Fresh
and top-quality – the business figures for 2018

strong brand growth

consequently independent

significantly higher costs for raw materials

FRoSTA AG
Annual Report 2018

KEY FIGURES FOR THE FRoSTA GROUP

Key figures for the FRoSTA Group

Business year		2017	2018
Employees (average)	Amount	1,724	1,778
Revenue	mEUR	501	509
EBIT	mEUR	49.3	46.6
EBIT in % of revenue		9.8%	9.2%
Consolidated profit/loss	mEUR	23.1	20.0
Capital expenditure	mEUR	39.1	37.3
Dividend per share	EUR	1.60	1.60

FINANCIAL CALENDAR

Financial Calendar

Event	Date
Presentation of Annual Results Bremerhaven	Thursday, 28 February 2019
Annual General Meeting Bremerhaven Civic Centre Wilhelm-Kaisen-Platz 27576 Bremerhaven	Friday, 10 May 2019
Half-yearly financial report 2019	Friday, 26 July 2019

PUBLISHING INFORMATION

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UMPR – Agentur für Kommunikation
www.umpr.de

CONTENT

We could have managed the extreme price increases better. We've learned from this and remain optimistic for our future."

Felix Ahlers,
Chairman of the Executive Board

Independence means consistently implementing our strategy, even if resources suddenly become scare or expensive. This consistency, combined with a high level of agility in adapting to the prevailing conditions, guarantees our sustained success."

Maik Busse, Vice President Business Partnering and Administration

The FRoSTA brand is growing strongly because our Purity Command is more relevant than ever."

Hinnerk Ehlers, Vice President Marketing, Sales and Human Resources

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

2018 was a mixed year for FRoSTA. Our brand continues to grow strongly. Good, honest food that contains only natural ingredients, as embodied by the FRoSTA Purity Command introduced in 2003, is more relevant than ever for today's consumers.

However, 2018 was also a difficult year, with prices for fish from the world's seas rising by 40% mid-year – and with further price hikes expected in 2019. The hot, dry summer also resulted in higher prices for most vegetables.

We were not able to pass these cost increases on to our customers quickly enough. Integration of our new "La Valle degli Orti" brand in Italy also took longer than anticipated.

Overall, our operating profit in 2018 fell short of our expectations and of the previous year's result.

We nevertheless remain optimistic for 2019 and beyond. We have identified the problems and will learn from our mistakes.

We would like to take this opportunity to thank our employees for their excellent work in difficult times. And we thank our customers and shareholders for their support and trust. Last but not least, our thanks go to Jürgen Marggraf, Vice President Operations and Vice Chairman for his outstanding work in his 18 years at FRoSTA. He is due to retire in March 2019 and we wish him all the best. His duties will be divided between the management team and the now three-member Executive Board.

We look forward to welcoming you to our Annual General Meeting in Bremerhaven on 10 May 2019.

Yours,

Felix Ahlers Maik Busse Hinnerk Ehlers

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.

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 1,700 people work for FRoSTA AG in six countries. We produce at three plants in Germany and one in Poland.

1,778 EMPLOYEES IN **6** COUNTRIES

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.

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

VEGETABLES, FRUIT AND HERBS FROM OUR OWN AND PARTNER FARMS

Vegetables Fruit Herbs

FISH, READY MEALS AND VEGETABLES

Fish Meals Vegetables

BRAND BUSINESS

FRoSTA brand with Purity Command

tiko brand – Fish and meals

Elbtal brand – Vegetables

La Valle degli Orti brand – Vegetables

Mare Fresco brand – Fish

Surgela brand – Fish

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 (until 22 June 2018)

Volker Kuhn
Geneva/Switzerland
Businessman
Vice Chairman (since 22 June 2018)

Jürgen Schimmelpfennig
Bremerhaven
Machine Fitter

EXECUTIVE BOARD

Felix Ahlers
Hamburg
Chairman

Maik Busse
Bremerhaven

Hinnerk Ehlers
Hamburg

Jürgen Marggraf
Bremerhaven
Vice Chairman

HI THERE, WE'RE NEW!

NEW FRoSTA PRODUCTS IN 2018

The new products that we launched in 2018 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.

NORTH SEA POLLACK

Regional origin is becoming increasingly relevant! The fish for our "Küsten Frikadellen" comes from our supplier Kutterfisch based in Cuxhaven, who source 100% of our pollack from the German North Sea.

→ KÜSTEN FRIKADELLEN (COASTAL FISHCAKES)

→ KNUSPER FILETS SENF-DILL (CRIPSY FILLETS MUSTARD&DILL)

→ BACKOFEN FISCHSTÄBCHEN (OVEN-BAKED FISH FINGERS)

BACKOFEN FISCH

Award-worthy! Our Backofen Fisch Käsig Kross is succulent Alaska pollack in a crispy crumb combo of sheep's-milk pecorino and delicately melting edam – a must for all cheese lovers.

→ BACKOFEN FISCH KÄSIG KROSS (OVEN-BAKED FISH CHEESY CRISP)

→ BACKOFEN FISCH KERNIG KROSS (OVEN-BAKED FISH CRUNCHY CRISP)

VEGETABLE STIR-FRIES

Healthy and delicious vegetable products – preferably vegetarian or, better still, vegan – are more popular now than ever. Our new veggie stir-fries combine modern and inspiring ingredients, excite the tastebuds and are quick and simple to prepare – guaranteed winners every time

→ GEMÜSE PFANNE MIT ROTE BETE & SÜSSKARTOFFELN
(VEGETABLE STIR-FRY WITH BEETROOT AND SWEET POTATO)

VEGETABLES

For all (would-be) mushroom lovers, we've now got a great alternative to foraging yourself – our mixed mushrooms in herb butter. A delicious combination of button mushrooms and sheathed woodtuft in a delicately seasoned herb butter with wild garlic and chervil. Ready, steady, eat!

→ PILZ MIX IN KRÄUTERBUTTER
(MIXED MUSHROOMS IN HERB BUTTER)

HERBS

Ready-chopped and good to go, cloves of garlic give every dish an unmistakable flavour.

→ KNOBLAUCH
(GARLIC)

READY MEALS

These three new ready-meals are breaking new ground! They are the first ever FRoSTA meals offered in an FSC-certified folding box.

→ CHICKEN VIETNAMESE MIT BANDNUDELN
(VIETNAMESE CHICKEN WITH RIBBON NOODLES)

→ PFEFFER RAHM HÄHNCHEN MIT SPÄTZLE
(CHICKEN IN PEPPER CREAM SAUCE WITH SPÄTZLE NOODLES)

→ PASTA MIT MEDITERRANEM GEMÜSE
(PASTA WITH MEDITERRANEAN VEGETABLES)

KLEINE MAHLZEITEN

Two new Asian dishes have been added to the successful line of more traditional German Kleine Mahlzeiten introduced in 2015.

→ THAI HÄHNCHEN MIT BANDNUDELN
(THAI CHICKEN WITH RIBBON NOODLES)

→ INDONESIA HÄHNCHEN MIT BASMATIREIS
(INDONESIAN CHICKEN WITH BASMATI RICE)

NEW PRODUCTS IN POLAND

DANIA GOTOWE

These four new recipes bring fresh flavours to our Polish range of ready meals. Alongside an Asian and a typical Polish recipe, there are also two vegan choices.

→ ASIAN WOK WITH CHICKEN
→ WOK MANGO CURRY
→ VEGETABLE CURRY
→ KASZA PECZAK

FILETY Z MIRUNY

100% succulent hake fillet for individual preparation either pan-fried or oven-baked.

→ FILETY Z MIRUNY

NEW PRODUCTS IN ITALY

BASTONCINI

Succulent fish fillet in a crunchy coating! Those already familiar with our "10 Bastoncini di filetti di merluzzo" will also love our "15 Bastoncini di filetti di merluzzo" – the perfect complement.

→ 15 BASTONCINI DI FILETTI DI MERLUZZO
→ 10 BASTONCINI DI FILETTI DI MERLUZZO

FILETTI GUSTOSI DI MERLUZZO D'ALASKA

A new fish range conquers the Italian market! The star of all three recipes is succulent fillet of Alaska pollack in a delicately seasoned marinade – choose from Potato & Tomato, Aubergine & Courgette or Courgette & Capers.

→ FILETTI GUSTOSI DI MERLUZZO D'ALASKA CON MELANZANE E ZUCCHINE
→ FILETTI GUSTOSI DI MERLUZZO D'ALASKA CON PATATE E POMODORI
→ FILETTI GUSTOSI DI MERLUZZO D'ALASKA CON ZUCCHINE E CAPPERI

PRONTI E NATURALI

These three new and modern recipes under the La Valle degli Orti brand are based on vegetables, superfoods and proteins. Very lightly seasoned, these vegetarian options are especially quick and easy to prepare.

→ PRONTI E NATURALI COUSCOUS
→ PRONTI E NATURALI QUINOA
→ PRONTI E NATURALI RISO

MERLUZZO GRATINATO

The two newcomers in our Schlemmerfilet range. Succulent Alaska Pollack with a topping of crunchy breadcrumbs in the varieties "Spinach" or "Rosemary & Lemon".

→ MERLUZZO GRATINATO CROCCANTE AGLI SPINACI
→ MERLUZZO GRATINATO CON ROSMARINO E LIMONE

CUORI DI FILETTI DI NASELLO

100 % hake fillet – what more could you want! A product that can be prepared in many different ways: fried in a pan, cooked in a pot or baked in the oven – according to your individual "gusto".

→ CUORI DI FILETTI DI NASELLO

COMBINED MANAGEMENT REPORT

"Let's be honest.

Veggies like never before."

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

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

MARKET AND SECTOR REPORT

MACRO- AND MICROECONOMIC FACTORS

While gross domestic product in the EU in 2018 is expected to show growth of 2.1%, the German economy grew at a slightly below-average rate of 1.5% (Source: statista forecast 2018 / Destatis press release 18, 15.01.2019).

The food retail segment in Germany achieved growth of 1.5% in the reporting year, which was made possible exclusively as a result of price increases. While prices increased by 2.8%, volumes showed a slight decline (Source: GFK Consumer Index 11/2018).

CHALLENGES IN THE PROCUREMENT MARKET

The procurement markets for vegetables were affected by the severe drought in Europe, which resulted in massive crop failures and a very high price level for dairy products.

In addition, energy prices rose by over 15%.

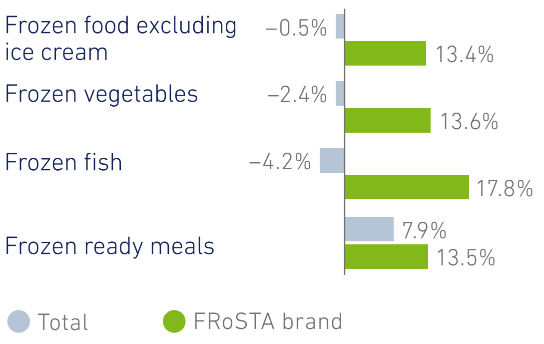
The worldwide development of new markets for Alaska pollack led to significant price increases and a shortage of this raw product.

It was only to a limited extent possible to counter this challenge by sourcing alternative fish raw materials.

DEVELOPMENT OF THE FROZEN FOOD MARKET IN 2018

In 2018, frozen food sales in the German food retail segment, including hard discounters (Aldi/Lidl/Norma) decreased slightly – by 0.5 % – to EUR 6.4 billion.

Performance (2018 vs 2017)



The FRoSTA brand, by contrast, increased its market shares in the important frozen vegetables, fish and ready meals segments and once again posted double-digit growth of 13.4% (Source: IRi 2018).

In Italy, which has become an important market for us, the market for frozen foods grew slightly by 0.6% in terms of value (source: Nielsen 2018). In this highly competitive environment, our brands performed differently. FRoSTA grew by 31% on a small basis, mainly thanks to the good distribution development (source: Nielsen 2018). The acquisition of the Nestlé brands (La Valle degli Orti and Mare Fresco) proved more difficult than initially planned. Unexpectedly, we were required to change all EAN codes for the portfolio in the reporting year. Despite the implementation difficulties, we reactivated brand awareness last autumn with a new TV campaign. Nevertheless, business with La Valle degli Orti declined by 29% (source: Nielsen).

While we do not have detailed market data for Eastern Europe, we are nevertheless assuming underlying growth in these markets. In the target markets relevant to us, the FRoSTA brand grew strongly in the past financial year, thus strengthening its market position in all countries.

BUSINESS ENVIRONMENT

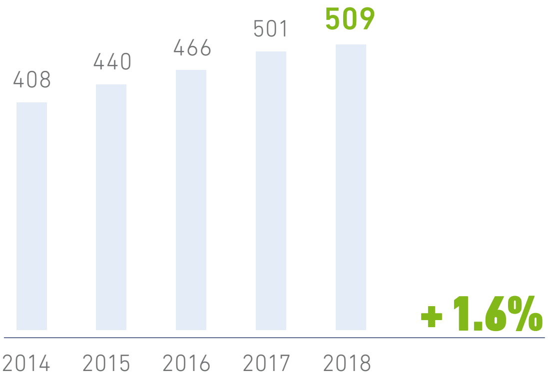
RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL SITUATION

REVENUE

The moderate growth of the FRoSTA Group is attributable to the particularly positive development of the brand business both in Germany and abroad, where demand increased significantly. In addition, the inclusion of the first full year of the La Valle degli Orti and Mare Fresco brand acquisition in Italy made an important contribution to this result, even though the revenue development of the acquired brands fell well short of our expectations.

Revenue performance in the Home Delivery segment remained for the most part stable.

Group revenue (in mEUR)



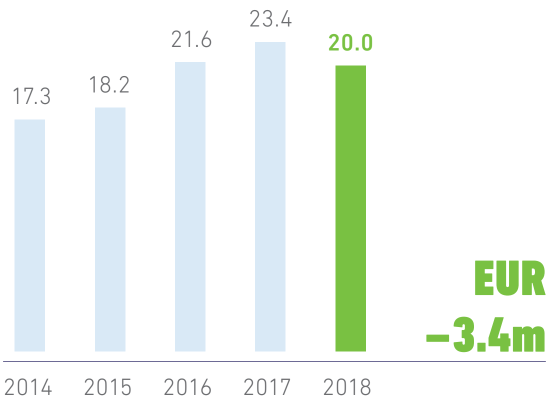
The Foodservice business was for the first time unable to continue the sustained positive trend in all markets in 2018 and reported a decline in revenue and earnings overall. The revenue downturn can be explained, among other things, by business with wholesalers in Germany, who were able to sell large quantities of food for migrants in the previous year. Outside Germany, on the other hand, the good developments seen in previous years continued. We also remain optimistic for the future development of the German market.

Business in the private label segment was quite restrained in 2018. In the case of some contracts it was impossible to match the price demands made by retail partners and so these contracts were dropped from our portfolio.

Overall, the total revenue of the FRoSTA Group in 2018 grew by 1.6% to EUR 509.3m year-on-year.

RESULTS OF OPERATIONS

Consolidated profit/loss (in mEUR)



The consolidated profit for the year was down by EUR 3.4m on 2017. This was mainly due to extreme price increases for Alaska pollack and raw vegetable products in the second half-year. Additionally, the Italian brand business did not meet the sales expectations for the financial year and – due to high capital expenditure on listing, advertising and organisational development – incurred a start-up loss of EUR –4.6m, which had a considerable negative impact on overall earnings.

Furthermore, a shortage of line personnel at the Bydgoszcz site in Poland in the second half of the year reduced production capacity.

Corresponding countermeasures for all effects were initiated in the course of the reporting year.

Due to the continued high capital expenditure on capacity expansion and improvements in production technology, amortisation/ depreciation increased by EUR 2.1m.

The strong brand growth again had a positive impact on earnings.

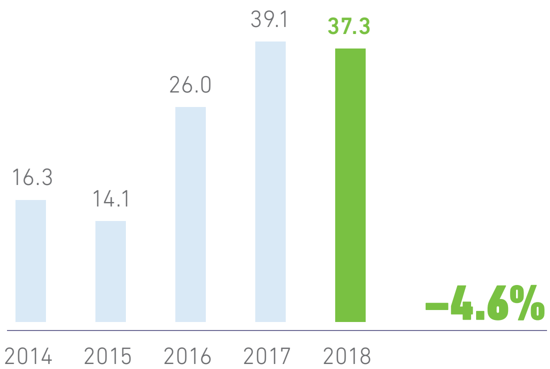
Net interest income/expense and the tax rate showed no significant change year-on-year.

NET ASSETS AND FINANCIAL SITUATION

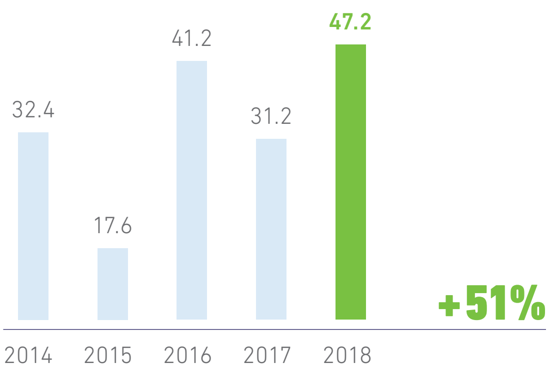
Of the capital expenditure totalling EUR 37.3m in the 2018 financial year, EUR 35.5m was used for property, plant and equipment and systems to extend existing production capacities and improve efficiency.

Cash flow from operating activities increased by 51% in the reporting year. The working capital programme, which in particular adjusts payment terms in the value chain to current market conditions, began to take effect.

Capital expenditure (in mEUR)



Cash flow from operating activities



Thus the Group was able to fulfil its payment obligations at all times.

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)

	31.12.2017	31.12.2018
Subscribed capital	17.4	17.4
+ Capital reserves	12.8	12.8
+ Retained earnings / other reserves	108.3	119.2
+ Profit for the year	23.4	20.0
Equity	**161.9**	**169.5**
Balance sheet total	**310.0**	**328.6**
Equity ratio	**52.2%**	**51.6%**

The equity ratio was maintained at a level above 50%, and is an important criterion for safeguarding the Company's economic independence.

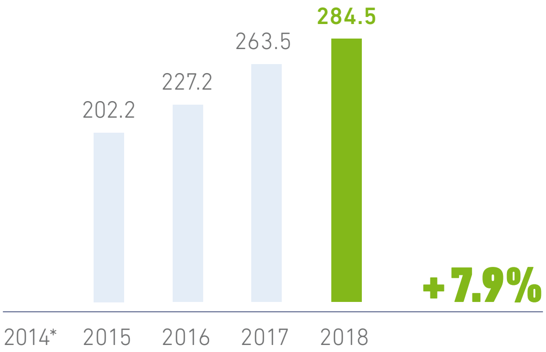
SEGMENT REPORTING

FRoSTA SEGMENT

The FRoSTA operating segment (brand business, 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. Overall, the segment grew by 7.9 %. An important driver of this growth was the Italian brand business, with an increase of EUR 8.8m. Although overall sales revenue was well below expectations, the first-time full inclusion of annual revenue from the acquisition in Italy contributed to the revenue increase.

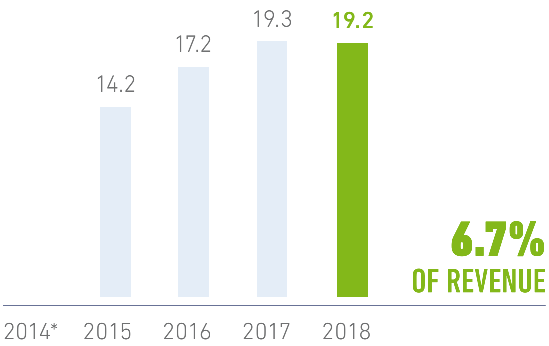
The continuation of the high-impact TV campaigns in all countries through intensified digital and out-of-home activities (such as radio and posters) again enhanced the visibility of and demand for our brand products. Innovations in all areas further stimulate growth.

Revenue FRoSTA (in mEUR)



* new allocation from 2015

Net profit/loss FRoSTA (in mEUR)



* new allocation from 2015

In the core German market, the FRoSTA brand increased consumer revenue in 2018 by as much as 13.4% (source: IRi 2018). This is a good result given that the frozen food market as a whole did not post any growth in 2018.

FRoSTA extended its market leadership in the stir-fry segment with growth of +13.5% (source: IRi 2018).

Following the excellent prior-period figures, sales revenues for FRoSTA vegetable mixes again achieved double-digit growth of 13.6%. Our international stir-fry vegetables made a significant contribution to this very positive result (source: IRi 2018).

In the fish segment, our ranges "Backofen Fisch" and "Pfannen Fisch" and our "Schlemmerfilet"-line recorded further marked increases. In late autumn, we introduced our new product range featuring North Sea pollack. Thanks to the strong combination of TV and promotion campaigns, this segment once again posted exceptional growth of 17.8% (Source: IRi 2018).

Brand-building activities in other European countries excluding Germany also resulted in double-digit growth for the FRoSTA brand. In these markets, we continuously develop brand awareness and increase demand for our products through marketing communication on TV and digital channels.

The Foodservice (catering) segment recorded a significant decline in sales revenue in Germany at the beginning of the year due to the abrupt decline in the area of refugee provision. In the other markets, revenue remained largely stable.

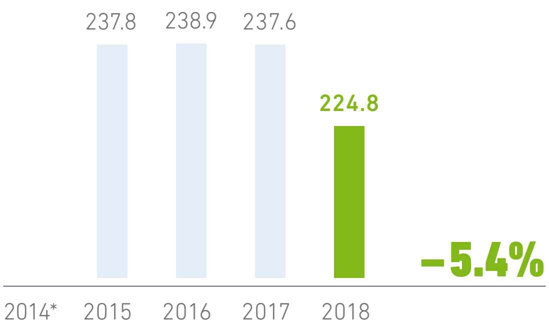
Below the line, revenue in the FRoSTA operating segment grew by 7.9%. Despite the sharp rise in raw material costs in the last four months of the year, which were only translated into higher selling prices with some delay, and the losses from the Italian brand business, net profit for the year amounted to EUR 19.2m.

COPACK SEGMENT

The COPACK operating segment comprises our private label business sales channels with food retailers in Germany, France, Austria and Switzerland. For some customers, the whole of Europe outside Germany is covered.

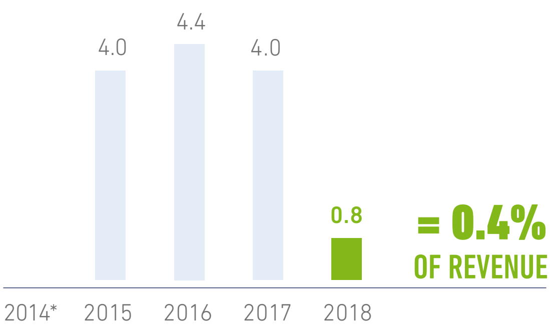
Revenue in the ready meals and herbs product groups increased, while sales of fish and vegetables declined.

Revenue COPACK (in mEUR)



* new allocation from 2015

Net profit/loss COPACK (in mEUR)



* new allocation from 2015

The sharp cost increases for raw products and energy in the second half-year could only be translated into higher selling prices with a delay, leading to a deterioration in net profit for the year.

PRODUCTION AND TECHNOLOGY

The production volume decreased by 4.2% compared to 2017 due to unusually poor harvesting conditions and production interruptions. Drought and hail led to extremely poor harvests throughout Europe. Consequently, we were unable to maintain the good capacity utilisation of our vegetable processing facilities.

Parallel to this, the reporting period was marked by the commissioning of new lines and the induction of new employees, which repeatedly led to performance losses during the qualification phase.

In the second half of the year, the shortage of qualified line personnel in Poland resulted in considerable volume losses.

All production facilities were again successfully certified in accordance with ISO 50001 (energy management). Despite the lower production volume and numerous production interruptions in our vegetable processing facilities, FRoSTA AG nevertheless managed to keep energy consumption per tonne of finished products at a similar low level to 2017 (increase of 1.0% year-on-year).

Quality and product reliability continue to have the highest priority. Accordingly, our facilities were again certified according to IFS and BRC standards and successfully passed all – even unannounced – audits. Our business processes are aligned to the quality management system in accordance with ISO 9001 and have been certified pursuant to the latest revision 2015.

EMPLOYEES AND ORGANISATION

Employees

	2017	2018
FRoSTA head office	**362**	**409**
Administration	218	245
Sales	144	164
FRoSTA production facilities	**1,362**	**1,369**
Bremerhaven	573	577
Bydgoszcz	469	442
Lommatzsch	178	201
Bobenheim-Roxheim	142	149
Group Total	**1,724**	**1,778**

We again increased the number of our employees in 2018, adding another 54 members of staff to the payroll.

The increase of administration and sales is determined primarily by the full integration of the Italian brand business.

In 2018, the employees of the small sales offices in Eastern Europe were included in the calculation for the first time and the allocation of administration – previously partly included in the plant in Bydgoszcz – was adjusted, so that the comparative figure for 2017 was also adjusted accordingly.

In 2018, we supported the successful recruitment of external employees with extensive online and offline personnel marketing measures. These include, for example, campaigns on Facebook and Instagram, a modernised employer presence with the help of new job ad layouts and numerous participations at university and job fairs. Another important pillar earmarked for further development is the cooperation with local universities as well as student and training initiatives. In 2018, we were already able to benefit from this cooperation on several occasions. Not only were high-quality employment marketing measures developed within the framework of student research papers, but we were also able to generate numerous applications from among the group of students.

Total personnel expenses in 2018 increased by 1.8% to a level of EUR 74.3m.

DIVERSITY CONCEPT

Raising the proportion of women in management positions is an issue we take very seriously. In 2018, the proportion of women in first-level management was 25% (2017: 22%) and in second-level management 44% (2017: 35%). Overall, women made up 37% (2017: 38%) of the workforce at FRoSTA.

A target of 30% has been set for the participation of women on the Executive Board and the Supervisory Board, which can be achieved in the future when new appointments are made by election or nomination.

One of the top priorities at FRoSTA for a number of years has been to develop modern working hours models that make it easier to balance family and a career. Arrangements have therefore been put in place to allow for more flexible working hours, including rules for home office activities.

Through our education and trainee programme we develop our own future employees, with the aim of filling future vacancies with junior staff from within our own ranks. We have made this one of our top priorities at FRoSTA. We offer vocational training opportunities at all three locations in Germany with a total of 8 different apprenticeships. In the financial year 2018, the total number of trainees was 35 (2017: 34), with a takeover rate of 79% (2017: 80%).

In 2018, we were again able to successfully implement the entry-level qualification (EQ) model. The aim of this measure is to lead young people with insufficient German language skills into successful vocational training. In Bremerhaven, we were thus able to offer a young Syrian refugee a place on a vocational training course to become a mechatronics technician. Another participant is currently completing EQ training as a food technology specialist. We are very pleased about the success of EQ: the young refugees benefit from the opportunity to establish themselves on the German labour market and as employers we gain committed, highly motivated and highly valued colleagues.

2018 also saw the expansion of our management trainee programme in the area of junior staff training. In spring and autumn of 2018, a total of 9 trainees started the 2-year programme at the Bremerhaven and Hamburg locations. In addition to continuing the established marketing trainee programme in Hamburg, we now also cover the areas of Finance & Controlling, Human Resources, Business Development B2B, Production & Technology and Supply Chain Management. With the aim of providing future managers with all-round training, all trainees go through job rotations in various specialist areas and are also deployed at the German and foreign locations.

We place great emphasis on continuous learning. Which is why we invest continuously in sensible personnel development measures in all areas. One important aspect of our training portfolio is a focus on sustainably establishing our shared values and ground rules in the minds of our employees. In addition to this, training measures were in demand and successfully implemented for English, communication skills and project management. With the establishment of English courses in the virtual classroom, we are taking the first steps towards offering more modern and cost-effective e-learning programmes. We are proud that we were again able to maintain the high level of training programmes on offer for our employees in 2018.

We offer our employees the opportunity to share in the ownership of FRoSTA AG and in this way allow them to participate in the company's success. In 2018, they again had the option to purchase employee shares at preferential conditions. A total of 398 buyers (2017: 432) took part in the campaign and acquired shares with a value of kEUR 1,204.0 (2017: kEUR 1,141.9). 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.

SEPARATE FINANCIAL STATEMENTS OF FRoSTA AG

The separate 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 result from consolidation of the subsidiaries and the differences in the financial reporting standards applied.

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

Reconciliation of 2018 financial statements

	kEUR
Net income for the year of FRoSTA AG (HGB)	**12,505**
Adjustment to IFRSs:	
Depreciation and amortisation	–1,830
Pallets	1,047
Deferred taxes	554
Foreign currencies	–6
Other	–398
Profit for the year of FRoSTA AG (IFRSs)	**11,572**
Total annual profit/loss of subsidiaries included in the consolidated financial statements	8,461
Effects of consolidating entries accounted for in profit or loss	–49
Profit for the year of FRoSTA Group for 2018	**19,983**

At kEUR 424,173, sales of FRoSTA AG were down by 7.5% on the previous year.

Apart from the relocation of the "Schlemmerfilet"-line to the plant in Bydgoszcz and the direct marketing by FRoSTA Sp. z o.o. for the Eastern European markets, the Italian private label business was also taken over by FRoSTA S.r.l. in the reporting year with a corresponding reduction in the sales of FRoSTA AG.

This development is in line with the expected forecast for the reporting year.

FRoSTA AG's net income for the year similarly declined on the back of the loss of sales. The unexpectedly high rise in the cost of raw materials and energy also had a negative impact, resulting in net income for the year of kEUR 12,205 – a drop of 35.6%.

The financial position at the balance sheet date was characterised by the measures implemented to optimise working capital. Due to the significant reduction in outstanding receivables, the share of current assets of balance sheet total fell to 57.3% (2017: 65.6%). The carrying amount of tangible assets increased as a result of investing activities to kEUR 85,940 (2017: kEUR 67,429). There was no significant change in the capital structure compared with the previous year. At the reporting date, the share of equity in the balance sheet total amounted to 47.6% (2017: 46.2%).

Cash outflows in connection with investing activities and the repayment of loan liabilities resulted in a reduction in cash and cash equivalents at the balance sheet date. FRoSTA AG was at all times able to meet its financial obligations.

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.

APPROPRIATION OF CONSOLIDATED PROFIT

The separate 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 1.60 per share from net retained profits and allocate the remainder to reserves. Based on 6,812,598 shares, less 963 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 10.9m.

Consequently, 27.3% of the FRoSTA Group's profit before tax will be distributed as a net dividend (37.1% as a gross dividend) and 41.7% paid as taxes, with 30.9% being retained by the Company.

Appropriation of profits 2018

	mEUR	Share
Current company taxes	9.4	
Capital gains tax including solidarity surcharge on dividends	2.9	
Total taxes	**12.2**	**41.7%**
Net dividend	**8.0**	**27.3%**
Retained by the Company	**9.1**	**30.9%**
Consolidated profit before tax	**29.4**	**100.0%**

THE FRoSTA SHARE

Key data of the FRoSTA share

Market segment	Open Market segment of the Frankfurt Stock Exchange
German SIN (WKN)	606900
ISIN	DE0006069008
Nominal share value	EUR 2.56

The FRoSTA share saw the following development in 2018: in December 2017, the share price was at EUR 79.00 and in December 2018 it was at EUR 63.96. Since March 2017, the FRoSTA share has been traded in the Open Market segment of the Frankfurt Stock Exchange.

Key figures for the FRoSTA share

	2017	2018
Share capital (mEUR)	17.4	17.4
Number of shares (in thousands)	6,813	6,813
Equity carried in the consolidated balance sheet (mEUR)	161.9	169.5
Equity per share (EUR)	**23.77**	**24.87**
Share price at year end (EUR)	79.00	63.96
Year high (EUR)	90.50	85.00
Year low (EUR)	54.86	59.50
Trading volume in shares	583,670	194,156
P/E ratio (price at year-end / profit per share)	**23.03**	**21.83**
Dividend (payout per share) EUR proposal	1.60	1.60
Dividend yield (dividend/price at year-end)	**2.0%**	**2.5%**
Consolidated profit for the year (mEUR)	23.4	20.0
Net profit for the year per share (EUR)	**3.43**	**2.93**

SUSTAINABILITY REPORT

We attach great importance to sustainability. Therefore, we will again prepare a sustainability report this year which will be published on our website www.frosta-ag.com on the occasion of the Annual General Meeting.

RISK REPORT

INTERNAL CONTROL SYSTEM

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 Controlling, 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 variables at FRoSTA AG are revenue growth, contribution margin and profitability, along with working capital, the capital expenditure ratio and the equity ratio.

The internal audits of our quality management officers coupled with internal auditing projects additionally support the compliance or adaptation of our processes.

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.

RISK MANAGEMENT SYSTEM

The Group risk management system ensures that risks can be identified and assessed at an early stage and defines clear lines of responsibility for dealing with threatening business situations.

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.

In addition to security through insurance we continuously endeavour to counter cyber risks with the help of modern firewall architecture as well as regular internal and external audits.

The risk management system at FRoSTA AG is the subject of a continuous improvement process.

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 our own brands and private labels, 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; this means that FRoSTA carries the risk or opportunity of fluctuating sales to end customers.

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.

The FRoSTA brand offers the opportunity for further sustainable growth based on the Purity Command and an innovative portfolio.

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.

From the current perspective, neither individual risks nor the totality of all currently known risks pose a threat to the Company's continued existence. Overall, we assess the risk situation on a comparable basis with the previous financial year.

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

Based on the Euromonitor forecast, the frozen food market is projected to show revenue growth of between 0.5% and 4% in our core markets in the period from 2019 to 2022.

Against this background, provided that we are able to quickly pass on increased costs for raw products, we also anticipate a positive revenue and earnings development.

By enhancing service and quality and focusing on relevant innovations and brand investments, we will concentrate in particular on growing the brand and Foodservice business.

In the event of further cost increases, which are already foreseeable for fish, we will implement efficiency improvements and further price increases.

For the 2019 financial year, we are expecting FRoSTA AG and the Group to post a slight increase in sales/revenue and net income/ consolidated profit on a similar level to 2018. The prerequisite for achieving the forecast values is the ability to successfully implement price increases on the market.

Bremerhaven, February 2019

The Executive Board

ANNUAL FINANCIAL STATEMENTS OF THE FRoSTA GROUP

“

Let’s be honest.

We prefer real taste instead of taste enhancers and added aromas.”


NEU
FRoSTA REINHEITSGEBOT
100% frei von
Geschmacksverstärkern, Farbstoffen & Aromen
FRoSTA
low carb
WILDLACHS
SOMMERGEMÜSE
mit Erbsen-Pasta
high protein
aus Erbsenschrot
400g

CONSOLIDATED BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH IFRSs — ASSETS

AS AT 31 DECEMBER 2018

Consolidated balance sheet of FRoSTA AG in accordance with IFRSs — Assets (in kEUR)

		Note	2017	2018	Change
A.	**Non-current assets**				
I.	Intangible assets	6, 8, 23	8,768	9,935	13.3%
II.	Property, plant and equipment	7, 8, 24	104,508	122,963	17.7%
III.	Financial assets	9, 25	125	125	0.0%
IV.	Deferred tax assets	16, 46	1,863	2,063	10.7%
			115,264	**135,086**	17.2%
B.	**Current assets**				
I.	Inventories	10, 26	81,553	89,065	9.2%
II.	Receivables and other assets	11			
	1. Trade receivables	27	91,094	82,199	−9.8%
	2. Receivables from affiliated companies		1	1	0.0%
	3. Other assets				
	Financial assets	28	6,989	9,297	33.0%
	Miscellaneous other assets	28	567	659	16.2%
	4. Tax receivables		0	1,275	> 100.0%
III.	Cash and cash equivalents	48	14,578	11,045	−24.2%
			194,782	**193,541**	**−0.6%**
Balance sheet total			**310,046**	**328,627**	**6.0%**

CONSOLIDATED BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH IFRSs — EQUITY AND LIABILITIES

AS AT 31 DECEMBER 2018

Consolidated balance sheet of FRoSTA AG in accordance with IFRSs — Equity and Liabilities (in kEUR)

		Note	2017	2018	Change
A.	**Equity**	**29**			
I.	Subscribed capital	30			
	Nominal amount		17,440	17,440	0.0%
	Treasury shares		0	–2	> –100.0%
			17,440	**17,438**	0.0%
II.	Capital reserves	31	12,815	12,815	0.0%
III.	Retained earnings	32	89,520	97,539	9.0%
IV.	Other reserves	33	503	–991	> –100.0%
V.	Equity earned by the Group (without retained earnings)	32	41,625	42,655	2.5%
			161,903	**169,456**	4.7%
B.	**Non-current liabilities**				
I.	Provisions for pensions and similar obligations	35	1,006	1,069	6.3%
II.	Other non-current provisions	36	2,486	2,628	5.7%
III.	Non-current financial liabilities to banks	37	26,027	23,704	–8.9%
IV.	Deferred tax liabilities	46	2,233	1,983	–11.2%
			31,752	**29,384**	–7.5%
C.	**Current liabilities**				
I.	Current provisions	36	1,091	312	–71.4%
II.	Current financial liabilities to banks	37	18,538	18,509	-0.2%
III.	Trade payables	37	68,289	92,646	35.7%
IV.	Other current liabilities	37, 38			
	Financial liabilities	38	8,665	2,702	–68.8%
	Miscellaneous other liabilities	38	15,227	11,749	–22.8%
V.	Tax liabilities		4,581	3,869	–15.5%
			116,391	**129,787**	**11.5%**
Balance sheet total			**310,046**	**328,627**	**6.0%**

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 2018

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

		Note	2017	2018	Impact on profit/loss
1.	Revenue	39	501,131	509,284	1.6%
2.	Increase/reduction in inventories of finished goods and work in progress		3,002	–5,613	>–100.0%
3.	Other own work capitalised		105	1	–99.0%
4.	Other income	40	10,087	9,314	–7.7%
5.	**Total operating revenue**		**514,325**	**512,986**	–0.3%
6.	Cost of materials				
	a) Cost of raw materials, consumables and supplies		–297,747	–289,439	2.8%
	b) Cost of purchased services		–9,529	–10,834	–13.7%
			–307,276	**–300,273**	2.3%
7.	Personnel expenses	41			
	a) Wages and salaries		–62,071	–62,684	–1.0%
	b) Social security, post-employment and other employee benefit costs – of which post-employment benefits: kEUR 41 (2017: kEUR 23)		–10,893	–11,591	–6.4%
			–72,964	**–74,275**	–1.8%
8.	Amortisation and depreciation of intangible assets and property, plant and equipment	42	–14,400	–16,538	–14.8%
9.	Other expenses	43	–84,791	–91,861	–8.3%
10.	**Operating profit (EBIT)**		**34,894**	**30,039**	–13.9%
11.	Income from equity investments		128	49	–61.7%
12.	Other interest and similar income	44	68	55	–19.1%
13.	Interest and similar expenses – of which financial expenses: kEUR 784 (2017: kEUR 669)	44	–679	–792	–16.6%
14.	**Net financial result**		**–483**	**–688**	–42.4%
15.	**Profit/loss from ordinary operating activities**		**34,411**	**29,351**	–14.7%
16.	Current taxes on income	45	–11,346	–9,850	13.2%
17.	Deferred taxes	45, 46	287	482	67.9%
18.	**Consolidated profit/loss for the year**		**23,352**	**19,983**	**–14.4%**

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 2018

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

	Note	2017	2018	Impact on profit/loss
1. Consolidated profit/loss for the year	47	23,352	19,983	–14.4%
2. Other comprehensive income				
a) Items that will not be reclassified to profit or loss				
Actuarial gains or losses		–12	-43	–100.0%
– Income taxes relating to these gains and losses kEUR 13 (2017: kEUR -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		2,411	-1,451	> –100.0%
3. Comprehensive income		**25,751**	**18,489**	–28.2%
Allocation of comprehensive income to shareholders of the parent		0	0	
Non-controlling interests		25,751	18,489	–28.2%
Earnings per share (basic/diluted)	**47**	**3.43**	**2.93**	**–14.5%**

CONSOLIDATED STATEMENT OF CASH FLOWS OF FRoSTA AG

Consolidated statement of cash flows (in kEUR)

	2017	2018
Consolidated profit before tax	34,411	29,351
Depreciation and amortisation of non-current assets	14,400	16,538
Interest income	–68	–55
Interest expense	679	792
Increase in non-current provisions	155	205
Gains/losses on disposal of non-current assets	–48	–260
Other non-cash income and expenses	1,536	–8,384
Interest paid	–536	–506
Interest received	9	4
Income taxes paid	–9,546	–11,308
Income taxes received	–	–
Cash flow before change in working capital	**40,992**	**26,377**
Decrease in current provisions	–596	–780
Increase in inventories, trade receivables and other assets not attributable to investing or financing activities	–13,368	–965
Increase in trade payables and other liabilities not attributable to investing or financing activities	4,148	22,588
Cash flow from operating activities	**31,176**	**47,220**
Proceeds from disposal of non-current assets	24	16
Proceeds from the disposal of non-current financial assets	–	–
Capital expenditure on property, plant and equipment	–31,020	–35,448
Capital expenditure on intangible assets	–8,053	–1,877
Capital expenditure on non-current financial assets	–	–
Cash flow from investing activities	**–39,049**	**–37,309**
Payments to acquire treasury shares	–2,849	–3,367
Proceeds from disposal of treasury shares	3,457	3,307
Dividends to shareholders	–10,188	–10,876
Proceeds from obtaining bank loans	16,300	5,150
Repayments of bank loans	–5,354	–7,502
Increase in other financial liabilities	6,000	–
Cash flow from financing activities	**7,366**	**–13,288**
Effect of translation differences on cash and cash equivalents	182	–156
Net change in cash and cash equivalents	–507	–3,377
Cash and cash equivalents at beginning of period	14,903	14,578
Cash and cash equivalents at end of period	**14,578**	**11,045**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF FRoSTA AG

Consolidated statement of changes in equity

	Subscribed capital	Capital reserves	Retained earnings	Other retained earnings: Actuarial gains/losses	Other retained earnings: Adjustment item from foreign currency translation	Group equity (without retained earnings)	Equity
As at 1 January 2017	**17,413**	**12,815**	**83,676**	**–93**	**–1,803**	**33,724**	**145,732**
Dividends paid						–10,188	–10,188
Acquisition of treasury shares	–105		–2,744				–2,849
Employee share programme	131		3,326				3,457
Appropriation to retained earnings			5,263			–5,263	0
Currency translation differences					2,411		2,411
Impact on income				–12			–12
Consolidated profit/ loss for the year						23,352	23,352
As at 31 December 2017	**17,440**	**12,815**	**89,520**	**–105**	**608**	**41,625**	**161,903**
As at 1 January 2018	**17,440**	**12,815**	**89,520**	**–105**	**608**	**41,625**	**161,903**
Dividends paid						–10,876	–10,876
Acquisition of treasury shares	–106		–3,261				–3,367
Employee share programme	104		3,203				3,307
Appropriation to retained earnings			8,077			–8,077	0
Currency translation differences					–1,451		–1,451
Impact on profit/ loss				–43			–43
Consolidated profit/ loss for the year						19,983	19,983
As at 31 December 2018	**17,438**	**12,815**	**97,539**	**–148**	**–843**	**42,656**	**169,456**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017 / 2018

Consolidated statement of changes in non-current assets 2017 (in kEUR)

	Purchase and production costs					
	as at 01/01/2017	Currency translation differences	Additions	Disposals	Reclassifications	as at 31/12/2017
I. Intangible assets						
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	**15,524**	**9**	**8,053**	**26**	**30**	**23,590**
II. Property, plant and equipment						
1. Land, land rights and buildings	83,493	547	5,286	41	3,638	92,923
2. Plant and machinery	163,105	984	13,101	860	3,317	179,647
3. Other operating and office equipment	51,671	72	5,139	1,236	290	55,936
4. Prepayments and assets under construction	6,937	360	7,493	0	−7,275	7,515
	305,206	**1,963**	**31,019**	**2,137**	**−30**	**336,021**
III. Non-current financial assets						
1. Financial assets	**536**	**0**	**0**	**0**	**0**	**536**
	321,266	**1,972**	**39,072**	**2,163**	**0**	**360,147**

Consolidated statement of changes in non-current assets 2018 (in kEUR)

	Purchase and production costs					
	as at 01/01/2018	Currency translation differences	Additions	Disposals	Reclassifications	as at 31/12/2018
I. Intangible assets						
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	**23,590**	**−7**	**1,877**	**47**	**57**	**25,470**
II. Property, plant and equipment						
1. Land, land rights and buildings	92,923	−485	5,696	0	1,107	99,241
2. Plant and machinery	179,647	−809	18,184	1,584	5,666	201,104
3. Other operating and office equipment	55,936	−74	6,309	1,455	497	61,213
4. Prepayments and assets under construction	7,515	−104	5,259	0	−7,327	5,343
	336,021	**−1,472**	**35,448**	**3,039**	**−57**	**366,901**
III. Non-current financial assets						
1. Financial assets	**536**	**0**	**0**	**0**	**0**	**536**
	360,147	**−1,479**	**37,325**	**3,086**	**0**	**392,907**

Accumulated depreciation, amortisation and impairment					Net carrying amount	
as at 01/01/2017	Currency translation differences	Additions	Disposals	as at 31/12/2017	as at 31/12/2017	as at 31/12/2016
14,226	**6**	**598**	**8**	**14,822**	**8,768**	**1,298**
54,520	190	2,509	28	57,191	35,732	28,973
123,700	701	8,098	843	131,656	47,991	39,405
40,636	48	3,195	1,213	42,666	13,270	11,035
0	0	0	0	0	7,515	6,937
218,856	**939**	**13,802**	**2,084**	**231,513**	**104,508**	**86,350**
411	**0**	**0**	**0**	**411**	**125**	**125**
233,493	**945**	**14,400**	**2,092**	**246,746**	**113,401**	**87,773**

Accumulated depreciation, amortisation and impairment					Net carrying amount	
as at 01/01/2018	Currency translation differences	Additions	Disposals	as at 31/12/2018	as at 31/12/2018	as at 31/12/2017
14,822	**–3**	**763**	**47**	**15,535**	**9,935**	**8,768**
57,191	–120	2,686	0	59,757	39,484	35,732
131,656	–434	9,218	1,336	139,104	62,000	47,991
42,666	–32	3,871	1,428	45,077	16,136	13,270
0	0	0	0	0	5,343	7,515
231,513	**–586**	**15,775**	**2,764**	**243,938**	**122,963**	**104,508**
411	**0**	**0**	**0**	**411**	**125**	**125**
246,746	**–589**	**16,538**	**2,811**	**259,884**	**133,023**	**113,401**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2018 FINANCIAL YEAR

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

FRoSTA Aktiengesellschaft (in the following FRoSTA AG) is a public limited company under German law and is listed in the Open Market segment of the Frankfurt Stock Exchange. FRoSTA AG as parent company 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 22 February 2019 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 2018 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 and binding within the European Union.

In doing so, all IASs or IFRSs to be applied as at 31 December 2018 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 aforementioned regulations were met without exception so that FRoSTA AG's consolidated financial statements provide a true and fair view of the net assets, financial position and results of operations as well as the cash flows of the 2018 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. In order to ensure equivalence with consolidated financial statements prepared in accordance with German commercial law (HGB), all statutory obligations pertaining to disclosure and explanatory notes above and beyond the IASB regulations, in particular preparing a combined Company and Group management report, have been fulfilled.

The consolidated financial statements have been prepared under the assumption that the company will continue as a going concern. Comparative figures from 2017 are stated for all line items of the financial statements.

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

Comparisons are made based on the reference date of 31 December 2017.

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' financial statements are drawn up according to uniform accounting principles.

The subsidiaries are accounted for using acquisition accounting in accordance with IFRS 3. Under the acquisition method, the carrying amounts of the equity investments are eliminated against the proportionate equity of the subsidiaries attributable to the parent on the basis of the carrying amounts at the time of acquisition of the shares (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 is not applied retrospectively for business combinations that occurred before the transition date (1 January 2004).
- This means that the method of consolidation previously applied is retained.

Expenses and income as well as accounts receivable and payable between consolidated companies are eliminated. Interim profits and losses from inter-company 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 2017 in %	Percentage of capital held in 2018 in %
Copack Tiefkühlkost-Produktions GmbH	Bremerhaven	100.00	100.00
Copack 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 CR s.r.o.	Prague/Czech Republic	100.00	100.00
FRoSTA Sp. z o.o.	Bydgoszcz/Poland	100.00	100.00
Tiko Vertriebsgesellschaft mbH	Bremerhaven	100.00	100.00
FRoSTA S.r.l.	Rome/Italy	100.00	100.00
Copack S.r.l.	Rome/Italy	100.00	100.00

FRoSTA Italia S.r.l. was merged with FRoSTA S.r.l. in the 2018 financial year. This intra-Group merger did not impact the Group's net assets, financial position and results of operations.

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 2017 in %	Percentage of capital held in 2018 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 recognised as an adjustment item from currency translation.

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

Development of the exchange rates of the most important currencies

	Average rate		Closing rate	
	2017	2018	2017	2018
Polish zloty	4.2789	4.2453	4.1752	4.2981
Czech koruna	26.326	25.646	25.585	25.724

ACCOUNTING POLICIES AND MEASUREMENT METHODS

RECOGNITION OF INCOME AND EXPENSES, REVENUE FROM CONTRACTS WITH CUSTOMERS (5)

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.

The first-time application of IFRS 15, Revenue from Contracts with Customers, did not impact the Group's net assets, financial position and results of operations, as the first-time application did not result in any changes in the time of revenue recognition or in performance obligations requiring different treatment. FRoSTA exclusively recognises revenue from fixed-price contracts with customers at a point in time when control of the goods or services passes to the customer.

Operating expenses are recognised in profit or loss at the point in time when the service in question is rendered or the expenses are 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 in years
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 expected 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. 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.

Assets that are rented or leased (finance lease), where substantially all risks and benefits associated with an asset are transferred to the Group, are carried net of 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.

Capitalised 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 in years
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) are lower than the asset's respective carrying amount. The recoverable amount is the higher of the net 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-year 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 amortised 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) = amortised investment carrying amount (equity value)

INVENTORIES (10)

Inventories are measured at their purchase 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 costs include 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, default risks are taken into account by recognising adequate allowances for doubtful accounts.

FRoSTA was required to apply IFRS 9 Financial Instruments for the first time for the reporting period commencing on or after 1 January 2018. 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. At FRoSTA, the provisions of IFRS 9 relate to the accounting treatment of trade receivables. While under IAS 39 impairments only had to be taken into account for assets that were already impaired (incurred loss model), IFRS 9 uses the expected future credit losses for calculating the impairment amount (expected loss model). Current expected credit losses are determined on the basis of the expected credit losses over the life of the financial asset. FRoSTA assesses customer credit risks individually on an ongoing basis. Due to the customer structure and the agreed payment terms, the expected-loss model of IFRS 9 does not result in any changes in impairment testing for receivables. Correspondingly, the first-time application of IFRS 9 did not give rise to any changes in the impairment charges on trade receivables.

(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.

OTHER PROVISIONS (14)

Other provisions take into account all clear legal and de facto 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 with their settlement amount on the basis of applicable market rates, discounted to the balance sheet date.

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.

(15) LIABILITIES

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 default risk arising from liabilities.

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

(16) DEFERRED TAXES

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.

(17) DERIVATIVE FINANCIAL INSTRUMENTS

CURRENCY FORWARDS, OPTIONS CONTRACTS AND INTEREST RATE SWAPS

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. Such transactions are used strictly in line with FRoSTA's own internal procedures and are subject to stringent internal controls. These transactions are concluded with the sole aim 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 US 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)

		31/12/2017		31/12/2018	
Financial instrument	**Type**	**Nominal amount**	**Fair value**	**Nominal amount**	**Fair value**
Currency forwards	Purchase kUSD	35,635	– 844	20,055	55
Currency swaps	Purchase kUSD	647	– 5	1,034	1
Interest rate swaps	Loan kEUR	314	– 2	0	0

The nominal amount of a derivative hedging transaction is the index from which the payments are derived. The object of the hedge and the source of risk is not the absolute nominal value, but the price movements in relation to that reference value.

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)

	31/12/2017	31/12/2018
Within one year	314	0
Between one and five years	0	0
Over five years	0	0
Total	**314**	**0**

(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	99,857	99,857
Cash	11,045	11,045
Non-current liabilities	29,361	29,442
Current liabilities	135,876	135,876

(21) USE OF ESTIMATES

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 IASs AND IFRSs (22)

NEW STANDARDS AND INTERPRETATIONS NOT PREVIOUSLY APPLIED

The following IFRSs adopted by the EU were issued before 31 December 2018 but are only mandatory for subsequent reporting periods and FRoSTA has not exercised the option of earlier application.

IFRS 16 (LEASES)

IFRS 16 requires lessees in future to recognise right-of-use assets. The right-of-use asset is measured at cost and is depreciated over the lease term or the useful life, whichever is shorter. The right-of-use asset is offset by a lease liability, which is initially measured at the discounted value of all future lease payments payable over the lease term. Non-current assets and liabilities are in principle expected to increase resulting from the first-time application of IFRS 16 in particular as a result of the requirement to recognise the rights and obligations under operating leases in future as right-of-use assets and lease liabilities. Adjustments in the consolidated statement of profit or loss and other comprehensive income between the operating result (EBIT) and the financial result may occur since, in contrast to the previous practice of recognising expenses from operating leases, in future lessees will be required to recognise depreciation of right-of-use assets and interest cost on lease liabilities.

The quantitative impact on the Group's balance sheet total is expected to be less than 1% of the balance sheet total.

FRoSTA AG applies the standard at the time of initial application by accounting for the cumulative effect of first-time application of the standard at the time of initial application.

For leases that were previously classified as operating leases in accordance with IAS 17, a lease liability is recognised at the time of initial application. The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the time of initial application. A corresponding right-of-use asset is recorded.

FRoSTA will apply the practical remedy in IFRS 16 C10 a) by applying a single discount rate to a portfolio leases with reasonably similar characteristics.

IFRIC 23 (UNCERTAINTY OVER INCOME TAX TREATMENTS)

It may be unclear how tax law applies to a particular transaction or circumstance. Whether a particular tax treatment can be accepted under tax law may remain uncertain until a decision is made by the relevant tax authority or a court at a later date. This interpretation clarifies whether an entity should consider uncertain tax treatments independently or collectively, what assumptions an entity should make about taxation authorities' examinations of tax treatments, how an entity should determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity should consider changed facts and circumstances.

Amendments to IFRS 9: Prepayment Features with Negative Compensation.

All standards/amendments referred to are to be applied retrospectively for the first time for financial years beginning on or after 1 January 2019.

The following IFRSs, IFRICs or amendments were published by the IASB before 31 December 2018, but have not yet been adopted by the EU and were not applied early by FRoSTA:

- IFRS 17 Insurance Contracts
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs (AIP) – 2015–2017 cycle
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Updating References to the Conceptual Framework included in IFRS Standards
- Amendment to IFRS 3: Business Combinations: Definition of a Business
- Amendments to IAS 1 and IAS 8

The impact on the financial statements of these new or amended standards, which have not yet been adopted into EU law, cannot yet be reliably estimated.

NOTES TO THE CONSOLIDATED BALANCE SHEET

INTANGIBLE ASSETS (23)

The development of the individual items of intangible assets is shown in the consolidated statement of changes in non-current assets (page 36). The share of foreign subsidiaries in the net carrying amount as per 31 December 2018 amounted to kEUR 900 (2017: kEUR 118).

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 2018 amounted to kEUR 1,714 (2017: kEUR 1,532).

The carrying amounts of brands are tested for impairment using the fair-value-less-cost-to-sell approach based on future estimated cash flows. The assumptions underlying the planning parameters reflect past experience, based on a planning horizon of five years. The calculated cash flows are discounted using a weighted average cost of capital of 7.5%. As a result of the impairment tests, sufficient buffers to cover losses were identified, so that - as in the previous year - there was no reason to recognise impairment losses on intangible assets with indefinite useful lives. In addition, there are no legal, regulatory or competitive factors limiting the use of the trademark rights.

(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 2018 amounted to kEUR 31,954 (2017: kEUR 31,111). Investment grants and subsidies received in the financial year reduce procurement costs by kEUR 2,621 (2017: kEUR 3,096). 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 403 as at 31 December 2018 (2017: kEUR 491). In the reporting year no borrowing costs were capitalised pursuant to IAS 23.

(25) FINANCIAL ASSETS

The non-consolidated equity investments in subsidiaries are measured at amortised cost at the reporting date.

(26) INVENTORIES

Inventories (in kEUR)

	31/12/2017	31/12/2018
Raw materials, consumables and supplies	30,166	41,715
Unfinished goods	19,554	16,966
Finished goods and merchandise	31,174	29,799
Prepayments	659	585
Inventories	**81,553**	**89,065**

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 1,874 in 2018. The impairments of inventories shown in expenses amount to kEUR 212 (2017: kEUR 34).

TRADE RECEIVABLES (27)

Trade receivables (in kEUR)

	31/12/2017	31/12/2018
Trade receivables, gross	91,573	83,019
Impairment charges on trade receivables	−479	−820
Trade receivables	**91,094**	**82,199**

Impairment charges on trade receivables (in kEUR)

	2017	2018
Impairment losses on trade receivables as at 1 January	**493**	**479**
Exchange rate differences	−2	−1
Additions	0	342
Utilisation	−16	0
Reversals	0	0
Impairment losses on trade receivables as at 31 December	**479**	**820**

The net expense for the full derecognition of receivables based on payment defaults amounts to kEUR 23 (2017: kEUR 32).

Risks included in the trade receivables (in kEUR)

	31/12/2017	31/12/2018
Receivables neither past due nor impaired	**88,218**	**75,718**
Receivables past due, but not impaired		
Less than 30 days	2,316	4,767
30 to 60 days	266	818
More than 60 days	294	896
Total receivables past due	**2,876**	**6,481**
Carrying amount (net)	**91,094**	**82,199**

Receivables sold in asset-backed securities transactions (ABS) amounted to kEUR 14,078. According to the structure of the contract, ownership of the receivables is retained by FRoSTA. Liabilities resulting from the advance financing of receivables collection are recognised under liabilities to banks.

In asset-backed securities transactions, 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 placed on the capital market. 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)

	31/12/2017	31/12/2018
Creditors with debit balances	260	249
Employees	49	40
VAT and consumer tax	4,390	6,878
Other financial assets	2,290	2,130
Financial assets	**6,989**	**9,297**
Prepaid expenses	567	659
Non-financial assets	**567**	**659**
Other assets	**7,556**	**9,956**

No counterparty credit risks have been identified for other assets.

EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

An excess of plan assets over pension liability amounting to kEUR 40 (2017: kEUR 9) 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)

	31/12/2017	31/12/2018
Fair value of invested assets	127	394
Costs of invested assets	126	392

For further details, please refer to note 36.

EQUITY (29)

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

SUBSCRIBED CAPITAL (30)

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 decreased by 735 compared to the previous year's reporting date.

A total of 963 (2017: 228) FRoSTA AG no-par value bearer shares held as treasury shares with a nominal value of kEUR 2 or 0.01% of the share capital were netted against equity. The purchase cost amount of kEUR 75 exceeding the nominal value is reported as a reduction of retained earnings. 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 20 July 2023, amounting to kEUR 1,000 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 20 July 2023, 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 GENERATED 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.

Equity generated by the Group includes profits earned in the current period of the companies included in the consolidated financial statements, unless they have been allocated to reserves.

In accordance with 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 2018, these came to kEUR 12,205 (2017: kEUR 18,953).

The Annual General Meeting on 22 June 2018 passed a resolution to pay out a dividend of EUR 1.60 per share (totalling a dividend sum of kEUR 10,875) from the net retained profits of FRoSTA AG as at 31 December 2017.

FRoSTA AG's Executive Board proposes a dividend of EUR 1.60 per share for 2018 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 843 on the reporting date (2017: kEUR 609). As at 31 December 2018, other reserves also include actuarial losses totalling kEUR 148 (2017: kEUR 105).

(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

	2017	2018
Proposal I		
Number of shares	24,825	21,410
Issue price (EUR)	34.00	41.00
Average stock exchange price (EUR)	68.48	80.70
Difference (EUR)	34.48	39.70
Value (kEUR)	**856**	**850**
Proposal II		
Number of shares	17,514	15,910
Issue price (EUR)	17.00	20.50
Average stock exchange price (EUR)	68.48	80.70
Difference (EUR)	51.48	60.20
Value (kEUR)	**902**	**958**
Total (kEUR)	**1,758**	**1,808**

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 at 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

	2017	2018
Share-based payments	8,880	3,375

(35) PENSION OBLIGATIONS

Provisions for pensions are recognised for liabilities from future pensions and current payments based on 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

	2017	2018
Assumed interest rate	2.80%	2.05%
Salary trend	2.00%	2.00%
Pension trend	1.60%	2.30%

The actuarial assumptions regarding life expectancy are based on the “Richttafeln 2018 G” mortality tables by Dr Klaus Heubeck.

Pension costs (in kEUR)

	2017	2018
Other pension costs	90	76
Personnel expenses	**90**	**76**
Interest expense	9	9
Pension costs	**99**	**85**

Net obligation recognised in the balance sheet (in kEUR)

	2017	2018
Provisions as at 1 January	**960**	**1.006**
Pension costs	99	85
Payments to pensioners	–65	–65
Actuarial losses (+) / gains (-)	12	43
Provisions as at 31 December	**1,006**	**1,069**

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 4,153 in 2018 (2017: kEUR 4,083).

(36) OTHER PROVISIONS

Other provisions (in kEUR)

	As at 01/01/2018	Utilisation	Reversal	Addition	As at 31/12/2018
Jubilee payments	2,304	165	0	422	2,561
Other non-current provisions	**2,304**	**165**	**0**	**422**	**2,561**
Severance payments	1,032	976	51	142	148
Impending losses	59	59	0	164	164
Other current provisions	**1,091**	**1,035**	**51**	**307**	**312**
Other provisions	**3,395**	**1,200**	**51**	**729**	**2,873**

Partial retirement – plan assets (in kEUR)

	As at 01/01/2018	Utilisation	Reversal	Addition	As at 31/12/2018
Partial retirement	300	86	4	211	421
Plan assets	127	84	0	351	394

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 68 (2017: kEUR 182) as well as an excess of assets of kEUR 40 (2017: kEUR 9).

For further details, please refer to note 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 (previous year)	42,213 (44,565)	18,509 (18,538)	23,704 (26,027)	4,059 (5,017)
Trade payables (previous year)	92,646 (68,289)	92,646 (68,289)	0 (0)	0 (0)
Other liabilities (previous year)	14,451 (23,892)	14,451 (23,892)	0 (0)	0 (0)

The liabilities to banks are guaranteed by mortgages amounting to kEUR 8,866 (2017: kEUR 12,561) and similar rights amounting to kEUR 611 (2017: kEUR 833). The customary retentions of title apply to trade payables.

Liabilities to banks (in kEUR)

	Position	31/12/2017	31/12/2018
Non-current loans	**1**	**32,361**	**30,577**
– of which current due within 1 year	2	6,334	6,873
Current loans	3	953	385
Other financial liabilities	4	11,251	11,251
Current liabilities to banks	**5 = (2+3+4)**	**18,538**	**18,509**
Liabilities to banks	**6 = (1+3+4)**	**44,565**	**42,213**

Receivables sold in asset-backed securities (ABS) transactions amounted to kEUR 14,078 as at 31 December 2018. After deducting a discount of kEUR 2,827, an amount of kEUR 11,251 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.

Loans payable

31/12/2017 kEUR	31/12/2018 kEUR	Interest rate in %	Due date
898	385	3.40	30/09/2019
833	611	3.00	30/09/2021
3,281	2,406	1.05	30/09/2021
2,813	2,063	0.95	30/09/2021
1,728	1,343	2.65	30/06/2022
1,201	934	3.05	30/06/2022
7,125	5,250	0.82	30/06/2022
800	750	0.62	30/09/2022
2,321	1,898	2.05	30/06/2023
0	4,935	0.55	30/09/2024
6,500	6,081	0.81	30/03/2026
4,861	4,306	0.85	30/09/2026
33,314	**30,962**		

Other current liabilities (in kEUR) (38)

	31/12/2017	31/12/2018
Collection commissions	7,453	2,000
Debtors with credit balances	350	316
Miscellaneous other financial liabilities	862	386
Financial liabilities	**8,665**	**2,702**
Liabilities to employees	6,747	4,638
Social security contributions	497	570
Taxes	676	772
Deferred income	7,307	5,769
Miscellaneous other liabilities	**15,227**	**11,749**
Other liabilities	**23,892**	**14,451**

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

Deferred income includes both employee claims for leave and non-working shifts not yet taken as well as other liabilities.

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(39) REVENUE

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

Revenue by region (in kEUR)

	2017	2018
Germany	280,171	278,592
Outside Germany	220,960	230,692
Sales	**501,131**	**509,284**

Revenue by product groups (in kEUR)

	2017	2018
Fish	242,397	225,225
Fruit and vegetables	127,072	140,328
Ready meals and other products	131,662	143,731
Sales	**501,131**	**509,284**

(40) OTHER INCOME

Other income (in kEUR)

	2017	2018
Currency translation gains	3,767	3,072
Income from the derecognition of prepaid expenses and deferred income	2,316	3,399
Income from credit notes for prior periods and from the derecognition of liabilities	160	138
Other operating income	3,844	2,705
Other income	**10,087**	**9,314**

PERSONNEL EXPENSES (41)

Personnel expenses (in kEUR)

	2017	2017
Wages and salaries	60,314	60,877
Social security contributions	10,870	11,593
Post-employment benefit costs	23	–2
Costs of share-based payments	1,758	1,807
Personnel expenses	**72,965**	**74,275**

The interest component included in personnel expenses is shown in the net financial result (net finance costs/income).

Number of employees (annual average)

	2017	2018
Wage earners	1,208	1,211
Salaried staff	483	535
Number of employees pursuant to Section 314 (1) No. 4 HGB	**1,691**	**1,746**
Apprentices	33	32
Number of employees	**1,724**	**1,778**

In the reporting year, the employees of the Eastern European sales offices were included for the first time and the allocation of administration – previously partly included in the plant in Bydgoszcz – was adjusted. Furthermore, temporary employees were no longer recognised separately. The comparative figures for 2017 were adjusted accordingly.

AMORTISATION AND DEPRECIATION (42)

Amortisation and depreciation (in kEUR)

	2017	2018
Amortisation of intangible assets	598	763
Depreciation of property, plant and equipment	13,802	15,775
Amortisation and depreciation	**14,400**	**16,538**

(43) OTHER EXPENSES

Other expenses (in kEUR)

	2017	2018
Storage and transport costs	22,295	23,830
External personnel costs	15,202	14,777
Marketing costs	13,424	18,622
Rent and cold-storage expenses	8,362	9,321
Maintenance	6,660	6,213
Currency losses	5,758	3,069
Fees, contributions and insurance	3,176	3,831
Miscellaneous other expenses	9,914	12,198
Other expenses	**84,791**	**91,861**

Miscellaneous other expenses includes severance payments amounting to kEUR 254 (2017: kEUR 52) as well as topping-up payments for the early retirement scheme amounting to kEUR 212 (2017: kEUR 277).

INTEREST INCOME/EXPENSE (44)

Interest income/expense (in kEUR)

	2017	2018
Interest income on bank balances	9	3
Interest income from loans	0	0
Interest income from a reduction in provisions for anticipated losses from interest rate swaps	28	0
Other interest income	31	52
Interest income	**68**	**55**
Interest expense for liabilities to banks	–485	–405
Interest expense from interest rate swaps	0	0
Interest expense for provisions for pensions and partial retirement schemes	–10	–8
ABS	–67	–91
Interest expense from tax liabilities	–112	–288
Other interest expenses	–5	0
Interest and similar expenses	**–679**	**–792**
Interest income/expense	**–611**	**–737**

TAXES ON INCOME AND DEFERRED TAXES (45)

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

Tax expense by origin (in kEUR)

	2017	2018
Current taxes Germany	8,350	6,425
Current foreign taxes	2,031	2,487
Current taxes for the financial year	**10,381**	**8,912**
Taxes for prior periods	965	938
Taxes on income	**11,346**	**9,850**
Deferred taxes Germany	76	–553
Deferred foreign taxes	–364	71
Deferred taxes	**–288**	**–482**
Tax expense reported in the statement of profit or loss and other comprehensive income	**11,058**	**9,368**

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% (2017: 30.66%) to the IFRS consolidated pre-tax profit, can be reconciled as follows to taxes on income as reported in the statement of profit or loss and other comprehensive income:

Tax expense reconciliation (in kEUR)

	2017	2018
Earnings before taxes on income	**34,411**	**29,351**
Tax rate of FRoSTA AG	30.66%	30.66%
Expected tax expense	**10,550**	**8,999**
Different tax rates (especially for deferred taxes)	–461	–1,003
Taxes on income for prior periods	965	938
Tax expense for non-deductible operating expenses	41	469
Tax relief from tax-exempted income	–37	–35
Tax expense reported in the statement of profit or loss and other comprehensive income	**11,058**	**9,368**

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.

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

	31/12/2017		31/12/2018	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Intangible assets	3	109	4	139
Property, plant and equipment	279	1,843	292	1,659
Financial assets	222	0	632	0
Inventories	0	224	0	148
Trade receivables	0	35	8	32
Other assets	1	0	12	3
Pension provisions	185	0	203	0
Other provisions	718	0	448	0
Trade payables	2	21	44	0
Other liabilities	449	1	440	2
Total	**1,859**	**2,233**	**2,083**	**1,983**
Netting	–709	–709	–1,013	–1,013
Balance	**1,150**	**1,524**	**1,070**	**970**

(47) EARNINGS PER SHARE

Earnings per share

		2017	2018
Consolidated profit for the year	**kEUR**	**23,352**	**19,983**
Number of ordinary shares in circulation	in 1,000	6,813	6,812
Consolidated profit for the year per share	**EUR**	**3.43**	**2.93**

The EUR 2.93 (2017: EUR 3.43) figure is recognised in respect of both basic and diluted earnings per share.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(48) COMPOSITION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents is made up of cash in hand and credit at banks in the amount of kEUR 11,045 (2017: kEUR 14,578).

(49) 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 align our segment reporting with the internal management and reporting structures ("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 businesses 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 reported earnings of the segments. Segment reporting does not give consideration to assets or liabilities. The presentation of segment reporting corresponds to the structure of internal reporting. The effects of consolidation have been included proportionately. However, they are of no significance overall.

Segment reporting (in mEUR)

	FRoSTA segment			COPACK segment			Total		
	2017	2018	+/–	2017	2018	+/–	2017	2018	+/–
Revenue	**263.5**	**284.5**	**7.9 %**	**237.6**	**224.8**	**–5.4 %**	**501.1**	**509.3**	**1.6 %**
Gross profit	**119.5**	**128.8**	**7.7 %**	**87.5**	**83.9**	**–4.1 %**	**207.0**	**212.7**	**2.7 %**
in % of revenue	45.3 %	45.3 %		36.8 %	37.3 %		41.3 %	41.8 %	
Personnel expenses	–36.9	–39.5	7.1 %	–36.0	–34.7	–3.6 %	–73.0	–74.3	1.8 %
Amortisation and depreciation	–7.1	–7.7	9.0 %	–7.3	–8.9	20.5 %	–14.4	–16.5	14.8 %
Other operating expenses	–46.8	–53.0	13.3 %	–38.0	–38.8	2.2 %	–84.8	–91.9	8.3 %
Operating result (EBIT)	**28.7**	**28.5**	–0.8 %	**6.2**	**1.5**	**–75.1 %**	**34.9**	**30.0**	**–13.9 %**
in % of revenue	10.9 %	10.0 %		2.6 %	0.7 %		7.0 %	5.9 %	
Net finance costs/ income	–0.3	–0.3	24.2 %	–0.2	–0.4	63.4 %	–0.5	–0.7	42.4 %
Profit/loss from ordinary operating activities	**28.5**	**28.2**	**–1.0 %**	**5.9**	**1.2**	**–80.3 %**	**34.4**	**29.4**	**–14.7 %**
Taxes	–9.1	–9.0	–1.7 %	–1.9	–0.4	–80.4 %	–11.1	–9.4	–15.3 %
Consolidated profit for the year	**19.3**	**19.2**	**–0.7 %**	**4.0**	**0.8**	**–80.2 %**	**23.4**	**20.0**	**–14.4 %**
in % of revenue	7.3 %	6.7 %		1.7 %	0.4 %		4.7 %	3.9 %	

Segment reporting (in mEUR)

	Germany			Outside Germany			Total		
	2017	2018	+/–	2017	2018	+/–	2017	2018	+/–
Revenue	**290.4**	**285.2**	**–1.8 %**	**210.7**	**224.1**	**6.4 %**	**501.1**	**509.3**	**1.6 %**
Gross profit	**118.2**	**116.1**	**–1.8 %**	**88.9**	**96.7**	**8.8 %**	**207.0**	**212.7**	**2.7 %**
in % of revenue	40.7 %	40.7 %		42.2 %	43.1 %		41.3 %	41.8 %	
Personnel expenses	–43.0	–42.4	–1.3 %	–30.0	–31.9	6.3 %	–73.0	–74.3	1.8 %
Amortisation and depreciation	–9.1	–9.8	7.9 %	–5.3	–6.8	26.7 %	–14.4	–16.5	14.8 %
Other operating expenses	–47.8	–47.0	–1.8 %	–37.0	–44.9	21.4 %	–84.8	–91.9	8.3 %
Operating result (EBIT)	**18.3**	**16.9**	**–7.7 %**	**16.6**	**13.1**	**–20.7 %**	**34.9**	**30.0**	**–13.9 %**
in % of revenue	6.3 %	5.9 %		7.9 %	5.9 %		7.0 %	5.9 %	
Net finance costs/ income	–0.3	–0.4	45.0 %	–0.2	–0.3	38.9 %	–0.5	–0.7	42.4 %
Profit/loss from ordinary operating activities	**18.0**	**16.5**	**–8.6 %**	**16.4**	**12.9**	**–21.5 %**	**34.4**	**29.4**	**–14.7 %**
Taxes	–5.8	–5.3	–9.2 %	–5.3	–4.1	–22.0 %	–11.1	–9.4	–15.3 %
Consolidated profit for the year	**12.2**	**11.2**	**–8.3 %**	**11.1**	**8.8**	**–21.2 %**	**23.4**	**20.0**	**–14.4 %**
in % of revenue	4.2 %	3.9 %		5.3 %	3.9 %		4.7 %	3.9 %	

Net income from investments amounting to kEUR 49 (2017: kEUR 128) relates to income from the investment in Columbus Spedition.

In the financial year 2018, one customer contributed more than 10% to Group revenue with revenue of kEUR 64,846 (2017: kEUR 59,839) in the FRoSTA and COPACK segments.

OTHER DISCLOSURES

(50) PRIMARY FINANCIAL INSTRUMENTS

Primary financial instruments (in kEUR)

	31/12/2017		31/12/2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities to banks	44,565	44,846	42,213	42,294
Other financial liabilities	8,665	8,665	2,702	2,702

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 fair values.

(51) CONTINGENT LIABILITIES

The FRoSTA Group believes there are no significant contingent liabilities.

(52) OTHER FINANCIAL OBLIGATIONS

Other financial obligations (in kEUR)

	2017	2018
Obligations arising from current lease agreements	2,516	2,755
Obligations under current rental and maintenance contracts	3,308	3,517
Purchase commitments from expansion investments	7,006	6,688
Consignment agreements	2,622	2,432
Other financial obligations	**15,452**	**15,392**

Obligations arising from current lease agreements result mostly from the leasing of cars and industrial trucks and exclusively take the form of operating lease agreements. The existence of a lease agreement is verified on submission of the agreement or an invoice.

The obligations under current rental contracts concern rent for office space, software and communications systems.

Remaining maturities of rental, maintenance and lease agreements as at 31 December 2018 (in kEUR)

	< 1 year	1–5 years	> 5 years
Future payments from current lease agreements	1,004	1,704	47
Future payments from current rental and maintenance contracts	3,017	494	6
Total	**4,021**	**2,198**	**53**

Total expenditure from rental and lease agreements amounted to kEUR 4,382 (2017: kEUR 4,215).

AUDITORS' FEES (53)

Auditors' fees (in kEUR)

Auditing services	73
Other assurance services	13
Total	**86**

(54) RELATED PARTIES

EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2018:

- Felix Ahlers, businessman, Hamburg, Chairman (As at 31 December 2018: 2,285,212 FRoSTA shares = 33.5%.)
- Maik Busse, businessman, Bremerhaven, Vice President Business Partnering and Administration
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Jürgen Marggraf, businessman, Bremen, Vice President Operations, Vice Chairman

The total number of FRoSTA shares owned by the Executive Board members as at 31 December 2018 was 2,329,412 shares = 34.2%.

SUPERVISORY BOARD

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2018:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board (As at 31 December 2018: 681,159 FRoSTA shares = 10.0%)
- Oswald Barckhahn, businessman, Amsterdam/Netherlands, Vice Chairman of the Supervisory Board (until 22 June 2018)
- Volker Kuhn, businessman, Geneva/Switzerland, Vice Chairman of the Supervisory Board (since 22 June 2018)
- 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 2018 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 2018, Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, invoiced kEUR 87 (2017: kEUR 61).

Charges to Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, in the amount of kEUR 89 (2017: kEUR 70).

Deliveries of goods from Bulgaria Foods Ltd., a 100% shareholding of Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. KG, Hamburg, a company of which Dirk Ahlers is Managing Partner, amounting to kEUR 171 (2017: kEUR 126).

Deliveries of goods to Bulgaria Foods Ltd. totalling kEUR 5.

In 2018, Columbus Spedition GmbH invoiced kEUR 1,698 (2017: kEUR 1,725).

Selling expenses from a non-consolidated subsidiary in the amount of kEUR 318 (2017: kEUR 349).

As at 31 December 2018, business relations with related parties gave rise to liabilities totalling kEUR 231.

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

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 dependent on consolidated pre-tax profit for the year
- a long-term bonus component oriented towards the 3-year average return on investment (ROI) of FRoSTA AG.

The total remuneration of the Executive Board for the financial year 2018 amounted to kEUR 2,724.8 (2017: kEUR 4,267.6). Of this, the fixed remuneration came to kEUR 1,087.1 (2017: kEUR 1,110.4) and variable remuneration to kEUR 1,637.7 (2017: kEUR 3,157.2).

Total remuneration of the Executive Board in accordance with Section 314 HGB

	2016	2017	2018			
			Target at 100% goal achievement	Goal achievement in % (performance)	Effective remuneration	+/– previous year
Fixed remuneration components						
Fixed salary	882,450	972,006			926,331	–4.7%
Other non-cash benefits	117,372	138,381			160,748	16.2%
Total fixed remuneration	**999,822**	**1,110,387**			**1,087,079**	**–2.1%**
Variable remuneration components						
Short-term bonus	1,800,956	1,674,783	1,462,814	74%	1,085,125	–35.2%
Long-term bonus	558,948	664,232	600,001	28%	170,058	–74.4%
Remuneration to purchase shares	801,307	818,227	602,638	63%	382,544	–53.2%
Total variable remuneration	**3,161,211**	**3,157,242**	**2,665,453**	**61%**	**1,637,727**	**–48.1%**
Total remuneration	**4,161,033**	**4,267,629**			**2,724,806**	**–36.2%**

The total remuneration of former members of the Executive Board was kEUR 56 in the 2018 financial year (2017: kEUR 55). Pension provisions for former Executive Board members amounted to kEUR 416 on the balance sheet date (2017: kEUR 430).

The members of the Supervisory Board receive remuneration made up of the following components:

- a fixed basic annual salary paid once a year
- a performance bonus related to earnings per share, which is also paid once a year

The remuneration of the Supervisory Board totalled kEUR 119, of which kEUR 29 was variable and kEUR 90 was fixed remuneration. The remuneration of the previous year at kEUR 125 comprised variable remuneration of kEUR 35 and fixed remuneration of kEUR 90.

Remuneration for the purpose of buying shares is subject to a vesting 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.

(56) APPROPRIATION OF PROFITS

Based on 6,812,598 no-par value bearer shares, less 963 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 6,811,635 no-par value bearer shares entitled to a dividend. At the Annual General Meeting, we will be proposing a gross dividend payment of EUR 1.60 per share corresponding to a total dividend payment of EUR 10,898,616.00. This payment will be taken from the net profit for the year reported by FRoSTA AG as at 31 December 2018 of EUR 12,204,690.88. The remaining EUR 1,306,074.88 will be allocated to other retained earnings. The gross dividend is subject to capital gains tax (25%) amounting to EUR 2,724,654.00 as well as a 5.5% solidarity surcharge of EUR 149,855.97. This results in a net dividend payment of EUR 8,024,106.03. 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.

Entrepreneurial market 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. The financial instruments presented in the financial statements are subject to market and currency risks. For the presentation of market risks, IFRS 7 requires sensitivity analyses, which show the effects of hypothetical changes in relevant risk variables on earnings and equity. In addition to currency risks, FRoSTA is subject to price risks, in particular for raw materials. Price risks are generally countered by limiting the term of long-dated contracts. The periodic effects are determined by relating the hypothetical changes in the risk variables to the portfolio of financial instruments at the balance sheet date.

Currency risks arise from purchase contracts in foreign currencies. FRoSTA counters exchange rate risks with currency hedging transactions. The currency sensitivity analyses are based on the following assumptions: significant primary monetary financial instruments (cash and cash equivalents, receivables, interest-bearing debt, non-interest-bearing liabilities) are directly denominated in the functional currency. For foreign currency transactions, the foreign currency risk is limited by derivative financial instruments such as forward exchange contracts. A foreign currency requirement is determined on the basis of the contracts concluded with suppliers in foreign currencies. When calculating the USD calculation rate, a USD hedging requirement in the amount of the planned requirements for the following 4 months is assumed. For currency hedging purposes, a calculation rate is determined that is influenced by the exchange rate development. Currency management over the planned period of 4 months limits currency risks, but does not completely rule them out.

Detailed information on corporate risks can be found in the combined management report and Group management report of FRoSTA AG.

Bremerhaven, 22 February 2019

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 5 HGB

To the best of our knowledge, and in compliance with the applicable financial reporting standards, the consolidated annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the combined 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, 22 February 2019

Felix Ahlers   Maik Busse

Hinnerk Ehlers   Jürgen Marggraf

INDEPENDENT AUDITOR'S REPORT

TO FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

AUDIT OPINIONS

We have audited the consolidated financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including the recognition and measurement principles presented therein. In addition, we have audited the Group management report, which is combined with the management report of FRoSTA Aktiengesellschaft ("combined management report"), for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f (4) HGB ["Handelsgesetzbuch": German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the supplementary provisions of German law pursuant to Section 315e (1) HGB and give a true and fair view of the assets, liabilities and financial position of the Group as of 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in accordance with German legally required accounting principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the combined management report" section of our auditor's report. We are independent of the Group in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

OTHER INFORMATION

The executive directors are responsible for other information. The other information comprises the corporate governance statement in accordance with Section 289f (4) HGB.

Our opinions on the consolidated financial statements and combined management report do not cover the other information, and we therefore do not provide an opinion or any other form of audit conclusion on these matters.

In connection with our audit, our responsibility is to read the other information and to assess whether the other information

- is inconsistent in any material respect with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be misstated in any material respect.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the supplementary provisions of German law pursuant to Section 315e (1) HGB, and for the preparation of consolidated financial statements that give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in accordance with these requirements. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section

317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements that comply with IFRSs as adopted in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB give a true and fair view of the assets, liabilities, financial position and financial performance of the Group.

- Obtain sufficient appropriate audit evidence regarding the financial information of the businesses or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law and the view of the Group's position it provides.

- Perform audit procedures for the forwardlooking disclosures made by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Bremen, 22 February 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

Weichert	Renken
German Public Auditor	German Public Auditor

ANNUAL FINANCIAL STATEMENTS OF FRoSTA AG

"Let's be honest.

Herbs now in a more sustainable packaging."

INCOME STATEMENT OF FRoSTA AG IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

Income statement of FRoSTA AG in Accordance with the german commercial code (HGB) (in kEUR)

		2017	2018	Impact on profit/loss
1.	**Sales**	**458,545**	**424,173**	**–7.5%**
2.	Increase/decrease in inventories of finished goods and work in progress	1,454	–5,589	> –100 %
3.	Other own work capitalised	105	1	–98.9%
4.	Other operating income – of which from currency translation: kEUR 255 (2017: kEUR 1,422)	13,013	15,604	19.9%
5.	Cost of materials			
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	–293,769	–264,195	10.1%
	b) Cost of purchased services	–8,053	–9,223	–14.5%
		–301,822	**–273,418**	**9.4%**
6.	Personnel expenses			
	a) Wages and salaries	–53,559	–52,839	1.3%
	b) Social security, post-employment and other employee benefit costs – of which in respect of post-employment benefits: kEUR 69 (2017: kEUR 44)	–9,049	–9,311	–2.9%
		–62,608	**–62,150**	**0.7%**
7.	Amortisation and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	–9,228	–10,668	–15.6%
8.	Other operating expenses – of which from currency translation: kEUR 1,012 (2017: kEUR 1,465)	–70,513	–67,558	4.2%
9.	**Operating result**	**28,946**	**20,395**	**–29.5%**
10.	Income from long-term equity investments	128	49	–61.7%
11.	Other interest and similar income – of which from affiliated companies: kEUR 148 (2017: kEUR 97)	145	172	18.6%
12.	Interest and similar expenses – of which to affiliated companies: kEUR 23 (2017: kEUR 36) – of which from discounting: kEUR 68 (2017: kEUR 77)	–749	–872	–16.4%
13.	Taxes on income	-9,338	–7,362	21.2%
14.	Earnings after taxes	19,132	12,382	–35.3%
15.	Other taxes	-179	–177	1.1%
16.	Net income for the year	18,953	12,205	–35.6%
17.	**Net retained profits**	**18,953**	**12,205**	**–35.6%**

BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH HGB – ASSETS

ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

Balance sheet of FRoSTA AG — Assets (in kEUR)

	2017	2018	Change
A. Fixed Assets			
I. Intangible assets			
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			
	8,650	**9,035**	**4.5%**
II. Tangible assets			
1. Land, land rights and buildings	19,880	23,489	18.2%
2. Technical equipment and machinery	34,057	45,239	32.8%
3. Other operating and office equipment	9,578	12,361	29.1%
4. Prepayments and assets under construction	3,914	4,851	23.9%
	67,429	**85,940**	**27.5%**
III. Long-term financial assets			
1. Shares in affiliated companies	11,249	11,249	0.0%
2. Other long-term equity investments	17	17	0.0%
3. Long-term securities and shares in cooperatives	6	6	0.0%
	11,272	**11,272**	**0.0%**
	87,351	**106,247**	**21.6%**
B. Current Assets			
I. Inventories			
1. Raw materials, consumables and supplies	21,900	28,074	28.2%
2. Work in progress	18,659	16,112	–13.7%
3. Finished goods and merchandise	22,614	19,059	–15.7%
	63,173	**63,245**	**0.1%**
II. Receivables and other assets			
1. Trade receivables	73,214	48,923	–33.2%
2. Receivables from affiliated companies	17,835	21,037	18.0%
3. Other assets	5,289	8,251	56.0%
	96,338	**78,211**	**–18.8%**
III. Cash-in-hand, bank balances and cheques	7,799	1,863	–76.1%
	167,310	**143,319**	**–14.3%**
C. Prepaid Expenses	**509**	**600**	**17.9%**
D. Excess of plan assets over pension liability	**10**	**41**	**> 100.0%**
Balance sheet total	**255,180**	**250,207**	**–1.9%**

BALANCE SHEET OF FRoSTA AG IN ACCORDANCE WITH HGB – EQUITY AND LIABILITIES

ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

Balance sheet of FRoSTA AG — Equity and liabilites (in kEUR)

	2017	2018	Change
A. Equity			
I. Issued capital			
1. Subscribed capital	17,440	17,440	0.0%
2. Treasury shares	0	–2	> 100.0%
	17,440	**17,438**	0.0%
II. Capital reserves			
	11,447	**11,447**	0.0%
III. Revenue reserves			
1. Legal reserve	200	200	0.0%
2. Other revenue reserves	69,737	77,757	11.5%
	69,937	**77,957**	**11.5%**
IV. Net retained profits			
	18,953	**12,205**	**–35.6%**
	117,778	**119,047**	1.1%
B. Provisions			
1. Provisions for pensions and similar obligations	472	470	–0.4%
2. Provisions for taxes	4,045	3,624	–10.4%
3. Other provisions	34,606	25,740	–25.6%
	39,123	**29,834**	**–23.7%**
C. Liabilites			
1. Liabilities to banks	44,565	42,211	–5.3%
2. Trade payables	32,885	39,405	19.8%
3. Liabilities to affiliated companies	16,327	16,382	0.3%
4. Other liabilities – of which from taxes: kEUR 564 (2017: kEUR 537)	4,502	3,328	–26.1%
	98,279	**101,326**	**3.1%**
Balance sheet total	**255,180**	**250,207**	**–1.9%**

STATEMENT OF CHANGES IN FIXED ASSETS OF FRoSTA AG

ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

Statement of changes in fixed assets of FRoSTA AG (in kEUR)

	Purchase and production costs				
	as at 01/01/2018	Additions	Disposals	Reclassifications	as at 31/12/2018
I. Intangible assets					
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	21,836	969	0	57	22,862
	21,836	**969**	**0**	**57**	**22,862**
II. Tangible assets					
1. Land, land rights and buildings	75,973	5,174	0	224	81,371
2. Technical equipment and machinery	149,774	13,660	653	3,463	166,244
3. Other equipment, operating and office equipment	49,434	5,085	714	99	53,904
4. Prepayments and assets under construction	3,914	4,780	0	-3,843	4,851
	279,095	**28,699**	**1,367**	**-57**	**306,370**
III. Long-term financial assets					
1. Shares in affiliated companies	11,701	0	0	0	11,701
2. Loans to affiliated companies	301	0	0	0	301
3. Other long-term equity investments	193	0	0	0	193
4. Long-term securities and shares in cooperatives	6	0	0	0	6
5. Other loans	22	0	0	0	22
	12,224	**0**	**0**	**0**	**12,224**
	313,155	**29,668**	**1,367**	**0**	**341,456**

Cumulative depreciation, amortisation and write-downs					Net carrying amount	
as at 01/01/2018	Additions	Disposals	Write-ups	as at 31/12/2018	as at 31/12/2018	as at 31/12/2017
13,186	641	0	0	13,827	9,035	8,650
13,186	**641**	**0**	**0**	**13,827**	**9,035**	**8,650**
56,093	1,789	0	0	57,882	23,489	19,880
115,717	5,759	471	0	121,005	45,239	34,057
39,856	2,479	698	94	41,543	12,361	9,578
0	0	0	0	0	4,851	3,914
211,666	**10,027**	**1,169**	**94**	**220,430**	**85,940**	**67,429**
452	0	0	0	452	11,249	11,249
301	0	0	0	301	0	0
176	0	0	0	176	17	17
0	0	0	0	0	6	6
22	0	0	0	22	0	0
951	**0**	**0**	**0**	**951**	**11,272**	**11,272**
225,803	10,668	1,169	94	235,208	106,247	87,352

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE 2018 FINANCIAL YEAR

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

(1) BASIS FOR PREPARATION

The financial statements of FRoSTA Aktiengesellschaft (in the following 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 prepares its income statement using the total cost (nature of expense) method.

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 generated intangible assets was not used. Costs for research and development were therefore expensed in full. Purchased trademark rights are capitalised at cost. Due to their unlimited use, these assets are not amortised over a planned useful life. They are tested annually for impairment. Where necessary write-downs are recognised for impairment losses.

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 depreciation in the value of assets used for production.

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 assets

	Useful life in years
Buildings	25–40
Other constructions	12–19
Plant and machinery	7–15
IT equipment	3 – 7
Other operating and office equipment	5–13

Write-downs are recognised for expected permanent impairments.

Low value assets with purchase costs of up to EUR 250.00 are recorded as expenditure in the year in which they are acquired. In the case of costs between EUR 250.01 and EUR 800.00, 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.

In the event of permanent impairment, financial assets are carried at cost less write-downs to 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 present market value is used to measure the lower of cost or market value. 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 553 (2017: kEUR 821) as well as kEUR 67 (2017: kEUR 120) for raw materials, consumables and supplies.

Receivables and other assets are shown at nominal value.

Default and credit risks are accounted for by specific or general bad debt allowances. The percentage used to calculate the general bad debt 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 underlying obligation. 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 recognised actuarial principles using 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 2018 G" mortality tables by Dr Klaus Heubeck.

The following additional assumptions are used:

- Assumed interest rate p.a.: 3.21% (10-year average)
- Pension trend p.a.: 2.30%

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 expense is recognised in the net 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

In this account, the company has set aside appropriate and adequate provisions for all identifiable risks and contingent liabilities and for expected losses from executory 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). Interest expense is recognised in the net financial result.

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. Interest expense is recognised in the net financial result.

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 unrealised losses whereas unrealised gains (profits) are not recognised.

NOTES TO THE BALANCE SHEET

(3) FIXED ASSETS

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

In the 2018 financial year, no write-downs were recognised (2017: kEUR 0) with respect to the financial assets of FRoSTA AG.

The value of recognised transport pallets was fixed at kEUR 421 (2017: kEUR 327).

The impairment in relation to the purchase or production costs of fixed assets to which investment grants and subsidies relate as at 31/12/2018 amounted to kEUR 456 (2017: kEUR 573). The reversal of investment grants and subsidies of kEUR 117 (2017: kEUR 175) directly reduces gross depreciation/amortisation.

Long-term equity investments (in kEUR)

Name of entity	Share of capital in %	Subscribed capital	Equity	Annual profit/loss in 2017	Annual profit/loss in 2018
1. COPACK Tiefkühlkost-Produktions GmbH, Bremerhaven	100.00	256	235	−4	−3
2. FRoSTA Tiefkühlkost GmbH, Bremerhaven	100.00	255	267	1	1
3. FRoSTA Foodservice GmbH, Bremerhaven	100.00	256	270	1	1
4. TIKO Vertriebsgesellschaft mbH, Bremerhaven	100.00	256	277	1	1
5. FRoSTA Sp. z o.o., Bydgoszcz/Poland	100.00	8,143	52,654	4,543	7,427
6. COPACK France S.a.r.l., (formerly FRoSTA France S.a.r.l.) Boulogne-Billancourt/France	100.00	153	403	10	26
7. FRoSTA CR s.r.o., Prague/Czech Republic	100.00	39	236	7	6
8. FRoSTA Hungary Kft., Esztergom/Hungary	100.00	20	73	15	2
9. FRoSTA S.r.l. Rome/Italy	100.00	500	1,578	921	157
10. Copack Sp. z o.o., Bydgoszcz/Poland	100.00	16	1	−2	0
11. Columbus Spedition GmbH, Bremerhaven	33.33	225	368[1]	143	[2]

[1] relates to 2017, [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.

RECEIVABLES AND OTHER ASSETS (4)

Receivables from affiliated companies include receivables from intercompany deliveries and services amounting to kEUR 11,337 (2017: kEUR 2,098) and current account transactions amounting to kEUR 926 (2017: kEUR 685) and from financing activities in an amount of kEUR 8,774 (2017: kEUR 15,053).

Of the other assets, kEUR 6,594 (2017: kEUR 8,774) have a residual term of more than one year.

As at 31 December 2018, trade receivables of kEUR 14,078 (2017: kEUR 14,081) were sold in asset-backed security transactions. The sale of the receivables made funds amounting to kEUR 11,251 available at an earlier date. Conversely, charges of kEUR 119 were incurred.

Of the other assets, kEUR 224 (2017: kEUR 48) 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 41 (2017: kEUR 9). This amount is subject to a distribution restriction. The fair value of assets invested amounted to kEUR 394 (2017: kEUR 127); procurement costs amounted to kEUR 392 (2017: kEUR 126).

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

(6) EQUITY

At 31 December 2018, share capital amounted to EUR 17,440,250.88 and was divided into 6,812,598 no-par value shares (accounting par value EUR 2.56) classified as ordinary shares. The shares are made out to the bearer.

In accordance with a resolution passed at the Annual General Meeting on 22 June 2018, it was decided to allocate the sum of EUR 8,053,697.31 from the net retained profits of EUR 18,953,489.31 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 57.3).

A total of 963 FRoSTA AG no-par value bearer shares held as treasury shares with a nominal value of EUR 2,465.28 or 0.01% of the share capital were offset against equity. The purchase cost amount of kEUR 74,513.42 exceeding the nominal value is reported as a reduction of revenue reserves.

These 963 no-par value bearer treasury shares result from the following purchase and sales transactions:

In addition to the 228 treasury shares existing from 2017 with a nominal value of EUR 583.68 acquired in a share buyback between 04 January 2017 and 04 December 2017, FRoSTA AG acquired a further 41,430 treasury shares in a share buyback between 30 January 2018 and 08 October 2018. This corresponds to a nominal amount of EUR 106,060.80, or 0.61% of the equity. This cost the Company EUR 3,331,290.40, which equates to a weighted average price of EUR 80.41 per share.

FRoSTA AG subsequently sold a total of 40,695 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 104,179.20 or 0.60% of the equity as at 31 December 2018. For 37,320 no-par value bearer shares sold under an employee share programme, FRoSTA AG received a total of EUR 1,203,965 to be used as it sees fit. As part of a bonus scheme, the Company issued 3,375 shares to employees at management level.

The share buybacks were quantified on the basis of the previous year's share-based payments and employee share programmes. Since fewer shares were sold under the employee share programme in the financial year 2018, the number of treasury shares has increased to 963. 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 20 July 2023, amounting to EUR 1,000,000.00 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 20 July 2023, for a capital increase from cash contributions.

(7) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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 3.21% was kEUR 470 in the financial year 2018. Applying the seven-year average interest rate pursuant to Section 253 (6) HGB of 2.33% would have produced a carrying amount of kEUR 493.

In 2017, the carrying amount applying a seven-year average interest rate of 2.80% was kEUR 495.

The difference amounting to kEUR 23 (2017: kEUR 23) is subject to a distribution restriction.

OTHER PROVISIONS (8)

Other provisions include provisions for personnel expenses amounting to kEUR 9,432. This includes provisions for jubilee benefits with a settlement amount of kEUR 1,900. The discount rate on which this is based is 2.33%, assuming a residual term of 15 years.

Provisions for partial retirement are recognised with a settlement amount of kEUR 420. This was determined based on an interest rate of 2.33% (Section 253 (2) Sentence 1 HGB) As the plan assets in the amount of kEUR 394 are assigned on the basis of individual partial retirement obligations, the principle of item-by-item measurement resulted in an excess of assets of kEUR 41 as well as a provision for partial retirement obligations of kEUR 67.

Additional provisions are also recognised for outstanding invoices amounting to kEUR 4,488. Other provisions also relate to obligations arising from sales-related agreements on terms and conditions totalling kEUR 7,509.

(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 (previous year)	42,211 (44,565)	18,507 (18,538)	23,704 (26,027)	4,059 (5,017)
Trade payables (previous year)	39,405 (32,885)	39,405 (32,885)	0 (0)	0 (0)
Liabilities to affiliated companies (previous year)	16,382 (16,327)	16,382 (16,327)	0 (0)	0 (0)
Other liabilities (previous year)	3,328 (4,502)	3,328 (4,502)	0 (0)	0 (0)
	101,326 **(98,279)**	**77,622** **(72,252)**	**23,704** **(26,027)**	**4,059** **(5,017)**

The liabilities to banks are guaranteed by mortgages amounting to kEUR 8,866 (2017: kEUR 12,561) and similar rights amounting to kEUR 611 (2017: kEUR 833)(total kEUR 9,477, 2017: kEUR 13,394).

The customary retentions of title apply to trade payables.

Liabilities to affiliated companies result from intercompany deliveries and services amounting to kEUR 10,496 (2017: kEUR 4,551) and current account transactions amounting to kEUR 5,886 (2017: kEUR 2,276) and from financing activities in an amount of kEUR 0 (2017: kEUR 9,500).

NOTES TO THE INCOME STATEMENT

(10) SALES

Sales by region (in mEUR)

	2017	2018	Change
Germany	367	331	–9.8%
Outside Germany	181	137	–24.3%
	548	**468**	**–14.6%**
Sales allowances	89	44	–50.6%
	459	**424**	**–7.6%**

Sales by product group (in mEUR)

	2017	2018	Change
Fish	212	167	–21.2%
Fruit and vegetables	133	113	–15.0%
Ready meals and other products	114	144	–26.3%
	459	**424**	**–7.6%**

As a result of the first-time presentation of full-year business with FRoSTA S.r.l. and Copack S.r.l., both Rome/Italy, in the annual financial statements, the income statement for the 2018 financial year is only to a limited extent comparable with that of the previous year, since sales, sales allowances and changes in inventories in connection with the operating business of the Italian subsidiaries are no longer included in the income statement. In 2017, these items were accounted for by FRoSTA AG and were included in full in the income statement.

PRIOR-PERIOD INCOME AND EXPENSE (11)

The income statement of FRoSTA AG includes income relating to prior accounting periods of kEUR 7,408 (2017: kEUR 7,294) and expenses relating to prior accounting periods in the amount of kEUR 250 (2017: kEUR 338). Prior-period income mainly relates to the derecognition of advertising expense allowances and bonus payments, the reversal of personnel provisions and other provisions.

OFFSETTING OF INCOME AND EXPENSES (12)

Income from plan assets amounting to kEUR 1 (2017: kEUR 1) was offset against interest expense for partial retirement benefit obligations amounting to kEUR 6 (2017: kEUR 1).

TAXES ON INCOME (13)

This item includes, among other things, tax expense of kEUR 938 (2017: kEUR 989) relating to prior accounting periods.

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.

Deferred tax assets and liabilities (in kEUR)

	31/12/2017		31/12/2018	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	109	0	139
Property, plant and equipment	0	13	0	98
Other financial assets	222	0	633	0
Prepaid expenses/deferred income	0	0	0	0
Provisions for pensions	23	0	29	0
Other provisions	385	0	311	0
Trade payables	0	28	0	13
Total	**630**	**150**	**908**	**250**
Netting	–150	–150	–250	–250
Balance	**480**	**0**	**658**	**0**

The temporary differences were measured based on the combined tax rate of corporation tax and trade tax of 30.66% (2017: 30.66%).

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

OTHER DISCLOSURES

(14) OTHER FINANCIAL OBLIGATIONS

Other financial obligations (in kEUR)

	31/12/2017	31/12/2018
Obligations arising from current lease agreements	2,275	2,468
Obligations under current rental and maintenance contracts	2,942	3,152
Purchase commitments from expansion investments	6,415	6,429
Consignment agreements	2,622	2,432
	14,254	**14,480**

Remaining maturities of rental, maintenance and lease agreements as at 31 December 2018 (in kEUR)

	< 1 year	1 – 5 years	> 5 years
Future payments from current lease agreements	827	1,595	46
Future payments from current rental and maintenance contracts	2,713	432	7
Purchase commitments from expansion investments	6,429	0	0
Consignment agreements	2,432	0	0
	12,401	**2,027**	**53**

(15) HEDGING TRANSACTIONS/DERIVATIVES

Currency hedging is used to hedge outgoing payments in USD. Derivative financial instruments are accounted for at cost when purchased. 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 unrealised losses whereas unrealised gains are not recognised. These are reported under other provisions.

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	Period	Underlying transaction	Scope in kEUR	Fair value in kEUR
Currency forwards	Purchase kUSD	05/09/2018 –28/03/2019	13,250	11,488	55
Currency swaps	Purchase kUSD	20/12/2018 –10/01/2019	1,187	1,034	1

(16) AUDITORS' FEES AND SERVICES

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.

(17) NUMBER OF EMPLOYEES

Employees (annual average)

	2017	2018
Wage earners	758[1]	792
Salaried staff	319	334
Number of employees pursuant to Section 285 No. 7 HGB	**1,077**	**1,126**
Apprentices	34	32
	1,111	**1,158**

[1] In 2017, temporary employees were recognised separately.

(18) EXECUTIVE BOARD

The following persons were members of the Executive Board of FRoSTA AG in the financial year 2018:

- Felix Ahlers, businessman, Hamburg, Chairman (As at 31 December 2018: 2,285,212 FRoSTA shares = 33.5%.)
- Hinnerk Ehlers, businessman, Hamburg, Vice President Marketing, Sales and Human Resources
- Maik Busse, businessman, Bremerhaven, Vice President Business Partnering and Administration
- Jürgen Marggraf, businessman, Bremen, Vice President Operations, Vice Chairman

The total number of FRoSTA shares owned by the Executive Board as at 31 December 2018 was 2,329,412 shares = 34.2%.

SUPERVISORY BOARD (19)

The following persons were members of the Supervisory Board of FRoSTA AG in the financial year 2018:

- Dirk Ahlers, businessman, Hamburg, Chairman of the Supervisory Board, former Chairman of the Executive Board (As at 31 December 2018: 681,159 FRoSTA shares = 10.0 %.)
- Oswald Barckhahn, businessman, Amsterdam, Netherlands, Vice Chairman of the Supervisory Board, Jacobs Douwe Egberts (until 22 June 2018)
- Volker Kuhn, businessman, Geneva, Switzerland, Vice Chairman of the Supervisory Board Procter & Gamble (since 22 June 2018)
- 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 2018 was 683,459 shares = 10.0%.

(20) REMUNERATION PURSUANT TO SECTION 285 NO. 9 HGB

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 dependent on consolidated pre-tax profit
- a long-term bonus component oriented towards the 3-year average return on investment (ROI) of FRoSTA AG.

The total remuneration of the Executive Board of FRoSTA AG in the 2018 financial year amounted to kEUR 2,724.8 (2017: kEUR 4,267.6). Of this, the fixed remuneration came to kEUR 1,087.1 (2017: kEUR 1,110.4) and variable remuneration to kEUR 1,637.7 (2017: kEUR 3,157.2).

The total remuneration of former members of the Executive Board of FRoSTA AG was kEUR 56 in the financial year (2017: kEUR 55). Pension provisions for former Executive Board members of FRoSTA AG amounted to kEUR 392 on the balance sheet date (2017: kEUR 390).

The members of the Supervisory Board receive remuneration made up of the following components:

- a fixed basic annual salary paid once a year
- a performance bonus related to earnings per share, which is also paid once a year

The remuneration of the Supervisory Board amounted to kEUR 119 (2017: kEUR 125), of which kEUR 29 (2017: kEUR 35) was variable remuneration and kEUR 90 (2017: kEUR 90) was fixed remuneration.

REPORT ON POST-BALANCE SHEET EVENTS

No significant events having a material impact on the net assets, financial position and results of operations as at 31 December 2018 occurred after the balance sheet date.

OTHER (21)

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%.

APPROPRIATION OF PROFITS (22)

Based on 6,812,598 no-par value bearer shares, less 963 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 6,811,635 no-par value bearer shares entitled to a dividend. At the Annual General Meeting, we will be proposing a dividend payment of EUR 1.60 per share corresponding to a total dividend payment of EUR 10,898,616.00. This payment will be taken from the net income for the year as at 31 December 2018 of EUR 12,204,690.88. The remaining EUR 1,306,074.88 will be allocated to other capital reserves.

Bremerhaven, 22 February 2019

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, 22 February 2019

Felix Ahlers

Maik Busse

Hinnerk Ehlers

Jürgen Marggraf

INDEPENDENT AUDITOR'S REPORT

TO FRoSTA AKTIENGESELLSCHAFT, BREMERHAVEN

AUDIT OPINIONS

We have audited the annual financial statements of FRoSTA Aktiengesellschaft, Bremerhaven — comprising the balance sheet as of 31 December 2018 and the income statement for the financial year from 1 January to 31 December 2018, and the notes to the annual financial statements, including the recognition and measurement principles presented therein. In addition, we have audited the management report, which is combined with the group management report of FRoSTA Aktiengesellschaft ("combined management report"), for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f (4) HGB ["Handelsgesetzbuch": German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the provisions of German commercial law for stock corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German Generally Accepted Accounting Principles, and

- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the aforementioned corporate governance statement.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and the combined management report in accordance with Section 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the combined management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

OTHER INFORMATION

The executive directors are responsible for other information. The other information comprises the corporate governance statement in accordance with Section 289f (4) HGB.

Our opinions on the annual financial statements and combined management report do not cover the other information, and we therefore do not provide an opinion or any other form of audit conclusion on these matters.

In connection with our audit, our responsibility is to read the other information and to assess whether the other information

- is inconsistent in any material respect with the annual financial statements, the combined management report or our knowledge obtained in the audit, or

- otherwise appears to be misstated in any material respect.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the provisions of German commercial law for stock corporations, and for the preparation of annual financial statements that give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in accordance with these requirements. In addition, the executive directors are responsible for such internal control as they have determined necessary in compliance with German Generally Accepted Accounting Principles to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless factual or legal circumstances conflict with this.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the annual financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements in compliance with German Generally Accepted Accounting Principles give a true and fair view of the assets, liabilities, financial position and financial performance of the Company.

- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law and the view of the Company's position it provides.

- Perform audit procedures for the forward looking disclosures made by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Bremen, 22 February 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

Weichert	Renken
German Public Auditor	German Public Auditor

TEN-YEAR OVERVIEW FOR THE FRoSTA GROUP

Ten-year overview for the FRoSTA Group

		2018	2017	2016
Employees (average)	Number	1,778[3]	1,724[3]	1,665
Revenue	mEUR	509	501	466
EBITDA	mEUR	46.6	49.3	43.8
Consolidated profit/loss	mEUR	20.0	23.4	21.6
Capital expenditure	mEUR	37.3	39.1	26.0
Shares	Number	6,812,598	6,812,598	6,812,598
Total dividend	kEUR	10,900	10,900	10,203
Dividend per share	EUR	1.60	1.60	1.50
Earnings per share	EUR	2.93	3.43	3.17
Fixed assets	mEUR	135.1	115.3	89.7
Current assets	mEUR	193.5	194.8	181.8
Equity	mEUR	169.5	161.9	145.7
Equity ratio		51.6%	52.2%	53.7%
Liabilities to banks	mEUR	42.2	44.6	27.6
Debt ratio [1]		12.8%	14.4%	10.2%
Return on investment [2]		12.4%	15.2%	16.0%

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

[2] [EBIT / average (non-current assets (excl. financial assets) + trade receivables + inventories - trade payables)] × 100 (adjusted for prior years)

[3] In 2018, the employees of the small sales offices in Eastern Europe were included in the calculation for the first time and the allocation of administration – previously partly included in the plant in Bydgoszcz – was adjusted, so that the comparative figure for 2017 was also adjusted accordingly.

2015	2014	2013	2012	2011	2010	2009
1,631	1,559	1,523	1,504	1,528	1,520	1,614
440	408	386	380	385	393	411
38.3	36.2	29.5	21.5	26.0	29.8	32.5
18.2	17.3	12.0	6.1	8.7	9.8	12.0
14.1	16.3	8.4	7.8	8.6	10.7	12.1
6,812,598	6,812,598	6,812,598	6,695,900	6,609,188	6,531,457	6,450,833
9,256	9,247	6,813	5,022	4,957	4,899	4,838
1.36	1.36	1.00	0.75	0.75	0.75	0.75
2.67	2.53	1.80	0.92	1.33	1.52	1.87
76.5	75.4	71.1	75.1	76.8	81.5	82.9
168.2	159.7	150.9	147.2	144.8	144.0	140.2
134.7	125.7	116.6	108.4	105.0	101.2	94.8
55.1%	53.5%	52.5%	48.7%	47.4%	44.9%	42.5%
33.2	29.4	39.1	50.0	55.3	63.6	76.7
13.6%	12.5%	17.6%	22.5%	25.0%	28.2%	34.4%
13.7%	13.8%	10.5%	5.7%	8.3%	10.6%	11.3%

REPORT OF THE SUPERVISORY BOARD FOR THE 2018 FINANCIAL YEAR

Dear Shareholders,

In the 2018 financial year, the Supervisory Board again intensively advised the Executive Board of FRoSTA AG and exercised its control function.

The activities of the Supervisory Board in 2018 were also determined by the change in the composition of the Supervisory Board, after Oswald Barckhahn resigned his mandate at the end of the Annual General Meeting on 22 June 2018 and Volker Kuhn was elected as a new member of the Supervisory Board by the Annual General Meeting. Accordingly, the members of the Supervisory Board Dirk Ahlers, Oswald Barckhahn and Jürgen Schimmelpfennig advised and monitored the Company in the period up to the end of the Annual General Meeting on 22 June 2018, while Volker Kuhn supported the Company as a new member of the Supervisory Board in the period following the Annual General Meeting.

Overall, the Supervisory Board regularly consulted with the Executive Board and monitored its activities. 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 policy, the current revenue and earnings situation, including risk management, and the position of the Company as a whole.

A particular focus of the Supervisory Board's activities was the reorganisation of the Executive Board as a result of the imminent departure of long-standing Executive Board member Jürgen Marggraf effective from March 31, 2019. Jürgen Marggraf's responsibilities will be shared among Felix Ahlers, Maik Busse and Hinnerk Ehlers, i.e. the Executive Board will be reduced to three members. The purchasing department previously managed by Jürgen Marggraf was already transferred to Felix Ahlers in 2018.

A further focus of the consultations, especially in the second half of the year, was the unexpected deterioration in the business situation in the following areas and the measures introduced to counter this trend:

1. Unexpected raw material price increases for Alaskan pollack in the private label sector, which could not immediately be offset by price increases due to existing sales contracts.
2. Start-up difficulties with the brand business in Italy. The sales development of the acquired brands fell short of expectations and there were difficulties with the integration of financial controlling.
3. Cost increases concerning the implementation of major investment projects in Bydgoszcz (Schlemmerfilet line) and Lommatzsch (new bag line).
4. Lower output on some new production lines and the associated difficulties in fulfilling all orders in accordance with the respective contract.

The Supervisory Board discussed the necessity and content of individual measures closely with the Executive Board, particularly in these business segments, and advised the Executive Board intensively in this regard. This applies in particular to brand management in Italy.

Furthermore, the Supervisory Board held intensive discussions with the Executive Board in the 2018 financial year concerning the increased focus on the brand business and the associated increase in the advertising budget for the FRoSTA brand (EUR 14.5m in 2018 compared to EUR 9.4m in the previous year), as well as the digitalisation and IT strategy in connection with the conversion of the ERP systems to SAP S/4 HANA.

The Supervisory Board convened five regular meetings: on 21 March 2018, 27 March 2018, 22 June 2018, 26/27 September 2018 and 19 December 2018. The meetings of the Supervisory Board were attended by all members.

In addition to the areas mentioned above, the Supervisory Board also dealt with the following topics at its individual meetings:

- on 21 March 2018 with the audit and approval of the 2017 annual financial statements,
- on 22 June 2018 with preparations for the Annual General Meeting being held the same day,
- on 26 September 2018 with current questions concerning operations in Bydgoszcz after an intensive tour of the plant, in particular also against the background of the changed personnel situation in Poland, which has led to a significant shortage of staff, and
- on 19 December 2018 with the presentation and approval of the annual planning for 2019.

Following a preparatory discussion in the Personnel Committee, the 2019 targets for the Executive Board were discussed and adopted.

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 both with unqualified auditor's reports.

The combined 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 by the auditor to the Supervisory Board on 20 February 2019, which duly reviewed them.

On 27 February 2019, they were conclusively examined and discussed in detail by the Supervisory Board. For its part, the Supervisory Board thoroughly reviewed the separate financial statements, the consolidated financial statements, the combined management report of FRoSTA AG and the Group, as well as the proposal on the appropriation of net retained profits. The Supervisory Board determined that, having completed its review, it has no objections either to the consolidated and separate financial statements as at 31 December 2018, nor to the combined management report of FRoSTA AG and the Group as at 31 December 2018. 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.

REMUNERATION OF THE EXECUTIVE BOARD

In relation to the remuneration of the Executive Board, the Supervisory Board notes the following:

The fixed remuneration decreased by 2.1% in 2018 compared with the previous year. 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, due to the reduced earnings, the variable component decreased by 48.1% 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.

Overall, the Executive Board remuneration decreased by 36.2% compared with 2017.

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 2018.

Bremerhaven, 27 February 2019

For the Supervisory Board
Dirk Ahlers

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