sheet date. Discounting is based on appropriate market interest rates.

Provisions for restructuring are only taken into account if on the balance sheet date the intended measures have become sufficiently concrete and have been communicated.

## LIABILITIES (15)

Liabilities are initially measured and recognised at fair value plus transaction costs and subsequently at amortised cost. The fair value (transaction price) is calculated based on quoted prices in active markets for identical liabilities (Level 1). The procurement market is used as the active market for liabilities. There is no counterparty credit risk arising from liabilities.

Liabilities in foreign currencies are translated at closing rates. Hedged items in foreign currency are also measured at the closing rate.

## DEFERRED TAXES (16)

Under IAS 12 (Income Taxes), deferred tax assets and liabilities are recognised for all temporary differences in assets and liabilities between tax accounts and the annual financial statements prepared in accordance with generally accepted accounting principles, and for the future use of tax loss carry forwards. The calculation is made on the basis of the future tax rates applicable at the balance sheet date. Deferred tax assets are only recognised to the extent that it is likely that these can be used against future taxable income.

## DERIVATIVE FINANCIAL INSTRUMENTS

### CURRENCY FORWARDS, OPTIONS CONTRACTS AND INTEREST RATE SWAPS (17)

Currency forwards and option contracts as well as interest rate swaps and caps can be used as derivative financial instruments. These are only concluded with banks which have an excellent credit rating. These transactions are only carried out strictly in line with FRoSTA's own internal procedures and are subject to stringent internal controls. These transactions are only concluded to safeguard the operating business and the financing transactions associated with it. Hedging mainly concerns US dollar requirements. These occur because FRoSTA purchases some of the required raw materials in this currency without reporting any US dollar income.

In currency forwards, a fixed amount of US dollars is bought on an agreed date at an agreed exchange rate. This reduces the Company's risk of having to use a less favourable exchange rate which would make the purchase of raw materials in US dollars more expensive. On the other hand, currency forwards do not allow for currency translation at a more favourable rate should the market develop more positively for the buyer.

In forward options, the Company is guaranteed the right to purchase a fixed amount of US dollars on an agreed date at an agreed exchange rate. If, after completion of the contract, the market exchange rate develops unfavourably for the Company, it can buy the agreed amount of US dollars at the agreed exchange rate. If the exchange rate develops more positively, there is no obligation to exercise the option and the US dollar amounts required can be purchased on the market at a more favourable rate. By means of forward options, FRoSTA can lower the risk of rising dollar prices without foregoing the opportunities offered by lower dollar prices. However, for this flexibility charges are incurred which become payable on conclusion of the forward option contract.

Interest hedging instruments are used to secure medium- and long-term variable financing.

In the case of an interest-rate swap contract, the Company pays the bank a fixed interest rate on a fixed amount at regular intervals over an agreed period. Each time the interest payment is due, the bank offers a variable rate (based, for example, on the Euribor) for the fixed amount. No matter how the market develops within the agreed period, it cannot be less favourable for the Company than the original fixed interest rate.

Derivative financial instruments are accounted for at cost when purchased. They are subsequently recognised at their fair value. The banks establish the fair values based on market quotations.

All derivative financial instruments are treated as standalone derivatives, i.e. all realised and unrealised gains and losses resulting from the development of the fair values are immediately recognised in profit or loss.

(18)

**Scope and fair values of the derivatives (in kEUR)**

| | | 31/12/2015 | | 31/12/2016 | |
|---|---|---|---|---|---|
| **Financial instrument** | **Type** | **Nominal amount** | **Fair value** | **Nominal amount** | **Fair value** |
| Currency forwards | Purchase kUSD | 44,882 | 1,043 | 37,349 | 1,663 |
| Currency forwards | Sale kGBP | 1,298 | 34 | 94 | 0 |
| Currency swaps | Sale (2015: purchase) kUSD | 940 | 7 | 1,021 | 9 |
| Currency swaps | Sale kGBP | 38 | 1 | 0 | 0 |
| Interest rate swaps | Loan kEUR | 4,043 | –147 | 1,321 | –30 |

The nominal amount of a derivative hedging transaction is the index from which the payments are derived. Collateral and risk are not the nominal amount itself, but only the price changes related to it.

The fair value is the amount that would have to be paid or would be received on the reporting date assuming termination of the hedging transactions. As the hedging transaction at the time of acquisition only concerns financial instruments on an arm's length basis, the fair value is established on the basis of market quotations. Hedge accounting is not applied.

The positive fair value of financial instruments is presented in other assets and the negative fair value is presented in other liabilities. As the underlying contracts have been agreed with banks with sound credit ratings, no credit risks exist for these financial instruments.

| Due dates for the interest hedging instruments (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Within one year | 2,722 | 1,007 |
| Between one and five years | 1,321 | 314 |
| Over five years | 0 | 0 |
| **Total** | **4,043** | **1,321** |

(19)

## EMPLOYEE SHARE PROGRAMME

Every year FRoSTA AG employees can purchase a limited amount of shares at a fixed preferential price. The vesting date is the same as the purchase date.

There are two different purchasing prices per share. The retention period for both is four years, during which the securities may not be sold.

Employees must opt to take up the offer within one month.

(20)

## FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are determined based on appropriate market values (Level 1). Cash and cash equivalents and other current primary financial instruments correspond to the fair values of the carrying amounts on the respective reporting dates.

For non-current provisions and liabilities, the fair value is determined based on the cash flows to be expected by using the benchmark interest rates valid on the balance sheet date. The derivative financial instruments are established based on existing forward exchange rates and benchmark interest rates on the balance sheet date.

The following table shows the allocation of financial instruments to the balance sheet line items:

| Balance sheet item (in kEUR) | Carrying amount | Fair value |
|---|---|---|
| Receivables and other assets | 89,329 | 89,329 |
| Cash | 14,903 | 14,903 |
| Non-current liabilities | 23,701 | 24,114 |
| Current liabilities | 102,132 | 102,132 |

## USE OF ESTIMATES (21)

Preparing the IFRS consolidated financial statements requires estimates and assumptions which affect the identification of assets and liabilities, the disclosure of contingent liabilities on the balance sheet date and the presentation of income and expenses.

Significant estimates and assumptions have in particular been made with regard to establishing depreciable lives, the actuarial parameters in assessing pensions, jubilee and partial retirement provisions and the ability to realise deferred tax assets. The actual amounts may differ from the amounts produced by estimates and assumptions. Changes are recognised in profit or loss when more accurate figures are available.

# APPLICATION OF ADDITIONAL IAS AND IFRS

## NEW STANDARDS AND INTERPRETATIONS NOT PREVIOUSLY APPLIED

The following IFRSs adopted by the EU were issued before 31 December 2016 but are only mandatory for subsequent reporting periods and FRoSTA has not exercised the option of earlier application.

### IFRS 9 (FINANCIAL INSTRUMENTS)

Issued in July 2014, IFRS 9 replaces the existing guidelines in IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment losses on financial assets, as well as new general accounting standards for hedging transactions. It also incorporates guidelines on the recognition and derecognition of financial instruments from IAS 39.

IFRS 9 becomes effective initially in the first reporting period of a financial year commencing on or after 1 January 2018; earlier adoption is also permissible. The Group is currently assessing the possible effects of IFRS 9 on the consolidated financial statements.

### IFRS 15 (REVENUE FROM CONTRACTS WITH CUSTOMERS)

IFRS 15 establishes a comprehensive framework for establishing whether, to what extent and at what point revenue should be recognised. It replaces existing revenue recognition guidelines including IAS 18 (revenue), IAS 11 (Construction Contracts) and IFRIC 13 (Customer Loyalty Programmes). IFRS 15 becomes effective initially in the first reporting period of a financial year commencing on or after 1 January 2018; earlier adoption is also permissible. The Group is currently assessing the possible effects of IFRS 15 on the consolidated financial statements.

Application of the following new or amended standards and interpretations is mandatory for the first time for the financial year ending on 31 December 2016:

- Annual Improvements to IFRSs – 2010–2012 cycle (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24)
- Amendments to IAS 19: Employee Contributions to Defined Benefit Plans
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IFRS 11: Acquisition of an Interest in a Joint Operation
- Amendments to IAS 16 and IAS 38: Clarification of Permissible Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs – 2012–2014 cycle (IFRS 5, IFRS 7, IAS 19, IAS 34)
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 27: Application of the Equity Method in Individual Financial Statements
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Application of the Consolidation Exception

These amendments have no effect on the 2016 or earlier reporting periods.

The following IFRSs, IFRICs or amendments were published by the IASB before 31 December 2016, but have not yet been adopted by the EU and were not applied early by FRoSTA:

- IFRS 14 Regulatory Deferral Accounts
- IFRS 16 Leases
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and an Associate or Joint Venture
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Clarification of IFRS 15 Revenue from Customer Contracts
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts
- Annual Improvements to IFRSs – 2014–2016 cycle
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40: Transfer of Investment Property

The impact of these new or amended standards on FRoSTA's financial statements cannot be reliably assessed, or has no implications.

# CONSOLIDATED BALANCE SHEET DISCLOSURES

## (23) INTANGIBLE ASSETS

The development of the individual items of intangible assets is shown in the consolidated statement of changes in non-current assets (appendix to the notes). The share of foreign subsidiaries in the net carrying amount as per 31 December 2016 amounted to kEUR 78 (2015: kEUR 78).

In the FRoSTA Group development costs have not been capitalised, as their future economic use cannot be reliably determined as long as the products have not been launched on the market. The expenses for product development for the financial year 2016 amounted to kEUR 1,595 (2015: kEUR 1,532).

## (24) PROPERTY, PLANT AND EQUIPMENT

As regards the development of property, plant and equipment, please see the consolidated statement of changes in non-current assets. The share of property, plant and equipment located abroad, primarily in Poland, in the net carrying amount as at 31 December 2016 amounted to kEUR 17,190 (2015: kEUR 14,595). Investment grants and subsidies received in the financial year reduce procurement costs by kEUR 3,559 (2015: kEUR 4,278). Based on current earnings forecasts no impairment losses were recognised in the reporting year. In prior years, impairment losses were recognised. If the reasons for impairment no longer apply, the impairment loss is reversed, with such reversal not exceeding amortised cost. This reversal amounted to kEUR 605 as at 31 December 2016 (2015: kEUR 821). In the reporting year no borrowing costs were capitalised pursuant to IAS 23.

## FINANCIAL ASSETS AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (25)

Changes in financial assets and equity-accounted investments are shown in the consolidated statement of changes in non-current assets. The non-consolidated equity investments in subsidiaries are measured at amortised cost at the reporting date. Write-downs on loans to affiliated companies totalled kEUR 0 (2015: kEUR 301).

## INVENTORIES (26)

| Inventories (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Raw materials and consumables | 27,928 | 33,317 |
| Unfinished goods | 16,692 | 16,712 |
| Finished products and goods | 24,621 | 27,452 |
| Prepayments | 143 | 131 |
| **Inventories** | **69,384** | **77,612** |

Where necessary, the lower net realisable value was recognised, taking into account selling and production costs still to be incurred. The carrying amount of inventories recognised at the lower net realisable value amounted to kEUR 306 in 2016. The impairments of inventories shown in expenses amount to kEUR 39 (2015: kEUR 183).

## (27) TRADE RECEIVABLES

| Trade receivables (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Trade receivables, gross | 79,957 | 83,077 |
| Impairment charges on trade receivables | –736 | –493 |
| **Trade receivables** | **79,221** | **82,584** |

| Impairment losses on trade receivables (in kEUR) | 2015 | 2016 |
|---|---|---|
| **Impairment losses as at 1 January** | **500** | **736** |
| Exchange rate differences | 0 | –2 |
| Allocations | 269 | 0 |
| Utilisation | –16 | –229 |
| Reversals | –17 | –12 |
| **Impairment losses as at 31 December** | **736** | **493** |

The expenses for the full derecognition of receivables are based on payment defaults and amount to kEUR 29 (2015: kEUR 25). Income from derecognised receivables amounts to kEUR 13 (2015: kEUR 17).

| Risks included in the trade receivables (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| **Neither past due nor impaired receivables** | **76,175** | **79,809** |
| Receivables past due but not impaired | | |
| Less than 30 days | 2,643 | 2,399 |
| 30 to 60 days | 145 | 222 |
| More than 60 days | 258 | 154 |
| **Total receivables past due** | **3,046** | **2,775** |
| **Carrying amount (net)** | **79,221** | **82,584** |

Receivables sold in asset-backed securities transactions (ABS) amounted to kEUR 6,695. According to the structure of the contract, ownership of the receivables is retained by FRoSTA. Liabilities resulting from the advance financing of the receivables collection are recognised under liabilities to banks.

In asset-backed securities contracts receivables are sold to a special-purpose entity in the financial sector, which then offers the receivables on the capital market. The price paid for the receivables is based on the receivables' nominal value less the expected deductions. At the same time, a variable interest rate based on current rates for short-term loans is payable until collection. FRoSTA AG collects the receivables as a service provider for the special-purpose entity. There is a risk that the receivables cannot be marketed. However, the special-purpose entity does commit itself to the purchase of the receivables for a one-year period.

(28)

## OTHER ASSETS

| Other assets (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Creditors with debit balances | 292 | 227 |
| Employees | 37 | 34 |
| VAT and consumer tax | 2,438 | 3,556 |
| Other financial assets | 1,645 | 2,518 |
| **Financial assets** | **4,412** | **6,335** |
| Prepayments | 290 | 245 |
| **Miscellaneous other assets** | **290** | **245** |
| **Other assets** | **4,702** | **6,580** |

No counterparty credit risks have been identified for other assets.

### EXCESS OF PLAN ASSETS OVER POST-EMPLOYMENT BENEFIT LIABILITY

An excess of plan assets over post-employment benefit liability amounting to kEUR 24 (2015: kEUR 15) is shown under other assets. These assets relate to reinsurance policies. The asset value of the reinsurance policies is netted against the settlement amount of partial retirement obligations.

| Reinsurance policies (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Fair value of invested assets | 96 | 70 |
| Costs of invested assets | 85 | 69 |

For further explanation, please refer to item 36.

(29)

## EQUITY

Capital management covers the Group equity reported in the consolidated balance sheet.

Changes in Group equity are shown in the statement of changes in equity.

The minimum capital requirements have been met.

An equity ratio is aimed at that safeguards the Company's economic independence. This is to be achieved through self-financing.

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### SUBSCRIBED CAPITAL

Subscribed capital amounts to kEUR 17,440. Based on 6,812,598 shares, each share has an arithmetical value of EUR 2.56.

The number of shares in circulation has remained unchanged in the financial year 2016.

A total of 10,486 individual FRoSTA AG no-par value bearer shares with a nominal value of kEUR 27 or 0.15 % of the share capital were set off against equity. The portion of purchase costs exceeding the nominal value amounting to kEUR 592 is reported as a reduction of retained earnings. The no-par value bearer treasury shares are not entitled to any rights under Section 71b of the German Stock Corporation Act (AktG).

Apart from this there is authorised capital, as yet unused, for a fixed period until 17 July 2018, amounting to kEUR 201 for the issuing of shares to employees of FRoSTA AG and its affiliated companies, as well as authorised capital of kEUR 5,000, for a fixed period until 17 July 2018, for a capital increase from cash contributions.

## (31) CAPITAL RESERVES

Capital reserves include premiums from issuing shares and personnel expenses from the employee share programme.

## (32) RETAINED EARNINGS AND EQUITY EARNED BY THE GROUP (WITHOUT RETAINED EARNINGS)

Retained earnings include profits generated in past periods by companies included in the consolidated financial statements, to the extent that they were not distributed.

The consolidated equity includes the profits achieved in the current period of the companies included in the consolidated financial statements, unless they have been allocated to reserves.

According to the German Stock Corporation Act (AktG), the dividend to be paid out to the shareholders is measured on the basis of the net retained profits shown in FRoSTA AG's annual financial statements. As at 31 December 2016, these came to kEUR 15,451 (2015: kEUR 13,349).

The Annual General Meeting on 17 June 2016 passed a resolution to pay out a dividend of EUR 1.36 per share (totalling a dividend sum of kEUR 9,234) from the net retained profits of FRoSTA AG as at 31 December 2015.

FRoSTA AG's Executive Board proposes a dividend of EUR 1.50 per share for 2016 subject to the approval of the Annual General Meeting.

## (33) OTHER RESERVES

Other reserves comprise the differences arising from currency translation at subsidiaries that report in a currency different from that of the parent company. The measurement difference is mainly the result of the equity investment in FRoSTA Sp. z o.o., Bydgoszcz/Poland, whose annual financial statements are prepared in Polish zloty. The adjustment from currency translation amounted to kEUR –1,803 on the reporting date (2015: kEUR –906). As at 31 December 2016, other reserves also include actuarial losses totalling kEUR 93 (2015: kEUR 52).

## (34) EMPLOYEE SHARE PROGRAMME

FRoSTA AG has offered its employees the opportunity of purchasing FRoSTA shares at a preferential price. There are two proposals on offer with different issue prices with a limited purchasing opportunity for each employee.

**Employee share programme: share purchases made**

| | 2015 | 2016 |
|---|---|---|
| **Proposal I** | | |
| Number of shares | 37,419 | 23,275 |
| Issue price (EUR) | 16.50 | 27.00 |
| Average stock exchange price (EUR) | 34.51 | 50.29 |
| Difference (EUR) | 18.01 | 23.29 |
| **Value (kEUR)** | **674** | **542** |
| **Proposal II** | | |
| Number of shares | 18,395 | 16,833 |
| Issue price (EUR) | 7.50 | 13.50 |
| Average stock exchange price (EUR) | 34.51 | 50.29 |
| Difference (EUR) | 27.01 | 36.79 |
| **Value (kEUR)** | **497** | **619** |
| **Total (kEUR)** | **1,171** | **1,161** |

The difference between the market value of the FRoSTA share and the reduced price paid by employees is reported under personnel expenses.

## SHARE-BASED PAYMENTS

The Company has introduced a bonus scheme for employees at management level in the parent company as well as its subsidiaries. This scheme provides for payment in the form of Company shares. The number of shares to be transferred is determined according to a defined-benefit formula which rewards staff based on corporate and personal target achievement as well as other qualitative and quantitative criteria.

**Share-based payments**

| | 2015 | 2016 |
|---|---|---|
| Shares issued for the previous financial year | 10,845 | 7,090 |

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## PENSION OBLIGATIONS

Provisions for pensions are recognised for liabilities from future pensions and current payments due to individual commitments to former and current employees of the FRoSTA Group and their surviving dependents.

The Group pension schemes are all defined benefit plans.

The calculation of pension obligations for the defined benefit plan is made in accordance with IAS 19 on an actuarial basis.

**Parameters used for calculation of pension provisions**

| | 2015 | 2016 |
|---|---|---|
| Interest rate | 2.29 % | 1.72 % |
| Salary trend | 2.00 % | 2.00 % |
| Pension trend | 1.80 % | 1.60 % |

The actuarial assumptions regarding life expectancy are based on the “Richttafeln 2005 G” mortality tables by Dr Klaus Heubeck.

**Pension costs (in kEUR)**

| | 2015 | 2016 |
|---|---|---|
| Other pension costs | 29 | 78 |
| **Personnel expenses** | **29** | **78** |
| Interest expense | 13 | 13 |
| **Pensions costs** | **42** | **91** |

**Net obligations recognised in the balance sheet (in kEUR)**

| | 2015 | 2016 |
|---|---|---|
| **Provisions as at 1 January** | **886** | **892** |
| Pension costs | 42 | 91 |
| Payments to pensioners | –64 | –64 |
| Actuarial losses (+) / gains (–) | 28 | 41 |
| **Provisions as at 31 December** | **892** | **960** |

The number of beneficiaries receiving pension payments was 14.

The employer contributions to the pension scheme qualify as expenses relating to defined contribution plans and amounted to kEUR 3,765 in 2016 (2015: kEUR 3,629).

## (36) OTHER PROVISIONS

**Other provisions (in kEUR)**

| | As at 01/01/2016 | Utilisation | Reversal | Addition | As at 31/12/2016 |
|---|---|---|---|---|---|
| Jubilee payments | 2,299 | 268 | 0 | 341 | 2,372 |
| **Other non-current provisions** | **2,299** | **268** | **0** | **341** | **2,372** |
| Severance payments | 0 | 0 | 0 | 1,634 | 1,634 |
| Impending losses | 0 | 0 | 0 | 54 | 54 |
| **Other current provisions** | **0** | **0** | **0** | **1,688** | **1,688** |
| **Other provisions** | **2,299** | **268** | **0** | **2,029** | **4,060** |

**Partial retirement plan assets (in kEUR)**

| | As at 01/01/2016 | Utilisation | Reversal | Addition | As at 31/12/2016 |
|---|---|---|---|---|---|
| Partial retirement | 83 | 64 | 2 | 34 | 51 |
| Plan assets | 95 | 84 | 0 | 59 | 70 |

Provisions for partial retirement obligations are covered by reinsurance policies against insolvency. Since these insurances are classified as plan assets, they are netted out against the provisions for partial retirement. As the plan assets are assigned on the basis of individual partial retirement obligations, the principle of item-by-item measurement resulted in a provision for partial retirement obligations of kEUR 5 (2015: kEUR 3) as well as a surplus of assets of kEUR 24 (2015: kEUR 15).

For further details, please refer to item 28.

## (37) LIABILITIES

**Liabilities (in kEUR)**

| | Total amount | Of which due within | | |
|---|---|---|---|---|
| | | up to 1 year | more than 1 year | more than 5 years |
| Liabilities to banks | 27,619 | 9,904 | 13,195 | 4,520 |
| (previous year) | (33,239) | (20,871) | (10,173) | (2,195) |
| Trade payables | 62,148 | 62,148 | 0 | 0 |
| (previous year) | (46,380) | (46,380) | (0) | (0) |
| Other liabilities | 25,687 | 25,687 | 0 | 0 |
| (previous year) | (22,024) | (22,024) | (0) | (0) |

The liabilities to banks are guaranteed by mortgages amounting to kEUR 10,141 (2015: kEUR 15,503) and similar rights amounting to kEUR 1,055 (2015: kEUR 1,278). The customary retentions of title apply to trade payables.

| Liabilities to banks (in kEUR) | | |
|---|---|---|
| | 31/12/2015 | 31/12/2016 |
| **Non-current loans** | **12,368** | **17,715** |
| Current loans | 6,521 | 4,653 |
| Other financial liabilities | 14,350 | 5,251 |
| **Current liabilities to banks** | **20,871** | **9,904** |
| **Liabilities to banks** | **33,239** | **27,619** |

Receivables sold in asset-backed securities (ABS) transactions amounted to kEUR 6,695 as at 31 December 2016. After deducting a discount of kEUR 1,444, an amount of kEUR 5,251 is included in other financial liabilities.

One of the financing agreements made with credit institutes includes a financial covenant. These are prescribed key balance sheet figures with minimum values which must be adhered to. Failing this, the loan commitment can be withdrawn. In 2016, all such covenants were met.

| Loans payable | | | |
|---|---|---|---|
| 31/12/2015 in kEUR | 31/12/2016 in kEUR | Interest rate in % | Due date |
| 375 | 0 | 3.00 | 30/12/2016 |
| 1,462 | 0 | Euribor 3m. +1.00 | 31/12/2016 |
| 750 | 250 | 4.98 | 31/05/2017 |
| 1,250 | 750 | 3.29 | 29/03/2018 |
| 2,109 | 1,172 | 5.31 | 31/03/2018 |
| 781 | 469 | 3.20 | 31/03/2018 |
| 1,563 | 937 | 3.20 | 31/03/2018 |
| 1,925 | 1,411 | 3.40 | 30/09/2019 |
| 1,278 | 1,055 | 3.00 | 30/09/2021 |
| 0 | 3,500 | 1.05 | 30/09/2021 |
| 2,496 | 2,112 | 2.65 | 30/06/2022 |
| 1,734 | 1,468 | 3.05 | 30/06/2022 |
| 3,166 | 2,744 | 2.05 | 30/06/2023 |
| 0 | 6,500 | 0.81 | 30/03/2026 |
| **18,889** | **22,368** | | |

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| Other current liabilities (in kEUR) | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Collection commissions | 6,120 | 8,425 |
| Debtors with a credit balance | 78 | 134 |
| Miscellaneous other financial liabilities | 50 | 51 |
| **Financial liabilities** | **6,248** | **8,610** |
| Liabilities to employees | 5,800 | 6,604 |
| Social security contributions | 225 | 209 |
| Taxes | 636 | 568 |
| Deferred revenue | 9,115 | 9,696 |
| **Miscellaneous other liabilities** | **15,776** | **17,077** |
| **Other liabilities** | **22,024** | **25,687** |

Liabilities to employees include outstanding bonus, wage and salary payments.

Accruals include both employee claims for leave and non-working shifts not yet taken as well as other liabilities. In addition, they include provisions for possible VAT back payments for previous years totalling kEUR 2,510. These potential obligations result from the tax treatment of the flow of goods into FRoSTA AG warehouses in Italy.

# DISCLOSURES RELATING TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## REVENUE (39)

Revenue concerns the sale of goods and is measured at the fair value of the consideration received or receivable.

| Revenue by region (in kEUR) | 2015 | 2016 |
|---|---|---|
| Germany | 250,238 | 266,574 |
| Abroad | 189,712 | 199,485 |
| **Revenue** | **439,950** | **466,059** |

| Revenue by product groups (in kEUR) | 2015 | 2016 |
|---|---|---|
| Fish | 203,977 | 223,441 |
| Fruit and vegetables | 109,461 | 115,578 |
| Ready meals and other products | 126,512 | 127,040 |
| **Revenue** | **439,950** | **466,059** |

## (40) OTHER OPERATING INCOME

| Other operating income (in kEUR) | 2015 | 2016 |
|---|---|---|
| Currency translation gains | 8,664 | 6,806 |
| Income from the derecognition of prepaid expenses and deferred revenue | 1,108 | 763 |
| Income from credits from previous years and the derecognition of liabilities | 149 | 348 |
| Miscellaneous operating income | 1,230 | 1,917 |
| **Other operating income** | **11,151** | **9,834** |

## (41) PERSONNEL EXPENSES

| Personnel expenses (in kEUR) | 2015 | 2016 |
|---|---|---|
| Wages and salaries | 53,654 | 57,039 |
| Social security contributions | 9,501 | 10,115 |
| Pension costs | 10 | 9 |
| Costs of share-based payments | 1,171 | 1,162 |
| **Personnel expenses** | **64,336** | **68,325** |

The interest component included in personnel expenses is shown in net finance cost/income.

| Employees (annual average) | 2015 | 2016 |
|---|---|---|
| Wage earners | 1,051 | 1,057 |
| Salaried staff | 418 | 429 |
| Temporary employees | 132 | 149 |
| **Number of employees pursuant to Section 314 (1) No. 4 HGB** | **1,601** | **1,635** |
| Apprentices | 30 | 30 |
| **Number of employees** | **1,631** | **1,665** |

## (42) DEPRECIATION AND AMORTISATION

| Depreciation and amortisation (in kEUR) | 2015 | 2016 |
|---|---|---|
| Amortisation of intangible assets | 510 | 501 |
| Depreciation of property, plant and equipment | 11,668 | 11,735 |
| **Depreciation and amortisation** | **12,178** | **12,236** |

## (43) OTHER OPERATING EXPENSES

| Other operating expenses (in kEUR) | 2015 | 2016 |
|---|---|---|
| Storage and transport costs | 20,547 | 21,579 |
| External personnel costs | 9,709 | 11,426 |
| Marketing costs | 11,308 | 11,764 |
| Rent and cold-storage expenses | 7,610 | 7,215 |
| Maintenance | 4,697 | 5,055 |
| Currency losses | 5,163 | 5,529 |
| Fees, contributions and insurance | 2,921 | 2,859 |
| Other expenses | 9,607 | 11,040 |
| **Other operating expenses** | **71,562** | **76,467** |

The other operating expenses include severance payments amounting to kEUR 96 (2015: kEUR 85). They also contain expenses in connection with the relocation of a production line of kEUR 1,600 (2015: kEUR 0), as well as topping-up payments for the early retirement scheme amounting to kEUR 34 (2015: kEUR 46).

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## INTEREST INCOME/EXPENSE

| Interest income/expense (in kEUR) | | |
|---|---|---|
| | 2015 | 2016 |
| Interest income on bank balances | 12 | 25 |
| Interest income from loans | 13 | 0 |
| Interest income from a reduction in provisions for anticipated losses from interest swaps | 222 | 119 |
| Other interest income | 72 | 51 |
| **Interest income** | **319** | **195** |
| Interest expense for liabilities to banks | –865 | –617 |
| Interest expense from interest swaps | –6 | –3 |
| Interest expense for provisions for pensions and partial retirement schemes | –12 | –22 |
| ABS | –64 | –69 |
| Other interest expenses | –2 | –37 |
| **Interest and similar expenses** | **–949** | **–748** |
| **Interest income/expense** | **–630** | **–553** |

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## TAXES ON INCOME AND DEFERRED TAXES

Taxes on income are made up of trade tax, corporation tax, solidarity surcharge and the applicable foreign taxes.

| Tax expense by origin (in kEUR) | | |
|---|---|---|
| | 2015 | 2016 |
| Current taxes Germany | 5,768 | 7,670 |
| Current foreign taxes | 1,587 | 2,003 |
| **Current taxes for the financial year** | **7,355** | **9,673** |
| Taxes for previous years | –111 | 570 |
| **Taxes on income** | **7,244** | **10,243** |
| Deferred taxes Germany | –402 | –513 |
| Deferred foreign taxes | 277 | –160 |
| **Deferred taxes** | **–125** | **–673** |
| **Tax expense reported in the income statement** | **7,119** | **9,570** |

The expected expense for taxes on income, which would have arisen by applying the tax rate of the controlling Group parent FRoSTA AG of 30.66 % (2015: 30.53 %) to the IFRS consolidated pre-tax profit, can be reconciled as follows to taxes on income as reported in the income statement:

**Tax expense reconciliation (in kEUR)**

| | 2015 | 2016 |
|---|---|---|
| **Profit before taxes on income** | **25,329** | **31,138** |
| FRoSTA AG's tax rate | 30.53 % | 30.66 % |
| **Anticipated tax expense** | **7,733** | **9,547** |
| Different tax rates (especially for deferred taxes) | –706 | –953 |
| Taxes on income for previous years | –111 | 570 |
| Tax expense for non-deductible operating expenses | 359 | 455 |
| Tax savings from tax-free income | –156 | –49 |
| **Tax expense reported in the income statement** | **7,119** | **9,570** |

For corporations based in Germany, 15 % is paid for corporation tax and 5.5 % for solidarity surcharge due on corporation tax. In addition, these corporations are liable to trade tax with the level depending on a community-based taxation scale.

The transition from imputation method to half-income method has resulted in a cooperation tax credit of kEUR 1,794, which is paid out in ten equal instalments as from 2008. Following a tax audit, the corporation tax credit rose in 2010 to kEUR 1,871. This amount less two payments received in 2008 and 2009 is paid in eight equal annual instalments as from 2010. The present value was recognised in receivables from current taxes on income.

**Deferred tax assets and liabilities (in kEUR)**

| | 31/12/2015 | | 31/12/2016 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 3 | 1 | 3 | 15 |
| Property, plant and equipment | 146 | 2,535 | 192 | 2,145 |
| Financial assets | 602 | 0 | 216 | 0 |
| Inventories | 0 | 224 | 0 | 178 |
| Trade receivables | 10 | 16 | 0 | 11 |
| Other assets | 29 | 95 | 0 | 281 |
| Pension provisions | 159 | 0 | 175 | 0 |
| Other provisions | 425 | 0 | 950 | 0 |
| Trade payables | 0 | 20 | 0 | 16 |
| Other liabilities | 179 | 15 | 412 | 3 |
| **Total** | **1,553** | **2,906** | **1,948** | **2,649** |
| Netting | –948 | –948 | –1,203 | –1,203 |
| **Balance** | **605** | **1,958** | **745** | **1,446** |

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## EARNINGS PER SHARE

| Earnings per share | | | |
|---|---|---|---|
| | | 2015 | 2016 |
| **Consolidated profit for the year** | **kEUR** | **18,210** | **21,568** |
| Number of ordinary shares issued | in 1,000 | 6,813 | 6,813 |
| **Consolidated profit for the year per share** | **EUR** | **2.67** | **3.17** |

A figure of EUR 3.17 (2015: EUR 2.67) is reported as both basic and diluted earnings per share.

# CONSOLIDATED STATEMENT OF CASH FLOW DISCLOSURES

(48)
## COMPOSITION OF CASH FUNDS

The cash funds are made up of cash and credit at banks to the amount of kEUR 14,903 (2015: kEUR 14,439).

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# SEGMENT REPORTING

For more information on segment reporting as presented below, please refer to the management report.

Due to the amendments to IFRS 8.23 in the version of April 2009, we are now required to adapt our segment reporting to correspond with the FRoSTA AG structure (“management approach”). We manage FRoSTA AG in two separate sales units. Firstly, there is the FRoSTA operating segment, which includes the brand business in Germany, Austria, Eastern Europe and Italy, the private label business in Italy and Eastern Europe as well as sales to home delivery services and catering business in Germany; and secondly, there is the COPACK operating segment, which is responsible for the private label and industrial business in Germany and the private label business in France and in the rest of Western Europe.

Management only considers the profit performance of the segments. Segment reporting does not give consideration to assets or liabilities. The presentation of the segment report corresponds to the structure of internal reporting. Consolidation effects have been included proportionately. However, they are of no significance overall.

**Segment reporting (in mEUR)**

| | Germany | | | Abroad | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | +/- | 2015 | 2016 | +/- | 2015 | 2016 | +/- |
| **Revenue** | **250.9** | **266.8** | 6.3 % | **189.1** | **199.3** | 5.4 % | **440.0** | **466.1** | 5.9 % |
| **Operating income** | **256.5** | **273.5** | 6.6 % | **193.4** | **204.3** | 5.7 % | **449.9** | **477.8** | 6.2 % |
| **Gross profit** | **97.3** | **106.6** | 9.6 % | **76.9** | **82.0** | 6.6 % | **174.2** | **188.6** | 8.3 % |
| in % of revenue | 38.8 % | 40.0 % | | 40.7 % | 41.1 % | | 39.6 % | 40.5 % | |
| Depreciation and amortisation | −7.5 | −7.6 | −1.7 % | −4.7 | −4.6 | 1.4 % | −12.2 | −12.2 | 0.5 % |
| **Operating profit (EBIT)** | **12.7** | **15.5** | 22.3 % | **13.4** | **16.1** | 20.0 % | **26.1** | **31.6** | 21.1 % |
| in % of revenue | 5.1 % | 5.8 % | | 7.1 % | 8.1 % | | 5.9 % | 6.8 % | |
| Net finance costs/ income | −0.4 | −0.3 | −38.8 % | −0.3 | −0.2 | −39.1 % | −0.8 | −0.5 | 38.9 % |
| **Profit/loss from ordinary operating activities** | **12.3** | **15.2** | 24.5 % | **13.1** | **15.9** | 21.4 % | **25.3** | **31.1** | 22.9 % |
| in % of revenue | 4.9 % | 5.7 % | | 6.9 % | 8.0 % | | 5.8 % | 6.7 % | |
| Current taxes | −3.5 | −5.0 | 43.2 % | −3.7 | −5.2 | 39.7 % | −7.2 | −10.2 | −41.4 % |
| Deferred taxes | 0.0 | 0.5 | 445.4 % | 0.1 | 0.3 | 431.9 % | 0.1 | 0.7 | 438.4 % |
| **Consolidated profit for the year** | **8.8** | **10.6** | 20.0 % | **9.4** | **11.0** | 17.0 % | **18.2** | **21.6** | 18,4 % |

**Segment reporting (in mEUR)**

| | Segment FRoSTA | | | Segment COPACK | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | +/- | 2015 | 2016 | +/- | 2015 | 2016 | +/- |
| **Revenue** | **202.2** | **227.2** | 12.4 % | **237.8** | **238.9** | 0.5 % | **440.0** | **466.1** | 5.9 % |
| **Operating income** | **206.8** | **232.9** | 12.6 % | **243.1** | **244.9** | 0.7 % | **449.9** | **477.8** | 6.2 % |
| **Gross profit** | **89.9** | **100.8** | 12.1 % | **84.3** | **87.8** | 4.2 % | **174.2** | **188.6** | 8.3 % |
| in % of revenue | 44.5 % | 44.4 % | | 35.5 % | 36.8 % | | 39.6 % | 40.5 % | |
| Depreciation and amortisation | −5.4 | −5.6 | −4.1 % | −6.8 | −6.6 | 2.4 % | −12.2 | −12.2 | 0.5 % |
| **Operating profit (EBIT)** | **20.1** | **25.1** | 25.1 % | **6.0** | **6.5** | 8.0 % | **26.1** | **31.6** | 21.1 % |
| in % of revenue | 9.9 % | 11.0 % | | 2.5 % | 2.7 % | | 5.9 % | 6.8 % | |
| Net finance costs/ income | 0.4 | 0.2 | −35.2 % | 0.4 | 0.2 | −42.1 | −0.8 | −0.5 | 38.9 % |
| **Profit/loss from ordinary operating activities** | **19.7** | **24.8** | 26.1 % | **5.6** | **6.3** | 11.7 % | **25.3** | **31.1** | 22.9 % |
| in % of revenue | 9.7 % | 10.9 % | | 2.4 % | 2.6 % | | 5.8 % | 6.7 % | |
| Current taxes | −5.6 | −8.2 | 45.1 % | −1.6 | −2.0 | 28.5 % | −7.2 | −10.2 | −41.4 % |
| Deferred taxes | 0.1 | 0.6 | 452.5 % | 0.0 | 0.1 | 389.1 | 0.1 | 0.7 | 438.4 % |
| **Consolidated profit for the year** | **14.2** | **17.2** | 21.5 % | **4.0** | **4.4** | 7.6 % | **18.2** | **21.6** | 18.4 % |

Net income from investments amounting to kEUR 82 relates to income from the investment in Columbus Spedition. In 2015, net income from investments amounting to kEUR 160 comprised income from the investment in Columbus Spedition totalling kEUR 71 and income from the investment in the associated company BIO-FROST Westhof of kEUR 89.

In the financial year 2016, one customer with revenue of kEUR 52,491 (2015: kEUR 43,175) in the FRoSTA and COPACK segments contributed more than 10 % to Group revenue.

# OTHER DISCLOSURES

## (50) PRIMARY FINANCIAL INSTRUMENTS

| Primary financial instruments (in kEUR) | | | | |
|---|---|---|---|---|
| | 31/12/2015 | | 31/12/2016 | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Liabilities to banks | 33,239 | 34,045 | 27,619 | 28,032 |
| Other financial liabilities | 6,248 | 6,248 | 8,610 | 8,610 |

Liabilities to banks include loans. The estimated fair value of loans is determined using the present value, which is calculated on the basis of the current interest rate. For the other financial liabilities, the carrying amounts are identical to their values.

## (51) CONTINGENT LIABILITIES

The FRoSTA Group believes there are no significant contingent liabilities.

## (52) OTHER FINANCIAL OBLIGATIONS

| Other financial obligations (in kEUR) | | |
|---|---|---|
| | 2015 | 2016 |
| Liabilities from current lease agreements | 1,510 | 1,665 |
| Liabilities under current rental and maintenance contracts | 3,101 | 3,021 |
| Purchase obligation from expansion investments | 4,611 | 4,165 |
| Consignment agreements | 2,140 | 2,511 |
| **Other financial obligations** | **11,362** | **11,362** |

Liabilities from current lease agreements result mostly from the leasing of cars and industrial trucks and are handled exclusively in the form of operative lease agreements. The existence of a lease agreement is verified on submission of the agreement or invoice.

Obligations under current leases concern rent for office space, software and communications systems.

| Remaining maturities of rental, maintenance and lease agreements as at 31 December 2016 (in kEUR) | < 1 year | 1 to 5 years | > 5 years |
|---|---|---|---|
| Future payments from current lease agreements | 934 | 731 | 0 |
| Future payments from current rental and maintenance contracts | 2,522 | 496 | 3 |
| **Total** | **3,456** | **1,227** | **3** |

Total expenditure from rental and lease agreements amounted to kEUR 3,798 (2015: kEUR 3,613) in the 2016 financial year.

(53)

## AUDITORS' FEES

| Auditors' fees (in kEUR) | |
|---|---|
| Auditing services | 73 |
| Other assurance services | 11 |
| **Total** | **84** |

(54)

## RELATED PARTIES

### EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2016:

- Felix Ahlers, businessman, Hamburg, Chairman (As at 31 December 2016: 2,279,429 FRoSTA shares = 33.5 %)
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Maik Busse, businessman, Bremerhaven, Vice President Finance and Controlling, as of 1 July 2016
- Jürgen Marggraf, businessman, Bremen, Vice President Operations

The total number of FRoSTA shares owned by the Executive Board as at 31 December 2016 was 2,326,284 shares = 34.2 %.

### SUPERVISORY BOARD

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2016:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board
  (As at 31 December 2016: 681,259 FRoSTA shares = 10.0 %)
- Oswald Barckhahn, businessman, Amsterdam/Netherlands, Vice Chairman of the Supervisory Board
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board as at 31 December 2016 was 683,459 shares = 10.0 %.

### OTHER

All business relations with related parties were transacted on an arm's length basis. All business relations are outlined in the following.

In 2016, Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, invoiced kEUR 40 (2015: kEUR 70).

Charges to Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, in the amount of kEUR 4 (2015: kEUR 5).

Deliveries of goods from Bulgaria Foods Ltd., a 51 % shareholding of Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, amounting to kEUR 318.

Deliveries of goods to Bulgaria Foods Ltd. totalling kEUR 2.

Deliveries of goods from BIO-FROST Westhof GmbH in the period from 1 January to 30 September 2016 amounting to kEUR 430 (2015: from 1 January to 31 December kEUR 218).The shares in BIO-FROST Westhof GmbH, Wöhrden, were sold with effect from 1 October 2016.

In 2016, Columbus Spedition GmbH invoiced kEUR 1,888 (2015: kEUR 1,882).

Selling expenses from a non-consolidated subsidiary in the amount of kEUR 325 (2015: kEUR 322).

As at 31 December 2016, business relations with related parties gave rise to liabilities totalling kEUR 105.

On 22 December 2015, Mr Dirk Ahlers, Ms Friederike Ahlers and Mr Felix Ahlers notified FRoSTA AG of their share in the voting capital.

## (55) REMUNERATION PURSUANT TO SECTION 314 (1) NO. 6 HGB

**Total remuneration of the Executive Board (in EUR)**

| | 2014 | 2015 | 2016 | | | |
|---|---|---|---|---|---|---|
| | | | Target at 100 % goal achievement | Goal achievement in % (performance) | Effective remuneration | +/- previous year |
| **Fixed remuneration** | | | | | | |
| Fixed compensation | 1,062,156 | 1,066,956 | | | 882,450 | –17.3 % |
| Other non-cash benefits | 136,555 | 140,737 | | | 117,372 | –16.6 % |
| **Fixed remuneration, total** | **1,198,711** | **1,207,693** | | | **999,822** | **–17.2 %** |
| **Variable remuneration** | | | | | | |
| Short-term bonus | 2,043,972 | 1,702,799 | 1,468,779 | 123 % | 1,800,956 | 5.8 % |
| Long-term bonus | 577,355 | 445,355 | 325,000 | 172 % | 558,948 | 25.5 % |
| Remuneration to purchase shares | 973,949 | 860,772 | 656,863 | 122 % | 801,307 | –6.9 % |
| **Variable remuneration, total** | **3,595,276** | **3,008,926** | **2,450,642** | **129 %** | **3,161,211** | **5.1 %** |
| **Total expenses** | **4,793,987** | **4,216,619** | | | **4,161,033** | **–1.3 %** |

The total remuneration of the Executive Board for the financial year 2016 amounted to kEUR 4,161 (2015: kEUR 4,217). Of this, the fixed remuneration came to kEUR 1,000 (2015: kEUR 1,208) and variable remuneration to kEUR 3,161 (2015: EUR 3,009).

The total remuneration of former members of the Executive Board was kEUR 54 in the 2016 financial year (2015: kEUR 52). Pension provisions for former Executive Board members amounted to kEUR 466 on the balance sheet date (2015: kEUR 477).

The remuneration of the Supervisory Board totalled kEUR 125, of which kEUR 111 was variable and kEUR 14 was fixed remuneration. The remuneration of the previous year at kEUR 107 comprised variable remuneration of kEUR 93 and fixed remuneration of kEUR 14.

Remuneration for the purpose of buying shares is subject to a lock-up period of five years. The long-term bonus components are based on average performance over three years and are payable at the end of the three-year period.

## APPROPRIATION OF PROFITS (56)

Based on 6,812,598 no-par value bearer shares, less 10,468 no-par value bearer treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), this results in 6,802,130 no-par value bearer shares entitled to a dividend.

At the Annual General Meeting, we will be proposing a gross dividend payment of EUR 1.50 per share corresponding to a total dividend payment of EUR 10,203,195.00. This payment will be taken from the net income for the year reported by FRoSTA AG as at 31 December 2016 of EUR 15,450,769.89. The remaining EUR 5,247,574.89 will be allocated to other retained earnings. The gross dividend is subject to capital gains tax (25 %) amounting to EUR 2,550,798.75 as well as a 5.5 % solidarity surcharge of EUR 140,293.93. This results in a net dividend payment of EUR 7,512,102.32.

The shareholders of the parent company are fully entitled to the profits. No non-controlling interests are held in the FRoSTA AG Group.

## (57) RISK REPORT

The Company secures itself against any risks not related to its core activities, such as currency, liability and property damage risks, by concluding agreements and contracts.

Business risks are borne by the Group itself. In order to avoid or keep damages as low as possible, an appropriate risk management system has been put in place.

For detailed information about the corporate risks, please refer to the FRoSTA AG combined management report of the Company and the Group.

Bremerhaven, 9 March 2017

The Executive Board

Felix Ahlers

Maik Busse

Hinnerk Ehlers

Jürgen Marggraf

# RESPONSIBILITY STATEMENT IN ACCORDANCE WITH SECTION 297 (2) SENTENCE 4 HGB AND SECTION 315 (1) SENTENCE 6 HGB

To the best of our knowledge, and in compliance with the applicable financial reporting standards, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report provides a faithful and accurate review of the development and performance of the business and the position of the Group, and outlines the significant opportunities and risks associated with the expected development of the Group.

Bremerhaven, 9 March 2017

The Executive Board

Felix Ahlers

Maik Busse

Hinnerk Ehlers

Jürgen Marggraf

# AUDITORS' REPORT

We have audited the consolidated financial statements – comprising the balance sheet, statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes – as well as the consolidated management report for the Company and the Group prepared by FRoSTA Aktiengesellschaft, Bremerhaven, for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the consolidated management report of the Company and the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: German Commercial Code) are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the consolidated management report for the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the consolidated management report for the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the consolidated management report of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management as well as evaluating the overall presentation of the consolidated financial statements and the consolidated management report of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

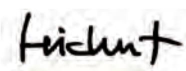
Our audit has not led to any reservations.

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

Bremen, 10 March 2017

BDO AG
Auditors

Renken
Auditor



Weichert
Auditor

# ANNUAL FINANCIAL STATEMENTS OF FRoSTA AG



# INCOME STATEMENT OF FRoSTA AG IN ACCORDANCE WITH HGB

| Income statement of FRoSTA AG (in kEUR) | Note | 2015 | 2016 | Impact on profit/loss |
|---|---|---|---|---|
| 1. Sales | 10 | 415,477 | 442,654 | 6.5 % |
| 2. Decrease/increase in inventories of unfinished goods | | –1,678 | 4,306 | > 100.0 % |
| 3. Other own work capitalised | | 120 | 79 | –34.2 % |
| 4. Other operating income<br>– of which from currency translation kEUR 2,149 (2015: kEUR 4,002) | 11 | 9,360 | 8,133 | –13.1 % |
| 5. Cost of materials | | | | |
| a) Cost of raw materials, consumables and supplies | | –267,963 | –288,649 | –7.7 % |
| b) Cost of purchased services | | –7,862 | –7,776 | 1.1 % |
| | | **–275,825** | **–296,425** | **–7.5 %** |
| 6. Personnel expenses | | | | |
| a) Wages and salaries | | –47,561 | –50,721 | –6.6 % |
| b) Social security, post-employment and other employee benefit costs<br>– of which post-employment benefits kEUR 37 (2015: kEUR 46) | | –7,986 | –8,509 | –6.5 % |
| | | –55,547 | –59,230 | –6.6 % |
| 7. Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets | 3 | –7,393 | –7,828 | –5.9 % |
| 8. Other operating expenses<br>– of which from currency translation kEUR 1,428 (2015: kEUR 1,986) | 11, 12 | –64,366 | –67,300 | –4.6 % |
| **9. Operating result** | | **20,147** | **24,389** | **–21.1 %** |
| 10. Income from equity investments | | 71 | 82 | 15.5 % |
| 11. Other interest and similar income<br>– of which from affiliated companies kEUR 10 (2015: kEUR 4) | | 165 | 117 | –29.1 % |
| 12. Write-downs of long-term financial assets | | –301 | 0 | 100.0 % |
| 13. Interest and similar expenses<br>– of which to affiliated companies kEUR 17 (2015: kEUR 8)<br>– of which from discounting: kEUR 98 (2015: kEUR 102) | 13 | –896 | –751 | 16.2 % |
| **14. Result from ordinary operating activities** | | **19,187** | **23,837** | **22.3 %** |
| 15. Taxes on income | 14 | –5,680 | –8,206 | –44.5 % |
| 16. Earnings after taxes | | 13,507 | 15,631 | 13.2 % |
| 17. Other taxes | | –158 | –180 | –13.9 % |
| **18. Net income for the year** | | **13,349** | **15,451** | **13.2 %** |
| **19. Balance sheet profit** | | **13,349** | **15,451** | **13.2 %** |

# BALANCE SHEET OF FRoSTA AG – ASSETS

**Balance sheet of FRoSTA AG as at 31 December 2016 (in kEUR)**

| | Note | 2015 | 2016 | Change |
|---|---|---|---|---|
| **A. Fixed assets** | | | | |
| I. Intangible assets | 3 | 1,070 | 1,220 | 14.0 % |
| Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets | | | | |
| II. Tangible assets | 3 | 50,817 | 61,744 | 21.5 % |
| 1. Land, land rights and buildings | | 18,560 | 19,568 | 5.4 % |
| 2. Technical equipment and machinery | | 23,672 | 32,844 | 38.7 % |
| 3. Other equipment, operating and office equipment | | 6,636 | 8,679 | 30.8 % |
| 4. Prepayments and assets under construction | | 1,949 | 653 | –66.5 % |
| III. Long-term financial assets | 3 | 11,087 | 11,092 | 0.0 % |
| 1. Shares in affiliated companies | | 11,064 | 11,069 | 0.0 % |
| 2. Loans to affiliated companies | | 0 | 0 | 0.0 % |
| 3. Other long-term equity investments | | 17 | 17 | 0.0 % |
| 4. Long-term securities and shares in cooperatives | | 6 | 6 | 0.0 % |
| 5. Other loans | | 0 | 0 | 0.0 % |
| | | **62,974** | **74,056** | **17.6 %** |
| **B. Current assets** | | | | |
| I. Inventories | | 56,289 | 63,707 | 13.2 % |
| 1. Raw materials and consumables | | 19,699 | 24,002 | 21.8 % |
| 2. Work in progress | | 16,030 | 16,114 | 0.5 % |
| 3. Finished goods and merchandise | | 20,560 | 23,591 | 14.7 % |
| II. Receivables and other assets | 4 | 77,629 | 84,822 | 9.3 % |
| 1. Trade receivables | | 72,302 | 74,759 | 3.4 % |
| 2. Receivables from affiliated companies | | 2,845 | 6,985 | > 100.0 % |
| 3. Other assets | | 2,483 | 3,078 | 24.0 % |
| III. Cash-in-hand, bank balances and cheques | | 8,252 | 10,347 | 25.4 % |
| | | **142,171** | **158,876** | **11.7 %** |
| **C. Prepaid expenses** | | | | |
| | | **265** | **214** | **–19.2 %** |
| **D. Excess of plan assets over pension liability** | 5 | | | |
| | | **16** | **25** | **56.3 %** |
| **Balance sheet total** | | **205,426** | **233,171** | **13.5 %** |

# BALANCE SHEET OF FRoSTA AG – EQUITY

| Balance sheet of FRoSTA AG as at 31 December 2016 (in kEUR) | Note | 2015 | 2016 | Change |
|---|---|---|---|---|
| **A. Equity** | **6** | | | |
| I. Issued capital | | 17,424 | 17,413 | –0.1 % |
| 1. Subscribed capital | | 17,440 | 17,440 | 0.0 % |
| 2. Treasury shares | | –16 | –27 | –68.8 % |
| II. Capital reserves | | 11,447 | 11,447 | 0.0 % |
| III. Revenue reserves | | 60,347 | 64,113 | 6.2 % |
| 1. Legal reserve | | 200 | 200 | 0.0 % |
| 2. Other revenue reserves | | 60,147 | 63,913 | 6.3 % |
| IV. Net retained profits | | 13,349 | 15,451 | 15.7 % |
| | | **102,567** | **108,424** | **5.7 %** |
| **B. Provisions** | | | | |
| 1. Provisions for pensions and similar obligations | 7 | 526 | 497 | –5.5 % |
| 2. Provisions for taxes | | 2,052 | 2,343 | 14.2 % |
| 3. Other provisions | 8 | 24,378 | 42,763 | 75.4 % |
| | | **26,956** | **45,603** | **69.2 %** |
| **C. Liabilities** | **9** | | | |
| 1. Liabilities to banks | | 31,777 | 27,619 | –13.1 % |
| 2. Trade payables | | 24,501 | 30,033 | 22.6 % |
| 3. Liabilities to affiliated companies | | 8,737 | 17,175 | 96.6 % |
| 4. Other liabilities<br>– of which taxes: kEUR 518 (2015: kEUR 1,950) | | 10,842 | 4,308 | –60.3 % |
| | | **75,858** | **79,135** | **4.3 %** |
| **D. Deferred income** | | | | |
| | | **45** | **9** | **–79.7 %** |
| **Balance sheet total** | | **205,426** | **233,171** | **13.5 %** |

# STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG

| Statement of changes in in fixed assets of FRoSTA AG (in kEUR) | | | | | |
|---|---|---|---|---|---|
| | Purchase and production costs | | | | |
| | as at 01/01/2016 | Additions | Disposals | Transfers | as at 31/12/2016 |
| **I. Intangible assets** | | | | | |
| Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets | 13,225 | 471 | 0 | 151 | 13,847 |
| | **13,225** | **471** | **0** | **151** | **13,847** |
| **II. Tangible assets** | | | | | |
| 1. Land, land rights and buildings | 71,237 | 2,681 | 59 | 79 | 73,938 |
| 2. Technical equipment and machinery | 134,238 | 11,774 | 3,061 | 1,393 | 144,344 |
| 3. Other equipment, operating and office equipment | 43,842 | 3,517 | 590 | 223 | 46,992 |
| 4. Prepayments and assets under construction | 1,950 | 549 | 0 | –1,846 | 653 |
| | **251,267** | **18,521** | **3,710** | **–151** | **265,927** |
| **III. Long-term financial assets** | | | | | |
| 1. Shares in affiliated companies | 11,515 | 5 | 0 | 0 | 11,520 |
| 2. Loans to affiliated companies | 301 | 0 | 0 | 0 | 301 |
| 3. Equity investments | 1,768 | 0 | 1,575 | 0 | 193 |
| 4. Long-term securities | 6 | 0 | 0 | 0 | 6 |
| 5. Other loans | 22 | 0 | 0 | 0 | 22 |
| | **13,612** | **5** | **1,575** | **0** | **12,042** |
| | **278,104** | **18,997** | **5,285** | **0** | **291,816** |

| Cumulative depreciation, amortisation and write-downs | | | | Net carrying amount | |
|---|---|---|---|---|---|
| as at 01/01/2016 | Additions | Disposals | as at 31/12/2016 | as at 31/12/2015 | as at 31/12/2016 |
| | | | | | |
| 12,155 | 472 | 0 | 12,627 | 1,070 | 1,220 |
| **12,155** | **472** | **0** | **12,627** | **1,070** | **1,220** |
| | | | | | |
| 52,677 | 1,735 | 42 | 54,370 | 18,560 | 19,568 |
| 110,567 | 3,941 | 3,008 | 111,500 | 23,671 | 32,844 |
| 37,206 | 1,680 | 573 | 38,313 | 6,636 | 8,679 |
| 0 | 0 | 0 | 0 | 1,950 | 653 |
| **200,450** | **7,356** | **3,623** | **204,183** | **50,817** | **61,744** |
| | | | | | |
| 451 | 0 | 0 | 451 | 11,064 | 11,069 |
| 301 | 0 | 0 | 301 | 0 | 0 |
| 1,751 | 0 | 1,575 | 176 | 17 | 17 |
| 0 | 0 | 0 | 0 | 6 | 6 |
| 22 | 0 | 0 | 22 | 0 | 0 |
| **2,525** | **0** | **1,575** | **950** | **11,087** | **11,092** |
| **215,130** | **7,828** | **5,198** | **217,760** | **62,974** | **74,056** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

## FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

REGISTERED IN THE COMMERCIAL REGISTER OF THE DISTRICT COURT OF BREMEN, REGISTER NO.: HRB 1100 BHV

## (1) BASIS OF PREPARATION

The financial statements of FRoSTA Aktiengesellschaft (hereinafter referred to as FRoSTA AG) are prepared in accordance with the regulations for corporations included in the German Commercial Code (HGB), taking into account the additional provisions of the German Stock Corporation Act (AktG); all figures are specified in thousands of euros (kEUR).

FRoSTA AG also prepares consolidated financial statements, which are published in the Federal Gazette (Bundesanzeiger).

## (2) ACCOUNTING POLICIES AND MEASUREMENT METHODS

The financial statements have been prepared under the assumption that the Company will continue as a going concern.

### INCOME STATEMENT

FRoSTA AG uses the total cost method for its income statement.

### FIXED ASSETS

Intangible fixed assets are shown at cost less amortisation. The amortisation is calculated on a straight-line basis over the assets' normal useful life, starting from the date on which they are made available. The useful life for software and licences is four years. The option to capitalise internally created intangible assets was not used. Costs for research and development were therefore expensed in full.

Tangible assets are recognised at cost, less depreciation in the case of assets with a limited useful life. The costs of internally generated tangible assets include all direct costs and an appropriate share of material overheads, production overheads and the depreciation in the value of assets used for production.

The depreciation is calculated on the basis of the normal useful life of the assets concerned. A transition from the declining-balance method to the straight-line method is made as soon as this leads to higher depreciation rates. This rule applies to additions to fixed assets up to 31 December 2009. From 1 January 2010, additions to fixed assets have been depreciated according to the straight-line method based on their economic useful lives.

**Depreciation period of tangible fixed assets**

| | Useful life |
|---|---|
| Buildings | 25–40 |
| Other constructions | 12–19 |
| Plant and machinery | 7–15 |
| IT equipment | 3 – 7 |
| Other operating and office equipment | 5 – 3 |

Write-downs are recognised for foreseeable permanent impairments.

Low value assets with purchase costs of up to EUR 150.00 are recorded as expenditure in the year in which they are acquired. In the case of costs between EUR 150.01 and EUR 410.00, low value assets are fully depreciated and shown as disposals in the statement of changes in fixed assets.

A fixed value is assigned to recognised transport pallets.

Investment grants and subsidies received or requested lower the purchase or production costs of the subsidised assets.

Financial assets are recognised at cost less any write-downs to their fair value.

## CURRENT ASSETS

Inventories are measured at cost unless a lower measurement is required in accordance with the lower-of-cost-or-market principle. The costs of raw materials, supplies and goods are based on the purchase prices plus incidental acquisition expenses less purchase price reductions.

In addition to direct costs, production costs also include an appropriate share of the production and material overheads as well as of the depreciation in the value of fixed assets. General administration costs as well as social expenses, voluntary social benefits and Company pension schemes are not capitalised. Write-downs are measured at the lower of cost or market value and recognised for inventory risks due to excessive storage times or reduced usability. Write-downs for finished goods as at the balance sheet date amounted to kEUR 662 (2015: kEUR 958) as well as kEUR 79 (2015: kEUR 94) for raw materials, consumables and supplies.

Receivables and other assets are shown at nominal value. Non-payment and credit risks are accounted for by specific or global valuation allowances. The percentage used to calculate the global valuation allowance is 1.0.

Cash and cash equivalents are reported at nominal value at the balance sheet date.

## PREPAID EXPENSES

Prepaid expenses relate to expenses incurred prior to the reporting date of the financial statements which represent expenditure allocatable to future periods.

## DEFERRED TAXES

Deferred taxes on temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income measured under German GAAP and for tax purposes are shown net. In the event of an excess of deferred tax assets over deferred tax liabilities, the option not to recognise them is used. The calculation is made on the basis of the future tax rates applicable at the balance sheet date.

## OFFSETTING ASSETS AND LIABILITIES, INCOME AND EXPENSES

Assets that are exempt from attachment by all other creditors and that serve exclusively to settle liabilities from partial retirement benefit obligations are measured at their fair value.

The related income and expenses are offset against the income from discounting and shown in the financial result. Furthermore, these assets are offset against the liability they are based on. Any excess of obligations over expected benefits is recognised in the provisions. If the fair value of the assets is higher than the amount of the liabilities, this is shown as an excess of plan assets over pension liability.

## PENSIONS AND SIMILAR OBLIGATIONS

Pension obligations are measured in accordance with the recognised principles of actuarial mathematics by means of the projected unit credit method. The amount of the provisions is determined by including expected trends with respect to future pension developments as well as any probabilities of fluctuation. The biometric actuarial assumptions are based on the "Richttafeln 2005 G" mortality tables by Dr Klaus Heubeck.

The following additional assumptions are used:

| Measurement parameters | |
|---|---|
| Underlying interest rate p.a. | 4.01 %<br>(10-year average) |
| Pension trend p.a. | 1.60 % |

Since 1 January 2010, the average interest rate used for discounting has been the rate published by the Deutsche Bundesbank for a residual term of 15 years. Interest expenses are reported under the financial result.

Provisions for widow's benefit entitlements are determined using the collective method, according to which the probability of marriage is used as the underlying basis for the actuarial assumptions applied.

### OTHER PROVISIONS

Other provisions include to an appropriate and adequate extent individual provisions for all ascertainable risks and contingent liabilities and for any impending losses from onerous contracts. The provisions are recognised in the amount deemed necessary according to prudent business judgement to meet the future obligations.

Partial retirement obligations are measured in accordance with statement IDW RS HFA 3 published by the Accounting and Auditing Board (HFA) of the Institute of Public Auditors in Germany (IDW). Jubilee obligations are measured in accordance with recognised actuarial principles using the projected unit credit method. Any increases of salaries and pensions to be expected for the future are taken into account in determining the present value. Since 1 January 2010, the interest rate published by the Deutsche Bundesbank has been used for discounting. Time account reinsurance policies have been taken out to cover partial retirement commitments. For the offsetting of liabilities against assets and income and expenses, please refer to the section "Excess of plan assets over pension liability".

### LIABILITIES

Liabilities are recognised with the amount to be paid at the balance sheet date.

### DEFERRED INCOME

Deferred income relates to payments received prior to the reporting date of the financial statements which represent income allocatable to future periods.

### CURRENCY TRANSLATION

Foreign currency transactions are initially translated to the functional currency at the applicable spot exchange rate on the date the transaction occurred. Trade payables in foreign currencies are generally measured at the average exchange rate at the balance sheet date. Unrealised profits and losses are recognised. Derivative financial instruments, in contrast, are recognised according to the imparity principle, i.e. provisions are created for negative values whereas positive values are not recognised.

## BALANCE SHEET DISCLOSURES

### FIXED ASSETS (3)

An overview of the fixed assets based on total costs is attached to these Notes.

In the 2016 financial year, no write-downs were recognised (2015: kEUR 301) with respect to the financial assets of FRoSTA AG.

The value of recognised transport pallets was fixed at kEUR 327 (2015: kEUR 327).

The impairment loss on the purchase or production costs of fixed assets to which investment grants and subsidies relate as at 31 December 2016 amounted to kEUR 748 (2015: kEUR 1,006). The release of investment grants and subsidies of kEUR 258 (2015: kEUR 322) directly reduces gross depreciation/amortisation expense.

| Equity investments (in kEUR) | | | | | |
|---|---|---|---|---|---|
| Name of entity | Share of capital in % | Subscribed capital | Equity | Annual profit/loss 2015 | Annual profit/ loss 2016 |
| 1. COPACK Tiefkühlkost-Produktions GmbH, Bremerhaven | 100.00 | 256 | 242 | –2 | –2 |
| 2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch | 100.00 | 26 | 28 | 0 | 0 |
| 3. FRoSTA Tiefkühlkost GmbH, Bremerhaven | 100.00 | 255 | 265 | 1 | 2 |
| 4. FRoSTA Foodservice GmbH, Bremerhaven | 100.00 | 256 | 269 | 1 | 1 |
| 5. TIKO Vertriebsgesellschaft mbH, Bremerhaven | 100.00 | 256 | 274 | 1 | 2 |
| 6. BioFreeze GmbH, Bremerhaven | 100.00 | 256 | 253 | –1 | 0 |
| 7. Feldgemüse GmbH Lommatzsch, Lommatzsch | 100.00 | 26 | 12 | 0 | –2 |
| 8. FRoSTA Sp. z o.o., Bydgoszcz/Poland | 100.00 | 7,929 | 39,815 | 6,558 | 7,270 |
| 9. COPACK France S.a.r.l., (formerly FRoSTA France S.a.r.l) Boulogne-Billancourt/France | 100.00 | 153 | 367 | 11 | 12 |
| 10. FRoSTA Italia s.r.l., Rome/Italy | 100.00 | 10 | 453 | 41 | 65 |
| 11. FRoSTA CR s.r.o., Prague/Czech Republic | 100.00 | 37 | 212 | 6 | 6 |
| 12. FRoSTA Hungary Kft., Esztergom/Hungary | 100.00 | 21 | 59 | 8 | 8 |
| 13. COPACK Sp. z o.o., Bydgoszcz/Poland | 100.00 | 11 | 3 | –1 | –2 |
| 14. Columbus Spedition GmbH, Bremerhaven | 33.33 | 225 | 384[1] | 159 | [2] |

[1] Concerns 2015, [2] No data available

In addition, there are four other equity investments which are not included in the overview with reference to Section 286 (3) No. 1 HGB.

The euro amounts from financial statements that have been prepared in foreign currencies are determined using the exchange rate on the balance sheet date.

## (4) RECEIVABLES AND OTHER ASSETS

Receivables from affiliated companies include receivables from intercompany deliveries and services amounting to kEUR 2,166 (2015: kEUR 1,144) and current account transactions amounting to kEUR 1,319 (2015: kEUR 1,701) and from financing activities in an amount of kEUR 3,500 (2015: kEUR 0).

Of the receivables from financing activities, kEUR 3,281 have a residual term of more than one year.

As at 31 December 2016, trade receivables of kEUR 6,695 (2015: kEUR 17,957) were sold in asset-backed security transactions.

Of the other assets, kEUR 44 (2015: kEUR 191) have a residual term of more than one year.

## (5) EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

The excess of plan assets over pension liability amounted to kEUR 25 (2015: kEUR 16). The fair value of assets invested amounted to kEUR 70 (2015: kEUR 96); procurement costs amounted to kEUR 69 (2015: kEUR 85).

The assets in question were reinsurance policies to cover pension obligations.

## (6) EQUITY

On 31 December 2016, share capital amounted to EUR 17,440,250.88 and was divided into 6,812,598 no-par value shares. The shares are made out to the bearer.

In accordance with a resolution passed at the Annual General Meeting on 17 June 2016, it was decided to allocate the sum of EUR 4,115,280.01 from the net retained profits of EUR 13,349,401.21 to other revenue reserves. Revenue reserves include profits generated in prior periods to the extent that they were not distributed. Additionally, the portion of purchase costs exceeding the nominal value of the shares acquired through the share buyback is reported as a reduction of revenue reserves (change: kEUR 349.7).

A total of 10,468 FRoSTA AG no-par value bearer shares with a nominal value of EUR 26,798.08 or 0.15 % of the share capital were offset against equity. The portion of purchase costs exceeding the nominal value amounting to EUR 592,016.47 is reported in a reduction of revenue reserves.

These 10,468 no-par value bearer treasury shares result from the following purchase and sales transactions:

In addition to the 6,448 treasury shares with a nominal value of EUR 16,506.88 acquired in a share buyback between 23 April 2015 and 14 December 2015, FRoSTA AG acquired a further 51,218 treasury shares in a share buyback between 6 January 2016 and 29 December 2016. This corresponds to a nominal amount of EUR 131,118.08, or 0.75 % of the equity. This cost the Company EUR 2,661,907.57, which equates to a weighted average price of EUR 51.97 per share.

FRoSTA AG subsequently sold a total of 47,198 no-par value bearer treasury shares as part of various share-based payments and employee share programmes. This corresponds to a nominal amount of EUR 120,826.88 or 0.69 % of the equity as at 31 December 2016. For 40,108 no-par value bearer shares sold under an employee share programme, FRoSTA AG received a total of EUR 855,670.50 to be used as it sees fit. As part of a bonus scheme, the Company issued 7,090 shares to employees at management level.

The share buy-backs were quantified on the basis of the previous year’s share-based payments and employee share programmes. Since in the financial year 2016 fewer shares were sold as part of the employee share programme, a total of 10,468 no-par value bearer shares were held as treasury shares by FRoSTA AG. Under Section 71b of the German Stock Corporation Act (AktG), the no-par value bearer shares held as treasury shares are not entitled to any rights.

Apart from this there is authorised capital, as yet unused, for a fixed period until 17 July 2018, amounting to EUR 201,253.12 for the issuing of shares to employees of the Company and its affiliated companies, as well as authorised capital of EUR 5,000,000.00 for a fixed period until 17 July 2018, for a capital increase from cash contributions.

## PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS (7)

The amount required to cover pension provisions applies exclusively to pensioners already receiving a pension. The carrying amount pursuant to Section 253 (2) HGB applying the ten-year average interest rate of 4.01 % was kEUR 497 in the financial year 2016. Applying the seven-year average interest rate pursuant to Section 253 (6) HGB of 3.24 % would have produced a carrying amount of kEUR 519.

In 2015, the carrying amount applying a seven-year average interest rate of 3.89 % was kEUR 526.

The difference amounting to kEUR 22 resulting from the change in interest rate for the financial year 2016 is subject to a distribution limitation.

## (8) OTHER PROVISIONS

Other provisions include provisions for personnel expenses amounting to kEUR 12,712. This includes provisions for jubilee benefits with a payment amount of kEUR 1,674. The discount rate on which this is based is 3.24 %, assuming a residual term of 15 years. Provisions are also recognised for contingent liabilities in connection with the relocation of a production line in the amount of kEUR 1,600.

Partial retirement provisions are measured at a settlement amount of kEUR 50. This was also determined based on a discount rate of 3.24 %. Since the plan assets in the amount of kEUR 70 are assigned on the basis of individual partial retirement obligations, the principle of item-by-item measurement resulted in a surplus of assets of kEUR 25 as well as a provision for partial retirement obligations of kEUR 5.

Provisions are also recognised for potential VAT back payments relating to previous accounting periods in the amount of kEUR 2,510 and outstanding invoices amounting to kEUR 7,095. Other provisions also relate to obligations arising from sales-related agreements on terms and conditions totalling kEUR 18,313.

## (9) LIABILITIES

| Liabilities (in kEUR) | | | | |
|---|---|---|---|---|
| | Total amount | of which due within | | |
| | | up to 1 year | more than 1 year | more than 5 years |
| Liabilities to banks | 27,619 | 9,904 | 17,715 | 4,519 |
| (previous year) | (31,777) | (19,409) | (12,368) | (2,195) |
| Trade payables | 30,033 | 30,033 | 0 | 0 |
| (previous year) | (24,501) | (24,501) | (0) | (0) |
| Liabilities to affiliated companies | 17,175 | 17,175 | 0 | 0 |
| (previous year) | (8,737) | (8,737) | (0) | (0) |
| Other liabilities | 4,308 | 4,308 | 0 | 0 |
| (previous year) | (10,843) | (10,843) | (0) | (0) |
| | **79,135** | **61,420** | **17,715** | **4,519** |
| | **(75,858)** | **(63,490)** | **(12,368)** | **(2,195)** |

Liabilities to banks are guaranteed by mortgages amounting to kEUR 10,141 (2015: kEUR 14,040) and similar rights amounting to kEUR 1,055 (2015: kEUR 1,278).

The customary retentions of title apply to trade payables.

Liabilities to affiliated companies result from inter-company deliveries and services amounting to kEUR 8,833 (2015: kEUR 6,566) and current account transactions amounting to kEUR 2,245 (2015: kEUR 2,171) and from financing activities in an amount of kEUR 6,096 (2015: kEUR 0).

In the financial year 2016, obligations arising from bonus agreements are recognised for the first time in other provisions.

# INCOME STATEMENT DISCLOSURES

(10)

## SALES

| Sales by region (in mEUR) | 2015 | 2016 | Deviation |
|---|---|---|---|
| Germany | 314 | 349 | 11.1 % |
| Abroad | 167 | 178 | 6.6 % |
| | **481** | **527** | 9.6 % |
| Sales allowances | 66 | 85 | 28.8 % |
| | **415** | **442** | 6.5 % |

| Sales by product group (in mEUR) | 2015 | 2016 | Deviation |
|---|---|---|---|
| Fish | 178 | 197 | 10.7 % |
| Fruit and vegetables | 108 | 114 | 5.6 % |
| Ready meals and other products | 129 | 131 | 1.6 % |
| | **415** | **442** | 6.5 % |

(11)

## PRIOR-PERIOD INCOME AND EXPENSE

The income statement of FRoSTA AG includes income relating to prior accounting periods of kEUR 3,406 (2015: kEUR 3,794) and expenses relating to prior accounting periods in the amount of kEUR 866 (2015: kEUR 2,761). Prior-period income mainly relates to the derecognition of advertising expense allowances and bonus payments, the reversal of personnel provisions and other provisions.

## OTHER OPERATING EXPENSES (12)

Other operating expenses include extraordinary expenses amounting to kEUR 1,600 for recognition of a provision for contingent liabilities in connection with the relocation of a production line.

## (13) OFFSETTING OF INCOME AND EXPENSES

Income from plan assets amounting to kEUR 1 (2015: kEUR 3) was offset against interest expense for partial retirement benefit obligations amounting to kEUR 1 (2015: kEUR 7).

## TAXES ON INCOME (14)

This item includes, among other things, tax expenses of kEUR 538 relating to prior accounting periods (2015: tax income of kEUR 87).

Deferred taxes on temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income measured under German GAAP and for tax purposes are as follows:

**Deferred tax assets and liabilities (in kEUR)**

| | 31/12/2015 | | 31/12/2016 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 0 | 0 | 0 | 15 |
| Tangible assets | 0 | 109 | 0 | 98 |
| Other financial assets | 696 | 0 | 216 | 0 |
| Prepaid expenses/deferred income | 29 | 0 | 0 | 0 |
| Pension provisions | 30 | 0 | 27 | 0 |
| Other provisions | 213 | 0 | 712 | 0 |
| Trade payables | 0 | 23 | 0 | 21 |
| **Total** | **968** | **132** | **955** | **134** |
| Netting | –132 | –132 | –134 | –134 |
| **Balance** | **836** | **0** | **821** | **0** |

The temporary differences were measured based on the combined tax rate of corporation tax and trade tax of 30.66 % (2015: 30.53 %).

The resulting theoretical tax relief was not recognised in accordance with the option as set forth in Section 274 HGB, as amended.

# OTHER DISCLOSURES

## (15) OTHER FINANCIAL OBLIGATIONS

**Other financial obligations (in kEUR)**

| | 31/12/2015 | 31/12/2016 |
|---|---|---|
| Liabilities from current lease agreements | 1,378 | 1,399 |
| Liabilities under current rental and maintenance contracts | 2,956 | 2,877 |
| Purchase commitments from expansion investments | 4,381 | 3,558 |
| Consignment agreements | 2,140 | 2,512 |
| | **10,855** | **10,346** |

| Remaining maturities of rental, maintenance and lease agreements as at 31 December 2016 (in kEUR) | < 1 year | 1 to 5 years | > 5 years |
|---|---|---|---|
| Future payments from current lease agreements | 814 | 585 | 0 |
| Future payments from current rental and maintenance contracts | 2,468 | 406 | 3 |
| Purchase commitments from expansion investments | 3,558 | 0 | 0 |
| Consignment agreements | 2,512 | 0 | 0 |
| | **9,352** | **991** | **3** |

## (16) HEDGING TRANSACTIONS/DERIVATIVES

Currency hedging is used to hedge incoming payments in GBP and outgoing payments in USD. Derivative financial instruments are accounted for at cost at the time of the transaction. As at the balance sheet date, the banks determine the fair values on the basis of market quotations. Hedging transactions are measured in accordance with the imparity principle, whereby provisions for contingent losses are recognised for negative market values whereas unrealised gains are not recognised.

Interest rate swaps are entered into in order to hedge interest risks.

The following table shows the individual financial instruments. The fair values were determined on the basis of the individual closing rate:

**Hedging transactions/derivatives**

| Financial instrument | Type | Scope | Fair value in kEUR |
|---|---|---|---|
| Currency forwards | Purchase kUSD | 24,988 | –29 |
| Currency forwards | Sale kGBP | 80 | 0 |
| Currency swaps | Sale kUSD | 1,069 | 0 |
| Interest rate swaps | Loan kEUR | 1,321 | –30 |

## AUDITORS' FEES AND SERVICES (17)

The total fees invoiced by the auditors, BDO AG Wirtschaftsprüfungsgesellschaft, for the financial year are included in the relevant section of the Notes to the consolidated financial statements.

## NUMBER OF EMPLOYEES (18)

| Employees (annual average) | 2015 | 2016 |
|---|---|---|
| Wage earners | 577 | 577 |
| Salaried staff | 291 | 295 |
| Temporary employees | 132 | 149 |
| **Number of employees pursuant to Section 285 No. 7 HGB** | **1,000** | **1,021** |
| Apprentices | 30 | 30 |
| | **1,030** | **1,051** |

(19)
## EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2016:

- Felix Ahlers, businessman, Hamburg, Chairman (As at 31 December 2016: 2,279,429 FRoSTA shares = 33.5 %)
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Maik Busse, businessman, Bremerhaven, Vice President Finance and Controlling, as of 1 July 2016
- Jürgen Marggraf, businessman, Bremen, Vice President Operations, Vice Chairman

The total number of FRoSTA shares owned by the Executive Board as at 31 December 2016 was 2,326,284 shares = 34.2 %.

(20)
## SUPERVISORY BOARD

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2016:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board, former Chairman of the Executive Board
  (As at 31 December 2016: 681,259 FRoSTA shares = 10.0 %)
- Oswald Barckhahn, businessman, Amsterdam/Netherlands, Vice Chairman of the Supervisory Board, Jacobs Douwe Eegberts
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board as at 31 December 2016 was 683,459 shares = 10.0 %.

## REMUNERATION PURSUANT TO SECTION 285 NO. 9 HGB (21)

The total remuneration of the Executive Board of FRoSTA AG in the financial year amounted to kEUR 4,161 (2015: kEUR 4,217). Of this the fixed remuneration came to kEUR 1,000 (2015: kEUR 1,208) and variable remuneration to kEUR 3,161 (2015: kEUR 3,009).

The total remuneration of former members of the Executive Board of FRoSTA AG was kEUR 54 in the financial year (2015: kEUR 52). Pension provisions for former Executive Board members of FRoSTA AG amounted to kEUR 410 on the balance sheet date (2015: kEUR 435).

The remuneration of the Supervisory Board amounted to kEUR 125 (2015: kEUR 107), of which kEUR 111 (2015: kEUR 93) was variable remuneration and kEUR 14 (2015: kEUR 14) was fixed remuneration.

## REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events having a material impact on the net assets, financial position and results of operations as at 31 December 2016 occurred after the balance sheet date.

## OTHER (22)

On 22 December 2015, Mr Dirk Ahlers notified the Company that his shareholding had fallen below 25 %.

On 22 December 2015, Ms Friederike Ahlers notified the Company that her shareholding had exceeded 25 %.

On 22 December 2015, Mr Felix Ahlers notified the Company that his shareholding had exceeded 25 %.

## (23) APPROPRIATION OF PROFITS

Based on 6,812,598 no-par value bearer shares, less 10,468 no-par value bearer shares held as treasury shares not entitled to a dividend in accordance with Section 71b of the German Stock Corporation Act (AktG), 6,802,130 no-par value bearer shares are entitled to a dividend. At the Annual General Meeting, we will be proposing a dividend of EUR 1.50 per share corresponding to a total dividend of EUR 10,203,195.00. This payment will be taken from the net income for the year as at 31 December 2016 of EUR 15,450,769.89. The remaining EUR 5,247,574.89 will be allocated to other revenue reserves.

Bremerhaven, 9 March 2017

The Executive Board

Felix Ahlers

Maik Busse

Hinnerk Ehlers

Jürgen Marggraf

# RESPONSIBILITY STATEMENT IN ACCORDANCE WITH SECTION 289 (1) SENTENCE 5 HGB

To the best of our knowledge, and in compliance with the applicable financial reporting standards, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company, and the management report provides a faithful and accurate review of the development and performance of the business and the position of the Company, and outlines the significant opportunities and risks associated with the expected development of the Company.

Bremerhaven, 9 March 2017

The Executive Board

Felix Ahlers

Maik Busse

Hinnerk Ehlers

Jürgen Marggraf

# AUDITORS' REPORT

We have audited the financial statements – comprising the balance sheet, income statement and the notes – including the accounting records and the consolidated management report for the Company and the Group prepared by FRoSTA Aktiengesellschaft, Bremerhaven, for the financial year from 1 January to 31 December 2016. The accounting records and the preparation of the financial statements and the consolidated management report of the Company and the Group in accordance with the requirements of German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements including the accounting records and on the consolidated management report for the Company and the Group based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 HGB (Handelsgesetzbuch: German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with the applicable financial reporting framework and in the consolidated management report for the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting records, financial statements and the consolidated management report of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall presentation of the financial statements and the consolidated management report of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with the requirements of German commercial law and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements. The consolidated management report of the Company and the Group is consistent with the financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and accurately presents the opportunities and risks of future development.

Bremen, 10 March 2017

BDO AG
Auditors

Renken
Auditor

Weichert
Auditor

# TEN-YEAR OVERVIEW FOR THE FRoSTA GROUP

**Ten-year overview for the FRoSTA Group**

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Employees (average) | Amount | 1,665 | 1,631 | 1,559 |
| Revenue | mEUR | 466 | 440 | 408 |
| EBITDA (operating result plus depreciation and amortisation) | mEUR | 43.8 | 38.3 | 36.2 |
| Consolidated profit/loss | mEUR | 21.6 | 18.2 | 17.3 |
| Capital expenditure | mEUR | 26.0 | 14.1 | 16.3 |
| Shares | Amount | 6,812,598 | 6,812,598 | 6,812,598 |
| Total dividend | kEUR | 10,203 | 9,234 | 9,247 |
| Dividend per share | EUR | 1.50 | 1.36 | 1.36 |
| Earnings per share | EUR | 3.17 | 2.67 | 2.53 |
| Fixed assets | mEUR | 89.7 | 76.5 | 75.4 |
| Current assets | mEUR | 181.8 | 168.2 | 159.7 |
| Equity | mEUR | 145.7 | 134.7 | 125.7 |
| Equity ratio | | 53.7 % | 55.1 % | 53.5 % |
| Liabilities to banks | mEUR | 27.6 | 33.2 | 29.4 |
| Debt ratio[1] | | 10.2 % | 13.6 % | 12.5 % |
| Return on investment[2] | | 15.5 % | 13.7 % | 13.8 % |

[1] Bank liabilities / (balance sheet total / 100)

[2] [EBIT / (average balance sheet total including ABS – average trade payables)] * 100

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| 1,523 | 1,504 | 1,528 | 1,520 | 1,614 | 1,539 | 1,372 |
| 386 | 380 | 385 | 393 | 411 | 392 | 349 |
| 29.5 | 21.5 | 26.0 | 29.8 | 32.5 | 32.0 | 30.2 |
| 12.0 | 6.1 | 8.7 | 9.8 | 12.0 | 12.1 | 12.2 |
| 8.4 | 7.8 | 8.6 | 10.7 | 12.1 | 25.7 | 20.0 |
| 6,812,598 | 6,695,900 | 6,609,188 | 6,531,457 | 6,450,833 | 6,413,386 | 6,373,673 |
| 6,813 | 5,022 | 4,957 | 4,899 | 4,838 | 4,810 | 4,207 |
| 1.00 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.66 |
| 1.80 | 0.92 | 1.33 | 1.52 | 1.87 | 1.89 | 1.93 |
| 71.1 | 75.1 | 76.8 | 81.5 | 82.9 | 88.4 | 75.9 |
| 150.9 | 147.2 | 144.8 | 144.0 | 140.2 | 148.9 | 129.1 |
| 116.6 | 108.4 | 105.0 | 101.2 | 94.8 | 87.0 | 80.2 |
| 52.5 % | 48.7 % | 47.4 % | 44.9 % | 42.5 % | 36.6 % | 39.1 % |
| 39.1 | 50.0 | 55.3 | 63.6 | 76.7 | 86.3 | 69.6 |
| 17.6 % | 22.5 % | 25.0 % | 28.2 % | 34.4 % | 36.4 % | 34.0 % |
| 10.1 % | 5.7 % | 8.2 % | 9.3 % | 10.8 % | 11.4 % | 12.2 % |

# REPORT OF THE SUPERVISORY BOARD FOR THE 2016 FINANCIAL YEAR

Dear Shareholders,

In the financial year 2016, the Supervisory Board of FRoSTA AG discharged the duties incumbent upon it under the law and Company's Articles of Association and Rules of Procedure. During the same period, it was regularly and extensively involved in matters concerning the economic and financial development as well as the strategic alignment of FRoSTA AG and the Group as a whole. It held regular consultations with the Executive Board and monitored the latter's activities closely. The Supervisory Board participated directly in all decisions of fundamental importance to the Company. The Executive Board informed the Supervisory Board regularly, comprehensively and in a timely manner, in written form and verbally, on all matters concerning the business development and the financial situation of the Group. The Chairman of the Supervisory Board, Dirk Ahlers, exchanged information at regular intervals with the Executive Board, for example by attendance at day-long Group management meetings three times in the course of the year.

After thorough examination, the Supervisory Board approved those decisions of the Executive Board which require Supervisory Board consent. These mainly concerned corporate planning for the year, the annual scope of investment and financial planning.

The Supervisory Board convened four regular meetings: on 5 April, 17 June, 14 September and 21 December 2016. The meetings of the Supervisory Board were attended by all members.

In the reporting period, there arose no conflicts of interest for Supervisory Board members from their activities as members of the Supervisory Board of FRoSTA AG.

## MAIN POINTS DISCUSSED BY SUPERVISORY BOARD

During the 2016 financial year, the Supervisory Board devoted its efforts to implementing key annual planning objectives. As in the previous year, these were:

### FOR THE GROUP AS A WHOLE

- Growth through innovation
- Above-average growth of the FRoSTA brand and the catering business
- Increased return on sales
- Examining the possibilities of chilled food production

### FOR THE FRoSTA BRAND

- Intensification of listing efforts especially for the fish range in Germany
- Standardisation of the brand identity under the FRoSTA Purity Command in all sales countries
- Focus on Germany, Poland, Hungary, the Czech Republic and Romania by supporting the brand through consumer advertising in these countries
- Introduction of the brand in Italy

### FOR THE FOODSERVICE (CATERING) BUSINESS

- Growth and expansion of business in other European countries

### FOR THE PRIVATE LABEL BUSINESS

- Focus on items with a positive return on sales
- Expansion of a profitable fish range
- Optimisation and expansion of overall range

All Supervisory Board meetings focused on the current development of business. Additionally, the main topics discussed at the individual Supervisory Board meetings were:

### ON 5 APRIL 2016

- Audit of the 2015 annual financial statements
- Long-term strategic alignment of FRoSTA AG ("Vision 2020")

### ON 17 JUNE 2016

- Preparation of the Annual General Meeting
- Discussion of the opportunities and risks of chilled food
- Industry 4.0
- Disposal of the shareholding in Bio-Frost Westhof GmbH

### ON 14 SEPTEMBER 2016

- Profit estimate for the financial year 2016
- Introducing the brand in additional markets
- Possibilities in Russia
- New advertising campaign

### ON 21 DECEMBER 2016

- Annual planning for 2017
- IT strategy
- New bonus concept for the management

## FINANCE AND PERSONNEL COMMITTEE

The Finance and Personnel Committee, consisting of Supervisory Board members Dirk Ahlers and Oswald Barckhahn, met before each Supervisory Board meeting and made preparations for these meetings. The Committee consulted with the Supervisory Board on the 2015 annual financial statements at a joint session in Hamburg on 5 April 2016. The current brand strategy was discussed in numerous telephone conversations with the Chairman of the Executive Board.

## COMPOSITION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

The composition of the Supervisory Board did not change in the financial year 2016. The Chairman Felix Ahlers temporarily took over responsibility for Finance and Controlling from 1 January 2016 until the new Vice President Finance and Controlling Maik Busse took up his duties on 1 July 2016.

## SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

In accordance with a decision taken at the Annual General Meeting, the Supervisory Board commissioned BDO AG Wirtschaftsprüfungsgesellschaft, Bremen, with the task of auditing the separate and consolidated financial statements of FRoSTA AG. The auditors examined both the separate and the consolidated financial statements and issued unqualified auditor's reports.

The consolidated management report of FRoSTA AG and the Group was also issued an unqualified auditor's report.

The audit reports were submitted to the members of the Supervisory Board in good time. They were presented to the Chairman of the Supervisory Board by the auditor on 23 February 2017, who duly examined them. On 22 March 2017, they were initially discussed by the Finance and Personnel Committee and then discussed in detail by the complete Supervisory Board. For its part, the Supervisory Board thoroughly reviewed the separate financial statements, the consolidated financial statements, the consolidated management report of FRoSTA AG and the Group as well as the proposal on the appropriation of net retained profits. The Supervisory Board declares that, having completed its review, it has no objections either to the consolidated and separate financial statements as at 31 December 2016, nor to the consolidated management report of FRoSTA AG and the Group as at 31 December 2016. The Supervisory Board therefore unanimously approved the separate and consolidated financial statements prepared by the Executive Board. The annual financial statements were thereby adopted.

The Supervisory Board also approved the proposal of the Executive Board on the appropriation of net retained profits.

The Finance and Personnel Committee further discussed the annual bonus target for the members of the Executive Board. This was subsequently adopted by the entire Supervisory Board.

The fixed remuneration decreased by 17 % in 2016 compared with the previous year due to the temporary vacancy of the position of CFO. Compared to other companies of a similar size, fixed remuneration comes in at the lower end. The variable, i.e. performance-related remuneration continues to be considerably higher than average. However, despite improved earnings of 23 %, the variable component increased by just 5.1 % year-on-year. When comparing with other companies, it should also be borne in mind that the Executive Board remuneration does not include any pension commitments.

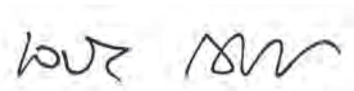
In total, the Executive Board remuneration decreased by 1.3 % compared with 2015.

Given the overall positive results of operations and the fact that in particular the growth targets for the brand were met, the Supervisory Board deems the level of Executive Board remuneration appropriate.

## WORD OF THANKS

The Supervisory Board would like to express its thanks to the Executive Board and to all employees for their great commitment in the financial year 2016.

Hamburg, 22 March 2017



For the Supervisory Board
Dirk Ahlers

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