# FRoSTA AG

ANNUAL REPORT 2008

| FINANCIAL YEAR | | 2007 | 2008 |
|---|---|---|---|
| Employees (average) | number | 1,372 | 1,539 |
| Turnover | mill. EUR | 349 | 392 |
| EBITDA[1]<br>in % of turnover | mill. EUR | 30.2<br>8.7 % | 32.0<br>8.2% |
| Depreciation | mill. EUR | 10.9 | 11.2 |
| EBIT[2]<br>in % of turnover | mill. EUR | 19.3<br>5.5 % | 20.8<br>5.3% |
| Result from business activities | mill. EUR | 16.6 | 17.7 |
| Group result for the year | mill. EUR | 12.2 | 12.1 |
| Cashflow | mill. EUR | 20.0 | 25.7 |
| Investments | mill. EUR | 20.0 | 25.7 |
| Dividend per share | EUR | 0.66 | 0.75 |

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



| Financial Calendar 2009 | |
|---|---|
| Friday, March 27, 2009 | Financial Press Conference<br>FRoSTA-BiSTRO<br>Große Johannisstraße 11<br>20457 Hamburg |
| Friday, May 8, 2009 | Publication of interim report for the first tertial of 2009 |
| Wednesday, June 17, 2009 | Annual General Meeting<br>Stadthalle Bremerhaven<br>Wilhelm-Kaisen-Platz<br>27576 Bremerhaven |
| Thursday, August 13, 2009 | Publication of half-year financial report 2009 |
| Thursday, October 8, 2009 | Publication of interim report for the second tertial of 2009 |

FRoSTA

# LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

Fortunately, we are able to look back on 2008 in its entirety as a successful year. In view of the many difficulties we were confronted with, especially towards the end of the year, this was certainly not a matter of course. There were days and weeks when, for various reasons, our own predictions were put in doubt and we had to expect a much less favourable result. It goes without saying that we are extremely pleased that we are able, in the end, to submit a vastly improved result. For this, we owe many thanks to the great commitment of our staff.

But, of course, FRoSTA has also felt the effects of the financial crisis, especially in the wake of extreme currency fluctuations (US Dollar/Polish Zloty) as well as increasing raw material prices, particularly for fish.

However, we feel well positioned to overcome the crisis, especially as a result of the following factors:

- experienced personnel at all company levels
- long standing and proven company structure
- sound financial structure
- and, last but not least, also because we did not enter into any risky, loan-financed commitments.

It is now transpiring as a particular strength that our business was rarely easy. Our ship was seldom in a safe harbour, but more often out at sea riding the storm.

For this reason, we now have the time and energy to devote our attention to important challenges for the future such as climate protection and raw material sustainability.

And so, an important focus of our dealings last year was on our products' carbon footprint. As a first step, we are now able to determine the total $CO_2$-emissions caused during a product life-cycle – ranging from ingredients supply (e.g. growing and harvesting of peas), processing, freezing, storage and integration in the final product, right up to distribution, sale and preparation of the finished product by the consumer. Based on the knowledge we have gained in this process, we plan to implement further measures to reduce $CO_2$-emissions.

One significant interim result of this activity is the realisation that during the life-cycle, at least of the frozen products we have examined so far, less $CO_2$ is emitted than from comparable home-made products. This is an important finding for our business.

Detailed information about our carbon footprint is available on the Internet at our FRoSTA blog (www.frostablog.de). We intend to publish here all future test results as well as other information concerning our activities in connection with this topic.

I am convinced that, with the continued commitment of all our staff, we will be able to provide customer satisfaction again in 2009, and that we will once more achieve a positive annual result.

Yours,

Dirk Ahlers

# MANAGEMENT REPORT





## I. GENERAL CONDITIONS AND DEVELOPMENTS IN THE INDUSTRY

### 1. General economic climate

As a company which supplies frozen food products solely to European markets, we have been affected by upheavals in the global economy only in the field of raw material procurement, due to the fact that these are sourced for the most part worldwide. Our business last year was particularly influenced by irregular fluctuations in the US Dollar to Euro exchange rate. After the Euro soared at the end of July last year, there followed a dramatic drop within a very short period. From a peak of 1.60 USD on July 15, the Euro lost 22 % of its value in just one hundred days, dropping to 1.25 USD on October 27. This devaluation has an especially strong impact on our business since fish as our main raw material is normally bought and sold in US Dollars. The effects of the high value of the US Dollar were compounded by price increases (in US Dollars) for frozen fish resulting mostly from the reduction of catching quotas.

For decades now, we have been accustomed to these fluctuations in price and currency, but the hefty reactions we are seeing now as a result of the world economic crisis are a new phenomenon and affect our business considerably.

On the other hand, however, we are happy to report that we are generally still satisfied with the conditions and developments in our markets.

GDP in Germany dropped in the fourth quarter particularly (-2.1 %), while consumer spending as a whole was down 0.6 % on the previous year. Spending on food increased however, with retailers improving turnover by as much as 5.1 %, albeit mostly as a result of price increases.

In the important Eastern and Central European markets, we once again achieved higher total growth rates than in Germany, as can be seen from the table below (source: Deutsche Bank):

| | GDP Growth | |
|---|---|---|
| | 2007 | 2008 |
| Germany | 2.5 % | 1.3 % |
| Poland | 6.5 % | 5.4 % |
| Hungary | 1.5 % | 1.7 % |
| Czech Republic | 6.5 % | 4.4 % |
| Slovakia | 9.5 % | 7.0 % |
| Romania | 5.8 % | 5.5 % |

However, even in these countries, there was a definite weakening of growth towards the end of the year. This was compounded by the devaluation, in some cases dramatic, of the most important currencies. An end to this trend is still not in sight. As an example, the Polish Zloty lost about 32 % of its value against the Euro between August 2008 and the end of February 2009; the Hungarian Forint dropped by about 24 % and the Romanian Leu by about 30 %. As a consequence, there was a sharp increase in import prices in these countries. This has a particularly strong impact on the sourcing of raw materials for our plant in Poland since they are not available domestically.

## 2. Development of the frozen food market

In the year 2008, Germany once again saw an increase in sales of frozen food products, both in volume and in value. However, the rate of growth also dropped again, as can be seen from the table below (according to AC Nielsen in food retail):

| | Volume | | | Value | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Ready meals – of these complete ready meals | 4.7 %<br>6.3 % | 0.6 %<br>3.9 % | –1.0 %<br>2.1 % | 1.7 %<br>5.2 % | 1.7 %<br>6.9 % | 5.1 %<br>6.4 % |
| Fish | 5.7 % | 3.7 % | –1.6 % | 7.8 % | 11.7 % | 1.5 % |
| Vegetables | 6.6 % | 0.3 % | –1.0 % | 2.8 % | 5.6 % | 1.8 % |
| Fruit | 13.4 % | 4.2 % | 1.6 % | 9.4 % | 7.2 % | 12.1 % |
| Frozen food (total in food retail) | 3.9 % | 1.0 % | 0.3 % | 5.4 % | 5.8 % | 4.3 % |

In all sectors, there was an inflation of 4 to 5 percent, which obviously had a negative effect on growth. But it is also clear that frozen food is still a growing market. A 2009 survey of German food retail managers carried out by the journal "Lebensmittelpraxis", placed frozen food in second place in the rankings of all commodity groups (after organic products).

Moderate growth in frozen food was also recorded in most other European markets, as can be seen from this overview of selected markets in 2007 (source: Quick Frozen Foods Int., Oct. 2008):

| Country | Growth |
|---|---|
| Belgium / Luxembourg | + 3.6 % |
| Bulgaria | + 2.9 % |
| France | + 2.6 % |
| UK | – 5.8 % |
| Italy | + 3.1 % |
| Netherlands | + 2.5 % |
| Austria | + 2.2 % |
| Poland | + 3.0 % |
| Romania | + 1.0 % |
| Spain | – 3.5 % |
| Sweden | + 3.7 % |
| Switzerland | + 3.1 % |
| Czech Republic | + 1.1 % |
| Hungary | + 3.0 % |

## II. Company situation

In 2008, the FRoSTA Group was once again able to achieve double-digit growth and our turnover increased by 12.4 % from 349 million EUR to 392 million EUR, slightly less than the previous year, which saw growth of 13.5 %.

The unadjusted profit result dropped again, from 39.0 % to 38.1 %. In spite of the extraordinarily difficult conditions in the raw materials market, as well as extremely volatile currency fluctuations and tough competition, we were still able to raise our EBIT once more, from 19.3 million EUR the year before to 20.8 million EUR in 2008. Our yearly profit after tax was 12.1 million EUR (previous year 12.2 million EUR).

Thanks to the strong commitment of all our staff, we were able to achieve this result in spite of an extremely difficult working environment.

## 1. Turnover and volume

FRoSTA brand sales rose again in 2008 by 12 %. These sales were achieved mainly in Germany, Poland and the other Eastern European countries. FRoSTA ready meals saw significant growth in Germany, as did the whole FRoSTA range in Poland, where the increase was 36 %. Total brand sales now amount to 54 million EUR.

Sales of products under our secondary brands "Elbtal" and "Tiko" are still falling slightly as we are now producing and supplying more and more articles under the brand names of our customers. Sales in this "private label" segment increased from 219 million EUR in the previous year to the current figure of 259 million EUR, the equivalent of a rise of 18 %. This made it once more the sector with the strongest growth.

In the catering, home delivery and industry sector there was little movement, with sales of 64 million EUR as in the year before.

Of the various product groups, ready meals enjoyed the best development across the board at 14.9 %, a good result and more positive than the market as a whole. For the first time, ready meals sales broke the 100 million EUR barrier. This was followed by fruit and vegetables at 14 %. Fish sales grew by 10.2 % and it is still here that we have the highest sales (49.5 % of total turnover as opposed to 50.4 % the year before).

Turnover by markets shows that growth abroad was again strong (19 %). But in Germany, we also achieved a growth rate of 9 %, which is higher than the national average. Sales abroad now amount to 37 % of the total as compared with 35 % in 2007.

## 2. Marketing and Sales

### 2.1 FRoSTA brand

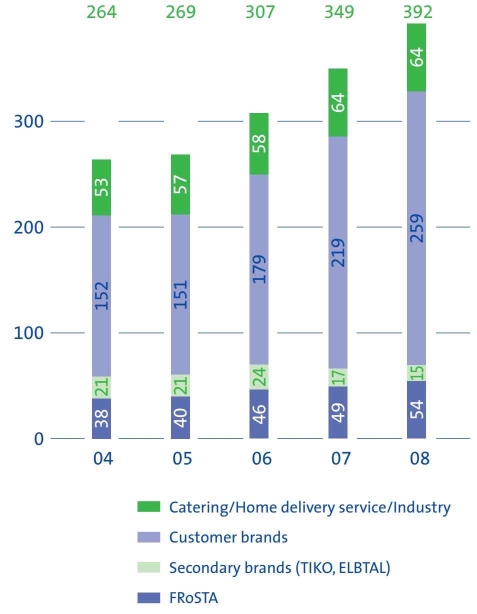
FRoSTA brand sales in 2008 increased by 12 % in all countries taken as a whole. In Germany, the market share of our FRoSTA meals continued to grow. In 2008, it was over 25 % (source: Nielsen Market Track Deutschland, excluding Aldi). Sales of our vegetable meals continue to thrive, thanks in part to our television advertising campaign. For five years now, our unique FRoSTA Purity Command has ensured that all our products are free of additives such as flavour enhancers, aromas, artificial colouring, stabilisers and emulsifiers. We also rigorously exclude so-called "natural flavourings", which are normally produced in laboratories and are anything but "natural".

The FRoSTA Purity Command has been covered extensively in numerous TV programmes and newspaper articles.

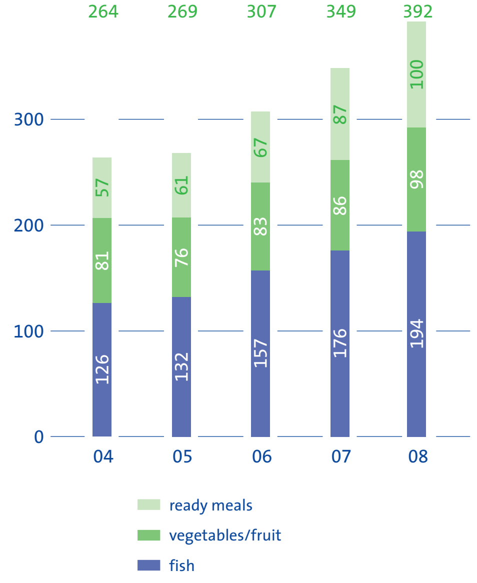
Our new office-delivery service (www.buerobistro.de), with 22 specially developed meals won over many new customers in 2008. These products are delivered to offices throughout Germany in specially designed coolboxes on a 24-hour delivery basis. Vending machines or Bistro Stations are provided by FRoSTA. Offices without a canteen and companies with shift systems have been particularly keen on taking advantage of this service.

FRoSTA brand sales have continued to grow in Poland, Hungary, the Czech Republic, Romania and Russia. In Poland we were able to further reinforce our position as market leaders in fish products, and in 2009 we started a new TV advertising campaign for our Paella. Since 2007, we have been conducting an intensive advertising campaign for FRoSTA products in Hungary and are now market leaders in frozen fish products there. In January 2009, we also initiated an advertising drive in Romania and are confident it will lead to a strengthening of our brand there.

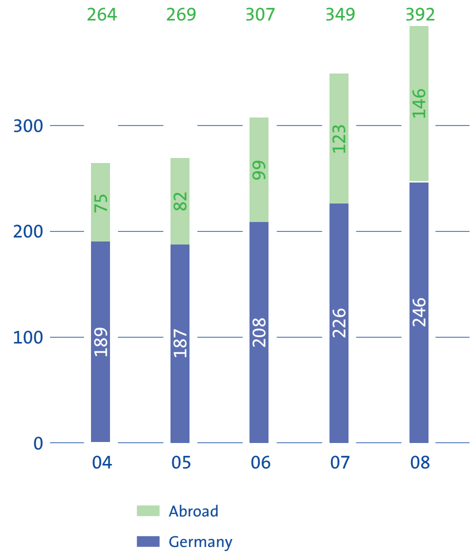
TURNOVER BY SALES AREAS
in mill. EUR




TURNOVER BY PRODUCT GROUPS
in mill. EUR



TURNOVER GERMANY / ABROAD
in mill. EUR




## 2.2 „FRoSTA-Copack“

In 2008, the private label sector, including the secondary brands Elbtal and TIKO, was again able to achieve double-digit growth in sales and turnover. In particular, this was a result of the introduction of new products in the organic sector as well as continuing strong demand for products from sustainable fishing. In the last quarter of 2008, US Dollar-based raw material prices rose once again. This was compounded by strong pressure on the parities of Euro to USD and Zloty to Euro, which in turn resulted in a significant drop in profits.

In the catering sector – hotels, restaurants and canteens – the whole frozen food market saw slight growth in 2008. Sales in "FRoSTA Foodservice " outperformed this trend and reached high single-figure growth, with positive impulses coming especially from restaurant chains.

## 3. Situation concerning assets, finance and earnings

With group profit before tax amounting to 17.7 million EUR, we again improved on the previous year. However, the 7 % increase in the result is below the 12 % improvement in turnover. This development can be accounted for by the following factors:

- Almost all distribution sectors saw a marked increase in sales and turnover above the market average. Growth rates were particularly pleasing in Eastern Europe as well as in the harddiscount and private label business.
- The FRoSTA brand was able to reinforce its position as market leader in ready meals in Germany. With the help of TV advertising in Poland, Hungary and Romania, we were able to reinforce our position as market leader in frozen fish in Eastern Europe.
- Our unadjusted result dropped again, to 38 % from 39 % the previous year. In the first seven months, the accumulated result was 41 %. However, in the second half of the year it fell sharply. This was mostly due to continuing price increases in the sourcing of white-fish raw material. This effect was compounded by further pressure resulting from the strong Dollar, the basic currency for the buying of fish. The situation was alleviated somewhat by long-term contracts with our strategic suppliers as well as precautions taken in the procurement of currency.
- The result of our Polish subsidiary was negatively impacted by the fall in value of the Zloty. The adjustment of a loan granted in Euros has led to a loss on paper of 1.4 million EUR.

The result before interest, tax, depreciation and amortisation (EBITDA) was 32.0 million EUR, an increase of 6 % on the previous year's result of 30.2 million EUR. Earnings before interest and tax (EBIT) climbed from 19.3 million EUR in 2007 to 20.8 million EUR (+ 8 %).

The group result after tax was 12.1 million EUR, similar to a year earlier. This under-performance at the after-tax level is a result of two opposing developments. On the one hand, the amount of tax due fell from 41 % to 29 % in the wake of changes made in German corporation tax legislation, while in the previous year, we had benefited from the positive effect of deferred taxes amounting to 2.5 million EUR. This effect was the result of adaptation of the deferred taxes to the lower tax rates. In 2008, the reverse was the case, as IFRS regulations do not allow the entering of tax-lowering LIFO depreciation in the consolidated balance sheet. This resulted in an additional tax burden for the group of 0.5 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 thousand EUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| **Subscribed capital** | 16,317 | 16,418 |
| + Capital reserves | 8,344 | 8,699 |
| + Revenue reserves | 44,457 | 51,561 |
| + Loss and balancing items | 1,024 | –575 |
| + Net result | 10,095 | 10,851 |
| **Equity capital** | 80,237 | 86,954 |
| | | |
| Balance sheet total | 205,065 | 237,267 |
| **Equity ratio** | 39.1 % | 36.6 % |

| in million EUR | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Turnover** | 264.1 | 268.6 | 307.3 | 348.7 | 391.8 |
| **EBITDA** (earnings before interest, tax and depreciation) | 25.8 | 26.1 | 27.4 | 30.2 | 32.0 |
| in % of turnover | 9.8 % | 9.7 % | 8.9 % | 8.7 % | 8.2 % |
| - Depreciation | –10.4 | –10.9 | –10.8 | –10.9 | –11.2 |
| = **EBIT** (earnings before tax and interest) | 15.4 | 15.2 | 16.6 | 19.3 | 20.8 |
| in % of turnover | 5.8 % | 5.7 % | 5.4% | 5.5 % | 5.3 % |
| + Financial result | –2.5 | –1.7 | –2.0 | –2.7 | –3.1 |
| **Result from business activities** | **12.9** | **13.5** | **14.6** | **16.6** | **17.7** |
| in % of turnover | 4.9 % | 5.0 % | 4.8 % | 4.8 % | 4.5 % |
| ./. Taxes | –5.1 | –5.1 | –4.2 | –4.4 | –5.6 |
| **Consolidated result for year** | **7.8** | **8.4** | **10.4** | **12.2** | **12.1** |
| in % of turnover | 2.9 % | 3.1 % | 3.4 % | 3.5% | 3.1% |

At 25.7 million EUR, investments were considerably higher than in 2007 and above depreciation and amortisation. They were completely financed from the cash flow before change in the working capital amounting to 25.7 million EUR (previous year 20 million EUR).

At 237 million EUR, our balance sheet total is 16 % above the previous year's figure of 205 million EUR. This change is accounted for by the fact that parallel with a 12 % rise in turnover, the value of our working capital and, in particular, our stocks increased by a total of 15 %. Significant here is that stock value increased over-proportionately due to price increases in raw material. As a result of increased investment, capital assets also rose by 16 % from 66 million EUR in 2007 to 87 million EUR in 2008 (an increase of even 33 % compared to 2006). This is due to our relatively high level of investment in 2007 and 2008. Some of the receivables will be re-financed as part of an ABS programme.

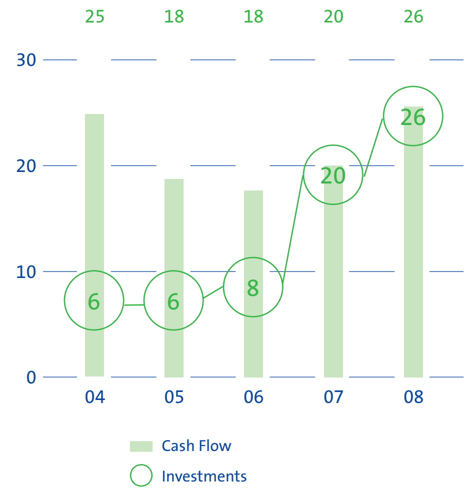
In addition to the 9 % increase in equity from 80 million EUR to 87 million EUR, the balance sheet total was financed by higher liabilities, with bank liabilities climbing from 70 million EUR as per December 31, 2007 to 86 million EUR at the end of 2008. In so doing, the structure of the borrowed capital was altered. The proportion of long-term liabilities increased from 31 % to 47 %.

Due to the strong increase in the balance sheet total, which grew more than the equity capital, the equity ratio dropped from 39.1 % to 36.6 %. In the middle term, we expect an equity ratio of 40 %, which we hope to achieve by increasing equity capital through lower investments and retention of profits.

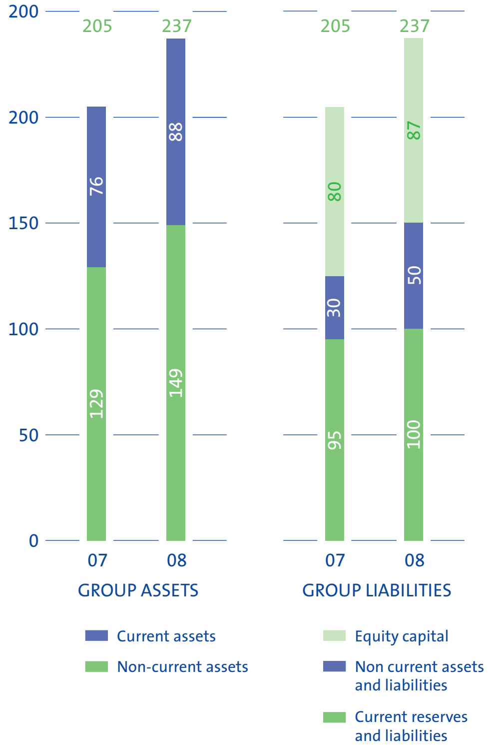
## 4. Individual financial statement of FRoSTA AG

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.

## CASH FLOW BEFORE CHANGE IN WORKING CAPITAL in mill. EUR




## GROUP BALANCE SHEET STRUCTURE in mill. EUR




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

The individual financial statement for 2008 shows a marked increase in turnover compared to the previous year, as in the Group as a whole. Here sales in all sectors played a role in this growth.

The individual development corresponds with the development of the group as a whole. In the individual financial statement, we report a profit after tax according to the accounting principles of the German Commercial Code. This amounted to 10.7 million EUR compared with 11.3 million EUR in 2007.

This drop in the after-tax result was caused by the strong impact of the LIFO evaluation on our fish raw material, which reduces our pre-tax profit by 4.6 million EUR in compliance with the German Commercial Code. In the consolidated statement, which is created according to IFRS principles, a LIFO evaluation of stocks is not permitted. Without taking this effect into consideration, the after-tax result according to the German Commercial Code would have been 3.2 million EUR (i.e. 30 %) higher.

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 2008 (HGB)** | **10,671** |
| **Changes IFRS:** | |
| Depreciation | –2,994 |
| Deferred taxes | –804 |
| Inventory changes and material stocks | 4,589 |
| Evaluation of foreign currency items | 759 |
| Miscellaneous | 350 |
| | |
| **FRoSTA AG ANNUAL NET PROFIT FOR 2008 (IFRS)** | **12,571** |
| Total result for the year for subsidiaries consolidated in the Group financial statements | –589 |
| Consolidating entries: Effects of the consolidating entries affecting the operating result | 85 |
| | |
| **Consolidated annual net profit FRoSTA AG 2008** | **12,067** |

The increased depreciation figures result from the fixed assets re-assessed in accordance with the IFRSs and the different depreciation methods and useful lives. The deferred taxes chiefly result from the different depreciation methods of the two accounting standards as well as the LIFO effect already described. Revenue stemming from the evaluation of foreign currency items is to be considered only according to IFRS standards.

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. This corresponds to a total dividend payment of 4.8 million EUR (40 % of the result). We will recommend depositing the remaining profits amounting to 7.3 million EUR (60 % of the result) in the other revenue reserves.

The FRoSTA Group profit before tax amounting to 17.7 million EUR can be broken up as follows:

| | TEUR | Proportion |
|---|---|---|
| Current corporation tax | 5,657 | 32 % |
| Capital gains tax withheld on dividend payments | 1,269 | 7 % |
| **Total current corporation tax and capital gains tax** | **6,926** | **39 %** |
| Net dividend payments | 3,541 | 20 % |
| Retained by company | 7,257 | 41 % |
| **Total** | **17,724** | **100 %** |

As regards all other aspects of the management report, the individual and the consolidated financial statements match each other – with the exception of some Group-specific features.

### 5. The FRoSTA share

In the course of 2008, the FRoSTA share price performed partly better than the market as a whole, which was marked by the turmoils of the financial crisis. The share price started in January 2008 at 18.90 EUR and ended in December at 16.40 EUR. The drop in value of our share was thus much less dramatic than the German stock market average.

| KEY FIGURES FOR THE FRoSTA-SHARE | 2007 | 2008 |
|---|---|---|
| Number of shares | 6,373,673 | 6,413,386 |
| Equity capital on consolidated balance sheet (TEUR)<br>Equity capital per share (EUR) | 80,237<br>12.59 | 86,954<br>13.56 |
| Share price at year end (EUR)<br>Year high (EUR)<br>Year low (EUR)<br>Number of shares sold | 19.55<br>24.95<br>15.60<br>631,693 | 16.40<br>20.85<br>13.25<br>528,238 |
| Price-earnings ratio (Price at year end/annual net profit) | 10.18 | 8.72 |
| Dividend payout per share (EUR)<br>Dividend yield | 0.66<br>3.4 % | 0.75<br>6.1 % |
| Group annual result (TEUR)<br>Annual result per share (EUR) | 12,237<br>1.93 | 12,067<br>1.89 |
| Cash flow before change in working capital for Group (TEUR)<br>Cash flow before change in working capital per share (EUR) | 19,998<br>3.14 | 25,659<br>4.00 |

On December 31, 2008, the total subscribed capital of FRoSTA AG amounted to 16,418,268.16 EUR, which is the equivalent of 6,413,386 shares at 2.56 EUR. Of these, according to their own statements, Dirk Ahlers, Friederike Ahlers and Felix Ahlers each hold more than 10 %.

According to a resolution passed by the Annual General Meeting on June 18, 2008, the Board is entitled to acquire up to 10 % of all shares. This resolution is valid for a period of 18 months until December 17, 2009. This right was not exercised in 2008.

### 6. Employees

The number of workers on our payroll rose on annual average by 167 to 1,539.

Total expenditure on personnel (not including severance payments) rose due to an increase in the standard wages, the higher number of personnel and profit-sharing payments amounting to 54 million EUR, an increase of 8.4 % as compared with the previous year. The number of apprentices rose from last year's 33 to 35. In 2008, staff fluctuation was again very low at 3.6 %. In Germany, absence through illness could also be kept low at 3.7 %.

As in the years before, in 2008 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 35,203 (30,124 the previous year). A total of 145 buyers took part in the campaign (previous year 146). We are satisfied with our employees' involvement in this scheme and pleased with the trust demonstrated. We hope that even more FRoSTA employees will become 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 | 2007 | 2008 |
|---|---|---|
| FRoSTA HEAD OFFICE | 210 | 218 |
| - thereof administration | 167 | 175 |
| - thereof sales (also abroad) | 43 | 43 |
| PRODUCTION SITES | 1,162 | 1,321 |
| - Schottke, Bremerhaven | 558 | 601 |
| - Rheintal, Bobenheim-Roxheim | 142 | 142 |
| - ELBTAL, Lommatzsch | 140 | 149 |
| - Bydgoszcz, Poland | 322 | 429 |
| GROUP TOTAL | 1,372 | 1,539 |

## 7. R & D report

In product development, the demand for promotion articles in all sales channels continued to present us with challenges in timing and resources. The average lifetime of new articles is reduced by this demand, which underlines the importance of effective product development for our competitiveness. In an inter-company project, members of our R & D staff have taken part in a survey of the carbon footprint left by the food and frozen food industries. The project was also supported by the "Ökoinstitut" (Ecological Institute) and will lead to further reductions in $CO_2$ emissions at our factories and our suppliers', especially in the brand sector.

## 8. Procurement

Sourcing price levels reached new peaks in November and December 2008. Especially in the last quarter, this led to a significant drop in profits, as these increases could not be recouped at short notice. We were able to avoid shortages in supply although some raw materials were extremely scarce on the market. Our participation in Bio-Frost Westhof GmbH, Wöhrden has also contributed to supply security in the organic vegetable sector.

## 9. Production

Utilisation at our production facilities again increased in 2008 and could be well covered by timely investments in the production lines.

## 10. Investments

High investment in our production facility in Poland was completed in 2008 and the plant is now operational. At our Bremerhaven location, we invested more than 10 million EUR in expansion and the improved efficiency of our ready meals lines. This investment has also been more or less completed. Total investment by FRoSTA AG in 2008 amounted to 25.7 million EUR.

## 11. Organisation, administration and company structure

The organisation structure developed in the previous years was maintained.

The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board may delegate the completion, alteration or termination of employment contracts to a Supervisory Board committee. In 2008, there were no personnel changes made on the Executive Board.

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. Dr Herbert Müffelmann and Mr Ulf Weisner 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 special yearly payment to be used exclusively for the purchase of shares on the stock exchange at the share price of the day (for some Board members only)
- an annual bonus related to the Group profit before tax. This bonus is paid in three instalments.

Executive Board remuneration in 2007 and 2008 was as follows:

| Year | Basic Salary (TEUR) | Payment for share purchase (TEUR) | Variable Payment (TEUR) | Insurances (TEUR) | Total (TEUR) |
|---|---|---|---|---|---|
| 2007 | 846 | 166 | 1,326 | 9 | 2,347 |
| 2008 | 911 | 158 | 1,286 | 8 | 2,363 |

Total payments to former members of the Executive Board of FRoSTA AG and the Group amounted in the financial year to TEUR 68 as opposed to TEUR 67 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.

| Year | Basic Salary (TEUR) | Bonus (TEUR) | Total (TEUR) |
|---|---|---|---|
| 2007 | 14 | 34 | 48 |
| 2008 | 14 | 39 | 53 |

## 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. During 2008, a management workshop was held to review and assess all major Company risks. The risk management system is part of the audit of the annual financial statements for 2008.

The production of frozen food involves the use of a wide range of raw materials, the procurement of which can be subject to considerable fluctuation. By cooperating with strategic suppliers, we 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 four to six months increase our risk particularly as we are not normally 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.

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. A commercial audit for the years 2000 – 2004 was started in 2006 and will probably be completed in 2009. The DPR (German Auditing Association) has started an audit of the segment reporting omitted in the financial report.

The growing market in Germany, Western Europe and especially Eastern Europe presents FRoSTA AG with great opportunities. Low per capita consumption in these countries combined with FRoSTA's strong position means that there is an extraordinary potential for growth here. However, growth will drop significantly, at least temporarily, as the financial crisis has now also reached Eastern Europe.

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

Sales as per mid-March 2009 were up by 3.7 % on the previous year, which corresponds with our expectations, whereas the profit situation has clearly deteriorated. This is mainly due to the fact that world market prices for fish expressed in US Dollars have once again climbed steeply. For this reason and also on account of the continuing weakness of the Euro, we will be forced to sharply increase our prices again. This is particularly true in Eastern Europe, where currencies have dropped dramatically against the Euro.

The implementation of our ready meals line in Bremerhaven is being effected successfully.

## Outlook

The general economic and financial crisis has now hit hard in the markets we are involved in. In view of the as yet stable development in sales, we hope and expect that the food industry as a whole, especially the frozen food sector, will not be too seriously affected by these events.

But it is difficult to predict if and how the consumer will react to recent price increases in the supermarkets, and how spending power will be affected. These uncertainties apply particularly for the markets in Eastern Europe.

Unfortunately, we are finding it difficult to insure ourselves against non-payment of receivables on a normal scale for some customers in Eastern, Western and Southern Europe. Non-existent or inadequate insurance cover could be seriously detrimental to our business.

We are critical of recent predictions concerning the development of the US Dollar to the Euro, which see exchange rates of between 1.10 USD and 1.60 USD by the end of 2009. We consider these forecasts to be of practically no value for operative decision-making as long as the underlying reasons for the volatility still exist.

Due to the many uncertainties, it is impossible at this point of time to make a projection concerning FRoSTA's development in 2009. It goes without saying that we will continue to pursue our demanding targets both in the current year and in years to come. Besides the risks, we also see good opportunities for a positive development in sales and profit.

For we believe we have the right administrative, financial and human resources at our disposal to overcome these extraordinary difficulties. 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 2009

The Executive Board

# CONSOLIDATED FINANCIAL STATEMENTS FRoSTA AG



| | Note item | 2007 TEUR | 2008 TEUR |
|---|---|---|---|
| 1. Turnover | (40) | 348,697 | 391,816 |
| 2. Reduction of stocks of finished and unfinished products (2007: Increase) | | 3,877 | –1,799 |
| 3. Own work capitalised | | 21 | 138 |
| 4. Other operating income | (41) | 4,785 | 8,665 |
| **5. OPERATING INCOME** | | **357,380** | **398,820** |
| | | | |
| 6. Cost of materials | | | |
| a) Raw materials, consumables and goods purchased for resale | | –212,566 | –239,415 |
| b) Purchased services | | – 8,886 | –10,241 |
| | | **–221,452** | **–249,656** |
| **7. GROSS PROFIT** | | **135,928** | **149,164** |
| | | | |
| 8. Personnel expenses | (42) | | |
| a) Wages and salaries | | –42,299 | –45,849 |
| b) Social security and other pension costs and for support thereof for pensions TEUR 54 (2007: TEUR 1) | | –7,365 | –7,990 |
| | | **–49,664** | **–53,839** |
| 9. Depreciation/amortisation of intangible and tangible fixed assets | (43) | –10,940 | –11,194 |
| 10. Other operating expenses | (44) | –56,067 | –63,349 |
| **11. OPERATING RESULT** | | **19,257** | **20,782** |
| | | | |
| 12. Income from participating interests | | 71 | 153 |
| 13. Other interest and similar income | (45) | 244 | 518 |
| 14. Interest and similar expenses | (45) | –2,933 | –3,729 |
| **15. Financial result** | | **–2,618** | **–3,058** |
| **16. RESULT FROM BUSINESS ACTIVITIES** | | **16,639** | **17,724** |
| | | | |
| 17. Current taxes on income and earnings | (46) | –6,861 | –5,068 |
| 18. Deferred taxes | (46) | 2,459 | –589 |
| **19. CONSOLIDATED PROFIT FOR THE YEAR** | | **12,237** | **12,067** |
| | | | |
| Earnings per share | | | |
| – undiluted (EUR) | | 1.93 | 1.89 |
| – diluted (EUR) | | 1.93 | 1.89 |

ASSETS

| | Notes item | 31.12.2007 TEUR | 31.12.2008 TEUR |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **A. FIXED ASSETS** | | | |
| 1. Intangible assets | (24) | 2,253 | 1,041 |
| 2. Tangible assets | (25) | 71,106 | 84,545 |
| 3. Financial assets | (26) | 1,683 | 1,750 |
| | | **75,042** | **87,336** |
| **B. DEFERRED TAXES** | (47) | **877** | **1,018** |
| | | **75,919** | **88,354** |
| **CURRENT ASSETS** | | | |
| 1. Inventories | (27) | 57,534 | 70,931 |
| 2. Trade receivables | (28) | 62,892 | 68,884 |
| 3. Receivables from associated companies | | 0 | 1 |
| 4. Receivables from current taxes on earnings and income | | 2,313 | 1,423 |
| 5. Other current assets | (29) | | |
| Financial assets | | 5,097 | 4,738 |
| Other assets | | 343 | 771 |
| 6. Financial capital | | 967 | 2,165 |
| | | **129,146** | **148,913** |
| **BALANCE SHEET TOTAL** | | **205,065** | **237,267** |

LIABILITIES

| | Notes item | 31.12.2007 TEUR | 31.12.2008 TEUR |
|---|---|---|---|
| **A. EQUITY CAPITAL** | (30) | | |
| 1. Subscribed capital | (31) | 16,317 | 16,418 |
| 2. Capital reserves | (32) | 8,344 | 8,699 |
| 3. Revenue reserves | (33) | 44,457 | 51,561 |
| 4. Adjustment resulting from currency conversion | (34) | 1,024 | –575 |
| 5. Group equity capital generated (without revenue reserves) | | 10,095 | 10,851 |
| | | **80,237** | **86,954** |
| **B. NON-CURRENT PROVISIONS AND LIABILITIES** | | | |
| 1. Pension provisions | (36) | 1,038 | 1,041 |
| 2. Other provisions | (37) | 1,518 | 1,806 |
| 3. Bank loans and overdrafts | (38) | 21,685 | 40,777 |
| 4. Deferred taxes | (47) | 6,013 | 6,770 |
| | | **30,254** | **50,394** |
| **C. CURRENT PROVISIONS AND LIABILITIES** | | | |
| 1. Other current provisions | (37) | 189 | 108 |
| 2. Bank loans and overdrafts | (38) | 47,928 | 45,528 |
| 3. Trade payables | (38) | 34,328 | 44,036 |
| 4. Liabilities to associated companies | (38) | 32 | 32 |
| 5. Amounts owed to companies in which a shareholding is held | (38) | 27 | 164 |
| 6. Liabilities from current taxes on earnings and income | | 1,569 | 767 |
| 7. Other liabilities | (39) | | |
| Financial liabilities | | 2,228 | 3,009 |
| Other liabilities | | 8,273 | 6,275 |
| | | **94,574** | **99,919** |
| **BALANCE SHEET TOTAL** | | **205,065** | **237,267** |

| | PURCHASE AND MANUFACTURING COSTS | | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CONSOLIDATED FIXED ASSETS FRoSTA AG<br>AS PER DECEMBER 31, 2007 | As per 1.1.2007 TEUR | Effects of exchange rate TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As per 31.12.2007 TEUR | As per 1.1.2007 TEUR | Effects of exchange rate TEUR | Additions TEUR | Disposals TEUR | As per 31.12.2007 TEUR | As per 31.12.2007 TEUR | As per 31.12.2006 TEUR |
| 1. INTANGIBLE ASSETS | | | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | 10,641 | 5 | 392 | 43 | 1 | 11,080 | 6,950 | 5 | 1,873 | 1 | 8,827 | 2,253 | 3,691 |
| 2. TANGIBLE ASSETS | | | | | | | | | | | | | |
| a. Land, land rights and buildings including buildings on land owned by third-parties | 62,825 | 113 | 1,435 | 172 | 0 | 64,545 | 31,640 | 29 | 2,147 | 0 | 33,816 | 30,729 | 31,185 |
| b. Plant and machinery | 104,402 | 275 | 2,921 | 1,067 | 661 | 108,004 | 85,697 | 138 | 4,409 | 661 | 89,583 | 18,421 | 18,705 |
| c. Other plant, operating and office equipment | 39,466 | 19 | 1,841 | 21 | 821 | 40,526 | 28,747 | 12 | 2,511 | 811 | 30,459 | 10,067 | 10,719 |
| d. Prepayments and assets under construction | 1,324 | 56 | 11,812 | –1,303 | 0 | 11,889 | 0 | 0 | 0 | 0 | 0 | 11,889 | 1,324 |
| | 208,017 | 463 | 18,009 | –43 | 1,482 | 224,964 | 146,084 | 179 | 9,067 | 1,472 | 153,858 | 71,106 | 61,933 |
| 3. FINANCIAL ASSETS | 196 | 0 | 1,575 | 0 | 0 | 1,771 | 88 | 0 | 0 | 0 | 88 | 1,683 | 108 |
| | 218,854 | 468 | 19,976 | 0 | 1,483 | 237,815 | 153,122 | 184 | 10,940 | 1,473 | 162,773 | 75,042 | 65,732 |

| | PURCHASE AND MANUFACTURING COSTS | | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CONSOLIDATED FIXED ASSETS FRoSTA AG<br>AS PER DECEMBER 31, 2008 | As per 1.1.2008 TEUR | Effects of exchange rate TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As per 31.12.2008 TEUR | As per 1.1.2008 TEUR | Effects of exchange rate TEUR | Additions TEUR | Disposals TEUR | As per 31.12.2008 TEUR | As per 31.12.2008 TEUR | As per 31.12.2007 TEUR |
| 1. INTANGIBLE ASSETS | | | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | 11,080 | –12 | 435 | 161 | 0 | 11,664 | 8,827 | –10 | 1,806 | 0 | 10,623 | 1,041 | 2,253 |
| 2. TANGIBLE ASSETS | | | | | | | | | | | | | |
| a. Land, land rights and buildings including buildings on land owned by third-parties | 64,545 | –280 | 2,579 | 3,998 | 59 | 70,783 | 33,816 | –72 | 2,320 | 22 | 36,042 | 34,741 | 30,729 |
| b. Plant and machinery | 108,004 | –718 | 9,092 | 5,755 | 3,805 | 118,328 | 89,583 | –359 | 4,461 | 3,754 | 89,931 | 28,397 | 18,421 |
| c. Other plant, operating and office equipment | 40,526 | –52 | 2,496 | 51 | 459 | 42,562 | 30,459 | –32 | 2,607 | 446 | 32,588 | 9,974 | 10,067 |
| d. Prepayments and assets under construction | 11,889 | –1,557 | 11,066 | –9,965 | 0 | 11,433 | 0 | 0 | 0 | 0 | 0 | 11,433 | 11,889 |
| | 224,964 | –2,607 | 25,233 | –161 | 4,323 | 243,106 | 153,858 | –463 | 9,388 | 4,222 | 158,561 | 84,545 | 71,106 |
| 3. FINANCIAL ASSETS | 1,771 | 0 | 67 | 0 | 0 | 1,838 | 88 | 0 | 0 | 0 | 88 | 1,750 | 1,683 |
| | 237,815 | –2,619 | 25,735 | 0 | 4,323 | 256,608 | 162,773 | –473 | 11,194 | 4,222 | 169,272 | 87,336 | 75,042 |

| | Subscribed capital TEUR | Capital reserve TEUR | Revenue reserves TEUR | Other accumulated equity capital: Balancing items from currency conversion TEUR | Other accumulated equity capital: Group equity capital earned (excluding revenue reserves) TEUR | Equity capital TEUR |
|---|---|---|---|---|---|---|
| **As per January 1, 2007** | **16,226** | **7,909** | **37,224** | **146** | **8,894** | **70,399** |
| Dividends paid | | | | | –3,803 | –3,803 |
| Share issue | 91 | 386 | | | | 477 |
| Additional expenditure due to issue of employee shares | | 49 | | | | 49 |
| Transfer to revenue reserves | | | 7,233 | | –7,233 | 0 |
| Currency change | | | | 878 | | 878 |
| Consolidated profit for the year | | | | | 12,237 | 12,237 |
| **As per December 31, 2007** | **16,317** | **8,344** | **44,457** | **1,024** | **10,095** | **80,237** |
| Dividends paid | | | | | –4,207 | –4,207 |
| Share issue | 101 | 312 | | | | 413 |
| Aditional expenditure due to issue of employee shares | | 43 | | | | 43 |
| Transfer to revenue reserves | | | 7,104 | | –7,104 | 0 |
| Currency change | | | | –1,599 | | –1,599 |
| Consolidated profit for the year | | | | | 12,067 | 12,067 |
| **As per December 31, 2008** | **16,418** | **8,699** | **51,561** | **–575** | **10,851** | **86,954** |





| | 31.12.2007 TEUR | 31.12.2008 TEUR |
|---|---|---|
| Consolidated profit for the year before taxes on income | 16,639 | 17,724 |
| Depreciation of fixed assets | +10,940 | +11,194 |
| Income from interest | –244 | –518 |
| Interest expenses | +2,933 | +3,729 |
| Increase/decrease in non-current provisions | +50 | +291 |
| Result of the disposal of non-current fixed assets | –7 | – 90 |
| Non-cash income and expense | +342 | +604 |
| Interest paid | –2,804 | –3,327 |
| Interest received | +79 | +361 |
| Taxes on income paid | –8,173 | –5,782 |
| Taxes on income received | +243 | +1,473 |
| **CASH FLOW BEFORE CHANGE IN WORKING CAPITAL** | **+19,998** | **+25,659** |
| Decrease in current provisions | –76 | –81 |
| Increase/decrease in inventories, trade receivables and other assets that cannot be classified as investing or financial activities | –21,505 | –19,302 |
| Increase/decrease in inventories, trade payables and other liabilities that cannot be classified as investing or financing activities | +6,973 | +7,521 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **+5,390** | **+13,797** |
| Proceeds from disposals of fixed assets | +17 | +23 |
| Payments for investments in fixed assets | –18,009 | –25,233 |
| Payments for investments in intangible assets | –392 | –435 |
| Payments for investments in financial fixed assets | –1,575 | –13 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **– 19,959** | **– 25,658** |
| Proceeds from increases in equity capital | +476 | +413 |
| Dividends to shareholders | –3,803 | –4,207 |
| Proceeds from new bank loans | +20,393 | +26,033 |
| Repayment of bank loans | –5,099 | –7,353 |
| Increase/decrease of current liabilities to banks | –4,845 | –1,804 |
| Proceeds from finance leases | – | – |
| Finance lease payments | –2,249 | – |
| **CASH FLOW FROM FINANCING ACTIVITIES** | **+14,563** | **+13,082** |
| Effect of changes in exchange rates on cash and cash equivalents | – | –23 |
| Net change in cash and cash equivalents | –6 | +1,221 |
| Cash and cash equivalents at the beginning of the period | +973 | +967 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **+967** | **+2,165** |

FRoSTA Aktiengesellschaft, Bremerhaven

## NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2008

FRoSTA AG, a public limited company according to German law and quoted on the stock exchange, and their subsidiaries, develop, produce and sell frozen products in Germany and other European countries. The products are sold under their "FRoSTA", "Elbtal" and "TIKO" own brand labels and as private labels. The Group's headquarters are in Bremerhaven. FRoSTA AG's Executive Board approved the consolidated financial statements on March 18, 2009 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, 2008 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 with the restriction that we have not extended the notes to the consolidated financial statements to include segment reporting according to IAS 14 (see IAS 14 subpara. 50). In doing so all IAS or IFRSs (with the above exception) to be applied as at December 31, 2008 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 with the exception of the IAS 14, 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.

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:

- IRFS 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

FRoSTA AG and the following fully consolidated subsidiaries with a 100 % capital share have been included in the consolidated financial statements (amounts in TEUR):

| Name and headquarters of company | Subscribed capital TEUR | Equity TEUR | Result for the year 2007 TEUR | Result for the year 2008 TEUR |
|---|---|---|---|---|
| 1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven | 256 | 249 | –2 | –5 |
| 2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch | 26 | 26 | 0 | 0 |
| 3. Feldgemüse GmbH, Lommatzsch | 26 | 12 | 3 | –2 |
| 4. FRoSTA France S.a.r.l., Boulogne-Billancourt/France | 153 | 282 | 10 | 11 |
| 5. FRoSTA Tiefkühlkost GmbH, Bremerhaven | 255 | 253 | –1 | –1 |
| 6. FRoSTA Foodservice GmbH, Bremerhaven (2007: FRoSTA GV-Partner GmbH Großverbraucher-Service) | 256 | 258 | 1 | 1 |
| 7. FRoSTA Italia s.r.l., Rome/Italy | 10 | 169 | 11 | 13 |
| 8. FRoSTA Tiefkühlkost GmbH, Baden/Austria | 36 | 250 | 20 | 22 |
| 9. FRoSTA ČR s.r.o., Prague/Czech Republic | 38 | 166 | 49 | 4 |
| 10. FRoSTA Sp. z o.o., Bydgoszcz/Poland | 8,369 | 8,350 | 1,289 | –633 |
| 11. BioFreeze GmbH, Bremerhaven | 256 | 254 | –1 | 0 |
| 12. TIKO Vertriebsgesellschaft mbH, Bremerhaven | 256 | 258 | 1 | 1 |

For the first time, an associated company with a 45 % shareholding has been included in the consolidated financial statements.

| Name and headquarters of company | Subscribed capital TEUR | Equity TEUR | Result for the year 2007 TEUR | Result for the year 2008 TEUR |
|---|---|---|---|---|
| Bio-Frost Westhof GmbH, Wöhrden | 278 | 739 | 234 | 120 |

In the financial year 5 subsidiaries and 1 associated companies were not included in the consolidated financial statements because as a whole they are of minor importance as regards the consolidated assets, finances and earnings. The unconsolidated subsidiaries are mostly companies with no operational business.

#### 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 | 2007 | 2008 |
|---|---|---|
| Polish Zloty | 3.5928 | 4.1823 |
| Czech crown | 26.575 | 26.585 |

### 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

Self-produced intangible assets are valued at the cost they incur in the developmental phase once technological and economical feasibility has been established till their completion. The capitalised costs include the costs incurred directly and indirectly as part of the development phase.

Purchased intangible assets are valued at cost.

Self-produced and purchased 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 |
| Licenses | 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 received reduce the cost. In the financial year this reduction amounts to TEUR 6,834 (2007: TEUR 7,902). Financing costs are capitalised as a part of cost. Costs for repairing tangible assets are always recognised as expenses. 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 |

Low value fixed assets are fully depreciated in the year accrued because by and large they are insubstantial.

#### 8 d) Unscheduled depreciation of intangible assets and tangible 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. On December 31, 2008 this amounted to TEUR 2,613 (2007: TEUR 3,311).

9 **e) Participating interests**
Shares in subsidiaries and associated companies that have not been consolidated because they are insignificant or not includeded in the consolidated financial statements according to the equity method, are classified according to IAS 39 for valuation purposes in the "financial instruments available for disposal" category.

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 direct 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 miscellaneous 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 or other long-service benefits and partial retirement 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.

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 are 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 subjected 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. Interest-rate swaps are used to hedge non-current variable financing transactions.

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 | 31.12.2007 Nominal amount TEUR | 31.12.2007 Fair value TEUR | 31.12.2008 Nominal amount TEUR | 31.12.2008 Fair value TEUR |
|---|---|---|---|---|---|
| Call options | Option purchase TUSD | 5,060 | –138 | 0 | 0 |
| Forward-exchange contracts | Purchase TUSD | 11,242 | –207 | 15,414 | 426 |
| Interest-rate swaps | Loan TEUR | 22,277 | –225 | 22,328 | –1,286 |
| Interest-cap contract | Loan TEUR | 5,000 | 46 | 5,000 | 1 |

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.

In the case of an interest-cap contract, the company agrees with the bank a maximum interest rate for a fixed amount over a fixed period. For this service, a charge is payable to the bank on completion of the contract. During the contract period, the market interest rate is monitored to check whether it is above or below the agreed maximum. Should it rise above this maximum, the company receives a compensatory payment. If it falls below, no extra payments are due. The maximum interest rate agreed in this type of contract limits the risk to the company deriving from rising interest rates.

Derivative financial instruments are accounted at cost when purchased. At later dates they are recognised at their fair value.

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, 2007 and 2008 are as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Within a year | 2,320 | 3,668 |
| Between one and five years | 16,259 | 16,078 |
| Over five years | 8,698 | 7,582 |
| Total | 27,277 | 27,328 |

19 **n) Employee share program**
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 two different purchasing prices per share depending on the retention periods of two or five 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, long service 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 IFRS standards**

The IASB has published further standards and interpretations which were not binding on December 31, 2008. In 2008, these included changes or alterations to IAS 1 "Presentation of Financial Statements", IAS 32 "Financial Instruments: Presentation of terminable Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 3R "Mergers" and IAS 27R "Consolidated and separate financial statements according to IRFS". New versions of IAS 23 "Borrowing Costs" and IFRS 8 "Segment Reporting" had already been published the year before. All these standards are to be applied for the first time in financial years beginning on January 1 or after July 1, 2009. The Board does not expect this to have any great effect on the consolidated financial statements of FRoSTA AG in the period of its initial application. However, data included in the Appendix will be more detailed. Its structure will also be adapted accordingly if necessary.

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

**a) Intangible assets**

The development of the individual items in the intangible assets is shown in the consolidated assets (p. 22).

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 2008 amounted to TEUR 1,396 (2007: TEUR 1,188).

25 **b) Tangible assets**

As regards the development of the tangible assets please see the consolidated fixed assets.

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.

27 **d) Inventories**

The inventories are comprised as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Raw materials and consumables | 22,771 | 37,770 |
| Unfinished goods | 12,265 | 13,223 |
| Finished products and goods | 19,679 | 17,351 |
| Down payments | 2,819 | 2,587 |
| **Inventories** | **57,534** | **70,931** |

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 3,261 (2007: TEUR 1,262).

28 **e) Trade receivables**

Trade receivables are comprised as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Trade receivables, gross | 63,824 | 69,330 |
| Value adjustments on trade receivables | –932 | –446 |
| **Trade receivables** | **62,892** | **68,884** |

Value adjustments on trade receivables have developed as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Value adjustments January 1 | 793 | 932 |
| Spread | 14 | –34 |
| Allocations | 130 | 208 |
| Utilisation | 0 | –590 |
| Dissolutions | –5 | –70 |
| **Value adjustments December 31** | **932** | **446** |

Expenditure on total write-offs amount to TEUR 50 (2007: TEUR 39). Income from written-off receivables amount to TEUR 70 (2007: TEUR 5).

Risks included in the trade receivables:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| **Neither overdue nor adjusted receivables** | **58,129** | **64,777** |
| Overdue receivables not individually adjusted | | |
| Less than thirty days | 4,119 | 3,843 |
| Thirty to sixty days | 155 | 94 |
| More than sixty days | 489 | 170 |
| **Total receivables overdue** | **4,763** | **4,107** |
| **Net accounting value** | **62,892** | **68,884** |

Receivables sold in ABS transactions amounted to TEUR 28,235. 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 | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Receivables from investment grants | 96 | 0 |
| Creditors with debit balances | 221 | 182 |
| Additional expenditure due to issue of employee shares | 105 | 55 |
| VAT and consumer tax | 4,048 | 3,683 |
| Other | 627 | 818 |
| **financial assets** | **5,097** | **4,738** |
| Delimitations | 279 | 711 |
| Partial retirement/ bankruptcy insurance | 64 | 60 |
| **Other assets** | **343** | **771** |
| **Sundry assets** | **5,440** | **5,509** |

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

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**

The share capital of TEUR 16,418 has been fully paid in. Considering 6,413,386 shares, the calculatory value is EUR 2.56 per share. Compared to the previous year there was a change in that 35,203 employee shares were issued at a special price of 332 TEUR. In addition, 4,510 individual shares made out to bearer were issued to employees within a bonus scheme. The shares were issued at the share price of the transfer day. The total purchase price was TEUR 81. The nominal value of the shares was TEUR 101.

Apart from this there are authorised capital funds, as yet unused, for a fixed period until June 30, 2009 amounting to EUR 308,007.68 for the issuing of shares to employees of FRoSTA AG and its affiliated companies, as well as authorised capital funds of EUR 5,000,000 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 programme.

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, 2008, these came to TEUR 10,671 (2007: TEUR 11,311).

The Shareholders' Meeting on June 18, 2008 decided to pay out a dividend of EUR 0.66 per share (TEUR 4,207) and to transfer TEUR 7,104 into revenue reserves based on FRoSTA AG's net profit as at December 31, 2007.

FRoSTA AG's Executive Board proposes a dividend of EUR 0.75 per share for 2008 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 two separate proposals with a different retention period and a limited purchasing opportunity for each employee and pensioner.

The following share purchases were effected:

| TEUR | 2007 | 2008 |
|---|---|---|
| **Proposal 1** – number of shares | 16,002 | 15,981 |
| Issue price (EUR) | 9.90 | 7.40 |
| Market rate (EUR) | 19.80 | 14.80 |
| Estimated market price (EUR) | 11.55 | 8.63 |
| Balance (EUR) | 1.65 | 1.23 |
| **Value (TEUR)** | **26** | **20** |
| | | |
| **Proposal 2** – number of shares | 14,122 | 19,222 |
| Issue price (EUR) | 14.85 | 11.10 |
| Estimated market price (EUR) | 16.50 | 12.33 |
| Balance (EUR) | 1.65 | 1.23 |
| **Value (TEUR)** | **23** | **23** |
| **Total (TEUR)** | **49** | **43** |

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.

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.

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 2007 and 2008 the following parameters were used:

| | 2007 | 2008 |
|---|---|---|
| Interest rate | 5.25 % | 5.00 % |
| Salary trend | 3.00 % | 3.00 % |
| Pension trend | 2.00 % | 2.00 % |

The actuarial forecasts for the life expectancy are based on Dr Klaus Heubeck's 2005 charts for the financial year 2008.

In 2007 and 2008 the following expenses were incurred:

| TEUR | 2007 | 2008 |
|---|---|---|
| Actuarial profits/losses | –65 | 51 |
| **Personnel revenue/costs** | **–65** | **51** |
| Interest paid | 37 | 35 |
| **Pensions revenue/costs** | **–28** | **86** |

The provision recorded in the balance sheet developed as follows:

| TEUR | 2007 | 2008 |
|---|---|---|
| Provisions as per January 1 | 1,149 | 1,038 |
| Pensions costs/revenue | –28 | 86 |
| Payments to pensioners | –83 | –83 |
| Transfer of pension to pension fund | 0 | 0 |
| **Provisions as at December 31** | **1,038** | **1,041** |

37 **i) Other provisions**

The other provisions are made up as follows:

| TEUR | As at 01.01.2008 | Utilisation | Write-back | Transfer | As at 31.12.2008 |
|---|---|---|---|---|---|
| Partial retirement | 383 | 103 | 22 | 153 | 411 |
| Jubilee payments | 1,135 | 53 | 0 | 313 | 1,395 |
| **Sundry non-current provisions** | **1,518** | **156** | **22** | **466** | **1,806** |
| Severance payments | 189 | 128 | 24 | 49 | 86 |
| Anticipated losses | 0 | 0 | 0 | 22 | 22 |
| **Sundry current provisions** | **189** | **128** | **24** | **71** | **108** |
| **Sundry provisions** | **1,707** | **284** | **46** | **537** | **1,914** |

38 **j) Liabilities**

| TEUR | Total amount | thereof with a remaining maturity of up to one year | between one and five years | more than five years | thereof secured by mortgages |
|---|---|---|---|---|---|
| Liabilities to banks (previous year) | 86,305 (69,613) | 45,528 (47,928) | 21,994 (15,252) | 18,783 (6,433) | 38,433 (25,016) |
| Trade payables (previous year) | 44,036 (34,328) | 44,036 (34,328) | 0 (0) | 0 (0) | 0 (0) |
| Liabilities to affiliated companies (previous year) | 32 (32) | 32 (32) | 0 (0) | 0 (0) | 0 (0) |
| Amounts owed to companies in which a shareholding is held (previous year) | 164 (27) | 164 (27) | 0 (0) | 0 (0) | 0 (0) |
| Other liabilities (previous year) | 9,284 (10,501) | 9,284 (10,501) | 0 (0) | 0 (0) | 0 (0) |

Bank loans and overdrafts are secured by mortgages (TEUR 22,254; previous year TEUR 24,099) and secured by similar rights (TEUR 16,179; previous year TEUR 917).

Bank loans and overdrafts are listed as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| **Non-current loans** | **21,685** | **40,777** |
| Current loans | 6,765 | 6,169 |
| Current account liabilities | 41,163 | 39,359 |
| **Current liabilities to banks** | **47,928** | **45,528** |
| **Bank loans and overdrafts** | **69,613** | **86,305** |

Receivables sold in asset-backed securities transactions (ABS) amounted to TEUR 28,235 as per December 31, 2008. After deducting a discount of TEUR 3,243, they are included in other current liabilities at a value of TEUR 24,992.

Bank liabilities as per December 31, 2008 and other liabilities which are long-term and of an exclusively financial nature have the following interest rates and maturity dates:

| 31.12.2007 TEUR | 31.12.2008 TEUR | Interest rate in % | Maturity |
|---|---|---|---|
| 128 | 0 | 5.65 | 30.06.2008 |
| 1,113 | 0 | Wibor + 1.00 | 14.07.2008 |
| 147 | 0 | 3.75 | 30.09.2008 |
| 639 | 0 | 3.25 | 30.12.2008 |
| 1,829 | 701 | 5.95 | 30.08.2009 |
| 2,391 | 1,435 | 4.45 | 02.01.2010 |
| 917 | 583 | 4.73 | 30.09.2010 |
| 491 | 311 | Euribor 1M + 1.20 | 20.07.2011 |
| 3,830 | 2,873 | 5.525 | 30.08.2011 |
| 3,000 | 3,000 | 3.50 | 30.12.2016 |
| 9,215 | 11,671 | Euribor 3M + 0.50 | 31.12.2016 |
| 4,750 | 4,250 | 4.98 | 31.05.2017 |
| 0 | 4,750 | 3.70 | 31.03.2018 |
| 0 | 2,372 | 5.62 | 31.03.2018 |
| 0 | 5,000 | 4.60 | 31.03.2018 |
| 0 | 2,500 | 4.60 | 31.03.2018 |
| 0 | 7,500 | 5.31 | 31.03.2018 |
| **28,450** | **46,946** | | |

39 The other current liabilities are structured as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Collection commissions | 1,809 | 2,053 |
| Customers with a credit balance | 138 | 82 |
| Other sundry financial liabilities | 281 | 874 |
| **Financial liabilities** | **2,228** | **3,009** |
| Liabilities to employees | 2,146 | 1,934 |
| Social security contributions | 49 | 68 |
| Taxes | 462 | 514 |
| Accruals | 5,616 | 3,759 |
| **Other sundry liabilities** | **8,273** | **6,275** |
| **Other liabilities** | **10,501** | **9,284** |

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 | 2007 | 2008 |
|---|---|---|
| Germany | 225,781 | 246,060 |
| Abroad | 122,916 | 145,756 |
| **Sales revenues** | **348,697** | **391,816** |

41 **e) Other operating income**

Other operating income is structured as follows:

| TEUR | 2007 | 2008 |
|---|---|---|
| Exchange rate profits | 1,886 | 5,757 |
| Income from charged-off accruals | 981 | 1,008 |
| Income from credits from previous years and charged-off liabilities | 271 | 260 |
| Income from mineral oil tax refund | 571 | 530 |
| Sundry operating income | 1,076 | 1,110 |
| **Other operating income** | **4,785** | **8,665** |

42 **c) Personnel costs**

Personnel costs are split up as follows

| TEUR | 2007 | 2008 |
|---|---|---|
| Wages and salaries | 42,249 | 45,806 |
| Social security contributions | 7,364 | 7,936 |
| Pension costs | 1 | 54 |
| Costs of share-related remunerations | 50 | 43 |
| **Personnel costs** | **49,664** | **53,839** |

The personnel costs include severance payments of TEUR 53 (TEUR 145 previous year). 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 2007/2008:

| | 2007 | 2008 |
|---|---|---|
| Wage-earners | 838 | 948 |
| Salaried staff | 364 | 398 |
| Temporary employees | 137 | 158 |
| **Number of employees according to article 314 (1) No. 4 HGB** | **1,339** | **1,504** |
| Apprentices | 33 | 35 |
| **Number of employees** | **1,372** | **1,539** |

43 **d) Depreciation and amortisation**

A breakdown of depreciation and amortisation is as follows:

| TEUR | 2007 | 2008 |
|---|---|---|
| Scheduled amortisation of intangible assets | 1,873 | 1,806 |
| Scheduled depreciation of property, plant and equipment | 9,067 | 9,388 |
| **Depreciation and amortisation** | **10,940** | **11,194** |

44 **e) Other operating expenses**

Other operating expenses are grouped as follows:

| TEUR | 2007 | 2008 |
|---|---|---|
| Storage and transport costs | 14,433 | 17,304 |
| External personnel costs | 9,582 | 10,737 |
| Marketing costs | 8,775 | 8,820 |
| Rent and cold-storage expenses | 6,120 | 6,930 |
| Maintenance | 3,511 | 3,716 |
| Foreign currency exchange losses | 2,661 | 6,260 |
| Fees, contributions and insurance | 2,189 | 2,297 |
| Other expenses | 8,796 | 7,285 |
| **Other operating expenses** | **56,067** | **63,349** |

45 **f) Interest result**

The interest result is divided up as follows:

| TEUR | 2007 | 2008 |
|---|---|---|
| Income from interest on bank balances | 4 | 109 |
| Income from interest on loans | 1 | 0 |
| Income from interest swaps | 61 | 71 |
| Income from interest cap contracts | 52 | 27 |
| Income from interest on tax credits | 98 | 247 |
| Other income from interest | 28 | 64 |
| **Income from interest** | **244** | **518** |
| Interest paid for bank loans and overdrafts | –1,665 | –1,975 |
| Interest paid for sales and lease back transaction | –36 | 0 |
| Interest paid for pension reserves | –37 | –35 |
| Interest paid for accrued taxes | 0 | –1 |
| Anticipated losses from interest rate swaps | 0 | –516 |
| Anticipated losses from interest rate caps | 0 | –45 |
| ABS | –1,178 | –1,152 |
| Other interest paid | –17 | –5 |
| **Interest and similar expenses** | **–2,933** | **–3,729** |
| **Income from interest** | **–2,689** | **–3,211** |

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 | 2007 | 2008 |
|---|---|---|
| Current German taxes | 6,842 | 4,830 |
| Current foreign taxes | 541 | 396 |
| **Current taxes for financial year** | **7,383** | **5,226** |
| Taxes for previous years | –522 | –158 |
| **Taxes on income and earnings** | **6,861** | **5,068** |
| Deferred taxes Germany | –2,385 | 819 |
| Deferred foreign taxes | –74 | –230 |
| **Deferred taxes** | **–2,459** | **589** |
| **Tax expenditure according to income statement** | **4,402** | **5,657** |

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 | 2007 | 2008 |
|---|---|---|
| **Result before taxes on income and earnings** | **16,639** | **17,724** |
| FRoSTA AG's tax rate | 37.25 % | 29.62 % |
| **Expected tax expenditure** | **6,198** | **5,250** |
| Different tax rates | –1,341 | 248 |
| Taxes on income and earnings for previous years | –522 | –158 |
| Tax expenditure for non-deductible operating expenses | 246 | 350 |
| Tax savings from tax-free earnings | –179 | –33 |
| **Tax expenditure according to income statement** | **4,402** | **5,657** |

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. Until 2007, trade tax reduced the sum on which corporation tax is calculated.

The transition from imputation method to half income system has resulted in a corporation tax credit of TEUR 1,794. This tax credit will be paid out in ten equal instalments as from 2008. 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 and tax-related loss carry-forwards are divided up as follows:

| TEUR | 31.12.2007 Active deferred taxes | 31.12.2007 Passive deferred taxes | 31.12.2008 Active deferred taxes | 31.12.2008 Passive deferred taxes |
|---|---|---|---|---|
| Intangible assets | 169 | 0 | 237 | 0 |
| Tangible assets | 0 | 5,648 | 0 | 5,022 |
| Inventories | 24 | 256 | 34 | 1,610 |
| Trade receivables | 10 | 97 | 6 | 98 |
| Other assets | 239 | 0 | 206 | 0 |
| Pension reserves | 50 | 0 | 53 | 0 |
| Sundry provisions | 377 | 0 | 374 | 0 |
| Trade payables | 0 | 12 | 0 | 40 |
| Other liabilities | 8 | 0 | 108 | 0 |
| **Temporary differences** | **877** | **6,013** | **1,018** | **6,770** |
| **Loss carry forwards** | **0** | **0** | **0** | **0** |
| **Total** | **877** | **6,013** | **1,018** | **6,770** |

The change in the deferred tax receivables and liabilities results from current deferred tax expenditures and tax proceeds.

48 **h) Earnings per share**

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

| | | 2007 | 2008 |
|---|---|---|---|
| **Consolidated profit for the year** | TEUR | **12,237** | **12,067** |
| Weighted average of issued shares | 1,000 shares | 6,345 | 6,380 |
| **Consolidated profit for the year per share** | EUR | **1.93** | **1.89** |

A figure of EUR 1.89 (previous year EUR 1.93) 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 2,165 (previous year TEUR 967).

50 **8) Explanatory notes on segment reporting**

In conformance with IAS 14, a segment report has to be created if the company operates in segments which differ with respect to risk and profit situation. Since FRoSTA AG only operates in one segment, frozen food, such a differentiation is not required.

Segment reporting according to regions as per IAS 14 is required if the segments are in different economic zones with varying risk and profit situations. Since most of FRoSTA AG's earnings are made in the European Union with its uniform economic and political background, this form of segment reporting is also not required.

**9) Other information**

51 **Primary financial instruments**

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

| TEUR | 31.12.2007 Book value | 31.12.2007 Fair value | 31.12.2008 Book value | 31.12.2008 Fair value |
|---|---|---|---|---|
| Banks loans and overdrafts | 69,613 | 69,599 | 86,305 | 85,157 |
| Other financial liabilities | 2,228 | 2,228 | 3,009 | 3,009 |

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

52 **a) Contingencies**

The FRoSTA Group believes there are no significant contingencies.

53 **b) Other financial liabilities**

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

| TEUR | 2007 | 2008 |
|---|---|---|
| Liabilities from current leasing contracts | 2,022 | 2,182 |
| Liabilities from current leases and maintenance agreements | 4,462 | 3,630 |
| Commitments from increase in capital investments | 5,138 | 3,018 |
| Other financial liabilities | 11,622 | 8,830 |

Future payments from lease, maintenance and hire contracts as at December 31, 2008 have the following remaining maturities:

| TEUR | < 1 year | 1–5 years | > 5 years |
|---|---|---|---|
| Future payments from current leasing contracts | 1,046 | 1,078 | 58 |
| Future payments from current lease and maintenance contracts | 2,204 | 1,333 | 93 |
| Total | 3,250 | 2,411 | 151 |

Total expenditure from sale and lease back contracts amounted to TEUR 3,762 and TEUR 3,364 respectively for the financial years 2008 and 2007.

54 **c) Finance leases**

Lease back contracts were concluded for the purchase of IT equipment and SAP software. The leasing assets were balanced at cost and were fully written off as per December 31, 2008. The book values are as follows:

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Intangible assets | 1,274 | 0 |
| Tangible assets | 333 | 0 |
| Total | 1,607 | 0 |

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

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

| | TEUR |
|---|---|
| Final audit | 48 |
| Other certification or valuation services | 4 |
| Total | 52 |

56 **e) Affiliated individuals**

**Executive Board**

Members of the FRoSTA AG's Executive Board in the financial year 2008 were:

> Dirk Ahlers, businessman, Hamburg (Chairman)
– As at December 31, 2008: 2,240,076 FRoSTA shares = 34.9 %.

> Felix Ahlers, Hamburg (Vice President Marketing and Sales)
– As at December 31, 2008: 1,453,610 FRoSTA shares = 22.7 %.

> Dr Stephan Hinrichs, Bendestorf (Vice President Finance and Administration)

> Jürgen Marggraf, Bremen (Vice President Operations)

The total number of Executive Board FRoSTA shares as at December 31, 2008 amounts to: 3,779,036 = 58.9 %.

On February 19, 2004 the following was published according to article 25 (1) WpHG:

– Ms Friederike Ahlers, Hamburg, and Mr Felix Ahlers, Hamburg, notified us on February 18, 2004 that since February 4, 2004 they have been entitled to more than 5 % of the voting rights in FRoSTA AG, namely each holds exactly 77.2 % of the voting rights, whereby 54.8 percentage points of the voting rights are allocated to each in accordance with art. 22 (2) sentence 1 WpHG (German Securities Trading Act.).
– Mr Dirk Ahlers, Hamburg, notified us on February 18, 2004 that since February 4, 2004 he has been entitled to more than 75 % of the voting rights in FRoSTA AG, namely exactly 77.2 % of the voting rights, whereby 44.8 percentage points of the voting rights are allocated to him in accordance with Art. 22 (2) sentence 1 WpHG (German Securities Trading Act.).

**Supervisory board**

Members of FRoSTA AG's Supervisory Board in the financial year 2008 were:

> Dr Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board)
– Other appointments held by Dr Müffelmann: Supervisory Board Member of Nabertherm GmbH, Lilienthal, and of F. Weyhausen Beteiligungs AG, Wildeshausen

> Ulf Weisner, businessman, Ratingen-Lintorf (Deputy Chairman of the Supervisory Board)

> Jürgen Schimmelpfennig, employee at FRoSTA AG, Bremerhaven (employee representative)

The total number of FRoSTA AG shares owned by the Supervisory Board at the balance sheet date is 2,500 = 0.04 %.

In the financial year 2008, the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, whose partners include Mr Dirk Ahlers, invoiced FRoSTA AG for travel expenses, rentals and commission on commodities sold totalling TEUR 239 (in the previous year TEUR 382). The balance at December 31, 2008 amounts to TEUR 26 (incl. VAT).

In the financial year 2008, FRoSTA AG invoiced the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co. for commodities sold and consulting services to a total value of TEUR 14. The balance at December 31, 2008 is TEUR 0.

Lenox Frozen Fruits Ltd, a 100 % subsidiary of the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., invoiced FRoSTA AG for goods delivered to a value of TEUR 181. The balance at December 31, 2008 amounts to TEUR 1.

The consulting services for FRoSTA AG provided by Sozietät Büsing, Müffelmann & Theye, Bremen, amounted to TEUR 118 (in the previous year TEUR 50). As at December 31, 2008 this results in a balance of TEUR 21 (incl. VAT).

Mr Ulf Weisner invoiced for consulting services and travelling expenses to FRoSTA AG worth TEUR 17 (2008 TEUR 17). This amounts to a balance of TEUR 0 on December 31, 2008.

57 **f) Remuneration according to article 314 (1) No. 6 HGB**

The total remuneration of the Executive Board for the financial year 2008 amounted to TEUR 2,363 (previous year TEUR 2,347). Of this the fixed remuneration came to TEUR 919 (previous year TEUR 855) and variable remuneration TEUR 1,444 (previous year TEUR 1,492).

The total remuneration of former members of the Executive Board was TEUR 68 in the financial year (2007: TEUR 67). Pension reserves for former Executive Board members amounted to TEUR 605 on the balance sheet date (TEUR 604 in the previous year).

The remuneration of the Supervisory Board amounted to TEUR 53. Of that, TEUR 39 were variable and TEUR 14 fixed payments. The remuneration of the previous year at TEUR 48 comprised variable payments of TEUR 34 and fixed payments of TEUR 14.

58 **g) Declaration of compliance in accordance with Art. 161 AktG (German Stock Corporations Law)**

The Executive and Supervisory Boards submitted their declaration of compliance and made it available to the shareholders at all times.

59 **h) Appropriation of profits**

We will be proposing to the General Meeting of Shareholders that FRoSTA AG's net profit for the year amounting to EUR 10,670,716.45 as per December 31, 2008 be appropriated as follows: a dividend of EUR 0.75 per share equalling a total dividend of EUR 4,810,039.50 be paid to shareholders and that the remaining amount of EUR 5,860,676.95 be allocated to the other revenue reserves.

60 **i) 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 26, 2009

The Executive Board

(D. Ahlers) (F. Ahlers)

(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 26, 2009

The Executive Board

(D. Ahlers) (F. Ahlers)

(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, 2008 to December 31, 2008. 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, with the following exception: Contrary to IAS 14, the notes to the Group financial statement do not include segment reporting.

In our opinion and based on the information obtained during the audit, the consolidated financial statements, with the above-mentioned limitation, give a true and fair view of the Group's assets, finances and earnings in accordance with IFRSs, as applicable in the EU and the commercial provisions that also apply according to Art. 315a (1) HGB. Taking into account the above-mentioned limitation, the Group management report concurs with consolidated financial statements in accordance with IFRSs, as applicable in the EU, and provides an accurate picture of the Group's position, correctly depicting the challenges and risks of development in the future.

Bremen, March 26, 2009

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr Meyer
Auditor

Heuer
Auditor

# FINANCIAL STATEMENTS FRoSTA AG



| | Notes item | 2007 TEUR | 2008 TEUR |
|---|---|---|---|
| 1. Turnover | (8) | 334,297 | 379,687 |
| 2. Reduction in stocks of ready and non-ready products (2007: Increase) | | 3,075 | –1,433 |
| 3. Own work capitalised | | 21 | 138 |
| 4. Other operating income | (9) | 4,079 | 7,260 |
| **5. OPERATING INCOME** | | **341,472** | **385.652** |
| | | | |
| 6. Cost of materials | | | |
| a) Raw materials, consumables and goods purchased for resale | | –207,584 | –246,915 |
| b) Purchased services | | – 8,407 | –9,325 |
| | | **–215,991** | **–256,240** |
| **7. GROSS PROFIT** | | **125,481** | **129,412** |
| | | | |
| 8. Personnel expenses | | | |
| a) Wages and salaries | | –38,865 | –41,466 |
| b) Social security and other pension costs and for support – thereof for pensions TEUR 70 (2007: TEUR 73) | | –6,784 | –7,171 |
| | | **–45,649** | **–48,637** |
| 9. Depreciation/amortisation of intangible and tangible fixed assets | (3) | –7,556 | –7,276 |
| | | **–7,556** | **–7,276** |
| 10. Other operating expenses | (10) | –52,340 | –55,453 |
| **11. OPERATING RESULT** | | **19,936** | **18,046** |
| | | | |
| 12. Income from participating interests – thereof from associated companies TEUR 0 (2007: TEUR 253) | | 324 | 99 |
| 13. Other interest and similar income – thereof from associated companies TEUR 286 (2007: TEUR 162) | | 697 | 839 |
| 14. Interest and similar expenses – thereof to associated companies TEUR 22 (2007: TEUR 22) | | –2,725 | –3,418 |
| **15. Financial result** | | **–1,704** | **–2,480** |
| **16. RESULT FROM ORDINARY BUSINESS ACTIVITIES** | | **18,232** | **15,566** |
| | | | |
| 17. Taxes on income and earnings | (11) | –6,713 | –4,748 |
| 18. Other taxes | | –208 | –147 |
| | | **–6,921** | **–4,895** |
| **19. PROFIT FOR THE YEAR** | | **11,311** | **10,671** |

ASSETS

| | Notes item | 31.12.2007 TEUR | 31.12.2008 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 | | 2,171 | 1,508 |
| | | **2,171** | **1,508** |
| **II. Tangible assets** | (3) | | |
| 1. Land, land rights and buildings including buildings on land owned by third-parties | | 23,138 | 22,372 |
| 2. Plant and machinery | | 8,289 | 10,014 |
| 3. Other plant, operating and office equipment | | 4,902 | 5,213 |
| 4. Prepayments and assets under construction | | 846 | 10,160 |
| | | **37,175** | **47,759** |
| **III. Financial assets** | (3) | | |
| 1. Shares in associated companies | | 7,802 | 7,815 |
| 2. Participating interests | | 1,593 | 1,593 |
| 3. Long-term securities | | 6 | 6 |
| 4. Employer's pension liability insurances | | 25 | 26 |
| | | **9,426** | **9,440** |
| | | **48,772** | **58,707** |
| **B. CURRENT ASSETS** | | | |
| **I. Inventories** | (2) | | |
| 1. Raw materials and consumables | | 20,002 | 28,628 |
| 2. Work and services in progress | | 11,553 | 12,327 |
| 3. Finished products and goods purchased for resale | | 17,140 | 15,358 |
| 4. Down payments | | 574 | 1,566 |
| | | **49,269** | **57,879** |
| **II. Accounts receivable and miscellaneous other fixed assets** | (4) | | |
| 1. Trade receivables | | 57,849 | 63,747 |
| 2. Amounts owed by associated companies | | 1,820 | 6,673 |
| 3. Other assets | | 5,866 | 5,171 |
| | | **65,535** | **75,591** |
| **III. Cash, bank balances and cheques** | | **619** | **1,795** |
| | | **115,423** | **135,265** |
| **C. DEFERRED INCOME** | | | |
| 1. Other accruals and deferrals | | **247** | **698** |
| **BALANCE SHEET TOTAL** | | **164,442** | **194,670** |

LIABILITIES

| | Note item | 31.12.2007 TEUR | 31.12.2008 TEUR |
|---|---|---|---|
| **A. EQUITY CAPITAL** | (5) | | |
| **I. Subscribed capital** | | **16,317** | **16,418** |
| **II. Capital reserves** | | **8,081** | **8,392** |
| **III. Revenue reserves** | | | |
| 1. Statutory reserve | | 200 | 200 |
| 2. Other revenue reserves | | 24,371 | 31,476 |
| | | **24,571** | **31,676** |
| **IV. Annual profits** | | **11,311** | **10,671** |
| | | **60,280** | **67,157** |
| **B. PROVISIONS** | (6) | | |
| 1. Pension provisions and similar obligations | | 621 | 608 |
| 2. Provisions for taxes | | 1,567 | 766 |
| 3. Other provisions | | 14,529 | 14,034 |
| | | **16,717** | **15,408** |
| **C. CREDITORS** | (7) | | |
| 1. Bank loans and overdrafts | | 58,136 | 73,603 |
| 2. Trade payables | | 19,652 | 28,348 |
| 3. Amounts owed to associated companies | | 3,241 | 3,345 |
| 4. Amounts owed to companies in which a shareholding is held | | 27 | 164 |
| 5. Other creditors – thereof taxes TEUR 493 (2007: TEUR 438) | | 6,389 | 6,645 |
| | | **87,445** | **112,105** |
| **BALANCE SHEET TOTAL** | | **164,442** | **194,670** |

| MOVEMENT ON FIXED ASSETS FRoSTA AG AS PER DECEMBER 31, 2008 | PURCHASE AND MANUFACTURING COST | | | | | ACCUMULATED DEPRECIATION, AMORTISATION AND WRITE-DOWNS | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 1.1.2008 TEUR | Additions TEUR | Transfers TEUR | Disposals TEUR | As at 31.12.2008 TEUR | As at 1.1.2008 TEUR | Additions TEUR | Disposals TEUR | As at 31.12.2008 TEUR | As at 31.12.2008 TEUR | As at 31.12.2007 TEUR |
| **I. INTANGIBLE ASSETS** | | | | | | | | | | | |
| Concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets | **9,506** | **432** | **160** | **0** | **10,098** | **7,335** | **1,255** | **0** | **8,590** | **1,508** | **2,171** |
| **II. TANGIBLE ASSETS** | | | | | | | | | | | |
| 1. Land, land rights and buildings including buildings on land owned by third-parties | 62,561 | 789 | 260 | 0 | 63,610 | 39,423 | 1,815 | 0 | 41,238 | 22,372 | 23,138 |
| 2. Plant and machinery | 101,384 | 4,028 | 348 | 3,576 | 102,184 | 93,095 | 2,650 | 3,575 | 92,170 | 10,014 | 8,289 |
| 3. Other plant, operating and office equipment | 38,351 | 1,832 | 43 | 121 | 40,105 | 33,449 | 1,556 | 113 | 34,892 | 5,213 | 4,902 |
| 4. Prepayments and assets under construction | 846 | 10,125 | –811 | 0 | 10,160 | 0 | 0 | 0 | 0 | 10,160 | 846 |
| | **203,142** | **16,774** | **–160** | **3,697** | **216,059** | **165,967** | **6,021** | **3,688** | **168,300** | **47,759** | **37,175** |
| **III. FINANCIAL ASSETS** | | | | | | | | | | | |
| 1. Shares in associated companies | 11,529 | 13 | 0 | 0 | 11,542 | 3,727 | 0 | 0 | 3,727 | 7,815 | 7,802 |
| 2. Participating interests | 1,769 | 0 | 0 | 0 | 1,769 | 176 | 0 | 0 | 176 | 1,593 | 1,593 |
| 3. Long-term securities | 6 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 6 | 6 |
| 4. Employer's pension liability insurances | 25 | 1 | 0 | 0 | 26 | 0 | 0 | 0 | 0 | 26 | 25 |
| | **13,329** | **14** | **0** | **0** | **13,343** | **3,903** | **0** | **0** | **3,903** | **9,440** | **9,426** |
| | **225,977** | **17,220** | **0** | **3,697** | **239,500** | **177,205** | **7,276** | **3,688** | **180,793** | **58,707** | **48,772** |

FRoSTA Aktiengesellschaft, Bremerhaven

## NOTES FOR THE FINANCIAL YEAR 2008 OF FROSTA AG

### A. GENERAL REMARKS

1 The financial statements at December 31, 2008 have been prepared in accordance with the regulations for corporations included in the German Commercial Code (HGB), taking into account the additional provisions in the German Corporation Law (AktG).

We have decided to continue to use the nature of expense format for the income statement.

### 2 B. ACCOUNTING AND VALUATION METHODS

*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.

*Tangible assets* are valued at purchase and manufacturing costs, less scheduled depreciation in the case of assets with a limited useful life. Unscheduled depreciation is carried out for extraordinary impairment. Unscheduled write-offs in the financial year totalled TEUR 0 (2007 TEUR 0). A fixed value of TEUR 158 has been assigned to transport pallets (2007 TEUR 158).

Depreciation is calculated on the basis of the normal useful lives of the assets concerned. A switch is made from the declining-balance method to the straight-line method as soon as this causes a higher depreciation charge. Low value assets with purchase costs of up to EUR 150 are recorded as expenditure. Assets with purchase costs of between EUR 150 and EUR 1.000 are collated as one single item per year and are written off using the straight-line method over a period of five years.

Investment grants and subsidies received or requested lower the procurement and manufacturing costs of the subsidised assets. The reduction as per December 31, 2008 amounts to TEUR 3,646 (2007: TEUR 4,198). The release of investment grants and subsidies amounting to TEUR 652 (2007: TEUR 760) directly reduces the “gross amortisation”.

*Financial assets* are valued at cost, less write-downs to the fair value. The asset value of pension liability insurance is appropriated to the guarantee funds included in the general operational plan including existing profit shares.

*Inventories* are valued at purchase and manufacturing costs, unless a lower valuation is required in accordance with the lower-of-cost-or-market principle.

Purchase costs of raw materials, consumables and goods are based on the purchase prices plus incidental acquisition expenses. The Lifo valuation method is applied for raw fish. The difference according to art. 284 (2) no. 4 HGB when using the Lifo measurement for the raw product fish is TEUR 5,140 (2007: TEUR 555).

Finished and unfinished goods are valued at cost including – apart from individual costs – also overheads that have to be capitalised according to German tax regulations. Write-downs are recorded to arrive at a loss-free valuation and for inventory risks which have been held too long in stock or which result from diminished saleability.

*Receivables and other assets* are shown at nominal value. The asset value of the insolvency insurance for partial retirement benefit obligations is appropriated to the guarantee funds included in the general operational plan including existing profit shares. Credit risks are taken into account by means of individual and global valuation allowances. As in the previous year, the percentage used to calculate the global valuation allowance is 1.0 %.

The provisions take into account all recognisable risks and uncertain obligations.

The calculation of pension reserves is based on the guideline charts drawn up by Dr Klaus Heubeck in 2005. An interest rate of 6 % has been applied. Provisions for jubilee benefits are calculated using an interest rate of 5.5 %.

The provisions for liabilities regarding partial retirement agreements encompass the expenses for wage and salary payments to employees in the release period as well as benefit increases. Performance arrears for labour income created in connection with the block model are accrued rateably starting with the initial phase of partial retirement working models and valued at the cash value. Benefit increases are reserved to their full extent. The benefit increases are calculated at cash value. An interest rate of 5.5 % has been applied.

The provision for anticipated losses related to uncertain sales transactions is created at full cost.

*Liabilities* are shown at the redemption amounts or the settlement amounts.

*Foreign currency items* are converted in accordance with the realisation principle and the recognition-of-loss principle.

The extent to which the profits for each year have been affected by valuations in accordance with the German tax law (Art. 285 (5) HGB) in the financial year 2007 and the previous year is not of great significance to FRoSTA AG's assets, finances and earnings.

### C. NOTES ON ITEMS IN THE FINANCIAL STATEMENT FOR THE YEAR

### I. BALANCE SHEET

**3 1. Fixed assets**
An illustration of the fixed assets based on the total costs has been enclosed with these notes.

Participating interests
FRoSTA AG has participating interests in the following companies:

| Name and headquarters of the company | Share of capital % | Share of subscribed capital TEUR | Equity TEUR | Annual earnings 2008 TEUR |
|---|---|---|---|---|
| 1. COPACK Tiefkühlkost-Produktionsgesellschaft mbH, Bremerhaven | 100.00 | 256 | 249 | –5 |
| 2. ELBTAL Tiefkühlkost Vertriebs GmbH, Lommatzsch | 100.00 | 26 | 26 | 0 |
| 3. Feldgemüse GmbH, Lommatzsch | 100.00 | 26 | 12 | –2 |
| 4. FRoSTA France S.a.r.l., Boulogne-Billancourt/France | 100.00 | 153 | 282 | 11 |
| 5. FRoSTA Tiefkühlkost GmbH, Bremerhaven | 100.00 | 255 | 253 | –1 |
| 6. FRoSTA Foodservice GmbH, Bremerhaven (2007: FRoSTA GV-Partner GmbH Großverbraucher-Service) | 100.00 | 256 | 258 | 1 |
| 7. FRoSTA Italia s.r.l., Rome/Italy | 100.00 | 10 | 169 | 13 |
| 8. FRoSTA Tiefkühlkost GmbH, Baden/Austria | 100.00 | 36 | 250 | 22 |
| 9. FRoSTA ČR s.r.o., Prague/Czech Republic | 100.00 | 38 | 166 | 4 |
| 10. FRoSTA Sp. z o.o., Bydgoszcz/Poland | 100.00 | 8,369 | 8,350 | –633 |
| 11. BioFreeze GmbH, Bremerhaven | 100.00 | 256 | 254 | 0 |
| 12. TIKO Vertriebsgesellschaft mbH, Bremerhaven | 100.00 | 256 | 258 | 1 |
| 13. Columbus Spedition GmbH, Bremerhaven | 33.33 | 45 | 379 [1] | 244 [1] |
| 14. FRoSTA Hungary Kft., Budapest/Hungary | 100.00 | 24 | 24 | –2 |
| 15. FRoSTA Romania S.R.L., Bukarest/Romania | 100.00 | 22 | 20 | –4 |
| 16. FRoSTA Benelux B.V., Berkel-Enschot/Netherlands | 100.00 | 45 | [2] | [2] |
| 17. NORDSTERN America Inc., Seattle/USA | 100.00 | 4 | [2] | [2] |
| 18. MIRELITE Außenhandels AG, Budapest/Hungary | 6.60 | 65 | [2] | [2] |
| 19. Bio-Frost Westhof GmbH, Wöhrden | 45.00 | 278 | 739 | 120 |
| 20. Copack Sp. z o.o., Bydgoszcz/Poland | 100.00 | 12 | 11 | –1 |

1 Applies to 2007
2 In the case of subsidiaries with the serial Numbers 16 - 18 simplified regulations according to Art. 286 (3) 1 no. 1 HGB were employed.

**4 2. Accounts receivable and miscellaneous other fixed assets**
The amounts owed by associated companies are a result of inter-company supply, service and clearing transactions and from taxes in conjunction with the consolidated tax filing arrangements.

An amount of TEUR 6,417 (2007: TEUR 1,188) owed by associated companies are financing costs. TEUR 266 (2007: TEUR 818) of this have a remaining period of more than one year.

As per December 31, 2008 trade receivables of TEUR 28,235 (2007: TEUR 28,256) were sold as part of asset-backed security transactions.

Of the other assets, TEUR 1,295 (2007: TEUR 1,316) have a remaining term of more than one year.

**5 3. Equity capital**
The equity capital on December 31, 2008 was EUR 16,418,268.16 and is divided into 6,413,386 no-par value shares. The individual share certificates are made out to the bearer.

In compliance with the Shareholders' Resolution of June 18, 2008 a decision was taken to appropriate a sum of EUR 11,310,756.33 from the net profit of TEUR 7,104,132.15 to other revenue reserves.

As passed in an Executive Board resolution on October 13, 2008, the Company's equity capital was increased by EUR 101,665.28 to EUR 16,418,268.16 by issuing 39,713 bearer shares to Company employees. This increase was made on the basis of the authorisation given to the Executive Board according to Art. 4 (3) of the articles of incorporation. A resolution passed by the Supervisory Board on October 14, 2008 approved this resolution by the Executive Board on the increase of equity capital. Premiums of EUR 311,363.82 from shares issued were transferred to the capital reserves. There are also authorised capital funds as yet unused for a fixed period till June 30, 2009 in the amount of EUR 308,007.68 to issue shares to employees in the company or affiliated companies and authorised capital funds in the amount of EUR 5,000,000.00 for a fixed period till June 30, 2012 for a capital increase against cash contributions.

6 **4. Other provisions**

The other provisions in the financial statements mainly concern provisions for outstanding invoices (TEUR 4,295), personnel (TEUR 6,079), collection commissions (TEUR 2,053) and licence fees (TEUR 69) for the "Grüner Punkt" (German system of separating refuse).

7 **5. Liabilities and contingencies**

The liabilities of FRoSTA AG are as follows:

| TEUR | Total amount | thereof with a remaining maturity of: up to one year | 1 – 5 years | more than five years | thereof secured by mortages |
|---|---|---|---|---|---|
| Bank loans and overdrafts to financial institutions (previous year) | 73,603 (58,136) | 43,220 (45,295) | 15,965 (9,091) | 14,418 (3,750) | 26,762 (15,801) |
| Trade payables (previous year) | 28,348 (19,652) | 28,348 (19,652) | 0 (0) | 0 (0) | 0 (0) |
| Liabilities to associated companies (previous year) | 3,346 (3,241) | 3,346 (3,241) | 0 (0) | 0 (0) | 0 (0) |
| Amounts owed to companies in which a shareholding is held (previous year) | 164 (27) | 164 (27) | 0 (0) | 0 (0) | 0 (0) |
| Other liabilities (previous year) | 6,645 (6,389) | 6,645 (6,389) | 0 (0) | 0 (0) | 0 (0) |
| (previous year) | **112,106 (87,445)** | **81,723 (74,604)** | **15,965 (9,091)** | **14,418 (3,750)** | **26,762 (15,801)** |

Obligations with credit institutes are guaranteed by mortgages (TEUR 16,516; previous year TEUR 14,884) and similar securities (TEUR 10,246; previous year TEUR 917).

The amounts owed to associated companies are a result of intercompany deliveries, services and clearance transactions and taxes in conjunction with consolidated tax filing arrangements.

With approval on the dates mentioned below, FRoSTA AG issued loan-securing guarantees to BRE Bank SA, Bydgoszcz, Poland for the liabilities of FRoSTA Sp. z o.o:

By approval on February 18, 2008: PLN 2,000,000.00 (EUR 478,205.77).

By approval on September 04, 2006: EUR 550,000.00.

By approval on July 14, 2008 a further loan-securing guarantee amounting to PLN 4,000,000.00 (EUR 956,411.54) and on November 5, 2008 PLN 4,000,000.00 (EUR 956,411.54) was made to the Deutsche Bank Polska SA in Warsaw for the liabilities of FRoSTA Sp. z o.o.

**II. PROFIT AND LOSS ACCOUNT**

8 **1. Turnover**

FRoSTA AG's turnover is as follows:

| | 2007 mill. EUR | 2008 mill. EUR | Difference % |
|---|---|---|---|
| Product sales<br>- Germany<br>- Abroad | 251<br>111 | 278<br>135 | +10.8<br>+21.6 |
| | **362** | **413** | **+14.1** |
| Sales deductions | 28 | 33 | +17.9 |
| | **334** | **380** | **+13.8** |

Classified into product groups, turnover is as follows:

| | 2007 mill. EUR | 2008 mill. EUR | Difference % |
|---|---|---|---|
| Fish | 163 | 177 | +8.6 |
| Vegetables and fruit | 83 | 98 | +18.1 |
| Ready meals and other products | 88 | 105 | +19.3 |
| | **334** | **380** | **+13.8** |

9 **2. Other operating income**

Income to a total of TEUR 1,900 (2007: TEUR 2,221) from other periods is shown in other operating income. Amounts from the financial year 2008 are mainly due to the charge-off of advertising expenses and the write-back of personnel and other reserves.

10 **3. Other operating expenses**

Expenses of TEUR 327 (2007: TEUR 212) from other periods are included in other operating expenses.

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

Net tax expenses of TEUR 80 (2007: TEUR 128) are also included in this item.

12 **D. OTHER FINANCIAL LIABILITIES (ART. 285 (3) HGB))**

| TEUR | 31.12.2007 | 31.12.2008 |
|---|---|---|
| a) Liabilities under current leasing contracts | 1,849 | 1,848 |
| b) Liabilities under current tenancy and maintenance contracts | 4,288 | 3,395 |
| c) Purchase commitment from expansion investments | 1,065 | 2,189 |
| | **7,202** | **7,432** |
| thereof payable by December 31, 2009: | | |
| a) Liabilities under current leasing contracts | 801 | 904 |
| b) Liabilities under current tenancy and maintenance contracts | 2,090 | 1,983 |
| c) Purchase commitment from expansion investments | 1,065 | 2,189 |
| | **3,956** | **5,076** |

The amounts shown are the nominal amounts.

13 **E. HEDGING TRANSACTIONS/DERIVATIVES**

In order to secure the future USD requirement for supplies received, forward exchange contracts and call options have been taken out. The respective accounts receivable and payable are booked at the current rate and also continued at that rate on the balance sheet date, taking the imparity principle into account, as they are open items. Provisions for unrealised losses from forward contracts and options are booked as anticipated losses. Furthermore, interest rate swaps were also transacted. As interest security, use was made of interest swaps and interest caps.

The individual financial instruments are shown in the following chart. The respective closing rate on the reporting date was taken as the basis for calculating the fair value:

| Financial tool | Type | Level | Fair value TEUR |
|---|---|---|---|
| Call options | Option buy TUSD | 20,034 | –312 |
| Interest-rate swaps | Loan TEUR | 10,306 | –434 |
| Interest-rate cap | Loan TEUR | 5,000 | 0 |

14 **F. Auditor's remuneration**

The remuneration for the auditor in the financial year recorded as an expense, is made up as follows:

| | TEUR |
|---|---|
| Final audit/Other confirmation and assessment services | 52 |

15 **G. OTHER INFORMATION**

**1. Number of employees**

The average number of employees at FRoSTA AG during the financial year was as follows:

| | 2007 | 2008 |
|---|---|---|
| Wage-earners | 584 | 604 |
| Salaried staff | 289 | 306 |
| Temporary staff | 137 | 158 |
| **No. of employees according to Art. 285 no 7 HGB** | **1,010** | **1,068** |
| Trainees | 33 | 35 |
| | **1,043** | **1,103** |

16 **2. Executive board**

The following were members of FRoSTA AG's Executive Board in the financial year 2008

› Dirk Ahlers, businessman, Hamburg (Chairman)
– As at December 31, 2008: 2,240,076 FRoSTA shares = 34.9 %

› Felix Ahlers, Hamburg (Vice President Marketing and Sales)
– As per December 31, 2008: 1,453,610 FRoSTA shares = 22.7 %

› Dr Stephan Hinrichs, Bendestorf (Vice President Finance and Administration)

› Jürgen Marggraf, Bremen (Vice President Operations)

The total number of Executive Board FRoSTA shares on the balance sheet date amounted to 3,779,036 = 58.9 %.

17 **3. Supervisory Board**

Members of FRoSTA AG's Supervisory Board in the financial year 2008 were:

› Dr Herbert Müffelmann, solicitor, Bremen (Chairman of the Supervisory Board)
– Further appointments held by Dr Müffelmann: Supervisory Board member at Nabertherm GmbH, Lilienthal and F. Weyhausen Beteiligungs AG, Wildeshausen

› Ulf H. Weisner, businessman, Ratingen-Lintorf (Deputy Chairman of the Supervisory Board)

› Jürgen Schimmelpfennig, employee at FRoSTA AG, Bremerhaven (employee representative)

The total FRoSTA AG shares owned by members of the Supervisory Board on the balance sheet date amounted to 2,500 shares = 0.04 %.

18 **4. Affiliated individuals**

The Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co., Hamburg, whose shareholder Mr Dirk Ahlers is, invoiced FRoSTA AG for travel expenses, rentals and commission on commodities sold totalling TEUR 239 in the financial year 2008 (2007: TEUR 382). The balance at December 31, 2008 was TEUR 26 (incl. VAT).

FRoSTA invoiced the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co for commodities sold and consulting services totalling TEUR 14 in the financial year 2008. The balance at December 31, 2008 was TEUR 0.

Lenox Frozen Fruits Ltd., a 100 % shareholding of the Kommanditgesellschaft Lenox Handels- und Speditionsgesellschaft mbH & Co invoiced FRoSTA for commodities sold totalling TEUR 181 in the financial year 2008. The balance at December 31, 2008 was TEUR 1.

The consulting services for FRoSTA AG provided by Sozietät Büsing, Müffelmann & Theye, Bremen amounted to TEUR 118 (2007: TEUR 50). The balance at December 31, 2008 was TEUR 21 (incl. VAT).

Mr Ulf Weisner invoiced FRoSTA AG for consulting services and travel expenses amounting to TEUR 17 (2007: TEUR 17). The balance at December 31, 2008 was TEUR 0.

19 **5. Remuneration according Art. 285 no. 9 HGB**

The total remuneration of the Executive Board of FRoSTA AG for the financial year was TEUR 2,363 (2007: TEUR 2,347). Of this the fixed remuneration came to TEUR 919 (2007: TEUR 855) and variable remuneration TEUR 1,444 (2007: TEUR 1,492).

The total remuneration of former members of the Executive Board at FRoSTA AG was TEUR 68 in the financial year (2007: TEUR 67). Pension reserves for former Executive Board members amounted to TEUR 500 on the balance sheet date.

The remuneration of the Supervisory Board members amounted to TEUR 53 (2007: TEUR 48). Of that, TEUR 39 (2007: TEUR 34) were variable and TEUR 14 fixed payments (2007: TEUR 14).

20 **6. Declaration of compliance in accordance with Art. 161 AktG**

The Executive and the Supervisory Boards submitted their declaration of compliance in accordance with Art. 161 AktG and made it available to the shareholders at all times.

21 **7. Appropriation of profits**

We will be proposing to the General Meeting of Shareholders that the net profit for the year totalling EUR 10,670,716.45 as at December 31, 2008 be appropriated as follows: that a dividend of EUR 0.75 per share equalling a total dividend of EUR 4,810,039.50 be paid to shareholders and that the remaining amount of EUR 5,860,676.95 be appropriated to the other revenue reserves.

Bremerhaven, March 26, 2009

The Executive Board

(D. Ahlers) (F. Ahlers)

(Dr S. Hinrichs) (J. Marggraf)

**Statement by the Legal Representatives in conformance with Art. 289 (1) sentence 5 of the German Commercial Code**

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 26, 2009

The Executive Board

(D. Ahlers) (F. Ahlers)

(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, 2008 to December 31, 2008. 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 assess 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 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 sufficiently reliable basis for our assessment.

Our audit has not produced any objections.

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 development in the future.

Bremen, March 26, 2009

Gräwe & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr Meyer
Auditor

Heuer
Auditor

## CORPORATE GOVERNANCE REPORT FRoSTA AG

FRoSTA AG views corporate governance as a complete system for managing and controlling a company. It includes the commercial principles and guidelines and the system of internal and external control and monitoring mechanisms. Good, transparent corporate governance fosters the trust of investors, employees, business partners and the public in the management and control of FRoSTA AG.

Corporate management structure and control functions at FRoSTA AG are as follows:

### Shareholders and Shareholders' Meeting

Our shareholders exercise their rights in the Company's shareholders' meeting. The annual shareholders' meeting takes place in the first six months of the financial year. The Chairman of the Supervisory Board chairs the shareholders' meeting. The shareholders' meeting decides on all the tasks given to it by law.

Our aim is to make it as easy as possible for shareholders to take part in the shareholders' meeting. With this in mind all documents required to take part are published beforehand on the Internet. The shareholders are nominated a proxy for the shareholders' meeting whom they can instruct to exercise voting rights on their behalf.

### Supervisory Board

FRoSTA AG's Supervisory Board consists of three members, two of whom are elected at the shareholders' meeting. Company employees elect one member. The Chairman of the Supervisory Board is elected from the Supervisory Board itself. The Supervisory Board was elected in the shareholders' meeting in 2004 for five years.

The Supervisory Board appoints the members of the Executive Board. It controls and advises the Executive Board in managing the Company. Significant decisions taken by the Executive Board require the Supervisory Board's approval. The Supervisory Board meets four times a year and if necessary will meet without the Executive Board. The Supervisory Board has a financial and personnel committee. The Supervisory Board establishes the annual financial statement and approves the consolidated financial statements.

### Executive Board

The Executive Board manages the Company at its own responsibility. Currently it consists of four members. The Executive Board reports regularly, promptly and comprehensively to the Supervisory Board on all relevant issues regarding business development, planning, financing and the business outlook. D&O insurance policies have been taken out for the Executive Board and the Supervisory Board. A deductible has been agreed.

### Financial accounting and auditing

Consolidated financial statements for the financial year have been prepared since 2005 according to IFRS. The consolidated financial statements are prepared by the Executive Board and checked by the auditor. Consolidated financial statements are made public within 90 days.

It has been agreed with the auditor, Gräwe & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, that the chairman of the Supervisory Board will be informed immediately about any reasons for exclusion or exemption that occur during the audit. The auditor reports to the chairman of the Supervisory Board on all the issues and circumstances that occur during the audit that are important for the Supervisory Board to carry out its responsibilities. The chairman is also informed if the auditor establishes facts proving that the declaration given by the Executive Board and the Supervisory Board according to article 161 AktG (German Corporation Law) is not correct.

### Transparency

Standardised, comprehensive and prompt reporting is a top priority at FRoSTA AG. FRoSTA AG's business outlook and results will be outlined in the financial statements, at the financial press conference, in the quarterly and first-half reports.

Press releases or ad hoc reports will also provide information if this is legally required. All reports and press releases can be found on the Internet at www.frosta-ag.com/Investor Relations.

FRoSTA AG has set up the required directory of persons with insider information. The persons affected were informed about legal obligations and penalties.

### Declaration of compliance in accordance with Art. 161 AktG (German corporation law)

The Executive Board and Supervisory Board declare that the recommendations of the "Government Commission on German Corporate Governance Codes" edition published in the electronic Bundesanzeiger have been followed in the financial year 2008 with the following exception:

The remuneration received by members of the Executive and Supervisory Boards is not shown individually in the notes to the consolidated financial statements. There is no age restriction for members of the Supervisory Board.

The Executive Board and Supervisory Board hereby declare that a D&O insurance policy has been taken out. The deductible is EUR 5,000.

We only follow to a limited extent the recommendation that attention should be paid when making contracts with Executive Board members to ensure that any payments including supplements made on premature resignation for no urgent reason should not exceed the value of two years' remuneration or the normal payment for the remaining period of the contract. Specifically, we do not follow the recommendation that severance payments should not exceed two years' remuneration for the remaining period of the contract.

### Remuneration of the Supervisory Board and the Executive Board

The financial and personnel committee at FRoSTA AG establishes the level and structure of remuneration for the Executive Board. Dr Herbert Müffelmann and Mr Ulf Weisner sit on the committee.

The members of the Executive Board receive remuneration that comprises:

- fixed annual basic remuneration, paid out monthly.
- remuneration that must be used to purchase shares via the stock exchange at the current rate (only for some members of the Executive Board). This remuneration is paid out once a year.
- a percentage of annual profits, the level of which is contractually linked to the level of consolidated annual profit before taxes. The bonuses are paid in three instalments

| Year | Basic remuneration (TEUR) | Remuneration for share purchase (TEUR) | Variable remuneration (TEUR) | Insurances (TEUR) | Total (TEUR) |
|---|---|---|---|---|---|
| 2007 | 846 | 166 | 1,326 | 9 | 2,347 |
| 2008 | 911 | 158 | 1,286 | 8 | 2,363 |

The total remuneration of former members of the Executive Board at FRoSTA AG and in the Group amounted to TEUR 68 in the business year (2007: TEUR 67).

The members of the Supervisory Board receive remuneration that comprises:

- fixed annual basic remuneration, paid out once a year.
- a success-related bonus depending on the level of the dividend proposed to be paid out. The bonus is paid out once a year.

| Year | Basic remuneration (TEUR) | Success-related bonus (TEUR) | Total (TEUR) |
|---|---|---|---|
| 2007 | 14 | 34 | 48 |
| 2008 | 14 | 39 | 53 |

### Transactions in securities requiring notification according to Art. 15 a WpHG (German securities trading act)

The following transactions in securities requiring notification were carried out in 2008 with Company shares and published accordingly:

| Date | Name | Type of transaction | Price per share | Number of shares | Total value |
|---|---|---|---|---|---|
| 08.04.2008 | Dirk Ahlers | Share sale | 18.00 EUR | 5,000 | 90,000.00 EUR |
| 08.04.2008 | Dr. Stephan Hinrichs | Share purchase | 18.00 EUR | 2,500 | 45,000.00 EUR |
| 08.04.2008 | Jürgen Marggraf | Share purchase | 18.00 EUR | 2,500 | 45,000.00 EUR |
| 22.09.2008 | Felix Ahlers | Acquisition of staff shares | 12.29 EUR | 950 | 11,673.50 EUR |
| 22.10.2008 | Felix Ahlers | Share purchase | 13.90 EUR | 1,000 | 13,900.00 EUR |
| 29.10.2008 | Felix Ahlers | Share purchase | 13.25 EUR | 3,000 | 39,750.00 EUR |

### Shares owned by the Executive Board and Supervisory Board

Members of the Executive Board and the Supervisory Board hold shares in FRoSTA AG amounting to a total of 58.9 %.

No member of the Supervisory Board holds more than a 1 % share in FRoSTA AG.

The following members of the Executive Board and the Supervisory Board have shares of more than 1 % in FRoSTA AG:

| | % |
|---|---|
| Dirk Ahlers | 34.9 |
| Felix Ahlers | 22.7 |

Bremerhaven, March 26, 2009

The Executive Board

| | | | | | | IFRS ← | → HGB | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **FINANCIAL YEAR** | | **2008** | **2007** | **2006** | **2005** | **2004** | **2003** | **2002** | **2001** | **2000** | **1999** |
| Employees (average) | number | 1,539 | 1,372 | 1,248 | 1,167 | 1,138 | 1,118 | 1,162 | 1,214 | 1,160 | 1,140 |
| Turnover | (mill. EUR) | 392 | 349 | 307 | 269 | 264 | 262 | 284 | 299 | 275 | 287 |
| EBITDA | (mill. EUR) | 32.0 | 30.2 | 27.4 | 26.1 | 25.8 | 6.0 | 19.2 | 23.4 | 16.3 | 25.1 |
| Depreciation | (mill. EUR) | 11.2 | 10.9 | 10.8 | 10.9 | 10.4 | 10.7 | 10.9 | 14.5 | 12.9 | 11.2 |
| EBIT | (mill. EUR) | 20.8 | 19.3 | 16.6 | 15.2 | 15.4 | –4.7 | 8.3 | 8.9 | 3.4 | 13.8 |
| Return on sales (related to operating result) [1] | | 5.3 % | 5.5 % | 5.4 % | 5.7 % | 5.8 % | –1.8 % | 2.9 % | 3.0 % | 1.2 % | 4.8 % |
| Result from ordinary business activities | (mill. EUR) | 17.7 | 16.6 | 14.6 | 13.5 | 12.9 | –7.4 | 5.2 | 4.6 | 0.6 | 11.0 |
| Taxes on income | (mill. EUR) | 5.6 | 4.4 | 4.2 | 5.1 | 5.1 | 0.0 | 2.5 | 1.6 | 0.4 | 3.8 |
| Group result for the year | (mill. EUR) | 12.1 | 12.2 | 10.4 | 8.4 | 7.8 | –7.7 | 2.3 | 2.8 | –0.1 | 6.9 |
| Cash flow | (mill. EUR) | 25.7 | 20.0 | 17.6 | 17.8 | 24.8 | 3.9 | 13.2 | 17.6 | 13.6 | 18.6 |
| Investments | (mill. EUR) | 25.7 | 20.0 | 7.7 | 5.8 | 6.6 | 6.4 | 8.4 | 8.6 | 30.6 | 19.5 |
| Shares | number | 6,413,386 | 6,373,673 | 6,338,389 | 6,303,316 | 6,277,965 | 6,265,203 | 6,254,233 | 6,244,241 | 6,227,900 | 6,199,503 |
| Total dividend | (TEUR) | 4,810 | 4,207 | 3,803 | 3,152 | 1,256 | 0 | 2,502 | 2,498 | 1,709 | 4,755 |
| Dividend per share | (EUR) | 0.75 | 0.66 | 0.60 | 0.50 | 0.20 | 0.00 | 0.40 | 0.40 | 0.77 | 0.77 |
| Income per share | (EUR) | 1.89 | 1.93 | 1.64 | 1.33 | 1.24 | –1.23 | 0.36 | 0.44 | –0.01 | 1.10 |
| Fixed assets | (mill. EUR) | 88.4 | 75.9 | 66.7 | 68.8 | 73.7 | 57.3 | 63.8 | 66.3 | 76.1 | 60.6 |
| Current assets | (mill. EUR) | 148.9 | 129.1 | 107.3 | 95.0 | 61.4 | 59.8 | 68.4 | 63.7 | 70.1 | 83.0 |
| Equity capital [2] | (mill. EUR) | 87.0 | 80.2 | 70.4 | 62.7 | 55.1 | 31.5 | 39.8 | 41.0 | 41.8 | 41.7 |
| Equity ratio [3] | | 36.6 % | 39.1 % | 40.5 % | 38.1 % | 34.3 % | 22.1 % | 25.5 % | 25.2 % | 24.4 % | 28.9 % |
| Amounts owed to credit institutions | (mill. EUR) | 86.3 | 69.6 | 49.5 | 44.5 | 28.8 | 42.7 | 42.5 | 46.8 | 46.9 | 55.6 |
| Credit capital ratio [4] | | 36.4 % | 34.0 % | 28.4 % | 27.0 % | 17.9 % | 30.0 % | 27.3 % | 28.8 % | 27.4 % | 38.5 % |
| Return on investment [5] | | 11.4 % | 12.2 % | 11.7 % | 10.9 % | 12.3 % (HGB) | –3.6 % | 5.9 % | 6.0 % | 2.5 % | 10.3 % |
| Return on equity [6] | | 20.4 % | 20.7 % | 20.7 % | 21.5 % | 23.4 % | –24.4 % | 12.1 % | 10.7 % | 0.7 % | 25.7 % |

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,

2008 was a very successful year for FRoSTA AG, and we were able to maintain the high growth rates of previous years. Turnover increased by 12 %, but unfortunately, profit could not keep pace with this development. Our pre-tax result was up 7 % as compared with 2007.

The Supervisory Board has monitored and consulted with the Executive Board in its work throughout the year. This was done on the basis of the Executive Board's detailed reporting and accounting, both verbally and in written form. In addition, the Chairman of the Supervisory Board was in regular communication with the Executive Board to exchange information and ideas. In this way, the Supervisory Board was always well-informed as regards company policy, the profit situation including risks and risk management, as well as business processes and the position of the company and the group as a whole.

For decisions demanding Supervisory Board approval as required by law, by company articles or by company policy, the members of the Supervisory Board, partly with the support of its Committee for Personnel and Finances, examined the proposals during its sessions or passed them on the basis of written information.

The Supervisory Board met on four occasions during the financial year 2008, as did the Committee for Personnel and Finances, consisting of the Supervisory Board members Dr Müffelmann and Mr Weisner.

The main topics discussed by the Supervisory Board were the development of raw material prices and the US Dollar/Euro exchange rate. This was a consequence of the sharp increase in prices for FRoSTA AG's raw material, most of which is paid for in US Dollars. The Supervisory Board examined the currency back-ups set up by the Executive Board and also consulted with the Executive Board in their efforts to pass on to customers the price increases for FRoSTA products which resulted from rising raw material prices. The Supervisory Board also dealt in great detail with investments involved in the construction of a new fish production line and coldstore at FRoSTA Sp. z o.o. in Bydgoszcz, as well as the installation of a new ready meals line and the expansion of an existing fish production line at FRoSTA AG in Bremerhaven. The Supervisory Board approved these investments after careful consideration. Subsequently, it examined the planned and actual construction costs of these projects. The Supervisory Board discussed and approved the advertising concept developed by the Executive Board. The Supervisory Board held discussions on the positive development of the FRoSTA brand in Germany and other countries in Europe, especially in Poland and Italy. It also encouraged the Executive Board in the strict implementation of the Purity Command in Germany. The Supervisory Board examined and consulted on the internal audit report. At each Supervisory Board session, the competitive market situation, especially in the field of ready meals, was the subject of discussions with the Executive Board.

The Supervisory Board examined and approved the FRoSTA AG annual plan (company business plan including finances, investment, personnel and profit) presented by the Executive Board. During this process, the Supervisory Board paid special attention to the development in costs and approved the planned cost increases which the Executive Board had presented plausibly on the grounds of expected growth. At each session, the Supervisory Board used Executive Board reports and explanations to discuss the general business situation of FRoSTA AG as well as developments in turnover, costs and profit. In so doing, the Supervisory Board paid attention to compliance with the annual plan and looked critically at any deviations.

The Committee for Personnel and Finances dealt with matters of finance and personnel. It also performed preparatory work for decisions of the Supervisory Board on the remuneration of Executive Board members and senior managers.



The Supervisory Board entrusted Gräwe & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Bremen, elected during the General Meeting of Shareholders, with the task of auditing FRoSTA AG's individual and group financial statements. The auditors have checked the annual financial statement and issued an unqualified audit certificate. As in previous years, the group financial statements were given an appropriately qualified audit certificate because segment reporting was not carried out, since this would have exposed the company to competitive disadvantages. The DPR (German Auditing Association) has carried out an audit of the segment reporting which was omitted in the financial report. This was discussed by the Supervisory Board.

The auditor's report was submitted to the members of the Supervisory Board in good time. It was discussed thoroughly during the Supervisory Board's balance sheet meeting in the presence of the auditors on March 26, 2009. The auditors explained in detail the balance sheet and its profit and loss entries. 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, 2008, nor to the management report of 2008. The Supervisory Board has thus unanimously approved and passed the individual and Group financial statements prepared by the Executive Board.

The Supervisory Board approves the Executive Board's proposal on the appropriation of profits.

The Supervisory Board would like to express its thanks to the Executive Board and to all employees for their successful performance during the business year 2008.

Bremen, March 2009

For the Supervisory Board

Dr Herbert Müffelmann



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Bremen
Solicitor, Chairman

**Jürgen Schimmelpfennig**
Bremerhaven
Fitter

**Ulf Weisner**
Ratingen-Lintorf
Buisinessman, Deputy chairman

**EXECUTIVE BOARD**

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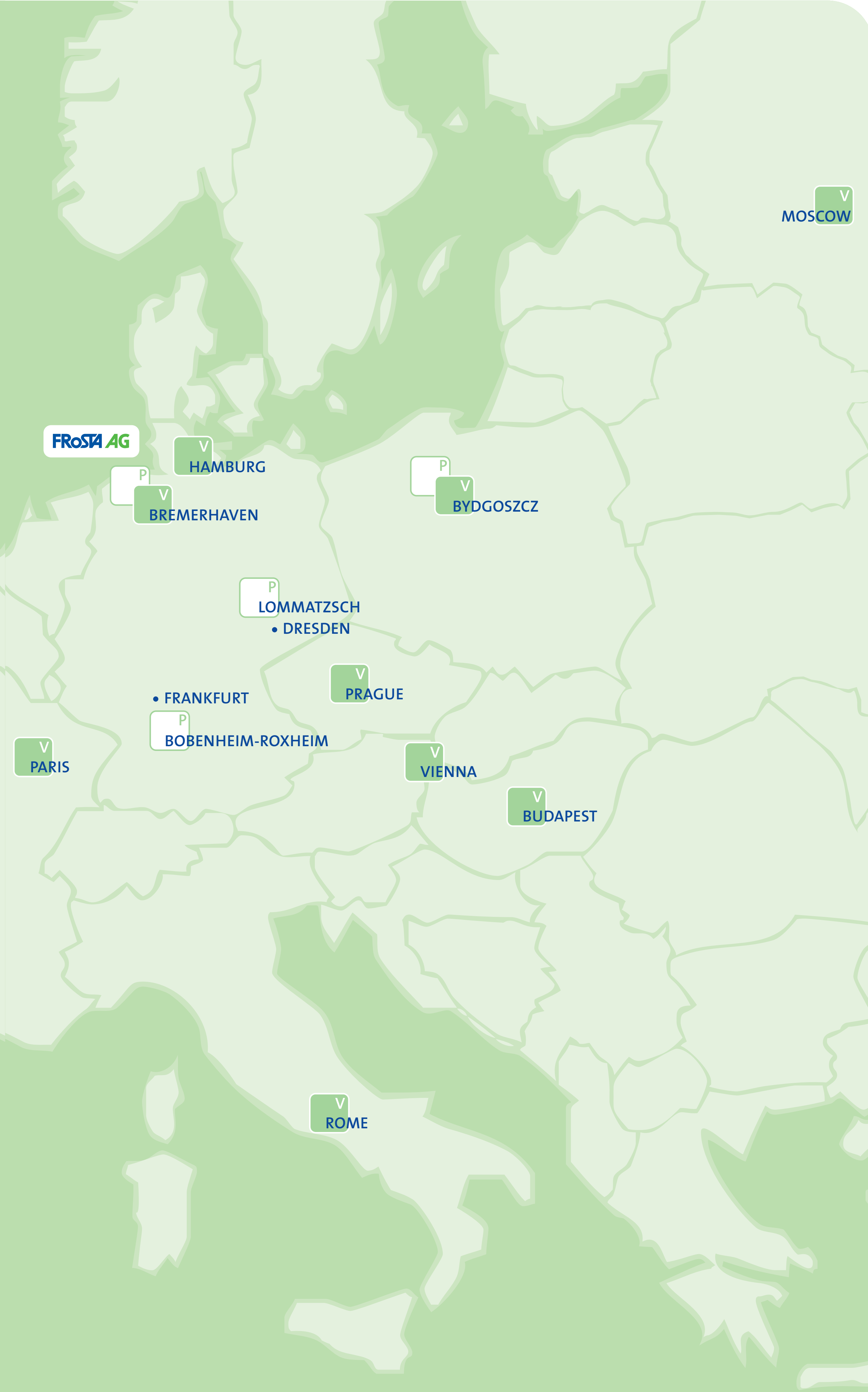

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