# ANNUAL REPORT 2012 · FRoSTA AG

| FINANCIAL YEAR | | 2011 | 2012 |
|---|---|---|---|
| Employees (average) | number | 1,528 | 1,504 |
| Turnover | mill. EUR | 385 | 380 |
| EBITDA[1]<br>in % of turnover | mill. EUR | 26.0<br>6.8 % | 21.5<br>5.7 % |
| Depreciation | mill. EUR | 11.1 | 11.2 |
| EBIT[2]<br>in % of turnover | mill. EUR | 14.9<br>3.9 % | 10.3<br>2.7 % |
| Result from ordinary business activities | mill. EUR | 12.3 | 8.3 |
| Group result for the year | mill. EUR | 8.7 | 6.1 |
| Cash flow | mill. EUR | 16.4 | 16.4 |
| Investments | mill. EUR | 8.6 | 7.8 |
| Dividend per share | EUR | 0.75 | 0.75 |

[1] Earnings before interest, tax and depreciation
[2] Earnings before interest and tax

| FINANCIAL CALENDAR 2013 | |
|---|---|
| Friday, March 22, 2013 | Financial Press Conference<br>FRoSTA AG, Bremerhaven |
| Friday, May 3, 2013 | Publication of interim report<br>per 30. April 2013 |
| Friday, June 7, 2013 | Annual General Meeting<br>Stadthalle Bremerhaven<br>Wilhelm-Kaisen-Platz<br>27576 Bremerhaven |
| Friday, August 2, 2013 | Publication of half-year report 2013 |
| Monday, October 7, 2013 | Publication of interim report<br>per 30. September 2013 |


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# LETTER TO OUR SHAREHOLDERS



Dear shareholders,

2012 was another year of great challenges for FRoSTA. On the one hand, the frozen food market came practically to a standstill, while at the same time a new competitor entered the frozen fish market.

For this reason, we redoubled our efforts to increase competitiveness, reduce costs and open up sustainable markets. In spite of this hard work, profit fell again in 2012 from 8.7 million EUR to 6.1 million and we were not able to meet our own targets.

In contrast, turnover of our FRoSTA brand saw a positive development, with a sales increase recorded for our new vegetable pans as well as our ready meals. We were also pleased to receive two awards in 2012: our Bami Goreng was named best product by the German consumer magazine Stiftung Warentest, while FRoSTA was awarded the title of Germany's Most Sustainable Brand. This recognition reinforces us in our belief that continuing our Purity Command is the right strategy. To mark the tenth anniversary of the Purity Command in 2013, we will be declaring the country of origin of our ingredients on our website as from April. In the wake of more food scandals, many consumers have indicated great interest in having this information made available.

Turnover abroad increased by 6 % with sales to partners outside Germany now accounting for 40 % of our business.

Sales in private labels on the other hand, especially of fish products, saw a clear drop. This makes up a large part of our total business and so it was a major contributor to the poor overall result in 2012.

Intensive efforts are now being made to reverse this trend after three difficult years.

Once again, we are extremely grateful to our customers, employees and shareholders for their ongoing trust and support in 2012.

Yours faithfully

Felix Ahlers

**Deutscher Nachhaltigkeitspreis**

Deutschlands nachhaltigste Marke 2012

# MANAGEMENT REPORT




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## I. GENERAL CONDITIONS AND DEVELOPMENTS IN THE INDUSTRY

### 1. General economic climate

In 2012 the German economy grew by 0.9 %. A negative growth rate of 0.5 % was recorded in Euroland as a whole.

Compared to the previous year, inflation fell slightly to 2.0 % in Germany and 2.5 % in the Eurozone (Source: Statistisches Bundesamt).

On the whole, 2012 was a difficult year for the food industry. Consumer spending in the most important European markets increased only slightly.

Slight relief in the costs for raw materials could not make up for the negative effects of the high exchange rate for the US Dollar (the currency used to purchase most of our materials).

The relentlessly fierce price competition has continued, and we expect no relief in the next few years. We have already reacted to this situation by adapting our organisational structures.

### 2. Development of the frozen food market

In Germany, the frozen food market grew in value by only 1.0 %, while market volume actually dropped by 0.9 % (frozen food excluding ice-cream).

Through successful innovations in 2012, we were able to grow our FRoSTA brand once more – at a rate of 6 %, which is higher than the market as a whole. The market segment Complete Meals grew by 5.1 %,while Vegetables saw an increase of 10.1 %.

| | Volume | | | Value | | |
|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Ready meals – of these complete ready meals | –3.4 %<br>–2.0 % | –0.3 %<br>2.1 % | 3.9 %<br>6.1 % | –3.3 %<br>–1.4 % | –1.3 %<br>0.4 % | 4.2 %<br>6.7 % |
| Fish | –0.5 % | –3.3 % | –0.6 % | 0.0 % | –1.6 % | 0.8 % |
| Vegetables | –1.3 % | –4.7 % | 0.4 % | 1.6 % | –2.8 % | –1.1 % |
| Fruit | 18.1 % | 5.1 % | –2.5 % | 6.6 % | 2.9 % | –3.1 % |
| Frozen food (total in food retail) | 0.5 % | –1.7 % | –0.9 % | –0.7 % | 0.7 % | 1.0 % |

(source: AC Nielsen/SymphonyIRI)

## II. Company situation

### 1. Situation concerning assets, financing and earnings

In 2012, we were not able to increase FRoSTA AG turnover as compared to the previous year. On the contrary, sales decreased by 1 %. Volume remained at the same level as the previous year. The drop in turnover affected mainly our domestic private labels, whereas the FRoSTA brand business and sales abroad enjoyed a positive development. This pressure led to lower unadjusted profit since we were not able to pass the necessary price increases on to our customers, which meant that we were also forced to discontinue some existing contracts while others were continued using inadequate prices.

At 8.3 million EUR, the Group profit before tax was not as high as the 2011 figure of 12.3 million EUR. This drop of 4.0 million EUR or 33 % exceeds the drop in sales.

This development is mainly a result of lower turnover and the drop in unadjusted profit, which means that raw earnings fell by 2 million EUR as compared to the previous year. Other operating costs were about 2.0 million EUR higher than in the previous year, which was mainly due to increases in freight costs and coldstore rentals. Labour costs in the Group also increased by 1.1 million EUR despite a reduction in staff numbers. This is due to severance payments made to personnel leaving the company. Consumer advertising expenses rose by 0.4 million EUR while interest payments dropped by 0.7 million EUR.

At 10.3 million EUR, EBIT is down from the previous year's figure of 14.9 million EUR. EBITDA is at 21.5 million EUR, which is 17 % down on the previous year's figure of 26.0 million EUR.

The equity capital reported in the FRoSTA AG group balance sheet can be broken down as follows, in each case as per December 31:

| in TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| **Subscribed capital** | **16,920** | **17,142** |
| + Capital reserves | 10,822 | 11,709 |
| + Revenue reserves | 75,780 | 77,919 |
| + Loss and balancing items | –1,190 | –37 |
| + Net result | 2,631 | 1,618 |
| **Equity capital** | **104,963** | **108,351** |
| | | |
| Balance sheet total | 221,576 | 222,363 |
| **Equity ratio** | **47.4 %** | **48.7 %** |

| in million EUR | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Turnover** | 391.8 | 411.3 | 392.6 | 385.0 | 379.9 |
| **EBITDA** (earnings before interest, tax and depreciation)<br>in % of turnover | 32.0<br>8.2 % | 32.5<br>7.9 % | 29.8<br>7.6 % | 26.0<br>6.8 % | 21.5<br>5.7 % |
| – Depreciation | –11.2 | –11.6 | –12.1 | –11.1 | –11.2 |
| **EBIT** (earnings before tax and interest)<br>in % of turnover | 20.8<br>5.3 % | 20.9<br>5.1 % | 17.7<br>4.5 % | 14.9<br>3.9 % | 10.3<br>2.7 % |
| + Financial result | –3.1 | –3.5 | –3.5 | –2.6 | –1.9 |
| **Result from ordinary business activities**<br>in % of turnover | **17.7**<br>4.5 % | **17.4**<br>4.2 % | **14.2**<br>3.6 % | **12.3**<br>3.2 % | **8.3**<br>2.2 % |
| – Taxes | –5.6 | –5.4 | –4.4 | –3.6 | –2.2 |
| **Consolidated result for year**<br>in % of turnover | **12.1**<br>3.1% | **12.0**<br>2.9 % | **9.8**<br>2.5 % | **8.7**<br>2.3 % | **6.1**<br>1.6 % |

Investment amounting to 7.8 million EUR was slightly lower than in the previous year (8.6 million EUR) and also below depreciation. At 16.4 million EUR (previous year 16.4 million EUR), they could be completely financed from the cash flow from operating activities.

Our balance sheet total of 222 million EUR is on a par with the previous year's. Stocks rose by 3.3 % to 67 million EUR due to the good harvest which allowed us to store more produce than in the previous year. Capital assets at 3 % respectively are on the previous year's value. As in previous years, some of the receivables will be refinanced as part of an ABS programme. At the end of 2012, liquid funds amounted to 10 million EUR (previous year 10 million EUR).

In addition to the 3 % increase in equity from 105 million EUR to 108 million EUR, the balance sheet total was financed by long and short-term deferrals and liabilities, with bank liabilities falling by 9 % from 55 million EUR in 2011 to 50 million EUR in 2012.

Due to the increase in equity, the equity ratio grew from 47.4 % to 48.7 %. This equity ratio allows us to retain our financial independence even in difficult economic times.

## 2. Segment reporting

### 2.1 Development in business segment FRoSTA

The FRoSTA business segment (brand business in Germany, private label and brand business in Austria, Italy, Poland and Eastern Europe) saw different developments in the individual countries and segments.

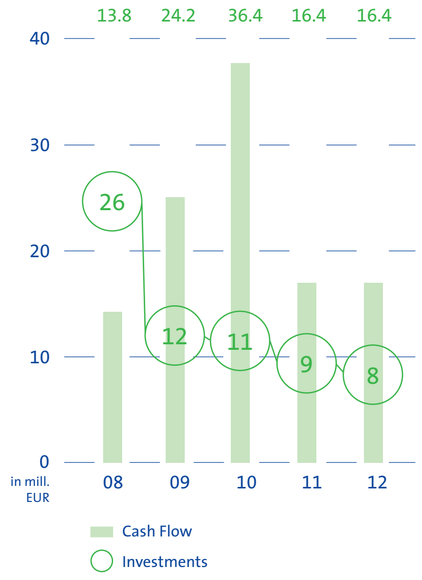
The drop in the sum of the result is mainly due to the influence of the private label business in Austria and the Balkans. Brand sales increased slightly despite the difficult market environment.

In the battle for consumers in Germany, the FRoSTA brand developed better than the market as a whole (Source: Nielsen 2012). In the market segment complete frozen meals, FRoSTA was able to increase turnover by 5.1 % and maintained its leading position by achieving a market share of 30.3 % (Source: Nielsen 2012, LEH+DM o. Aldi , Lidl, Norma). The turnover within our "Koch-kreativ" concept, the newly developed vegetable range, saw a very satisfactory growth rate of 10.1 %. (Scource: Nielsen 2012, LEH+DM o. Aldi, Lidl, Norma). This concept uses choice quality vegetable products according to the well-known FRoSTA Purity Command. It has been actively marketed and the response from traders and consumers has been very positive. We are especially pleased by the sharp increase in consumer demand for the FRoSTA "Gemüse Pfannen", which led to an increase in sales of 22.8 % (Source: Nielsen 2012, LEH+DM o. Aldi, Lidl, Norma). Business was significantly better in the second half of the year.

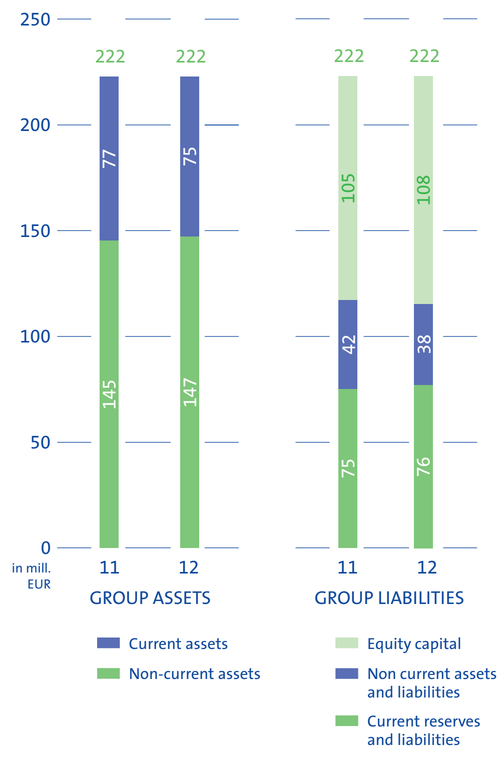
Early in 2012, some FRoSTA articles received awards from the German consumer magazine "Stiftung Warentest". This led us to highlight this success in our television advertising campaigns. In December 2012, FRoSTA was named Germany's Most Sustainable Brand. This came as a welcome recognition of our Purity Command, which will celebrate its tenth anniversary in 2013, and which is still unique in the German frozen food market.

In Poland, we launched the FRoSTA Purity Command for vegetables and ready meals back in 2011. By the middle of 2012, the complete fish range had switched to the FRoSTA Purity Command. This means that the whole FRoSTA brand in Poland and Eastern Europe has been re-worked with significant improvements in quality. A major advertising campaign for our fish range took place in autumn, and the brand business also made good progress in the second half of the year. FRoSTA was once again able to strengthen its dominant market position in the fish segment.

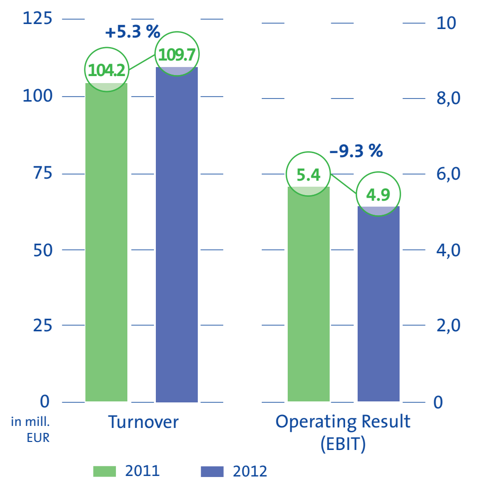
CASH FLOW FROM OPERATING ACTIVITIES



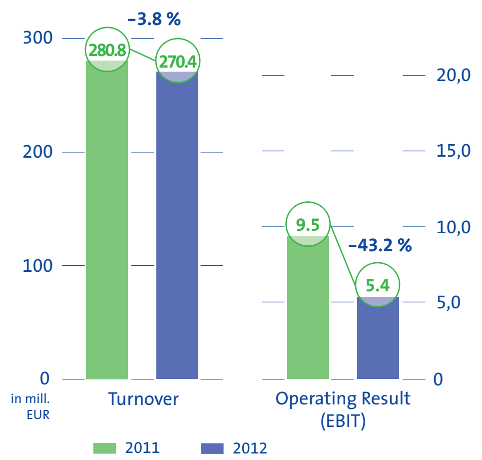

GROUP BALANCE SHEET STRUCTURE



BUSINESS SEGMENT FRoSTA




BUSINESS SEGMENT COPACK




In Hungary, our activities focus on the brand business and we were able to record a satisfactory result. Last year we once again saw a good response to our TV advertising in the fish segment. FRoSTA Vegetables also developed well.

Performance in the Balkan countries was mixed. We did manage to create new contracts for fish private labels in Serbia, Croatia and Slovenia, but consumer spending as a whole was affected by the poor overall economic situation.

In Romania, we again fell far short of the previous year's turnover. The overall economic situation and market conditions in our segment were both extremely challenging.

Business in Russia is also in decline once more, and is marked by constant difficulties in sourcing raw material as well as in the distribution of our products.

In Italy, we managed once again to improve on the previous year's very good result in turnover. This result, however, was also affected by sharp increases in raw material prices.

## 2.2 Development in business segment COPACK

The business segment COPACK comprises all activities connected with the private label business in the food retail, home delivery, catering and industrial sectors, i.e. "Business to Business". The COPACK sales units made a strong impression on European competition through their distribution channels. However, the emergence of a new competitor in the fish segment has led to considerably fiercer competition resulting from a clear over-capacity in the market. COPACK did manage to retain its key customers and contracts in fish, but for the most part only through significant concessions on price. For this reason, margins dropped considerably, leading to a steep decline in profitability in this segment. In 2012 we introduced appropriate cost cutting measures which were already taking effect at the end of the year. We could partly compensate for the negative trend in our margin by winning new retail listings for ready meals and vegetable products, but nevertheless we recorded an overall drop in sales and profit.

## 3. Individual financial statement of FRoSTA AG

The individual financial statements and FRoSTA AG's consolidated financial statements are practically identical. The fundamental differences between the balance sheets result from the consolidation of the Polish subsidiary and the different accounting standards.

In contrast to the Group financial statements, for which the international rules of IFRS apply, the individual financial statements of FRoSTA AG are created according to the rules of the German Commercial Code (HGB).

Group turnover in 2012 is down by 2 % on the previous year, which is mainly due to the overall poor performance in turnover on the private label business in Germany.

The individual financial statement shows a profit after tax based on the accounting principles of the German Commercial Code of 4.1 million EUR. The previous year's figure was 7.1 million EUR. This significant decline was due to the drop in unadjusted profits in the private label business without a corresponding reduction in expenditure.

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

| | TEUR |
|---|---|
| **FRoSTA AG ANNUAL NET PROFIT FOR 2012 (HGB)** | **4,059** |
| **Changes IFRS** | |
| Depreciation | –2,141 |
| Pallet Expenditure | 720 |
| Deferred Taxes | 972 |
| Currency | –458 |
| Miscellaneous | –195 |
| | |
| **FRoSTA AG ANNUAL NET PROFIT FOR 2012 (IFRS)** | **2,957** |
| | |
| Total result for the year for subsidiaries consolidated in the Group financial statements | 3,287 |
| Consolidating entries: Effects of the consolidating entries affecting the operating result | –161 |
| | |
| **CONSOLIDATED ANNUAL NET PROFIT FRoSTA AG 2012** | **6,083** |

The increased depreciation figures in the Group statement result from the fixed assets, which are given a higher value using IFRSs than in the German Commercial Code, and from the other depreciation methods and useful lives applied.

The individual financial statement is still the basis for determining what dividend is to be paid.

At the Annual General Meeting, the Board will propose a dividend of 0.75 EUR per share as in the previous year. This corresponds to a total dividend payment of 5 million EUR.

The FRoSTA Group profit before tax amounting to 8.3 million EUR is thus being paid out as dividend (44 %), paid as tax (43 %) and retained in the company (13 %):

| | TEUR | Proportion |
|---|---|---|
| Current corporation tax | 2,245 | 27 % |
| Capital gains tax including "solidarity" supplement in dividends | 1,325 | 16 % |
| **Total taxes** | **3,570** | **43 %** |
| Net dividend payments | 3,697 | 44 % |
| Retained by company | 1,061 | 13 % |
| **Total** | **8,328** | **100 %** |

## 4. The FRoSTA share, according to § 315 Abs. 4 HGB (German Commercial Code) and explanatory report

The FRoSTA share saw the following development in 2012: In January 2012, the share price was 16.50 EUR, and in December 2012 15.60 EUR. The dividend yield of almost 5 %, which makes the FRoSTA share an interesting proposition for investors. Since February 2011, the FRoSTA share has been traded in the Entry Standard of the Frankfurt Stock Exchange and no longer in the Regulated Market of the Berlin Stock Exchange. Two shareholders have litigated against this so-called downgrading but their action was rejected by the State Court and Supreme Court of Bremen. The same two shareholders have appealed this decision and the case is now pending at the German Federal Court.

| KEY FIGURES FOR THE FRoSTA-SHARE | 2011 | 2012 |
|---|---|---|
| Number of shares | 6,609,188 | 6,695,900 |
| Equity capital on consolidated balance sheet (TEUR)<br>Equity capital per share (EUR) | 104,963<br>15.88 | 108,351<br>16.18 |
| Share price at year end (EUR)<br>Year high (EUR)<br>Year low (EUR)<br>Number of shares sold | 17.50<br>20.50<br>16.30<br>248,211 | 15.60<br>18.30<br>15.10<br>260,043 |
| Price-earnings ratio (Price at year end/annual net profit) | 13.32 | 16.95 |
| Ausschüttung/Aktie, Dividende (EUR)<br>Dividendenrendite (Dividende/Jahresschlusskurs) | 0.75<br>4.3 % | 0.75<br>4.8 % |
| Annual net profit group (TEUR)<br>Annual net profit per share (EUR) | 8,686<br>1.33 | 6,083<br>0.92 |
| Cash flow from operating activities for Group (TEUR)<br>Cash flow from operating activities per share (EUR) | 16,396<br>2.48 | 16,442<br>2.46 |

On December 31, 2012, the total subscribed capital of FRoSTA AG amounted to 17,141,504.00 EUR, which is the equivalent of 6,695,900 shares at 2.56 EUR. The shares are made out to the bearer. Of these, according to their own statements, Dirk Ahlers, Friederike Ahlers and Felix Ahlers each hold more than 10 %.

Shares with limited voting rights do not exist since all shares are issued with the same rights and obligations. Only those shares apportioned by FRoSTA AG to its employees and board members as part of an employment contract, bonus payment or employee participation program are subject to a one or four year lock-up restriction.



## 5. Employees

The average number of workers on our payroll throughout the year fell slightly by 1.6 %.

Despite the reduction in staff numbers, total labour costs rose to 57 million EUR. Besides pay increases of about 3 %, this was also a consequence of severance payments amounting to roughly 1.1 million EUR made to 31 employees. The number of apprentices on our payroll dropped from 37 to 34. As in the previous year, staff fluctuation was very low at 1.8 %. The relatively low absentee rate of 4.9 % in Germany could be slightly bettered and stood at 4.8 %.

In 2012 we carried out a survey of line managers. As in previous years this let to a good result.

As in the years before, in 2012 we again offered our employees the opportunity to share in the ownership of FRoSTA AG by purchasing employee shares at a reduced price. The number of shares purchased amounted to 74,453 (2011: 67,969). A total of 303 buyers took part in the campaign (2011: 330). We are satisfied with our employees' involvement in this scheme and pleased with the trust demonstrated. We hope that even more employees will become FRoSTA shareholders in future.

During the past year, all of our employees and the Workers' Council contributed with great commitment and dedication to the successful financial year. We would like to express our sincere thanks for this support!

| EMPLOYEES | 2011 | 2012 |
|---|---|---|
| **FRoSTA HEAD OFFICE** | **240** | **233** |
| - thereof administration | 162 | 154 |
| - thereof sales (also abroad) | 78 | 79 |
| **PRODUCTION SITES** | **1,288** | **1,271** |
| - Schottke, Bremerhaven | 526 | 500 |
| - Rheintal, Bobenheim-Roxheim | 144 | 130 |
| - ELBTAL, Lommatzsch | 165 | 161 |
| - Bydgoszcz, Polen | 453 | 480 |
| **GROUP TOTAL** | **1,528** | **1,504** |

## 6. R & D Report

In 2012 our Product Development department created many new products for distribution in various European countries. These included FRoSTA brand products as well as items sold under our customers' labels. New vegetarian meals and vegetable-based snacks were particularly successful.

## 7. Procurement

Most basic raw materials became more expensive in 2012 – especially wheat, rice, poultry and dairy products. By opening up new supply sources, some of these increased costs could be circumvented or reduced. Raw material availability was on the whole very good, which meant that we were not faced with any shortages in 2012. The supply of fish raw material has seen a very solid development worldwide, which means that most price variations were a result of currency fluctuation (Euro/US-Dollar).

### 8. Production

All four facilities recorded good or very good utilisation rates in the 2012 financial year. Contrary to the market trend, we had an average crop at our vegetable producing facilities and in the case of peas an above-average yield. We continued to drive efficiency-improving projects at our production plants. In our factory administrations, we also realised cost optimisations. To further reduce energy consumption, we launched an efficiency programme aimed at achieving ISO 50001 certification in early 2013.

### 9. Investments

As in previous years, important investment was made in new machinery in order to keep our facilities at the highest technological standard, thus ensuring efficiency as well as the superior quality of our products. One major investment was in the refurbishment of our packing line for fish products which will ensure highly efficient packing and palletisation of our fish products as from the coming financial year.

### 10. Organisation, administration and company structure

The organisation structure developed in the previous years was maintained. Executive Board responsibility is split into the fields of Marketing and Sales, Finance and Administration and Operations. At the same time, the business is subdivided operationally into the sections FRoSTA and COPACK.

The Board of FRoSTA AG is made up of Felix Ahlers (Chairman), Jürgen Marggraf (Vice-Chairman and Operations), Hinnerk Ehlers (Marketing and Sales) and Dr Stephan Hinrichs (Finance and Administration). The FRoSTA business section is headed by Mr Ahlers and Mr Ehlers, while COPACK is under the leadership of Dr Hinrichs and Mr Marggraf.

The Supervisory Board of FRoSTA AG comprises Dirk Ahlers (Chairman of Supervisory Board), Oswald Barckhahn (Vice-Chairman of Supervisory Board) and Jürgen Schimmelpfennig as elected workers' representative.

The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board transferred the completion, alteration or termination of employment contracts to a Supervisory Board committee for Finances and Personnel.

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

Executive Board Members receive remuneration made up of the following components:

- a fixed basic annual salary paid over twelve months.
- a remuneration made in the form of shares as part of the employee participation programme.
- an annual bonus related to the Group profit before tax. This bonus is paid in three instalments.
- a long-term bonus based on the three-year average ROI of FRoSTA AG (applies only for some Board Members).

Executive Board remuneration in 2011 and 2012 was as follows:

| Year | Basic salary TEUR | Remuneration in the form of company shares TEUR | Variable payment TEUR | Insurances TEUR | Total TEUR |
|---|---|---|---|---|---|
| 2011 | 1,166 | 201 | 792 | 10 | 2,169 |
| 2012 | 1,180 | 254 | 678 | 10 | 2,122 |

Total payments to former members of the Executive Board of FRoSTA AG and the Group amounted in the financial year to TEUR 74 as opposed to TEUR 73 the previous year.

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

- a fixed basic payment paid yearly
- a bonus related to the proposed dividend payment. This bonus is paid out once a year.

Supervisory Board remuneration in 2011 and 2012 was as follows:

| Year | Basic salary TEUR | Bonus TEUR | Total TEUR |
|---|---|---|---|
| 2011 | 14 | 48 | 62 |
| 2012 | 14 | 46 | 60 |

### III. Risk report

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

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

The FRoSTA AG risk management system undergoes a continual improvement process. In 2012, a management workshop took place, at which all major corporate risks were once again identified and evaluated.

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 co-operating with strategic suppliers, we smoothen these fluctuations and avoid dependencies. Being located in various different places our own vegetable production is also largely secured against the effects of inclement local weather conditions, which 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. Price agreements made with our customers for a period of more than six months increase our risk particularly as we normally are not able to secure a long-term supply of raw material. As far as possible, we therefore try to avoid contractual and delivery agreements 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 factories. 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.

FRoSTA purchases most of its raw materials from international markets. Some 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 controlling instruments are employed to ensure that these are adhered to. The hedging of exchange rate risks can only compensate to a limited extent for the continually rising US Dollar. A long-term deterioration in the EUR-USD rate would lead to a rise in expenditure for commodity purchases.

The increasing concentration of trade is leading to risks arising from the potential loss of bulk contracts. This can mean our fixed costs are not covered. Our broad customer structure is based on our own and customers' brands, as well as the supplying of home delivery services, caterers and industrial customers and this secures us against excessive fluctuations in sub-sections of the market. Our contracts with our customers normally include items and prices but do not guarantee fixed volumes, which means that we bear the risk of reduced purchases by the consumer.



The risk of losing outstanding receivables is limited by credit risk insurance with the usual deductibles, a rigorous 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.

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 rising demands from the capital market. In doing so, we run the risk of interest fluctuations on the capital market. By the use of long-term loans and interest-rate hedging we can limit the interest-rate risk.

There are no significant risks from pending legal disputes. Two shareholders have litigated against the transfer of FRoSTA share dealings from the regulated market to the Entry Standard of the Frankfurt Stock Exchange. This lawsuit was rejected by the State Court and Supreme Court of the State of Bremen. The two shareholders are now appealing these judgements at the German Federal Court, with a final decision still pending.

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

The main features of the internal controlling and risk management processes related to corporate accounting can be presented as follows: FRoSTA has set up an internal control and monitoring system to be enforced by the Controlling, Accounting, Debtors 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 "four-eyes principle", there are also automatic mechanisms fully integrated in our SAP-ERP system with its BO analysis tool. The strict separation of administrative, executive, accounting and approval functions reduces the likelihood of fraudulent actions.

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

The compliance and reliability of our corporate accounting is guaranteed by adherence to the work instructions and internal accounting handbook which applies to all relevant affiliated companies. These regulations also stipulate the material and formal requirements concerning the creation of the financial statement. Despite the large number of regulations, there is still a possibility of risk, for example as a result of unusual or complex transactions, especially if they are performed hurriedly near the end of the financial year.

## IV. Events after the end of the financial year

There have been no events subsequent to the reporting deadline for this report which would have any bearing on the financial year in question.

## V. Branch Report

FRoSTA AG has the following subsidiaries:
F. Schottke, Bremerhaven
Elbtal Tiefkühlkost, Lommatzsch
Rheintal Tiefkühlkost, Bobenheim-Roxheim



## VI. Forecast

In the next years we expect the market for frozen food to continue to grow at lower single-digit figures. Our goal for the next two years is to participate in this growth as well as to improve our profitability. We expect a steady development in turnover in 2013 but at the same time we wish to return profitability to the level of previous years. For subsequent years, we expect a lower single-digit increase in turnover if market conditions remain the same. We also expect continued over-performance in profit.

In January und February of 2013 we saw an increase in sales of 1.3 % against last year's figure. Profit is considerably higher than in the previous year. One of our most important targets is to improve margins by price increases and cost cutting and in particular by increasing growth in the lucrative business sectors. At the same time, we continue to work on reducing especially our overheads to meet the ever fiercer competition. An improvement in profit should be possible if currencies and raw material prices remain relatively stable.

For we believe we are well equipped as regards personnel, finances and organisation to cope with the difficult market situation. In this endeavour, we will be supported by our long-standing good relations with our customers, suppliers and banks as well as by our reliable workforce.

Bremerhaven, March 2013

The Executive Board

# CONSOLIDATED FINANCIAL STATEMENTS FRoSTA AG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| | Note item | 2011 TEUR | 2012 TEUR |
|---|---|---|---|
| 1. Turnover | (40) | 385,005 | 379,920 |
| 2. Increase of stocks of finished and unfinished products | | 3,094 | 3,798 |
| 3. Own work capitalised | | 88 | 57 |
| 4. Other operating income | (41) | 8,611 | 9,102 |
| **5. OPERATING INCOME** | | **396,798** | **392,877** |
| | | | |
| 6. Cost of materials | | | |
| a) Raw materials, consumables and goods purchased for resale | | –244,211 | –242,675 |
| b) Purchased services | | –12,046 | –11,491 |
| | | **–256,257** | **–254,166** |
| **7. GROSS PROFIT** | | **140,541** | **138,711** |
| | | | |
| 8. Personnel expenses | ( 42) | | |
| a) Wages and salaries | | –47,283 | –48,321 |
| b) Social security and other pension costs and for support thereof for pensions TEUR 112 (2011: TEUR 47) | | –8,551 | –8,617 |
| | | **–55,834** | **–56,938** |
| 9. Depreciation/amortisation of intangible and tangible fixed assets | (43) | –11,147 | –11,158 |
| 10. Other operating expenses | (44) | –58,698 | –60,346 |
| **11. OPERATING RESULT** | | **14,862** | **10,269** |
| | | | |
| 12. Income from participations, thereof from participations with associated companies TEUR 68 (2011: TEUR 68) | | 149 | 140 |
| 13. Other interest and similar income | (45) | 222 | 255 |
| 14. Depreciation of shares in affiliated companies | | –70 | –147 |
| 15. Interest and similar expenses | (45) | –2,878 | –2,189 |
| **16. Financial result** | | **–2,577** | **–1,941** |
| **17. RESULT FROM BUSINESS ACTIVITIES** | | **12,285** | **8,328** |
| | | | |
| 18. Current taxes on income and earnings | (46) | –3,559 | –3,448 |
| 19. Deferred taxes | (46) | –40 | 1,203 |
| | | | |
| **20. CONSOLIDATED PROFIT FOR THE YEAR** | | **8,686** | **6,083** |
| | | | |
| 21. Profit and loss from currency conversion of foreign subsidiaries' results | | –1,073 | 1,153 |
| **22. Total result** | | **7,613** | **7,236** |
| | | | |
| Consolidated income attributable | | | |
| to owners of parent company | | 7,613 | 7,236 |
| to other shareholders | | 0 | 0 |

ASSETS

| | Notes item | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **A. FIXED ASSETS** | | | |
| 1. Intangible assets | (24) | 1,270 | 969 |
| 2. Tangible assets | (25) | 73,052 | 71,034 |
| 3. Financial asset | (26) | 1,762 | 1,677 |
| | | **76,084** | **73,680** |
| **B. DEFERRED TAXES** | (47) | **676** | **1,457** |
| | | **76,760** | **75,137** |
| **CURRENT ASSETS** | | | |
| 1. Inventories | (27) | 64,573 | 66,739 |
| 2. Trade receivables | (28) | 65,682 | 66,277 |
| 3. Receivables from associated companies | | 4 | 6 |
| 4. Receivables from current taxes on earnings and income | | 1,105 | 818 |
| 5. Other current assets | (29) | | |
| Financial assets | | 2,836 | 3,217 |
| Other assets | | 233 | 234 |
| 6. Financial capital | | 10,383 | 9,935 |
| | | **144,816** | **147,226** |
| **BALANCE SHEET TOTAL** | | **221,576** | **222,363** |

LIABILITIES

| | Notes item | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|---|
| **A. EQUITY CAPITAL** | (30) | | |
| 1. Subscribed capital | (31) | 16,920 | 17,142 |
| 2. Capital reserves | (32) | 10,822 | 11,709 |
| 3. Revenue reserves | (33) | 75,780 | 77,919 |
| 4. Adjustment resulting from currency conversion | (34) | –1,190 | –37 |
| 5. Group equity capital generated (without revenue reserves) | | 2,631 | 1,618 |
| | | **104,963** | **108,351** |
| **B. NON-CURRENT PROVISIONS AND LIABILITIES** | | | |
| 1. Pension provisions | (36) | 1,132 | 1,140 |
| 2. Other provisions | (37) | 1,490 | 1,884 |
| 3. Bank loans and overdrafts | (38) | 34,061 | 30,271 |
| 4. Passive deferred taxes | (47) | 4,829 | 4,368 |
| | | **41,512** | **37,663** |
| **C. CURRENT PROVISIONS AND LIABILITIES** | | | |
| 1. Other current provision | (37) | 157 | 563 |
| 2. Bank loans and overdrafts | (38) | 21,269 | 19,685 |
| 3. Trade payables | (38) | 41,003 | 40,818 |
| 4. Liabilities to associated companies | (38) | 32 | 32 |
| 5. Amounts owed to companies in which a shareholding is held | (38) | 87 | 31 |
| 6. Liabilities from current taxes on earnings and income | | 999 | 2,070 |
| 7. Other liabilities | (39) | | |
| Financial liabilities | | 5,005 | 6,443 |
| Other liabilities | | 6,549 | 6,707 |
| | | **75,101** | **76,349** |
| **BALANCE SHEET TOTAL** | | **221,576** | **222,363** |

| CONSOLIDATED FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2011 | PURCHASE AND MANUFACTURING COSTS | | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As per 1.1.2011 TEUR | Effects of exchange rate TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As per 31.12.2011 TEUR | As per 1.1.2011 TEUR | Effects of exchange rate TEUR | Additions TEUR | Disposals TEUR | As per 31.12.2011 TEUR | As per 31.12.2011 TEUR | As per 31.12.2010 TEUR |
| 1. INTANGIBLE ASSETS | | | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | 12,836 | –12 | 685 | 47 | 420 | 13,136 | 11,706 | –10 | 590 | 420 | 11,866 | 1,270 | 1,130 |
| 2. TANGIBLE ASSETS | | | | | | | | | | | | | |
| a. Land, land rights and buildings including buildings on land owned by third-parties | 75,875 | –888 | 936 | 310 | 114 | 76,119 | 41,156 | –144 | 2,678 | 103 | 43,587 | 32,532 | 34,719 |
| b. Plant and machinery | 132,039 | –1,346 | 2,848 | 715 | 3,409 | 130,847 | 100,259 | –604 | 5,031 | 3,351 | 101,335 | 29,512 | 31,780 |
| c. Other plant, operating and office equipment | 46,249 | –69 | 2,303 | 54 | 6,316 | 42,221 | 36,102 | –43 | 2,848 | 6,273 | 32,634 | 9,587 | 10,147 |
| d. Prepayments and assets under construction | 1,276 | –73 | 1,344 | –1,126 | 0 | 1,421 | 0 | 0 | 0 | 0 | 0 | 1,421 | 1,276 |
| | 255,439 | –2,376 | 7,431 | –47 | 9,839 | 250,608 | 177,517 | –791 | 10,557 | 9,727 | 177,556 | 73,052 | 77,922 |
| 3. FINANCIAL ASSETS | 2,025 | 0 | 452 | 0 | 7 | 2,470 | 638 | 0 | 70 | 0 | 708 | 1,762 | 1,387 |
| | 270,300 | –2,388 | 8,568 | 0 | 10,266 | 266,214 | 189,861 | –801 | 11,217 | 10,147 | 190,130 | 76,084 | 80,439 |

| CONSOLIDATED FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2012 | PURCHASE AND MANUFACTURING COSTS | | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As per 1.1.2012 TEUR | Effects of exchange rate TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As per 31.12.2012 TEUR | As per 1.1.2012 TEUR | Effects of exchange rate TEUR | Appreciation in value TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As per 31.12.2012 TEUR | As per 31.12.2012 TEUR | As per 31.12.2011 TEUR |
| 1. INTANGIBLE ASSETS | | | | | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | 13,136 | 11 | 267 | 0 | 0 | 13,414 | 11,866 | 9 | 0 | 570 | 0 | 0 | 12,445 | 969 | 1,270 |
| 2. TANGIBLE ASSETS | | | | | | | | | | | | | | | |
| a. Land, land rights and buildings including buildings on land owned by third-parties | 76,119 | 659 | 1,029 | 98 | 0 | 77,905 | 43,587 | 133 | 0 | 2,734 | 0 | 0 | 46,454 | 31,451 | 32,532 |
| b. Plant and machinery | 130,847 | 1,094 | 3,222 | 153 | 467 | 134,849 | 101,335 | 522 | 0 | 5,218 | 3 | 466 | 106,612 | 28,237 | 29,512 |
| c. Other plant, operating and office equipment | 42,221 | 64 | 1,668 | 4 | 814 | 43,143 | 32,634 | 38 | 0 | 2,635 | –3 | 804 | 34,500 | 8,643 | 9,587 |
| d. Prepayments and assets under construction | 1,421 | 7 | 1,530 | –255 | 0 | 2,703 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,703 | 1,421 |
| | 250,608 | 1,824 | 7,449 | 0 | 1,281 | 258,600 | 177,556 | 693 | 0 | 10,587 | 0 | 1,270 | 187,566 | 71,034 | 73,052 |
| 3. FINANCIAL ASSETS | 2,470 | 0 | 69 | 0 | 55 | 2,484 | 708 | 0 | 48 | 147 | 0 | 0 | 807 | 1,677 | 1,762 |
| | 266,214 | 1,835 | 7,785 | 0 | 1,336 | 274,498 | 190,130 | 702 | 48 | 11,304 | 0 | 1,270 | 200,818 | 73,680 | 76,084 |

| | Subscribed capital TEUR | Capital reserve TEUR | Revenue reserves TEUR | Other accumulated equity capital | | Equity capital TEUR |
|---|---|---|---|---|---|---|
| | | | | Balancing items from currency conversion TEUR | Group equity capital earned (excluding revenue reserves) TEUR | |
| **As per January 1, 2011** | **16,721** | **9,813** | **67,975** | **71** | **6,649** | **101,229** |
| Dividends paid | | | | | –4,899 | –4,899 |
| Share issue | 199 | 648 | | | | 847 |
| Additional expenditure due to issue of employee shares | | 264 | | | | 264 |
| Appendix to employee participation programme 2010 | | 97 | | | | 97 |
| Transfer to revenue reserves | | | 7,805 | | –7,805 | 0 |
| Currency change | | | | –1,261 | | –1,261 |
| Consolidated profit for the year | | | | | 8,686 | 8,686 |
| **As per December 31, 2011** | **16,920** | **10,822** | **75,780** | **–1,190** | **2,631** | **104,963** |
| Dividends paid | | | | | –4,957 | –4,957 |
| Share issue | 222 | 647 | | | | 869 |
| Additional expenditure due to issue of employee shares | | 240 | | | | 240 |
| Transfer to revenue reserves | | | 2,139 | | –2,139 | 0 |
| Currency change | | | | 1,153 | | 1,153 |
| Consolidated profit for the year | | | | | 6,083 | 6,083 |
| **As per December 31, 2012** | **17,142** | **11,709** | **77,919** | **–37** | **1,618** | **108,351** |





| | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|
| Consolidated profit for the year before taxes on income | 12,285 | 8,328 |
| Depreciation of fixed assets | +11,147 | +11,158 |
| Income from interest | –222 | –255 |
| Interest expenses | +2,878 | +2,189 |
| Increase in non-current provisions | +21 | +402 |
| Result of the disposal of non-current fixed assets | –11 | –5 |
| Non-cash income and expense | +1,626 | +1,165 |
| Interest paid | –2,657 | –2,156 |
| Interest received | +222 | +79 |
| Taxes on income paid | –4,713 | –2,583 |
| Taxes on income received | +542 | +146 |
| **CASH FLOW BEFORE CHANGE IN WORKING CAPITAL** | **+21,118** | **+18,468** |
| Increase in current provisions | +105 | +407 |
| Increase in inventories, trade receivables and other assets that cannot be classified as investing or financial activities | –5,587 | –2,968 |
| Increase in trade payables and other liabilities that cannot be classified as investing or financing activities | +760 | +535 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **+16,396** | **+16,442** |
| Proceeds from disposals of fixed assets | +89 | +61 |
| Proceeds from grants | +39 | +23 |
| Payments for investments in fixed assets | –7,431 | –7,445 |
| Payments for investments in intangible assets | –685 | –294 |
| Payments for investments in financial assets | –378 | – |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **–8,366** | **–7,655** |
| Proceeds from increases in equity capital | +847 | +869 |
| Dividends to shareholders | –4,899 | –4,957 |
| Proceeds from new bank loans | +2,000 | +6,184 |
| Repayment of bank loans | –10,121 | –11,524 |
| Increase of current liabilities to banks | +4 | +12 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | **–12,169** | **–9,416** |
| Effect of changes in exchange rates on cash and cash equivalents | –465 | +181 |
| Net change in cash and cash equivalents | –4,139 | –629 |
| Cash and cash equivalents at the beginning of the period | +14,987 | +10,383 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **+10,383** | **9,935** |

FRoSTA Aktiengesellschaft, Bremerhaven

## NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2012

FRoSTA Aktiengesellschaft (hereafter referred to as FRoSTA AG), is a public limited company according to German law and is listed in the Entry Standard of the Frankfurt Stock Exchange. FRoSTA AG and its subsidiaries develop, produce and market frozen food products in Germany and Europe. The products are sold under their FRoSTA, Elbtal and TIKO own brand labels and as private labels. The Group's headquarters are in 27572 Bremerhaven, Am Lunedeich 116. FRoSTA AG's Executive Board approved the consolidated financial statements on March 18, 2013 for submission to the Supervisory Board. The Supervisory Board has to review the consolidated financial statements and to state whether it has their approval.

1 **1. Accounting principles**

FRoSTA AG's consolidated financial statements as at December 31, 2012 have been prepared in compliance with the International Accounting Standards Board's (IASB) financial accounting standards – the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRSs) – which are binding within the European Union.

In doing so all IAS or IFRSs to be applied as at December 31, 2012 and the appropriate interpretations provided by the Standing Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC) were complied with. The requirements of the above mentioned regulations were fulfilled, so that FRoSTA AG's consolidated financial statements convey an appropriate picture of the assets, finances and earnings as well as the cash flows within the financial year.

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

The income statement is structured according to the nature of expense format.

Comparisons are made based on the reference date of December 31, 2011.

The consolidated financial statements are prepared in Euros. If not otherwise stated, all amounts are stated in thousands of Euros (TEUR).

**2. Consolidation**

2 **a) Consolidation principles**

All the most important German and foreign subsidiaries where FRoSTA AG can directly or indirectly influence financial and business policies in these companies are included in FRoSTA AG's consolidated financial statements. These companies' statements are drawn up according to standardised accounting principles.

The subsidiaries are recorded according to the full consolidation method, where the book value of the participating interest is compared with the proportion of the subsidiary's equity capital to be consolidated at the time when the shares were purchased (purchase method) according to IFRS 3. In doing so equity capital must be established according to the revaluation method. As a rule IFRS 3 must be shown retrospectively for all business combinations before the first adoption (December 31, 2005).

As regards business combinations before the transition date (January 1, 2004) FRoSTA AG will take advantage of the following facilities under IFRS 1:

- IFRS 3 will not be used retrospectively for business combinations that took place before the transition date (January 1, 2004.)
- This means that the consolidation method originally chosen will be retained.

Expenses and income as well as accounts receivable and payable between consolidated companies are eliminated. Interim profits and losses from inter-company transactions were eliminated with effect on profit.

3 **b) Consolidated Group**

The Group Statement includes FRoSTA AG and the following fully consolidated subsidiaries:

| Name of company | Headquarter of company | Capital share 2011 in % | Capital share 2012 in % |
|---|---|---|---|
| 1. COPACK Tiefkühlkost-Produktions GmbH | Bremerhaven | 100.00 | 100.00 |
| 2. ELBTAL Tiefkühlkost Vertriebs GmbH | Lommatzsch | 100.00 | 100.00 |
| 3. Feldgemüse GmbH Lommatzsch | Lommatzsch | 100.00 | 100.00 |
| 4. FRoSTA France S.a.r.l. | Boulogne-Billancourt/France | 100.00 | 100.00 |
| 5. FRoSTA Tiefkühlkost GmbH | Bremerhaven | 100.00 | 100.00 |
| 6. FRoSTA Foodservice GmbH | Bremerhaven | 100.00 | 100.00 |
| 7. FRoSTA Italia s.r.l. | Rome/Italy | 100.00 | 100.00 |
| 8. FRoSTA Tiefkühlkost GmbH | Baden/Austria | 100.00 | 100.00 |
| 9. FRoSTA ČR s.r.o. | Prague/Czech Republic | 100.00 | 100.00 |
| 10. FRoSTA Sp. z o.o. | Bydgoszcz/Poland | 100.00 | 100.00 |
| 11. BioFreeze GmbH | Bremerhaven | 100.00 | 100.00 |
| 12. TIKO Vertriebsgesellschaft mbH | Bremerhaven | 100.00 | 100.00 |



The Group Statement includes the following affiliated company:

| Name and headquarter of company | Capital share 2011 in % | Capital share 2012 in % | Book value 2011 TEUR | Book value 2012 TEUR |
|---|---|---|---|---|
| Bio-Frost Westhof GmbH, Wöhrden | 45.00 | 45.00 | 1,334 | 1,402 |

The financial standings of the Bio-Frost Westhof GmbH can be summarised as follows:

| | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|
| Total financial assets | 4,342 | 4,285 |
| Total debts | 3,037 | 2,829 |
| Net assets | 1,305 | 1,456 |
| Group share of net assets | 587 | 655 |
| Result for the year | 152 | 151 |
| Group share | 68 | 68 |

The Group Statement for the financial year does not include the following companies which are in total of minor importance for the Group financial standings:

| Name of company | Headquarter of company | Capital share 2011 in % | Capital share 2012 in % |
|---|---|---|---|
| FRoSTA Romania S.R.L. | Bucharest/Romania | 100.00 | 100.00 |
| FRoSTA Benelux B.V. i. L. | Berkel-Enschot/Netherlands | 100.00 | 100.00 |
| NORDSTERN America Inc. | Seattle/USA | 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 |
| FTI Food Trading International GmbH i. L. | Otterndorf | 25.00 | 25.00 |

The previous year, FTI Food Trading International GmbH, Otterndorf, was included in the Group Report as an affiliated company. In 2012, the decision was made to wind up the company.

4 **c) Conversion of foreign currency transactions**

The assets and liabilities of subsidiaries whose functional currency is not the Euro are converted at the applicable exchange rate on the balance sheet date. Income statement items are converted to average monthly exchange rates, because due to minor exchange rate fluctuations in the given period, conversion to average exchange rates is a more accurate reflection of the exchange rates on the day the transactions occurred.

The exchange rate differences that occur from conversion are recorded as balancing items from currency conversion.

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

| Closing rate | 2011 | 2012 |
|---|---|---|
| Polish Zloty | 4.4632 | 4.0928 |
| Czech Crown | 25.825 | 25.121 |

**3. Illustration of accounting and valuation methods**

5 **a) Realisation of revenue and expenses**

Revenues from the sale of products and goods are recorded once the delivery owed has been carried out and risk and ownership have been passed on. Customer discounts and rebates as well as returned goods are accounted on an accrual basis according to the sales they are based on.

Operating expenses are recognised in profit and loss once the service in question is taken up or at the time it is triggered.

Interest is recorded as expense or income at the time it occurs.

Dividends are recognised at the time they are paid out.

6 **b) Intangible assets**

Purchased intangible assets are valued at cost.

Intangible assets that have a determinable useful life are subjected to straight-line depreciation when they start being used over their expected useful lives as follows:

| | Useful life in years |
|---|---|
| Software | 4 |
| Licences | 4 |

7 **c) Tangible assets**

Tangible assets are capitalised at cost and subjected to straight-line depreciation according to their probable useful economic life. Costs of self-produced assets include all direct costs and all overheads that are incurred as a result of the manufacturing process.

Investment grants and investment subsidies are included if it is sufficiently clear that these payments are actually effected and the relevant requirements are fullfilled. They result in a reduction of procurement and production costs. Expenditure-related grants and subsidies are recorded as revenue in the financial year in which the expenditure concerned took place. Financing costs are capitalised as part of procurement or production costs. Costs incurred for repairs of tangible assets are always treated as expenditure. Capitalisation only occurs if the costs mean a development or important improvement in the asset. The assets to be capitalised are subjected to separate analyses for the purposes of measuring depreciation expense if significant cost segments have different economic useful lives.

As regards "finance lease" assets, where basically all risks and use of an asset are transferred to the Group, these are valued minus accumulated depreciation and an appropriate liability at the market price of the asset or the lower cash value of the renting or leasing payments.

The capitalised assets are depreciated straight-line according to their useful economic life.

Profits or losses from the disposal of fixed capital assets are shown in other operating income or expenses.

Scheduled depreciation is carried out in the same way throughout the Group over the following useful economic lives:

| | Useful life in years |
|---|---|
| Buildings | 25 – 40 |
| Other constructions | 12 – 15 |
| Plant and machinery | 7 – 15 |
| IT equipment | 3 – 7 |
| Other plant, factory and office equipment | 5 – 13 |

8 **d) Unscheduled depreciation of intangible assets, tangible assets and financial assets**

FRoSTA AG checks the values of the fixed assets to establish whether unscheduled depreciation is necessary, as soon as events occur or circumstances change implying that permanent impairments have occurred ("impairment test".) Unscheduled depreciation is carried out when the expected proceeds from sale, or the capital value of the cash flows to be expected in the future from the assets, are lower than the individual book value of the asset.

If it is not possible to determine the amount obtainable for individual assets, the cash flow for the next higher classification of assets for which this type of cash flow can be established, will be determined. The cash flow forecast of these cash-generating units is based on the detailed financial budget for the next years and the financial planning strategy over and above this period. 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 capital structure and amounts to 8.35 % before taxes. Should there be no reason for unscheduled depreciation, a revaluation is carried out to a maximum of the cumulative procurement or manufacturing cost.

9 **e) Participating interests**

Disposable financial assets are accounted on the balance sheet date at fair value, or if this cannot be established, at cumulative cost.

10 **f) Inventories**

Inventories are valued at cost. Costs of raw materials, consumables, goods purchased for resale as well as trade goods are established according to the weighted average cost method and are produced from the purchasing prices plus incidental cost. The cost includes, apart from the directly attributable costs, overheads directly attributable to the production process including appropriate depreciation of manufacturing assets assuming normal utilisation. Interest from borrowing capital is not included in the valuation of the inventories, but is recorded as an expense in the period it is incurred.

Devaluation for inventory risks is carried out to an appropriate and sufficient extent. If necessary, the lower net realisable value is recorded. The net realisable value is the estimated selling price achievable in the course of ordinary business minus the estimated manufacturing and selling costs.

Should the reasons no longer apply that have led to an impairment of the inventories, an appropriate reversal of impairment losses will take place.

11 **g) Accounts receivable and other fixed assets**

Trade receivables and other assets are, for the initial valuation, accounted at fair value plus transaction costs and in the next valuation at cumulative cost. If not covered by insurances, credit risks are taken into account by sufficient value adjustments.

12 **h) Financial resources**

The cash holdings and credit balances at banks are accounted at the nominal value.

13 **i) Pension provisions**

Provisions for employer pension plans are established in line with IAS 19 according to the projected unit credit method, taking into account future adjustments in payment and pensions. The valuation of employer pension obligations is carried out based on expert pension reports. The cash value of the defined benefit obligation is determined by discounting the estimated future payments of the current benefits. The interest rate is based here on first class fixed interest 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 periods and actuarial profits and losses are recorded in personnel expenses. The "corridor" method is therefore not used. The interest included in the pension payments is recognised in the interest expenses.

14 **j) Other provisions**

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

Jubilee benefits and partial retirement obligations are part of the long-term employee benefits. Provisions for jubilee benefits are valued under IAS 19 according to the projected unit credit method. Each year the actual value of the rights obtained on the reporting date must be put in reserves. Provisions for partial retirement benefits must also be made at their actual value. Existing plan assets are to be set off against provisions for partial retirement. The plan assets are to be evaluated at fair value, which is to be appended.

Non-current provisions are recognised at their settlement value discounted to the balance sheet date. Discounting is based on appropriate market interest rates.

Provisions for restructuring procedures will only be taken into account, if on the balance sheet date the measures intended have taken a proper shape and these measures have been communicated.

15 **k) Liabilities**

For the initial evaluation liabilities are carried at the fair value plus transaction costs and in the following valuation at cumulative cost.

Liabilities in foreign currencies are converted at closing rates. Hedged items in foreign currency are also valued at the closing rate.

16 **l) Deferred taxes**

Under IAS 12 (income taxes) deferred tax assets and liabilities are recognised for all temporary differences in assets and liabilities between tax statement and trade balance and for the future use of tax loss carry forwards. To calculate these we use the tax rates applicable in the future on the balance sheet date. Deferred taxes carried as asset are only recognised if it is likely that these can be used against future taxable income.

17 **m) Derivative financial instruments**
**Forward-exchange contracts, forward options and interest-rate swaps**

Forward-exchange contracts and forward options as well as interest-rate swaps can be used as derivative financial instruments. These are only concluded with banks which are entirely financially sound. These transactions are only carried out strictly in line with FRoSTA's own internal procedures and are subject to stringent internal controls.

These transactions are only concluded to safeguard the operative business and the financing procedures associated with it. US Dollar requirements are predominantly hedged. These occur because FRoSTA purchases some of the raw materials it requires in this currency without reporting any US Dollar income.

In forward-exchange contracts, a fixed amount of US Dollars is bought on an agreed date at an agreed conversion 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, forward-exchange contracts do not allow for currency conversion 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 conversion 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 conversion rate. If the exchange rate develops positively for the buyer, he is not obliged to take up his option and can purchase the currency required on the market at a more favourable rate. By means of forward options, FRoSTA can lower the risk of rising dollar prices without foregoing the opportunities offered by lower dollar prices. However, for this flexibility charges are incurred which become payable on completion of the forward option contract.

Interest securing instruments are used to secure short and long term variable financing.

In the case of an interest-rate swap contract, the company pays to 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 at cost when purchased. At later dates they are recognised at their fair value. The banks establish the fair values according to market quotations.

All derivative financial instruments are treated as freestanding derivatives, i.e. all realised and unrealised gains and losses are recognised in this year's profit and loss account.

18 Extent and market values of the derivatives are made up as follows:

| Financial instruments | Type | 31.12.2011 Nominal amount TEUR | 31.12.2011 Fair value TEUR | 31.12.2012 Nominal amount TEUR | 31.12.2012 Fair value TEUR |
|---|---|---|---|---|---|
| Forward-exchange contracts | Purchase TUSD<br>Sale TGBP | 19,345<br>1,799 | 892<br>–45 | 32,856<br>928 | –579<br>8 |
| Currency swaps | Purchase TUSD<br>Sale TGBP | 2,280<br>44 | –3<br>0 | 1,434<br>129 | 7<br>0 |
| Interest-rate swaps | Loan TEUR | 24,350 | –1,353 | 20,641 | –1,315 |

The accounting base the payments are derived from is the notional amount of a derivative hedging transaction. Collateral and risk are not the notional amount itself, but only the price changes referred to it.

The market value is the amount that would have to be paid or would be received on the reporting date at the assumed termination of the hedging transaction. As the hedging transaction only concerns commonly tradable financial instruments the fair value is established on the basis of market quotations. Hedge accounting is not applied.

The positive market value of the financial instruments is recorded under “Other assets” and negative market values under “Other liabilities”. These financial instruments involve no credit risks as the underlying contracts have been made with financially sound banks.

The due dates for the interest-rate swaps as at December 31, 2011 and 2012 are as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Within a year | 3,298 | 7,056 |
| Between one and five years | 19,293 | 13,335 |
| Over five years | 1,759 | 250 |
| Total | 24,350 | 20,641 |

19 **n) Employee share programme**

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

There are three different purchasing prices per share depending on the retention periods of one or four years, after which the securities may be sold.

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

In line with IFRS 2 the “fair value” of the shares is to be established taking into account the retention periods agreed. The purchase price is compared with the market price at the time of purchase and the resulting difference minus a deduction for the retention period is recorded as personnel costs and credited to the capital reserves.

20 **o) Fair values of the financial instruments**

The fair values of the financial instruments are determined based on appropriate market values or valuation methods. Cash and cash equivalents and other current primary financial instruments correspond to the fair values of the accounted book values 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.

21 **p) Foreign currency transactions**

Purchases and sales in foreign currencies are converted at the current rate applicable at the time of the transactions. Assets and liabilities in foreign currencies are converted at the exchange rate on the balance sheet date to the Group’s functional currency. Gains and losses from the conversions are recognised in profit or loss.

22 **q) Use of accounting estimates**

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

Significant accounting 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 can be different from the amounts produced by estimates and assumptions. Changes will be recognised in profit or loss when more accurate figures are available.

23 **4) Application of further IAS and IFRS standards**

In 2012 the EU adopted further changes to the standards. These were not yet mandatory as per December 31, 2012 and comprised IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities), IFRS 13 (Fair Value Measurement), IAS 27 (Individual Financial Statements), IAS 28 (Investments in Associates and Joint Ventures), IAS 19 (Employee Benefits) and IAS 32 and IFRS 7 (Financial Instruments – Presentation and Disclosures). These standards are to be applied for the first time for financial years commencing after January 1, 2013 (IAS 32: January 01, 2014). The Board does not expect any significant repercussions for the FRoSTA AG Group Balance Sheet in the period of its first application. It is likely, however, that disclosures will be more detailed and an amended breakdown may be necessary.

**5) Notes on the consolidated balance sheet**

24 **a) Intangible assets**

The development of the individual items in the intangible assets is shown in the consolidated assets (p. 22). The share of foreign subsidiaries in the net book value as per December 31, 2012 amounted to TEUR 51 (2011: TEUR 40).

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 2012 amounted to TEUR 1,493 (2011: TEUR 1,573).

25 **b) Tangible assets**

As regards the development of the tangible assets please see the consolidated fixed assets. The share of tangible assets located abroad, primarily in Poland, in the net book value as per December 31, 2012 amounted to TEUR 13,450 (2011: TEUR 12,528). Investment grants and subsidies received in the financial year reduce procurement costs by TEUR 7,579 (2011: TEUR 8,405). Based on current earnings forecasts no unscheduled depreciation was taken into consideration for this financial year. In past years further non-scheduled depreciation was included. In the event of the reasons for the non-scheduled depreciation not applying, the maximum revaluation possible is the amount of the cumulative procurement or production costs. This amounted to TEUR 1,762 on December 31, 2012 (2011: TEUR 2,130).

26 **c) Financial assets**

As regards the development of the financial assets please see the consolidated fixed assets. As regards the unconsolidated shares in subsidiaries the valuation on the balance sheet date is accounted for at cumulative cost. In the financial year, a depreciation of TEUR 134 was made on loans to affiliated companies. Other loans accounted for a revaluation amounting to TEUR 48 (in previous year a depreciation of TEUR 70).

27 **d) Inventories**

The inventories are comprised as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Raw materials and consumables | 28,671 | 26,561 |
| Unfinished goods | 14,369 | 18,244 |
| Finished products and goods | 21,392 | 21,846 |
| Down payments | 141 | 88 |
| Inventories | 64,573 | 66,739 |

The lower net realisable value, in so far as this was necessary, taking into account sales and manufacturing costs still being incurred was recognised. The impairments of inventories shown in expenses amount to TEUR 351 (2011: TEUR 752).

28 **e) Trade receivables**

Trade receivables are comprised as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Trade receivables, gross | 66,027 | 66,675 |
| Value adjustments on trade receivables | –345 | –398 |
| Trade receivables | 65,682 | 66,277 |

Value adjustments on trade receivables have developed as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Value adjustments January 1 | 403 | 345 |
| Spread | –4 | 1 |
| Allocations | 22 | 86 |
| Utilisation | –37 | –19 |
| Dissolutions | –39 | –15 |
| Value adjustments December 31 | 345 | 398 |

Expenditure on total write-offs amount to TEUR 26 (2011: TEUR 34). Income from written-off receivables amount to TEUR 15 (2011: TEUR 39).

Risks included in the trade receivables:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Neither overdue nor adjusted receivables | 62,938 | 62,860 |
| Overdue receivables not individually adjusted | | |
| Less than thirty days | 2,467 | 3,071 |
| Thirty to sixty days | 162 | 213 |
| More than sixty days | 115 | 133 |
| Total receivables overdue | 2,744 | 3,417 |
| Net accounting value | 65,682 | 66,277 |

Receivables sold in ABS transactions amounted to TEUR 12,536. According to the structure of the contract, ownership of the receivables is retained by FRoSTA. Liabilities resulting from the advance financing of the receivables collection are recorded under liabilities from bank loans.

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

29 **f) Other assets**

FRoSTA AG's other assets are made up as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Creditors with debit balances | 277 | 207 |
| Employees | 64 | 54 |
| VAT and consumer tax | 1,933 | 1,908 |
| Other financial assets | 562 | 1,048 |
| **Financial assets** | **2,836** | **3,217** |
| Delimitations | 233 | 234 |
| **Other assets** | **233** | **234** |
| **Sundry assets** | **3,069** | **3,451** |

No risks of default have been identified for the sundry assets.

**Active difference from asset accounting**

Included in the remaining assets is an active difference based on asset accounting of TEUR 143 (2011: TEUR 5).

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Fair value of invested assets | 107 | 333 |
| Procurement costs of invested assets | 107 | 326 |

For further explanations, please refer to item 37.

30 **g) Equity capital**

The change of consolidated equity capital is shown in the statement of changes in equity capital.

Minimum capital requirements have been met.

A higher than average equity ratio is being aimed at. Achieving this target will be enhanced through self-financing and the issue of employee shares.

31 **Subscribed capital**

Subscribed capital amounts to TEUR 17,142. Taking into consideration 6,695,900 shares, the calculatory value is EUR 2.56 per share. On September 18, 2012 the Board decided to raise the company subscribed capital by TEUR 222 to a total of TEUR 17,142 by issuing 74,453 transferable shares from the employee participation program and 12,259 transferable shares as part of the bonus scheme. The bonus scheme shares were issued at the share price valid on the day of transfer. The purchase price was TEUR 212 (see item 35).

Apart from this there are authorised capital funds, as yet unused, for a fixed period until June 30, 2016 amounting to TEUR 79 for the issuing of shares to employees of FRoSTA AG and its affiliated companies, as well as authorised capital funds of TEUR 5,000 for a fixed period until June 30, 2012 for a capital increase from cash contributions.

32 **Capital reserves**

The capital reserves include the premiums from issuing the shares and the personnel expenses from the employee share program.

33 **Revenue reserves and consolidated equity capital generated (without retained earnings)**

The revenue reserves include the results achieved in the past in the companies included in the consolidated financial statement, if they have not been paid out.

The consolidated equity capital includes the results achieved in the current period in the companies included in the consolidated financial statement, unless they have been allocated to the reserves.

According to the German Stock Corporation Law, the dividend to be paid out to the shareholders is measured according to the net profit stated in FRoSTA AG's annual financial statements. As per December 31, 2012, these came to TEUR 5,022 (2011: TEUR 7,096).

The Shareholders' Meeting on June 21, 2012 decided to pay out a dividend of EUR 0.75 per share (TEUR 4,957) and to transfer TEUR 2,139 into revenue reserves based on FRoSTA AG's net profit as at December 31, 2011.

FRoSTA AG's Executive Board proposes a dividend of EUR 0.75 per share for 2012 subject to the approval of the Shareholders' Meeting.

34 **Balancing items from currency conversion**

The balancing items record the differences resulting from currency conversion at subsidiaries who balance in another currency than the parent company. The valuation difference is mainly the result of the participating interest in FRoSTA Sp. z o.o., Bydgoszcz/Poland, whose annual financial statements are prepared in Polish Zloty.

35 **Additional expenditure due to issue of employee shares**

FRoSTA AG offered its employees and pensioners the opportunity of purchasing FRoSTA shares at a preferential price. There are three separate proposals with a different retention period and a limited purchasing opportunity for each employee and pensioner.

The following share purchases were effected:

| TEUR | 2011 | 2012 |
|---|---|---|
| **Proposal 1** – number of shares | 33,800 | 35,576 |
| Issue price (EUR) | 9.00 | 8.00 |
| Market rate (EUR) | 18.00 | 16.00 |
| Estimated market price (EUR) | 12.00 | 10.67 |
| Balance (EUR) | 3.00 | 2.67 |
| **Value (TEUR)** | **102** | **96** |
| | | |
| **Proposal 2** – number of shares | 19,245 | 25,465 |
| Issue price (EUR) | 13.50 | 12.00 |
| Estimated market price (EUR) | 16.50 | 14.67 |
| Balance (EUR) | 3.00 | 2.67 |
| **Value (TEUR)** | **58** | **68** |
| | | |
| **Proposal 3** – number of shares | 14,924 | 13,412 |
| Issue price (EUR) | 5.00 | 5.00 |
| Estimated market price (EUR) | 12.00 | 10.67 |
| Balance (EUR) | 7.00 | 5.67 |
| **Value (TEUR)** | **104** | **76** |
| **Total (TEUR)** | **264** | **240** |

The difference between the estimated market price of the FRoSTA share at the date of issue and the reduced price to be paid by employees is counted as personnel costs. The estimated market price was calculated on the basis of the market rate at the selling date including a reduction due to the respective retention period.



**Share-based remuneration**

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

| TEUR | 2011 | 2012 |
|---|---|---|
| Shares issued for the previous financial year | 9,762 | 12,259 |

36 **h) Pension obligations**

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

In 2011 and 2012 the following expenses were incurred:

| TEUR | 2011 | 2012 |
|---|---|---|
| Actuarial losses | 67 | 69 |
| **Personnel costs** | **67** | **69** |
| Interest paid | 31 | 26 |
| **Pensions costs** | **98** | **95** |

The provision recorded in the balance sheet developed as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| **Provisions as per January 1** | **1,122** | **1,132** |
| Pensions costs | 98 | 95 |
| Payments to pensioners | –88 | –87 |
| **Provisions as at December 31** | **1,132** | **1,140** |

37 **i) Other provisions**

The other provisions are made up as follows:

| TEUR | As at 01.01.2012 | Utilisation | Dissolutions | Allocations | As at 31.12.2012 |
|---|---|---|---|---|---|
| Jubilee payments | 1,392 | 117 | 0 | 521 | 1,796 |
| **Sundry non-current provisions** | **1,392** | **117** | **0** | **521** | **1,796** |
| Severance payments | 150 | 86 | 4 | 503 | 563 |
| Anticipated losses | 7 | 7 | 0 | 0 | 0 |
| **Sundry current provisions** | **157** | **93** | **4** | **503** | **563** |
| **Sundry provisions** | **1,549** | **210** | **4** | **1,024** | **2,359** |

| TEUR | As at 01.01.2012 | Utilisation | Dissolutions | Allocations | As at 31.12.2012 |
|---|---|---|---|---|---|
| Partial Retirement Scheme | 236 | 97 | 12 | 151 | 278 |
| Plan Assets | 143 | 113 | 0 | 303 | 333 |

The Group pension schemes are all performance-related (defined benefit plans).

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

In the financial years 2011 and 2012 the following parameters were used:

| | 2011 | 2012 |
|---|---|---|
| Interest rate | 5.00 % | 3.80 % |
| Salary trend | 2.50 % | 2.00 % |
| Pension trend | 2.00 % | 2.00 % |

The actuarial assumptions regarding life expectancy are based on "Richttafeln 2005G" by Dr Klaus Heubeck.

Since the plan assets are assigned as per commitments from the partial retirement scheme, based on the principle of single-asset valuation, it transpired that a surplus of assets amounting to TEUR 143 was recorded as well as accruals of TEUR 88 resulting from the partial retirement programme.

38 **j) Liabilities**

Bank loans and overdrafts are secured by mortgages totalling TEUR 21,934 (2011: TEUR 16,190) and secured by similar rights totalling TEUR 4,890 (2011: TEUR 8,579). Trade payables are subject to standard reservations of title.

| | | thereof with a remaining maturity of | | |
|---|---|---|---|---|
| TEUR | Total amount | up to one year | between one and five years | more than five years |
| Liabilities to banks (previous year) | 49,956 (55,330) | 19,685 (21,269) | 24,658 (27,898) | 5,613 (6,163) |
| Trade payables (previous year) | 40,818 (41,003) | 40,818 (41,003) | 0 (0) | 0 (0) |
| Liabilities to affiliated companies (previous year) | 32 (32) | 32 (32) | 0 (0) | 0 (0) |
| Amounts owed to companies in which a shareholding is held (previous year) | 31 (87) | 31 (87) | 0 (0) | 0 (0) |
| Other liabilities (previous year) | 13,150 (11,554) | 13,150 (11,554) | 0 (0) | 0 (0) |

Bank loans and overdrafts are listed as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| **Non-current loans** | **34,061** | **30,271** |
| Current loans | 11,281 | 9,685 |
| Current account liabilities | 9,988 | 10,000 |
| **Current liabilities to banks** | **21,269** | **19,685** |
| Bank loans and overdrafts | 55,330 | 49,956 |

Receivables sold in asset-backed securities transactions (ABS) amounted to TEUR 12,536 as per December 31, 2012. After deducting a discount of TEUR 2,536, they are included in other current liabilities at a value of TEUR 10,000.

Two of the financing agreements made with credit institutes include so-called “financial covenants”. These are prescribed balance sheet minimum values which must be adhered to. Failing this, the promise of the loan can be withdrawn. In 2012, all such requirements were fulfilled.

Bank loans as per December 31, 2012 have the following interest rates and maturity dates:

| 31.12.2011 TEUR | 31.12.2012 TEUR | Interest rate in % | Maturity |
|---|---|---|---|
| 195 | 0 | Wibor 3M + 1.75 | 31.01.2012 |
| 2,241 | 0 | Wibor 3M + 1.95 | 31.01.2012 |
| 5,250 | 3,500 | 4.65 | 31.12.2014 |
| 2,250 | 1,500 | 4.65 | 31.12.2014 |
| 2,250 | 1,500 | 4.65 | 31.12.2014 |
| 2,250 | 1,500 | 4.65 | 31.12.2014 |
| 279 | 210 | Wibor 3M + 2.25 | 27.02.2015 |
| 1,875 | 1,500 | 3.00 | 30.12.2016 |
| 7,572 | 5,826 | Euribor 3M + 1.00 | 31.12.2016 |
| 3,250 | 2,750 | 3.29 | 29.03.2018 |
| 5,859 | 4,922 | 5.31 | 31.03.2018 |
| 2,031 | 1,719 | 3.20 | 31.03.2018 |
| 4,063 | 3,437 | 3.20 | 31.03.2018 |
| 3,978 | 3,464 | 3.40 | 30.09.2019 |
| 2,000 | 1,944 | 3.00 | 30.09.2021 |
| 0 | 3,649 | 2.65 | 30.06.2022 |
| 0 | 2,535 | 3.05 | 30.06.2022 |
| 45,343 | 39,956 | | |

39 The other current liabilities are structured as follows:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Collection commissions | 4,314 | 4,442 |
| Customers with a credit balance | 174 | 113 |
| Other sundry financial liabilities | 517 | 1,888 |
| Financial liabilities | 5,005 | 6,443 |
| Liabilities to employees | 2,603 | 2,267 |
| Social security contributions | 153 | 189 |
| Taxes | 480 | 536 |
| Accruals | 3,313 | 3,715 |
| Other sundry liabilities | 6,549 | 6,707 |
| Other liabilities | 11,554 | 13,150 |

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

Deferrals and accruals include employees’ rights to outstanding holiday and free shifts as well as other liabilities.

**6) Explanatory notes to the consolidated income statement**

40 **a) Turnover**

FRoSTA AG’s turnover is made up as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Germany | 233,768 | 220,394 |
| Abroad | 151,237 | 159,526 |
| Turnover | 385,005 | 379,920 |

Turnover can be categorised according to product groups as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Fish | 177,154 | 174,413 |
| Fruit and vegetables | 102,280 | 100,673 |
| Ready meals and other products | 105,571 | 104,834 |
| Turnover | 385,005 | 379,920 |

41 **b) Other operating income**

Other operating income is structured as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Exchange rate profits | 3,846 | 5,830 |
| Income from charged-off accruals | 663 | 717 |
| Income from credits from previous years and charged-off liabilities | 498 | 238 |
| Income from mineral oil tax refund | 913 | 861 |
| Sundry operating income | 2,691 | 1,456 |
| Other operating income | 8,611 | 9,102 |

42 **c) Personnel costs**

Personnel costs are split up as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Wages and salaries | 47,019 | 48,082 |
| Social security contributions | 8,504 | 8,505 |
| Pension costs | 47 | 112 |
| Costs of share-related remunerations | 264 | 239 |
| Personnel costs | 55,834 | 56,938 |

The personnel costs include severance payments of TEUR 1,004 (2011: TEUR 104). The interest paid included in the pension payments is accounted for in the financial result.

The following figures state the average numbers of personnel employed in 2011/2012:

| | 2011 | 2012 |
|---|---|---|
| Wage-earners | 983 | 997 |
| Salaried staff | 433 | 427 |
| Temporary employees | 75 | 46 |
| Number of employees according to article 314 (1) No. 4 HGB | 1,491 | 1,470 |
| Apprentices | 37 | 34 |
| Number of employees | 1,528 | 1,504 |

43 **d) Depreciation and amortisation**

A breakdown of depreciation and amortisation is as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Amortisation of intangible assets | 590 | 570 |
| Depreciation of tangible assets | 10,557 | 10,588 |
| Depreciation and amortisation | 11,147 | 11,158 |

44 **e) Other operating expenses**

Other operating expenses are grouped as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Storage and transport costs | 17,410 | 18,186 |
| External personnel costs | 9,308 | 8,358 |
| Marketing costs | 7,255 | 7,482 |
| Rent and cold-storage expenses | 6,303 | 6,973 |
| Maintenance | 4,115 | 4,533 |
| Foreign currency exchange losses | 4,768 | 5,331 |
| Fees, contributions and insurance | 2,978 | 2,943 |
| Other expenses | 6,561 | 6,540 |
| Other operating expenses | 58,698 | 60,346 |

45 **f) Interest result**

The interest result is divided up as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Income from interest on bank balances | 95 | 76 |
| Income from interest swaps | 0 | 0 |
| Income from term loans | 0 | 4 |
| Income from interest on tax credits | 60 | 0 |
| Income from reduction of provisions for anticipated losses from interest swaps | 0 | 104 |
| Other income from interest | 67 | 71 |
| Income from interest | 222 | 255 |
| Interest paid for bank loans and overdrafts | –2,444 | –1,894 |
| Interest expenses from interest swaps | –24 | –206 |
| Interest paid on provisions for pensions and partial retirement schemes | –31 | –20 |
| Interest paid for accrued taxes | –3 | 0 |
| Anticipated losses from interest rate swaps | –183 | 0 |
| ABS | –185 | –66 |
| Other interest paid | –8 | –3 |
| Interest and similar expenses | –2,878 | –2,189 |
| Income from interest | –2,656 | –1,934 |

46 **g) Taxes on income and earnings and deferred taxes**

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

Tax expenditure is divided up as follows according to origin:

| TEUR | 2011 | 2012 |
|---|---|---|
| Current taxes Germany | 3,026 | 2,253 |
| Current foreign taxes | 529 | 1,071 |
| Current taxes for financial year | 3,555 | 3,324 |
| Taxes for previous years | 4 | 124 |
| Taxes on income and earnings | 3,559 | 3,448 |
| Deferred taxes Germany | –74 | –968 |
| Deferred foreign taxes | 114 | –235 |
| **Deferred taxes** | **40** | **–1,203** |
| Tax expenditure according to income statement | 3,599 | 2,245 |

The expected expense for taxes on earnings and income, which would have resulted if the parent company FRoSTA AG’s tax rate of 29.62 % on the group result under IFRS before taxes had been used, is reconciled to taxes on earnings and income according to the income statement as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| **Result before taxes on income and earnings** | **12,286** | **8,328** |
| FRoSTA AG’s tax rate | 29.62 % | 29.62 % |
| Expected tax expenditure | 3,639 | 2,467 |
| Different tax rates (especially for deferred taxes) | –330 | –1,005 |
| Taxes on income and earnings for previous years | 4 | 124 |
| Tax expenditure for non-deductible operating expenses | 298 | 719 |
| Tax savings from tax-free earnings | –12 | –60 |
| Tax expenditure according to income statement | 3,599 | 2,245 |

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. Trade tax reduces the assessment base for the calculation of corporate income tax.

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

47 The active and passive deferred taxes resulting from the temporary differences are divided up as follows:

| TEUR | 31.12.2011 Active deferred taxes | 31.12.2011 Passive deferred taxes | 31.12.2012 Active deferred taxes | 31.12.2012 Passive deferred taxes |
|---|---|---|---|---|
| Intangible assets | 0 | 77 | 4 | 67 |
| Tangible assets | 20 | 4,668 | 83 | 4,076 |
| Inventories | 11 | 59 | 0 | 158 |
| Trade receivables | 11 | 14 | 12 | 14 |
| Other assets | 184 | 0 | 113 | 40 |
| Pension reserves | 57 | 0 | 43 | 0 |
| Sundry provisions | 168 | 10 | 575 | 0 |
| Trade payables | 0 | 1 | 0 | 13 |
| Other liabilities | 225 | 0 | 627 | 0 |
| **Temporary differences** | **676** | **4,829** | **1,457** | **4,368** |

48 **h) Earnings per share**

The undiluted and diluted earnings per share are calculated as follows:

| | | 2011 | 2012 |
|---|---|---|---|
| **Consolidated profit for the year** | **TEUR** | **8,686** | **6,083** |
| Weighted average of issued shares | 1,000 shares | 6,547 | 6,624 |
| **Consolidated profit for the year per share** | **EUR** | **1.33** | **0.92** |

A figure of EUR 0.92 (2011: EUR 1.33) is reported for the undiluted as well as for the diluted result.

49 **7) Explanatory notes on the Group cash flow statement**

**Structure of the financial funds**

The financial funds are made up of cash and credit at banks of TEUR 9,935 (2011: TEUR 10,383).

50 **8) Segment reporting**

Please refer to the Management Report for more information on segment reporting as presented below.

Due to the changes made to IFRS 8.23 in the version of April 2009, we are now required to adapt our segment reporting to correspond with the FRoSTA AG structure (Management Approach). We present FRoSTA AG in two separate distribution sectors. Firstly, the business segment FRoSTA, which includes brand sales in Germany, Austria, Eastern Europe and Italy as well as private labels in Italy, Austria and Eastern Europe, and secondly, the COPACK business segment, which is responsible for the private label, industrial and catering businesses as well as for sales to home delivery services in Germany and private labels in the rest of Western Europe. Management only considers the profit development of the segments. The presentation of the segment report corresponds to the structure of the internal reporting.

The information regarding the items between "Financial Result" and "Consolidated Profit for the Year" are not used by the Company in its Management Approach reporting.

The proportion in the result of revenue from shareholdings in affiliated companies is 4 % (2011: 3 %).

As in the previous year, no single customer in 2012 accounted for 10 % or more of Group turnover.

| million EUR | Germany 2011 | Germany 2012 | +/- | Abroad 2011 | Abroad 2012 | +/- | Total 2011 | Total 2012 | +/- |
|---|---|---|---|---|---|---|---|---|---|
| Turnover | 234.0 | 220.4 | –5.8 % | 151.0 | 159.5 | +5.6 % | 385.0 | 379.9 | –1.3 % |
| **Operating income** | **241.1** | **228.1** | **–5.4 %** | **155.7** | **164.8** | **+5.8 %** | **396.8** | **392.9** | **–1.0 %** |
| **Gross profit**<br>in % of turnover | **84.0**<br>35.9 % | **79.1**<br>35.9 % | **–5.8 %** | **56.5**<br>37.4 % | **59.6**<br>37.4 % | **+5.5 %** | **140.5**<br>36.5 % | **138.7**<br>36.5 % | **–1.3 %** |
| Depreciation | –7.2 | –7.0 | –2.8 % | –3.9 | –4.2 | +7.7 % | –11.1 | –11.2 | +0.9 % |
| **Operating result**<br>in % of turnover | **8.5**<br>3.6 % | **5.4**<br>2.4 % | **–36.5 %** | **6.4**<br>4.2 % | **4.9**<br>3.1 % | **–23.4 %** | **14.9**<br>3.9 % | **10.3**<br>2.7 % | **–30.9 %** |
| Financial result | | | | | | | –2.6 | –2.0 | +23.1 % |
| **Result from ordinary business activities**<br>in % of turnover | | | | | | | **12.3**<br>3.2 % | **8.3**<br>2.2 % | **–32.5 %** |
| Current taxes | | | | | | | –3.6 | –3.4 | –5.6 % |
| Deferred taxes | | | | | | | 0.0 | 1.2 | |
| **Consolidated profit** | | | | | | | **8.7** | **6.1** | **–29.9 %** |



| million EUR | Segment FRoSTA 2011 | Segment FRoSTA 2012 | +/- | Segment COPACK 2011 | Segment COPACK 2012 | +/- | Total 2011 | Total 2012 | +/- |
|---|---|---|---|---|---|---|---|---|---|
| Turnover | 104.2 | 109.7 | +5.3 % | 280.8 | 270.2 | –3.8 % | 385.0 | 379.9 | –1.3 % |
| **Operating income** | **107.4** | **113.4** | **+5.6 %** | **289.4** | **279.3** | **–3.5 %** | **396.8** | **392.9** | **–1.0 %** |
| **Gross profit**<br>in % of turnover | **45.0**<br>43.2 % | **47,5**<br>43.3 % | **+5.6 %** | **95.5**<br>34.0 % | **91.2**<br>33.7 % | **–4.5 %** | **140.5**<br>36.5 % | **138.7**<br>36.5 % | **–1.3 %** |
| Depreciation | –2.9 | –3.0 | –3.4 % | –8.2 | –8.2 | 0.0 % | –11.1 | –11.2 | +0.9 % |
| **Operating result**<br>in % of turnover | **5.4**<br>5.2 % | **4.9**<br>4.5 % | **–9.3 %** | **9.5**<br>3.4 % | **5.4**<br>2.0 % | **–43.2 %** | **14.9**<br>3.9 % | **10.3**<br>2.7 % | **–30.9 %** |
| Financial result | | | | | | | –2.6 | –2.0 | +23.1 % |
| **Result from ordinary business activities**<br>in % of turnover | | | | | | | **12.3**<br>3.2 % | **8.3**<br>2.2 % | **–32.5 %** |
| Current taxes | | | | | | | –3.6 | –3.4 | –5.6 % |
| Deferred taxes | | | | | | | 0.0 | 1.2 | |
| **Consolidated profit** | | | | | | | **8.7** | **6.1** | **–29.9 %** |

**9) Other information**

51 **a) Primary financial instruments**

The fair values of the primary financial instruments are shown in the following overview:

| TEUR | 31.12.2011 Book value | 31.12.2011 Fair value | 31.12.2012 Book value | 31.12.2012 Fair value |
|---|---|---|---|---|
| Bank loans and overdrafts | 55,330 | 56,117 | 49,956 | 51,033 |
| Other financial liabilities | 5,005 | 5,005 | 6,443 | 6,443 |

For the other primary financial instruments the book values conform to the market values.

52 **b) Contingencies**

The FRoSTA Group believes there are no significant contingencies.

53 **c) Other financial liabilities**

The other FRoSTA AG financial liabilities are divided up as follows:

| TEUR | 2011 | 2012 |
|---|---|---|
| Liabilities from current leasing contracts | 3,056 | 2,103 |
| Liabilities from current leases and maintenance agreements | 3,524 | 3,017 |
| Commitments from expansion investments | 2,141 | 2,521 |
| Consignment agreements | 2,595 | 1,740 |
| **Other financial liabilities** | **11,316** | **9,381** |

Future payments from lease, maintenance and hire contracts as at December 31, 2012 have the following remaining maturities:

| TEUR | < 1 year | 1–5 years | > 5 years |
|---|---|---|---|
| Future payments from current leasing contracts | 951 | 1,152 | 0 |
| Future payments from current lease and maintenance contracts | 2,148 | 869 | 0 |
| **Total** | **3,099** | **2,021** | **0** |

Total expenditure from leasing contracts amounted to TEUR 3,779 (2011: TEUR 3,821).

54 **d) Group auditor's remuneration**

The auditor's remuneration, reported as expense during the financial year, breaks down as follows:

| | TEUR |
|---|---|
| Final audit service | 51 |
| Other valuation service | 16 |
| **Total** | **67** |

55 **e) Affiliated individuals**

**Executive Board**

Members of the FRoSTA AG's Executive Board in the financial year 2012 were:

- Felix Ahlers, businessman, Hamburg (Chairman)
- – As at December 31, 2012: 1,482,592 FRoSTA shares = 22.1 %.
- Hinnerk Ehlers, businessman, Hamburg (Vice President Marketing and Sales)
- Dr Stephan Hinrichs, businessman, Bendestorf (Vice President Finance and Administration)
- Jürgen Marggraf, businessman, Bremen (Vice President Operations)

The total number of Executive Board FRoSTA shares as at December 31, 2012 amounts to: 1,527,811 Stück = 22.8 %.

**Supervisory board**

Members of FRoSTA AG's Supervisory Board in the financial year 2012 were:

- Dirk Ahlers, businessman, Hamburg (Chairman of the Supervisory Board)
  As at December 31, 2012: 2,242,271 FRoSTA shares = 33.5 %.
- Oswald Barckhahn, businessman, Warsaw/Poland (Vice-Chairman of the Supervisory Board)
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of FRoSTA AG shares owned by the Supervisory Board at the balance sheet date is 2,244,271 shares = 33.5 %.

In the financial year 2012, the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, whose partners include Dirk Ahlers, invoiced FRoSTA AG for travel expenses, rentals, goods delivered, commission on commodities sold and other services totalling TEUR 279 (2011: TEUR 193). In 2012, FRoSTA AG charged goods amounting to TEUR 40 (2011: TEUR 5). The balance as per December 31, 2012 amounts to TEUR 0 (2011: TEUR 14).

Lenox Frozen Fruits Ltd., a 100 % subsidiary of the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., invoiced FRoSTA AG for goods delivered and commission on commodities sold to a value of TEUR 595 (2011: TEUR 409). In the financial year FRoSTA AG charged TEUR 23 (2011: TEUR 40) for goods (foil). As at December 31, 2012 this results in a balance of TEUR 6 (2011: TEUR 0).

In the financial year 2012, Bio-Frost Westhof GmbH invoiced FRoSTA AG for goods delivered to a value of TEUR 1,151 (2011: TEUR 1,844). The balance at December 31, 2012 amounts to TEUR 31 (2011: TEUR 87).

In the financial year 2012, Columbus Spedition GmbH invoiced FRoSTA AG for freight costs to a value of TEUR 1,772 (2011: TEUR 2,077). The balance at December 31, 2012 amounts to TEUR 122 (2011: TEUR 147).

In the financial year 2011, a loan amounting to TEUR 250 was made to FTI Food Trading International GmbH i. L. In the financial year 2012, a value adjustment amounting to TEUR 134 was made on the fair value of TEUR 116.

Ulf Weisner invoiced for consulting services and travelling expenses to FRoSTA AG worth TEUR 0 (2011: TEUR 1). This amounts to a balance of TEUR 0 (2011: TEUR 0) on December 31, 2012.

In the financial year, marketing costs amounting to TEUR 304 (2011: TEUR 293) were invoiced by non-consolidated subsidiaries.

56 **f) Remuneration according to Art. 314 (1) No. 6 HGB**

The total remuneration of the Executive Board for the financial year 2012 amounted to TEUR 2,122 (2011: TEUR 2,169). Of this the fixed remuneration came to TEUR 1,190 (2011: TEUR 1,176) and variable remuneration TEUR 932 (2011: TEUR 993).

The total remuneration of former members of the Executive Board was TEUR 74 in the financial year (2011: TEUR 73). Pension reserves for former Executive Board members amounted to TEUR 583 on the balance sheet date (2011: TEUR 560).

The remuneration of the Supervisory Board amounted to TEUR 60. Of that, TEUR 46 were variable and TEUR 14 fixed payments. The remuneration of the previous year at TEUR 62 comprised variable payments of TEUR 48 and fixed payments of TEUR 14.

57 **g) Appropriation of profits**

At the Annual General Meeting, we will be proposing a gross dividend payment of EUR 0.75 per share corresponding to a total dividend payment of EUR 5,021,925.00. This payment will be taken from the FRoSTA AG annual balance sheet profit on December 31, 2012. The gross dividends are subject to capital gains tax (25 %) amounting to EUR 1,255,481.25 as well as a 5.5 % solidarity surcharge of EUR 69,051.47. This results in a net dividend payment of EUR 3,697,392.28.

58 **h) Risk management report**

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

Business risks are carried by the Group itself. We try to avoid or keep damages as low as possible by applying appropriate risk management.

Please refer to the condensed FRoSTA AG management report and Group management report for detailed information about the corporate risks.

Bremerhaven, March 18, 2013

The Executive Board

(F. Ahlers) (H. Ehlers)

(Dr. S. Hinrichs) (J. Marggraf)

**Statement by the Legal Representatives in conformance with Art. 297 (2), sentence 4 and Art. 315 (1), sentence 6 of the German Commercial Code**

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements of FRoSTA AG give a true and fair view of the assets, liabilities, financial position and profit situation of the group, and the Group Management Report includes a fair review of the development and performance of the business and of the position of the Group, together with a description of the main opportunities and risks associated with expected development of the Group.

Bremerhaven, March 18, 2013

The Executive Board

(F. Ahlers) (H. Ehlers)

(Dr. S. Hinrichs) (J. Marggraf)





**Auditors' report**

We have audited the consolidated financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising balance sheet, profit and loss account, statement of changes in equity capital, cash flow statement and notes to the consolidated financial statements, as well as its Company and Group management report for the financial year from January 1, 2012 to December 31, 2012. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as applicable in the EU, and the additionally applicable commercial provisions in accordance with Art. 315a (1) German Commercial Code (HGB) are the responsibility of the Company's management. Our responsibility is to provide an assessment of the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Art. 317 HGB and German GAAP (Generally Accepted Accounting Principles) for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Auditors). Those standards require that we plan and perform the audit so that we can reliably identify any inaccuracies and infringements affecting the presentation of assets, finances and earnings in the consolidated financial statements and in the Group management report, in accordance with German GAAP. Knowledge of the business activities and economic and legal environment of the Company and the Group, as well as expectations of possible inaccuracies, are taken into account when establishing audit procedures. The effectiveness of the system of internal accounting control and the evidence supporting the disclosures in the consolidated financial statement and the Group management report are primarily assessed by making spot checks during the audit. The audit includes assessing the annual financial statements of the consolidated affiliates, the definition of the consolidation Group, the accounting and consolidation principles used and the most relevant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for making our assessment.

Our audit did not reveal any grounds for objection.

In our opinion and based on the information obtained during the audit, the consolidated financial statements are in accordance with IFRSs as applicable in the EU as well as the supplementary provisions of Art. 315a (1) HGB (German Commercial Code) and the IFRS as a whole. Taking into account these regulations and the actual situation, we believe that the consolidated financial statements give a true and fair view of the Group's assets, finances and earnings. The Group management report concurs with the consolidated financial statements and provides an accurate picture of the Group's position, correctly depicting the challenges and risks of future developments.

Bremen, March 20, 2013

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft · Steuerberatungsgesellschaft

Dr Meyer · Auditor Reinke · Auditor

# FINANCIAL STATEMENTS FRoSTA AG



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| | Notes item | 2011 TEUR | 2012 TEUR |
|---|---|---|---|
| 1. Turnover | (10) | 368,806 | 361,165 |
| 2. Increase of stocks of finished and unfinished products | | 2,245 | 2,800 |
| 3. Own work capitalised | | 88 | 57 |
| 4. Other operating income | (11) | 5,928 | 6,076 |
| **5. OPERATING INCOME** | | **377,067** | **370,098** |
| | | | |
| 6. Cost of materials | | | |
| a) Raw materials, consumables and goods purchased for resale | | –242,404 | –241,267 |
| b) Purchased services | | –10,847 | –10,239 |
| | | **–253,251** | **–251,506** |
| **7. GROSS PROFIT** | | **123,816** | **118,592** |
| | | | |
| 8. Personnel expenses | | | |
| a) Wages and salaries | | –41,861 | –41,629 |
| b) Social security and other pension costs and for support – thereof for pensions TEUR 32 (2011: TEUR 36) | | –7,576 | –7,304 |
| | | **–49,437** | **–48,933** |
| 9. Depreciation/amortisation of intangible and tangible fixed assets | | –8,082 | –7,375 |
| 10. Other operating expenses | | –53,892 | –53,916 |
| **11. OPERATING RESULT** | | **12,405** | **8,368** |
| | | | |
| 12. Income from participating interests | | 81 | 72 |
| 13. Other interest and similar income – thereof from associated companies TEUR 108 (2011: TEUR 10) | | 169 | 220 |
| 14. Depreciation in financial assets | | –70 | –147 |
| 15. Interest and similar expenses – thereof to associated companies TEUR 16 (2011: TEUR 25) | | –2,248 | –1,946 |
| **16. Financial result** | | **–2,068** | **–1,801** |
| **17. RESULT FROM ORDINARY BUSINESS ACTIVITIES** | | **10,337** | **6,567** |
| | | | |
| 18. Taxes on income and earnings | (13) | –3,026 | –2,354 |
| 19. Other taxes | | –215 | –154 |
| **20. PROFIT FOR THE YEAR** | | **7,096** | **4,059** |
| | | | |
| 21. Withdrawal from other revenue reserves | | 0 | 963 |
| **22. BALANCE SHEET PROFIT** | | **7,096** | **5,022** |

ASSETS

| | Notes item | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|---|
| **A. FIXED ASSETS** | | | |
| **I. Intangible assets** | (3) | | |
| 1. Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | | 1,028 | 791 |
| | | **1,028** | **791** |
| **II. Tangible assets** | (3) | | |
| 1. Land, land rights and buildings including buildings on land owned by third-parties | | 22,407 | 21,187 |
| 2. Plant and machinery | | 16,179 | 15,378 |
| 3. Other plant, operating and office equipment | | 5,796 | 5,161 |
| 4. Prepayments and assets under construction | | 1,343 | 2,469 |
| | | **45,725** | **44,195** |
| **III. Financial assets** | (3) | | |
| 1. Shares in associated companies | | 11,092 | 11,092 |
| 2. Participating interests | | 1,055 | 1,042 |
| 3. Liabilities to companies in which a shareholding is held | | 250 | 116 |
| 4. Long-term securities | | 6 | 6 |
| 5. Other liabilities | | 45 | 38 |
| | | **12,448** | **12,294** |
| | | **59,201** | **57,280** |
| **B. CURRENT ASSETS** | | | |
| **I. Inventories** | | | |
| 1. Raw materials and consumables | | 21,357 | 19,031 |
| 2. Work and services in progress | | 14,077 | 17,685 |
| 3. Finished products and goods purchased for resale | | 18,700 | 18,410 |
| 4. Down payments | | 38 | 0 |
| | | **54,172** | **55,126** |
| **II. Accounts receivable and miscellaneous other fixed assets** | (4) | | |
| 1. Trade receivables | | 61,901 | 60,533 |
| 2. Receivables from associated companies | | 3,274 | 4,411 |
| 3. Amounts owed by associated companies – other assets of these outstanding claims: TEUR 0 (i. Vj. TEUR 3) | | 3,082 | 2,772 |
| | | **68,257** | **67,716** |
| **III. Cash, bank balances and cheques** | | **7,442** | **8,561** |
| | | **129,871** | **131,403** |
| **C. DEFERRED INCOME** | | | |
| Other accruals and deferrals | | **197** | **207** |
| **D. ACTIVE DIFFERENCE FROM THE ASSETS CALCULATION** | (5) | **5** | **145** |
| **BALANCE SHEET TOTAL** | | **189,274** | **189,035** |

LIABILITIES

| | Notes item | 31.12.2011 TEUR | 31.12.2012 TEUR |
|---|---|---|---|
| **A. EQUITY CAPITAL** | (6) | | |
| **I. Subscribed capital** | | **16,920** | **17,142** |
| **II. Capital reserves** | | **10,011** | **10,658** |
| **III. Revenue reserves** | | | |
| 1. Statutory reserve | | 200 | 200 |
| 2. Other revenue reserves | | 55,721 | 56,897 |
| | | **55,921** | **57,097** |
| **IV. Annual profits** | | **7,096** | **5,022** |
| | | **89,948** | **89,919** |
| **B. PROVISIONS** | | | |
| 1. Pension provisions and similar obligations | (7) | 667 | 645 |
| 2. Provisions for taxes | | 994 | 1,603 |
| 3. Other provisions | (8) | 14,636 | 16,253 |
| | | **16.297** | **18,501** |
| **C. CREDITORS** | (9) | | |
| 1. Bank loans and overdrafts | | 45,044 | 43,921 |
| 2. Trade payables | | 26,420 | 23,517 |
| 3. Amounts owed to associated companies | | 5,206 | 6,435 |
| 4. Amounts owed to companies in which a shareholding is held | | 87 | 31 |
| 5. Other creditors – thereof taxes: TEUR 486 (i. Vj. TEUR 429) | | 6,172 | 6,661 |
| | | **82,929** | **80,565** |
| **D. ITEMS OF ACCURAL AND DEFERRAL** | | | |
| Other items | | **100** | **50** |
| **BALANCE SHEET TOTAL** | | **189,274** | **189,035** |

| MOVEMENT ON FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2012 | PURCHASE AND MANUFACTURING COST | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1.1.2012 TEUR | Additions TEUR | Disposals TEUR | Transfers TEUR | As at 31.12.2012 TEUR | As at 1.1.2012 TEUR | Additions TEUR | Appreciation in value EUR | Disposals TEUR | Transfers TEUR | As at 31.12.2012 TEUR | As at 31.12.2012 TEUR | As at 31.12.2011 TEUR |
| **I. INTANGIBLE ASSETS** | | | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | **11,514** | **239** | **0** | **0** | **11,753** | **10,486** | **476** | **0** | **0** | **0** | **10,962** | **791** | **1,028** |
| **II. TANGIBLE ASSETS** | | | | | | | | | | | | | |
| 1. Land, land rights and buildings including buildings on land owned by third-parties | 68,848 | 539 | 0 | 74 | 69,461 | 46,441 | 1,833 | 0 | 0 | 0 | 48,274 | 21,187 | 22,407 |
| 2. Plant and machinery | 117,362 | 2,604 | 464 | 132 | 119,634 | 101,183 | 3,533 | 0 | 464 | 4 | 104,256 | 15,378 | 16,179 |
| 3. Other plant, operating and office equipment | 39,363 | 840 | 295 | –5 | 39,903 | 33,567 | 1,534 | 61 | 294 | –4 | 34,742 | 5,161 | 5,796 |
| 4. Prepayments and assets under construction | 1,343 | 1,327 | 0 | –201 | 2,469 | 0 | 0 | 0 | 0 | 0 | 0 | 2,469 | 1,343 |
| | **226,916** | **5,310** | **759** | **0** | **231,467** | **181,191** | **6,900** | **61** | **758** | **0** | **187,272** | **44,195** | **45,725** |
| **III. FINANCIAL ASSETS** | | | | | | | | | | | | | |
| 1. Shares in associated companies | 11,543 | 0 | 0 | 0 | 11,543 | 451 | 0 | 0 | 0 | 0 | 451 | 11,092 | 11,092 |
| 2. Participating interests | 1,781 | 0 | 0 | 0 | 1,781 | 726 | 13 | 0 | 0 | 0 | 739 | 1,042 | 1,055 |
| 3. Loans to affiliated | | | 0 | 0 | | | | | | | | | |
| companies | 250 | 0 | 0 | 0 | 250 | 0 | 134 | 0 | 0 | 0 | 134 | 116 | 250 |
| 4. Long-term securities | 6 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 6 |
| 5. Other liabilities | 115 | 0 | 55 | 0 | 60 | 70 | 0 | 48 | 0 | 0 | 22 | 38 | 45 |
| | **13,695** | **0** | **55** | **0** | **13,640** | **1,247** | **147** | **0** | **0** | **0** | **1,346** | **12,294** | **12,448** |
| | 252,125 | 5,549 | 814 | 0 | 256,860 | 192,924 | 7,523 | 109 | 758 | 0 | 199,580 | 57,280 | 59,201 |

FRoSTA Aktiengesellschaft, Bremerhaven

## NOTES FOR THE FINANCIAL YEAR 2012 OF FRoSTA AG

### 1 A. BASIC PRINCIPLES FOR THE FINANCIAL STATEMENTS

The financial statements of FRoSTA Aktiengesellschaft (hereafter referred to as FRoSTA AG) are prepared in accordance with the regulations for corporations included in the German Commercial Code (HGB), taking into account the additional provisions of the German Stock Corporation Act (AktG), the values are specified in thousand euros (TEUR).

### 2 B. ACCOUNTING AND CALCULATION PRINCIPLES

**Profit and loss account**
FRoSTA AG uses the total cost method for profit and loss accounting.

**Fixed assets**
Intangible fixed assets are shown at purchase costs less scheduled amortisation. Amortisation is recorded straight-line on the basis of the normal useful lives of the assets concerned. With respect to self-created intangible assets, the right of activation was not used. Costs for research and development are thus posted entirely to expenses.

Tangible assets are valued at purchase and manufacturing costs, less scheduled depreciation in case of assets with a limited useful life. The depreciation is calculated on the basis of the normal useful life of the assets concerned. A transition from the declining-balance method to the straight-line method is made as soon as this leads to higher depreciation rates. This rule applies to additions to fixed assets up to 31.12.2009. As of 01.01.2010, additions to fixed assets have been depreciated according to the straight-line method. Unscheduled depreciation is carried out for foreseeable permanent impairment losses.

Low value assets with purchase costs of up to EUR 150 are recorded as expenditure in the year in which they are acquired. In case of purchase costs between 150.01 and 410.00 EUR, low value assets are fully depreciated and shown as disposals in the summary of fixed assets.

A fixed value is assigned to recognized transport pallets.

Investment grants and subsidies received or requested lower the procurement and manufacturing costs of the subsidised assets.

Financial assets are valued at purchase costs less the write-downs to the fair value.

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

Besides the individual costs, the manufacturing costs include also adequate shares of the manufacturing and material overheads as well as of the depreciation of the fixed assets. General administration costs as well as expenses for social facilities of the company, for voluntary social benefits and for company pension schemes are not activated. Write-downs were recorded for loss-free valuation and inventory risks due to excessive storage times or reduced usability.

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

Expenses prior to the reporting deadline for this report which represent expenditure for a certain time subsequent to that date have been posted under active deferred income.

**Deferred taxes**
Deferred taxes on temporary differences between the commercial and fiscal valuation rates of assets, debts and deferrals and accruals are recorded in accumulated form. In case the active deferred taxes exceed the passive deferred taxes, the option not to represent them is used. The calculation is made on the basis of the tax rates applicable in future at the balance sheet date.

**Offsetting assets, income and expenses**
Assets that are exempt from access by all other creditors and serve exclusively to fulfil liabilities for partial retirement benefit obligations are valued at the fair value.

Income and expenses from these assets are offset against the income from discounting and shown in the financial result. Furthermore, these assets are offset against the obligation they are based on. If there is a surplus of obligations, this is recorded in the reserves. If the value of the assets exceeds the obligations, this is shown as an excess of plan assets over pension liability.

**Pensions and similar obligations**
Pension obligations are valued in accordance with the recognized principles of actuarial mathematics by means of the so-called "projected unit credit method" and the "cash value method". The amount of the reserves is determined by including expected tendencies with respect to future pension developments as well as any probabilities of fluctuation. Since 01.01.2010 the average interest rate used for discounting has been the rate published by the Deutsche Bundesbank for a residual term of 15 years.



**Other reserves**
The other reserves include individual provisions for any recognizable risks and uncertain liabilities and for any threatening losses from pending business transactions.

Anniversary and partial retirement benefit obligations are valued in accordance with the recognized principles of actuarial mathematics by means of the so-called "projected unit credit method" as well as the "cash value method". Any increases of salaries and pensions to be expected for the future are taken into account when the cash value is determined. Since 01.01.2010, the interest rate used for discounting has been the rate published by the Deutsche Bundesbank. Liability insurance policies have been taken out for partial retirement commitments. For offsetting obligations against assets and for offsetting income and expenses, please refer to section "Offsetting assets, income and expenses".

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

### C. COMMENTS ON THE BALANCE SHEET

**3 1. Fixed assets**
An overview of the fixed assets based on the entire purchase and manufacturing costs is attached to these Notes.

In this Financial Year, unscheduled depreciation of TEUR 147 (2011: TEUR 70) was carried out with respect to the financial assets of FRoSTA AG.

The value of recognized transport pallets has been fixed at TEUR 219 (2011: TEUR 158).

The impairment loss of the purchase and manufacturing costs of fixed assets subsidised due to investment grants and subsidies as per 31.12.2012 amounted to TEUR 1,877 (2011: TEUR 2,234). The release of investment grants and subsidies of TEUR 380 (2011: TEUR 407) directly reduces the gross depreciations.

**Participations**
FRoSTA AG holds participating interests in the following companies:

| Name and headquarters of the company | Share of capital % | Share of subscribed capital TEUR | Equity TEUR | Result for the year 2011 TEUR | Result for the year 2012 TEUR |
|---|---|---|---|---|---|
| 1. COPACK Tiefkühlkost-Produktions GmbH, Bremerhaven | 100.00 | 256 | 247 | 1 | 0 |
| 2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch | 100.00 | 26 | 27 | 0 | 0 |
| 3. FRoSTA Tiefkühlkost GmbH, Bremerhaven | 100.00 | 255 | 261 | 2 | 1 |
| 4. FRoSTA Foodservice GmbH, Bremerhaven | 100.00 | 256 | 265 | 2 | 1 |
| 5. TIKO Vertriebsgesellschaft mbH, Bremerhaven | 100.00 | 256 | 269 | 3 | 2 |
| 6. BioFreeze GmbH, Bremerhaven | 100.00 | 256 | 254 | 0 | 0 |
| 7. Feldgemüse GmbH Lommatzsch, Lommatzsch | 100.00 | 26 | 13 | 1 | 1 |
| 8. FRoSTA Sp. z o.o., Bydgoszcz/Poland | 100.00 | 8,552 | 16,215 | 2,254 | 3,202 |
| 9. FRoSTA France S.a.r.l., Boulogne-Billancourt/France | 100.00 | 153 | 325 | 10 | 10 |
| 10. FRoSTA Italia s.r.l., Rome/Italy | 100.00 | 10 | 258 | 22 | 30 |
| 11. FRoSTA Tiefkühlkost GmbH, Baden/Österreich | 100.00 | 36 | 310 | 17 | 12 |
| 12. FRoSTA ČR s.r.o., Prague/Czech Republic | 100.00 | 40 | 204 | 9 | 27 |
| 13. FRoSTA Hungary Kft., Esztergom/Hungary | 100.00 | 22 | 33 | 11 | 6 |
| 14. FRoSTA Romania S.R.L., Bucharest/Romania | 100,00 | 20 | 7 | –3 | –3 |
| 15. COPACK Sp. z o.o., Bydgoszcz/Poland | 100.00 | 12 | 6 | –1 | –1 |
| 16. Bio-Frost Westhof GmbH, Wöhrden | 45.00 | 617 | 1,456 | 152 | 151 |
| 17. Columbus Spedition GmbH, Bremerhaven | 33.33 | 135 | 351 [1] | 216 | [2] |
| 18. FTI Food Trading International GmbH i. L., Otterndorf | 25,00 | 50 | 0 | –108 | [2] |

[1] applies to 2011
[2] no dates available

**Passive Accruals and Deferrals**
The term "Passive Accruals and Deferrals" refers to income received before the final reporting date which nevertheless constitutes profit for a certain period after that date.

**Foreign currency conversion**
Receivables and liabilities from supplies and services in foreign currencies are generally valued with the average exchange rate at the balance sheet date. Unrealised profits and losses are recognised. Derivative financial instruments, in contrast, are recognized according to the imparity principle, i.e. provisions are created for negative values whereas positive values are not recognized.

In addition, there are three other participations which are not included in the overview with reference to Art. 286 (3) No. 1 HGB.

4 **2. Accounts receivable and miscellaneous other fixed assets**

The amounts owed by associated companies result from inter-company supplies and services TEUR 627 (2011: TEUR 390) and clearing transactions TEUR 3,784 (2011: TEUR 2,884). Of these, TEUR 2,900 are financially relevant (2011: TEUR 2,000).

As per December 31, 2012, trade receivables of TEUR 12,536 (2011: TEUR 12,099) were sold in the frame of asset backed security transactions.

Of the other assets, TEUR 672 (2011: TEUR 827) have a residual term of more than one year.

5 **3. Active difference resulting from asset offsetting**

The active difference resulting from asset offsetting amounts to TEUR 145 (2011: TEUR 5). The fair value of assets invested amounts to TEUR 333 (2011: TEUR 107); procurement costs amount to TEUR 326 (2011: TEUR 107).

The assets in question were liability insurances.

6 **4. Equity capital**

On December 31, 2012, the equity capital amounted to EUR 17,141,504.00 and was divided into 6,695,900 no-par value shares. The shares are made out to the bearer.

In accordance with the Shareholders' Resolution of July 21, 2012, a decision was taken to appropriate a sum of EUR 7,096,378.04 from the net profit of EUR 2,139,487.04 to other revenue reserves.

7 **5. Reserves for pensions and similar obligations**

The amounts to be paid for pension reserves apply only to pensioners already receiving a pension and amounted to TEUR 645 in this financial year (2011: TEUR 667). The actuarial valuation of the amounts to be paid is based on a discount rate of 5.05 % and a rate of pension progression of 2.0 %. The calculation of mortality rates is based on the "Richttafeln 2005 G" by Dr Klaus Heubeck.

8 **6. Other reserves**

The other reserves include reserves for personnel costs amounting to TEUR 5,539. This includes anniversary reserves with a settlement value of TEUR 1,454. The discount rate on which this is based is 5.05 % assuming a residual term of 15 years.

Partial retirement provisions are valued at a settlement amount of TEUR 275. Calculations were made using an adequate discount rate. Since the plan assets amounting to TEUR 333 are assigned as per commitments from the partial retirement scheme, based on the principle of single-asset valuation, it transpired that a surplus of assets amounting TEUR 145 was recorded as well as accruals of TEUR 87 resulting from the partial retirement scheme.

Further reserves result from collection provisions of TEUR 4,442 and outstanding invoices amounting to TEUR 3,999.

9 **7. Liabilities**

| TEUR | Total amount | thereof with a remaining maturity of up to one year | 1 – 5 years | more than five years |
|---|---|---|---|---|
| Bank loans and overdrafts to financial institutions (previous year) | 43,921 (45,044) | 18,137 (17,307) | 20,171 (21,942) | 5,613 (5,795) |
| Trade payables (previous year) | 23,517 (26,420) | 23,517 (26,420) | 0 (0) | 0 (0) |
| Liabilities to associated companies (previous year) | 6,435 (5,206) | 6,435 (5,206) | 0 (0) | 0 (0) |
| Liabilities to companies in which a shareholding is held (previous year) | 31 (87) | 31 (87) | 0 (0) | 0 (0) |
| Other liabilities (previous year) | 6,661 (6,172) | 6,661 (6,172) | 0 (0) | 0 (0) |
| | 80,565 (82,929) | 54,781 (55,192) | 20,171 (21,942) | 5,613 (5,795) |

On September 18, 2012, the Executive Board took the decision to increase the Company's equity capital by EUR 221,982.72 to EUR 17,141,504.00 by issuing 86,712 bearer shares to employees. The increase was made due to the authorization granted to the Executive Board in Art. 4 (3) of the Articles of Incorporation. A resolution passed by the Supervisory Board on September 18, 2012 approved this resolution taken by the Executive Board on the increase of the equity capital. Due to premiums from the issuing of shares, the amount of EUR 647,100.80 was transferred to the capital reserves.

In addition to this, there are authorised capital funds as yet unused for a fixed period until June 30, 2016 in the amount of EUR 79,025.92 for issuing shares to the employees of the Company and its associated companies as well as capital funds in the amount of EUR 5,000,000.00 for a fixed period until June 30, 2012 for a capital increase against cash contributions.

The liabilites towards financial institutions are guaranteed by mortage amounting to TEUR 16,108 (2011: TEUR 10,813) and similar securities amounting to TEUR 4,891 (2011: TEUR 6,384).

The usual reservations of title are applicable to the trade payables.

The liabilities towards associated companies amounting to TEUR 3,683 (2011: 2,556) result from inter-company supplies and services TEUR 2,752 (2011: TEUR 2,650) and clearing transactions.

**8. Contingencies**

FRoSTA AG gave collateral securities towards banks for liabilities of FRoSTA Sp. z o.o. At 31.12.2012, these liabilities had a value of TEUR 6,036 (2011: TEUR 10,287). The company does not expect that these securities will be made use of.

**D. COMMENTS CONCERNING THE PROFIT AND LOSS ACCOUNT**

10 **1. Turnover**

The turnovers of FRoSTA AG are as follows:

| | 2011 mill. EUR | 2012 mill. EUR | Deviation % |
|---|---|---|---|
| Product sales | | | |
| - Germany | 271 | 261 | –3.7 |
| - Abraod | 137 | 143 | +4.4 |
| | 408 | 404 | –1.0 |
| Sales deductions | 39 | 43 | +10.3 |
| | 369 | 361 | –2.2 |

According to product groups, the turnover is as follows:

| | 2011 mill. EUR | 2012 mill. EUR | Deviation % |
|---|---|---|---|
| Fish | 160 | 153 | –4.4 |
| Vegetables and fruit | 102 | 100 | –2.0 |
| Ready meals and other products | 107 | 108 | +0.9 |
| | 369 | 361 | –2.2 |

11 **2. Income and expenses for other accounting periods**

The profit and loss account of FRoSTA AG includes income for other accounting periods of TEUR 1,689 (2011: TEUR 1,965) and expenses for other accounting periods in the amount of TEUR 335 (2011: TEUR 249). The income for other accounting periods is mainly due to charge-off of advertising subsidies and bonus payments, the write-back of personnel reserves and other reserves.

12 **3. Earnings and Expenditure**

Earnings from a plan asset amounting to TEUR 7 (2011: TEUR 4) were set off against interest expenditure for partial retirement benefit obligations amounting to TEUR 10 (2011: TEUR 13).

13 **4. Taxes on earnings and income**

This item includes, among other things, tax expenses of TEUR 103 for other accounting periods (2011: TEUR 4).

The deferred taxes on the temporary differences between the commercial and fiscal valuation rates of assets, debts and accruals and deferrals are as follows:

| TEUR | 31.12.2011 Active deferred taxes | 31.12.2011 Passive deferred taxes | 31.12.2012 Active deferred taxes | 31.12.2012 Passive deferred taxes |
|---|---|---|---|---|
| Intangible assets | 0 | 17 | 0 | 29 |
| Tangible assets | 0 | 183 | 0 | 110 |
| Other financial assets | 0 | 10 | 153 | 0 |
| Other assets | 41 | 0 | 0 | 0 |
| Accruals and deferrals | 141 | 0 | 113 | 0 |
| Pension reserves | 30 | 0 | 28 | 0 |
| Other reserves | 224 | 0 | 511 | 0 |
| Trade payables | 0 | 4 | 0 | 16 |
| Total | 436 | 214 | 805 | 155 |
| Balancing | –214 | –214 | –155 | –155 |
| Balance | 222 | 0 | 650 | 0 |

The temporary differences were valued with the combined tax rate of corporation tax and trade tax of 29.62 % (2011: 29.62 %).

The tax relief arithmetically possible as a result of this was not activated in accordance with the right to choose as set forth in Art. 274 HGB in its latest version.

**E. OTHER INFORMATION**

14 **1. Other financial liabilities**

FRoSTA AG has the following other financial liabilities:

| TEUR | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Liabilities under current leasing contracts | 2,708 | 1,936 |
| Liabilities under current tenancy and maintenance contracts | 3,327 | 2,862 |
| Purchase commitment from expansion investments | 2,073 | 2,112 |
| Consignment agreements | 2,595 | 1,740 |
| | 10,703 | 8,650 |

As at December 31, 2012 the following remaining maturities apply to future payment liabilities from hire, maintenance and leasing contracts:

| TEUR | < 1 year | 1–5 years | > 5 years |
|---|---|---|---|
| Future payments from current leasing contracts | 835 | 1,101 | 0 |
| Future payments from current rental and leasing contracts | 2,068 | 794 | 0 |
| Purchase commitment from expansion investments | 2,112 | 0 | 0 |
| Consignment agreements | 1,740 | 0 | 0 |
| | 6,755 | 1,895 | 0 |

15 **2. Hedging transactions/derivatives**

Currency hedging is used to secure incoming payments in pounds sterling and outgoing payments in US dollars. Derivative financial instruments are valued with their purchase costs at the balance sheet date. For the balance sheet date, the banks determine the fair values on the basis of market quotations. Valuation of hedging transactions is made according to the imparity principle, i.e. reserves for anticipated losses are created for negative values whereas positive values are not recognised.

Interest-rate swaps were entered into in order to safeguard interests.

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

| Financial instrument | Type | Volume | Fair value TEUR |
|---|---|---|---|
| Call options | Purchase TUSD<br>Sale TGBP | 33,000<br>750 | –376<br>0 |
| Foreign exchange swaps | Purchase TUSD<br>Sale TGBP | 1,651<br>105 | 0<br>0 |
| Interest-rate swaps | Loan<br>TEUR | 14,596 | –711 |

16 **3. Related party disclosures**

A loan amounting to TEUR 250 was granted to FTI Food Trading International GmbH. In the financial year 2012, a value adjustment of TEUR 134 was made on the fair value of TEUR 116. Interest is payable on the loan at 2 %.

17 **4. Auditor's remuneration and services**

The total remuneration invoiced by the auditors, Gräwe & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, for the financial year is included in the relevant section in the Appendix of the consolidated balance sheet.

18 **5. Number of Employees**

The average number of employees of FRoSTA AG in the financial year is shown in the table below:

| | 2011 | 2012 |
|---|---|---|
| Wage-earners | 628 | 613 |
| Salaried staff | 326 | 320 |
| Temporary staff | 75 | 46 |
| No. of employees according to Art. 285 no 7 HGB | 1,029 | 979 |
| Apprentices | 37 | 34 |
| | 1,066 | 1,013 |

19 **6. Executive Board**

Members of the Executive Board of FRoSTA AG in the financial year 2012 were:

- Felix Ahlers, businessman, Hamburg (Chairman)
  As at December 31, 2012: 1,482,592 FRoSTA shares = 22.1 %
- Hinnerk Ehlers, businessman, Hamburg
  (Vice President Marketing and Sales)
- Dr Stephan Hinrichs, businessman, Bendestorf
  (Vice President Finance and Administration)
- Jürgen Marggraf, businessman, Bremen
  (Vice President Operations)

The total number of FRoSTA shares held by the Executive Board on December 31, 2012 amounts to 1,527,811 shares = 22.8 %.

20 **7. Supervisory Board**

Members of the Supervisory Board of FRoSTA AG in the financial year 2012 were:

- Dirk Ahlers, businessman, Hamburg
  (Chairman of the Supervisory Board)
  As at December 31, 2012: 2,242,271 FRoSTA shares = 33.5 %.
- Oswald Barckhahn, businessman, Warsaw/Poland
  (Deputy Chairman of the Supervisory Board)
- Jürgen Schimmelpfennig, Chairman of the Works Council of FRoSTA AG, Bremerhaven

The total number of shares of FRoSTA AG held by the Supervisory Board at the balance sheet date amounts to 2,244,271 shares = 33.5 %.

21 **8. Remuneration according to Art. 285 No. 9 HGB**

The total remuneration of the Executive Board of FRoSTA AG in the financial year amounted to TEUR 2,122 (2011: TEUR 2,169). The fixed remuneration amounted to TEUR 1,190 (2011: TEUR 1,176) and the variable remuneration amounted to TEUR 932 (2011: TEUR 993).

The total remuneration of the former members of the Executive Board of FRoSTA AG in the financial year amounted to TEUR 74 (2011: TEUR 73). The pension reserves for former members of the Executive Board amounted to TEUR 542 (2011: TEUR 555) at the balance sheet date.

The remuneration of the Supervisory Board amounted to TEUR 60 (2011: TEUR 62), the variable remuneration amounting to TEUR 46 (2011: TEUR 48) and the fixed remuneration amounting to TEUR 14 (2011: TEUR 14).

22 **9. Appropriation of profits**

At the Annual General Meeting, we will be proposing a dividend payment of EUR 0.75 per share corresponding to a total dividend payment of EUR 5,021,925.00. This payment will be taken from the balance sheet profit reported on December 31, 2012 (EUR 5,021,925.00).

Bremerhaven, March 18, 2013

The Executive Board

(F. Ahlers) (H. Ehlers)

(Dr. S. Hinrichs) (J. Marggraf)

**Statement by the Legal Representatives in conformance with Art. 289 (1) sentence 5 HGB**

To the best of our knowledge, and in accordance with the applicable reporting principles, the Financial Statement of FRoSTA AG gives a true and fair view of the assets, liabilities, financial position and profit situation of the company, and the company Management Report includes a fair review of the development and performance of the business and of the position of the company, together with a description of the main opportunities and risks associated with expected development of the company.

Bremerhaven, March 18, 2013

The Executive Board

(F. Ahlers) (H. Ehlers)

(Dr. S. Hinrichs) (J. Marggraf)

### Auditors' report

We have audited the financial statements of FRoSTA Aktiengesellschaft, Bremerhaven, comprising the balance sheet, the profit and loss account, the notes to the financial statements as well as its Company and Group management report for the financial year from January 1, 2012 to December 31, 2012. Accountancy and presentation of financial statements and management report according to German commercial regulations are the responsibility of the Company's Executive Board. Our responsibility is to provide an assessment of the financial statements, including accountancy and management reports, based on our audit.

We conducted our audit of the financial statements in accordance with article 317 of the German Commercial Code and German GAAP (Generally Accepted Accounting Principles) for the audit of financial statements promulgated by the German Institut der Wirtschaftsprüfer (Institute of Auditors). Those standards require that we plan and perform the audit so that inaccuracies and infringements are reliably identified that affect the presentation of the assets, finances and earnings in the financial statements and in the Group management report, in accordance with German GAAP. Information about the Group's business activities and the economic and legal environment and expectations of possible inaccuracies are taken into account when determining audit procedures. The effectiveness of the system of internal accounting control and the evidence supporting the disclosures in the financial statements and the management report are assessed primarily by carrying out spot checks during the audit. The audit includes assessing the accounting and consolidation principles used and the relevant estimates made by management, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our assessment.

Our audit did not reveal any grounds for objection.

We believe that based on the information obtained during the audit, the financial statements are in accordance with German law and give a true and fair view of the assets, finances and earnings of the Company in compliance with generally accepted accounting principles. The management report concurs with the financial statements and provides an accurate picture of the Company's position and correctly shows the challenges and risks of future developments.

Bremen, March 20, 2013

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft · Steuerberatungsgesellschaft

Dr Meyer · Auditor

Reinke · Auditor





## SUPERVISORY BOARD

**Dirk Ahlers**
Hamburg
Businessman, Chairman

**Oswald Barckhahn**
Warsaw/Poland
Businessman, Deputy Chairman

**Jürgen Schimmelpfennig**
Bremerhaven
Fitter

## EXECUTIVE BOARD

**Felix Ahlers**
Hamburg
Chairman

**Hinnerk Ehlers**
Hamburg

**Dr Stephan Hinrichs**
Bremerhaven

**Jürgen Marggraf**
Bremerhaven

| FINANCIAL YEAR | | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | IFRS<br>2004 | HGB<br>2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Employees (average) | number | 1,504 | 1,528 | 1,520 | 1,614 | 1,539 | 1,372 | 1,248 | 1,167 | 1,138 | 1,118 |
| Turnover | (mill. EUR) | 380 | 385 | 393 | 411 | 392 | 349 | 307 | 269 | 264 | 262 |
| Unadjusted profit | | 34.1 % | 34.3 % | 35.0 % | 35.8 % | 35.9 % | 37.6 % | 37.7 % | 40.0 % | 40.9 % | 40.1 % |
| EBITDA | (mill. EUR) | 21.5 | 26.0 | 29.8 | 32.5 | 32.0 | 30.2 | 27.4 | 26.1 | 25.8 | 6.0 |
| EBIT | (mill. EUR) | 10.3 | 14.9 | 17.7 | 20.9 | 20.8 | 19.3 | 16.6 | 15.2 | 15.4 | –4.7 |
| Return on sales (related to operating result) [1] | | 2.7 % | 3.9 % | 4.5 % | 5.1 % | 5.3 % | 5.5 % | 5.4 % | 5.7 % | 5.8 % | –1.8 % |
| Result from ordinary business activities | (mill. EUR) | 8.3 | 12.3 | 14.2 | 17.4 | 17.7 | 16.6 | 14.6 | 13.5 | 12.9 | –7.4 |
| Taxes on income | (mill. EUR) | 2.2 | 3.6 | 4.4 | 5.4 | 5.6 | 4.4 | 4.2 | 5.1 | 5.1 | 0.0 |
| Group result for the year | (mill. EUR) | 6.1 | 8.7 | 9.8 | 12.0 | 12.1 | 12.2 | 10.4 | 8.4 | 7.8 | –7.7 |
| Cash flow | (mill. EUR) | 18.5 | 21.1 | 21.8 | 25.1 | 25.7 | 20.0 | 17.6 | 17.8 | 24.8 | 3.9 |
| Investments | (mill. EUR) | 7.8 | 8.6 | 10.7 | 12.1 | 25.7 | 20.0 | 7.7 | 5.8 | 6.6 | 6.4 |
| Shares | number | 6,695,900 | 6,609,188 | 6,531,457 | 6,450,833 | 6,413,386 | 6,373,673 | 6,338,389 | 6,303,316 | 6,277,965 | 6,265,203 |
| Total dividend | (TEUR) | 5,022 | 4,957 | 4,899 | 4,838 | 4,810 | 4,207 | 3,803 | 3,152 | 1,256 | 0 |
| Dividend per share | (EUR) | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.66 | 0.60 | 0.50 | 0.20 | 0.00 |
| Income per share | (EUR) | 0.92 | 1.33 | 1.52 | 1.87 | 1.89 | 1.93 | 1.64 | 1.33 | 1.24 | –1.23 |
| Fixed assets | (mill. EUR) | 75.1 | 76.8 | 81.5 | 82.9 | 88.4 | 75.9 | 66.7 | 68.8 | 73.7 | 57.3 |
| Current assets | (mill. EUR) | 147.2 | 144.8 | 144.0 | 140.2 | 148.9 | 129.1 | 107.3 | 95.0 | 61.4 | 59.8 |
| Equity capital [2] | (mill. EUR) | 108.4 | 105.0 | 101.2 | 94.8 | 87.0 | 80.2 | 70.4 | 62.7 | 55.1 | 31.5 |
| Equity ratio [3] | | 48.7 % | 47.4 % | 44.9 % | 42.5 % | 36.6 % | 39.1 % | 40.5 % | 38.1 % | 34.3 % | 22.1 % |
| Amounts owed to credit institutions | (mill. EUR) | 50.0 | 55.3 | 63.6 | 76.7 | 86.3 | 69.6 | 49.5 | 44.5 | 28.8 | 42.7 |
| Credit capital ratio [4] | | 22.5 % | 25.0 % | 28.2 % | 34.4 % | 36.4 % | 34.0 % | 28.4 % | 27.0 % | 17.9 % | 30.0 % |
| Return on investment [5] | | 5.7 % | 8.2 % | 9.3 % | 10.8 % | 11.4 % | 12.2 % | 11.7 % | 10.9 % | 12.3 % (HGB) | –3.6 % |
| Return on equity [6] | | 7.7 % | 11.7 % | 14.0 % | 18.4 % | 20.4 % | 20.7 % | 20.7 % | 21.5 % | 23.4 % | –24.4 % |

1) Operating result / (turnover / 100)
2) incl. 60 % special item (only for the years with HGB accounting)
3) [(Equity capital + 60 % special item - dividends)/(balance sheet total + ABS)] x 100 (only for the years with HGB accounting)
4) Amount owed to credit institutions / (balance sheet result / 100)
5) [EBIT/(average balance sheet total incl. ABS - average trade liabilities)] x 100
6) (Profit for the year + taxes on income) / (equity capital per balance sheet / 100)

Dear Shareholders,

In the financial year 2012, the Supervisory Board of FRoSTA AG fulfilled all its legal and statutory obligations. In the same period, it was regularly and extensively involved in matters concerning the status and development of FRoSTA AG and the Group as a whole. It held regular consultations with the Executive Board and monitored its activities closely. The Supervisory Board participated directly in all decisions of fundamental importance to the Company. The Executive Board informed the Supervisory Board regularly, comprehensively and in a timely fashion, in written form and verbally, on all matters concerning business policy, current turnover and profit, risks and risk management, as well as the order book status and the Company and Group situation as a whole. In addition, the Chairman of the Supervisory Board, Dirk Ahlers, exchanged information with the Executive Board at regular intervals. After thorough examination, the Supervisory Board approved the proposals of the Executive Board.

A total of three scheduled meetings of the Supervisory Board were held on March 22, June 21 and December 20, 2012. The meetings of the Supervisory Board were all attended by all members.

There arose no conflicts of interest for Supervisory Board members from their activities as members of the Supervisory Board  of FRoSTA AG.

**Main points discussed by Supervisory Board**

Last year the Supervisory Board was involved intensively in all meetings in the current situation of the company,  especially as regards the ever fiercer competition in the field of private label business. Overall European production capacity, which already exceeded demand for more or less generic fish products such as fish fingers and "Schlemmerfilets", saw a further substantial increase through the expansion of an existing actory by a new investor.



In view of the stagnating demand for frozen fish throughout Europe, the new producer was consequently forced to offer his products at prices considerably lower than previous market levels in order to achieve even a minimum degree of utilisation at his facility. The management team at FRoSTA AG was thus faced with the choice of either rejecting orders completely or accepting at prices considerably lower than total cost in order to maintain necessary utilisation volumes. As it transpired, both eventualities actually occurred, which led to losses in the field of private labels and to the drops in turnover recorded in the Management Report.

The Supervisory Board supported the Executive Board in its strategy to deal with this unwelcome situation. This strategy involved the development of more profitable business fields both regionally and through product innovations accompanied by an increase in advertising expenditure.

The main topics discussed at the individual Supervisory Board meetings were as follows:

At the Supervisory Board meeting of March 22, 2012, the Supervisory Board discussed in particular the business development in 2011 as well as the Company and Group Statements and Reports as per December 31, 2011.

At the Supervisory Board meeting of June 21, 2012, the Supervisory Board discussed procedures for the Annual General Meeting taking place on the same day as well as the situation in the raw materials markets.

In the session held on December 20, 2012, the Supervisory Board examined the annual plan presented by the Executive Board for 2013. This was then discussed with the Executive Board  and approved. The Supervisory Board also approved the Executive Board's proposed investments for the current year 2013. These investments do not require an increase in long-term borrowing as current borrowing is once again sufficient to cover planned investment and the ongoing business. At the December session, as in previous years, the Supervisory Board also reviewed and in some cases adjusted the remuneration of senior managers and Executive Board members.

**Committees**

The Committee for Personnel and Finances, consisting of Supervisory Board members Dirk Ahlers and Oswald Barckhahn, also convened on four occasions. The Committee consulted with the Supervisory Board on the Annual Report at a joint session in Hamburg on March 22, 2012. During the meeting of October 11, 2012, discussions were held with the Chairman of the Executive Board and brand director on market strategy, especially as regards Eastern Europe.

No other committees were formed by the Supervisory Board in the financial year 2012.

**Membership of the Executive Board and the Supervisory Board**

With respect to existing contracts, there was no necessity for discussions on changes to the Executive Board. The Supervisory Board also remained unchanged in the financial year 2012.

**Individual and Consolidated Statements**

In accordance with a decision taken at the Annual General Meeting, the Supervisory Board commissioned Gräwe & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, with the task of auditing the FRoSTA AG individual statement and the consolidated Group financial statement. The auditors examined the annual financial statement and the consolidated statement and issued unqualified audit certificates. The FRoSTA AG management report also received an unqualified audit certificate.

The auditor's reports were submitted to the members of the Supervisory Board in good time. They were discussed initially by the Committee for Personnel and Finances and then thoroughly by the complete Supervisory Board in the presence of the auditor on March 21, 2013. The auditors fulfilled the Supervisory Board's request for detailed explanations of some balance sheet items. The Supervisory Board declares that, having completed its assessment, it has no objections either to the consolidated and individual financial statements as per December 31, 2012, nor to the management report of 2012. For this reason, the Supervisory Board has unanimously approved and passed the individual and Group financial statements prepared by the Executive Board.



The Supervisory Board also approved the proposal of the Executive Board on the appropriation of balance sheet profits.

**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 business year 2012.

Hamburg, March 22, 2013

Dirk Ahlers

For the Supervisory Board

Dirk Ahlers

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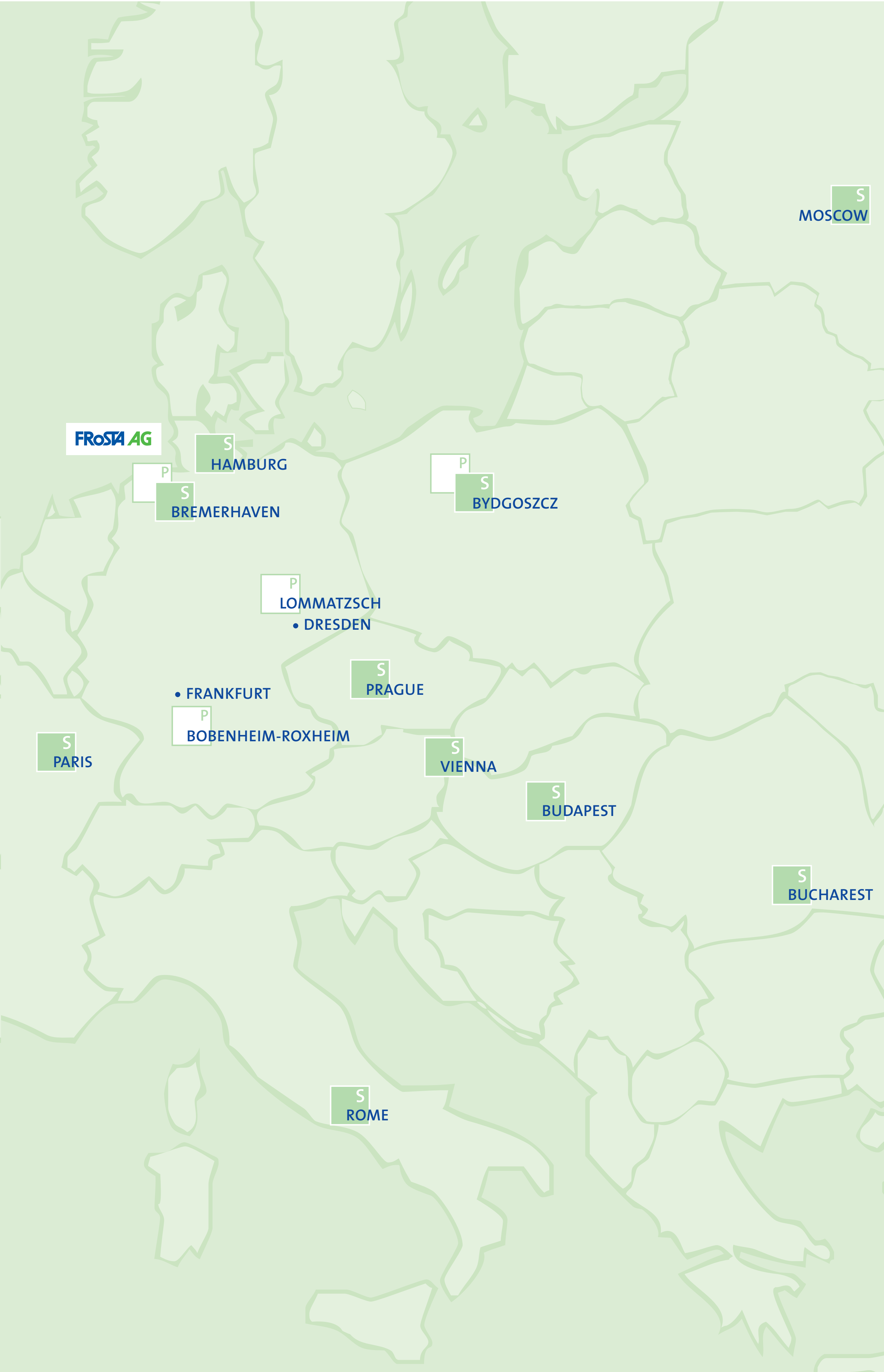


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